The Pandemic and the Crisis of the Global World

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“There are decades when nothing happens, and there are weeks that are like compressed decades.” This saying rang particularly true in 2020, the year of the pandemic. COVID-19 left a lasting mark on the economy, politics, and people’s perception of the world. The expression that came to mind in the spring of 2020 was “the day after”—echoing the title of the famous 1983 film about life after nuclear catastrophe. Today, nevertheless, few people in Europe make apocalyptic predictions because of the pandemic. In most cases, this expression—“the day after”—may be used to imply that life will no longer be the same, not only due to new factors such as COVID-19, but also due to the influence of pre-existing, pre-pandemic factors on these new factors. It is obvious that the world has been thoroughly shaken by the corona-crisis. But the ongoing crisis of global governance and international relations originates in a broad range of causes, whose nature is both political and economic.

1 Some Current Trends

The post-COVID world will be largely a continuation but not a return to our life before the pandemic. Whenever a major historical event happens, eyewitnesses and contemporaries view the mosaic of events as if through a microscope. As the intensity of the drama subsides, the “microscope” is replaced by a “magnifying lens”—and ultimately with a “telescope.” When the initial impressions and emotions subside, and when smaller details fade, only then do the changes that are truly profound come to the fore. Bold predictions and expectations of revolutionary changes are replaced by more conservative and moderate forecasts.

At the same time, even the most balanced assessment of the current epidemic does not diminish the scale of its direct and indirect impact. This crisis can be placed in the same category as the Great Depression of the late 1920s and the 1930s, or the Great Recession of 2008–2009. Naturally, we should distinguish between the temporary changes that are necessary at the stage of fighting the disease and those that will remain with us for a long time. Further, some of the changes magnified by the pandemic will not be entirely new; to a large extent, they will bring about a return to ideas and policies that existed

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before. For example, this concerns the enhanced role of the nation-state and the shift to social market policies.

Today, when people talk about the economy, they often have politics at the back of their minds. In other words, we cannot do without political economy in our analysis. The pandemic intensified competition in various areas—economics, information, technology, etc.—where politics served as the driving force behind it all. This comes as no surprise, since globalization, beginning as a self-regulated economic process, has long turned into a political tool to slow the development of economic rivals. Citing national security interests, a number of countries impose arbitrary restrictions and extraterritorial sanctions, in effect violating the World Trade Organization rules.

The fundamental problems that caused the financial and economic crisis of 2008–2009 have not been resolved. The pandemic further exacerbated the situation. The global economy was hit by two simultaneous shocks, with both supply and demand dropping dramatically. An enormous amount of money is being pumped into the economy to mitigate the impact of the pandemic, ignoring the fact that this leads to mounting public debts and financial bubbles. Geopolitical rivalry between the United States and China is increasing, no matter the occupant of the White House. In 2021, the process of strategic decoupling between the United States and Europe continues. On the whole, systemic and structural changes in international relations and in the mechanisms of global and regional governance and regulation carry on the trends of previous years and even decades.

Some consider this a continuation of deglobalization. In reality, though, it is a continuation of the crisis associated with hyper-globalization, the origins of which appeared some forty years ago. In other words, we are witnessing a crisis of the neoliberal and West-centric model of globalization, a failure of economic and political neoliberalism.[1] The most prominent feature of this new stage of globalization is that global integration is descending from the global to the regional and trans-regional levels. This explains the weakening of most multilateral mechanisms inherited from the twentieth century. Regressive, disintegrative processes happen at a higher level, and at the same time there is an increased demand for integration processes at a lower level. For example, the US–China trade wars or tougher rules for foreign investors in the European Union are elements of disintegration at a global level. The new EU industrial strategy will make the European economy more dirigiste, further distorting market mechanisms and creating new protectionist measures to

1 Alexey Gromyko, "Metamorphoses of Political Neoliberalism," *Contemporary Europe*, 2020, No. 2, 6–19, http://www.sov-europe.ru/2020/2-2020/2.pdf.

make the EU's economy more competitive.[2] Security reasons become a convenient pretext for introducing such measures and criteria of security concerns are mostly dubious and politically driven.

