

#COVID-19

SOCIAL, ECONOMIC AND GEOPOLITICAL IMPACT

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Between April 8 and 9, 2020, Silk Council interviewed some Italian parliamentarians, ambassadors, professors, journalists and experts about the potential social, economic and geopolitical impact of the Coronavirus pandemic at national, European and international level. The results of the analysis are reported below.

The effects on the Italian, European and global economy and social impact

On December 31, 2019, China reported to the international community the presence in Wuhan of some outbreaks of pneumonia of unknown etiology, which a few days later was identified as Sars-CoV-2 Coronavirus. As of January 23, 2020, Wuhan was placed in quarantine with unprecedented restrictive measures. On January 30, 2020 the World Health Organization (WHO) declared the Coronavirus as a "public health emergency of international interest", and then a "pandemic" from March 11, 2020.

The Italian government, after the first precautionary measures adopted from January 22, 2020 (such as the establishment of a *task force* at the Italian Ministry of Health and the ban on landing flights from China), declared the national state of emergency, entrusting the Civil Protection Authority to coordinate and support the activities of the Regions to face the health emergency. On February 23, 2020, with Law Decree n. 6, Italy adopted the first measures of contagion containment and economic support. These measures were subsequently implemented and modulated by various decrees of the Italian President of the Council of Ministers, taking into account the principles of precaution and proportionality in the light of the evolution of the epidemic and on the basis of the recommendations of a technical scientific committee.

Therefore, the movement of people was limited and the carrying out of commercial and industrial activities was suspended, except for the sale of food and other basic necessities goods, public utilities and essential services. All cultural and sporting events were also

suspended. Schools closed and training activities continued online. These restrictive measures, initially applied only in some so-called "red areas" of Northern Italy (11 municipalities in Lombardy and Veneto Regions), were then extended to the whole country starting on March 9, 2020.

The challenges faced in Italy soon arose also in other countries of the world with the progressive spread of contagions on a global level. If in an initial phase, both China and Italy were painted as "plague guns" to be isolated and kept at a distance, then both countries obtained praise from the World Health Organization (WHO) for the measures implemented against Coronavirus. Italy and China have become two privileged observers and the decisions made by their respective governments have then been replicated in other countries of the world in the management of the emergency.

The health crisis is likely to turn into an economic and social crisis in all countries affected by the epidemic. Measures of social distancing and limitations to productive and commercial activities have proven to be the only effective measures to slow down the curve of infections, giving relief to the health system overwhelmed by an excessive load of patients to assist. On the other hand, however, these measures have profoundly changed the life habits of citizens with strong social and economic repercussions. As underlined in the "Intelligence Analysis and Policy Proposals on the Post-Pandemic Covid-19 (April 2020- April 2021)" by Mario Caligiuri, President of the Italian Intelligence Society (SOCINT) and Director of the Master in Intelligence of the University of Calabria, on a social level, in addition to a health pandemic, we have also witnessed a communicative pandemic. Citizens have been overwhelmed by a significant amount of information, without having the tools to understand it. In the now called "disinformation society", increasingly untruthful information becomes "viral" and influences social and economic behavior, creating a "panic effect". This effect can become dangerous, especially in contexts characterized by economic crisis and consequent social unease, which could jeopardize the democratic strength and social integrity of a country.

At an economic level, there was a sharp drop in demand in the sectors most affected by the restrictive measures (retail trade of non-essential goods, transport, tourism, restaurants). Many companies had to quickly reorganize themselves to implement smart working and to adapt their business models to the new context of social distancing. The drastic limitations on the international mobility of people and the limitations on productive activities have also caused a contraction in international trade. All this has led companies to decrease their turnover and expose themselves to a liquidity crisis. As a result, employment and family income were also put at risk.

According to estimates by the International Labor Organization (ILO), a drop in hours worked worldwide of 6.7% (translated into jobs something like 195 million full-time jobs lost,

considered a 48-hour working week) is calculated. According to the Organization for Economic Cooperation and Development (OECD), the Covid-19 epidemic will reduce global GDP growth by half a point. Other entities predict that GDP growth for 2020 may drop to zero in the worst-case scenario.

