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World Economies that Survived the Pandemic…and the Fundamentals that will help them Accelerate

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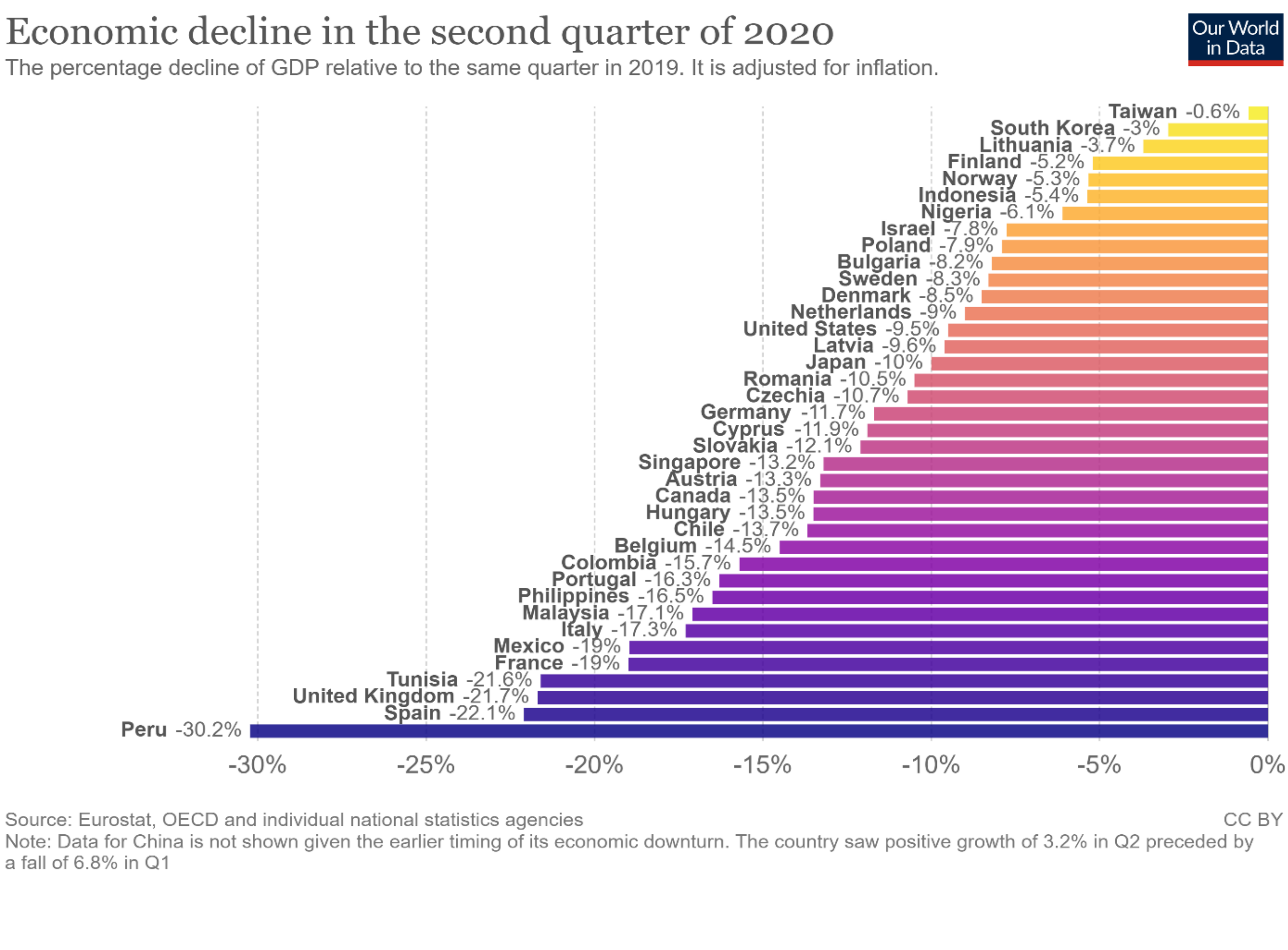
1. INTRODUCTION

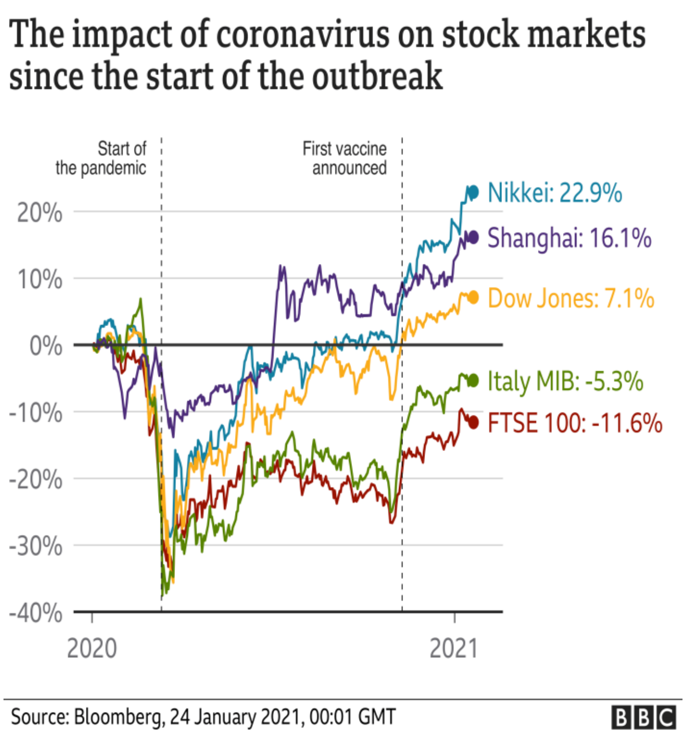
Calculating the economic impact of the pandemic has been a challenge, not just in terms of gathering sufficient data from across a world ravaged by an unprecedented catastrophe, but also since the impact is still emerging as the situation continues to unfold, and no country can truly claim to have mastered it. In such circumstances, the trend that has emerged seems to suggest that economies that were primarily dependent on manufacturing, tourism and recreation, specifically, economies dependent on the movement of people rather than of information, have suffered the largest negative impact, with the exception of China, which seems to have defied all trends and assumptions. On the other hand, economies that primarily capitalized on design and technology enrichment have weathered the storm relatively unaffected.



