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EMERGING ECONOMIES DURING AND BEYOND THE COVID CRISIS

The breakout of the COVID-19 has caused dramatic health and economic consequences worldwide. The severity of the contagion and the resources and policies employed to tackle the virus are different across the globe, therefore determining heterogeneous outcomes. Although the poorest countries and emerging economies are not amongst those most affected in terms of (reported) victims, the economic consequences appear severe, especially considering the areas and sectors more integrated in the global value chains and world economy. The measures implemented in the advanced economies - lockdowns and social distancing - can have negative consequences also in these economies, reducing the Foreign Direct Investments, but also the official and private aid, the international demand for raw materials, and the remittances of migrants. Moreover, the pandemic context risks to exacerbate the vulnerabilities that characterize these countries, such as a dualist structure, the inequality of income and consumption and the narrowness of the public finances.

This newsletter wants to provide a picture of the economic impacts of the COVID crisis on the emerging economies, underlining the heterogeneities across countries, sectors, and social groups in order to identify the most vulnerable subjects and indicate adequate countermeasures. The effects of the pandemic in the short- and medium-run development of the emerging economies is drawing the attention of several economists. OEET newsletter 16 was about “*COVID-19, Development Perspectives and Inequalities?*”, and this topic was further explored during the 6th OEET workshop held in December 2020, about “*Emerging economies during and beyond the Covid crisis: insights and perspective?*”. This newsletter contains three contributions presented in that occasion, exploring the impact of the crisis focusing on the economic aspects. Such impacts involve a variety of micro- and macroeconomic aspects, such as international trade, labour market, redistribution and fiscal policies. The contributions of this newsletter are selected with the purpose of reflecting such an articulated impact, providing thus a timely and comprehensive picture. On the one hand, the geographic focus involves different world regions, namely Sub-Saharan Africa, India, and Arab countries. On the other hand, methodologically a variety of analytic tools and data sources are adopted. Indeed, after more than one year since the outbreak of the crisis and the declaration of the pandemic by the World Health Organization in March 2020,¹ we can now rely on different datasets to observe the dramatic economic consequences of this emergency burdening the emerging economies. A timely understanding of the COVID impact in the emerging economies is fundamental to foresee what medium-term consequences will thwart development in the next years and which policies can better address this.

¹ The WHO Director-general’s declaration can be found at: <https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19--11-march-2020>.

The first article, by Carlo Sdravovich, focuses on the poorest region of the world: Sub-Saharan countries. The impact of the pandemic and perspective of recovery are described based on the IMF data. The narrow space for social protection and other countercyclical policies represents a binding constraint for the governments of these countries. In order to address this limitation and foster the recovery of Sub-Saharan Africa, besides the international financial support, Sdravovich advocates various transformative reforms. Such reforms should address problems that have affected Sub-Saharan countries for a long time, and the urgency to foster the recovery could represent an opportunity to put in place these measures.

The second article, by Maurizio Bussolo, compares the reaction to the crisis amongst formal and informal workers. The case study is India, where the problem of informality is endemic. Econometric tools allow to monitor over time the risk of unemployment and the income loss in different groups of workers (formal, informal and self-employed). While informal workers were disproportionately affected in the earlier phase of the COVID outbreak, the crisis later hit more severely the formal workers. Indeed, a consistent flow of individuals from formal to informal works (besides an overall increase of unemployment) indicates a deterioration of Indian labour market during the last year.

The third article, by Velia Bigi, Elena Perra and Giorgia Giovannetti, adopts satellite data to describe the economic and environmental performance of Arab countries during the pandemic. The authors measure the difference before and after the COVID-related containment policy in the recorded nightlights and nitrogen dioxide data. These data are provided timely and correspond to extremely precise geographic units, representing therefore important sources for the economic analysis. All the countries considered - the southern shore of the Mediterranean - result negatively affected by the pandemic, but the magnitude of the impact varies a lot within the countries, especially hitting touristic destinations and large cities.

Sub-Saharan Africa: A Difficult Recovery

By Carlo Sdravovich*

A systemic, combined shock

The impact of the pandemic has been direct—through the health costs and curbs on economic activity from the lockdown and other public health measures—and indirect, through the fall in global demand for Sub-Saharan Africa (SSA) commodities and services, primarily tourism. Under the impact of the pandemic, SSA real GDP is estimated to have contracted by 3 percent in 2020, the largest decline on record, about 7 percentage points lower than projected in the last World Economic Outlook (WEO) before the pandemic, in October 2019.

In 2020, COVID-19 has affected SSA in different ways than other regions. Infection and mortality rates have remained much lower, partly due to lack of testing especially in the initial phases of the pandemic, but likely also thanks to the young demographic and relatively few transport connections to the rest of the world. Cumulative infections in SSA as of February 10, 2021 were 2,438 per million compared to 83,132 per million in the US and 41,857 per million in Europe. Further, because of uneven administrative capacity and the presence of large informal sectors, lockdowns have been rather short and rarely strict, since imposing and maintaining them has been difficult, and governments have been reluctant to maintain restrictions for long periods given that many households do not have precautionary savings and can rely on fewer safety nets than in higher income countries.

