

**T**HE PANDEMIC CONFOUNDS US. VERY LITTLE can be predicted or planned for with any certainty and the situation changes from week to week, if not day to day.

But this much is evident: While the most significant personal and public health impact so far has been in developed countries, developing countries, as ever, face a greater structural and systemic risk. What is less obvious at present but becoming more so is that the threats bearing down on those regions now will boomerang back onto the global economy.

For much of March, as the virus spread imperiously through the developed world, news media asked why and how Africa seemed to have escaped. Barely a month has passed and already a group of economists at the World Bank are predicting that fallout from the virus in the developing world will result in the first global increase in poverty since 1998's Asian Financial Crisis. Africa and South Asia will bear the brunt of this increase; Latin America will see the biggest economic contraction since the Great Depression.

Not surprisingly, COVID-19 is changing not only how we live our lives, but also our geopolitics. In South Africa, it has delivered something of a political tectonic shift. For 26 years of South Africa's democracy, the country's centrists and the left have been united on one policy: Never let the International Monetary Fund (IMF) through the door. The government of former President Thabo Mbeki, which ended in 2008, prided itself on winning the country an investment-grade rating and "sovereignty" from IMF loans. Even as his political enemies denounced his policies, they maintained their animosity toward the IMF, seeing it as a viper ready to inject its poisonous restructuring plans into the country at the next opportunity.

More recently, the economic and fiscal havoc wreaked by former President Jacob Zuma, particularly the loss of the South Africa's investment-grade rating, has increasingly begged the question of the IMF's presence in the country. Potential IMF involvement was fast becoming the elephant in the room. Still, most economists and the IMF itself pooh-poohed the idea that South Africa needed a loan. Because of the balance sheet Mbeki bequeathed, most were able to agree that South Africa's fundamental problem was a growth crisis rather than debt or liquidity crisis.

Then COVID-19 arrived. On April 6, with clear evidence that South Africa's already battered economy might have to consider bending the knee, the

ruling African National Congress (ANC) and two close allies issued a media statement to say that the country should not approach the IMF or World Bank for help. But in the face of the challenges, that admonition was weak. Just two weeks later—three weeks into the country's lockdown—the devastating impact of trying to flatten the infection curve has caused revisions of GDP to go from 1.2 percent growth to conservative projections of a 6 percent contraction. Others, including the OECD, project a contraction of more than 10 percent.

The ANC statement on April 6 now looks like the equivalent of casting a throw over the elephant. So when President Cyril Ramaphosa announced on April 21 that the government was speaking to the IMF, World Bank and the New Development Bank, there was not even a whimper from the IMF's traditional enemies.

The sudden collapse of resistance to the Keynesian institutions of a global financial architecture is unlikely to be limited to South Africa. It is almost

# The Spring of GLOBAL COOPERATION

certain that many who have learned to hate the IMF are going to want to recalibrate their relationship with it.

A recent paper by a group of economists at the World Bank argues that COVID-19 will push about 40 million to 60 million people into extreme poverty, about 23 million in sub-Saharan Africa and 19 million in South Asia while Latin America could see 16 million people join the ranks of the extremely poor. The United Nations development program is projecting income losses of \$200 billion in developing countries.

These numbers are devastating for developing economies and in all likelihood, they underestimate the real economic impact of COVID-19. The drop in the oil price will hurt a number of African economies



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deeply. Commodity prices have begun to fall as well which will broaden the pain across Africa. Economist Ricardo Haussman has argued that to give developing countries the financial capacity to flatten the curve requires a level of financial support that will not be feasible with existing approaches and with international organizations' current balance sheets.

Little wonder there have been desperate calls for a coordinated G20 response. While the G20 put out a statement on March 26, committing to "strengthen the WHO's mandate in coordinating the international fight against the pandemic," real world politics since then have pointed to the complexity of genuine coordination.

Certainly, it seems that the virus and its disease could complicate the West's involvement with

**Challenges faced by developing economies in Africa are changing the way nations approach international financial relations, says Brunswick's ITUMELENG MAHABANE.**

China, while the typical xenophobia that comes with such a crisis could complicate China's relationship with Africa, though less at the geopolitical level and more at the ground level of people and sentiment. This is because the countries that have been most effective in containing the rapid spread of the novel coronavirus or been successful in flattening the curve of rising infections have a number of common dynamics, one of which was shutting their borders early. These practical successes become conflated with a disingenuous scapegoating of China, exploited by international players for their own gain. Reports that Japan's stimulus includes more than \$2 billion to help companies move production away from China hints at the coming geopolitical landscape.

