



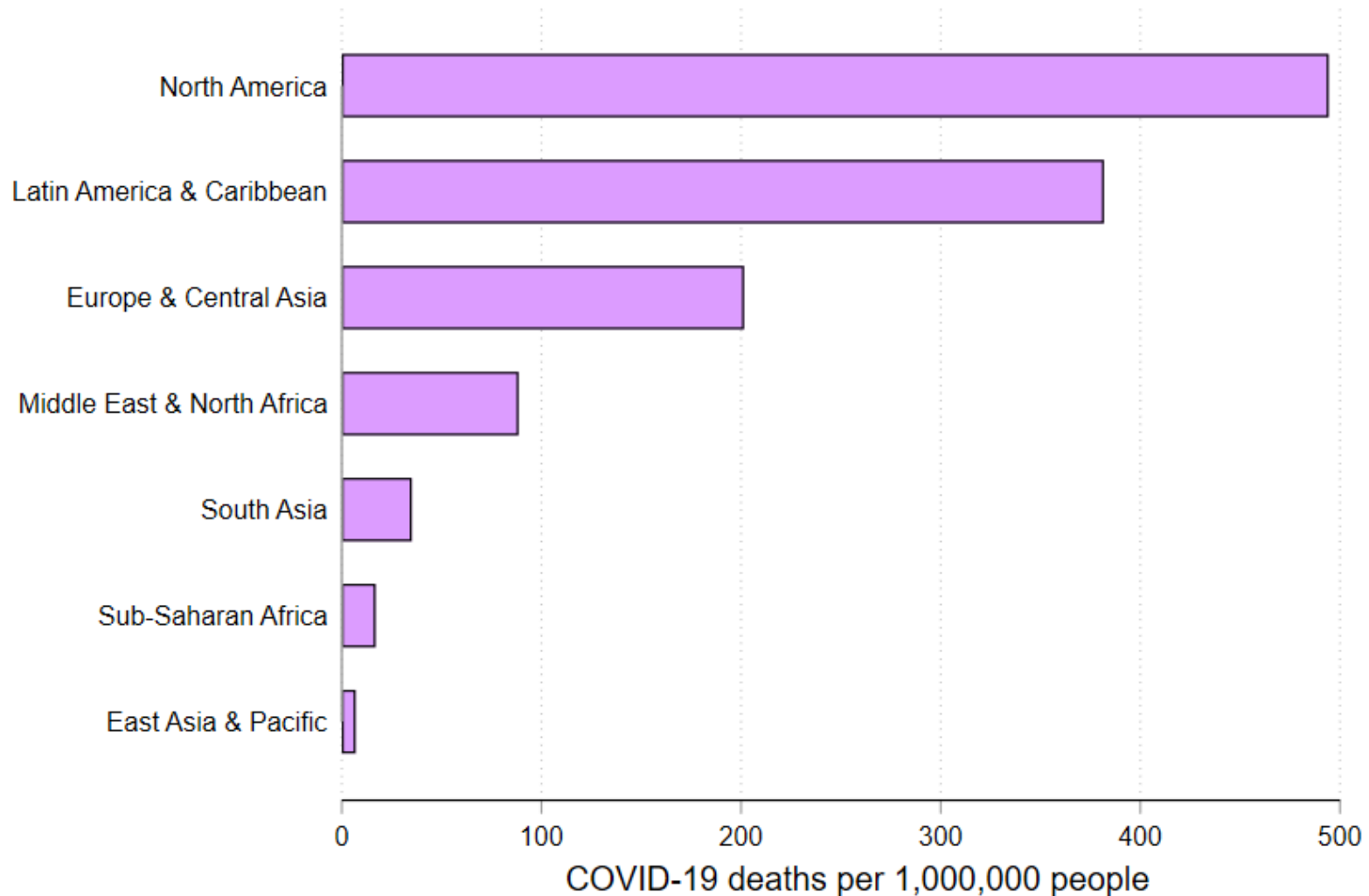
International
Growth Centre

The COVID-19 global recession and implications for developing countries

Matthieu Teachout, IGC Research Director
Uganda Economic Growth Forum
September 1st 2020