Uneven impact and development setback

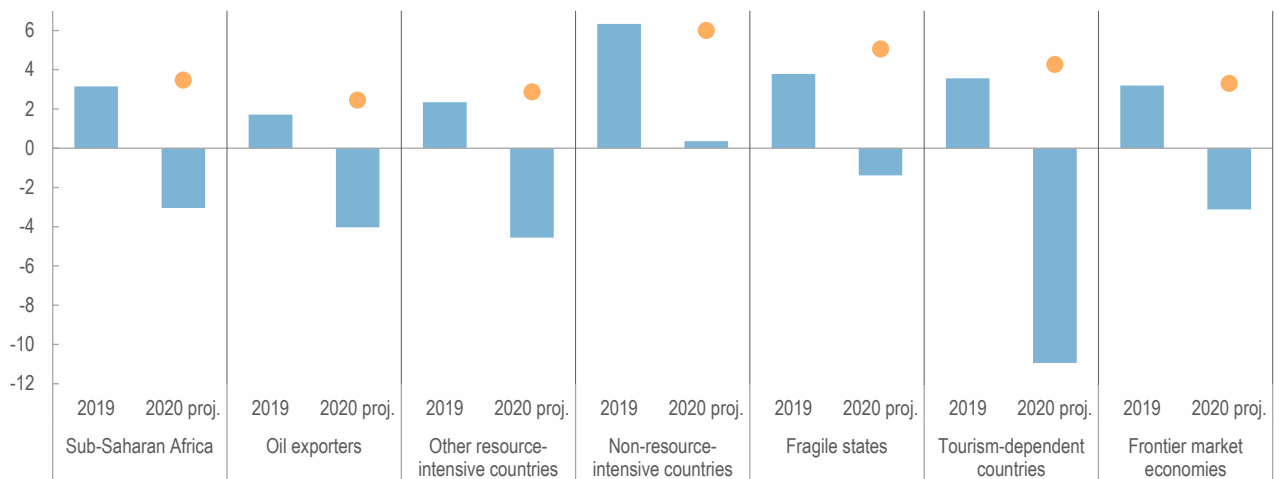
No country has been spared, but the growth impact has been uneven mainly depending on the economic structure of individual countries. The worst-hit include the tourism-dependent countries, such as Seychelles and Mauritius, and the oil- and, to less extent, the non-oil commodity exporters, which have suffered under the global decline in prices. The commodities that have seen an increase in prices—most notably gold, thanks to the risk-aversion especially at the outset of the pandemic—have not done well enough to reverse the overall decline in terms of trade. In contrast, countries with a diversified economy, such as Rwanda and Cote d'Ivoire, have managed to achieve low but positive growth last year.

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The following is a summary of the presentation made at the workshop on “Emerging economies during and beyond the Covid crisis: insights and perspectives” organized on December 11-12, 2020 by the Osservatorio sulle Economie Emergenti di Torino (OEET). Charts, data, and projections are based on the [October 2020 Regional Economic Outlook for Sub-Saharan Africa](#), with later updates.

The views expressed in this article are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Figure 1. Real GDP growth below expectations (percentage points)



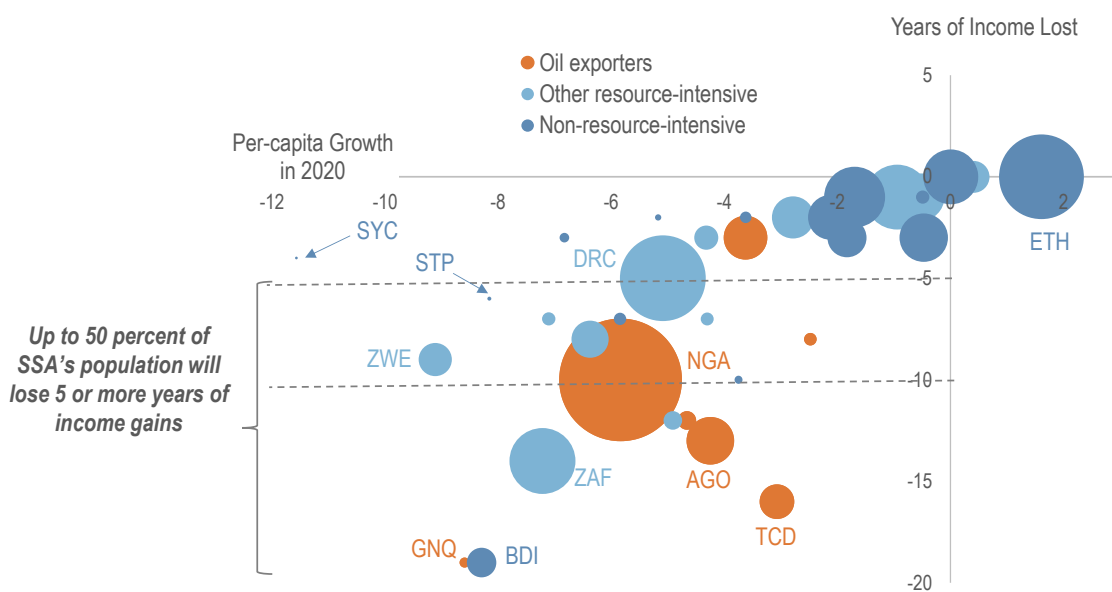
Source: IMF, World Economic Outlook and IMF staff calculations.

Note: Blue bars represent the real GDP growth; yellow dots represent the projections of the real GDP growth for 2020 estimated by IMF World Economic Outlook before the pandemic outbreak.

Capital flows also suffered: FDI to SSA is estimated to have declined by more than 20 percent compared to 2019, and market-access countries have seen net outflow of portfolio investment of more than a USD 20 billion net outflow or 1 percent of SSA GDP, particularly acute in the first phase of the crisis, before the global liquidity injection by reserve currency central banks.

When mapped to years of income gains, the per-capita income loss in 2020 translates in a slide backward by more than six years for about 50 percent of the SSA population (Figure 2).

Figure 2. Loss in per-capita income



Source: IMF, World Economic Outlook and IMF staff calculations.

Note: Each circle is proportional to the size of the population. The y-axis represents the number of years of per-capita income that was wiped out in 2020.