The China strategy review prepared by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy in March 2019 refers to China as an "economic competitor in the pursuit of technological leadership."[3] A year later, Josep Borrell, who has replaced Federica Mogherini as Europe's top diplomat, made the following observation when talking about the coronavirus crisis and how it has affected the European Union's relationship with its key economic opponents: "We should avoid excessive dependence in strategic sectors by building stockpiles of critical materials. We also need to shorten and diversify our supply chains."[4] In other words, the European Union will use market and non-market tools and methods to reduce its dependence on China in strategic sectors (a non-specific term which can be applied to a very broad range of industries) and to force Beijing to play by the rules that are favorable for the European Single Market.

Additional stimuli favoring greater interdependence within the European Union or the Eurasian Economic Union (EAEU) are elements of further integration at a regional level.[5] As far as the European Union is concerned, one of the largest "contributions" the coronavirus crisis made to strengthening federalist trends is found in a joint initiative by France and Germany, who proposed to set up a European recovery fund of €750 billion to support EU member states through loans and grants. This financial instrument, which was approved by the European Council in July 2020, is a massive step towards a fiscal union, and signals a major shift in Berlin's position on the issue of a "transfer union" and common EU borrowing. A number of major media out-

2 Vladislav Belov, "Новая промышленная стратегия Евросоюза" ["New Industrial Strategy of the European Union"], Whitepaper No. 13, Institute of Europe, Russian Academy of Sciences (2019), http://instituteofeurope.ru/images/uploads/analitika/2020/an196.pdf.

3 "EU–China: A Strategic Outlook," European Union, March 12, 2019, https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf (page no longer available).

4 Josep Borrell, "Trust and Reciprocity: The Necessary Ingredients for EU–China Cooperation," European External Action Service, May 14, 2020, https://eeas.europa.eu/headquarters/headquarters-homepage/79355/trust-and-reciprocity-necessary-ingredients-eu-china-cooperation_en.

5 Natalia Kondratyeva, "Работа институтов ЕАЭС в условиях коронакризиса" ["The Work of EAEU Institutions During the Coronavirus Crisis"], Whitepaper No. 26, Institute of Europe, Russian Academy of Sciences (2020), http://instituteofeurope.ru/images/uploads/analitika/2020/an209.pdf.

lets hailed this decision by Angela Merkel as "historic," saying she has "secured her place in the pantheon of European statesmanship."[6]

It may seem inexplicable (though it makes perfect sense upon in-depth analysis) that the United States and the United Kingdom—two countries that had long constituted the core of the neoliberal model—became the key triggers of the disintegration of hyper-globalization. In recent years, the United States has pulled out of the Trans-Pacific Partnership Agreement, walked away from the talks on the Transatlantic Trade and Investment Partnership with the European Union, undermined the Iran nuclear deal, withdrew from the UNESCO, the UN Human Rights Council, the Paris Climate Agreement, and the Intermediate-Range Nuclear Forces Treaty, effectively blocked the operations of the World Trade Organization, stopped paying its fees to the World Health Organization, and withdrew from the Open Skies Treaty. Some of these decisions have been reversed under Joseph Biden, but the general trend has not been altered and the fragmentation of world politics continues. As for the United Kingdom, Brexit dealt a much heavier blow to the European Union than any mythical threat allegedly posed by Russia or China.

During the pandemic, the role of government regulation, government involvement in various social and market processes, increased dramatically. Nation-states have once again demonstrated that they are indispensable, especially in a situation of *force majeure*. Simultaneously, some natural rights and freedoms proved to be secondary, just like self-regulated market mechanisms. It turned out that, under extreme circumstances, people care more about their basic right to life and their social and economic rights, which at certain points in time may have higher priority than freedom of movement or freedom of assembly.

The practice of relying on profiteering mechanisms, including in health care, has once again demonstrated their dark side. The United States spends 17% of its GDP on health care, but when the pandemic broke out, the system failed, because when it comes to social justice and human capital, what matters is how you spend the money and whom you spend it on. The same holds true for market mechanisms in other areas, like education and fundamental science. After an extended period of unchallenged domination by the theory and practices of political and economic neoliberalism, there are just a handful of countries left where social market economy and welfare state are more than just empty declarations. Most of these countries are in Northern Europe.

6 Paul Taylor, "Merkel's Milestone Moment," *Politico*, May 19, 2020, https://www.politico.eu/article/angela-merkel-milestone-moment-europe-coronavirus-response/.