Sadly, Africa and other developing economies face dangerous risks from these accelerated disruptions of the global economy. In the short term, one of the major risks to developing countries is access to critical health equipment. Chronic supply constraints are emerging for goods that are critical to containing and managing COVID-19. While some countries are cooperating around managing and

sharing inventory, the smash-and-grab activities of others appear to be incentivizing profiteering and supply shocks. The dramatic rise in demand for surgical masks, goggles, gloves, and gowns has depleted stockpiles, prompted significant price increases, and led to production backlogs of four to six months in fulfilling orders. Frontline health workers and other early responders in countries most vulnerable to the spread of the coronavirus need critical PPE products—that is the most immediate and significant challenge.

Somewhat farther out but of equal concern is the risk posed by the general disruption to global trade. The pandemic has created a supply shock across the markets, causing severe supply-chain chaos that exceeds anything we've seen, including the negative demand during the 2008 global financial crisis. Such is the extent of collapse in economic activity and demand, South Africa has run out of storage facilities for oil, a growing problem globally.

The world's largest economies are blowing up their deficits with unprecedented stimulus packages—it feels like every country for themselves. In that scenario, what kind of help can developing countries realistically expect? In response, there is a rising movement calling for global coordination. Developed economies, the reasoning goes, need to see global coordination with the developing world less as helping the poor or the less fortunate and more as self-preservation.

On April 26, Erik Berglof, from the London School of Economics, Gordon Brown, the former British Prime Minister, and Jeremy Farrar, the director of The Wellcome Trust, wrote a letter that was signed by a number of current and former heads of state calling on the G20 to take more decisive action. They argued that "...if we do nothing as the disease spreads in poorer African, Asian, and Latin American cities and in fragile communities which have little testing equipment, ventilators, and medical supplies, and where social distancing and even washing hands are difficult to achieve, COVID-19 will persist there and re-emerge to hit the rest of the world with further rounds that will prolong the crisis."

They have also argued that there is a real risk of a global depression if the world fails to act in concert to help Africa, Latin America and Asia. Consulting firm McKinsey estimates that "The jobs or incomes of 150 million Africans, across the formal and informal sectors, are vulnerable in the crisis; this is equivalent to one-third of the entire labor force." More precisely, the firm says that 9 million and 18 million formal jobs in Africa could be lost or made

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redundant due to the COVID-19 crisis and that a further 30 million to 35 million formal jobs are at risk of reductions in wage. The remainder of the workforce—as many as 300 million people—is in informal employment disrupted by social distancing strategies. For South Africa's informal economy, the national lockdown has quickly and sharply impacted food security to the extent that the threat of hunger has dwarfed people's concerns about the virus—a phenomenon that will only feed the virus and prolong the crisis.

This is not going away in the next few weeks or even months. If and when it does go away, it will likely leave behind a changed world.

"People speak as if this is just a blip, but I don't think it's like anything any of us have ever seen before," Johann Rupert, the South African Chairman of luxury goods firm Compagnie Financiere Richemont, told South Africa's Financial Mail recently. "Economists are discussing if it's a 'V-shaped curve,' or a 'U-shaped curve'—it's all meaningless. What they don't get is that this isn't just a pause—it's an entire reset of our economic system."

Such concerns are perhaps why economists and global leaders are calling for nothing less than a remaking of the Bretton Woods institutions and the multilateral financial architecture. As the letter by economist Berglof, former Prime Minister Brown, *et al.* argues, "These allocations should be agreed to immediately, coordinated by a G20 Executive Task Force as part of the G20 Action Plan, and be confirmed in full at the upcoming IMF and World Bank meetings. The two core economic institutions should be given reassurances that additional bilateral funding will be forthcoming and the need for further capital injections agreed."

The World Bank has already pledged \$160 billion over the next 15 months to aid both immediate health priorities and longer-term economic recovery. But if the projections are right, even that effort won't be nearly enough. Meanwhile one nation after another will be seeking arrangements with these institutions.

Mitigating the crisis caused by the pandemic requires a deliberate attempt to halt the world's worsening economic fragmentation. That seems likely because no nation's recovery can succeed without it. As a result, we may well see most of the economies of the world, acting in their own self-interest, move toward this new embrace of Keynes' global financial architecture. For all of the current chaos, perhaps the changed world we see on the other side of this crisis could be one built more firmly on cooperation. ♦