Long, risky recovery ahead

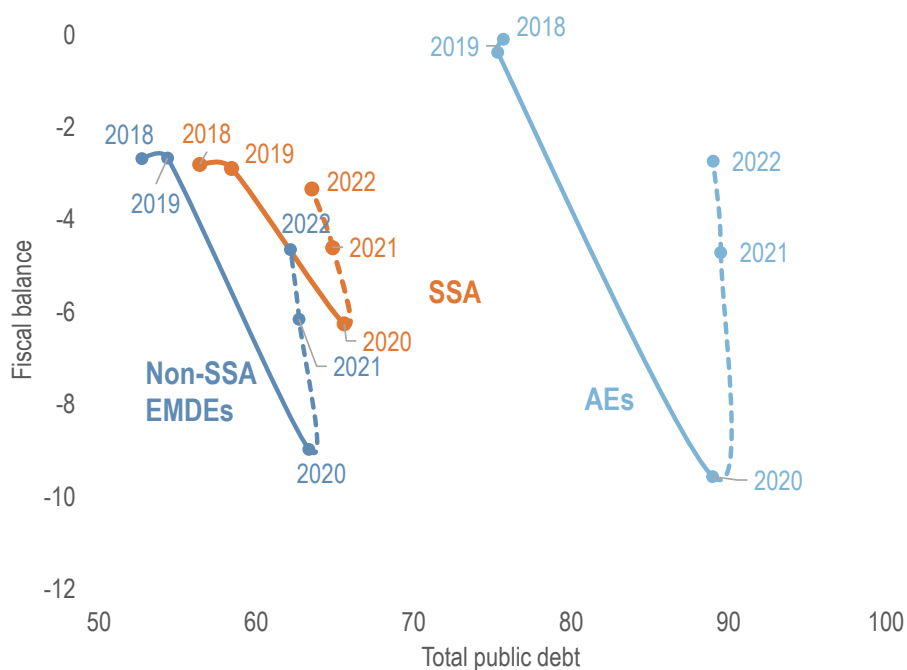
The IMF foresees a long and uneven recovery for SSA countries in the years ahead. On average, SSA countries' real income is expected to return to 2019 levels only in 2022. The upturn is likely to take longer for some groups of countries, particularly oil exporters and natural resource-intensive economies.

This broadly V-shaped recovery, however, is subject to large uncertainties. The biggest relates to the evolution of the pandemic. In this regard, the outlook has become much more complex than how it appeared at the end of 2020. The pandemic may continue to depress the global economy if new, more infectious variants become dominant, and hold back the recovery in demand for SSA exports and capital flows to the region. In SSA, a second wave is hitting countries hard, with the number of infections in many countries higher than the peak in the spring of last year. Even if fatality rates remain relatively low, compared to other Emerging Markets and Developing Economies (EMDEs) and Advanced Economies (AEs), health facilities have been under pressure, and some governments are reintroducing restrictions (even though not full-blown lockdowns) and enforcing social distancing behaviors. Furthermore, the timeline of the region's exit from the health crisis has become more uncertain as it is now clear that LICs will substantially lag other countries in the roll-out of vaccination campaign. This is due to a number of reasons, primarily the rationing out from the initial production of the vaccines because of the pre-purchase strategy extensively adopted by advanced economies, but also difficulties in mobilizing the financing necessary to purchase enough vaccines to cover most of the population and achieve herd immunity. The COVAX initiative, for example, subsidizes only the coverage of 20 percent of the population in eligible countries, and while it will facilitate the procurement of vaccines to reach 60 percent, the cost of the additional coverage rests with national budgets.

Countercyclical policies

SSA countries' ability to put in place a strong fiscal response to counteract the growth shock of the pandemic has been smaller than in advanced economies given the lack of fiscal space and budget financing—reflected in a significantly more limited scaling up of government spending and deficits. In 2020, SSA countries on average were estimated to have increased government deficits by 3 percentage points of GDP, compared to double that amount in non-SSA emerging and developing countries, and three times for AEs (Figure 3).

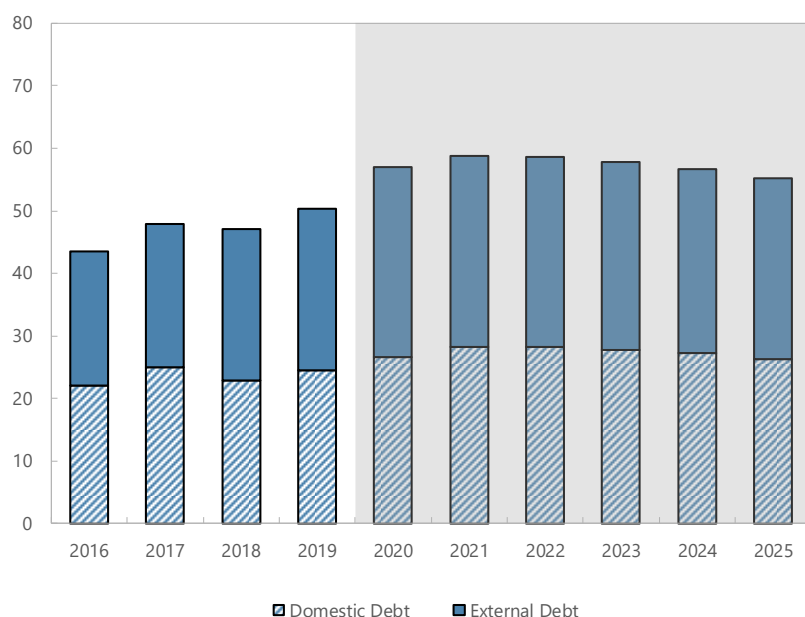
Figure 3. Fiscal Balance and public debt, 2018-22



Source: IMF, World Economic Outlook and IMF staff calculations.

In addition, many SSA countries were already suffering from high levels of public debt and debt vulnerabilities even before the pandemic, as underlined by the rising numbers of countries at high risk of debt distress or in debt distress based on the joint World Bank-IMF Debt Sustainability Framework, which has surged from eight in 2015 to 17 by end-2020. The large increase in government deficits to tackle the pandemic further exacerbated these debt vulnerabilities. Governments must now strike a difficult balance between maintaining targeted support to the economy and social protection to help the poor, while gradually bringing government deficits in line with a more sustainable medium-term fiscal path that can reduce debt vulnerabilities.

