Tackling Economic Fallout of COVID-19 Pandemic: Policy Choices and Experiences from BRICS and G20

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Synopsis

- Emerging markets in the Asia-Pacific region represented by BRICS and G20 are caught in the “Essential Consumption” trap. It would take several quarters to expect economic recovery from the wear and tear of the pandemic.
- As observed by UNCTAD, most of the G20 countries have not contributed significantly to the global demand during 2018 and 2019. The implementation of fiscal stimulus packages in response to the COVID-19 may stimulate domestic demand in those economies and help accelerate global aggregate demand.
- Besides the US$5 trillion economic package by G20, co-financing by Multilateral Development Banks (MDBs), resource pooling by countries for joint R&D on medicines and medical equipment, and South-South and Triangular Cooperation would be necessary to mitigate adverse impacts of the pandemic.

Motivation and Objectives

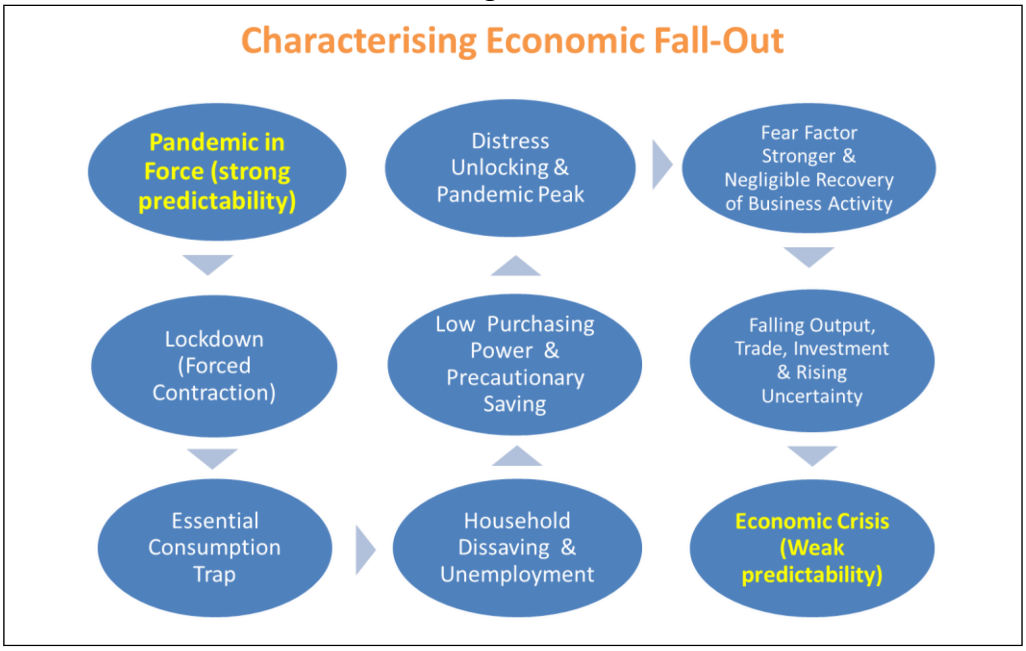
As the COVID-19 has affected all countries in the world, the primary motivation for this paper is to assess the nature and depth of the economic consequences of the pandemic, including the policy choices and responses in BRICS and G20 countries. BRICS and G20 representing a sizeable fraction of the global output matters more in the post-pandemic global economic recovery relative to the contribution of other countries. In essence, the objective of the paper is to discern any pattern in characterizing the economic fallout and policy responses based on trends in secondary data.

Characterizing Economic Fallout

The COVID-19 pandemic is rapidly approaching a full-fledged economic crisis as sources of future global growth especially in emerging markets that are members of leading country groupings, for example, BRICS and G20 have already dwindled. India, China, Brazil, Mexico, Russia, and the rest of BRICS and G20 have not only witnessed large number of COVID-19-confirmed cases but also faced forced contraction of their economies in the first two quarters of 2020–2021 due to complete or partial lockdown. Fiscal and monetary policy choices adopted so far in the affected economies have been standard but with characteristics signaling course correction in medium- and long-term economic strategy. Meanwhile, the rationalization of public expenditure which was warranted as a result of disproportionately higher allocations of resources to health systems and infrastructure could yield precipitous slowdown in productive sectors of the economy as economic activities in emerging markets and developing economies are largely public sector-led and the “crowding-in” impact of public sector investments.

