



# “Political Risks of Post-COVID World and Their Economic Consequences”

*Agafya A. Antipova*

## INTRODUCTION

In 2020, the world was hit but COVID-19, the pandemic of an unprecedented scale. Even though the pick of the pandemic was registered in 2020, the medium- and long-term consequences of the pandemic for the geopolitical environment will gain momentum in 2021. Leaders need to be prepared to face key risks appearing from the geopolitical consequences of a pandemic.

The pandemic crisis has significantly aggravated social and political tensions in many countries around the world, with a particularly explosive situation in developing countries that have been hit by the COVID-19 pandemic to the largest extent. The ability of businesses to act flexibly in determining strategies, manipulating operating activities, and making decisions will play a crucial role in managing the associated political risks. The negative impact of the COVID-19 pandemic is not limited to a sharp drop in business revenues and a general “cooling” of the global

---

A. A. Antipova (✉)  
MGIMO University, Moscow, Russia

economy. That is why government also needs to take a closer look at political stability.

In recent decades, there has been an increasingly pronounced trend towards the merging of politics and economics around the world, both in developed and developing countries (Osipov, 2021a; Osipov et al., 2021). And this is not surprising, given the fact that the modern national economy, no matter how perfect and efficient it may be is subject to political decisions.

In terms of a market economy, almost all types of economic activity are subject to various political risks. Therefore, it is very important to be able to identify and assess such risks, as well as predict them to prevent and neutralize the negative effects of political processes on economic activity. COVID-19 is expected to cause serious damage to the world economy. We need to pay closer attention to political risks and understand the correlation between political and economic risks to rule out even more dignified effects on the economy.

## METHODOLOGY

Most agencies dealing with political risks pay significant attention to COVID consequences. Analytical and comparative methods will be used to get a comprehensive understanding of key upcoming political risks given the pandemic and economic consequences that accompany them.

### *Marsh*

To begin with Marsh' methodology we should study Marsh Political Risk Map.<sup>1</sup> The 16th edition of the Global Risk Report, published by the World Economic Forum with the support of Marsh McLennan, highlights the devastating effects of major risks that could change our world in 2021 and the long run. The report is based on a survey of nearly 700 experts around the world. They were interviewed about their concerns for the next decade, how global risks interact and what are the opportunities to reduce these threats.

<sup>1</sup> Marsh. (2021, April). *Political risk map 2020: Trade tensions threaten political stability*. <https://www.marsh.com/us/insights/research/political-risk-map-2020.html>.

The map is based on data from the Marsh Specialty World Risk Review platform and evaluates 197 countries and territories on nine indicators related to security, trade, and investment.

### *World Economic Forum*

World Economic Forum presents a report on global risks on an annual basis. During this year, more than 750 experts and decision-makers were interviewed. They were asked to rate their biggest concerns in terms of their likelihood and impact strength.<sup>2</sup>

### *Coface*

Moreover, we consider Coface analytic researches on the same topic.<sup>3</sup> Coface provides an expert assessment of credit risks in 160 countries around the world. The assessment is made based on macroeconomic and financial data, as well as information about the socio-political situation in the country. Country and industry risk assessments are published quarterly.

Coface’s expert assessment is based on:

- macroeconomic expertise,
- contextual business expertise,
- microeconomic expertise based on the assessment of the payment discipline of the business.

### *Ernst and Young*

In addition, we are about to consider the investment attractiveness study conducted by Ernst and Young (EY).<sup>4</sup> The survey is conducted by EY to estimate investors’ interest in a particular region or country. It is

<sup>2</sup> World Economic Forum. (2021, January). *The global risks report 2021*. <https://www.weforum.org/reports/the-global-risks-report-2021>.

<sup>3</sup> Coface. (2021, April). *Country & sector risk barometer*. <https://www.coface.com/News-Publications/Publications/Country-Sector-Risk-Barometer-Q1-2021-Quarterly-Update>.

