



## 2020 Summer Global Leadership Seminar Crisis Simulation – Briefing Paper The Global Economy and Foreign Relations in Crisis

*“The crisis poses enveloping international questions. When will the global economy recover? Can Washington and Beijing avoid permanent confrontation with potential catastrophic consequences? Will China advance its national interests at the expense of the United States? Will the U.S. alliance system continue to erode? Will the crisis empower or undermine nationalists and populists?...These matters are of enormous import, but they are impossible to answer with any confidence at this stage.”*

**-Robert D. Blackwill and Thomas Wright, Council on Foreign Relations**

### Introduction

The COVID-19 pandemic’s effect on the global economy and foreign relations is both widespread and unprecedented in modern history. Both domestic economies and the global economic system are facing existential threats. The **International Monetary Fund (IMF)** recently stated that the pandemic will throw the world into its worst **recession** since the Great Depression and over 95% of countries are projected to have negative **per capita** income growth in 2020.<sup>1</sup> But the world is significantly more globalized today than during the time of the Great Depression, meaning that domestic economies are increasingly reliant on foreign nations for goods and services. This has created a conflicting set of interests for many countries who need to revive their crumbling **domestic** economies while also balancing the needs of the global economic system. **Foreign relations** have become strained and uncertain, especially as domestic politics increasingly call for world leaders to focus inward and address the effects of the pandemic within their own borders rather than in other countries, even if those countries that have historically been allies. Norms and systems that have governed the modern world order since the end of World War II, as well as the common view of the United States as a leading global superpower are beginning to come into question. Many point to China’s strategic goal of becoming a second global superpower by utilizing the economic and diplomatic crises caused by the pandemic. One way China has shown it’s leadership aspirations is through the distribution of economic and public health aid around the world. Unsurprisingly, this crisis has many speculating about the short and long term effects to the global economy, the future of **globalization**, and the future shape of the post-pandemic international system.



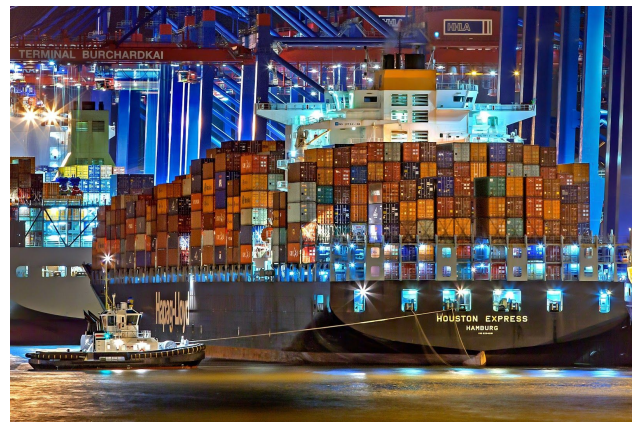
<sup>1</sup> “IMF: New predictions suggest a deeper recession and a slower recovery.” *World Economic Forum*, 2020.



## A Historic Economic Crisis

In the interest of public health, most countries affected by COVID-19 have pursued lockdowns, stay-at-home orders, or other restrictions in order to limit the spread of the coronavirus. Often these rules limit what businesses are allowed to be open, the hours they can be open, and how many customers they can serve at a time. In addition, mass employee layoffs and social distancing protocols have suppressed **consumer demand**. The same policies that are necessary to curb the spread of the virus are the same ones that have caused large-scale economic disruptions to both the supply and demand sides of economies. As of the time of this writing, over 75% of countries are beginning some kind of reopening process, even as the pandemic is intensifying in some countries. Finding the balance between protecting public health and working to prevent further economic downturn has proven to be one of the greatest challenges of the COVID-19 pandemic.

The economic crisis caused by the pandemic does not only stem from countries' domestic economic issues. The intense globalization of the past century has created a system of entrenched global **supply chains** and trade networks that have proven to be deeply vulnerable during this crisis. Global manufacturing and distribution of goods today relies on multistep, multi-country supply chains, so when factories close in one country affected by the pandemic, multiple other countries suffer economic consequences and entire supply chains are disrupted. This has contributed to a shortage of supplies and protective equipment in many countries, especially when the seriousness of the pandemic serves as a motivation for those countries that manufacture critical supplies to keep those supplies for their own citizens, rather than trade them with other countries as they typically would. Political tensions between countries threatens to exacerbate the damage to the global economy and global trade, which is already projected to decrease by about 12%. The devastation of domestic economies also makes it financially difficult for wealthier countries to distribute **foreign aid** and direct critical funds away from the needs of their own citizens. Therefore, some developing countries that heavily rely on foreign aid will have even greater difficulty providing relief to their citizens both during the crisis, and in a post-pandemic world. The IMF has predicted that developing and **middle-income** countries will collectively need \$2.5 trillion if they are to adequately overcome this crisis.<sup>2</sup>