Figure 4. SSA average public debt



Source: IMF staff calculations.

Opportunities for a transformative recovery

The shape of the recovery will depend on the extent SSA governments are able to use the crisis as an opportunity to implement transformative reforms that address the structural weaknesses of the pre-COVID era. In many countries, domestic revenue mobilization, for example by broadening the tax base and rationalizing exemptions, is needed to increase the systemically low level of government revenues. Stronger social protection systems should be strengthened to reverse the increase in poverty induced by the pandemic, while making a more efficient use of scarce public resources. Government policies to expand SSA countries' connectivity and digitalization can support both a more efficient administration and boost the private sector. More transparency and stronger governance are essential to reduce corruption—one of the biggest obstacles to the development of a dynamic private sector in many countries in the region. Finally, governments can adopt policies to facilitate the transition to a greener economy, e.g., through carbon taxation.

Financing needs

But, returning to a robust recovery path will also depend on filling the large financing gap generated by the pandemic. IMF staff has calculated that gross financing needs in the region may amount to \$900 billion for 2020-23. The financing gap is estimated at \$120-130 billion in the same period. The international community has a critical role to play in filling this gap, even though an increase in aid from advanced economies will be challenging as governments and private sector in those economies struggle themselves to return to normalcy.

Workers at risk: Informality and COVID in India

By Maurizio Bussolo^{}, Ananya Kotia[†] and Siddharth Sharma[‡]*

Introduction

The COVID-19 pandemic is having unequal impacts across race, gender, age, and income groups, exacerbating pre-existing inequalities. This contribution focusses on the differential impact of the pandemic on an important dimension of emerging economy labour markets: informality. Informal workers are not covered by formal employment protection laws and social insurance programs, and are concentrated in small and micro-sized firms, which have limited cash reserves for paying employees in the event of insufficient earnings. They may have limited access to relief measures introduced by governments in response to the COVID-19 crisis. It is also likely that informal workers were less able to self-insure against this shock than formal workers, owing to lower levels of savings and poorer access to credit. We use a large panel data of workers to assess how informal workers have weathered the crisis as compared to formal workers in India.

Extensive margin of employment

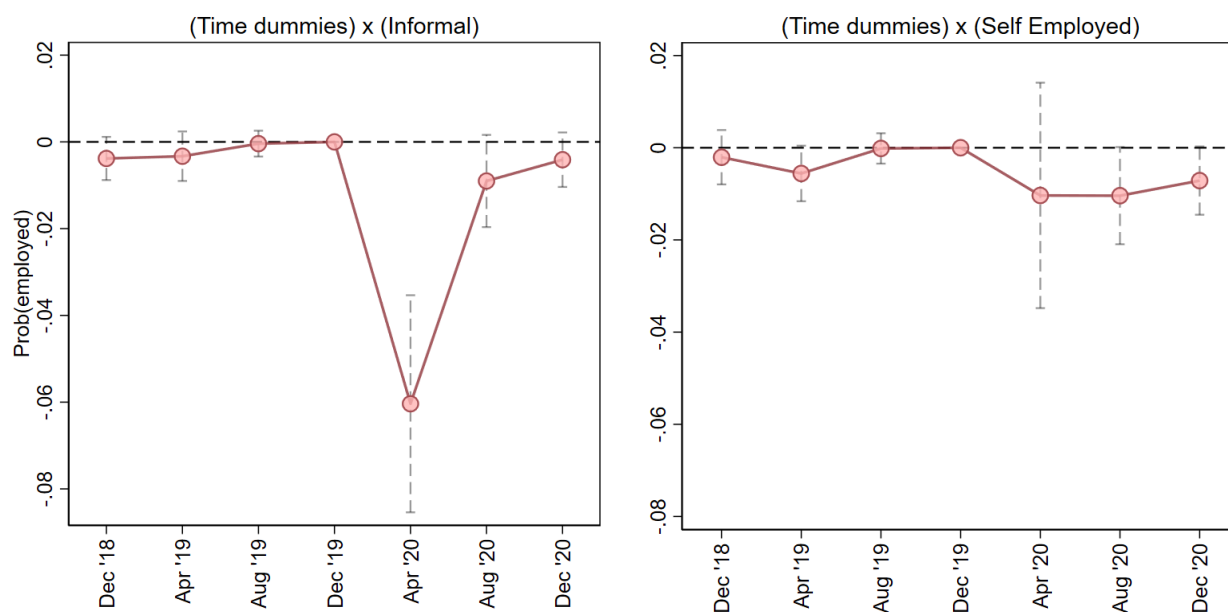
We estimate difference-in-difference event study regressions to find that informal workers were significantly more likely to lose a job during the early period of pandemic (April-May 2020) than their formal counterparts. The left panel of Figure 1 shows this differential impact of the pandemic. The likelihood of an informal worker losing her job was 6% more than her formal counterpart in the same district and industry. As Figure 1 shows, before the pandemic, there was no such difference between the probability of being employed between these two worker categories. Because we control for district-time and industry-time fixed effects, the vulnerability of informal workers we report is not driven by their selection into specific industries like tourism and hospitality, which were disproportionately hit by the lockdown. To a lesser extent, self-employed individuals were also more vulnerable than formal workers (right panel, Figure 1).