<sup>4</sup> Ernst & Young. (2020, December). *2021 geostrategic outlook*. <https://www.ey-gbg-2021-geostrategic-outlook-v2.pdf>.

designed to help businesses make investment decisions, and government organizations remove barriers to economic growth.

They use a two-step methodology to assess both the actual performance of FDI and the expectations of investors regarding its dynamics. The results of the study reflect the opinion of established international and regional experts and business leaders. EY provides both companies and governments with reliable information that can be used to form cost-effective strategies and make sound policy decisions to promote both development and investments.

### *Willis Towers Watson*

To estimate political risks from multinationals' point of view we consider Willis Towers Watson report on political risks.<sup>5</sup> It is a leading international consulting and brokerage company that develops and implements solutions in the field of risk management, optimization of corporate benefits aimed at ensuring the protection and strengthening of organizations and individuals. The company publishes monthly reports covering the latest tendencies in risk management.

## RESULTS

### *Marsh*

The economic stress caused by the pandemic will continue to exacerbate political risk throughout this year, according to the Marsh Specialty 2021 Political Risk Map, which shows a greater increase in economic risks within countries than ever before, across all regions of the world.<sup>6</sup> The 2021 Political risk map shows that COVID-19 is fueling social inequality and political unrest, adding to the threats facing already fragile

<sup>5</sup> Burns, L. (2020, May). *Four potential political risks arising from Covid-19*. <https://www.willistowerswatson.com/en-US/Insights/2020/04/four-potential-political-risks-arising-from-covid-19>.

<sup>6</sup> Political Risk Map 2021, 2020, 2019, 2018 [map] <https://www.marsh.com/us/insights/research/political-risk-map-2021.html>.

**Table 10.1** The difference in country risk estimates in 2020

	<i>Country Economic Risk</i>	<i>Currency Inconvertibility and Transfer Risk</i>	<i>Sovereign Credit Risk</i>	<i>Contractual Agreement Repudiation</i>	<i>Strikes, Riots, and Civil Commotion</i>
Increase	129	138	16	45	40
Decrease	15	3	4	7	56
No change	53	56	177	145	101

*Source* Created by author on the basis of Marsh JLT Specialty

economies. Marsh also warns of massive bankruptcies after government-backed trade-credit schemes to support businesses during the pandemic end.<sup>7</sup>

Substantial change has faced many countries' economic, political, and security risks are indicated on Marsh JLT Specialty's country risk rating platform. More than a quarter (26.7%) of World Risk Review ratings increased in April 2020, compared with 10.2% in the same month in 2019.<sup>8</sup> Data concerning 2021 has not been revealed yet (Table 10.1).

The 2021 Political Risk map shows that COVID-19 is fueling social inequality and political unrest. The accompanying report to the risk map states that COVID-19 has widened the gap between rich and poor. Countries spending decades trying to reduce poverty could find themselves in a situation where their attempts will be whittled away. Marsh warns that food security, access to water, and energy costs pose serious pressures that could lead to increased nationalism and civil unrest. Meanwhile, according to Marsh Specialty, social inequality will affect election platforms, especially in middle-and low-income countries. We believe that political interference can show itself in more indirect forms in emerging markets. We might expect increasing tax pressures and export restrictions. Investors may decide to avoid countries that are less welcoming to overseas investment or look to mitigate the risk.

Marsh also warns of massive bankruptcies after government-backed trade-credit schemes to support businesses during the pandemic. Talking

<sup>7</sup> Marsh (n.1).

<sup>8</sup> Ibid.

about political risks and economic consequences we should state-backed trade-credit schemes created to ensure economic stability during the pandemic. Marsh fears that this could support “zombie” companies, and when the implementation of these schemes stops, there may be a lot of bankruptcies.

These schemes may take many forms—government reinsurance guarantees, and the form of easing eligibility requirements. Their overall effect has been similar: increased economic stability combined with existing trade credit insurance.

