EconoFact Chats: COVID-19 and Developing Economies

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Michael Klein:

I'm Michael Klein, executive editor of Econofact, a non-partisan web-based publication of the Fletcher School at Tufts University. At Econofact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

The term pandemic is used when discussing COVID-19 because it's a worldwide outbreak. As of the date of the recording of this podcast, there were more than 73 million reported cases of COVID-19. The country with the largest number of reported cases is the United States, with 16 and a half million. The next two countries in this grim ledger are India, which has a population four times that of the United States, with 9.9 million cases, and Brazil, which has a population about two thirds of that of the United States with 6.9 million. Brazil, and especially India, are poorer than the United States. While much of the focus in this country has been on what has been happening here and in another rich countries, it is important to also know how this pandemic has affected poor countries, both in terms of the health of their populations and in terms of their economies.

Michael Klein:

To discuss the health and economic effects of COVID-19 and poor countries, I'm very pleased to be speaking with Stephen O'Connell of Swarthmore College. Steve is an expert on the economies of developing countries. He served as the chief economist in the United States Agency for International Development from 2014 to 2015. Steve, welcome to Econofact Chats.

Stephen O'Connell:

Thanks, Michael.

Michael Klein:

Steve, can you first give us a thumbnail sketch of the population and income levels of the countries that people call low-income or emerging market?

Stephen O'Connell:

Sure. We're talking here about 85% of the global population that lives outside the advanced countries. China and India alone account for 20% each of the total global population. These countries are poor. On average Chinese income is about a quarter of the United States, and many countries in Sub-Saharan Africa are more like a tenth, but so many people live in these countries that these economies are now very important in the global economy. Taken together, they account for over half of global GDP.

Michael Klein:

What's happening across these developing countries with respect to the pandemic?

Stephen O'Connell:

Not surprising, There's a lot of variation. As you mentioned, Brazil and India together have had more cases than the United States. Then again, their combined populations are more than four and a half times the size of ours. China, by the way, is way down on the list of reported infections, below the Palestinian territory. There may be more under counting in the developing countries, so these are probably lower bounds, but they're probably not off by a factor of two or three.

Michael Klein:

When we consider the number of cases relative to the population, both India and Brazil have much lower infection rates than the United States. More generally, when we consider infection rates, do the numbers look as bad in the developing countries as they do in the richer countries?

Stephen O'Connell:

Infection and death rates are a lot lower in the developing world on average, but one reason for that is the transmission to many parts of the developing world was delayed. So there's a real concern that the pandemic will persist or even worsen than among the developing countries. As the richer countries start to vaccinate their populations. To give just one example in the Philippines, the fraction of the population that has died from COVID is only a tenth as large as that fraction is in the United States. But the government of the Philippines is currently saying it's going to take two to five years to vaccinate their population, as opposed to less than six months in the United States. And the Philippine economy is already taking a big hit. Their growth rate for 2020 is down by almost 15 percentage points from 2019. That's twice as bad as what the US is experiencing.

Michael Klein:

What about what's happening in Sub-Saharan Africa? I know that's a region of the world that you have a special interest in.

Stephen O'Connell:

Well infection and death rates are relatively low in much of Sub-Saharan Africa, and this is a bit of a puzzle. Under counting might be part of the story. One protective factor certainly is a very small elderly population and a low rate of institutionalization of the elderly in nursing homes. And there maybe other reasons. Population densities are relatively low in large parts of the continent, especially in rural areas. There may be advantages to high temperatures, maybe some immunities that reflect chronic exposure to other pathogens. These things are only going to get clearer as we get more and better data. One factor that may be playing an important role is rapid public health responses by the African governments and relatively strong compliance by African populations with distancing guidelines and mask wearing.

Michael Klein:

So this isn't the first pandemic that's hit parts of Africa in the last decade or so. You have an Econofact memo that we published soon after the onset of COVID-19 about the other pandemic, Ebola, in West Africa. Can you describe that experience?