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Figure 1. Employment probability of informal and self-employed compared to formal workers

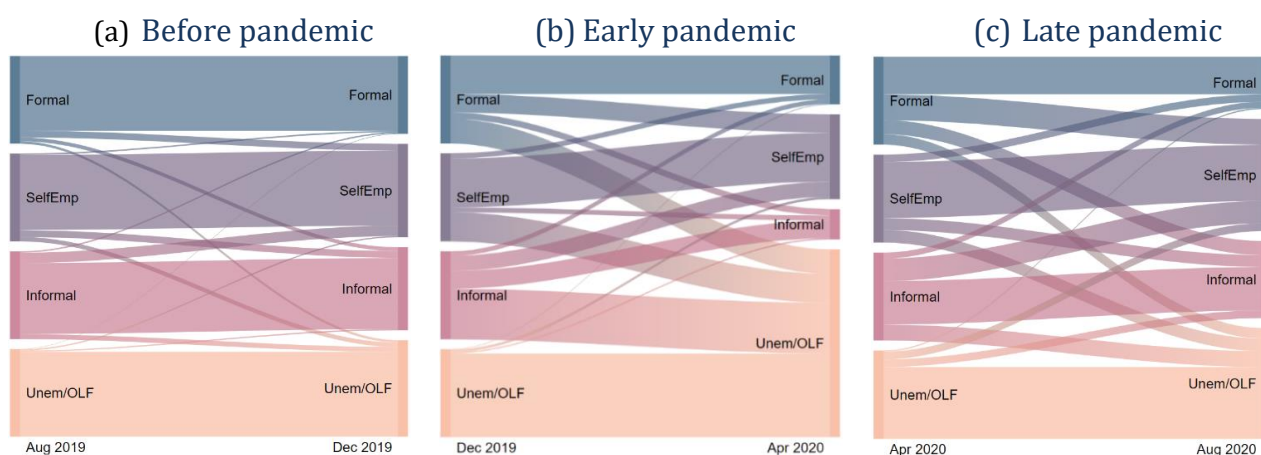


Labor market churning among the employed

The gap in employment outcomes between formal and informal workers was short-lived. By June 2020, there was no difference in the probability of employment between the two categories of workers. This quick “recovery” can also be seen in the country’s headline unemployment rate, which nearly returned to its pre-pandemic levels of 8-9%, after having risen by threefold in April-May 2020.

Figure 2 shows that these aggregate flows towards unemployment and outside the labour force (OLF) mask considerable churning in India’s labour market, which has continued well beyond April 2020. As compared to pre-pandemic transitions (August-December 2019), there was a strikingly large outflow of jobs from the formal sector into informality and self-employment during the early pandemic phase (December 2019-April 2020). This outflow from formal jobs has continued steadily, even as lockdowns were eased in the late pandemic phase (April-August 2020). Moreover, new jobs during the “recovery” have almost entirely come from the informal or self-employed sectors.

Figure 2. Labour market churning: Comparison of employment probability



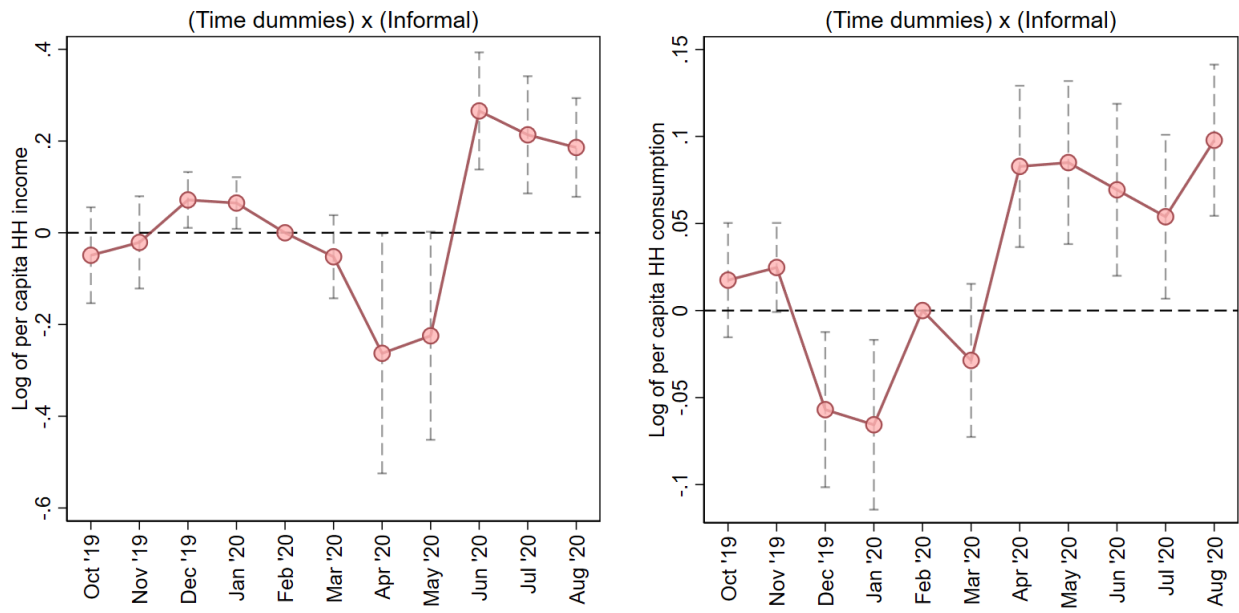
Therefore, even though aggregate unemployment figures seem to have recovered to their pre-pandemic levels, persistent churning in the labour market has deteriorated the average quality of jobs in India.

Welfare

Like employment, there is a large overall negative impact on per-capita household income, with an additional penalty for informal workers (Figure 3, left panel). However, in contrast to employment, incomes of informal households recovered faster than those of formal workers: controlling for district-wave and industry-wave fixed effects, the estimated informal-formal income difference in June, July and August 2020 (relative to February 2020) is positive and statistically significant. In other words, their income level relative to formal workers had improved from its pre-COVID baseline.

