

THE NEW NORMAL IN ASIA

A National Bureau of Asian Research series exploring ways in which the Covid-19 pandemic might shape or reorder the world across multiple dimensions

The “New Normal

Thoughts about the Shape of Things to Come in the Post-Pandemic World

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April 18, 2020

Though we are as yet barely weeks into the Covid-19 pandemic, what should already be apparent is that it has precipitated the deepest and most fundamental crisis for Pax Americana that this set of global economic and security arrangements has faced in the past three postwar generations.

We are still very much in the “fog of war” phase of the calamity. The novel coronavirus and its worldwide carnage have come as a strategic surprise to thought leaders and political decision-makers alike. Indeed, it appears to be the intellectual equivalent of an unexpected asteroid strike for almost all who must cope in these unfamiliar new surroundings. Few had seriously considered the contingency that the world economy might be shaken to its foundations by a communicable disease. And even now that this has happened, many remain trapped in the mental coordinates of a world that no longer exists.

Such “prewar” thinking is evident everywhere right now in the earliest phase of what may turn out to be a grave and protracted crisis. Here in the United States, we watch, week by week, as highly regarded financial analysts from Wall



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Street and economists from the academy misestimate the depths of the damage we can expect—always erring on the side of optimism.

After the March lockdown of the country to “flatten the curve,” the boldest voices dared to venture that the United States might hit 10% unemployment before the worst was over. Four weekly jobless claims reports and 22 million unemployment insurance applications later, U.S. unemployment is already above the 15% mark: north of 1931 levels, in other words. By the end of April, we could well reach or break the 20% threshold, bringing us to 1935 levels, and 1933 levels (25%) no longer sound fantastical. Even so, political and financial leaders talk of a rapid “V-shaped recovery” commencing in the summer, bringing us back to economic normalcy within months. This is prewar thinking, and it is looking increasingly like the economic equivalent of talk in earlier times about how “the boys will be home by Christmas.”

This is moreover a global crisis, and vision has not yet focused on the new realities in other leading powers and major economies. If we try to take an unflinching measure of the impact globally, we can see both good news and bad news—although the two are by no means equally balanced.

The good news is that policymakers the world over have learned from the prewar Great Depression and are unlikely to repeat its exact mistakes. Instead of reducing the money supply and forcing bank collapses, the U.S. Federal Reserve this time is flooding the world with liquidity. Likewise, U.S. fiscal policy, far from attempting to impose further austerity on an already imploding economy through balancing budgets, is embracing Keynesianism with an abandon that might have startled Keynes himself. Given the “stimulus” packages already passed in the last month, this year’s U.S. budget deficit to GDP ratio is already certain to be of World War II scale. And, at least so far, no emanations of Smoot-Hawley-like

impulses are on the policy horizon. Last time around, protectionism had devastating reverberations on an already severely stressed international trade and financial system. Confidence in U.S. and international economic management of the current crisis, at least for the time being, is reflected *inter alia* in the surprisingly sanguine valuations of the stock indices both in the United States and abroad.

The bad news, on the other hand, lies in the nature of the virus itself and in its implications for human life and socioeconomic arrangements. Covid-19 is an extremely contagious virus with high lethality for those exposed to it, and it can be transmitted by asymptomatic “super spreaders.” Further, since this disease is zoonotic (contracted from another species) and novel (our species has no preexisting immunity), the pandemic will roam the world in search of human quarry until an effective vaccine is invented and mass-produced—or until so many people are infected that herd immunity is conferred.

A Darwinian experiment to invite global herd immunity is unthinkable because it could entail untold millions of deaths. New vaccines, for their part, typically take many years to develop. Barring some miracle, even a crash program to perfect a vaccine is currently expected to take at least a year, and it could be a year and a half or longer before a serviceable serum is generally available to the public. Reports now emanating from South Korea, moreover, suggest that survivors might also be susceptible to reinfection. If so, the quest to come up with a lasting inoculation against Covid-19 may be all that much more daunting.

Consequently, societies the world over face the prospect of rolling lockdowns and quarantines until such time as a technological breakthrough rescues them from this condition. This would

seem to mean that not just a single national lockdown of a country's population and economy is in store to fend off mass contagion but rather quite possibly a succession of them—not just one mother-of-all-economic-shocks but an ongoing crisis that presses economic performance severely in countries all around the world simultaneously.

