

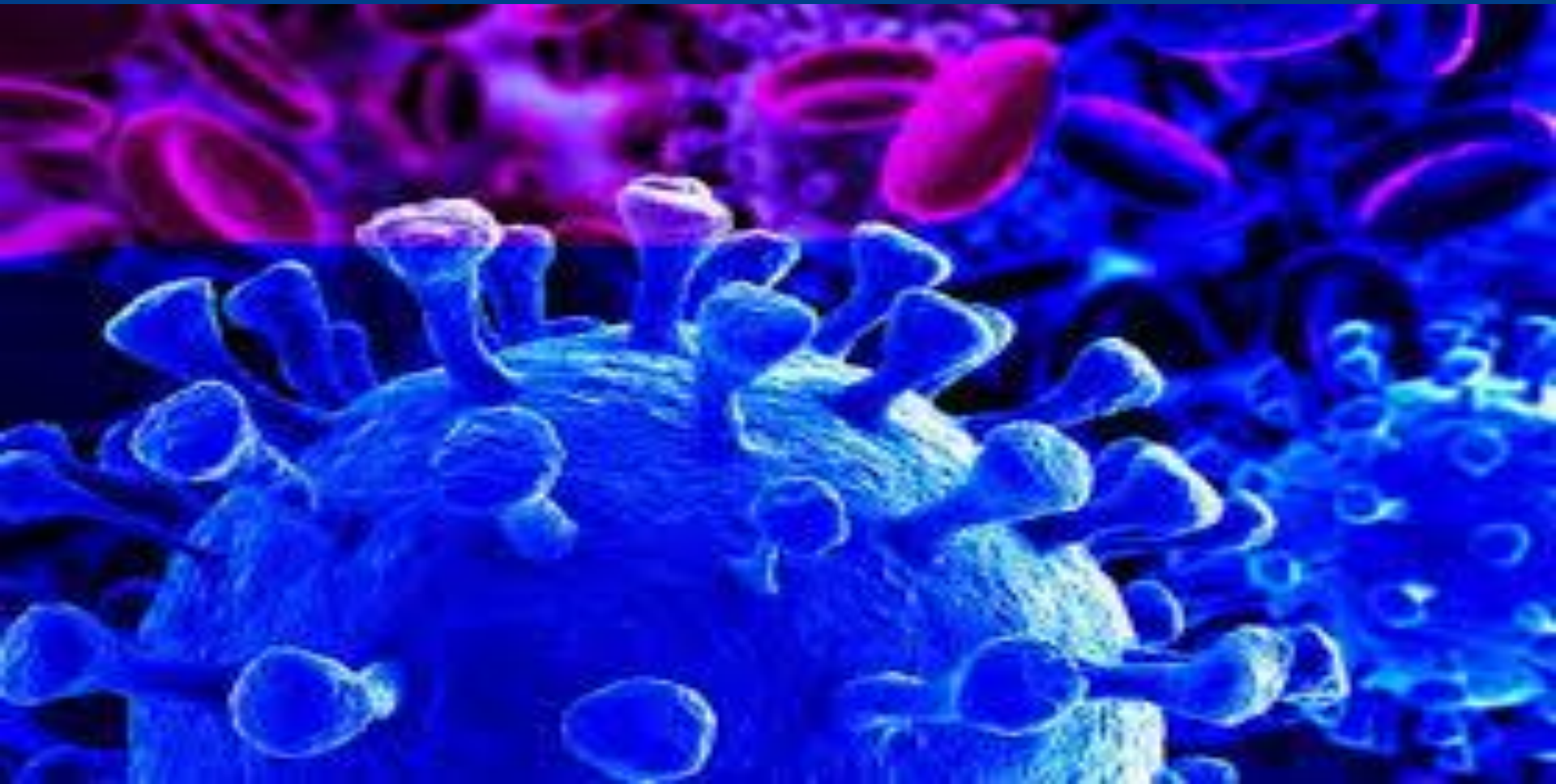
# LONG TERM CONSEQUENCES OF COVID-19

April 2020



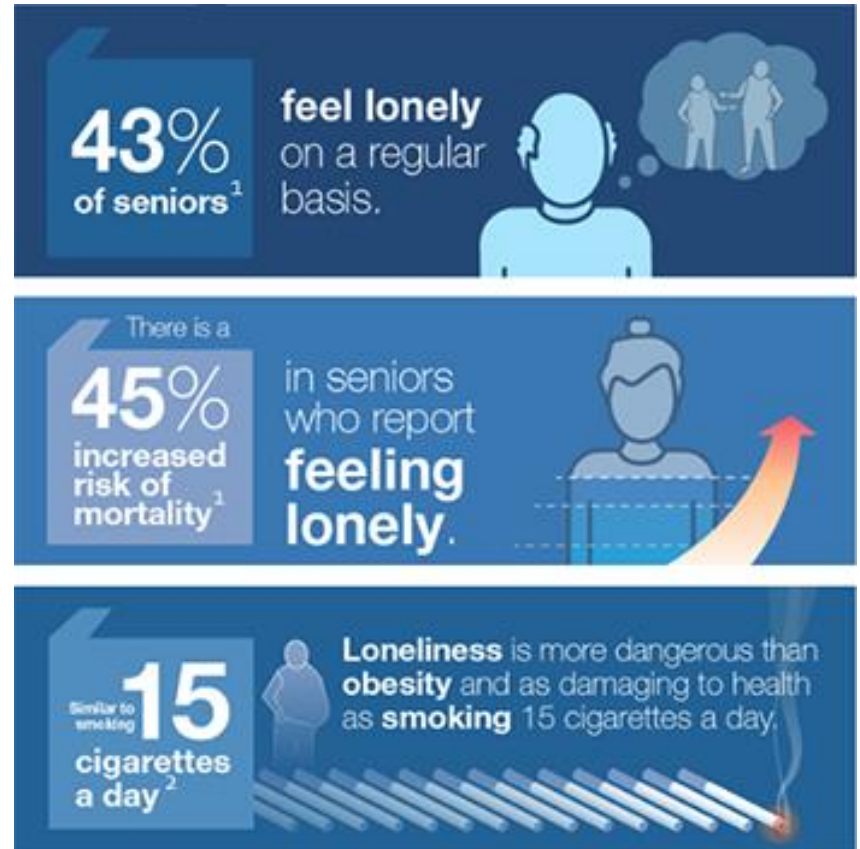
**European Bank**  
for Reconstruction and Development

**Beata Javorcik**



# Remote working is here to stay

- Less demand for office space => impact on **real estate market**
