

Tales From the Emerging World

## The Winners of a Post-Pandemic Era

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Even as COVID-19 continues to bubble up in hot spots all over the world, many people are asking us which nations will do best when the pandemic passes. Our list below of potential winners is based on an assessment of the impact of the pandemic, which is not “changing everything,” but rather accelerating the broad turn inward that began after the global financial crisis of 2008.

AUTHOR



**RUCHIR SHARMA**

*Head of Emerging Markets and  
Chief Global Strategist*

Globalization has given way to deglobalization, as cross border flows of goods, people and money decline. During the pandemic, even the leaders of nations that were among the biggest beneficiaries of globalization, including China and India, have begun to champion “self reliance” — a goal that in recent decades had been pursued mainly by isolated outliers like North Korea.

Governments are increasing their control over the economy, commanding shutdowns and effectively nationalizing business payrolls in ways that would have been unimaginable six months ago. Public debt and deficits are exploding in many countries.

The last redoubt of globalization is the virtual economy, which was still booming before the pandemic and has accelerated under the lockdowns, as people retreat home to work, play, shop and study. New habits are forming, which is going to help virtual enterprises to continue growing rapidly—from a much higher base—after the pandemic.

We screened all the major economies, developed and emerging, for key strengths that will prove critical in the post-pandemic era: a strong domestic market (or unusual export prowess), low debts, a competent government, and digital sophistication.<sup>1</sup>

<sup>1</sup> Government competence is based on COVID-19 cases and deaths per million population; Debt vulnerability is based on 2020 IMF forecasts for public debt and deficit as a share of GDP; Tech capacity is based on R&D as a share of GDP and the 2019 IMD World Digital Competitiveness Ranking; Deglobalization vulnerability is based on household consumption (higher is better) and debt (lower is better) as a share of GDP.



Clients will recognize that these four post-pandemic screens are drawn from our ten rules for spotting promising economies, in particular the rules on the state, investment, debt and geography. These rules mix the science and art of forecasting, using both data and field observation. The list below is also shaped in some cases by subjective factors, yielding an intriguing list of potentially promising names.

Notable is the absence of the two economic superpowers. The United States and China don't make the cut, undermined by heavy debts and by doubts about how their governments handled the pandemic. Topping the list are Germany, Finland, Switzerland, Vietnam, Taiwan and—perhaps the biggest surprise—Russia.

**GERMANY:** Leads no category but is near the top in all four, compared to other developed countries. Its lockdowns lasted barely a month, thanks to a quick response that was well coordinated between national and local governments. Germany under Angela Merkel, a trained scientist, makes the jousting between Washington and the states look even more embarrassing by contrast.

Germany was the rare country that went into the pandemic with relatively low levels of debt. It could afford the biggest domestic stimulus package of any major nation, and even extend offers of stimulus to its fellow EU members for the first time, and will still come out with the lowest public debt, by far, of any major power.<sup>2</sup> With Merkel leading the effort to create a European Recovery Fund, which could help bridge the north-south divide, her legacy may well be some sort of a European Renaissance.

**FINLAND:** A little Germany, strong across the board. One large Finnish telecommunications firm may have gone the way of the dodo but its old nest is now home to one of the world's largest software firms, and Finland keeps producing tech giants, including the maker of a well-known videogame. A top-ten tech power according to Institute for Management Development.<sup>3</sup> With a competent bureaucracy, little household debt and manageable public debt, Finland has no glaring vulnerability to the challenges of the post-pandemic period.

**SWITZERLAND:** Perhaps Europe's most streamlined, least centralized government, Switzerland has brought the COVID-19

death rate down to near zero, and created an economic relief agency that surprises small business by delivering support loans in a matter of hours. Astonishingly competitive for such a small country, Switzerland has a smaller population than the Scandinavian countries, but has created twice as many top-100 European companies as the Scandinavian countries combined.<sup>4</sup> The Swiss also generate among the most patents per person in the world and invest heavily in R&D, which is why Switzerland is a top-five global tech power as well.<sup>5</sup> (Its one weakness: household mortgage debt.)