The potential downside of this crisis looks dire enough for affluent societies: even with excellent economic management, they may be in for gruesome recessions, both painful and prolonged. But the situation for the populations of low-income countries—and for least-developed, fragile states—could prove positively catastrophic. Not only are governments in these locales much less capable of responding to pandemics, but malnourished and health-compromised people are much more likely to succumb to them. Even apart from the humanitarian disasters that may result directly from raging outbreaks in poor countries, terrible indirect consequences may also lie in wait for these vulnerable societies. The collapse of economic activity, including demand for commodities, such as minerals and

energy, will mean that export earnings and international remittances to poor countries are set to crash in the months ahead and remain low for an indefinite period. Entirely apart from contagion and lockdowns, this can only mean an unavoidable explosion of desperate need—and under governments least equipped to deal with this. While we can hope for the best, the worst could be much, much worse than most observers currently imagine.

Eventually, of course, we will emerge from the current crisis. Envisioning the post-crisis “new normal” is extraordinarily difficult at this early juncture—not that much less demanding, perhaps, than imagining what the postwar world would look like from the vantage point of, say, autumn 1939. Lacking clairvoyance, we can only peer through the glass darkly at what may be the shape of things to come in the post-pandemic order. Yet it is not too soon to offer one safe prediction about that coming order, and to identify three critical but as yet unanswerable questions, the answers to which promise to shape it decisively.

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The safe prediction is that the Indo-Pacific, then as now, will be the locus of global economic, political, and military power—and will remain so for at least the coming generation, possibly much longer. Currently, countries belonging to the Asia-Pacific Economic Cooperation (APEC) account for as much as 60% of the world's estimated GDP and close to half of global trade. If we add India, which is not an APEC member, to that roster, the economic predominance of the region looks even more overwhelming. APEC plus India likewise accounts for much—perhaps most—of the ongoing knowledge production in the world today. By such necessarily imprecise measures as publications in peer-reviewed scientific journals, authors from the APEC-plus-India region are responsible for about three-fifths of current global output. The only state with truly global military capabilities (the United States) is part of this region, as are the only other two governments entertaining global strategic ambitions (China and Russia). In addition to these countries, India and (alas) North Korea are nuclear weapons states. For the moment, the combined nuclear potential of all nuclear powers outside the APEC-plus-India region (France, Britain, Pakistan, and Israel) is dwarfed by the atomic arsenals within it.

Barring a catastrophe of truly biblical proportion (a formulation that may admittedly seem to be tempting fate, given current circumstances) it is impossible to see what configuration of states or regions could displace the Indo-Pacific as the epicenter of world power anytime soon. Someday Africa might in theory become a contender for geopolitical dominance, but that date looks so distant that such scenarios for now are perhaps best narrated by science fiction writers.

As for the questions that stand decisively to shape the coming global order, the first concerns the scope and character of what we have been calling “globalization” in the years and decades ahead. Will the Covid-19 pandemic bring a brutal end to the second age of globalization that began in 1945, just as World War I heralded the cataclysmic death of the first globalization (1870–1914)?

At this early point in the crisis, it would take a brave (or foolish) soul to assert confidently that an end to our current far-reaching arrangements for world economic integration simply could not happen. That said, at least for now, it would look as if a lot of things that have not yet gone wrong would have to go wrong, and at the same time sweep away the foundations (and memory plastic) for the networks of trade, finance, communications, technology, culture, and more that have come to deeply connect societies all around the world today. Not much less than a continuing, cascading, and unabated series of worldwide political blunders—not excluding military adventures—would be required to burn this edifice to the ground.

On the other hand, it is also hard to see how a post-pandemic world will pick itself up and carry on with commerce, finance, and global governance as if nothing much happened around the year 2020. Even under the optimistic assumptions—i.e., the assumptions wherein the second age of globalization survives Covid-19's heavy blow—much will need to be dramatically different. Until the advent of some biometric, post-privacy future, the more or less free movement of peoples across national borders will be a nonstarter. “Davos” stands to become a quaint word, somewhat like “Esperanto,” as national interests and economic nationalism come roaring

back. International supply chains will tend to be resourced domestically, notwithstanding the immediate apparent cost in terms of production and profits. At the same time, today's crisis may explode and wipe out old inefficient business models that had already outlived their usefulness: the "big box" store and retail malls, the unproductive (but sociologically alluring) office, the law firm (with its Soviet-style valuations of its services on the basis of inputs rather than outputs), perhaps the cartelized, price-fixing university as well, and more.