Stephen O'Connell:

Well, at the beginning of 2014, there were some initial cases of Ebola in three neighboring countries in West Africa, Guinea, Liberia, and Sierra Leone.

Michael Klein:

This is while you were the chief economist at USAID, right?

Stephen O'Connell:

It was.

Michael Klein:

It wasn't your fault, was it?

Stephen O'Connell:

Not exactly. For the first six months this issue really didn't rise to the point of global concern. During that whole period, the three governments and the WHO, actually, relied on local health workers and Doctors Without Borders to contain the outbreak in the rural areas. They were hoping to avoid a response that would be disruptive to these countries and to their neighbors. But this meant that by the time the WHO did declare a global emergency, that's August, 2014, it was too late to use the standard protocols to bend the curve. Infections were already widespread in the capital cities, the local health systems were collapsing.

Michael Klein:

So that sounds somewhat familiar, I guess. In hindsight, the first round countries responded too little and too late.

Stephen O'Connell:

Yes, that's fair, and it was really hugely costly. They suffered over 11,000 deaths from Ebola during 2014 and 2015, plus tremendous collateral damage, including the collapse of the health systems I mentioned and their economies.

Michael Klein:

So does this spill over to other countries in Africa and to other countries across the globe?

Stephen O'Connell:

Actually it didn't, and this is kind of remarkable in retrospect. The transmission was stopped, really in its tracks, as soon as the global threat was clear. So there were seven countries that received at least one infected patient or traveler from the three affected countries, and every one of those countries, including Nigeria, Senegal, United States, every one of them contained the virus and prevented a local outbreak. As I emphasized in my Econofact post, the second round countries, these ones, also completely avoided any economic impact. So the Ebola epidemic actually never became a global pandemic and its economic effects were contained also within those three first round countries.

Michael Klein:

So are there lessons from this experience that people in the United States and the government could learn from the Ebola outbreak that are applicable for the COVID-19 crisis?

Stephen O'Connell:

Well, the diseases themselves are quite different. COVID-19 is a much tougher public health challenge, because as we know, it can be spread by asymptomatic carriers, which means that the classical approach of diagnose, isolate, and contact trace is very expensive in the case of COVID. It relies on widespread lab testing for the virus, and not just testing for symptoms. Ebola had immediate and very deadly effects, so it was easier to identify and to isolate carriers of the disease. And COVID is transmitted much more easily, through the air, than Ebola, which was transmitted through bodily fluids. So take these factors together and you get a sense for why it's only a few island economies in the world that have really managed to be totally free of COVID.

Michael Klein:

So these are pretty big differences, but nonetheless, are there lessons that we can draw from what the experience was with Ebola in West Africa?

Stephen O'Connell:

I think so. One important one, I think, is that hoping that an infectious outbreak will go away or treating it as someone else's problem is not an effective national strategy. And the Ebola crisis also, a second lesson, wasn't ended by a vaccine, but by public health policies and changes in behavior, and those things are really still very crucial, even as we see vaccines coming online. So countries like Brazil and the US that have politicized the debates about social distancing and resource allocation have done really poorly, and as the world moves into the vaccine stage, it's going to be vital to foster trust in government responses and to ensure a fair and effective distribution of the vaccine.

Michael Klein:

And as public health experts are saying, even with a vaccine we can't abandon these public health measures like wearing masks and social distancing, so it really reinforces the message that you've been telling us about Ebola. Well if we turn, Steve, from the health aspects to the economic aspects, have the lower infection rates in low-income countries meant that those countries' economies have fared better.

Stephen O'Connell:

Yes, they have actually, although every country has taken a hit. It's important to distinguish the internal economic effects of the pandemic, when all kinds of economic activity slowed down or stopped as people avoid direct contact, from the external effects that come about because every country depends on the rest of the world for trade and financial transactions.

Michael Klein:

Okay, that's a good distinction. That's helpful. Internal versus external effects. So what about what you're calling the internal effects? Those were less adverse on average in developing countries?