The coronavirus crisis demonstrated the deep-seated features of the nation-states' behavior—namely, the phenomenon of national egoisms. This is normal, since people express solidarity at a national level first, prioritizing their fellow citizens. Then solidarity rises to the next level, where states support one another. And only after that solidarity may rise to the supranational level. There is no contradiction between the central role played by the nation-state and the importance of bilateral and multilateral cooperation. Finally, a comprehensive solution can only be achieved through the efforts of international organizations. "Render unto Caesar the things that are Caesar's, and unto God the things that are God's." Nation-states do their part, and others—e.g., the World Trade Organization, the European Union, the EAEU, and the like—do theirs.

The US–China military tensions represent a major risk. These tensions are not just a single time bomb; there are several time bombs hidden here. For example, there is the possibility of a dramatic escalation over Taiwan. In the spring of 2020, the US Department of State launched a campaign to grant the island observer status in the World Health Organization. These are elements of Washington's long-term policy of putting pressure on Beijing regarding this issue. As always, China protested the move. It would be a mistake to treat this situation as just another "last warning by China"—an expression with an overlay of humor, which became popular in the USSR back in the 1950s and 1960s, due to the extensive coverage of US–China tensions over Taiwan in the Soviet media. At that time, the meaning was that no matter how many times Beijing would protest, Washington would still do what it wanted. In the 2020s, the creeping recognition of Taiwan's sovereignty and provoking China on this issue may become too dangerous.

Since May 2020, there has been a campaign in the United States, including the US judiciary, to strip China of its "sovereign immunity." The principle of sovereign (or state) immunity stems from Roman law: *par in parem non habet imperium*, or "equals have no sovereignty over one another." Yet the US law today allows for numerous caveats and exceptions to this rule, based on the doctrine of limited sovereignty. These loopholes have been used to file several lawsuits against the People's Republic of China, the Communist Party of China, a number of ministries and government agencies, and other Chinese entities, alleging that they had something to do with "infecting US citizens" with the coronavirus. Another idea, mooted in the United States in 2020, is defaulting on the US Treasury bonds acquired by China to the tune of one trillion US dollars (a third of China's international reserves). This would be an unprecedented move in modern history. There was another option under consideration—to punish Beijing for the "Chinese virus" by levying new tariffs on Chinese exports, especially since the US–China Phase One trade deal, made in January 2020, was scrapped as a result of the pandemic.

2 Life after the Pandemic

A pandemic always raises the pressing question of inventing and mass-producing a vaccine. In the case of COVID-19, optimists believed, and they proved to be right, that vaccines would be invented and produced in 2020. But such a quick introduction of various vaccines poses a range of questions about their side effects and the longevity of vaccine-induced immunity response. By the middle of 2021, we knew that several vaccines, including Sputnik V, provide durable protection against coronavirus. At the same time, it is also clear that the duration of this protection will not go beyond a certain period of time—maybe a year or a bit longer. Therefore, the chances are high that COVID-19 might become a constant fixture of life and we will have to immunize ourselves on a regular basis. After all, there are a lot of diseases that are more dangerous than coronavirus, for which there are no vaccines at all. Dengue fever is one example. After more than forty years, we still have no vaccine for HIV.

Unfortunately, there will be more pandemics in the future—especially considering that there are many factors contributing to their genesis. Mankind has to develop resilience in dealing with pandemics, meaning it must learn to adapt to living with COVID-19 and similar diseases. This includes, among other things, an ability to live with lockdowns, self-quarantine, and social distancing. But the solution is not straightforward. Human life is priceless but extensive, and protracted lockdowns paralyzing people's lives, businesses, and economic activities are equally unacceptable from both the economic and political perspectives. A number of countries (Sweden, Belarus, Brazil, the United States, India, etc.) allowed the virus to spread more or less freely, either in hopes of achieving herd immunity as quickly as possible, or for the sake of using the pandemic as a political tool, or simply because of poor governance.

The current pandemic provided a powerful boost to the industries where people can work from home. This helps maintain social distancing and in addition reduces operational costs. But there is the question of who benefits more from this—employees or employers? Because of structural changes on the job market, the cost of office space is bound to go down. Many office buildings will have to shut down or convert to other uses. Software development and telecommunication systems connecting people online are booming. Education, telemedicine, and some other areas are quickly adapting to working remotely.

