Divergences and convergences of 'COVID-19' recovery plans in the United States, China and the EU

Ludovic Van Egroo compares the recovery plans in these three major economic areas

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The COVID-19 pandemic emerged in the context of an exacerbated economic war between China and the United States. The customs duties rises during the year 2019 illustrate this situation.

"*Global economy in 2020 is at -3.3% in comparison to the biggest recession since World War II. This corresponds to losses in global gross domestic product (GGDP) of USD 9 trillion*"[1].

At first glance, it appears that the pandemic has:

- spread because of the rivalry between the powers for world governance, due to the paralysis of international organisations (UNO, WHO, WTO, MFI ...), illustrated by the withdrawal of the USA from the WHO and the brakes of China;
- become a geopolitical accelerator, justifying the questioning of economic and financial relations between states, already initiated through "trade wars" (the pandemic was the perfect pretext to cut off economic relations, for example, between the United States and the EU and China); and
- revealed to leaders and citizens the interdependencies between nations, both in terms of vital assets for the states and in everyday consumer goods.

The pandemic: A crisis exogenous to the economy, revealing global interdependencies

Whole sections of the global economy depending on these economic and financial interdependencies are directly threatened: tourism, hotels, aviation and aeronautics, and leisure, to name only the main ones.

Euler Hermés reports[2] that global trade is threatened with losses of $3.5 trillion. This means a 15% drop in the volume of goods and services traded and an even more severe drop in the value of goods: -20%.

Measures taken in each geographical areas (United States, European Union, China)

In this global crisis context, governments reacted differently in terms of healthcare, without real coordination, but activated similar levers in terms of support for their economic and social life.

The support measures are summed up hereafter:

- For the **banking sector**: liquidity (in the three areas).
- For **sectors economically threatened** with nationalisations (mainly in the European Union - for instance 'Alitalia' in Italy, but also in the United States): preventing their insolvency. For illustration, the FED reserves the right to enter the capital of Middle Cap companies in order to prevent their insolvency. However, paradoxically, 'Hertz', which filed for section 40 chapter 11 bankruptcy, saw its shares price increase.
- For the **domestic demand** (in the three areas, but in different ways – see table).
- For **key activities**: relocation of those likely to be excessively dependent (mainly in the European Union).

In China, the support measures worked via financial actors. The financial aid ("*Total social financing*", TSF) registered in June its highest level since March 2018 (+12.8 % vs +12.5 % in May) under the effect of the dynamics of corporate bond issues (+21.5 % in June vs +20.4 % in May). The rising rate of new bank loans remained high, at +13.3% in June[3].

Within the European Union, the measures differ depending on the social-economic shock-absorbers in each country. Thus, the Western European Union countries used partial unemployment schemes, which is not the case in the Eastern countries, where they do not exist. We can fear social and political crises in such countries, because of radical leaders.

Underlying economic consequences

A domino effect on the economic relations:

- A drop in the bankruptcy rate due to artificially maintained companies (the so-called "zombie companies"[4]).
- State supervision of economics sections (direct and/or indirect nationalisations).
- Political structures jeopardised all around the world (rise of populism and geopolitical tensions to grab resources).

Short-term consequences on the structure of the world economy:

- Economical withdrawal.
- The rise of protectionism, with measures to relocate activities. The Heuler Hermés report warns about

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the negative effects of protectionism, which could threaten economic recovery by slowing trade recovery.

- Business bankruptcy booming and social and societal distress (end of "zombie companies").
- Decline in economic exchanges and interdependencies.

Consequences on the structuring of the world economy by 2022-2030

1) The end of the post-Cold War economic and financial globalisation and of the influence of international organisation governance (ONU, WHO…), lead to the end of the Pax Americana model.
2) The rise of a new digitised, "Covid-19" or "pandemic-compliant" globalisation, based on data collection treatment and valuation.
3) New society models: after "security against freedoms", now "personal data against healthcare". Hence, the issues of data use and protection, such as presented the GDPR[5], to review.

Consequences for the insolvency professionals

Insolvency professionals will see their activities grow due to a sharp rise in the number of business failures. In addition, in order to deal with the insolvent companies in this exceptional context, insolvency professionals may need to:

- develop new approaches for debt treatment, in particular governmental and administration debts, and the fate of associated privileges. The harmonisation of the ranking of claims and retention of title and security clauses within the European Union could provide an operational solution in this scenario[6];
- revalue assets on the balance sheet, taking into consideration the capacities of companies to deploy business continuity plans (also called BCP or PCA[7]). Insolvency professionals can rely on digital assets. Indeed, the Covid-19 crisis has undermined the physical assets of companies, particularly their real estate assets, and highlighted the role played by information systems: the digital assets' main value is intangible compared to the valuation of the tangible assets within the balance sheet; and
- to put into perspective, within the economic and social relationship, the situation of the bankrupt company in the value chain and the interdependencies, in particular in cross-border situations. Should the European regulation be readjusted concerning the profession in order to acquire this expertise?[8] For the record, in July 2021 each Member State of the European Union must dispose of professionals trained to face the announced challenges in order to prevent company difficulties.

Conclusion

The end of interdependence is a phenomenon that humanity has already known. The *Pax Romana* was based on a model of society implying just "bread, games and a *jus comun*" (common law). Economic and financial interdependence had been threatened then by plague and cholera epidemics, sestertius depreciation, barbarian invasions and political rivalries. Would the *Pax Americana* experience the same implosion phenomenon? At a time when global governance is struggling, we are faced with an announced death of international organisations, in the same way as it happened to the *League of Nations*.