Although efforts to step up domestic production and R&D in different sub-sectors of health such as vaccine development, production of generic drugs, and innovations in testing and treatment methods and techniques, are acting as stimulants for the BRICS and G20 countries, economic recovery from the "essential consumption trap" is not going to be easy in the coming months despite lowering of interest rates, a moratorium on working capital and consumption loans, debt waivers, among others. The impatience for achieving high growth in BRICS and G20 emerging markets both as a result of conscious policy and outcome of peer competition does not leave many rooms for radical policy maneuvering except intelligent packaging and sequencing of fiscal and monetary policy doses. In other words, achieving high growth is not a choice between "hard-landing" and "soft-landing" rather "landing and taking off safe." This paper discusses the abovementioned complex interactions during and after the COVID-19 period drawing inputs from BRICS and G20 countries. The official commitments of BRICS and G20 to tackle the economic fallout of the COVID-19 are also discussed.

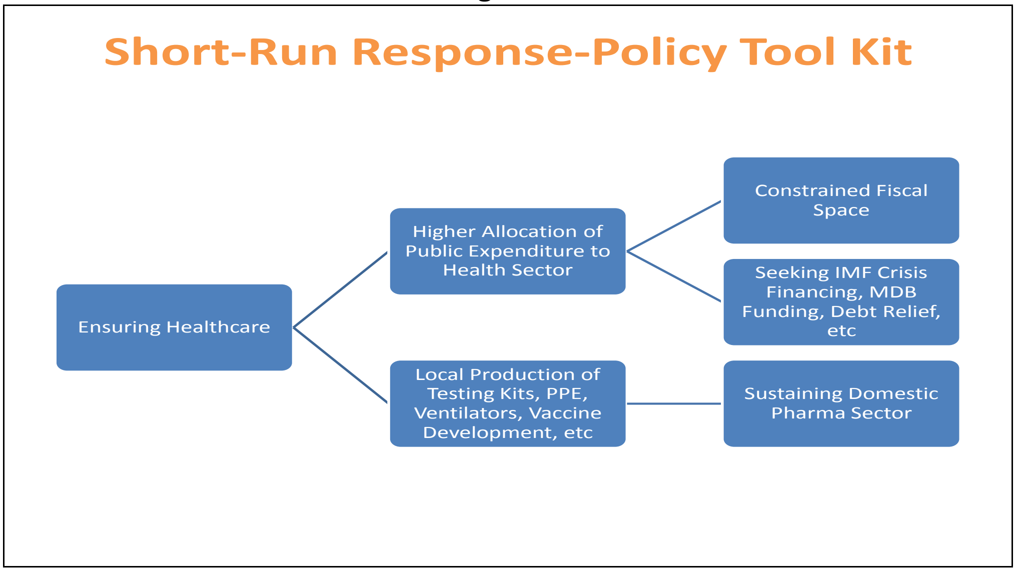
Figure 1



Source: Drawn by Author.

Instead of providing a much-needed trigger for global growth, the BRICS and G20-emerging market economies are caught in the "essential consumption" trap (Figure 1). Since a lockdown was a known event, we define the initial outcome in the first weeks of lockdown as strong predictability because the magnitude of economic loss was somehow easy to comprehend based on past data in different sectors. However, in the course of the lockdown and unlocking with evolving economic circumstances, predicting the roadmap for economic recovery was still apparently unclear. After unlocking was announced a few weeks back, the anticipated surge in economic activity was not observed. The lower participation of people in the economy was primarily due to very strong fear in the minds of ordinary people. At present, unless otherwise required, nobody is in a mood to go out; hence, recovery is uncertain as individuals do have an incentive to go beyond essential consumption. The sequential path illustrated in Figure 1 indicates that the uncertainty in the economy could mature to the stage of economic crisis because predictability is weak as the nature and magnitude of the crisis are still unfolding.

Figure 2



Source: Drawn by Author.

Nature of Policy Response

Similar to the incidence of the COVID-19 on the economies, the policy response in BRICS and G20-emerging markets was also prompt and responsive. Ensuring healthcare had assumed the top priority followed by demand correction measures. The increase in the allocation of public expenditure to the health sector had resulted in constrained fiscal space. Some countries have approached the International Monetary Fund (IMF), Multilateral Development Banks (MDBs), debt relief, and others for short-term support so as to supplement the domestic resources at disposal. The core issue was to sustain fiscal support measures. Besides liquidity support, loan moratorium, and others, social protection measures were extended to vulnerable sections of society. Apparently, there exists enough scope in numbers of G20 economies to step up demand in response to fiscal stimulus. During 2018-19, the net contribution of G20 economies such as Argentina, Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, South Africa and Turkey was negative suggesting they depended on demand generated from the rest of the world than contributing to global aggregate demand (Table 1). Given the size and importance of these economies, fiscal stimulus triggering economic activities is likely in the post-pandemic period.