The pandemic will accelerate the 5G roll-out and the advance of the internet of things. On its part, the restaurant business is under huge pressure, especially in the bar segment, as well as the entertainment industry, including sports—in other words, everything that involves large numbers of people gathered in one place. Just like over the past twenty years, because of the terrorist threat, travelers got used to being strip-searched at airports and train stations, people will now have to get used to wearing face masks in public places and on public transport, taking medical tests on a regular basis, providing additional documents when applying for a visa, etc.

The pandemic spurred a resurgence of the debate about a proper balance between security concerns and civic freedoms. As soon as a number of countries started gradually lifting COVID-19 restrictions in May 2020, protests immediately broke out, reacting either to the restrictions on freedom of association and freedom of movement, or to the worsening standards of living: growing social inequality, unemployment, poverty, and falling incomes. French President Emmanuel Macron saw his approval rating plummet to below 40% in April 2020 (according to Ipsos). The Yellow Vests movement resumed its protests in May. Spanish Prime Minister Pedro Sánchez had to extend the state of emergency until the end of June 2020, because of protests. Germany, too, had a wave of protests roll across the country. The pandemic exacerbated political differences within the United States, as well as its old problems of social inequality, poverty, and racism. In late May and early June 2020, riots throughout the country were triggered by the death of George Floyd, who died of asphyxiation while detained by police officers in Minneapolis. The Black Lives Matter movement was born, with long-ranging implications.

Because of the pandemic, travelers also must cope with a surge in the costs of travel, as airlines and railroads introduce new regulations, which dramatically reduce the number of passengers. Cars once again play a major role in short-distance travel, especially since fuel prices are expected to stay low for the foreseeable future.

The health care sector is going through profound transformations, especially in the countries where the pandemic exposed the weaknesses of the primary care level and the scarcity of hospital beds. The state assumes a bigger role in these matters. Major shifts in urban development are in the pipeline, and the paradigm of megacities may fade in favor of low-rise construction. Sensor technology will be used more widely in order to avoid touching surfaces in public places. This means that we will see more biometric data being collected and stored, including face-recognition technologies, which once again raise the question of privacy and personal data protection.

The pandemic highlighted the problems of poor countries and of migration flows, including those of labor migrants and camps for displaced persons and refugees. The pandemic has dominated the news for more than a year, eclipsing reports about hunger protests in Lebanon, which started in early 2020. At the time, the World Bank estimated that 45% of the Lebanese population were living below the poverty line—although just recently, in 2018, Lebanon had the highest GDP per capita among the Arab world's non-oil producing nations.[7] But in April 2020, the Lebanese government believed that up to 75% of the country needed aid. Across the Mediterranean Sea, in Greece alone, about 100,000 refugees from Africa and the Middle East were waiting for asylum; 40,000 of them—in overcrowded camps on Greek islands. Coronavirus outbreaks were a regular occurrence in these camps.[8]

Another aspect of the problems facing poor countries was revealed in a report released by the UN Conference on Trade and Development (UNCTAD) on April 28, 2020.[9] The report warned of the looming developing country debt crisis. According to the IMF, developing countries needed at least $2.5 trillion in aid, due to the current crisis. The virtual G20 Summit in March 2020 decided only to suspend debt service payments from developing countries until the end of the year. Some of the debts could be written off or restructured. But this entire initiative was only worth $40 billion, an insignificant amount by modern standards. A total of seventy-six countries were in danger of encountering problems with servicing their foreign debts.

3 The European Union: Testing Times

The International Monetary Fund expected the euro area economy to shrink by 7.5% in 2020.[10] The European Commission was even more pessimistic and

7 Tamara Qiblawi and Ghazi Balkiz, "If your child is hungry, you will eat your rulers to feed your children," *CNN*, May 2, 2020, https://www.cnn.com/2020/05/02/middleeast/lebanon-tripoli-hunger-protests-coronavirus-intl/index.html.

8 Louise Miner, "Greek Migrant Camp is Set Alight as Clashes Shake Chios Island," *Euronews*, April 19, 2020, https://www.euronews.com/2020/04/19/greek-migrant-camp-is-set-alight-as-clashes-shake-chios-island.