For the International Monetary Fund (IMF), we will see a 3% decrease in world GDP in 2020. The total loss will amount to nearly 9,000 billion dollars between 2020 and 2021, more than the total value of the economies of Japan and Germany. The IMF defines the current crisis from Covid-19, the worst recession since the Great Depression of 1930s and decidedly more serious than the crisis of 2008, which led to a drop in world GDP of 0.1%.

Institutional representatives interviewed by the Silk Council unanimously considered the potential economic impact of the Coronavirus pandemic to be "epochal". For example, according to Deputy **Hon. Pino Cabras**: *"The set of effects - also in terms of economic destruction and jobs - has a magnitude comparable to that of a world war. Decades of savage neoliberalism are suddenly eliminated and it is rediscovered that the state is very important and will be for a long time"*. For Deputy **Hon. Andrea Romano**: *"unlike the crisis in 2008 - which was essentially financial - this crisis is likely to hit the productive fundamentals of the European economy hard even for years to come"*.

The economic consequences of Coronavirus are in fact determined by an external shock and therefore are difficult to predict exactly. It therefore remains appropriate to reason in terms of scenarios, as underlined by the Minister of Economy Roberto Gualtieri in the hearing of parliament on 11 March 2020. According to Senator **Hon. Laura Garavini**: *"the economic impact of the pandemic will depend, above all, on the speed of implementation of the measures to contain and prevent infections and on the amount of resources that will be allocated to support the real economy, as well as, obviously on how effectively they will be spent"*.

Under this profile, Italy has already gradually adopted some measures to support the socio-economic fabric affected by the *lock-down*. With the "Italian Care Decree" n. 18 / 2020 a package of measures was arranged in four areas: a) strengthening of the health system; b) protection of work and income; c) support for the liquidity of businesses and families; d) suspension of tax deadlines and social security and welfare contributions. In order to deal with this emergency plan, 25 billion euros have been allocated in Italy, which will activate 350 billion euros of financing for the benefit of the productive world. The Prime Minister Giuseppe Conte in the Italian Parliament hearing of March 25 in the Chamber of Deputies and of March 26 in the Senate of the Republic stated that the economic measures carried out until now, although they are significant, are not sufficient. This is why further measures are being studied to increase liquidity support, which will imply additional allocations of funds. The direction indicated by the Government to relaunch the growth of Italy is the

bureaucratic simplification, the strengthening of the National Health System and the scientific, clinical and pharmacological research and the safeguarding of the financial capacity of local authorities (starting from Municipalities) to improve the quality of public services and to ensure strong and resilient social protection networks. In the aforementioned Parliament hearing, President Conte also stressed the centrality of public and private investments in environmental sustainability and the impulse to digital transformation of the country. As indicated to us by the **Hon. Manlio Di Stefano**, the Italian Government is trying to play in advance with an eye to 2021: as already today in the midst of the Coronavirus crisis, the Government is preparing, with all the main Italian production companies, a shared strategy to restart the economy. For example, the Minister of Foreign Affairs and International Cooperation Luigi Di Maio has recently launched a "Pact for Export" with the aim of recovering the time lost due to the virus as quickly as possible. The **Hon. Manlio Di Stefano**, on the other hand, is preparing to preside over a series of sectoral tables with all the major Italian production entities, which will discuss current problems, possible solutions and future prospects. Considering this ambitious plan, **Dr. Giuseppe Scognamiglio**, president of the Eastwest European Institute, reminds us, however, that one of the highest public debts in the world limits Italian resources. Therefore, the support of the European Union with extraordinary measures is fundamental.

Loyal collaboration between the State and the Regions and the participation of all social, economic and scientific stakeholders in the decisions to be taken in phase 2 as of May 4, 2020, will also be fundamental in determining the success of the feat. For this reason, alongside the technical scientific committee, the Italian government has appointed a *task force* of multisectoral experts led by Vittorio Colao to undertake the economic-social recovery. However, an efficient central control coordination will be needed to avoid the mistakes we have witnessed in the past. Finally, the political decision maker must have the courage to take responsibility for its decisions, which must be addressed but no longer dominated by the opinions of a multitude of experts.