2. ECONOMY VS HEALTH?

The pandemic seemingly imposed a Sophie's choice on the world – should economic activity be suspended in the larger interests of health and welfare of the citizens, or should countries sustain business as usual while simultaneously trying to control a blazing forest fire that threatens to incinerate large demographic segments? Most countries like India, which imposed severe lockdowns since the first day in an attempt to mitigate the spread of infection, nonetheless found themselves reeling under the consequent impact of rising unemployment, hunger, deprivation of basic needs such as housing and security, lack of medical care and mass-scale migration of the labour class. However, countries where restrictions were far less severe, such as the United States of America, managed to seamlessly migrate to a work-from-home culture, which considerably limited any negative fallout on the economy.

While the findings seem to point in the direction of not necessarily fundamental or inherent strengths, most countries with a predisposition towards technology and business adaptability were able to perform better. As a result, countries that were able to upgrade available technological infrastructure found that they could relatively maintain business as usual, whereas economies dependent on manual labour found themselves grappling with capacity and output losses.



Most observers were quick to conclude that the more stringent the measures put in place for public welfare, the slower the pace of economic recovery. However, a closer look at the negative GDP growth recorded by most countries reveals an interesting, and inversely proportional correlation; countries that managed most quickly to contain the spread of the pandemic, through any means necessary, no matter how harsh, generally also managed to put in place initiatives for fiscal health, an explanation that best elucidates China's ability to not just withstand the pandemic, but indeed, profit from it.

COUNTRY	GDP GROWTH FROM PREVIOUS YEAR 2020 Q2
Austria	-13.3%
Belgium	-14.5%
Bulgaria	-8.2%
Canada	-13.5%
Chile	-13.7%
China	3.2%
Colombia	-15.7%
Cyprus	-11.9%
Czech Republic	-10.7%
Denmark	-8.5%
EU	-14.1%
Finland	-5.2%
France	-19.0%
G7	-12.1%
Germany	-11.7%
Hungary	-13.5%
Indonesia	-5.4%
Israel	-7.8%
Italy	-17.3%
Japan	-10.0%
Latvia	-9.6%
Lithuania	-3.7%
Malaysia	-17.1%
Mexico	-19.0%
NAFTA	-10.8%
Netherlands	-9.0%
Nigeria	-6.1%
Norway	-5.3%

COUNTRY	GDP GROWTH FROM PREVIOUS YEAR 2020 Q2
OECD - Total	-10.9%
Peru	-30.2%
Philippines	-16.5%
Poland	-7.9%
Portugal	-16.3%
Romania	-10.5%
Singapore	-13.2%
Slovakia	-12.1%
South Korea	-3.0%
Spain	-22.1%
Sweden	-8.3%
Taiwan	-0.6%
Tunisia	-21.6%
United Kingdom	-21.7%
United States	-9.5%

The table given above reveals the level of the pandemic-induced economic decline across 38 countries for which the latest GDP data is available. It traces the percentage fall in GDP observed in the second, i.e. April to June quarter of FY2020* as compared to the same period last year. The statistics reveal that in some countries the economic downturn has been extreme. For instance, in Spain, the UK and Tunisia, the output of the economy in the second quarter was over 20% lower than in the same period last year. In Peru, the annual economic fall was even more, at 30%.

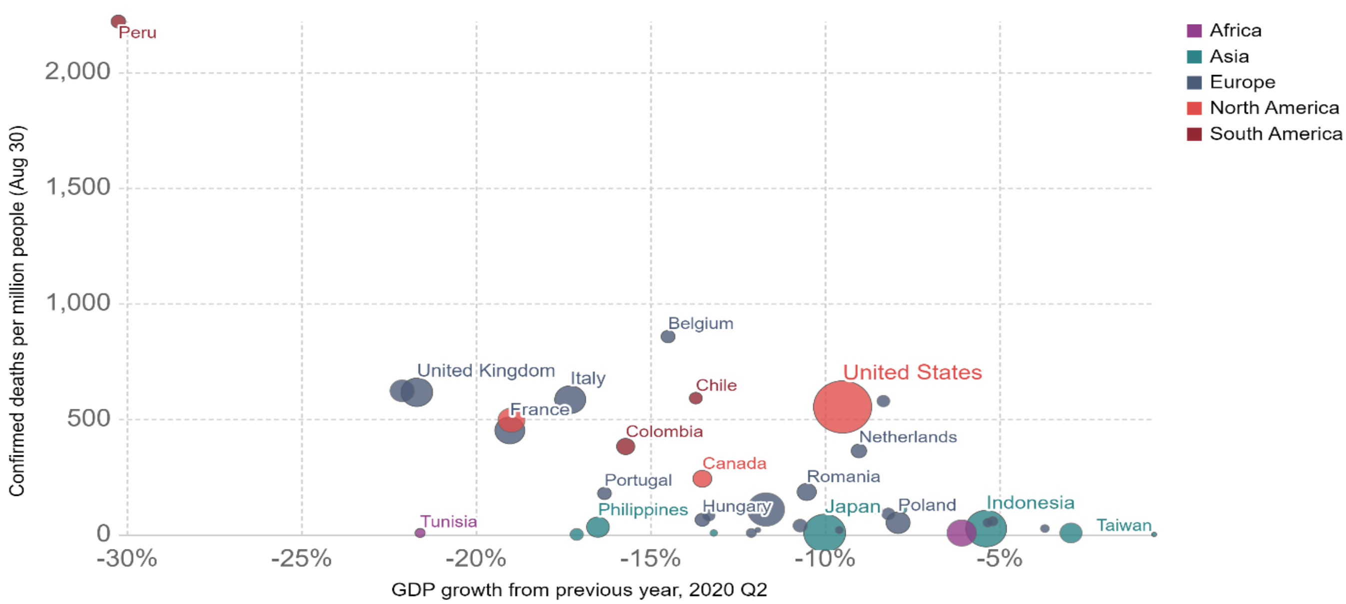
In other countries, however, the economic impact has been less severe. In Taiwan, GDP in the second quarter of FY2020 was 0.35% lower than in the same period in 2019. Finland, Lithuania and South Korea all observed a relatively limited drop in their GDP of around 5% or less.