9 "From the Great Lockdown to the Great Meltdown: Developing Country Debt in the Time of COVID-19," United Nations Conference on Trade and Development, April 2020, https://unctad.org/system/files/official-document/gdsinf2020d3_en.pdf.

10 "World Economic Outlook: The Great Lockdown," International Monetary Fund, April 2020, 7, https://www.imf.org/~/media/Files/Publications/WEO/2020/April/English/Ch1.ashx?la=en.

projected a contraction of 8%.[11] A survey by McKinsey & Company forecasted that the Eurozone GDP would fall in 2020 by a lot more, 10.6%, and that the EU economy would not return to pre-crisis levels until 2024.[12] The European Commission, together with the European Central Bank, expected the overall contraction in EU GDP to be 7.5%.[13] European Central Bank President Christine Lagarde stated that the euro-area economy could shrink by as much as 15% that year.[14] For the sake of comparison, in 2009, which was the worst year of the Great Recession for the European Union, the euro area's GDP shrank by 4.5%.

Looking back from 2021, we know that the global real GDP contracted by 3.3% last year; the US economy—by 3.5%; the euro area's—by 6.6%; Russia's—by 3.1%; China's GDP increased in 2020 by 2.3% (according to the International Monetary Fund). The worst-case scenarios did not materialize. Nevertheless, in general, the world economy is in a dismal state, and the future is highly uncertain.

The EU nation-states were the first line of defense in fighting the pandemic, which is not surprising, as health care remains within national jurisdiction. In order to help the governments of the member states to take effective measures, the European Union agreed to relax its fiscal rules for borrowing and spending. As a result, Spain was able to allocate €200 billion (20% of its GDP) in March 2020 to support its economy.[15] Italy announced a €350 billion aid package for households, and then added another €400 billion to support businesses. Added together, these two packages equaled almost half of the country's gross domestic product.[16] The European Central Bank acted as the second line of

11 "Assessment of Public Debt Sustainability and COVID-Related Financing Needs of Euro Area Member States," European Union, https://ec.europa.eu/info/sites/info/files/economy-finance/annex_2_debt_sustainability.pdf.

12 Soeren Kern, "Coronavirus: The Looming Collapse of Europe's Single Currency," Gatestone Institute, International Policy Council, April 7, 2020, https://www.gatestoneinstitute.org/15856/coronavirus-euro-collapse.

13 "European Economic Forecast," European Commission, Institutional Paper 125, May 2020, ix, https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf.

14 Viktoria Dendrinou and Boris Groendahl, "Merkel's Stimulus Vow Sets Up EU Battle for Recovery Funds," *Bloomberg*, April 24, 2020, https://www.bloomberg.com/news/articles/2020-04-24/merkel-s-stimulus-vow-sets-up-eu-battle-for-reconstruction-funds-k9dwthfx.

15 "Spain Announces 200 Billion Euro Aid Package for Coronavirus Crisis," *Reuters*, March 17, 2020, https://www.reuters.com/article/uk-health-coronavirus-spain-aid-idUKKBN2142QD.

16 "Coronavirus, via libera a del imprese, Conte: è 'potenza di fuoco,'" *ANSA*, April 7, 2020, https://www.ansa.it/sito/notizie/politica/2020/04/06/governo-consiglio-dei-ministri_482977fb-4ed7-4377-8ec6-01e2c4a0dcb1.html.

defense, announcing that it would buy €750 billion worth of sovereign and corporate bonds.

Experts often use geography to divide EU member states into categories: North and South, East and West. Because of the pandemic, we once again witnessed increased tensions between donors and recipients—i.e., between the North and the South. The Netherlands was the most vocal representative of the former, while Italy was the hardest-hit example of the latter. Disagreements between the West and the East were deteriorating as well. While in the past, starting in 2015, they were primarily due to differences of opinion regarding migration issues, later the rule of law found itself at the heart of the controversy. Hungary and Poland were increasingly viewed as rogue states within the European Union. In May 2020, another crisis was in the making, because of a decision made by Germany's Constitutional Court in Karlsruhe. This key institution questioned the legality of the European Central Bank's sovereign bond-buying program, thus putting national law above the EU legislation.