- In some occupations, more **monitoring** via **software**
- **Epidemics of loneliness?**



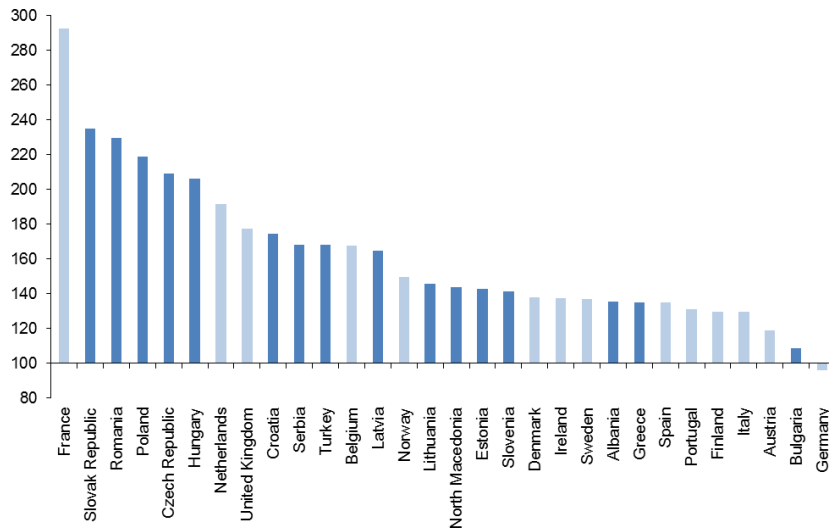
# Remote working is here to stay

- **Density of ideas** in a physical location becomes less important
- **Home office** => demand for more space at home
- **Boost to secondary cities**

