

# THE WORLD AFTER COVID-19

PREPARED BY



RASMUSSEN GLOBAL  
ESTABLISHED 2014

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## The World After Covid-19

# INTRODUCTION

The world is facing the worst global pandemic in generations. The human and economic tolls are already staggering, particularly in Asia and Europe.

What started as a health crisis is rapidly turning into a major economic depression with long-lasting social and political effects. From an economic and geopolitical point of view, there will be some winners and losers.

At its heart, the pandemic exposes the tension between globalization and the needs and limits of the responses of individual states. While this tension is not fundamentally new, it will weigh even more heavily on the agenda of political and business leaders, and most likely fuel another wave of discontent.

Although societies have an impressive ability to bounce back and move on, a return to business-as-usual is highly unlikely. Indeed, different from previous global crises, COVID-19 has triggered three systemic crises at once: public health, financial, and global governance. It is not too early to imagine how COVID-19 will shape a new form of globalization.

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## Pointer 1

# CHINA COMING BACK WITH A VENGEANCE

Despite what was initially a poorly handled crisis, the Chinese Communist Party has regained control of the situation. It is now using its success in containing the spread of the virus as part of a (dis)information operation to win back the narrative at home and abroad. Also, while the Chinese economy is on a recovery path, the rest of the world remains in varying stages of shutdown, meaning demand for Chinese manufactured goods will decrease.

- **Public Health Diplomacy** – Beijing has aptly conducted global public health diplomacy by offering critical medical supplies and expertise to vulnerable countries such as Italy. While Italy was already economically and politically close to China as an active participant in the Belt and Road Initiative, these tactics will draw other European countries closer into China's orbit. This charm offensive in Europe is coupled with the spreading of fake news about the United States' alleged responsibility for creating the coronavirus. This push-pull will be a test for the transatlantic alliance.
- **Strategic Investment** – As Europe rushes to contain the economic fallout, it will be strapped for cash. This will be an opportunity for Chinese expansion and strategic investments abroad that will resemble the fallout from the 2008 financial crisis. We should expect investment in key sectors like telecommunications, transport, and technology – an opportunity to promote strategic projects like 5G, high-speed railways, new-energy vehicles, artificial intelligence and the Internet of things.
- **Trade** – The differences between Europe and the United States on strategy vis-à-vis China will become even wider. Europe's tougher stance towards China on trade reciprocity and investment matters might soften. This could lead an investment partnership in which the European Union crosses its own red lines regarding a level playing field on trade matters.



## Pointer 2

# EUROPE TORN BETWEEN FRAGMENTATION AND INTEGRATION

Despite some marked improvements in recent weeks, the crisis has revealed the weakness of European solidarity. The fact that the EU has limited powers to control public health and external borders is only a partial explanation. European states have chipped away at fundamental policies such as the Schengen Zone by unilaterally closing borders and the more recent General Data Protection Regulation by using citizen data to fight the spread of the virus. While the EU will sell these moves as necessary, a symbolic Rubicon was crossed on several tenets of EU integration. Like every big crisis hitting Europe, COVID-19 will have a double effect of weakening European unity in the short-to-medium term while potentially accelerating European integration in critical domains in the longer term:

- **Fiscal Reform** – The novel coronavirus might succeed where the Euro crisis failed by pushing Berlin towards accepting a deeper fiscal union. Chancellor Merkel's acknowledgment of the need for more fiscal coordination and her agreement to put on hold the fiscal criteria could be a watershed moment that President Macron will not let pass. The fact that Italy will emerge from the crisis in a very precarious financial position might make a common fiscal union a question of survival for the Eurozone, especially as Salvini will seize upon the lack of solidarity to pursue a Eurosceptic and anti-Euro agenda. It will be important to watch the Netherlands, which has so far maintained its hawkish line and sought monetary financing and other measures that defer major debt mutualization.
- **Migration** – Similarly, the refugee crisis had already shown the weakness of Europe's common approach to its external borders. COVID-19 might lend new urgency to member states agreeing on clear measures and EU responsibilities on the matter. But this will remain contentious.
- **European Cooperation on Public Health** – The cross-border nature of the crisis has also demonstrated that public health cannot be treated solely as a national responsibility. It is unlikely, however, that this will be enough to persuade member states to devolve greater public health responsibilities to the EU. Nevertheless, more and better coordination mechanisms at EU level and a call for an EU-wide legislation on health data and monitoring will become important new issues on Europe's agenda in the coming years. The Updated Medical Devices Regulation could be revisited.

## Pointer 2

# EUROPE TORN BETWEEN FRAGMENTATION AND INTEGRATION (CONT)

- **European Budget** – With member states' finances under greater strain as a result of the crisis, negotiations over the EU's seven-year budget will be even more contentious. A big question mark will loom over the European Green Deal, with the possibility that member states will want the EU budget to focus on rescuing hard-hit sectors and strengthening health infrastructure. Other priorities, such as European defence and security (including cooperation with NATO on military mobility and countering hybrid warfare), might recede to the background and face a reduction in spending (beyond the effects of a decline in national GDP).

## Pointer 3

# GLOBALISATION POST-2020

The crisis has laid bare the interdependency of Western companies and consumers on Chinese production lines and supply chains. Despite the calls by more populist-nationalist voices for on-shoring (or re-shoring), global supply chains were widely accepted as a fact of globalization. It was striking, however, to hear liberal-minded President Macron include the need to reduce global economic dependencies and build greater European economic sovereignty during his first crisis-time address to France.