Further exploration of these trends, while introducing yet another statistical marker, i.e. the death rate due to Coronavirus in these countries, makes the correlation clear. We see that countries which suffered the maximum economic downturns – like Peru, Spain and the UK – are generally also among the countries with the *highest COVID-19* death rate. On the other hand, countries where the economic impact has been limited – like Taiwan, South Korea, and Lithuania – have also managed to keep the death rate low.

Economic decline in the second quarter of 2020 vs rate of confirmed deaths due to COVID-19

Our World in Data

The vertical axis shows the number of COVID-19 deaths per million, as of August 30. The horizontal axis shows the percentage decline of GDP relative to the same quarter in 2019. It is adjusted for inflation.

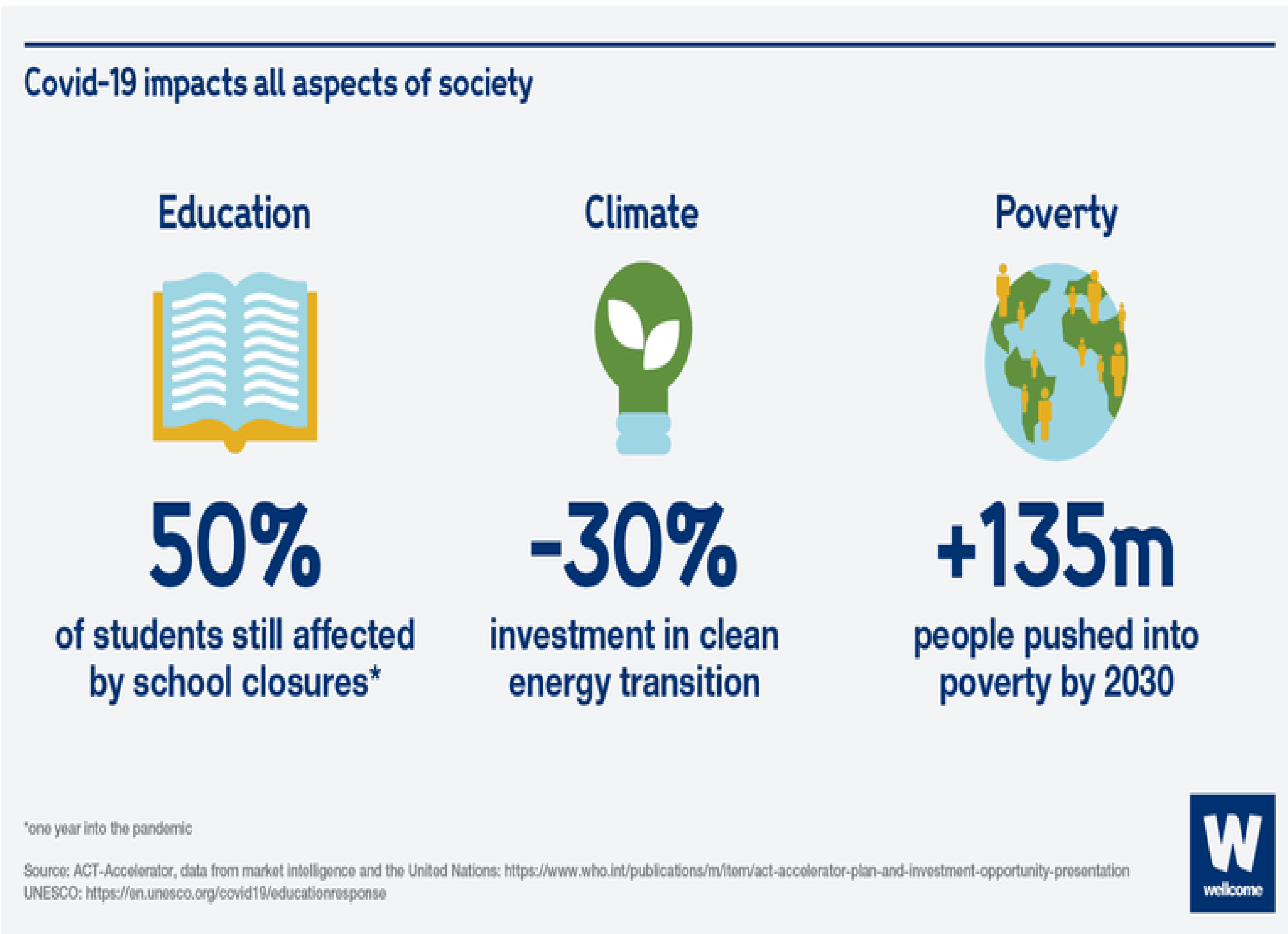


Source: Johns Hopkins University CSSE, Eurostat, OECD and individual national statistics agencies CC BY
Note: Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19. Data for China is not shown given the earlier timing of its economic downturn. The country saw positive growth of 3.2% in Q2 preceded by a fall of 6.8% in Q1.

