

The **IMTe™** Reports

Dr.-Ing. Ioannis M. Theologitis
IMTE Consulting Ltd. – Athens, Greece

COVID-19 (2) **A sociopolitical and economic perspective ...** **Pride and futility in a technological age ...**

IMTe™ Situational Report – 2/2020
April 2020

COVID-19 (2)

A sociopolitical and economic perspective ...

Pride and futility in a technological age ...

It's not what you don't know that gets you into trouble, but rather what you think you know with absolute certainty, which then turns out to be wrong!

Epidemics from distant countries are nothing new. In the 14th century, the plague spread out across Europe and China via the Silk Road. But what took years or decades at the time is now happening in weeks and months. What is emerging as the center of power during the present crisis is the *nation state*, which has the organizational and political resources that international communities, supranational or international organizations lack, in order to respond quickly. Although borders have in effect been erected again, i.e., the EU borders, the present Covid-19 crisis could lead to an innovation boost in cross-border services, while the nation state makes a glorious comeback. In Europe, the pandemic could become the catalyst for some drastic structural and organizational changes long overdue within the EU and reinvigorate the spirit of integration of the European family of nations.

Nothing like this has happened in our recent history resembling the present pandemic. There are virtually no people now living who could have experienced the Spanish flu, so the general description applied by the media is that of *war*. For many years alerts about an oncoming pandemic had been sounding from scientific centers, but also about what had not been done in the coordination of states and in the proper management of globalization to be able to withstand such a crisis with minimum losses. In a major crisis such as the present, centralization makes things easier and faster: this means maximum automatic transfer of power to the State, which is what is happening today. This could pose a danger to democracy once things return to normal, since out of the experience of the handling of such a crisis, the theory may arise that if governments have been effective dealing with a global health threat efficiently under a centralized regime, then they may be tempted to do this for any other sector of economic activity – a direct challenge to western liberal thought and order which has governed the world for the past 75 years. Nevertheless, free market principles in a world moving ahead at an ever faster pace may ultimately continue being the driving force of a different kind of globalization. The Covid-19 pandemic will most probably lead to an enhanced level of global transparency, intensive diplomacy, international and transnational institutional collaboration and global communication and networking. Global priorities, agendas, and even the known world order, will be in the early stages of a reconstruction process to be accelerated by other challenges over the course of this decade.

The West should watch China carefully as this could be the time when China could and may already be trying, through a soft power strategy, to take the world leadership from the US or at least emerge as a permanent leading global power center shaping a new world in the making. China has both a tactical and a long-term planning strategy. Its planning does not have emotional strings attached to it. SARS-CoV-2 probably originated in Wuhan/China, transmuting from the animal to the human world, or by scientific accident, negligence, poor sanitary conditions in food markets or for any other reason. For China the SARS-CoV-2 pandemic may present an opportunity to sideline President Trump and his undesired trade deals and to advance China's likely ambitions to take the leadership on the global stage, through a multidimensional asymmetric soft strategy (while at the same time expanding its resources for military supremacy at growth rates

unprecedented in human history). If one looks at the UN system as a whole, China has been growing its influence there for years, filling a vacuum created by Washington's demonstrative lack of interest in multilateral forums. China is pursuing a targeted human-resources policy, endeavoring to have its own representatives head UN sub-sections, with a growing level of success, as four out of fifteen UN technical organizations are currently being managed by the Chinese. Asian countries are trying too, with a certain level of success, to turn this pandemic into an opportunity to enhance their position and their soft power and fill the diplomatic vacuum left by generally reluctant US foreign policies. Asian nations are already emerging from the worst and in selective cases offer brilliant examples of effective responses to this global health crisis. Lastly, Asian countries, led by China, have a vested economic interest in restoring the continent's markets. The greater resilience of Asian companies and their disciplined governments and populations, all this will bolster Asia's reputation and will most probably translate into increased foreign future investments. The West should probably be looking eastward for solutions to this crisis regardless whether the virus originated in Asia, as most evidence seems to indicate, or not.

