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Social and Economic Consequences Emanating from the Coronavirus

J. Patrick Bradley »

Introduction

There's nothing prophetic about saying the coronavirus will change the way we live and conduct business. Unemployment will rise, and some of that increase will create permanent joblessness. Some businesses will fail, despite the efforts of monetary authorities and governments to replace the income lost and to stem the spread of the virus. We have to wonder whether or not governments will come under pressure from citizens straining under the lockdown, who have lost jobs, and have found it increasingly difficult to feed their families.

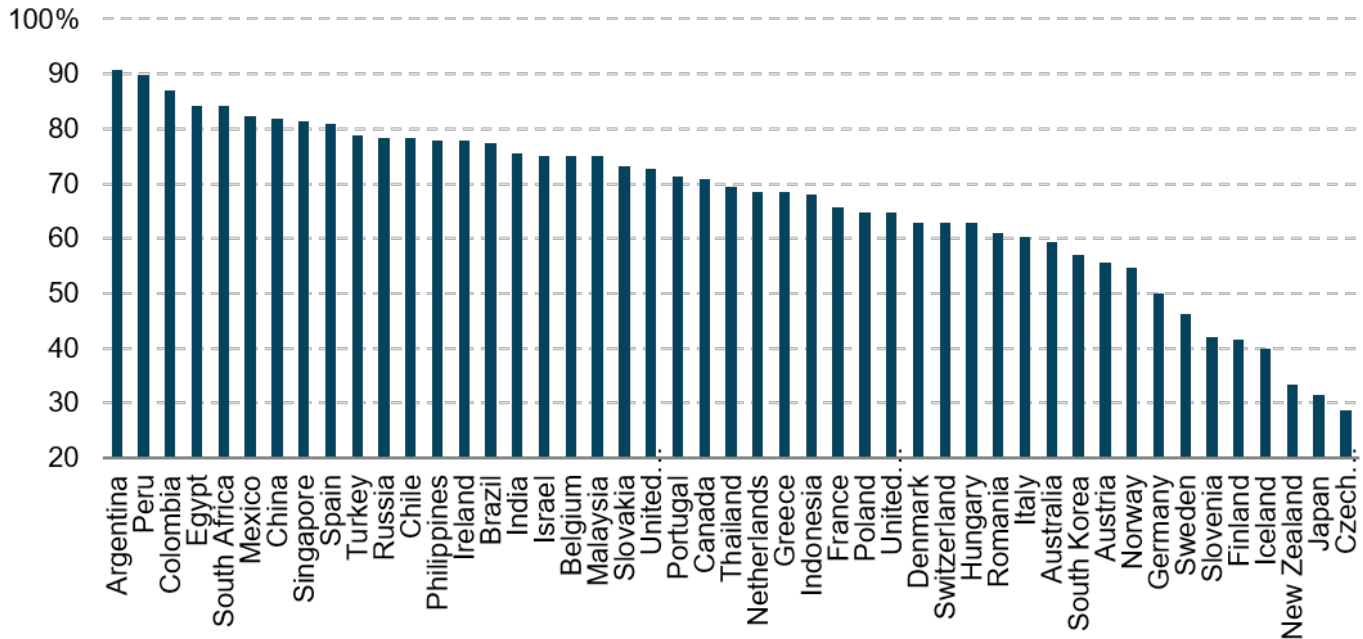
No Conclusion is Too Far-Fetched

Many parts of the world have been under mandated lockdowns and the services sector has been especially hard hit, like restaurants and tourism. Only essential services have been permitted to operate. This has led to protests across the globe...tensions are rising.

1

Stringency Index

Index (0-100), As of 6/8/2020



Source: Oxford COVID-19 Government Response Tracker.