Let's, however, investigate this further. We notice that countries with similar falls in GDP have witnessed very different death rates. For instance, compare the US and Sweden with Denmark and Poland. All four countries saw fiscal downturns of around 8 to 9 percent, but the death rates are noticeably different: the US and Sweden have recorded 5 to 10 times more deaths per million. This yet again highlights that among countries whose GDP data is available, there is a lack of evidence to argue that protecting people's health and protecting the economy are mutually exclusive or at the expense of each other. Instead, there exists an inverse relationship between the health and economic impacts of the pandemic. As well as saving lives, countries controlling the outbreak effectively may also have had the most viable economic strategies.

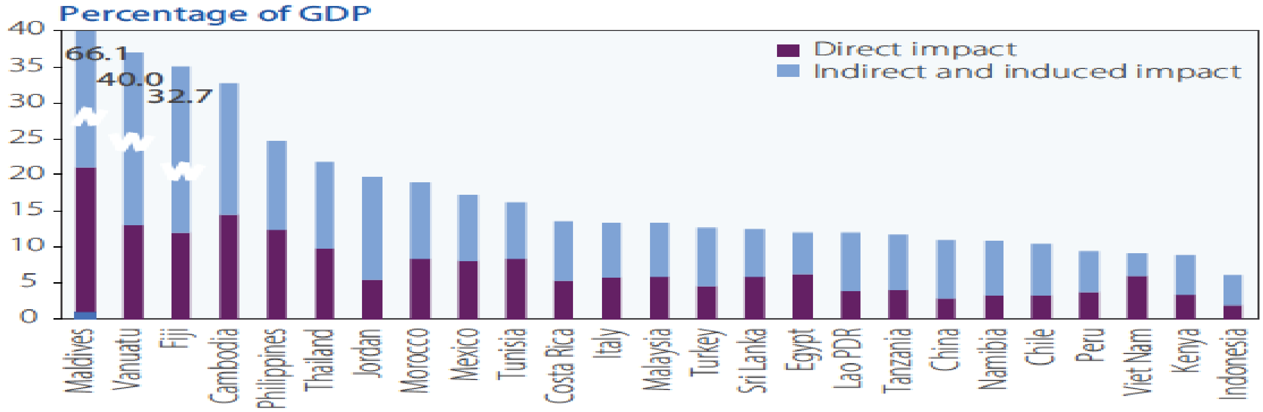
3. DEMOGRAPHIC STUDY OF ECONOMIC IMPACT

Thus, on account of the broad-based impact that has been experienced globally, it may be far more worthwhile to investigate the fallout of the pandemic in terms of its effects on demographic segments of society rather than simply country-wise.



A look at the most documented effects of the pandemic, whether in developed or developing countries, shows that tech-enabled economies, with greater investment in design rather than manufacturing, have exhibited steadier and more consistent fundamental strength. This also explains why some countries, which curated solutions for the common challenges during the pandemic, such as sanitizers, masks, health-care equipment, software to facilitate distance education as well as profession, managed to capitalize on the imposition of security protocols, such as the US and China, and remain economically competitive. On the other hand, countries most dependent on tourism and the leisure sector, such as Greece, Italy, France and Thailand, registered a marked downturn.

Figure 4
Contribution of travel and tourism sector to GDP



Source: World Travel and Tourism Council (WTTC).
Note: The direct impact refers to GDP generated by industries that deal directly with tourists, including hotels, travel agents, and airlines, and is consistent with the total GDP calculated in the Tourism Satellite Account. The indirect impact is a result of business-to-business transactions as a result of tourism activity. The induced impact measures the increase in household-to-business activity.

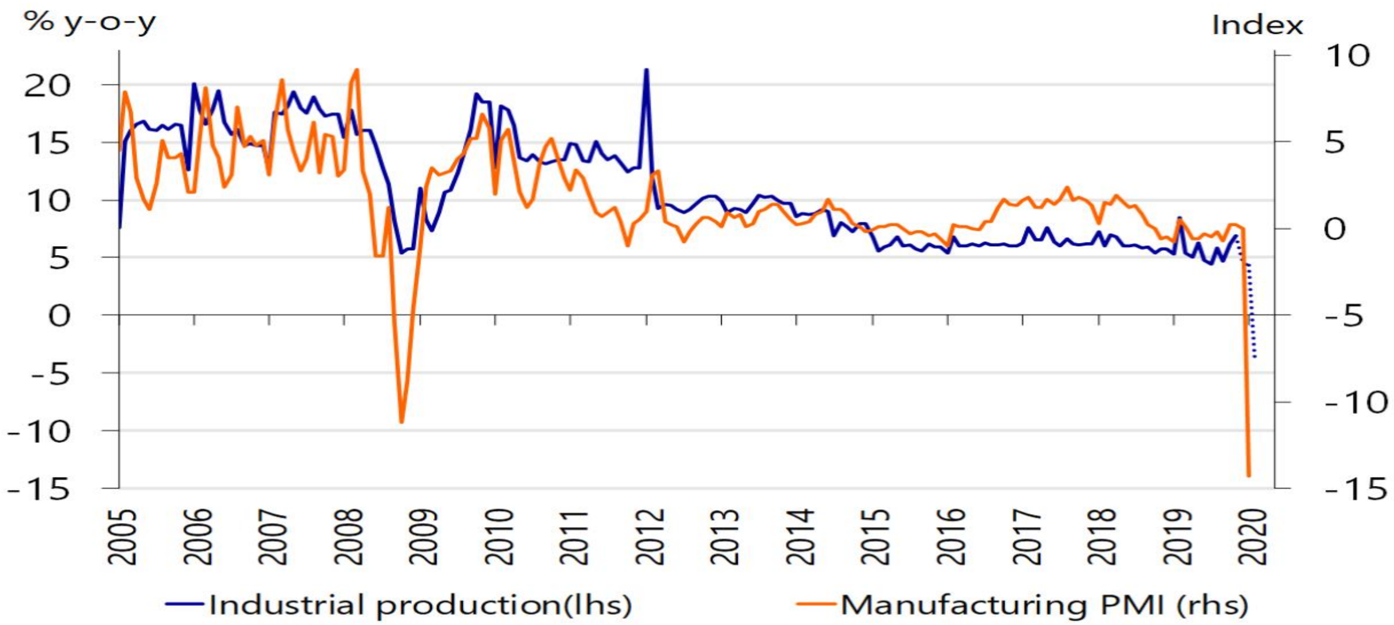
This negative impact was predominantly felt by manufacturing economies that primarily relied on manual rather than machine labour for output. The latter remained more or less functional, whereas the former was at best sporadically operational between lockdowns. The real and perceived problems caused by the lockdowns resulted in large-scale migrations of the labour class, leading to a shortfall in available skilled and semi-skilled labour, as well as hardships in material procurement. Due to these reasons, China continued to mass produce, whereas Mexico, Vietnam, Philippines and India could not stay equally productive.