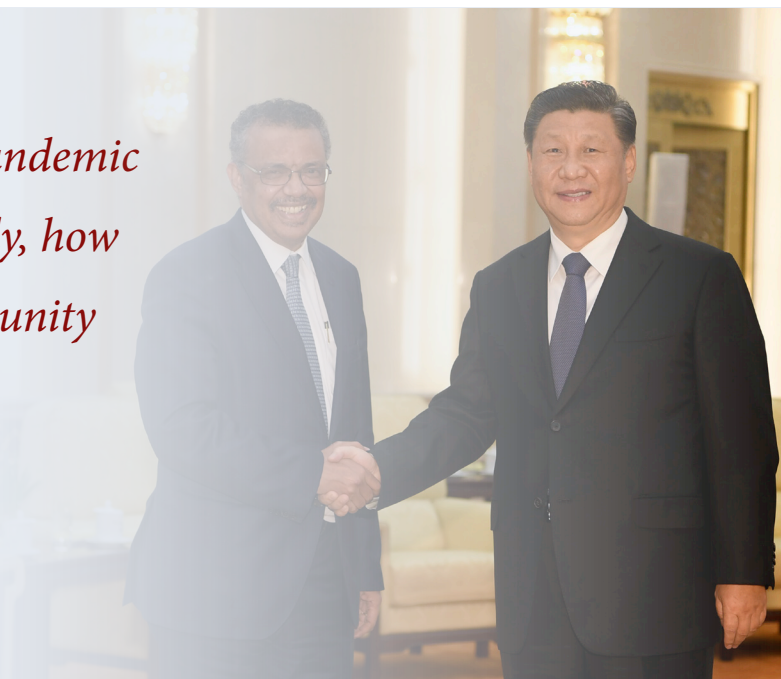
On the positive side, the creative destruction the crisis will unleash will eventually offer immense opportunities for innovation and dynamic improvements in productivity, so long as resources from inefficient or bankrupt undertakings are reallocated to more promising new purposes. To give just one example, the returns on remote communications will likely be high, incentivizing impressive breakthroughs. Post-pandemic economies around the world will need all the productivity surges they can squeeze out of technological and organizational innovation, too—for they will almost certainly be saddled with a far higher burden of

public debt than today. Moreover, given current demographic trends and the prospect of significantly less immigration, the shrinking of labor forces and the pronounced aging of national populations may be characteristic of a growing number of economies in the APEC-plus-India region and the rest of the world, and not just in high-income settings. Japan may become a model here, but not in a good way: avoiding "Japanification" could become a preoccupation of policymakers, pundits, and populaces in an epoch of diminished expectations for globalization.

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The world has yet to conduct the authoritative blue-ribbon scientific inquiry into the origins of the coronavirus pandemic that is obviously and urgently needed. However, there is little doubt that heavy responsibility for the global health and economic crisis we are now coping with falls on the Chinese Communist Party (CCP)—and to a lesser but by no means negligible degree, on China's collaborators within the World Health Organization. Had

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the CCP placed its population's health above its own—had it behaved like an open society or followed international transparency norms—there is no question that the global toll from the Covid-19 pandemic would only be a fraction of what has been exacted to date. Epidemiologists from the University of Southampton in the United Kingdom have suggested that the damage might have been contained to just 5% of what we have thus far suffered with an expeditious (and honest) response to the Wuhan outbreak. If that estimate is overly precise, it nonetheless gives a sense of the price the world has paid for the CCP's priorities and standard operating procedure. We also already know of the complicity of the World Health Organization at its highest levels in buying time for Beijing as the regime figured out how to spin the story of what happened in Hubei Province.