In most developed countries, the strength of their institutions will allow a peaceful resolution to the lockdown dissents. However, the same peaceful resolution of conflict in emerging markets (EMs) may be different, where the strength and stability of institutions and government responses to the virus crisis might prevent a resolution of protests or civil disorder. **Chart 1** shows the stringency index, a measure of governmental responses to the crisis, including school closings, fiscal stimulus, and healthcare. Arguably, a higher stringency score would be an indication of aggressive country measures to stem the spread of the virus. In this chart, Peru shows the most aggressive policies, while New Zealand has the lowest—the latter has begun to slowly exit its lockdown. Aggressive policies, particularly in EMs, could contribute to social unrest and growing protests, which could exert a negative impact on a country's economy.

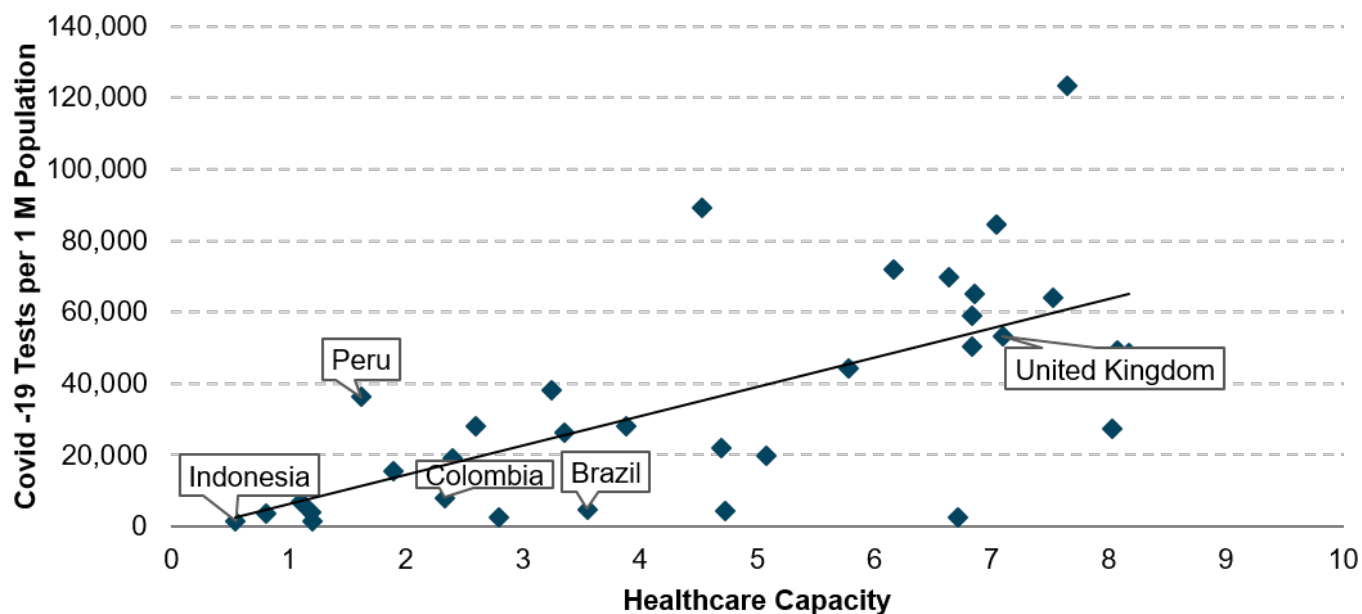
Protests have arisen as a response to government policies that locked down their economies. India and Iran are just two countries where citizens have reacted. In India, migrant workers staged protests. Thus far, police in many emerging countries have been able to restrict the protests. However, as incomes are hit and workers face unemployment and an inability to feed their families—particularly within a country's informal economy—protestors might defy their government "orders" and take to the streets. Inequality will rise. The lower income groups spend a larger portion of income on food, and rising prices will affect the poorest tiers the hardest, possibly exacerbating tensions. Finally, EM governments generally have not provided the same type of income support to their citizens that developed countries have. Further economic deterioration, could cause the protests to boil over, despite governments' curfew efforts.