Strategists and policy makers, predominantly in the US and in Europe along with their allies, should seriously contemplate the possibility that if the West through the Covid-19 pandemic is thrown into disarray in terms of both global policies and effective coordination strategies, it will simply lose the ideals of liberalism and enter a new epoch where China could become a key if not the leading determinant of global events in the economic, political, social, and cultural spheres, with an entirely new world governance model. Although these may at first sight seem farfetched scenarios, they are, however, definitely worth contemplating. We strongly hope and believe that ultimately the US, Europe, and other western powers will coordinate their actions to successfully deal with the present pandemic, with some positive signs towards that end already on the horizon. History teaches that an emerging superpower cannot prevail only through military might along with economic and technological means - culture is equally important including, values, ethics, tradition, and so much more. As China is engaging in a *politics of generosity* and with the public relation efforts by Chinese President Xi Jinping to portray his country as the world's new humanitarian superpower, a certain level of distrust is being observed globally as to the true motives and the consequences of such openings by the Middle Kingdom. China may probably also be facing another critical problem: a second run of the coronavirus epidemic domestically, as workers from closed factories infected by SARS-CoV-2 go back to work and reinfect others. It is however too early to form any judgment as to such a development; after all, this is a problem any other country may be confronted with. Ultimately, despite China's efforts, the West may simply not be prepared to accept a Chinese model of world governance because of profound cultural incompatibility. It is also premature to accept the potential of a permanent decline of the West. Nevertheless, strong indications and alarm bells are here to remind us that this is a battle for world supremacy and the battle is in full force on all global fronts.

Most major world economic blocs will experience a temporary decline in economic output which, in percentage terms, could exceed the dimensions of the Great Depression. In this environment, it is only natural to attribute the turbulence in the global economy and the financial markets solely to this particular coronavirus. But that would be wrong. The global economic system that has developed over the past thirty years is a kind of monoculture, which nature dislikes. World history contains innumerable examples of humanly created, monolithic concepts and policies that have turned out to be highly fragile. Specifically, three global weaknesses are now coming to the surface: firstly, the system of globally branched, *just in time* supply chains. Second, the widespread notion among

managers and investors that company balance sheets can be optimized mainly with the help of debt. Third, the prevailing views shared by central banks, that the business cycle and the credit cycle could be finetuned to an extent that recessions are prevented in perpetuity, while financial markets are adequately protected from accidents – and lastly, one additional point, the fallacy of a precisely controlled inflation rate preset at some arbitrary target e.g., just under 2%. *Optimization taken to an extreme leads to fragility, while permanently perceived stability bears the seeds of instability.* In an after SARS-CoV-2 world, the focus will inevitably shift from optimization to *robustness of supply chains*. This will cause rising costs, thinner profit margins and higher prices. Central banks have already reached the end of a trip they started some decades ago. Most probably the next chapter – not imminent – will be *inflation* (at present no such danger in sight due to the temporary absence of demand). Inflation usually arises when aggregate demand exceeds aggregate supply. With their protective monetary shields and rescue packages, the governments and central banks are helping to ensure that as many companies as possible survive this difficult phase, that supply chains are secured, and production capacities are preserved. They are already succeeding in doing that. Expansionary measures taken by the Fed, the ECB, the Bank of England, and other central banks may avert a global shortage of credit and temporarily exert a dampening effect on inflation. If, once the crisis has abated, emergency liquidity is gradually withdrawn (something we have serious doubts will happen in a debt loaded world), a return of inflation could be averted. Every crisis, however, presents opportunities. The positive opportunity offered by 2020 is that a single-stranded RNA virus of 60-140 nm in diameter with the name Sars-CoV-2 may open the way to a more robust global economic and financial system.

After all, a crisis originating through a financial, health, war, environmental, or any other event (barring an event of apocalyptic proportions), always remains a crisis which will run its course and subside. At present, the world is watching, with bated breath, a horror-show coming alive on TV screens and other monitors on a daily basis. The perceived scenario is that we have a catastrophe which is never-ending, which is, in fact, a subjective emotional view and a fallacy in terms of logical thinking. The present crisis as every other crisis has a starting and a specific end point and probably the latter already measurable according to historical precedents and other scientific data. A drop up to 35% in world GDP for the 2nd quarter of 2020 could serve as a rough indication for the global economic effects of the SARS-CoV-2 pandemic. It could be that a subdued further drop of GDP is registered for the 3rd quarter with a rebound of economic activity from the 4th quarter of 2020 onwards. Longer-term, the world will potentially face an inflationary comeback due to the unprecedented expansion of the money supply, the targeted fiscal stimulus, and, most likely, measures to allow the banking system to distribute huge amounts of cash into the hands of lower-income families and small businesses that will spend it. Potentially, a weaker dollar, will also contribute to reflation, not only for the US, but also the world. For the time being, the forced liquidation of assets over the past month may largely be behind us. Austria is paving the way as the first European country to come up with a comprehensive plan to gradually revive economic and social activity in the country. That is exemplary, neither premature nor torpedoing the pandemic containment health policies: hopefully other European nations will follow. Once all problematic areas regarding interest rates, monetary and fiscal policies, money supply, and other potential new barriers have been addressed and continuity has been established – a point we are not far away from in our view – markets worldwide will have already priced in the next day, which inevitably means good news.