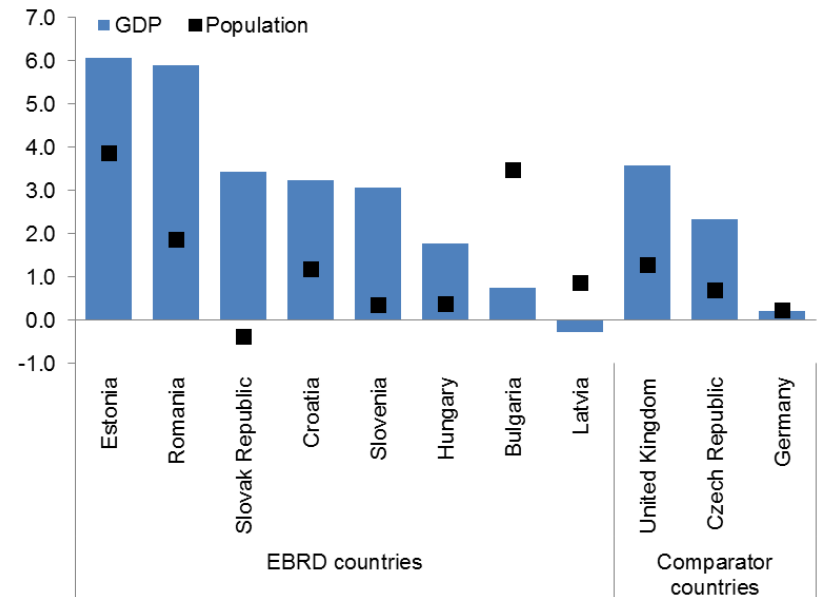


# Boost to secondary cities

GDP per capita in the largest city's metropolitan region, 2017  
(National average=100)



Change in GDP share and population share of the largest city's metropolitan area, 2000-2017  
(Percentage points)



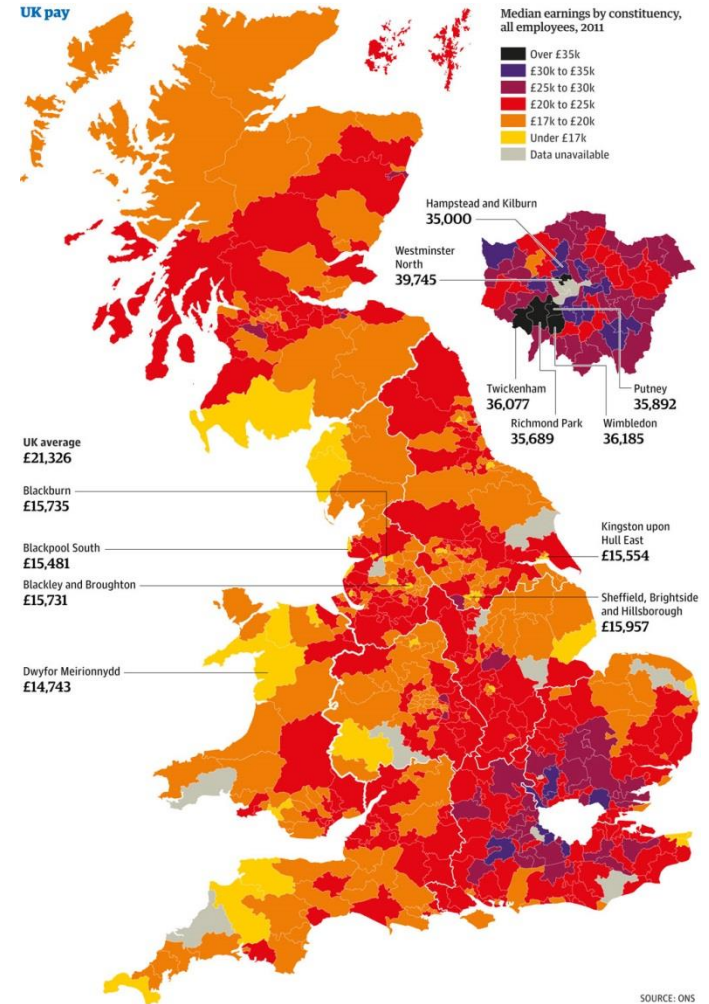
- Sources: Liveable Cities Report (2019). Eurostat and authors' calculations.
- Notes: 2016 data for Ireland, France, Croatia, Italy, Latvia, Lithuania, the Netherlands, Norway, North Macedonia and Albania.