Interestingly, despite larger initial income losses, informal workers are able to better protect their consumption relative to their formal counterparts (Figure 3, right panel). Understanding what is behind this puzzle of the differential trajectories of consumption and income is relevant for policymaking. This apparent puzzle may disappear if consumption were considered in real rather than nominal terms. There is some evidence that, due to pandemic related disruptions, food prices increased more than prices for other goods and given the fact that poorer, informal households purchase a larger share of food their welfare impact vis-à-vis that of formal households may have been worse than that suggested by considering nominal consumption. Another possible explanation of this puzzle is that it is due to forced saving of the formal households who were prevented, relatively more than informal households, from consuming certain goods and services due to the lockdown. In this case, we would expect a relatively rapid recovery of consumption demand among richer households in the coming year.

Figure 3. Per capita income and consumption of informal compared to formal workers



Visualising the Effects of COVID-19 Containment Measures in the Arab States

By *Velia Bigi*^{*}, *Elena Perra*[†] and *Giorgia Giovannetti*[‡]

Introduction

Arab countries are among those that have employed precautionary measures to tackle the diffusion of COVID-19, acting in advance to avoid the dramatic consequences of the virus. By exploiting new publicly available data sets, we obtained a real-time analysis of the economic and environmental consequences of the measures undertaken to tackle the spread of the COVID-19 pandemic. The empirical focus is on a selected group of countries in the Arab region, illustrative of the socio-dynamics of the area. This allows to “visualize” the regions that have been most negatively affected by the contagion containment measures, using near-real time data, such as the drop in emitted luminosity (NTLs) and the reduction in NO₂ presence in the atmosphere as proxies for economic activity and urban settlement dynamics (Henderson, Storeygard and Weil, 2012). This framework may offer policymakers significant insight enabling them to implement cost-effective, regionally targeted policies to help mitigate the economic damages caused by coronavirus. Moreover, an investigation on the potential correlation among the collapse of oil prices in the region, the drop in NO₂ emissions and mobility trends data shows how these indicators are significantly interconnected. Finally, exploiting the estimated elasticities of GDP to variation in NTLs, as in Giovannetti and Perra (2020), we provide alternative measurements of GDP loss. By extrapolating GDP loss from the reduction in NTLs, different scenarios have been provided for each country, with slightly different projections with respect to those released by the International Monetary Fund (IMF) and the World Bank.

This article is an extract of the presentation on “The Covid-19 crisis in countries of the South shore of the Mediterranean” at the workshop on “Emerging economies during and beyond the Covid crisis: insights and perspectives”.

Related Literature

Addressing the urgency of the COVID-19 crisis calls for researchers to employ new digital millennium tools. The Day/Night Band (DNB) sensor of the Visible Infra-red Imaging Radiometer Suite (NOAA, 2013) is a valuable tool for extrapolating global daily measurements of nocturnal visible and near-infrared lights, which can be used as effective proxies for economic activity (Henderson, Storeygard and Weil, 2012). The sensor represents a new generation of quality NTL products that allow for better monitoring of night-time phenomena, giving new insights for applied studies (Levin and others, 2020). Equally, the European Space Agency (ESA) has recently released a new environmental air quality data set, collected through Sentinel-5P satellite using TROPOMI (a tropospheric monitoring instrument) (Goddard Earth Sciences Data and Information Services Center, 2019). Similarly, nitrogen dioxide (NO₂), a trace-gas toxic component, may be considered a valuable proxy for human activities, since it is the result of

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anthropogenic events and natural processes, such as fossil fuel combustion from vehicles and power plants, and also lighting (Ogen, 2020; Doll, Muller and Elvidge, 2000). The use of these alternative data sources is usually associated with countries with a weak statistical and administrative system—namely developing countries—which cannot rely on swift, solid and trustworthy data.

To build a holistic picture of the economic damages caused by the measures, these data were mapped for each country to show the change from pre- to post-lockdown/containment measures, both in terms of NTLs and NO₂.

Key Findings

In the south shore of the Mediterranean, Tunisia, Morocco, Jordan and Egypt were severely hit by the pandemic in terms of production slowdown. Strong reductions registered in NO₂ emissions seem to be consistent and severe across all the Tunisian territory, with an average NO₂ emissions reduction of approximately -29.77%. The main touristic destinations are the most severely damaged by the lockdown. Tourism is the second largest contributor to the Tunisian economy, therefore the complete shutdown of all the premises may have had devastating consequences in terms of economic and social recovery. NO₂ emissions have experienced a generalised and significant drop for all the Moroccan territory, averaging -39.28%. The most severe variations were concentrated in the main cities of Rabat, Tangier, Casablanca and Marrakesh. The observed drop in NTLs was around 1%, even though in some areas it peaked at 6.3%. The most affected places were the major population centres and tourist destinations. In Jordan, NO₂ underwent an average negative drop of 42% for the most hit areas, but it stands on a countrywide average variation of -16%. The worst impacted areas were found in western Jordan, which borders with Israel and Palestine. All the major tourist attractions and tourist industry facilities are condensed within this strip. The registered drop in NTLs does not seem to involve the main city centres, but rather the areas surrounding the major tourist hubs, like Petra, Crusader Castle Montreal and Wadi Rum. Egypt is among the countries that have experienced the highest recorded drop in terms of NO₂ emissions with an estimated average drop of -55.74%. The reduction in luminosity, meanwhile, has been less dramatic, at around 3–4%. However, the maps show that although the country has undergone a generalized reduction in both luminosity and emissions, the areas that have seen the worst impact are those that follow the course of the Nile. Similarly to Tunisia and Morocco, tourist hotspots in particular have been most affected by the crisis.