As the coronavirus pandemic spreads and develops, but moving towards a more mature phase, at least throughout the western world and most of Asia, investors should carefully consider both political, monetary and fiscal forces before accepting a generalized depressionary and deflationary environment. In fact, throughout the West if not throughout the entire world, massive monetary and fiscal intervention (the latter to follow with a time lag) *may create a generational investment opportunity in US and European high-quality corporations*. The SARS-CoV-2 virus pandemic opens up windows of opportunity for those institutions, managers, or investors who have the ability to guide their analytical thinking skills objectively and away from emotion and crowd behavior. Those who understand those principles and do not remain passive due to emotional factors, mainly overprotective sentiments or fear, will already recognize through the present crisis the opportunities opening up mainly in the best world businesses, regardless of whether traditional or high-tech. With fixed income investments having little if any further room to deliver any meaningful returns, the only avenue for reasonable growth remains the best high-quality value companies, companies that are making or have made the transition to the new *Industry 4.0* norms as well as the digital/ chip technology corporations without which the world can simply not function. With most banking/financial institutions, asset managers and economists predicting a bear market rally to follow the first positive sign of an ebbing of the Covid-19 pandemic, very few are expecting *a massive new bull market* that could – with high volatility at times and ups and downs – last through this entire decade. The overriding fact is that a major part of this decade will witness a number of serious crises, contractions and intermediate economic growth periods, as a global power struggle for world dominance culminates within the latter second half of this decade. Consequently, in terms of investment strategy, one either remains passive for the better part of the decade holding large amounts of liquidity, in which case economic returns on investments over this decade will in the very best case be mediocre, or one *follows dynamically the patterns of change and evolution, actively participating in the mini-cycles of crises and opportunities with a well-designed constantly adjusted protection strategy*, in which case substantial economic rewards can be reaped even in this highly turbulent period.

Political, economic, scientific, and media world power centers function on the basis of an ability to project and validate certainty in respective activity spheres. In the present coronavirus pandemic, death has been serialized and televised 24h a day in statistical numbers and has, sadly, become part of the daily routine of news watching. In the meantime, numerous other humanitarian crises induced by famines, wars, malnutrition, political repression, human rights violations, genocide, etc. take place on an ongoing basis around the world, but no one seems to care, because those crises are not touching the fabric of life in the western world where material wellbeing has become the central aim of life and something taken for granted. The present Covid-19 crisis has shaken political elite centers due to the *unpredictability* of the onset of this major global health challenge. In a world racing relentlessly towards no visible worthwhile goal but merely more wealth, more prosperity, and an ever more super-technological society, *a digital idolatry* perceived as capable of making humans immortal is a dangerous fallacy. In fact, the present global pandemic has acted as the extension of the invisible hand of God upon humanity, benevolently giving humanity the option to stop and think and reconsider overall goals, ideals, and beliefs for a better understanding of human limits within a finite physical world.

And so the story of the human race moves on, on an ever-repetitive cycle of crises and opportunities, times of joy and times of sorrow and despair ... with continuous scientific progress but diminishing spiritual enlightenment. The latter is the product of our deepest contemplation and thinking on the levels of both *heart*

and soul. Times of disaster and shock, if accompanied by good will and a positive disposition, mobilize those forces directing them into new trajectories. Spiritual action points to another dimension outside our physical world, that of eternity in a cosmic universe that has not been created by some self-generating process out of stellar dust, but with good purpose and an everlasting beneficial effect for the human race. This is the invisible, *though visible not as to its nature but as to its effects only*, hand of God, guiding all laws of creation, Whose gifts for humanity are multifold, including our present scientific and technological progress, with a mandate to put all to work for benevolent causes – something the world is more and more distancing itself from. Unless we as human beings abandon our highly selfish, self-centered material way of thinking, those avenues will sadly remain out of reach.