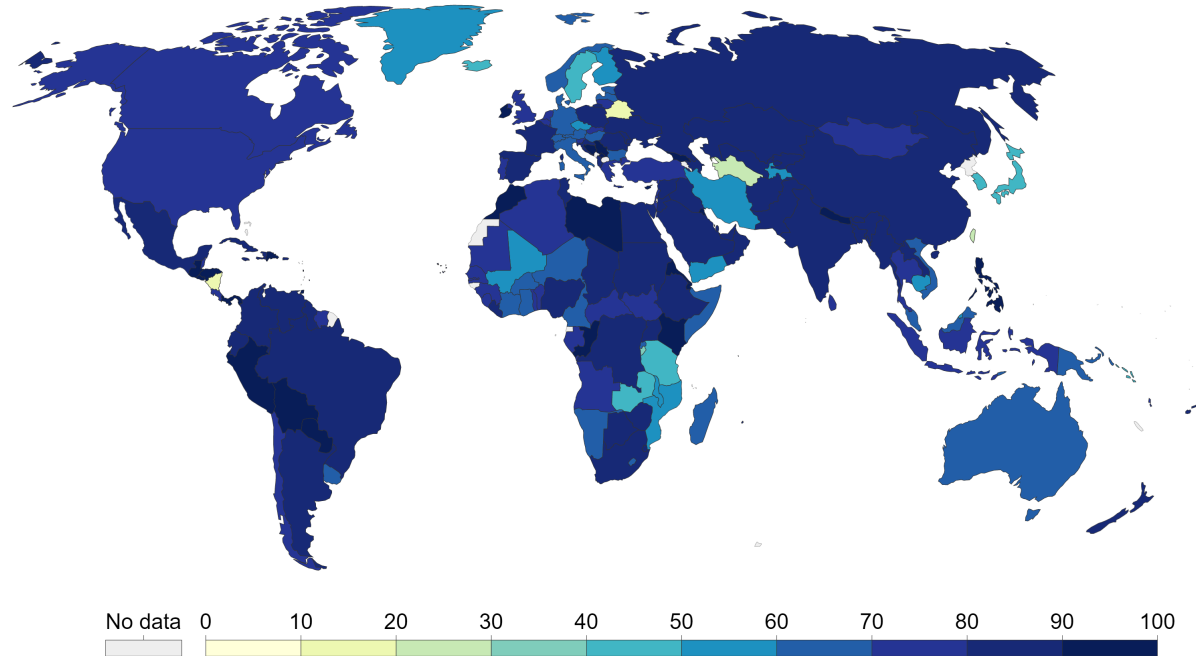
Economic impact of COVID-19 in developing countries

COVID-19: a global crisis



COVID-19: Government Response Stringency Index, May 10, 2020

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).

