

You cannot solve a global pandemic with national policies

*As we lock ourselves down to contain the spread of COVID-19, it is tempting to think that the solutions to the pandemic lie at a national level, writes **Minouche Shafik (LSE Director)**. But although it will probably stall world trade, the virus respects no borders. International co-operation, woefully inadequate so far, will be vital if the pandemic is not to re-emerge.*

One of the paradoxes of this pandemic is that even as we are forced to turn inwards, we need each other's cooperation more than ever. Most of us are becoming more self-reliant — staying at home, engaging less with others, even braving baking and home haircuts. And yet, only if everyone behaves in a collectively responsible manner will we be able to reduce infections and eventually normalise our economic and social lives.



Minouche Shafik at the LSE, January 2020. Photo: [LSE](#). Copyright LSE

That same paradox applies to the world economy and the global health challenges we face. Nation states too are turning inward and throwing unprecedented resources at containing the pandemic. But the pandemic does not respect borders. Even if one country defeats it, the risks of it returning are high as long as it continues to plague the rest of the world. The world is still interconnected, just in different ways.

What are the implications of the crisis for the world economy? And what does it mean for the balance of solving issues nationally versus globally?

Trade growth has probably peaked

Trade grew faster than GDP for several decades, but recent years have seen that slow. This crisis will accelerate that trend as supply chains will become shorter and more local. There are many reasons for this move toward localisation of production. Because of the crisis, companies will give greater weight to security of supply over efficiency and cost. Automation is reducing the importance of wages in production costs, making it possible for firms to “re-shore” facilities nearer to home markets. And localisation is also a way to shield oneself from protectionism and trade wars.

Globalisation will become more digital

While the movement of people and goods is likely to decline, trade of online services will grow rapidly. We have already seen the boom of online shopping, entertainment, and financial services during this crisis. The movement of data across borders is increasing exponentially. This makes resolution of issues like digital taxation, profit shifting by platforms across borders, and the prosecution of cross-border digital crime even more imperative.

Interest rates will be low for a very, very long time

Countries will emerge from this crisis with huge debt burdens. In past crises, those debts have been reduced through a combination of budgetary surpluses and economic growth rates that are greater than the rate of interest. Given how large debts are likely to become, it is hard to imagine being able to impose enough austerity to achieve the surpluses necessary to bring debt ratios down. Instead, many countries will likely resort to financial repression whereby savers earn returns below the rate of inflation to make it possible for governments to “inflate away” their debts. This will have implications for cross-border financial flows.

Demand for social insurance will rise

Warren Buffett famously said that when the tide goes in, you can see who is swimming naked. The coronavirus crisis has shown that millions of citizens around the world were in effect swimming naked – with no savings to fall back upon and no public safety net to support them and their families. Both poor and rich countries now have informal labour markets, as flexible modes of working have spread everywhere and employers’ commitment to their workers is ever weaker. So much of social policy in recent decades has shifted risks onto individuals in the name of efficiency and flexibility. The years ahead are likely to see a backlash against this as citizens demand that more health, work and old age risks be shared. While these are mainly national challenges, some will spill over into international agreements, especially around trade.

All of these trends will reinforce countries’ tendency to focus on their domestic issues. Yet everything we know from history tells us that restoring economic prosperity and global health will require countries to look outwards and cooperate globally.

The economic response must be global

Many commentators from emerging markets took to referring to the 2008 financial crisis as the “North Atlantic Financial Crisis” to signal that the problem emanated from the US and Europe and was not truly global. This time is different. The economic consequences of coronavirus will adversely affect every country in the world.

Commentators like Gordon Brown and Larry Summers have pointed out that while governments have broken all the economic rules to respond to coronavirus at the national level, the international response has been woefully inadequate. Even in the rich world, highly indebted countries like Italy or Spain have been less able to support their economies and populations than others like Germany or the Netherlands. For poor countries, many of which now have well-developed systems to transfer income to the poorest households through cash transfers and mobile banking, even fewer resources are available. This crisis needs a truly global response that includes more resources for the IMF and other multilateral institutions, comprehensive debt relief for the poorest countries, and a coordinated stimulus for economic recovery.

The health response must be global, too

You cannot solve a global pandemic at the national level. Just as the economic response must be global, so the health response must include helping the poorest countries’ health systems to cope. The risks of spread in countries where social distancing is not possible (especially in slums, refugee camps and densely populated urban areas) may be devastating. Urgent funding is needed for essential equipment, vaccine development, therapeutics and support for weak health systems and vulnerable populations around the world. Without that, the epidemic will rage in highly populated parts of the world only to reappear in the countries that were hit first.

At a time when there are strong forces pushing inward, we need to remind everyone that it is in their national interest to think outwardly and globally. This is not just about generosity — though that is a great thing — but also self-interest.

This post represents the views of the author and not those of the COVID-19 blog or LSE.