The role and future of the European Union in the fight against the pandemic

The European Union found itself completely unprepared to handle the emergency. Its reaction was late and revealed all its weaknesses. Initially, tensions arose due to the blockade on exports of medical material imposed by some Member States (for example Germany and France), which was later overcome thanks to the mediation of the European Commission. The European Central Bank announced a € 750 billion plan for the purchase of securities in the public and private sector by 2020. With communication of March 19, 2020 the European Commission adopted a new provisional regulatory framework for State aid and

activated the Stability and Growth Pact safeguard clause, allowing Member States to further deviate from the budgetary obligations, imposed by European constraints, for proceed with additional allocations of resources to face the Coronavirus emergency. However, these measures are still considered insufficient to make the qualitative leap that would qualify Europe as a political and social "union", even before than economic one. In a letter dated April 3, 2020 to the President of the European Commission, Ursula Von Der Leyen, Italian Prime Minister Conte stressed the importance of a timely, adequate and united European response not only to boost the economy of the Member States, but also to avoid to lose the challenge of global competition and to safeguard the future of the European Union itself.

In this regard, the Italian government launched the proposal for a European Recovery and Reinvestment Plan, supported by innovative financial tools such as the European Recovery Bonds, that are securities directly guaranteed by the European budget through which the Member States would share the risk only for the future, without mutualisation on the past debt. The liquidity raised by the fund should then be distributed to the Member States most affected by the Coronavirus emergency, without reimbursement charges. This fund would complement other support instruments such as SURE, MES and funding from the European Investment Bank (EIB). However, within the Eurogroup, it is still difficult to find an agreement on "if" and "how" to pool resources to face the crisis. Member States, such as Germany and the Netherlands, support the use of the European Stability Mechanism (MES), which the Italian Government considers inadequate, given the symmetrical nature of the Coronavirus shock across Europe, therefore not linked to the behavior of a single state.

The people interviewed by Silk Council agreed that the challenge today is not only the containment of contagion and economic recovery, but also the future of the European project. **Dr. Giuseppe Scognamiglio**, President of the Eastwest European Institute, told Silk Council that: *"The European Union is suffering from a lack of leadership"* and that *"the Italian government is pushing, together with Spain and France, to make a qualitative leap from intergovernmental cooperation towards a truly federal decision-making capacity, with a real EU budget and a relative borrowing capacity"*. For Press TV **journalist Max Civili**, on the other hand: *"the lack of solidarity, for decades indicated as the cardinal principle by the founding fathers of the EU, continues to represent the most evident weakness of a united Europe. The fact that it is so difficult to choose a common tool to counter the socio-economic crisis, that is already affecting "the old continent", is the evidence of this"*. The **Hon. Pino Cabras** also highlighted how *"we clash with the will of a part of the European ruling class to preserve the old balances, with their intention to consider the necessary financial measures "temporary "* and that *"The pandemic crisis reduced the European treaties in force to a simulacrum that preserves all the semblance of the old rules, but that leaves them naked, without any useful operational capacity, neither immediate nor in perspective"*. Finally, the

Senator **Hon. Gianni Pittella** sent us the wish that: "*the next few days will be useful to overcome national selfishness and to give new impetus to European integration in solidarity and in sharing the tragedies of the coming years*".

International cooperation in the fight against the pandemic and Italy's position in the geopolitical scenario in the era of Coronavirus

International solidarity has not been lacking in this period of emergency. Italy is an active part in the cooperation and at the same time it is beneficiary of aid from China, Russia, the United States, Cuba, Albania, Ukraine, France, Germany and also from other European countries. Groups of experts and doctors and tons of health and personal protection products arrived to Italy. The help provided by China, Russia and the United States, also thanks to their significant contribution, has been highly appreciated by Italians. However, part of Italian public opinion remains skeptical, as it interprets these aids as attempts by third countries to expand their geopolitical influence on Italy and Europe, in what has been renamed "the face mask diplomacy".