While European governments have been fighting the pandemic with cash injections, the problem of sovereign debt was looming large. This indicator was going up across the European Union. In April 2020, the debt-to-GDP ratio in the European Union was already over 80%, while in the euro area it exceeded 97%, even though the Stability and Growth Pact sets the limit for public debt at 60% and for budget deficit at 3%.[17] Greece had the worst result: its government debt was at 176% of the GDP in 2019 and was projected to reach 180% in 2021. It is followed by Italy, with 135% in 2019 and a projected 154% in 2021, Portugal with 115% and 120% respectively, France and Belgium with 100% and 110%, then Spain with 95% and 114%. Even Germany exceeded the limit set by the Stability and Growth Pact, piling up 70% of government debt in September 2020. Only smaller economies—the Baltic nations, Luxembourg, and Malta—were expected to stay under the cap.[18]

The third line of EU defense against the pandemic was supranational. The European Union was divided over the question of whether the hardest-hit countries were entitled to receive aid in the form of grants or loans. In other words, will these countries borrow money and pay interest? Or will they receive direct transfers? The most radical solution was to issue "corona bonds" (i.e., to pool together member states' debts). This idea was debated at length at the time of the Great Recession. If the European Union were to issue "corona

17 "Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic," International Monetary Fund, April 2020, 6, https://www.imf.org/~/media/Files/Publications/fiscal-monitor/2020/April/English/text.ashx?la=en.

18 "Assessment of Public Debt Sustainability."

bonds" today, it would mean that all member states have the same borrowing terms, thus sharing all the risks, and there is no need to worry about the spreads (the differences between their sovereign bond yields).

The EU Summit on March 26, 2020, instructed the member states' finance ministers to design measures for supporting the European economy. As a result, an emergency fund of €540 billion (about 4% of the EU GDP) was set up. This included about €100 billion earmarked for SURE, a program offering compensations to employers in an effort to stymie unemployment. Another €200 billion were made available through the European Investment Bank in subsidized loans to small and medium-sized businesses. Finally, €240 billion went to the European Stability Mechanism to bail out the EU members in need of urgent aid. On April 23, 2020, the EU Summit supported the idea of creating the fund, and after being ratified by national parliaments, the decision went into effect on June 1. Importantly, this aid was not conditioned on austerity measures, which caused extreme tensions between EU members during and after the Great Recession. As far as "corona bonds" were concerned, the summit decided to postpone the issue in an effort to avoid direct confrontation. EU officials continued debating the risks of sovereign debts and ways to hedge against them, including the idea of a European Redemption Fund, which was first proposed shortly after 2010.[19]

In addition, the European Union continued discussing the need for a new "Marshall Plan"—a long-term recovery and modernization program for the EU economy. It was generally understood that, on top of the financial measures intended to deal with the pandemic and its impact, such a plan should address the broader issue of the European Union's prospects, including the geopolitical dimension. However, unlike the original Marshall Plan, this time Western Europe was left to fend for itself, especially after the pandemic once again demonstrated how little Washington cares about the needs of its European allies. The plan involved the initial steps towards the aforementioned transfer union, massive investment in the European Green Deal, a new industrial strategy, an ambitious seven-year budget for 2021–2027, and so on.

The term "reprioritization" was often used, meaning that resources should be redistributed between various items in the EU budget to allocate a greater share to the southern member states. For instance, the money from the Cohesion Fund that would normally go to Budapest or Warsaw could now go to

19 Peter Bofinger et al., "A European Redemption Pact," *VoxEU*, November 9, 2011, https://voxeu.org/article/european-redemption-pact.

Rome or Madrid. Further, in order to cope with the pandemic-induced economic downturn, EU member states contemplated an increase in their contributions. Ursula von der Leyen asked them to raise the ceiling from the current 1.2% to 2% of the GNI for the first two or three years of the new seven-year period.[20]

The European Union was facing several problems at the same time: it was sinking into a deep recession; government debts and deficits were mounting; unemployment was on the rise; and the future of the new seven-year budget was obscure. In addition, Brussels was engaged in difficult talks with London regarding a comprehensive agreement between the two parties after the United Kingdom left the European Union in January 2020.