## The Uncertain Future of Foreign Relations and the Global World Order

The onset of the novel coronavirus and the resulting global pandemic has caused significant uncertainty to the future of globalization, the global economy, and foreign relations. As of now, there are two overarching theories related to the future of the global economy and foreign relations as a result of the

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<sup>2</sup> "A COVID-19 response for the world's poor." *Brookings Institution*, 2020.



pandemic. Some predict that countries will increasingly turn inwards, strengthening domestic production of goods and relying less on the global supply chains that have become the norm during the past century. Governments and societies could choose to strengthen their national capacity to cope with extended periods of economic self-isolation. This would reinforce **economic nationalism**, a global trend that has been gaining momentum as nations have adopted a **zero-sum** mentality when it comes to trade and foreign relations. If these predictions are right, the modern world order could transform from a unipolar system, with the United States as the dominant global superpower, to a multipolar system where it is increasingly difficult for any single country to exercise its will and influence. In the coming months and years, countries may have a reduced willingness or commitment to tackle regional or global problems “given the perceived need to rebuild at home and deal with economic consequences of the crisis.”<sup>3</sup>



Conversely, others predict that the immediate turn to **nationalism** and isolationism caused by the crisis will eventually lead to a revised call for internationalism and global cooperation. Those in favor of this outcome say that the pandemic is proof of the world’s interdependence and that it is impossible to completely erase the deep connections and networks established by globalization in the last century. Some experts say that countries like the United States could initially prioritize their own recovery rather than orchestrate a global response to the crisis, but continued global economic distress and turmoil could eventually spill over into the U.S. economy. While an isolationist approach may be tempting, countries and political leaders also have the potential to look past **geopolitical** competition and instead sustain international cooperation during and after the crisis. Furthermore, for some of the world’s **developing countries**, it will not be possible to adopt an isolationist position because their economies cannot prosper in isolation, and their reliance on foreign aid and investment is too great. This means that already powerful countries, like the United States and China, have incentive to reinforce and spread their global power through the use of foreign aid and **foreign investment**. Through the provision of monetary assistance, the donation of critical medical supplies, and through moral and ethical leadership, the U.S. and China have the ability to shape the international political spectrum and spread their influence in a post-pandemic world.

Countries will have to balance self-interest and serving the needs of their citizens with deciding how they want to operate within the current global economic and foreign relation systems. While there is much speculation surrounding the exact outcomes and whether the world will become more isolationist or have a revised form of globalization, what is certain is that the COVID-19 pandemic will reshape geopolitics, foreign relations, and the structure of the global economy.

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<sup>3</sup> “How the World Will Look After the Coronavirus Pandemic.” *Foreign Policy*, 2020.





## Crisis Simulation

In a simulation, the most important aspect of your role is to stay consistent to the views, intentions, goals and desired outcomes of your assigned country and its leaders. Having a clear understanding of your assigned country's economic state both before and during the global pandemic, which countries (if any) your assigned country has relied on and maintained relations with before/during the pandemic, and the current domestic political climate in your assigned country will be essential to the simulation. In addition, you should be aware of any countries your assigned country has given foreign aid to during the pandemic, or if your country has received any foreign aid from the United States, China, and/or the IMF.

A short overview of the IMF: The IMF, created in 1944 at the United Nations Bretton Woods Conference, works to “ensure the stability of the international monetary system – the system of exchange rates and international payments that enables countries and their citizens to transact with each other.”<sup>4</sup> One of the core responsibilities of the IMF is to provide member countries with loans and to work with governments to ensure responsible spending. During the COVID-19 pandemic, the IMF has provided emergency assistance to member countries, approved immediate debt service relief to twenty-nine member countries, and adjusted existing lending arrangements to accommodate urgent, new needs that have arisen from the pandemic crisis.

Students will be tasked with **bargaining and negotiating** for international aid as a means of securing both the short- and long-term financial security for their assigned countries. As world leaders, students must consider both domestic and geopolitical interests when working to ensure a secure economic future for their countries amidst the global pandemic. In the simulation, students must analyze tradeoffs, bargain with fellow world leaders, and ultimately make difficult, reason-based decisions.



Students, you have been assigned to one of eight countries: **(1)** United States, **(2)** China, **(3)** Italy, **(4)** Brazil, **(5)** South Africa, **(6)** Cambodia, **(7)** Croatia, and **(8)** India. Prior to Thursday's crisis simulation, please read through the important background resources for your assigned country and complete the “Questions to Consider” below (you can type these up in a separate document if it is easier).

## Questions to Consider

1. What is globalization? Why is globalization important in terms of the modern global economy?
2. Why is economic nationalism gaining momentum throughout the world? What kinds of goods would countries want to produce ‘at home’ rather than import from abroad?

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<sup>4</sup> “The IMF at a Glance.” *International Monetary Fund*, 2019.