Stephen O'Connell:

At least so far it tended to be less adverse for the overall economies. With those big exceptions, some of them you mentioned, Brazil, India. As I've emphasized, though, there are concerns that as we start turning the corner here, the internal impacts are going to continue in the developing world, especially as these countries are probably going to be last in line for vaccines.

Michael Klein:

What we've seen is that there've been successive waves and people thought things are going to get better, maybe there'd be a V-shape recovery, but then we're hit with another wave. I guess it's reasonable to expect that to happen to other countries as well. But what about what you're calling the external effects, Steve, of the pandemic on the economies of these countries?

Stephen O'Connell:

Well, there are some characteristics of these economies that distinguish them from the economies of richer countries like the US or Japan, or the advanced countries of Europe. As a whole, the developing countries rely a lot on export markets in the rich countries, including exports of primary commodities like oil.

Michael Klein:

And the rich countries aren't doing so great, so I guess that's spilling over. Another issue I know has to do with capital flows. Megan Green and I have in an Econofact memo from April in which we show the precipitous collapse of investment money going to emerging market economies. A much bigger collapse than what we saw at the time of other crises.

Stephen O'Connell:

Well, there's just no question. These countries rely on both private and official financial flows for infrastructure projects and other forms of investment. They rely on foreign direct investment, which can be important for jobs. Many of them actually rely very heavily on remittances, which are funds that are sent back home from family members who are working in the richer countries.

Michael Klein:

And you can't send them back home if you're not working. So in fact, none of these external factors have been moving in the right direction for developing countries, right?

Stephen O'Connell:

I think that's the bottom line. We're in the middle of an unprecedented recession. It's hitting all of these channels. Export revenues are way down, the prices of primary commodities that these countries depend on have been hit hard. A lot of these countries rely on tourism. That's been hit very, very hard. Financial investors, as you mentioned, they're looking for safety. So emerging markets are facing outflows of financial capital, higher interest rates, and these things are making their external debts more expensive. Remittances are down too, by the way, because family members, as you said, working abroad are losing their livelihoods. Even foreign aid, Michael, is probably going to be falling given the budgetary pressures in advanced countries. So yes, these are very difficult times.

Michael Klein:

Well, Steve, I've been doing a common thing that people in rich countries do. I've been talking about all these developing countries as if they're an undifferentiated group, but of course that's not the case, is it?

Stephen O'Connell:

Well, I suppose you could say they're all different. Let's at least make a big distinction, maybe, between low-income countries, that that would be Haiti or Tanzania or Myanmar, and middle income emerging market economies like Argentina or South Africa or Malaysia. So the low income economies have benefited very substantially from the creditor countries, which have agreed to delay scheduled debt payments thus far in the pandemic. This includes both interest due and principal repayments. In effect a debt service moratorium. For the emerging market countries, I think the challenges are really very difficult also, and this is especially for the fuel exporting countries in Latin America and the middle East. They've been hit very hard, both in terms of infection rates and economic fallout, and they're way too big, emerging market countries, for any blanket moratorium on debt payments. So their debt problems are being handled on a case by case basis by the IMF.

Michael Klein:

Well, the IMF is of course, an international agency, but what about the countries' own governments? How can they respond to these effects? Are they able to?

Stephen O'Connell:

Well, really governments everywhere, worldwide, are doing what they can to support their vulnerable populations and to keep firms from shutting down. As tax revenues fall due to the pandemic, their efforts are including reforms to try to widen the tax base, but of course there's limits on what you're going to accomplish that way in the short run. So globally, at all levels, are really having to be willing to run higher fiscal deficits, at least for a while, so as to avoid too much contraction in public spending,

Michael Klein:

Yeah, in a number of previous episodes, I've talked with people like Bill Gale or Maury Obstfeld about the need for advanced countries to run fiscal deficits now and worry about the deficits later because we're in such a crisis now. And I guess it's the same story for developing countries as well. Is there any precedent for what's going on now, Steve? Have we seen anything like this in terms of the economics, if not to health?