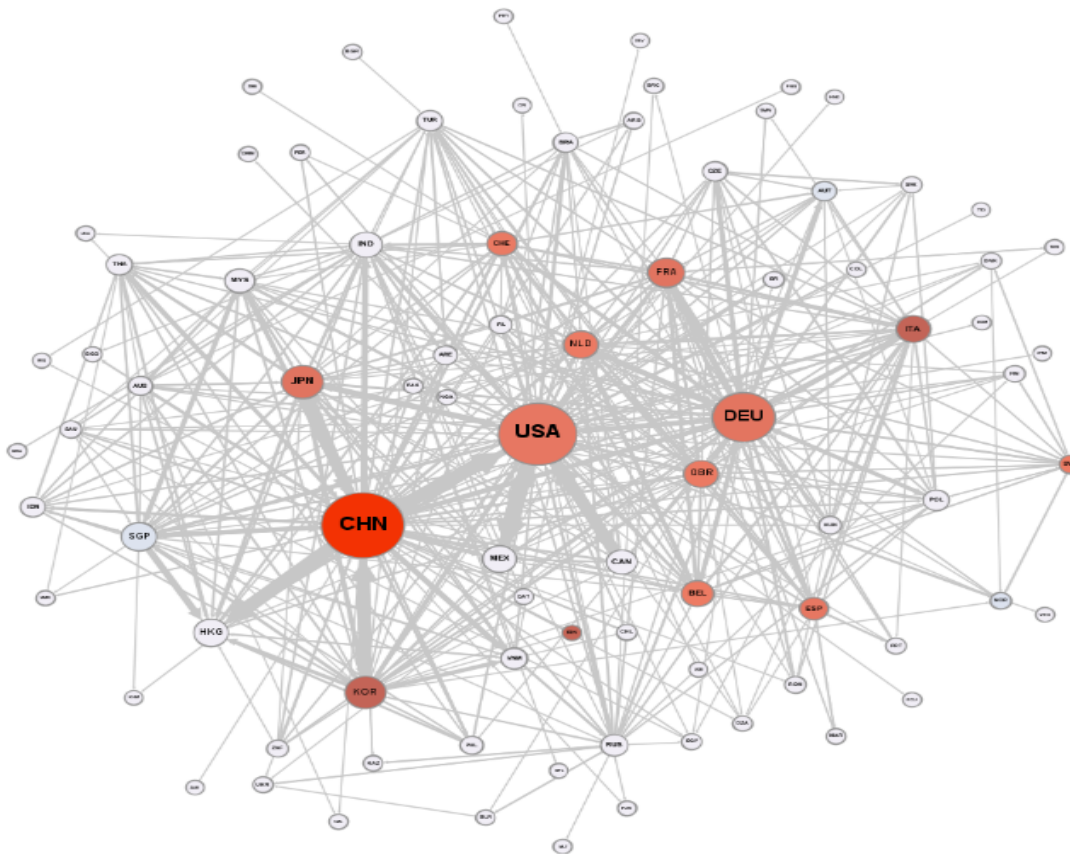


Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last updated 19 August, 12:30

COVID-19's economic impact

- **Supply side:** most countries have implemented very strong containment measures.
- **Demand side:** uncertainty about future spread of COVID-19 and containment measures.

COVID-19: an external shock



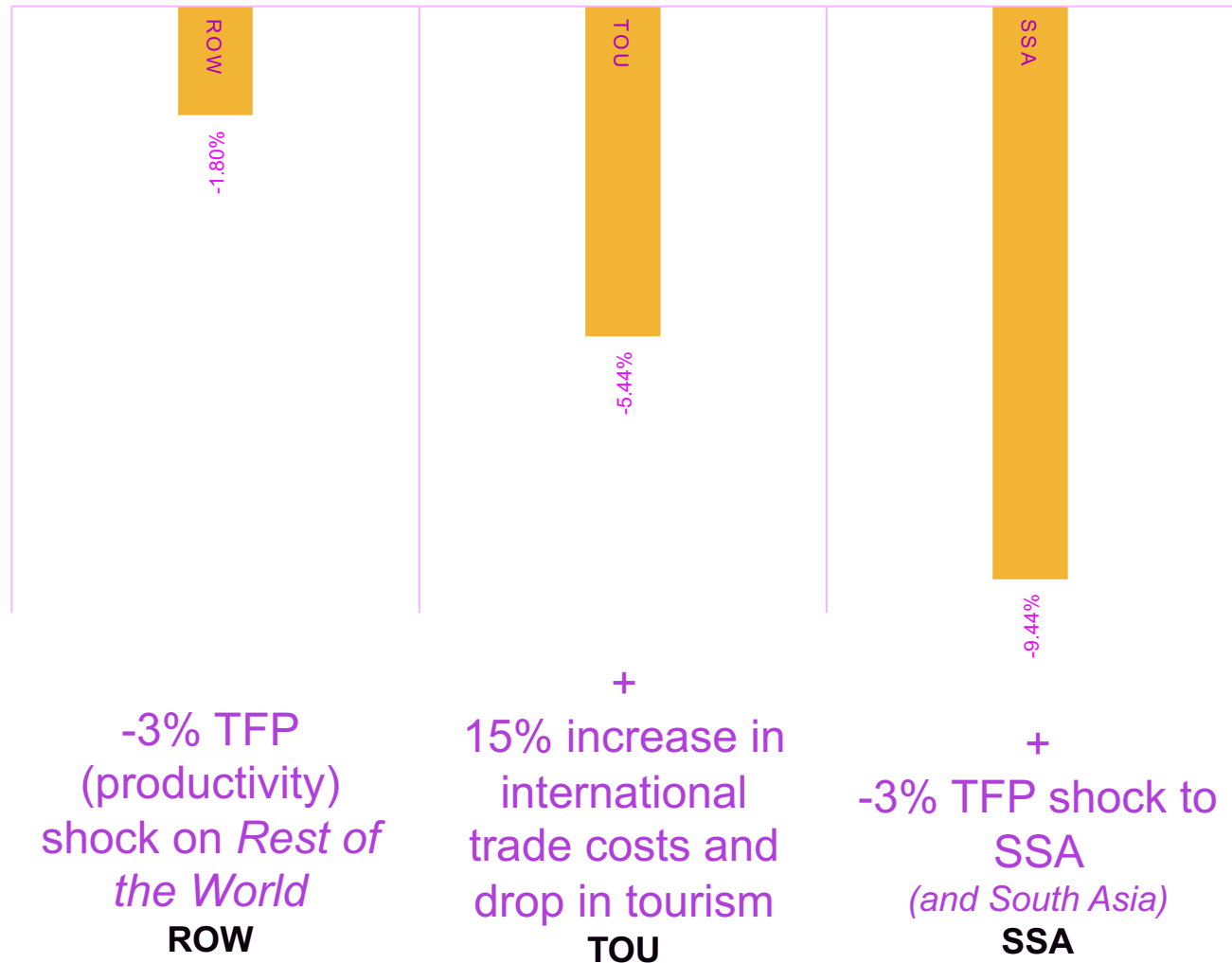
The most affected countries by COVID-19 are at the centre of global value chains.