3. Why would countries turn toward this economic nationalism while in the midst of a global pandemic?
4. How has the COVID-19 pandemic affected our assigned country's economy? What was the state of your country's economy before the pandemic?
5. Has your country received foreign aid to help alleviate the effects of the pandemic? How much? If not, has your country sent foreign aid to any of the other countries in the crisis simulation? How much?
6. What is the domestic political climate like in your country? As a leader from your country, what kind of political pressure would you feel from politicians and citizens in making decisions related to foreign aid or global trade?

### **Quick Facts**

- The COVID-19 pandemic is predicted to cause the worst global recession since the Great Depression.<sup>5</sup>
- "Geopolitical and trade tensions could damage fragile global relationships at a time when trade is projected to collapse by around 12 percent."<sup>6</sup>
- The IMF has predicted that developing and middle-income countries will collectively need \$2.5 trillion if they are to adequately overcome this crisis.<sup>7</sup>
- "COVID-19 is forcing governments, companies, and societies to strengthen their capacity to cope with extended periods of economic self-isolation."<sup>8</sup>
- The organizing principles of the international system that have become the norm in the last century are becoming unclear amidst the pandemic crisis. In the new geopolitical environment, it is increasingly becoming difficult for any single country to exercise its will.<sup>9</sup>

### **Useful Resources -**

*We highly suggest you take a look at these additional resources in order to deepen your understanding of the issues presented in this briefing paper.*

- ["IMF slashes its forecasts for the global economy and warns of soaring debt levels."](#) *CNBC* - Video (8:52)
- ["How a second wave of the coronavirus could impact global GDP and jobs, according to the OECD."](#) *Fortune* - News Article
- ["International Relations in the COVID-19 Era: Richard Haass on What Comes After a Pandemic."](#) *NPR News* - This article highlights main takeaways from an interview with the president of the Council on Foreign Relations

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<sup>5</sup> "IMF: New predictions suggest a deeper recession and a slower recovery." *World Economic Forum*, 2020.

<sup>6</sup> "IMF: New predictions suggest a deeper recession and a slower recovery." *World Economic Forum*, 2020.

<sup>7</sup> "A COVID-19 response for the world's poor." *Brookings Institution*, 2020.

<sup>8</sup> "How the World Will Look After the Coronavirus Pandemic." *Foreign Policy*, 2020.

<sup>9</sup> "World Order after Covid-19." *Center for Strategic and International Studies*, 2020.

## Glossary of Terms

Term	Description
<b>Consumer demand</b>	Economic term referring to a consumer's (person's) desire to purchase goods and services and their willingness to pay a price for a specific good or service.
<b>Developing countries</b>	Countries that do not have complex economic systems, often relying on agricultural, mining, or other natural resources for economic activity. Often these countries are poorer and seek to grow their economy advancing their economic systems and infrastructure.
<b>Domestic</b>	When used in the context of politics or economics, this refers to the policies, events, and interests within a country's borders (not concerning foreign countries).
<b>Economic nationalism</b>	A situation in which a country tries to protect its own economy by reducing the number of imports and investments from other countries.
<b>Foreign aid</b>	Money that one country voluntarily transfers to another, which can take the form of a gift, a grant, or a loan.
<b>Foreign investment</b>	Money flows from one country to another, granting the foreign investors extensive ownership stakes in a country's domestic companies and assets. Continued globalization means that multinational businesses increasingly have investments in a variety of countries.
<b>Foreign relations</b>	The relations of countries with each other and international organizations; Also referred to as foreign affairs or international affairs
<b>Geopolitical</b>	Connected with political activity as influenced by the physical features of a country or area, or with the study of the way a country's size, position, etc. influence its power and its relationships with other countries.
<b>Globalization</b>	The spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.
<b>International Monetary Fund (IMF)</b>	An organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

<b>Middle-income countries (MICs)</b>	Home to 75% of the world's population and 62% of the world's poor, MICs represent about one-third of global GDP and are major engines of global growth. MICs are a very diverse group by region, size, population, and income level, ranging from tiny nations, to all four of the BRIC giants (Brazil, Russia, India, and China).
<b>Nationalism</b>	An ideology based on the premise that the individual's loyalty and devotion to the nation-state (country) surpass other individual or group interests. Placing one nation above all others and placing primary emphasis on promotion of its culture and interests as opposed to those of other nations or groups.
<b>Per capita</b>	The amount of something per person in a specific area. For example, the number of hospitals per capita in a country.
<b>Recession</b>	A period of temporary economic decline in which levels of trade and production are reduced as to affect financial institutions. A decline in GDP over two quarters points to a country being in recession. (Ex. Many countries experienced two quarters or more of GDP decline during the 2008 Great Recession).
<b>Supply chains</b>	A network between a company and its suppliers to produce and distribute a specific product to the final buyer. This network includes different activities, people, entities, information, and resources. The supply chain also represents the steps it takes to get the product or service from its original state to the customer.
<b>World order</b>	A term describing the distribution of power among world powers and countries and the system of laws and norms that govern international institutions and relations.
<b>Zero-sum</b>	Of, relating to, or being in a situation (such as a relationship) in which a gain for one side entails a corresponding loss for the other side.