Some observers have expressed concern that pandemic incentive programs and government-backed schemes allow “zombie companies” to continue operating and we share this point of view. Zombie companies are loss-making businesses with heavy debt, usually with low cash reserves and an inability to invest or grow. Even before the pandemic, there were many zombie companies in Europe and North America, and their volume is likely to increase dramatically due to the impact of COVID-19. The number of bankruptcies plummeted during the global recession in 2020, a signal that pandemic relief may be supporting businesses that became inviable before the COVID crisis. Providing loans and other support to keep zombie companies alive can prolong economic weakness and eventually lead to mass bankruptcies.

Marsh also covers vaccination consequences. As a result of vaccination, there will be an even greater stratification of society into rich and poor. This will lead to public unrest in many countries.

### *World Economic Forum*

Marsh’s findings coincide with the conclusions of the World Economic Forum on global risks for 2021. The experts believe that the spread of infectious diseases is the greatest threat to the stability of the planet for the next two years.<sup>9</sup>

According to the study, the COVID-19 pandemic has added 12 new stability risks worldwide, increasing the number to 35. The list of new risks includes the collapse of multilateral institutions, the collapse of system-forming industries, the collapse of social security systems, digital inequality, the concentration of digital power, the failure of

<sup>9</sup> World Economic Forum (n.2).

technology management, the rupture of interstate relations, the politicization of strategic resources, the widespread negative reaction to science, prolonged economic stagnation, serious deterioration of mental health, and mass disillusionment of young people.

Most political risks are included in a list of long-term risks: the proliferation of weapons of mass destruction, the collapse of states (Osipov, 2021b), the loss of biodiversity, the crisis of natural resources, and malicious technological advances.

### *Coface*

The results of the annual survey on the political risks, published in the new Coface Country and Industry Risk survey, show that the coronavirus pandemic has significantly exacerbated social and political tensions in several countries around the world due to the growth of poverty and unemployment caused by the crisis, as well as the widening income gap between different segments of the population.

Coface experts this year included in the political risk assessment model not only traditional indicators but also the COVID-19 pandemic response efficiency index, which reflects the degree of effectiveness of the measures that the authorities have implemented to resolve the pandemic crisis. The index is based on the severity of lockdowns and the dynamics of morbidity. The results of the analysis carried out by Coface show that COVID-19 not only increases socio-political tensions but also exacerbates the protest mood in social movements formed before the pandemic. As examples, they provide France, Hong Kong, and Chile.<sup>10</sup>

In Russia, the index of socio-political tension is around 60%—about the same level as in China, Thailand, Egypt, Nigeria, and Turkey. For comparison—in the United States and Spain, the index is about 30%, in the UK, Sweden, and Denmark—just under 25%. The efficiency index of the response to the corona crisis pandemic in the Russian Federation is about 30%. According to this indicator, Russia is next in the ranking to India, Ukraine, Singapore, China, Morocco, and Saudi Arabia.<sup>11</sup>

Coface experts also note a high level of political risks and a low index of the effectiveness of the authorities' response to the pandemic crisis

<sup>10</sup> Coface (n.3).

<sup>11</sup> Ibid.

in some Latin American countries (Brazil, Mexico, Peru, Colombia) and South Africa. That implies that COVID 19 has widened the gap between developing and developed countries.

Talking about developed markets, the highest level of public dissatisfaction with the response of the authorities to the coronavirus pandemic is observed in Spain, the United States, Great Britain, and France. Among the emerging markets, the highest level of socio-political tension was recorded in Turkey and Iran. That corresponds to the countries marked as red (high risk) and orange (significant risk) on Marsh Political Risk Map.<sup>12</sup>

### *Ernst and Young*

Experts believe that because of the coronavirus pandemic, trade disputes, climate change, and many other factors, the impact of political decisions, events, and conditions on the performance of companies and markets, as well as the economies as a whole, may reach the highest level since the end of World War II.<sup>13</sup>

According to Ernst and Young, as the pandemic has geopolitical nature, it affects such areas as national security, global leadership, and international cooperation and competition. In addition, in many countries, the coronavirus has exacerbated problems of economic inequality, access to health services, and social injustice.