ESG Factors and Risk

We can use our ESG factors to identify potential areas of risk; our source of ESG risk data is Verisk Maplecroft. First, since the driving force in the current world is the coronavirus, a good place to start is with a country's healthcare system, and then identify those countries at risk from a public health threat. Maplecroft has created a healthcare capacity index that assesses the ability of a country to react to a health crisis. That information is found in **Chart 2** below, where we show healthcare capacity graphed against COVID-19 tests administered.

Covid-19 Tests and Healthcare Capacity

Number of Tests per 1 M Population, As of 6/8/2020

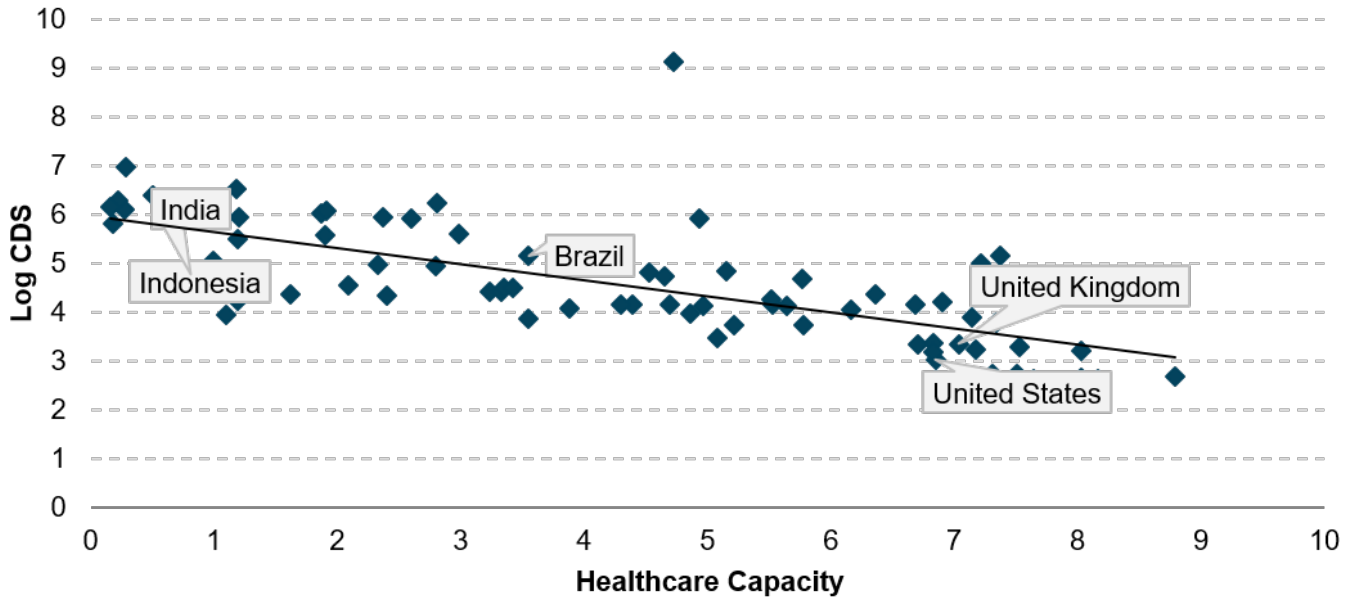


Source: Verisk Maplecroft, Wordometers, Brandywine

A low healthcare capacity risk score suggests a country is ill equipped to handle a pandemic. Latin America appears overly represented in the high-risk quadrant of the chart and includes Colombia and Peru. In Asia, Indonesia—according to this index—is also an extreme risk country. Brazil is a high-risk country, but the government's coronavirus response has jeopardized the country's public health. Population density in Brazil's favelas has enabled the spread of the virus. The rampant outbreak could raise the specter of growing social upheaval and civil unrest and pose a challenge for the government—particularly one that is generally conservative and dedicated its agenda to fiscal reform.

How does an investor make use of such information? A good question to ask is whether there is a correlation between the healthcare capacity index and a country's credit default swap (CDS), which is the relationship shown in **Chart 3**. A low healthcare capacity score of 0-2 suggests a higher CDS, while countries with higher capacities are rewarded with lower CDS. We don't believe the correlation is spurious, as a country with an inability to handle a pandemic crisis should pay more for its debt. That higher cost of debt diverts fiscal support for other areas of an economy, which could feed back into social tensions.