Figure 1. NO2 variation in Morocco

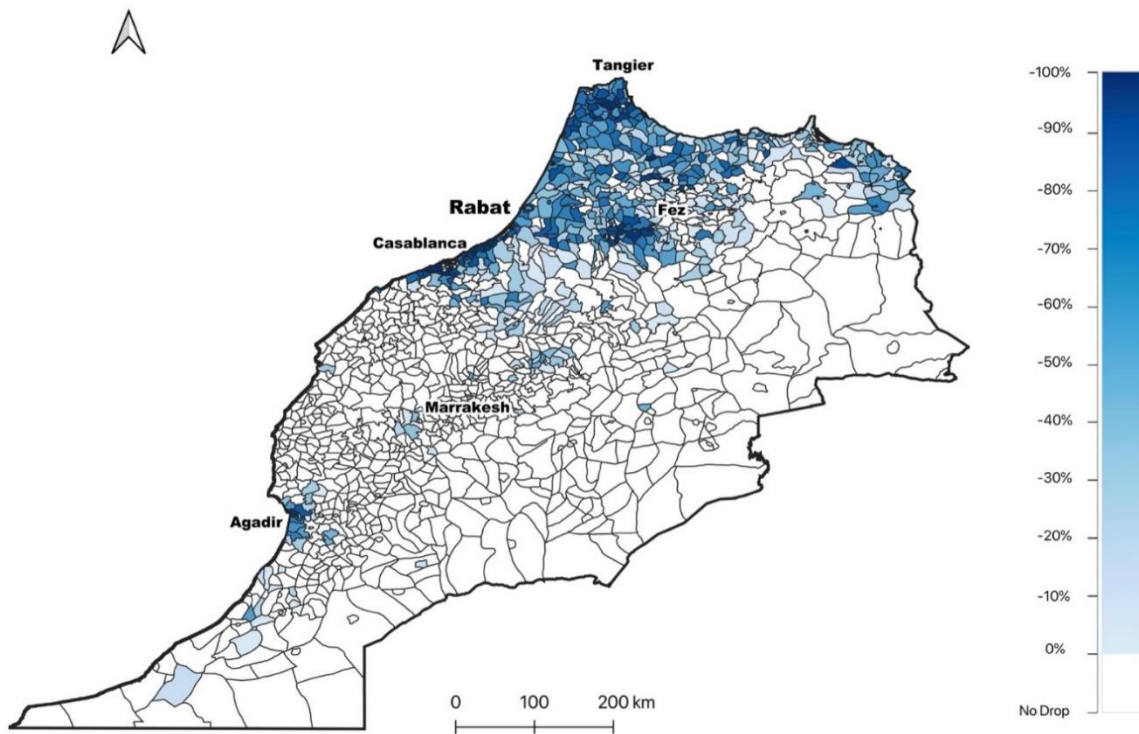


Figure 2. NO2 variation in Tunisia

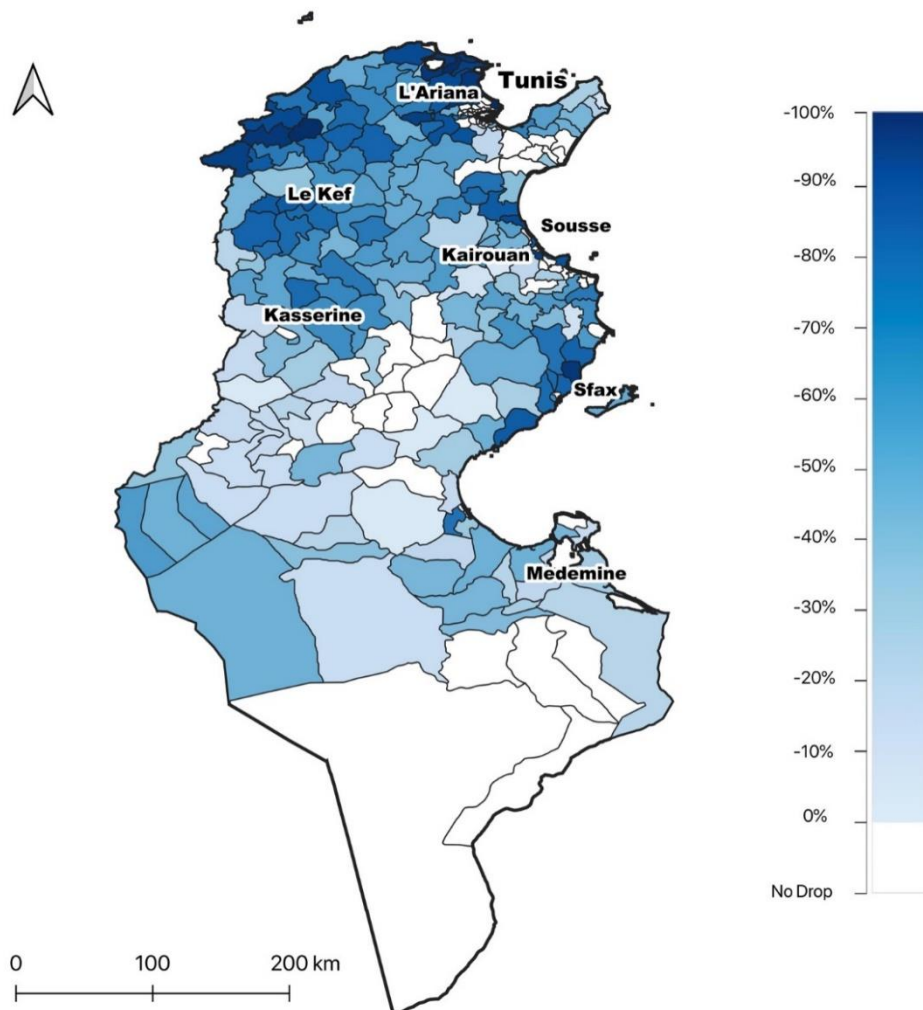


Figure 3. NTL variation in Morocco

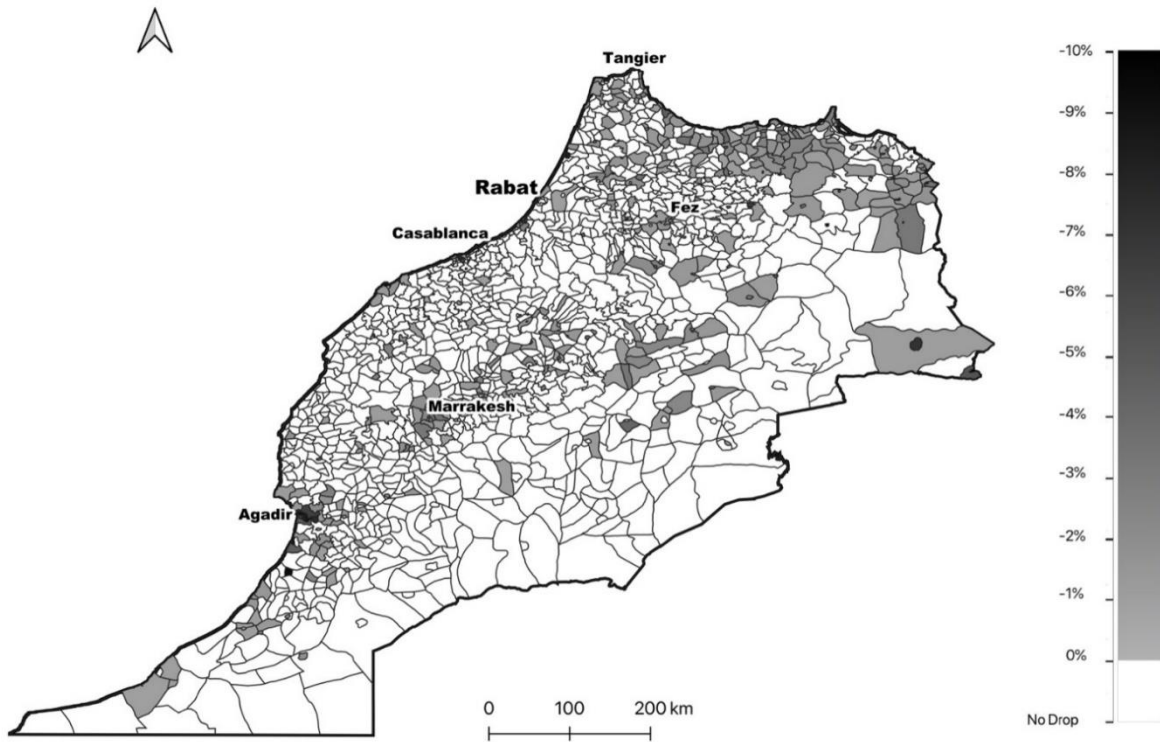
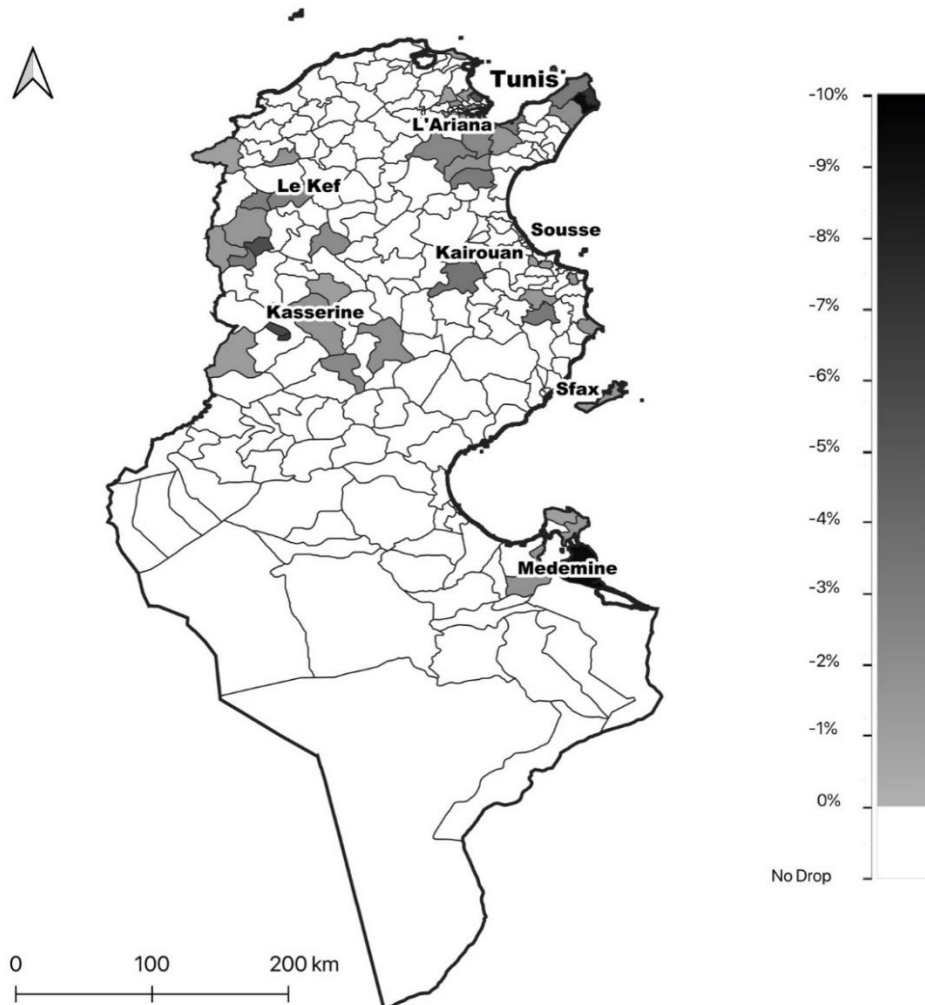


Figure 4. NTL variation in Tunisia



Key conclusions and policy implications

The employment of satellite data may give significant new insights into the creation of alternative ways of measuring economic outcomes to assess the impact of exogenous shocks. At the same time, it is possible to identify the most affected areas, allowing to deploy specifically targeted economic and social policies which take into consideration the spatial heterogeneity of each country.

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