EY is sure that the global business environment this year will be shaped by the geopolitical consequences of the coronavirus. “Vaccine nationalism”, export controls, restrictions on the cross-border movement of people, and the pandemic-induced processes in domestic politics contribute to the emergence of political risks around the world. As a result, there is an urgent need to review supply chains, personnel decisions, and approaches to business sustainability.

The policies of the major powers-especially the US, EU, and China-will also play an important role in 2021, according to experts. China and the United States will continue to work to reduce their strategic interdependence amid highly complicated trade relations, technological competition, industrial rivalry, and contradictions over issues related

<sup>12</sup> Political Risk Map (n.6).

<sup>13</sup> Ernst & Young (n.4).



to China’s sovereignty. Meanwhile, the EU will try to use its trade, investment, and industrial policies, as well as its ability to influence the formation of international norms and standards, to move towards strategic autonomy.

Companies will also face several important trends related to regulatory and policy changes. The world is entering an era of neo-etatism (from the French *état* “state”)—an ideology that supports the active role of the state in ensuring the interests of society. The fight against the coronavirus has not only sharpened the debate about economic independence but also forced many countries to return production to their territory and diversify supply chains. In addition, plans to stimulate the economy after the pandemic is likely to include ambitious programs within the framework of climate policy. The fact that more countries are announcing their goals for achieving carbon neutrality puts pressure on the laggards and strengthens the position of supporters of more decisive action ahead of the next UN Climate Change Conference (COP26), scheduled for November 2021.

The Joe Biden administration intends to review US policy in 2021. The new president announced a course to strengthen industrial and environmental policies, in addition, changes are likely in the immigration, antitrust, and trade spheres. In other words, the USA will be among the leading countries implementing neo-etatism.

For the debt of developing countries, 2021 is likely to be a critical year. Of the major markets, the most serious financing problems are expected in Brazil, India, Mexico, and South Africa. Despite international efforts to ease the debt burden, the pandemic and geopolitical developments are likely to make it more difficult to address these challenges. A possible increase in the financial and tax burden on businesses will impede growth in key markets.

The Indo-Pacific region is becoming the main arena of global competition in the twenty-first century, as evidenced in particular by the growing tensions between India and China and Australia and China in recent times. In 2021, the geopolitical situation in the region may become even more unstable against the background of greater independence in the actions of countries with high and medium levels of influence in the region, which at the same time are trying to balance between the United States and China. Government intervention in the economy will affect growth and investment strategies in these countries, and trade agreements and maritime policies can change the structure of supply chains.

In addition to the above, EY draws attention to the fact that conditions are favorable for the emerging of another wave of public unrest. In 2021, the following five factors could trigger protests: pandemic restrictions, inequality, social injustice, climate change, and government dissatisfaction. In 2020, public unrest reached its highest level since the Arab Spring. According to International Labor Organization the social unrest index is equal to 24 in 2019 compared to 22.54 in 2018. In 2020 it was even larger—24.98. During Arab Spring in 2011 the value was the highest (26.59). After a few years of relative calm, social unrest is on the rise again, though the peak level of 2011 has not yet been surpassed.<sup>14</sup>

In some cases, political leaders have themselves been infected with the virus—a potentially dangerous situation in countries facing security challenges or where the rule of law is weak. In this regard, the risk of disruption of operational activities is likely to arise. In addition, due to the increased expectations of stakeholders, the reputational risks of companies may increase.