Stephen O'Connell:

Well, Mike, I think you're exactly right that the situation is very similar in the emerging markets and low income countries. The appropriate stance being to run deficits now and think of paying off the debts later. But the precedent is actually pretty tough for these countries. The problem is that they did exactly the same strategy back in 2008. They increased their fiscal deficits in 2008 and 2009 in order to bolster their economies from the external effects of the global financial crisis. Then they continued to borrow, actually, taking advantage of low interest rates to do things like finance public infrastructure projects and other things. And these policies led to a buildup of external debt. So bottom line, they came into this pandemic with much higher debt levels, the emerging market and low income countries, and therefore with bigger debt service payments and less ability to do cheap borrowing.

Michael Klein:

So all of this happens to you before you were the chief economist at USAID, so I guess we can't blame you for that, but what does this mean for dealing with today's crisis, this history of what happened about a dozen years ago?

Stephen O'Connell:

Well, Mike, I think it constrains the space for running fiscal deficits this time around. More pressure to limit the increased deficits to a few years, while pushing very hard to raise domestic revenue, to cut unnecessary spending. And it also means major vulnerabilities to debt distress. So an increasing number of countries are already experiencing debt repayment problems. These countries are relying on short-term financing from the IMF to avoid a disorderly default that might bring a collapse of the domestic financial system.

Michael Klein:

Could these bad outcomes then spill back to affect advanced countries like the United States or countries in Europe or Japan?

Stephen O'Connell:

I think there's no question. A delayed recovery by the emerging market economies could be a big hit to the global economy, and a financial crisis or a set of crises is an even bigger risk. These economies are large enough as a group that their performance matters for everybody, including the advanced countries. Also, as I noted earlier, global trade has fallen very sharply during the pandemic, but in fact, that process was underway before the pandemic, and due partly to protectionist policies in a bunch of countries, especially under the outgoing administration right here in the US. And most economists feel that if the emerging market countries and others retreat further into protectionism, that'll damage the global economy.

Michael Klein:

So what could the richer countries do to help out, given that they're facing their own massive challenges at this time?

Stephen O'Connell:

Well, I think on the health side, the crucial issue is to assist with procurement and distribution of vaccines. For low income countries, including the Philippines, this effort is being led by the UN. The UN is hoping to deliver two billion doses by the end of 2021 to the developing countries. On the economic side, the IMF has a huge challenge, I think, in the emerging market economies, where it has to coordinate mainly private creditors to avoid debt meltdowns. But Michael, in the last few decades, more than a billion people have been lifted out of poverty in the developing world, perhaps the greatest advance in material welfare in human history.

Michael Klein:

So building on that progress, the UN's Sustainable Development Goals campaign is calling for a complete elimination of extreme poverty by 2030.

Stephen O'Connell:

Absolutely. But with COVID-19, we're now looking at the possible reversal of a decade or more of progress in the low income countries. So the debt service moratorium I mentioned has been very crucial in limiting this reversal to date, but the underlying debts are still piling up. So a number of economists are beginning to call for an outright cancellation of some portion of outstanding debts. A debt jubilee for low income countries that would give these countries some prospect of preserving essential services, preserving safety nets for their most vulnerable populations, and maintaining the public infrastructure investments that can help them grow out of the pandemic.

Michael Klein:

Well, this is an issue that is obviously of really true deep importance, and it's one that affects a large number of people across the globe, but it probably gets less attention than it should in many richer countries like the United States. So Steve, thanks very much for speaking with me today about this.

Stephen O'Connell:

Thank you, Michael.

Michael Klein: This is the final EconoFact Chats episode of 2020. We began this weekly podcast series in the summer. And by now, we've posted more than two dozen episodes. Many of these are of continuing interest, and I hope you get a chance to listen to some of my interviews like the one with Greg Mankiw on Macroeconomics in the COVID-19, era Karen Dynan on inequality Kadie Russ on trade and jobs, Jeremy

Stein on the financial sector and rescuing the economy, or Eduardo Porter in our interview about his book on racial hostility in modern America.

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