It would be one thing if this crisis were a one-off—dreadful as the tragedy would be. The problem, unfortunately, is that it is not a one-off, and in fact cannot be. At the heart of the tragedy is an uncomfortable but unavoidable truth: the CCP simply does not share the same interests and norms as the international community into which it has been so momentarily and thoroughly integrated. Moreover, there is scant evidence that integration into the world economy and global governance has been “reforming” the Chinese regime, in the sense of bringing its politics and behavior into closer alignment with those acceptable to Western populations. Quite the contrary: in the Xi Jinping era, China's politics have manifestly been moving away from convergence as the regime has concentrated on perfecting a surveillance state policed by “market totalitarianism” (a social credit system powered by big data, artificial intelligence, and more).

Thus, the post-pandemic world will have no choice but to contend at last with a problem long in the making: the awful dilemma of global integration without solidarity. China is deeply interlinked with every APEC-plus-India economy and with those of the rest of the world as well. Chinese interests are likewise deeply embedded in much of the institutional apparatus that has evolved to facilitate international cooperation. How will the rest of the countries in the international community manage to protect their interests (including health security interests, but by no means limited to this alone) in such a world? Will it be possible to accurately identify and carefully isolate all the areas in which win-win transactions with the CCP are genuinely possible and cordon off everything else? Or will the CCP's authoritarian influence compromise, corrupt, and degrade these same institutions, and likewise constrain or poison opportunities for truly free international economic cooperation and development after the Covid-19 pandemic?

Last, but by no means least important, there is the question of the United States' disposition in a post-pandemic world.

Even before the Covid-19 crisis, it was not exactly a secret that the United States—which is to say, Americans—was becoming increasingly reluctant to shoulder responsibility for world leadership in the global order that Washington had been instrumental in creating and that U.S. power was indispensable in supporting. The skepticism and disfavor with which American proponents of internationalism were increasingly greeted at home, however, was not entirely explained by the deep historical roots of isolationism in our country. Nor can it be dismissively described as yet another paroxysm of paranoia and anti-intellectualism on the part of

the yahoos, as would-be Hofstadters from today's chattering classes would like to have it.

Such discontent with our nation's considerable international obligations skews strongly with socioeconomic status. For those in the bottom half of the country, grievances with the status quo (which not so incidentally includes a strong political commitment to Pax Americana) are by no means delusional. Over the past two generations, the American escalator has broken down for many. Just before the Covid-19 crisis, at the supposed peak of a business cycle, work rates for prime-age American men (the 25–54 age group) were slightly lower than they had been in 1939, near the end of the Great Depression. It is hardly reassuring that this alarming situation has attracted relatively little attention from the talking and deciding classes (many of whom are shielded from personal familiarity with how the other half lives by Charles Murray's famous bubble).

Scarcely less disconcerting than the work rates for American men are the dismal trends in wealth formation for the less well to do. According to estimates by the Federal Reserve, the mean real net worth for the bottom half of households in the United States was lower in 2019 than it had been in

1989 when the Berlin Wall fell. By these estimates, in fact, the net worth of such households was at least a sixth lower in 2019 than it had been three decades before. Voters from these households might be excused if they were prompted to ask what the fabled “end of the Cold War” had done for them. Recall that these same Americans witnessed a decline in net household worth in a period when overall nominal net worth in the United States soared by almost \$80 trillion—an average of almost \$250,000 for every man, woman, and child in our country today. Since the arrival of Covid-19 on our shores, the net worth of the bottom half of Americans has dropped still further, as their indebtedness has risen and the value of their assets (mainly homes) declined. It could be quite some time before the balance sheets of those homes look as “favorable” as they did in 2019.

In the United States, the constitutional duty to obtain the consent of the governed obtains for the little people, too, even if they happen to comprise a majority of voters. And in a post-pandemic world, it may be even more difficult to convince a working majority that the globalized economy and other international entanglements actually work in their favor.

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If U.S. leaders wanted to generate broad-based domestic support for Pax Americana, they need to devise a formula for generating prosperity for all. Such an agenda, of course, would win on its own merits, with or without an eye toward international security. Absent such a credible agenda, popular support for U.S. international leadership could prove increasingly open to question in the post-pandemic United States. The peril that declining domestic U.S.

support poses to the current global order should not be minimized. If or when Pax Americana is destroyed, its demise may be due not to threats from without but rather to pressures from within. ∞

Correction (June 18, 2020): An earlier version of this essay stated that the real net worth for the bottom half of households was a third, rather than a sixth, lower in 2019.

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