Table 1: Structure of Global Demand (Avg. 2018-19, %)

Country	Growth of National Income	Net Domestic Injections to Global Demand	Net Private Sector Injection	Net Govt. Sector Injection	Structural Change in Export Performance	Absorption of ROW Relative to Domestic	Composite Index of Structure of Demand
China	6.4	0.2	-1.0	1.2	1.2	-0.8	372
Indonesia	5.3	0.2	0.6	-0.4	0.4	-0.4	313
US	2.6	0.0	-0.8	0.8	-0.2	0.1	250
Other EU	2.2	0.2	0.3	-0.2	-0.8	0.6	210
Brazil	0.3	0.9	2.4	-1.5	-0.8	0.3	193
UK	1.0	0.3	0.5	-0.2	-1.3	0.6	189
Russia	0.7	0.5	2.9	-2.4	-0.7	0.6	183
Saudi Arabia	-0.3	0.1	3.5	-3.4	-1.4	1.2	136
India	7.1	-0.5	-1.4	0.9	0.9	-0.7	205
Turkey	3.7	-2.9	-4.4	1.4	0.9	0.6	162
Australia	2.7	-1.1	-1.0	0.0	-0.2	0.3	89
Korea	2.5	-0.7	-1.7	1.0	-0.7	0.7	84
Japan	1.1	-0.2	0.1	-0.3	-0.9	0.5	56
France	1.5	-0.4	-0.5	0.1	-1.0	0.7	56
Canada	2.0	-0.4	-0.3	-0.1	-1.0	0.5	54
South Africa	0.6	-0.1	-1.1	1.0	-1.7	0.8	38
Argentina	-2.5	-0.4	0.8	-1.2	-1.1	0.7	36
Mexico	0.9	-0.3	-0.8	0.5	-2.0	0.9	19
Italy	0.8	-0.1	0.3	-0.4	-1.7	0.8	15
Germany	1.3	-0.1	0.1	-0.2	-2.2	1.0	-3

Source: UNCTAD (2020)

Fiscal stimulus packages are the potent and desired instruments of policy support at this juncture for the emerging market economies. For yielding an effective outcome, investment in quality infrastructure and digital economy could form the core of the fiscal stimulus packages. Given the high infrastructure financing gap, investment in quality and resilient infrastructure would not only generate income but also contribute to long-run supply capabilities. Furthermore, investment in the digital economy/technologies which has been the backbone for the people and governments during long periods of lockdown is a sensible proposition. In fact, the social desirability of expanding digital infrastructure has been widely felt during the COVID-19 pandemic than before.

Table 2: Forms of Social Assistance

Program	No. of Measures
Cash transfers (conditional and unconditional)	207
Universal one-off cash	4
Childcare support	10
Cash for work	9
Social pensions	14
Sub-total (All cash-based measures)	**244**
In-kind food/Voucher schemes	79
School feeding	21
Sub-total (all in-kind measures)	**100**
Utility and financial obligation (waiver/postponement)	111
Total	**455**

Source: Gentilini, Almenfi, Dale, Demarco and Santos (2020)

Besides support to economy, it was important to address the poor and vulnerable segments in society, as the adverse impacts of economic shut-down were sharp and harsh for most of them. Table 2 provides the various forms of social assistance that were extended during the COVID-19 pandemic. Most of the policy measures were aimed at ensuring cash to the affected people, followed by food or in-kind support and waiver or postponement of financial obligations. Variants of those measures have been implemented across the world to mitigate immediate strains and anxiety in the communities.

Conclusion

BRICS and G20 countries have implemented standard measures similar to those typically adopted by other countries during crises. While these economies could judge the magnitude of economic losses that would happen due to the closing down of all sectors during the early stages of the outbreak, predictability of disruption in the economy and recovery became gradually uncertain over time. However, early actions in the areas of ensuring essential supplies, addressing financial stress among firms and households, implementing fiscal stimulus programmes and the like by BRICS and G20 economies unilaterally and as groupings were extraordinary.

References

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