China was the first country to help Italy, returning the solidarity received at the beginning of the health crisis and confirming a long friendship, which received a further impulse with the signing of the the New Silk Road memorandum of last March 2019 .

The President of the Italian Republic Sergio Mattarella since the beginning of the health crisis shown great openness to China. A first signal was launched with his visit of February 6, 2020 to a school attended by children from the Chinese community residing in Rome, to counter the racist episodes that were spreading around the country. On February 13, 2020, an extraordinary concert was organized at the Quirinale Paolina Chapel for the Year of Culture and Tourism Italy-China 2020 and 50th anniversary of Italy-China diplomatic relations, in the presence of the Chinese Ambassador in Rome, H.E. Li Junhua. During a telephone conversation of March 16, 2020 with Chinese President Xi Jinping, Italian Prime Minister Giuseppe Conte said he was confident that at the end of the epidemic, Sino-Italian relations will be even more strong. While the **Hon. Manlio Di Stefano**, Undersecretary of State to the Italian Ministry of Foreign Affairs told Silk Council: "*We are confident of a full-scale recovery of trade and investment in both directions between Italy and China as a consequence of this crisis, also taking advantage of the fact that China has come out of the Covid-19 emergency before than other countries and therefore it is a ready-made market for exporting italian goods*".

However, the close friendship with China arouses skepticism and perplexity in part of Italian politics and public opinion. These concerns for a shift of Italy on the China-Russia Eastern

Geopolitical Axis have repeatedly led Italian Foreign Minister Luigi Di Maio to reiterate Italy's firm position at the center of the political and security institutions of the Western world (Atlantic Alliance and the European Union), clarifying that the fight against Coronavirus and geopolitics are separate. The same opinion has Ambassador Michele Valensise, former Secretary General of the Italian Ministry of Foreign Affairs and International Cooperation from 2012 to 2016, who in a lecture at the Master in Intelligence of the University of Calabria, directed by Mario Caligiuri said: *"Countries like China, Russia and Cuba have offered important aid (to Italy), but this does not mean a modification of our international alliances"*. The geopolitical analysis offered by the Ambassador in the aforementioned teaching is also interesting: *"For years the world has seemed to stand on three blocks, a kind of G3, made up of the USA, China and the EU. But in reality this pattern is outdated, given that the EU is lagging behind and its political weight is unfortunately less than that of the other two actors. Nor can we speak of G2 (USA and China), given that the two powers are strongly opposed to each other. It therefore remains plausible to reason, paradoxically, on a G-0, in which no country exercises recognized leadership"*. In particular on the role of China, the Ambassador continued: *"China, as an "plague gun" country, is reversing its role as a "rescuer" country, using effective soft diplomacy. Confirming how important in today's diplomacy is, in addition to the element of strength, the component constituted by reputation, that is, the perception by the international community. And looking back, the image of liberators that the United States rightly radiated in Europe at the end of the Second World War resurfaces, complementing the showdown of strength demonstrated by its military apparatus"*.

Finally, according to the **President of Silk Council, Lifang Dong**: *"the experience of the pandemic is showing us the need to re-think international cooperation in terms of multilaterality and no longer bilaterality. Today's global challenges are becoming systemic and they can no longer be tackled with the old instruments of international governance or with ideological prejudices. From this point of view, I welcome the project of a New Health Silk Road, which will be placed side by side with the economic, political, social and digital one. I remind that 2020 is the year of Italy-China Culture and Tourism, the fiftieth anniversary of diplomatic relations and the tenth anniversary of cultural exchanges between our two countries, a year that was to be full of numerous commercial and cultural opportunities. In these difficult moments there is a need for international solidarity, seriousness and collective conscience to face together this global challenge, from which we are confident that we will emerge more united and stronger than before"*.

We are writing together the rest of the story these days.

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