Due to huge efforts undertaken in July 2020, the next EU budget was approved with elements of the transfer union. In December 2020, against all odds, the post-Brexit agreement between Brussels and London was also signed. Still, it is clear that because of the pandemic, the European Union entered its domestic and international quarrels of 2021 with impaired capabilities. What does it mean for its competitive advantages? The new European Commission, after taking office in December 2019, called itself a geopolitical one. One of its primary objectives was to secure leadership in global trade, regulation, standards, and value chains by implementing the green agenda, digitization, and the new industrial strategy. The Green Deal envisages achieving climate neutrality by 2050. This means overhauling the entire European economy. For this purpose, the European Union intended to introduce a carbon tax on the outer borders of the common market, to create the €1 trillion Just Transition Fund, and to take a number of other ambitious and costly steps.

Today, these plans look questionable because of the pandemic and the resulting financial difficulties. Apart from being costly, the green transformation and digitization will make some jobs redundant—and this in a situation where unemployment is a permanent problem, especially among younger people. Besides, there are parts of the EU economic strategy that may contradict each other. For example, the strategy calls for relocalization of industry (bringing European industrial production back to the EU territory). This goal may come in conflict with the transition to a green economy.

20 "Statement by President von der Leyen at the Joint Press Conference with President Michel, Following the EU Leaders' Videoconference on Coronavirus of 23 April," European Commission, April 23, 2020, https://ec.europa.eu/commission/presscorner/detail/en/statement_20_733.

4 Russia: Will the Stagnant Growth Persist?

Russia is facing equally challenging problems because of the pandemic. In May 2018, the Russian president issued an executive order on national goals and strategic objectives for the period until 2024. These included placing Russia among the world's top five economies. The document did not specify which metrics would serve as criteria for attaining this goal. Later, it was clarified that the ranking would be done based on purchasing power parity (PPP). In April 2020, when the IMF released its updated numbers, it turned out that Russia had pulled ahead of Germany by GDP (PPP) and was now ranked fifth.[21] However, assessing the standing and condition of Russia's economy in terms of PPP does not always seem to be a perfect method, since it does not take into account the quality of human capital. Real incomes have dropped by 8% in Russia since 2013, and social inequality increased dramatically over the past few decades. (For instance, the top one percent wealth share in Russia went up from 22% in 1995 to 43% in 2015.)[22] Although the Russian economy shrank less than the Bank of Russia had expected (by 3.1% instead of 4%–6% in 2020), Russia is unlikely to recover to pre-crisis levels before 2022.[23] Obviously, it appears dubious that the national development projects planned for the period through 2024 can be successfully implemented.

Russia's economists have proposed a number of measures to counter the pandemic and its impact and to achieve a new level of economic growth.[24] These include raising the minimum wage and pensions significantly, investing more in human capital, and allowing a moderate budget deficit. Russia also needs a genuine federalist budget structure, a progressive tax system, a radical increase in human capital investment, a fundamental shift in the way the government treats small and medium-sized businesses, and a ban on the cost-trimming programs in science, education, and health care.

21 "World Economic Outlook Database," International Monetary Fund, April 2020, https://www.imf.org/en/Publications/WEO/weo-database/2020/April.

22 "World Inequality Report 2018," The World Inequality Lab, https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf.

23 "Банк России принял решение снизить ключевую ставку на 50 б. п., до 5,50% годовых" ["The Bank of Russia Made a Decision to Lower Interest Rates to 5.5%"], Bank of Russia, http://cbr.ru/press/pr/?file=24042020_133000Key.htm.

24 See: "Предложения по мероприятиям в сфере экономической и социальной жизни страны после завершения активной фазы борьбы с коронавирусом" ["Recommendations for Economic and Social Initiatives upon the Completion of the Active Response Phase in Coping with the Coronavirus"], a report of the Institute of Economics, Russian Academy of Sciences, http://inecon.org/docs/2020/publications/Report_IE%20RAS_20200526.pdf.

The changes taking place in connection with the COVID-19 pandemic follow the logic of the general shift towards a polycentric world order. At this point, it is still hard to tell which model of polycentrism will emerge as the dominant one and what the new hierarchy of countries will look like. Rivalries among the world's top nations got even more intense as a result of the pandemic. As tensions between various centers of power rise, Russia should remain geopolitically and otherwise autonomous in global affairs, without getting trapped in the false narrative of the new US–China bipolarity. At the same time, Russia, as a power with global attributes and responsibilities, should be very persistent in handling cleverly its differences with the European Union and the United States, in order to escape an equally false narrative of a new Cold War.