

Post covid-19: Dark clouds and silver linings



Climate change & food security

The analysts forecast a global fall in carbon emissions by 4 to 7 per cent this year due to economic closures. They consider this one of the few silver linings from the pandemic.

This global crisis and economic reset also serve as a clarion call for action toward climate change. For instance, the surge in unemployment presents an opportunity to retool workforces toward jobs that protect the environment, while the market for green investments has never been more favourable.



On the other hand, a rebound in food demand and food prices may lead to rising inflation and a further widening of an already large

income gap between rich and poor countries.



Deteriorating relations

China's initial response to the pandemic remains a source of tension between the two countries, while Donald Trump's administration has sought to divert attention from its handling of the outbreak. With public opinion toward China worsening in the US, both heavyweight presidential candidates – Mr Trump and Joe Biden – are likely to maintain a hawkish stance towards China.



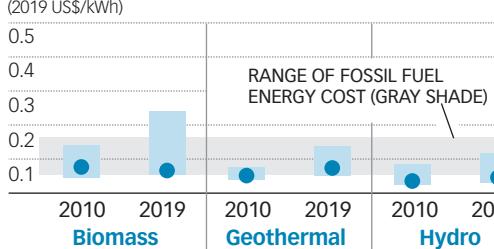
US President Donald Trump and China's President Xi Jinping

Longer term differences toward trade, national security, and human rights will continue to weigh on relations between the two superpowers.

As theirs is likely to remain the most important bilateral relationship in the world, the analysts expect Washington and Beijing to find a new, mutually advantageous way forward. In the meantime, though, relationship fluctuations will continue to inject volatility into the global economy.

Cheaper renewables

Range of renewable energy costs (2019)



The crisis of our generation has dealt an extraordinary economic shock across the world, with economies contracting by an annualised 25 to 40 per cent in a single quarter. Even as the dust settles on the health crisis, the worst is far from over as we are confronted with the deepest peacetime recession since the Great Depression, deteriorating trade tensions, deglobalisation and worsening inequality. A recent report by Nomura looked at how these trends will play out. Here's a summary of ideas from the report titled The world after Covid-19.

BY KELLY NG



Photo Illustration: Gareth Chung



Deglobalisation

With widespread restrictions to movement of people, goods, and services, the pandemic may have fuelled deglobalisation, but the pace is likely to remain slow. The impact of deglobalisation may be most keenly felt among countries that are heavily reliant on tourism and migration.

That said, the pandemic will likely speed up the process of countries and multinational corporations diversifying out of China, adopting what analysts call a "China plus one strategy" to mitigate risks. Prior to Covid-19, many were already moving toward this due to rising labour costs in China, as well as its trade tensions with the US.



These companies will likely move operations to emerging markets such as Vietnam, India and Cambodia, where cheaper labour abound. The analysts believe this is more likely than "reshoring" – where operations are transferred back to their home countries.



Worsening income inequality

The less-educated, as well as low-wage workers, are suffering disproportionately from the ongoing pandemic recession. A recent paper from the International Monetary Fund, for instance,

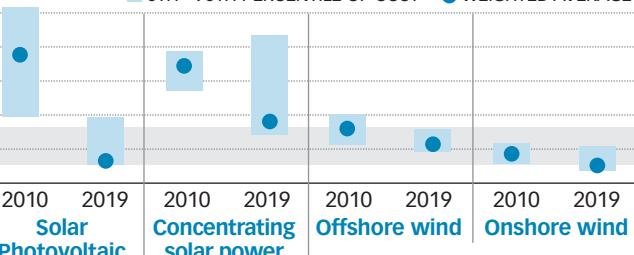


shows the ability to work remotely is highly correlated with educational attainment.

The pandemic could also widen the divide between advanced and developing economies, which may struggle to cope with the outbreak due to weaker healthcare infrastructure.

Temporary closures of educational institutions also spell longer-term effects on those who do not have access to online learning.

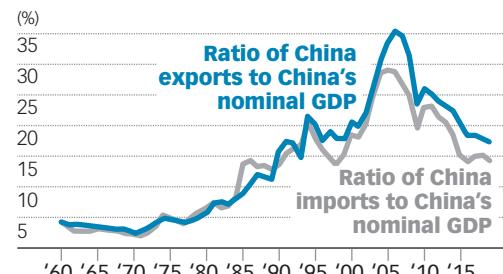
5TH - 95TH PERCENTILE OF COST ● WEIGHTED AVERAGE



Source: IRENA Renewable Cost Database, Nomura

Small world after all

Ratio of China's trade to China's nominal GDP (%)



Source: WIND and Nomura Global Economics

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