

PROSPECTS OF THE GLOBAL ECONOMY AFTER COVID-19

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The pandemic was one of the major global shocks, which affected all countries. It brought substantial challenges and led to a significant transformation of the global economy.

The book “Prospects of the Global Economy after COVID-19”, edited by Thorsten Beck and Yung Chul Park, shows prospects of the global economy by taking into account those pandemic-related economic and financial challenges. The book consists of three chapters, which were written by prominent economists.

Daron Acemoglu, author of the first chapter “Facing the challenges of the post-COVID world,” distinguishes four major existential challenges for the global economy, including the rise in inequality, climate change, population aging, and weakening of democratic institutions. The author also mentions a lack of global cooperation in the example of decreasing influence of international organizations, such as the United Nations and the World Health Organization. According to Acemoglu, these challenges provide opportunities for restructuring the current institutions more inclusively. To do so, it is important to re-assess the responsibilities and priorities of high-power businesses such as BigTech, which are mainly motivated by the maximization of profits and lack of responsibility. Acemoglu mentions that many of the challenges are technological in nature. For instance, inequality is fueled by automation, while industrial technologies pour out massive amounts of carbon emissions. Hence, the global economy needs a new direction of technological change. Global cooperation remains one of the key factors to address the aforementioned post-pandemic challenges such as misuse of digital technologies and surveillance, including excessive use of facial recognition. Acemoglu blames the ‘great power’ rivalry between the United States and China for decreasing the influence of international organizations.

To create a new model of ‘welfare state 3.0’, Acemoglu suggests developing a new framework for the regulation of technology and other institutional arrangements so that technological choices are not completely insulated from societal priorities. The new regulation should be complemented by a stronger social safety net, greater opportunities for children from disadvantaged backgrounds,

better health care, better infrastructure and better protection for disadvantaged groups. These institutions need to address inefficiencies of the early state institutions such as bureaucracy and involve the significant extension of the responsibility of the state. The private sector has to be at the forefront of technological change. However, new regulations must therefore push firms to be held accountable for their broader responsibilities – to the environment, to their workers and democracy.

Maurice Obstfeld wrote the second chapter of the book “The international financial system after COVID-19”. The author mentions that the pandemic became a stress test for the international financial system. Central Banks around the world played an active role and applied a wide range of policy instruments varying from standard interest rate cuts to large-scale purchases of domestic assets and measures to promote bank loans to businesses. Advanced countries provided massive monetary and financial stimulus to developing economies, which was beneficial for recipients. International banking sector reforms that followed the 2008–09 crisis and the euro area crisis, contributed positively to addressing the pandemic-related financial risks. Obstfeld proposes reforms to strengthen the global financial system, including the global financial safety net. There is a need for more thinking about financial stability risks coming from the areas besides bank sector such as the pandemic and climate change. He points out that the spread of innovative FinTech platforms also increases the risks, including from cybersecurity breaches. Obstfeld notes that despite some improvements, the current international architecture for external debt restructuring is inadequate, and calls for mandatory private-sector participation in debt restructurings.

Besides individual efforts of countries, global financial institutions and regional organizations also directed their efforts to address the crisis and mitigate its consequences. The International Monetary Fund proposed an Integrated Policy Framework that conceptualizes the use of monetary, fiscal and macroprudential policies as distinct instruments, and the approach of which was in line with the recent recommendations of a group of ASEAN central banks. The OECD also revised the Code of Liberalization of Capital Movements.

Despite the global financial situation impacting all countries, higher-income economies seem to absorb the resulting shocks more easily. Moreover, it is being mentioned that developing countries significantly benefited from the assistance from macroeconomic support policies of advanced economies. Thus, in order to address future challenges to global financial stability, in particular from non-financial risks such as the pandemic, it is important to strengthen global cooperation.

Editors of the book Thorsten Beck and Yung Chul Park are the authors of the third chapter “Finance for the post-COVID world: risks and opportunities”. In their chapter, they focused on digitalization in the financial sector, increasing sectoral competition and perspectives of financial technologies. They state that during the pandemic, governments used banks as transmission channels to support households and enterprises. Digitalization accelerated competition and traditional banks face increasing competition from new players such as FinTech startups, technological platform companies and cryptocurrencies. The pandemic caused a boom in e-commerce, which intensified the shift to digital payments and created opportunities for FinTech and BigTech companies to develop other

online financial services such as consumer credit, investment counseling and account management. Mobile and information technologies enabled quicker information exchange, better exploitation of economies of scale, use of 'big data' and applied statistics for financial risk measurement and management.

In the post-pandemic world, the authors predicted a process of 'creative destruction', when existing firms would transform their policies to develop new products and services, while new firms are created in sectors and industries with growth opportunities. Government support, keeping all firms' current structure alive, can become a significant obstacle to this process. Beck and Park note that financial innovations can both accelerate growth and increase the vulnerability of the financial system, while digitalization poses significant non-financial risks, which stem from the broader use of artificial intelligence in finance and overly automated or IT-oriented services, which may become targets for cyber-attacks.

Developed digital systems positively affect not only countries at the individual level, but are beneficial at the global scale. Digital financial systems of the countries may contribute to the addressing of the climate change issue. According to estimates, carbon emissions per capita are lower in economies that are relatively more market-based than bank-based. Thus, global financial and digital cooperation remains key for addressing future challenges.

The book stands out with its analysis on the post-pandemic perspectives of the global economy based on a wide range of important factors such as technological changes, digitalization, globalization COVID, financial development, institutional and demographic changes, involvement of private sector and global cooperation. The findings of the authors, based on comparative analysis, and statistical and econometric methods, contribute to addressing many important issues and challenges at country and global levels, including inequality, climate change, and potential non-economic shocks. The recommendations provided in the book are useful for developing a new generation of welfare states. This book is beneficial for policymakers and scholars. Policymakers can find and apply the practical suggestions of prominent economists. Scholars, in turn, may extend this research. In particular, the future study may analyze and evaluate the post-pandemic behavior of labor markets, migration processes, and development in different sectors such as energy and manufacturing. Thus, this book can be considered one of starting points for comprehensive reforms and future academic research.