Sources, References & Further Reading

<https://www.imte.gr/reports.htm> IMTe, The IMTe Reports, *Aspects of an Emerging World B. Times of conflict ...*, March 2020
Berenberg, Makro March 2020
BERGOS BERENBERG MACRO NEWS Dr. Holger Schmieding, April 2020
<https://besacenter.org/> BESA
<https://biology.stackexchange.com/> Biology Stack Exchange
Chang C. Gordon, *The Coming Collapse of China*, Random House, 2001
<https://www.getabstract.com/> {getabstract/ getContext 30.03.2020
<https://www.gatestoneinstitute.org/> GATESTONE
Hans A. Bernecker Börsenberiefe GmbH, Die Actien-Börse, Detmold, Germany
<https://www.iefimerida.gr/> iefimerida, Interview with Romanos Gerodimos, Principal Lecturer in Global Current Affairs, Faculty of Media and Communication, University of Bournemouth, 30.03.2020
John Mauldin, *Thoughts from the Frontline – Notes from Lockdown*, April 4, 2020
<https://www.morganstanley.com/> Morgan Stanley
<https://www.newmoney.gr/> newmoney 29.03.2020
<https://www.nzz.ch/> NZZ
<https://themarket.ch/> NZZ the market 3.04.2020
Shipping & Finance, International Shipping Media, March 2020, Athens, Greece
<https://en.wikipedia.org/> WIKIPEDIA
<https://www.zerohedge.com/> ZeroHedge

Important Notice

This report has been prepared exclusively for informational purposes. For the purposes of this legal notice it is understood that this report with all attachments hereto forms one integral and single communication which may be referred to as "communication" "report" "website" or any other corresponding designation. It does not constitute a financial analysis, consulting of any type or a recommendation for the purchase or sale of financial instruments. The information contained therein relies among others on independent sources and is only current as of the day of this present communication. We can neither accept responsibility nor make guarantees for the correctness or completeness of this information. This communication is not a substitute for legal, fiscal, financial advice or other professional advice. Before taking any business or investment decision or completing a financial transaction we strongly recommend seeking the advice of a qualified professional. This communication is only intended for individuals who are not subject to a legal restriction which prohibits the sending of these documents.

The present report may refer to web sites of third parties through corresponding links. Said links are quoted in this report solely to facilitate readers of said report, while the web sites to which said links refer to, are subject to the terms of use of the corresponding web sites. The quoting in this report of said links does not in any way or form imply the approval or acceptance of the content of the corresponding web sites from the author of this report, who in no way bears any responsibility for the content, practices of protection of the confidentiality status, or the accuracy of said data/ information or material within said web sites. If the reader of this report decides, through the quoted in this report links, to utilize any of the corresponding web sites of third parties, he automatically accepts that he is doing so in his own entire responsibility. The present report and the attached hereto material, may refer to external links of third party providers. To utilize said external links you have to accept the prevailing at any given time terms and conditions of the corresponding external providers, to which the present report refers to through said links. We deny and reject any responsibility for whatever damage may occur directly or indirectly, including whatever loss or damage may occur from internet viruses or malignant material that may affect your overall IT hardware, software systems or data or the validity of information you have acquired through this report and/or attached material hereto.

The information in this report is not a substitute for legal, fiscal, financial or other professional advice. The content of the present report is provided on an "as is" basis without any type of warranty, stated or implied. Any warranties and/or representations are strictly subject to contract. The present communication is confidential and privileged. If you are not the intended recipient, please notify us immediately by reply email at imt@imte.gr or by phoning +30 210 68 97 150 and return this communication to us. This report is strictly intended for the personal use of its recipient. Amending, copying, distributing, publishing as well as utilizing it for any other than personal informational purposes without the prior written authorization of IMTE Consulting Ltd. or Dr.-Ing Ioannis M. Theologitis is prohibited. IMTE Consulting Ltd. is a limited liability company registered under Greek law in Athens and provides a wide range of business, economic and strategic consulting services on an international basis. Dr.-Ing. Ioannis M. Theologitis is a strategic economic adviser offering his services internationally.

Your personal confidentiality is important to our Company. All Personal Data are collected and undergo processing in accordance with the Greek and European Union legislation regarding the protection of Personal Data. For more information with regard to the manner in which your Personal Data are processed, please refer to "**PERSONAL DATA PROTECTION POLICY**" at our website www.imte.gr.

Copyright

IMTE Consulting Ltd. (IMTE) and Dr.-Ing. Ioannis M. Theologitis reserve all the rights in this document. No part of this document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without IMTE or Dr.-Ing. Ioannis M. Theologitis prior written consent.

Copyright 2020 © IMTE Consulting Ltd. @ Dr.-Ing. Ioannis M. Theologitis

Athens, Greece – April 7th, 2020