Manufacturing activity
Manufacturing in emerging markets is slowing down sharply but in China it is improving modestly.

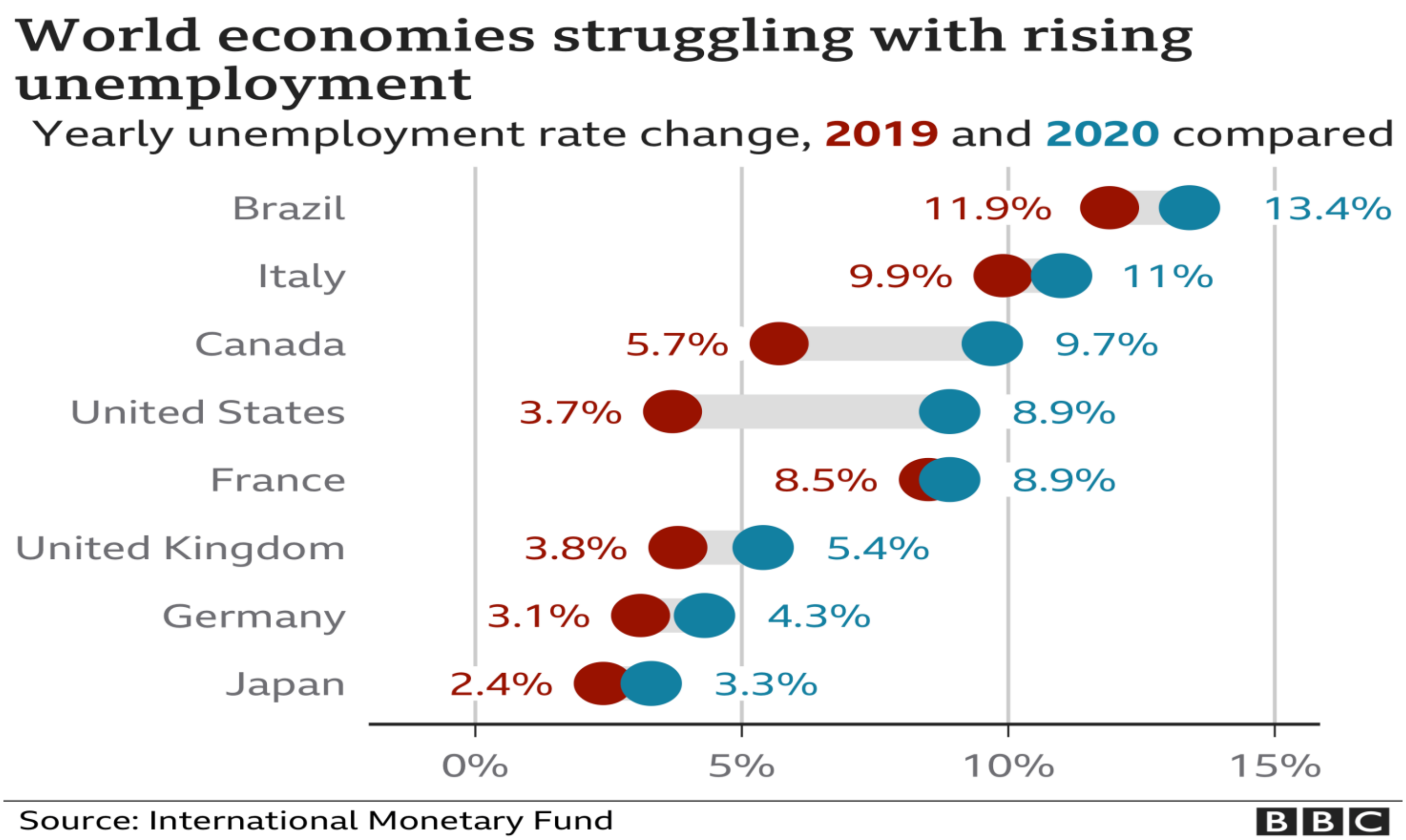
(manufacturing output purchasing managers' index, > 50 = expansion, seasonally adjusted)

Source: Haver Analytics.
Note: Index for China is a simple average of the PMI provided by Caixin and the National Bureau of Statistics.

INTERNATIONAL MONETARY FUND



Yet another negative fallout of the economic downturn caused by the pandemic has been the closure of many small to medium-scale businesses, and the downsizing of large-scale businesses. This has led to unprecedented levels of unemployment and civic unrest in most countries, an established precursor of political instability and lack of equilibrium in governance. This not only impacts the purchasing power of vast sections of society but also hampers consumer spending sentiment, a major impediment to economic recovery.



4. THE ROAD AHEAD

The determining factors for global fiscal performance in the short, middle and long term are primarily the ability of countries to vaccinate their population, provide adequate medical resources and infrastructure to cope with any future breakouts, as well as the amount of money countries can invest in rehabilitation packages in order to kick-start their economies after a prolonged period of economic stasis or even downturn. These three factors will largely dictate the fiscal health of various economies. Let us examine some interesting case studies.