3 Healthcare Capacity and CDS Log, As of 4/8/2020



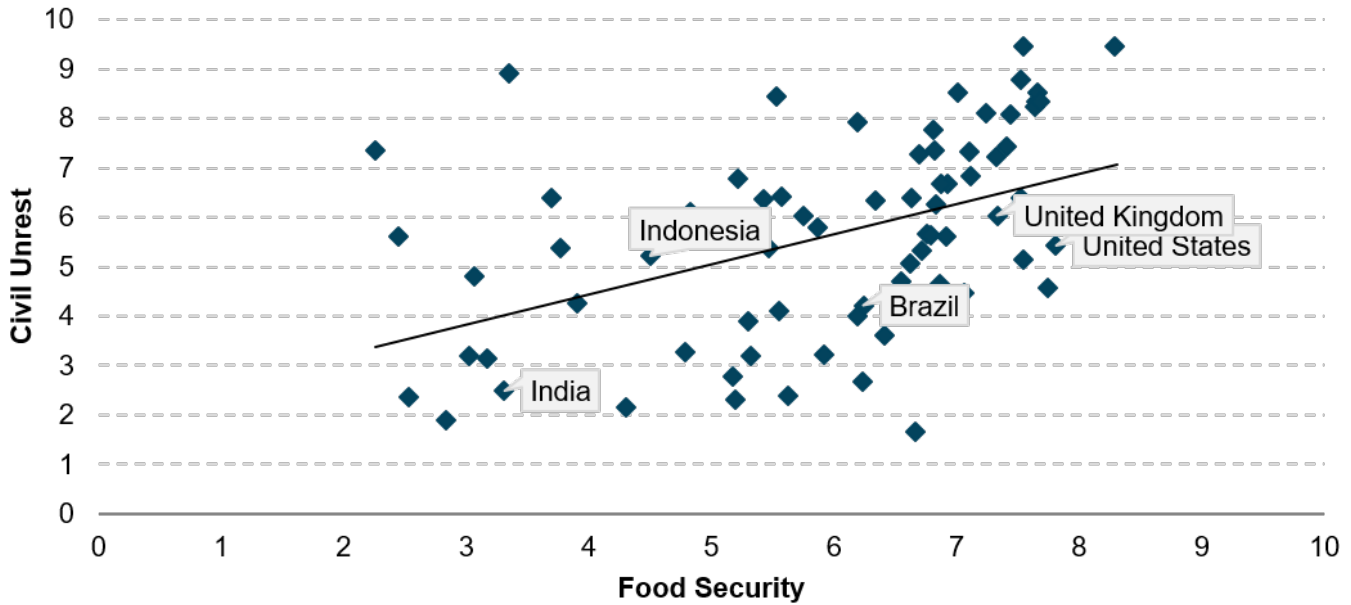
Source: Verisk Maplecroft, Bloomberg, Brandywine

Deep Coronavirus Recession and Political Instability

The global economy is expected to decline—and sharply. That economic deterioration will worsen unemployment rates and negatively affect incomes, which disproportionately falls on citizens that are the least able to manage it: the poor and the low-income worker. Food could become scarcer and more expensive. The coronavirus will only worsen the existing income inequality in the world, but especially in EMs. Widening inequality raises the risks of civil unrest, populist uprisings, and political instability, particularly in those countries facing scarce food supplies. Regime change is certainly a possible outcome from this environment.