### *Willis Towers Watson*

Willis Towers Watson begins the description of political risks with the economic situation. The business costs of the COVID-19 outbreak are rising, and some companies may not have enough cash reserves to cope with them. Global supply chains were initially hit hard by the closure of Chinese factories, and the disruption has continued to spread. COVID-19 has also undermined demand for many commodities, such as energy, leading to a collapse in global oil prices. These problems can lead to geopolitical risks.

The population suffers from a lack of food, jobs, or medicine, as governments are perceived as unable to respond to social problems. This is a source of political discontent or civil unrest in some areas. Some early examples include the Brazilian protests over the reaction of President Bolsonaro and the pan-African demonstrations that began over food prices and shortages.

Experts believe that COVID-19 may strengthen the current wave of populist reaction to globalization. Nationalist governments tend to seek

<sup>14</sup> International Labor Organization. (2020). *World employment and social outlook: Trends*. [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_734455.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_734455.pdf).

export and import controls, interference with foreign ownership of local companies, asset confiscation, or expropriation. If the level of national interest in certain industries, such as medicine, food, and technology, or manufactured goods, increases, we may witness growing interventions on the part of some governments.

Weaker economies may not be able to cope with the economic shock, and that may lead to such political risk as default on payments. Even in stronger economies, there will be pressure on governments to divert national budgets to fight the virus and provide economic incentives or bailout packages, and hence payment priorities may be. COVID coincides with the period when most countries are overwhelmed with debt—\$ 72.7 trillion. (92.5% of global gross domestic product) for sovereign borrowers and \$ 69.3 trillion (88.3% of GDP) for non-financial corporate borrowers, according to the Institute of International Finance. Argentina, Ecuador, Zambia, and other countries have already submitted a formal notification that they are in desperate need to restructure their debts.

## DISCUSSIONS

It is worth mentioning that the correlation between economic consequences and political risks plays a key role in all reports considered. However, the perspective differs. On the one hand, experts cover negative economic consequences that arise from political risks such as the more active role of the government, more self-dependent nations as states are looking for ways to protect their country. On the other hand, economic downfall reflects on political stability through social discontent.

That leads to the conclusion that on a national scale gloomy economic conditions fuel social discontent. Because of food shortage and unemployment people are likely to demonstrate their discontent through mass protests. In their attempt to protect their country governments imply political measures that impede globalization and put under the risk world economy. Nationalist governments tend to seek export and import controls, interference with foreign ownership of local companies, asset confiscation, or expropriation. Moreover, the government applying to bailout and extended social programs find themselves under threat of being unable to pay off debts.

The more protectionist policy is not the only issue. The huge amount of fiscal and monetary stimulus as a way to flatten political risks around the world will lead to an increase in global inflation, which has been

at a low level in recent years. According to the consulting company Yardeni Research,<sup>15</sup> the assets of the leading central banks (the US Federal Reserve, the European Central Bank, the Bank of Japan, and the People's Bank of China), reflecting the size of cash injections into the financial sector and the real economy, by November 2020 increased by 41.5% in annual terms and reached \$27.9 trillion. The global M2 money supply (cash and non-cash) and other monetary aggregates have increased dramatically during the pandemic.

However, Credit Suisse notes that since 1990, the growth of the money supply and the consumer price index have hardly correlated, and it is unlikely that in the foreseeable future the relationship between the two aggregates will be restored.<sup>16</sup> Inflation risks can only arise if governments increase spending even more sharply trying to smooth social discontents, and the multipliers of these expenditures are much higher than they are now. Or if central banks begin to serve the political tasks of governments. Most likely, the post-bubble world will be characterized by “sluggish economic growth and barely noticeable inflation”, Credit Suisse writes, although the growth of inflation remains an extreme risk that can become real due to demographic changes or political factors.

The pandemic has led to an expansion of the powers of states, which have allocated much more funds to fight the crisis than, for example, during the global financial crisis of 2008–2009. The emergency has allowed some state leaders to make emergency decisions bypassing parliaments through their executive orders. When the crisis is over, some leaders could want to keep their extended power. The question is how political risks will react and what economic consequences should be.