Sources: Liveable Cities Report (2019). Eurostat and authors' calculations.

# Boost to secondary cities

## Implications for

- Spatial inequality
- Politics (spatial inequality less of a source of discontent?)
- Low carbon transition?



**GLOBALIZATION**

# Rethinking of global value chains

## This time is different

- COVID exposes **excessive concentration of suppliers**
- Uncertainty about **trade policy**
  - US-China trade war
  - Weakened WTO
- Both types of shocks likely to **come back**

## Changes to GVCs

- More focus on **resilience**
- Building in **redundancy**
- Move **away from zero-inventory** approach
- Greater weight given to resilience by **credit rating agencies**
- Opportunities for **lesser known investment destinations**

# Will globalization be rolled back?

- Contrary to popular fears, it **did not happen during the financial crisis**



# Limited scope for tariff hikes under the WTO and Preferential Trade Agreements rules

Country	MFN Tariff	Bound Tariff	Tariff Water	Smoke in the Water	Meaningful Water
All Countries	0.05	0.15	0.11	0.04	0.07
High Income	0.04	0.11	0.07	0.02	0.05
Middle Income	0.08	0.24	0.16	0.06	0.10
Low Income	0.09	0.45	0.36	0.11	0.25

Source: Foletti et al. (2009)

MFN tariff = tariff actually applied

Bound tariff = maximum tariff allowed under the WTO commitments

Tariff water = bound tariff – MFN tariff

Smoke in the water = meaningless policy space (applied tariff is already prohibitive or most trade occurs under preferential trade agreements subject to different rules)

**Meaningful water = economically meaningful policy space**

# Will globalization be rolled back?

- Weakened WTO
- Not functioning Dispute Resolution System
- Export restrictions even within the EU
- Security concerns could be used to justify protectionism
- US paved way to using National Security Exceptions (Article XXI)
- **Will the EU provide strong leadership?**

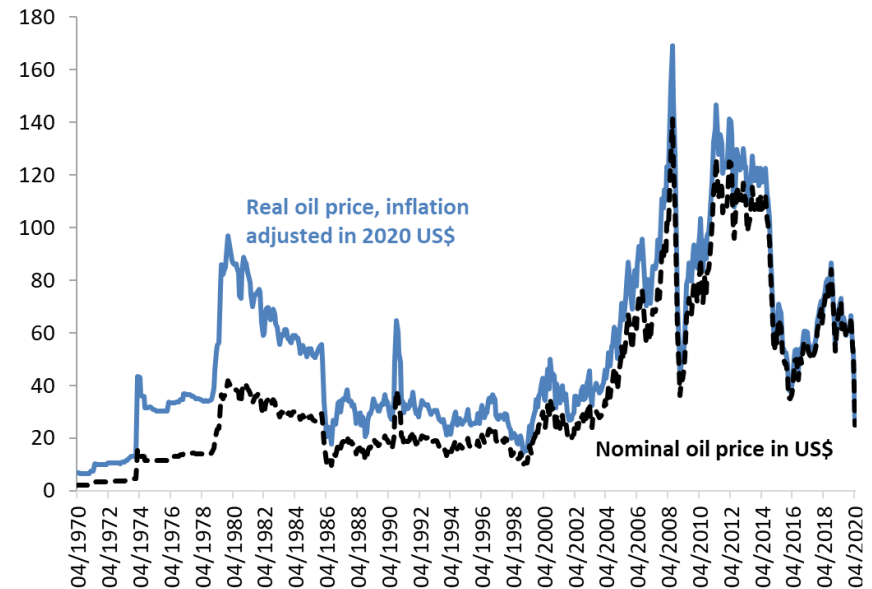
**CLIMATE CHANGE**

# Climate Change Mitigation

## Threats

- Risk that the **COVID-19 crisis will eclipse the climate action**, which is desperately and urgently needed
- With **oil and gas prices likely to be suppressed for a while**, the COVID crisis risks to cause a **dangerous 'pause' in the drive to green**