Global network of intermediate trade, 2018
(Taglioni and Mattoo, 2020)

Results from a
computable
general
equilibrium
(CGE) model

Dominique van der
Mensbrugge
(2020)

**EQUIVALENT VARIATION
(CHANGE IN WELFARE)
% DEVIATION FROM BASE
SUB-SAHARAN AFRICA**



Outlook

The model presented in the previous slide assumed a 3% drop in TFP worldwide.

Source	GDP growth	
	Euro area	US
JP Morgan	-6.4%	-5.2%
FED (June)		-6.5%
EU (July)	-8.7%	
IMF (June)	-10.2%	-8%

IMF growth projections for SSA in 2020: - 3.2%

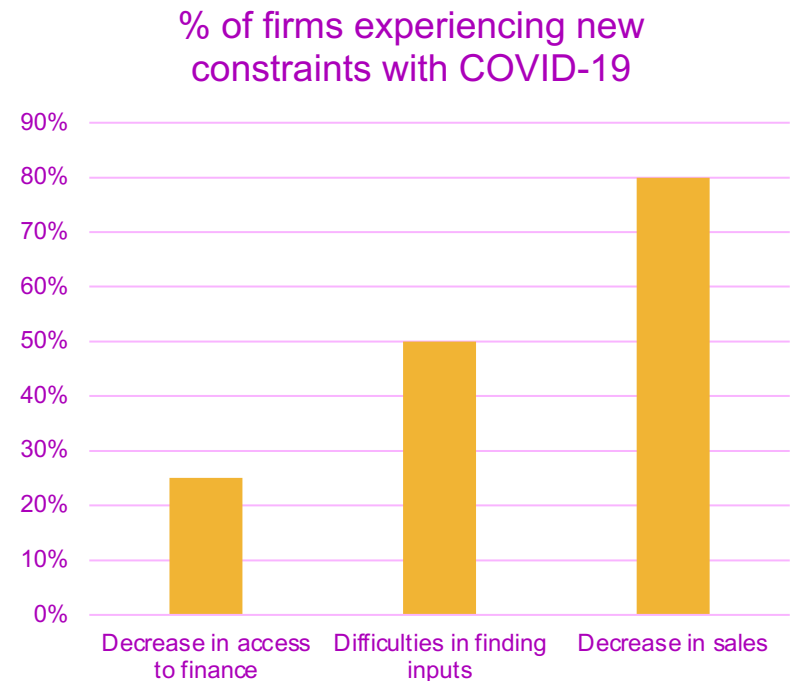
The shape of the recovery

Supply side:

- Physical capital, organisational knowledge, liquidity constraints.
- COVID-19 hitting countries at different times, second waves:
 - Disruptions of supply chains, inputs unavailable
- Financial sector