Globalisation as we have known it is ending. A new kind of globalisation should emerge, based on digital assets, on tools proposing a working solution to the need of social distancing, as a result of the reduction of material and human interdependencies. At stake are the business valuation and the social contract, with the risk of giving up personal data in order to favour healthcare. ■

Footnotes:

1 Coronavirus pandemic leads to a worldwide wave of insolvencies of +20%; News release Allianz Heuler- Hermès

2 COVID-19: QUARANTINED ECONOMICS; Global Economic Outlook of April 2020 rapport Euler Hermés

3 Suivi hebdomadaire Covid-19 : situation au 14 juillet 2020 ; Service économique régional de Pékin Antennes de Shanghai, Wuhan

4 COVID-19: QUARANTINED ECONOMICS; Global Economic Outlook of April 2020 rapport Euler Hermés

5 GDPR Principals; European Commission, https://ec.europa.eu/info/law/law-topic/data-protection/reform/rules-business-and-organisations/principles-gdpr_fr

6 Final Report of the High Level Forum on the Capital Markets Union, European Union, June 2020 https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

7 In French PCA : Plan de Continuité d'Activité

8 Final Report of the High Level Forum on the Capital Markets Union, European Union, June 2020 https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

9 NDL: United Kingdom information has not been taken into account, since the United Kingdom is not a party to the decisions of the European Union in the perspective of Brexit.

10 COVID-19: QUARANTINED ECONOMICS, Economic, Capital Markets and Industry Research, as of April 2020, Heuler Hermés, Allianz.

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Main implementation mechanisms comparison (Semester n°2 2020, USA, European Union, China)[10]

	USA	European Union	China
Central Bank and financial markets	150bp rate cut	Bold & generous TLTRO terms with average rate below MRO plus an interim TLTRO round for immediate liquidity	10bp cut to the policy rate (Loan Prime Rate)
	Restart of QE to the tune of USD700bn	EUR120bn QE envelope till end 2020 on top of monthly EUR20bn QE pace	Liquidity injection through open market operations: RMB1.7tn in early February.
	USD1.5tn of supplementary liquidity injections in the repo market to backstop liquidity in the Treasury market	Temporary capital & operational relief to banks	Liquidity injection through medium term lending: RMB300bn in total over February and March.
	Three months' credit in US dollars on a regular basis and at a rate cheaper than usual arranged among the G6 central banks	PEPP EUR750bn with no issuer limit or capital key restrictions	Liquidity injection through reserve requirement ratio cut: RMB550bn, with cut between 50 - 200bp depending on banks.
	Instalment of commercial paper funding facility (CPFF)	Deferral of charges for companies	Credit support: RMB350bn provided by policy banks, RMB300bn earmarked loans from PBOC to banks.
	Further increase in QE purchase		PBoC said it would increase the tolerance threshold for the level of bad debts
	Liquidity swaps with major central banks		
	Money Market Mutual Fund Liquidity Facility		The Politburo of the PCC may increase in the budget deficit, the issuance of special bonds from the central government ("Central Government Bonds"), an increase in the quota of bond issues that local governments can issue ("special purpose bonds"), a drop in the PBoC (Loan Prime Rate) benchmark lending rate and stimulation of consumption
	USD 1.5 trillion of liquidity injections, easing of prudential conditions		
Private economic actors	Commercial Paper Funding Facility (CPFF), potential activation of the GBCF (Government Backed Credit Facility)	France: €1 billion in financing for industrial relocation projects and no delocalization	Landlords will be encouraged to lower rents for individual businesses. Exemptions for micro, small and medium enterprises from paying their contributions to the three types of social insurance
	Financial FED support to SMES in order to avoid insolvency	Nationalization, e.g. Alitalia	
	Looser banking regulation	Looser EU state aid, fiscal rules & banking regulation Relief of insolvency constraints, particularly in terms of declaring insolvency	Postponement of contributions to the housing (provident fund)
		France 100 billion dedicated to economic recovery: • 30 billion for energetic transition • 35 milliards for competitivity (tax cut, digital transition, equity support, infrastructures investment, industrial development) • 35 billion for social and territorial cohesion (employment, territories development, research, healthcare)	Financial institutions are encouraged to defer principal repayment of loans from micro, small and medium enterprises.
			Extension after the end of May, and until December 31, of the VAT exemption scheme for small taxpayers
			Businesses benefit from a 5% reduction in the price of electricity
			Extension until 2023 of the tax advantages enjoyed by credit institutions lending to very small businesses, self-employed persons and private farms
Consumer support	Sending checks to households	Partial unemployment schemes depending on the Member States	Provinces started to distribute "consumer coupons"
	Guarantee sick leave payment		State Council extended car purchase tax exemption for consumers until end of 2020
	Allow tax exemptions for 2020		
	Increase investments in infrastructures		
	Increase health expenditure		
	Authorise loan forbearance		Reduce health insurance contributions during 5 months
	Provide food aid		

Glossary: Bp: basis point; TLTRO: Targeted longer-term refinancing operations; MRO: Main Refinancing Operations; QE: Quantitative easing; Bn: billion $; RMB (renminbi also called Yuan (CNY)); tn: Trillion $; repo: Sale and Repurchase Agreement; PEPP: Pandemic Emergency Purchase Programme; PBOC/PboC: People's Bank of China; PCC: communist chinese party; FED: Federal Reserve Board.