According to predictive analyses, till recently, countries like China and South Korea, which succeeded in suppressing COVID-19 early, were upheld as ideal models. China's economy was projected to grow in 2021 by 8%, over twice that of the most successful western countries even before the pandemic. This was spurred largely by China's export-led economy, which capitalized on lockdowns in western countries to cater to the prolific demand for household consumer goods and medical supplies during this time. Chinese exports to the US were at an all-time high despite the high tariffs imposed by the Trump administration.

China has also expanded its economic and geo-political leverage throughout Asia, with a newly-established free trade region in the Pacific and massive infrastructure projects along its trade routes to Europe and Africa. It has also consistently invested in upgrading its domestic technology, thereby mitigating its dependence on western supply chains for raw material, something an equally emergent economy like India hasn't quite successfully managed to do yet.

However, predictive models may yet be turned on their heads, since the virus, most predictable in its unpredictability, has now quagmire vast regions of China in the third wave brought on by the highly infectious Delta Plus variant. Massive areas in China have been put under severe restrictions and prohibitive security protocols have been implemented to stem the rising tide of infections. The economic fallout of these actions will emerge in some time, and will depend largely on how long and severe the restrictions will need to be.

Rich countries such as the US, UK, Spain, Germany and Netherlands find themselves facing similar, if not more dire, challenges. Despite short periods of respite in the middle of 2020, the majority of these economies have stagnated or underperformed, prompted as much by the second wave of the pandemic as the lockdowns put in place to cope with it. Across the board, business and consumer confidence are at an all-time low. Even after registering modest recovery in FY21, these economies are predicted to shrink by 5 to 7%.

The biggest sufferers, according to a recent study in New York Times, are likely to be developing countries, whose vaccination programmes could be hampered by a lack of funds and a medical infrastructure vastly stretched due to the lack of adequate medical resources. They can also ill-afford crippling lockdowns, or the considerable government subsidies that have prevented mass unemployment in Europe and the US. Even formerly fast-growing countries like Brazil and India are facing hard times. Many millions of poor workers in the informal sector are being forced back to their villages and urban slums to face mass poverty and even starvation. The challenge even a wealthy and resource-rich country like South Africa faces is empowering its vaccination programme through procuring vaccines and to cope with the rapid rise in infections despite becoming a member of the COVAX programme. In this scenario, Rwanda seems the only African country that may register a relatively rapid post-pandemic economic recovery.

The US economy has capitalized on the huge stock market increase driven by companies like Amazon, Netflix and Zoom. As these companies provided services aligned to the needs of the pandemic, their stocks increased in valuations and produced more profit than originally expected. However, the overperformance of some large companies may not favourably tip the economic scale for the entire economy of the country, since the demand and supply of an economy also depends on the consumers and their relationship with investment and income. It remains to be seen whether strong fundamentals will serve to restore consumer confidence, and whether in the coming year those with secure jobs and high incomes will be incentivized to spend, or hold on to their savings in the face of continuing uncertainty.

In contrast, countries where large sections of the population have lost their jobs or businesses, and those dependent on sectors such as tourism, retail and hospitality, are unlikely to recover fully after the pandemic. This demographic segment includes a younger populace, women and ethnic minorities, a rather large demographic segment of the population, all of whom will at least temporarily struggle to find financial stability and consumer confidence.

The 2019 Global Resilience Index, drafted by the insurance company FM Global, ranks the resilience of the business environment across 130 countries, based on factors like political stability, corporate governance, risk environment and supply chain logistics and transparency. According to them, the following countries are poised to register strong growth in the coming fiscal year:

1. **Norway** – According to a report published in Reuters, a poll of economists suggests that post-pandemic reopening is witnessing consumers preparing to spend savings that have risen to a record high during the COVID-19 outbreak, which should boost prospects of economic recovery. Sweden and Norway are each set for an

expansion of 3.5% or more in 2021 and 2022, according to the July 5-8 survey, as the pace of vaccination picks up. Norway's GDP has been expanding by 3.5% in the first two quarters of FY2021. This figure was better than the 3.1% previously forecast for FY2021. Further, confidence was boosted as the Norwegian monthly core GDP estimated at 1.8% in May, beat the 0.9% prediction of a Reuters poll.

2. **Denmark -** Denmark excels in the resilience index on account of its supply chain tracking and low governmental corruption. The country's rapid response in terms of security protocols and measures to check the spread of the virus by announcing a shutdown of schools and non-essential private businesses on 11 March and closing its borders to foreigners on 14 March, proved effective in containing the pandemic. Danish culture, which tends to be trusting of authority and willingness to stand together for a common cause, has also had an impact on the effectiveness of the measures.

3. **Switzerland -** The State Secretariat for Economic Affairs (SECO) is optimistic for economic growth (gross domestic product or GDP) and employment prospects in the country. The predictions have been adjusted for the impact of major sporting events like the European football championships and the Tokyo Olympics. SECO has significantly raised its 2021 sport adjusted GDP growth up to 3.6% from 3% in March, and now believes that the economy will "climb well above the pre-crisis level in the second half of 2021." Consequently, companies are expected to increase their investments and expand their workforces.

4. **Germany -** The Bundesbank raised its growth and inflation forecasts for this year and the next, on the assumption that the coronavirus outbreak would be contained quickly and sustainably by the vaccination campaign. It believes that the subsequent relaxation of restrictions would lead to economic recovery. It now expects the German economy to reach pre-pandemic levels as soon as next quarter, growing by 3.7% this year, 5.2% next year and 1.7% in 2023.

5. **Finland –** Reports indicate that rising consumer confidence coupled with pent-up demand will lead to increased household consumption. The country's exports are expected to increase to pre-pandemic levels with the revival of export markets and global investments leading to economic growth. The growth rate for the Finnish economy is pegged at 2.9% in FY2021 and at 3.0% in FY2022.