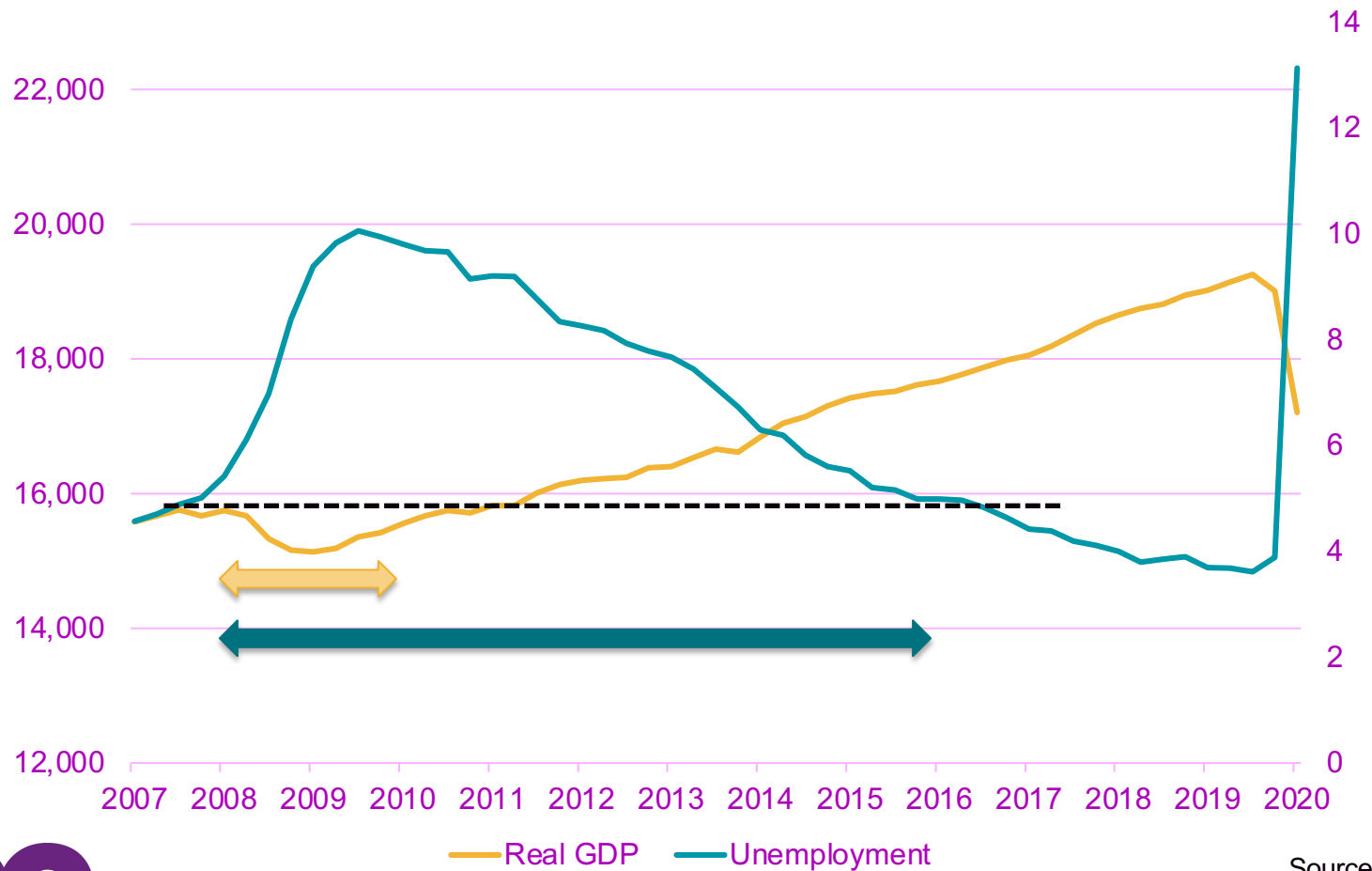
Demand side:

- Uncertainty
- Savings used during lockdown
- Risk of being infected



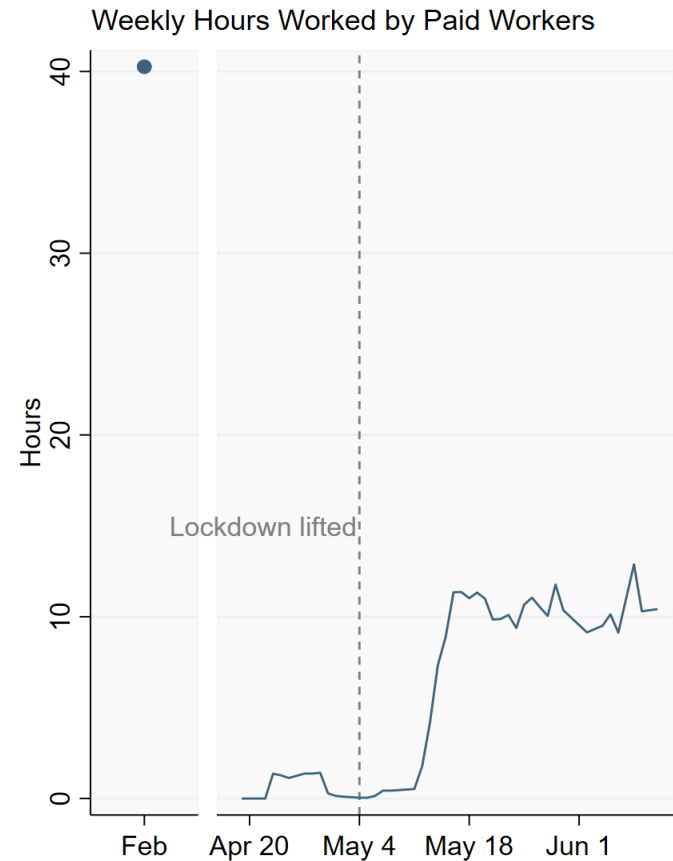
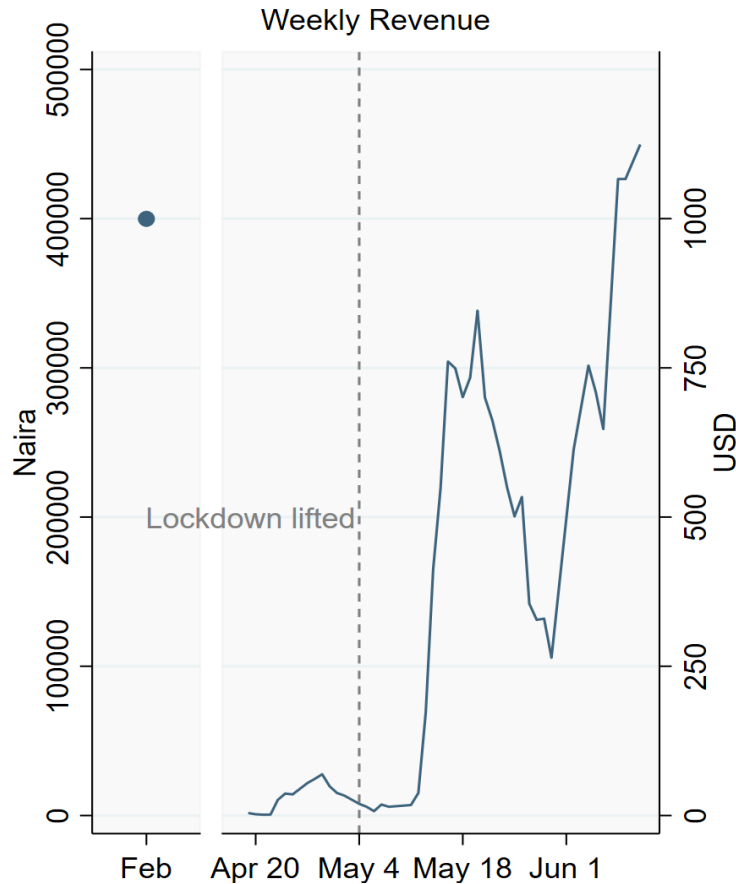
Source: various surveys from SSA countries.

Jobless recovery?



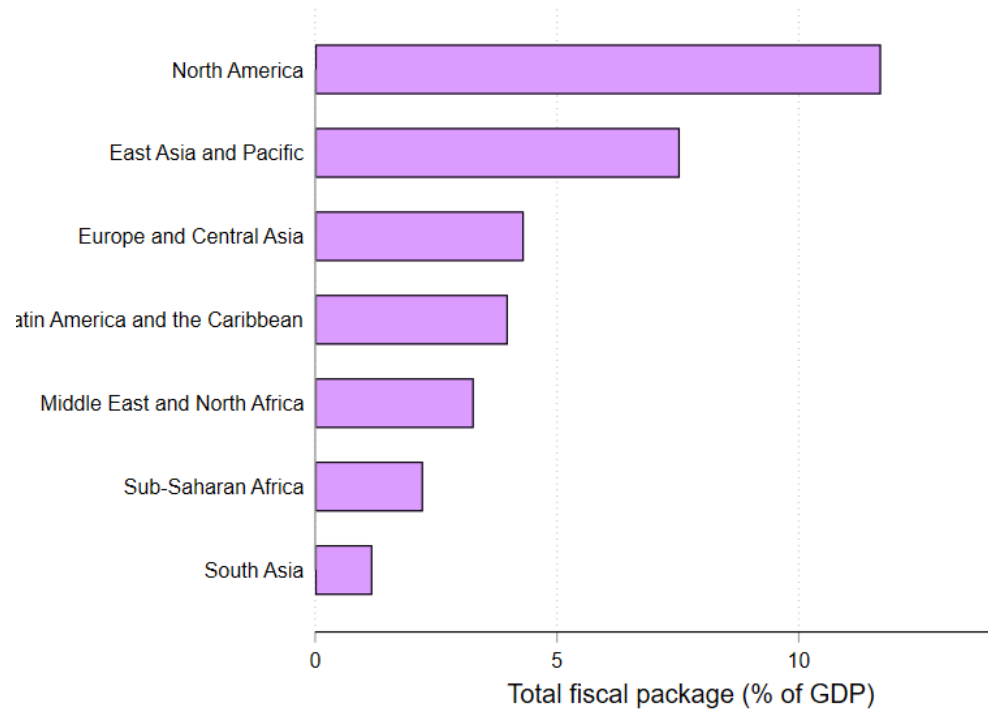
Source: BLS.