- **US-China Interdependencies** – The drive for ‘de-coupling’ the US economy from China’s manufacturing, especially in pharmaceuticals, technology, and high-end manufacturing will likely become a central feature of any future US administration’s policy agenda, be it a Democratic or Republican one.
- **European Industry** – The theme of European sovereignty will take on a new urgency, shaping critical EU priorities, such as competition policy, in ways that would be more advantageous to European firms, including increased funding for Europe’s industrial base.
- **Supply Chains** – The need to diversify supply chains will result in a number of firms seeking alternative suppliers closer to the location of their core business. The adoption of automation and new technologies is likely to pick up speed. Overall, companies will think more about the ways in which an epidemic, a natural disaster, or climate change can disrupt their business and supply chains. Increasingly, they will build contingency plans and resilience strategies to factor in disruption.
- **Digital Single Market** – Efforts to deepen the European Single Market, especially in the digital sector, might gain more supporters beyond the traditional advocates in Northern Europe. The European Commission’s strategy for a more integrated data economy will gain prominence on the EU agenda given its potential benefits in better integrating public and private data for improved public health monitoring.

## Pointer 4

# PUBLIC HEALTH ON TOP OF NATIONAL AND INTERNATIONAL AGENDA

COVID-19 has put public health systems under huge strain worldwide. While the current focus is on averting a complete collapse of health systems, especially in Europe, the question of public health resilience will become even more central in the coming months and years. Even after the peak of the epidemic has passed, newly adopted public health measures are most likely to stay in place, similar to enhanced security measures instituted after the 9/11 attacks.

- **Privacy Concerns** – To avoid new peaks and contain the likely resurgence of the virus, national governments will feel compelled to develop a set of measures for monitoring the health of their citizens. South Korea and Taiwan's success in containing the epidemic are largely credited not only to early action like increased testing, but the governments' capacity to track and monitor citizens' health data. As with 9/11, this will open a difficult debate, especially in Europe, about privacy and public health interests. Some excessive, intrusive practices are likely to emerge sooner rather than later. In Europe, the question is whether this will be addressed at the national level or through a more coordinated EU-wide approach, similar to policies on the use of private data online (e.g. GDPR).
- **Regulating Data Sharing** – Regardless of whether national or more coordinated, integrated approaches are adopted, the need for increased health monitoring of citizens will accelerate the race for new technologies and standards in this sector. The issue of clearer standards for business-to-government data sharing will drive regulations in the years to come and open up new commercial opportunities.
- **Multilateral Public Health Measures** – Global health cooperation will become a higher priority for governments, starting with the need to allocate more resources to the WHO and possibly the creation of new coordination mechanisms in the G7 and G20. A big question is whether the United States will lead such efforts. This is more likely under a new Democratic US President and less likely if President Trump is re-elected. The future US administration's relationship with China will play an important role in whether a new global health effort can succeed.

## Pointer 5

# GEOPOLITICAL WINNERS AND LOSERS

We are headed towards a more impoverished, more nationalistic, more authoritarian and more inward-looking world as a result of the COVID-19 crisis. This increases the likelihood of rising international tension and, potentially, confrontation. Democracy was already under attack before the crisis – this will only intensify after COVID-19. Like any major crisis, COVID-19 will reshuffle the geopolitical deck.

- **US Global Leadership** – The question hanging over all these trends is whether COVID-19 will accelerate the decline in US global leadership, the rise of xenophobia and erosion of US support for multilateral cooperation, or whether the crisis will produce a Democratic victory in November that could push the pendulum back toward a more US role in the world.
- **China** – Despite the death toll and the negative impact on its economy, China is fast recovering its economic and political vigor. Xi Jinping has averted the biggest threat to his rule and to the authority of the Chinese Communist Party. Beijing is aggressively extending cooperation to the most exposed European member states. Although its manufacturing engine is restarting, global consumption will remain low.
- **Russia** – Russia remains a mystery: the country has so far been shielded from a high rate of COVID-19 infections. With an ageing population, a border with China and weak public health infrastructures, this is surprising. Time will tell if Russia has been deliberately understating the scope of the crisis, but Moscow is already using it to advance its interests, especially in its neighborhood and with Europe, by engaging in disinformation campaigns and sending supplies and experts to Moscow-friendly European countries like Italy.
- **Asian Tigers** – Other Asian economic powerhouses such as Japan, South Korea, Singapore and Taiwan, are emerging better positioned from the crisis. Widely regarded as models in how to curb and manage a public health crisis, they will most likely become key players in global public health cooperation.



## Pointer 5

# GEOPOLITICAL WINNERS AND LOSERS (CONT)

- **Eastern Europe** – While the European Union will somehow recover from the crisis, albeit in a weaker financial position, its Eastern European neighbors, such as Ukraine, face dire economic and human long-term consequences. With international donors, mostly Western, focused more on internal matters, countries like Ukraine might turn even more eagerly towards other powers like China.
- **United Kingdom** – COVID-19 is the first major crisis the United Kingdom faces since it left the European Union. Its initial post-Brexit priorities on investments infrastructure and industrialization have been replaced by the largest public spending effort since the creation of the National Health Service. While the government is likely to seek a transition extension, it will also delay its ambition to to redefine the United Kingdom's foreign and security policy priorities. Expect uncertainties on the shape of post-Brexit Britain to remain beyond 2020.

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