6. **Sweden -** Despite mild distancing measures and swift government action to protect people and businesses, the pandemic triggered a severe recession in Sweden. However, the country's GDP suffered less than many other European economies in 2020, thanks to reinforced short-time work, compensation to firms for lost revenue and measures to prop up the financial system. Substantial public finances provided scope for further stimulus in 2021 for fiscal recovery. Sweden's gross domestic product was expected to grow 3.6% this year and 3.5% next year, above the 3.3% and 3.4% forecast in April, an economists' poll by Reuter showed. Labour reforms to accommodate a fast-changing economic environment and investment in digital skills and infrastructure, will lead to the revival of employment and sustainable recovery, according to the latest *OECD Economic Survey of Sweden*.

7. **Luxemburg –** The country's GDP is expected to recover in 2021 and grow at a rate of 3.2%. As containment measures are assumed to continue into the first half of 2021, the rebound is set to take place mainly in the second half of the year. The recovery is expected to be driven by a resurgence in private consumption and investment. Private consumption is projected to be supported in 2021 by the labour market, which held up relatively well during the crisis, and by household savings accumulated in 2020. Further, the extension of government support measures into the first half of 2021, including the provision of subsidies as well as financial relief packages for the citizens, should also support domestic demand during this period. Following the removal of the majority of the restrictions, a strong recovery is expected with GDP growth of 4.3% in 2022, mainly driven by domestic demand but also supported by net exports.

8. **Austria -** The Austrian economy retained health despite a rise in public spending due to the coronavirus pandemic, according to reports by the International Monetary Fund (IMF). According to the IMF, Austria will not need austerity measures as the phase-out of the COVID-19 support measures and anticipated economic growth are sufficient to ensure long-term budgetary stability. The budget deficit is expected to return to its pre-pandemic levels in the medium-term with new debts averaging about 1% and overall public debt reaching 80%, considerably less than the EU average.

9. **Central United States -** To capture the United States' broad geographic footprint, the index splits up the country into West, Central and East regions, but as a whole, the US ranks well in the Global Resilience Index for 130 countries (9th, 11th and 22nd, respectively) for its low-risk business environment and strong supply chain. Reports reveal that containing the virus has proven challenging in major metropolitan areas like New York, and unemployment has already jumped to historic levels, in large part due to the mandatory shutdowns of more than half of US states, which has particularly hit restaurant and retail workers and other businesses that rely on foot

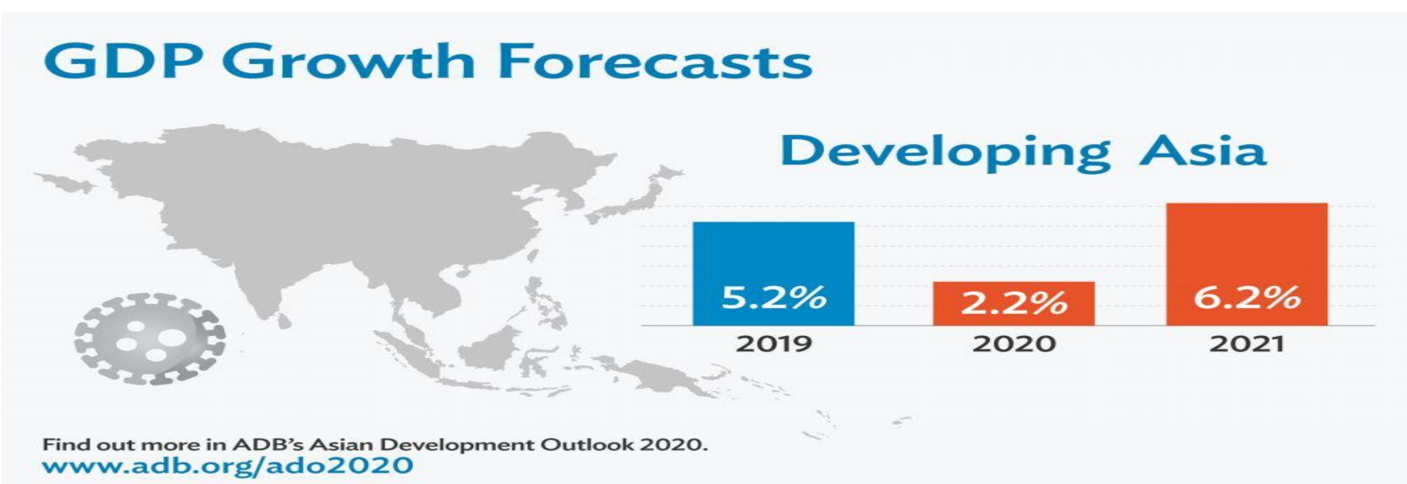
traffic. But the US government has moved quickly to pass stimulus measures to stabilise the economy, and a brisk vaccination programme should allow for a quicker economic recovery. Financial institutions like Goldman Sachs and Morgan Stanley are predicting a "V-shaped" recession and recovery, with a relatively quick recovery in the later quarters of the year. "Generally speaking, the US economy is better-positioned to recover from large shocks and potential longer-run shifts than much of the rest of the world. The population is on average younger than much of the rest of the world with more mobility, and labour market restrictions are generally lighter, thereby facilitating greater labour reallocation" said Eric Sims, Professor of economics at the University of Notre Dame.