Jobless recovery?



Source: Lagos trader project, Nigeria, Startz et al. 2020

Policy response



- Countries and policymakers around the world have put in place a wide range of exceptional measures to respond to the economic crisis.

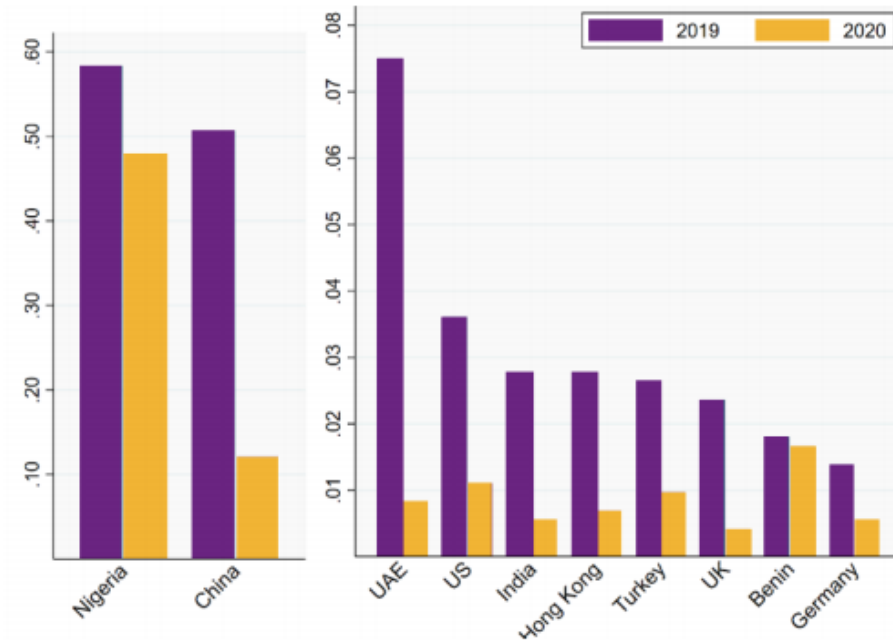
- Higher returns from **making sure firms can operate and people can earn a livelihood** (no bottlenecks at customs, PPE for market vendors, facilitating digital money transfers, supporting financial sector...etc.) **than from substituting households' income.**



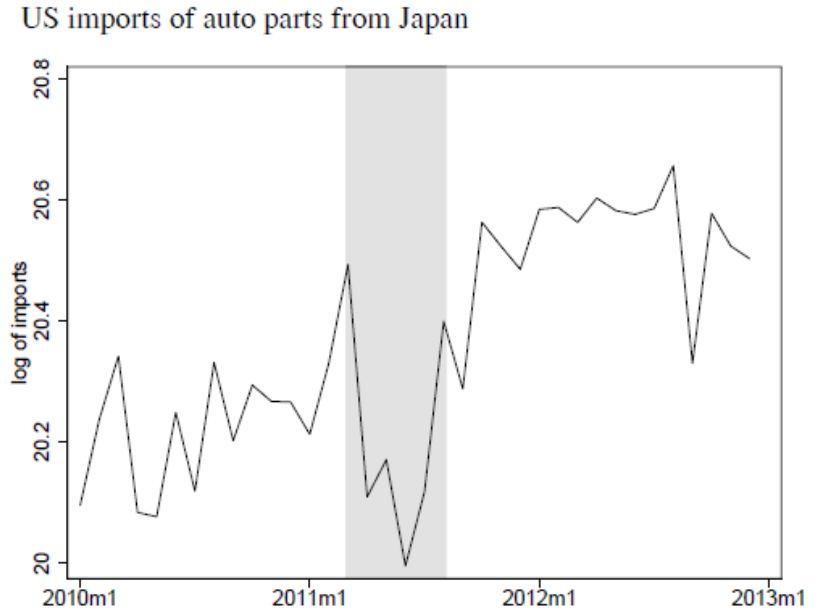
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Structural changes to the global economy and new opportunities

Re-shoring, near-shoring?