**VIETNAM:** Vietnam is rapidly realizing its potential as “the next China,” a major export power. With an efficient post-communist government, Vietnam has had stunning success containing the pandemic, with only 34 deaths to date.<sup>6</sup>

As the rest of the world turns inward, against immigration and trade, Vietnam continues to open up, signing 15 free-trade agreements in the last decade. Even before the pandemic, it was one of a precious few nations that was attracting investment in its export factories at an accelerating pace, and rapidly moving up the manufacturing ladder, from stitching together sneakers to making smart phones and air pods. The domestic economy, too, is leapfrogging the landline age straight into the mobile internet age. And now, outside a few small outliers, Vietnam is on track to finish 2020 as the world's fastest growing economy.<sup>7</sup>

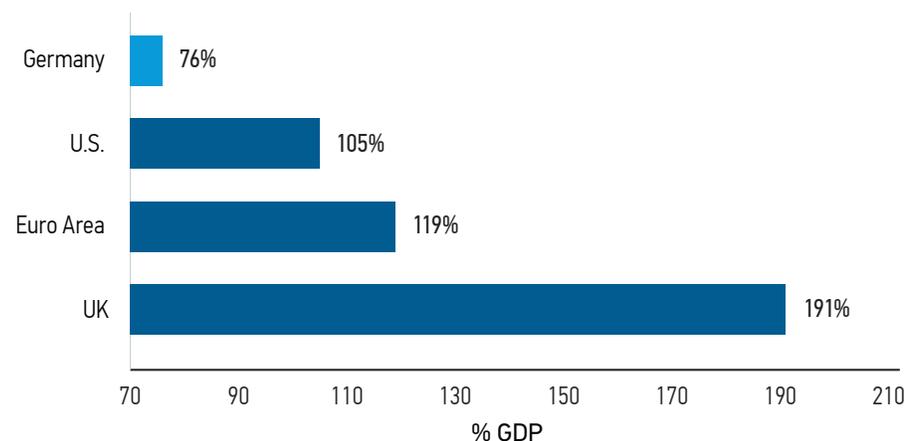
**TAIWAN:** Along with South Korea, Taiwan is one of the very few nations in the world that has been able to grow at a rapid pace for five decades in a row.<sup>8</sup> Both rank at the top of EM countries on our four post-pandemic factors. Taiwan gets the spotlight by a narrow margin.

Like South Korea it invests unusually heavily in tech and is already one of the world's most digitized countries. But Taiwan has a slightly lower government deficit and debt, and has dazzled in the fight against

**DISPLAY 1**

**Germany: Huge Stimulus, Small Public Debt**

2020 Forecasts for Government Debt



Source: Deutsche Bank Research Forecast. Data as of June 2020.

<sup>2</sup> Deutsche Bank Research Forecast as of June 2020.

<sup>3</sup> Institute for Management Development 2019.

<sup>4</sup> Bloomberg, MSCI. Top 100 based on MSCI Europe Index. As of July 21, 2020.

<sup>5</sup> 2019 IMD Digital Competitiveness Ranking.

<sup>6</sup> Johns Hopkins Coronavirus Resource Center as of September 3, 2020.

<sup>7</sup> World Bank Global Economic Prospect's Database as of June 8, 2020.

<sup>8</sup> Conference Board. Since 1950, includes 99 emerging countries. Bloomberg.

COVID-19, capping the death rate at 0.3 per million—lowest among major emerging and developed economies.<sup>9</sup> The Achilles heel for both is a relatively small and debt-soaked consumer economy, but Taiwan's consumer debt is slightly larger (as a share of GDP) and less debt-ridden.

**RUSSIA:** An intriguing dark horse, Russia does not in fact score in the top five on any single post-pandemic factor. It makes the list because it has turned itself into a financial fortress largely impervious to global markets.

In 2014 the debilitating impact of international sanctions for the invasion of Ukraine, coupled with a drop in oil prices,

persuaded Putin to focus on paying down foreign debts and saving oil profits to seal itself from foreign pressure and commodity price volatility. Russian finances are now so solid, the ruble—unlike other petro currencies—no longer whipsaws with the price of oil. Russia had largely isolated itself from the whims of global markets even before this new crisis. Serendipitously, this insulation could prove even more valuable at a time when more than half the countries in the world have gone to the IMF for financial help to survive the pandemic.

Thanks in part to the legacy of Soviet science and education, combined with a sizeable consumer market, Russia has a reasonably advanced digital economy, one

of the few to produce domestic internet champions that could withstand challenges from the American and Chinese giants.

It is telling of the coming era that a case can be made to include countries as different as Russia and Germany on this list. To thrive, economies will need a strong defense against the pressures of deglobalization, debt, and meddling governments, coupled with an offense capable of exploiting the opportunities in the booming digital economy. Though to very different degrees Russia and Germany, so often on opposite sides of history, share this mix of strengths for the future. They, like the others on this list, have a good shot at thriving in a difficult post-pandemic era.

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<sup>9</sup> Johns Hopkins University, World Bank, Insee, Statista as of September 3, 2020.

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