Oil price drop to levels last seen in 1999 (in inflation-adjusted terms) on weak outlook

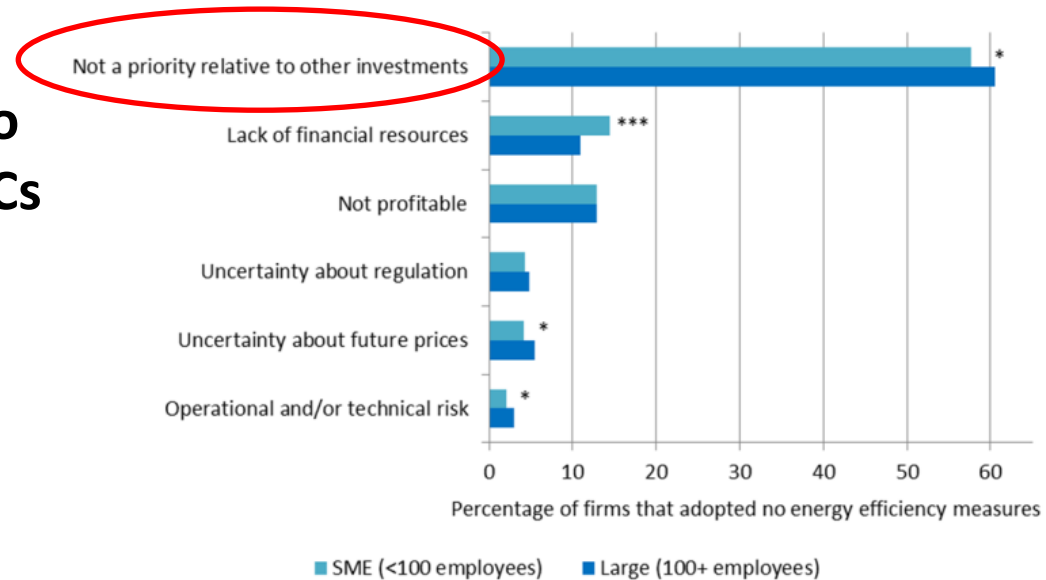


# Climate Change Mitigation

## Opportunities

- Remote work & less business travel => less emissions
- Signal strong **commitment to green** => impact on **new GVCs**
- Climate change likely to lead to new disease outbreaks => **more public support for action**
- **Tilting to Green**

## Reasons for not adopting energy efficiency measures vary



Source: *Transition Report 2019*

# Tilting to Green

- An immense amount of money is being spent to counteract the COVID-19 crisis. Latest estimates are **3% of global GDP**, likely to be higher
- This creates **an opportunity to 'tilt to green'** the government's funds currently dedicated to COVID-19 and **turn this stimulus into the key accelerator to a low-carbon economy**



**THE STATE STRIKES BACK**

# The State strikes back

- The COVID crisis exposed weaknesses of gig economy & zero hour contracts => **rethinking of the labour market rules**
- **Shift from ESG to regulation?**
- More expected of the state
- **Nationalizations**





# Populism & Democracy

- Mixing of anti-crisis response **with politics**
- **Open power grab** justified by the outbreak
- **Erosion of privacy** protections
- Stimulus creates **opportunities for corruption**



# Populism & Democracy

- Will the outbreak **expose incompetence of some populist leaders?**
- Or will **propaganda** manage to counteract that?
- Will **trust in experts** be restored?
- Will COVID lead to **more international cooperation?**