Source: Lagos trader project, Nigeria, Startz et al. 2020



Source: Freund et al, 2020. US imports and Japan earthquake

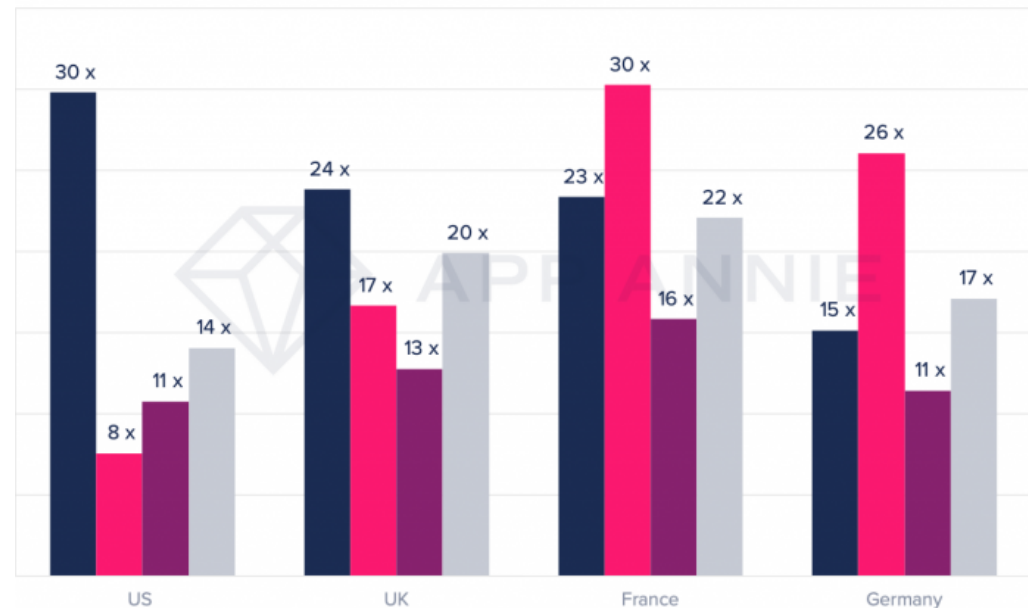
Distinction probably between finished products and key intermediate goods (which are hardly substitutable).

COVID-19: accelerator for structural change?

- **Big transformations that lead to economic development:**

- Mobility of capital
- Mobility of goods
- **Mobility of people → mobility of services:** tele-migration or 'ZOOM' revolution?

Growth in Downloads of Video Conferencing Apps
During Week of March 15-21, 2020 vs. Weekly Average for Q4 2019
During COVID-19 Pandemic



COVID-19: accelerator for structural change?

'Zoom' services-led growth:

- Comparative advantage is the same as for light manufacturing.
- Some entire sectors could be offshored. process already at work before COVID-19 (e.g. IT or customer services in India)
- Within firms, some functions/job roles could be offshored (BPO/ITES)

However:

1. Services are easily moveable – Financial incentives war 2.0?
2. Dynamic external gains, learning by doing, spillovers...etc. in manufacturing – do these exist in services?

Leveraging these opportunities

- 1) Market: Europe rather than US/Asia (time difference).
- 2) Ingredients: cities, IT/telecom infrastructure, services, matchmaking, changing social norm around these jobs.
- 3) Essentials: skills (specific rather than general, soft and hard), language.

Ecosystem: Private sector – government -- society

Leveraging these opportunities

Investing in skills

Hard **and** soft skills

- Hard 'specific' rather than 'generalist' skills: data entry, recording orders, contracts, insurance claims processing, basic accountancy services, IT fluency.
- Importance of language to build relationships and facilitate learning.
- Importance of soft skills: returns to skills complementary to automation will increase

Infrastructure

- Basic IT services
- Facilitating small financial transactions with foreign countries
- Creating an ecosystem with private sector – government – universities...
 - Need to change social norm about sector

Building the market

- Regulation that facilitates contractibility of services
- Focus on Europe rather than US and Asia