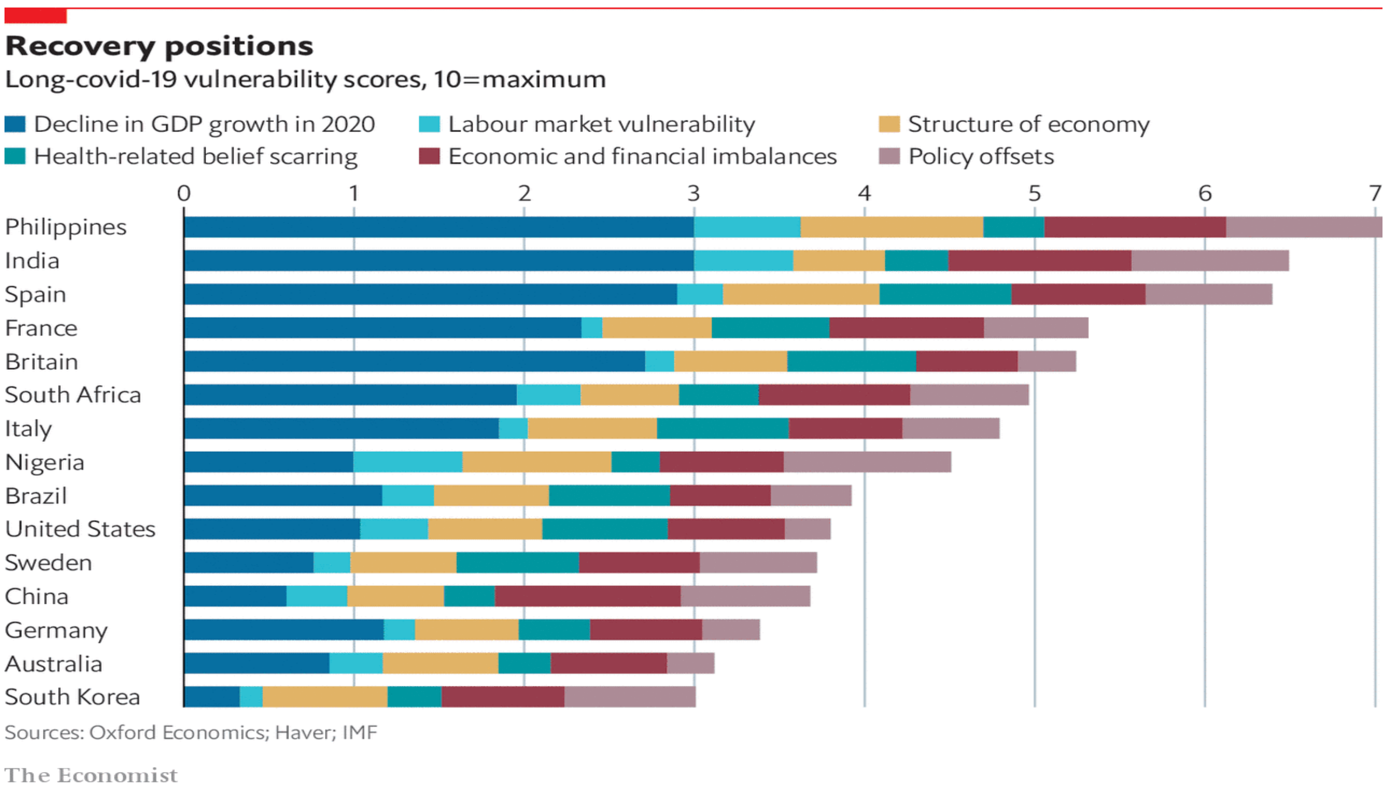
10. **United Kingdom -** The UK economy faces deeper economic scarring in comparison to other G7 economies because of the simultaneous impact of Covid-19 and Brexit. This is despite the fact that the nation was predicted to be on track for its fastest growth since the Second World War, according to the Organisation for Economic Co-operation and Development (OECD). In its latest economic outlook, the Paris-based think tank sharply upgraded its view for UK's economic growth, due to the success of the Covid-19 vaccination programme. It forecasts that the UK GDP will rise by 7.2% in 2021, the fastest growth since 1941, after a 9.8% contraction in 2020 – the worst in almost 300 years. That would outpace other advanced economies, including the US.

11. **Singapore –** This Asian powerhouse scores high in the index for its strong economic fundamentals, low political risk, strong infrastructure and low corruption in the survey, pushing it to number 21 in the overall resilience ranking. The country also moved fast to contain the virus and has had one of the flattest curves in the pandemic. As a small country, Singapore depends on the recovery of the rest of the world to have the most successful rebound. However, residents are generally convinced of their positive prospects and future. The country's adoption of technology has paved the way for seamless transition from the old to the new work and school culture.

12. **New Zealand -** Ranked as the 12th-most resilient in the index, New Zealand scores especially high in corporate governance and its supply chain. The country has also been able to move quickly to contain the spread of the virus by shutting borders to international travellers on 19th March and implementing a non-essential-business lockdown on 25 March. With tourism and exports forming a major part of the economy, New Zealand will face some adverse consequences to its economy in the near term, but this doesn't necessarily have to be a bad thing. "By being insulated, we will have time to recalibrate," said Dunedin resident Ron Bull, Director of Curriculum Development at Otago Polytechnic. "We had already started talking about the impact of campers and backpackers on the environment, and this gives us time to weigh up what's important against the waves of tourist dollars coming in." Overall, the country is well-placed for a stable recovery, with low levels of government debt and the ability to enact quantitative easing to keep interest rates low.

13. **Rwanda -** Recent improvements in corporate governance have propelled Rwanda in the index, jumping 35 spots to its current rank of 77th most resilient economy in the world (and fourth highest in Africa). Most importantly, it looks particularly well positioned to bounce back from this type of crisis as the country successfully contained Ebola from its borders after an outbreak from neighbouring Democratic Republic of the Congo in 2019. With its mix of universal health care, medical supply-delivering drones and thermometer checks at its borders, Rwanda stands to be well-equipped to maintain stability throughout the crisis, especially when compared to other countries in the region. Moreover, the government helped to tide over the severe lockdowns by distributing free food door-to-door to the country's most vulnerable.





5. CONCLUSION

Thus, the popular perception is that while countries such as the US and UK will continue to regain fiscal health on the foundation of strong fundamentals, Asian economies, especially those driven by unrestricted manufacturing capacities, raw material supply chain and strong government investment in rehabilitation packages, will also record brisk economic recovery from the second half of 2021. In fact, most economists peg 2022-23 as years of economic boom across segments and sectors, across the world.

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