It is worth mentioning that negative economic consequences may arise as a result of inferior FDI flows stifled either by political risks or protectionism.

<sup>15</sup> Yardeni, E., & Quintana, M. (2021, May). *Central banks: Monthly balance sheet*. <https://www.yardeni.com/pub/peacockfedecbassets.pdf>.

<sup>16</sup> Credit Suisse. (2020, December). *COVID-19—Accelerating existing socio-economic trends*. <https://www.credit-suisse.com/about-us-news/en/articles/media-releases/covid-19---accelerating-existing-socio-economic-trends-202012.html>.

## CONCLUSION

The pandemic crisis has significantly aggravated social and political tensions in many countries around the world, with a particularly explosive situation in developing countries that have been hit by the COVID-19 pandemic to the largest extent. To sum up experts highlight the following political risks:

- Geopolitical implications of COVID-19
- Move towards strategic autonomy and protectionism
- The Rise of Neo-Etatism
- U.S. Policy Review
- A critical moment for developing countries debt
- Geopolitical processes in the Indo-Pacific region
- A new wave of public unrest
- Risk of high inflation.

Among the most crucial political risks on the national scale are the growing number of mass protests and other forms of social unrest as a result of food shortage, unemployment, a greater stratification of society into rich and poor. In their efforts to mitigate political instability through bailouts and massive social programs governments create great political risks to the world economy such as debt crises and uncontrolled inflation especially in developing countries. Moreover, nationalist governments become popular because of the pandemic. They tend to seek export and import controls, interfere with foreign ownership of local companies, confiscate asset that not only creates new political risks but put globalization under threat as well.

## REFERENCES

- Burns, L. (2020, May). *Four potential political risks arising from COVID-19*. <https://www.willistowerswatson.com/en-US/Insights/2020/04/four-potential-political-risks-arising-from-COVID-19>.
- Coface. (2021, April). *Country & sector risk barometer*. <https://www.coface.com/News-Publications/Publications/Country-Sector-Risk-Barometer-Q1-2021-Quarterly-Update>.
- Credit Suisse. (2020, December). *COVID-19—Accelerating existing socio-economic trends*. <https://www.credit-suisse.com/about-us-news/en/articles/>

- media-releases/COVID-19---accelerating-existing-socio-economic-trends-202012.html.
- Ernst & Young. (2020, December). *2021 geostrategic outlook*. <https://www.ey-gbg-2021-geostrategic-outlook-v2.pdf>.
- International Labor Organization. (2020). *World employment and social outlook: Trends*. [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_734455.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_734455.pdf).
- Marsh. (2021, April). *Political risk map 2020: Trade tensions threaten political stability*. <https://www.marsh.com/us/insights/research/political-risk-map-2020.html>.
- Osipov, V. (2021a). “Who will rule?”: Institution of state in the transformation process of the twentieth and twenty-first centuries. In J. Kovalchuk (Ed.), *Post-Industrial society. The choice between innovation and tradition*. Palgrave Macmillan.
- Osipov, V. (2021b). Digital state: Creation through project-functional structure of public administration. In J. Kovalchuk (Ed.), *Post-industrial society. The choice between innovation and tradition*. Palgrave Macmillan.
- Osipov, V. S. et al. (2021). Digital society as the basic institution of the digital economy of the 21st century. In *Modern global economic system: Evolutional development vs. revolutionary leap*. Springer. DOI 978–3–030–69415–9\_123.
- Political Risk Map 2021, 2020, 2019, 2018 [map]. <https://www.marsh.com/us/insights/research/political-risk-map-2021.html>.
- World Economic Forum. (2021, January). *The global risks report 2021*. <https://www.weforum.org/reports/the-global-risks-report-2021>.
- Yardeni, E., & Quintana, M. (2021, May). *Central banks: Monthly balance sheet*. <https://www.yardeni.com/pub/peacockfedecbassets.pdf>.