What COVID-19 means for international cooperation

A clear parallel between the growing COVID-19 pandemic and climate change is emerging. In particular, both phenomena highlight the need for much closer forward-looking international cooperation to reduce and manage global threats **write Kemal Dervis & Sebastian Strauss**

Future of international cooperation

Throughout history, crisis and human progress have often gone hand in hand. While the growing COVID-19 pandemic could strengthen nationalism and isolationism and accelerate the retreat from globalization, the outbreak also could spur a new wave of international cooperation of the sort that emerged after World War II.

COVID-19 may become not only a huge health crisis, but also a crisis of globalization and global governance. Most obviously, it raises the question of how the world should organize itself against the threat of pandemics. But it also has implications for how globalization is perceived and what that perception means for the future of international cooperation.

Tightly linked network means shocks can be paralyzing

Five decades of increasing interconnectedness have opened up the world to massive cross-border flows of goods, services, money, ideas, data, and people. While globalization itself is not new, the sheer scale and scope of the current version has made the world unprecedentedly interdependent – and thus fragile.

> *Connectivity also creates an enormous – but often hidden – risk of catastrophe*

Today's global socioeconomic infrastructure looks and works like a hub-and-spoke network in which all nodes are separated by very short distances and essential functions are centralized in large hubs. Financial activity is concentrated in the United States, for example, while China is the world's manufacturing center. This structure is geared toward maximizing efficiency by capturing the benefits of economies of scale and specialization. Indeed, it has helped to lift millions of people out of poverty (although it also has led to greater income inequality and related social malaise in many countries).

However, connectivity also creates an enormous – but often hidden – risk of catastrophe. This is because connectivity increases what statisticians call "fat-tailedness," or the likelihood of inherently unquantifiable extreme events such as financial crises, a nuclear holocaust, hostile artificial intelligence, global warming, destructive biotechnology, and pandemics.

Because critical functional roles are hyper-concentrated and the entire network is so tightly linked, shocks to a central hub such as the US or China can very quickly become systemic and paralyzing. The very reliance on central hubs generates systemic risk, because hubs constitute single points of failure, and the tight interconnectedness between and among hubs and nodes amplifies the potential for cascading failures. That is why the 2008 financial meltdown that originated in the US was so destructive, and why the COVID-19 outbreak that began in China quickly became a global health and economic crisis.

Reducing global connectedness

Two different political trends are likely to emerge from this unfolding disaster.

First, the crisis may prompt moves to reduce global connectedness, including in terms of travel, trade, and financial, digital, and data flows. People may instinctively demand more isolation in many domains. Seeking protection through blanket isolationism would be misguided and counterproductive. But in this case, communities can indeed help to contain the COVID-19 threat by adaptively reducing their connectivity through mitigation measures that increase social distance such as school and business closures, bans on public gatherings, and limitations on public transport while the crisis lasts.

> *A clear parallel between the COVID-19 pandemic and climate change is becoming apparent*

Such draconian steps will have high short-term economic and social costs, and they entail undeniable practical and ethical challenges. In hindsight, they may turn out to be unnecessary. But it's precisely because we can't predict the spread of COVID-19 that the crisis demands aggressive action early on. As mathematician and risk expert Nassim Nicholas Taleb points out, because exponential growth initially looks deceptively linear, overreaction on the part of policymakers is not only warranted, but required.

This is a tactical consideration, not a strategic one: The goal is not to promote deglobalization, but rather to build greater robustness. When risks are potentially ruinous, systemic survival must supersede efficiency considerations. That is why, for example, macroprudential buffers like higher capital requirements in the financial sector are desirable.

A clear parallel between the COVID-19 pandemic and climate change is becoming apparent. Both feature emergence, path dependence, feedback loops, tipping points, and non-linearity. Both entail catastrophic fat-tailed risks ruled by radical uncertainty and call for eschewing traditional cost-benefit analysis – which relies on known probability distributions – in favor of drastic mitigation to reduce exposure. And, importantly, both highlight the need for much closer forward-looking international cooperation to manage global threats.

Global circuit-breakers may need to be introduced

Indeed, a demand for greater global cooperation is the second and more significant political trend that could emerge from the current crisis. While this might at first sound inconsistent with heightened suspicion of globalization, the necessary reforms can in fact synthesize both trends. Pandemic prevention and containment is a global public good, and providing it requires increased global coordination as well as adaptive, temporary, and coordinated decoupling.

> *Humanity must organize itself to mitigate the tail risks*

For starters, there is both a need for and an opportunity to introduce global "circuit-breakers" that can isolate systemic risks early on and prevent them from spreading. These mechanisms will be most effective if they are clear, transparent, designed in advance, and embedded in a global governance system that legitimizes and continuously updates them. For example, governments could craft and adopt common protocols for temporary travel and trade restrictions in the event of a potential pandemic, supported by globally agreed-upon early-warning systems and thresholds for action.

In addition, the international community may wish to build functional redundancy into complex systems – including finance, value chains, food supply, and public health – in order to prevent central hubs from becoming choke points and to ensure that single failures do not cascade into systemic collapse. Although this would entail some reshoring and de-concentration at the expense of efficiency, economies of scale, and comparative advantage, the goal is not autarky but rather risk reduction through diversification.

Humanity must organize itself to mitigate the tail risks associated with climate change, pandemics, bioterror, and unmanaged AI. Although this will require a historic leap, major crises often open the political space for radical reforms. Precisely at a time when rules-based

multilateralism is in retreat, perhaps the fear and losses arising from COVID-19 will encourage efforts to bring about a better model of globalization.

This article first appeared in Project Syndicate on 6 March, 2020

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com