4 Food Security & Civil Unrest

Score (0-10), Q2 2020



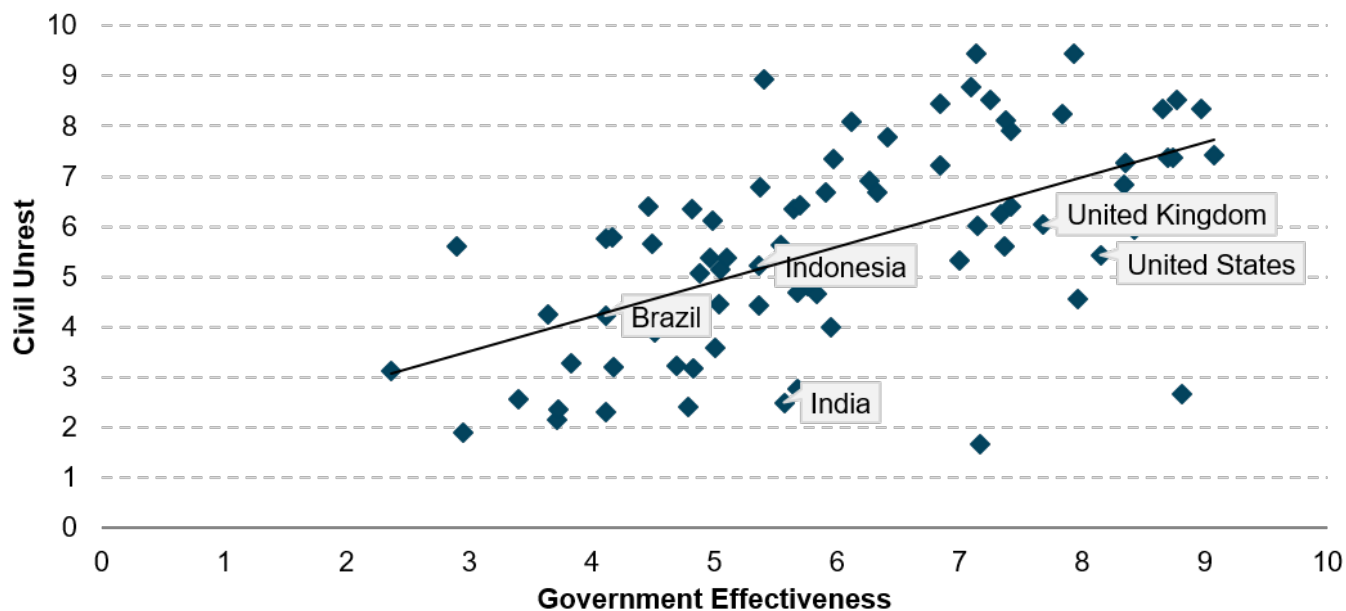
Source: Verisk Maplecroft, Brandywine

Chart 4 examines the relationship between food security and civil unrest. There is a probability that food scarcity could catalyze civil unrest. The civil unrest variable in our research measures the perceived business impact from protests over a public concern, whether it be economic, political, or social. Food security measures the risk of having an adequate supply. The relationship between food security and civil unrest is a positive one, meaning the risk of not having an adequate food supply could foment an uprising. **Chart 4** above plots a country's food security score from 0-4 on the x-axis. The cluster of countries—India, Indonesia, and the Philippines—would seem to be at a higher risk for civil unrest, as are many countries in Africa.

What could reduce the risk of civil unrest? An effective government could reduce the tendency for social, economic, and political upheaval. Based upon our research efforts, an effective government would be perceived as seeking policies that benefit its citizens. The relationship in **Chart 5** suggests ineffective governments are at increased risk for civil unrest. In the COVID-19 era, citizens would trust the government to act in their best interests. Governments deemed as ineffective in the era of coronavirus would be unable to meet the demands and needs of its citizens, who would then resort to an uprising.

Government Effectiveness & Civil Unrest

Score (0-10), Q2 2020



Source: Verisk Maplecroft, Brandywine

Conclusions

Several conclusions can be proffered:

- The coronavirus pandemic does not preordain the onset of social unrest, but it can create a fertile environment for social unrest;
- Countries at risk would be those with the weakest healthcare capacity; and,
- In the end, how governments address the crisis and the subsistence needs of its citizens will determine how susceptible a country is to civil unrest and even changes in governments.

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