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## The COVID-19 crisis and its implications for economic policy

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### Introduction

The COVID-19 pandemic is not only a public health crisis, but also a complex global economic crisis with a profound socio-economic effect unprecedented since the Spanish flu. Unlike the 2008 global financial and economic crisis, the current economic recession is interlocked with a public health emergency at a time of weak multilateral collaboration, which has exposed the vulnerability of the world economic system. The pandemic has also revealed vast differences in government policy responses, highlighting differentiated industrial policies and development roles of governments. In contrast to the last major global economic crisis, most governments in developed and

developing economies are pursuing expansionary economic stimulus to accelerate economic recovery and develop productive transformation (including green transformation).

This policy brief focuses on key lessons that have implications for economic policy: First, it points to the uneven effects of the crisis and analyses the responses of various governments and the subsequent unbalanced economic recovery, with a specific focus on stimulus packages and their implications for economic policies in developing countries. Second, it suggests that governments with industrial capacities and industrial policy experience have been better positioned to translate industrial capability into an appropriate public

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health emergency response and productive transformation. Third, it explores the most effective pathway to sustained recovery and argues that productive transformation requires robust global collaboration.

### Unprecedented crisis of a global magnitude

The COVID-19 pandemic is unprecedented in terms of the depth of the crisis and global magnitude. By the end of 2022, over 650 million people had been affected by the pandemic, and over 6.5 million were fatalities.<sup>1</sup> Economic and scientific advances contributed to better effects during the COVID-19 crisis. Nonetheless, the complexity of COVID-19 lies in multidimensional effects in terms of health emergencies, economic recession, and more profound global social and political crises.

The impact of COVID-19 was worse among developing countries, however, especially low-income developing countries because of resource scarcity, limited fiscal space, low scientific and technological capacity, and low industrial capacity. It widened inequality across developing and advanced economies and within economies, hitting low-income populations and women.

The response to the COVID-19 crisis and outcomes on both the health and economic front and in public communication was uneven across regions and countries. The response was more effective in a situation where public trust in the government was better, where the government's industrial capacity and technological capability were better, and where government coordination across its agencies was stronger. However, balancing the responses to a health emergency with economic recovery, choices needed to be made between the focus on emergency and long-term solutions. These choices were

navigated through the changing behaviours of the pandemic and the gravity of the economic crisis. Choosing effective health measures (such as lock-down) and their popularity among the public gave rise to deep tensions and contention throughout the pandemic.

Global collaboration during the COVID-19 crisis was weaker than during the 2009 global financial crisis, further worsening the recent crisis. Scientific collaboration is essential in such a global pandemic, but was not happening at the desired level. The pandemic was highly politicised by many populist government leaders, and posturing was a key impediment to the coordinated global response. Economic stimulus and monetary policy measures lacked effective coordination in response to the depth of the economic crisis.

### Unevenness in responses in Africa

The COVID-19 pandemic infection rate in Africa was arguably lower than in other regions, accounting for below 2% of infections and 4% of deaths. COVID-19 infections and deaths were uneven among African countries and regions, with South Africa and the Northern region accounting for the most affected. South Africa, Morocco and Tunisia accounted for over half of the COVID infections on the continent. Africa fell into economic recession for the first time since 1995, and the number of people living under the poverty level increased by approximately 50%.

Most African countries took swift and bold measures, but with varying approaches to lock-down, public health measures, and supporting the vulnerable. The Africa Centres for Disease Control and Prevention (CDC) contributed as a platform for coordinating and sharing experiences among health ministers. African leaders took a common position representing the continent. However, vaccine coverage was

<sup>1</sup> It is comparable to the 1918 Spanish flu, with about 500 million infections (a third of the world's population) and approximately 50 million deaths.

marginal in 2021, and it was under 25% of the population by the end of 2022. Advanced economies resisted the waiver of patents for the production of vaccines in Africa. The issuance of special drawing rights (SDR) by the IMF was targeted primarily at supporting its influential shareholders rather than developing countries. Africa's share was only 6% from the issuance of SDR.

The government of South Africa took a more effectively coordinated and comprehensive approach to COVID-19. South Africa and Mauritius supported the most vulnerable population, which was exemplary. South African scientists and research institutes contributed to scientific advances concerning the pandemic and deployed effective free vaccine services. In Ethiopia, a targeted approach ensured that manufacturers in industrial parks received support to create productive capacity in the production of personal protective equipment (PPE) and COVID-19 test kits. Algeria commenced with the production of vaccines. Firms also show pioneering examples. Ethiopian Airlines proved its resilience by shifting to a diversified business model, moving to cargo during the crisis and becoming profitable without government subsidy. The African Union also launched the African Continental Free Trade Area (AfCFTA) in January 2021, despite the COVID-19 crisis.

### Implications for economic policy

#### *The role of the state in economic policies*

The COVID-19 crisis vividly illustrates the role of governments during such an unprecedented crisis in fighting the pandemic and ensuring economic stimulus and recovery to make sure that economic slowdown is managed effectively, thus ensuring the dynamism of economic growth. Governments that ensured a stimulus and recovery package that was designed to improve the long-term competitiveness of their respective economies and technological advances performed better

in developing long-term economic transformation. The role of governments was unequivocally essential in developing coordination at all levels and ensuring that voluntary public actions were directed at fighting the pandemic. Supporting vulnerable social groups remained critical in terms of social inclusivity, and productive capacity was maintained. The crisis demonstrated that economic stimulus rather than austerity is essential, along with maintaining fiscal discipline and coordinated monetary policy. This message is contrary to the conventional wisdom that undermines the role of governments and emphasises a belief in austerity.

COVID-19 has shown the centrality of productive transformation in economic recovery, and that channelling industrial capacity to the public health emergency was more effective where prior investment had already been made. Targeted economic stimuli and recovery programmes were more likely to be aligned with long-term competitiveness. For developing countries, the COVID-19 crisis showed the vulnerability of their economies, the centrality of economic transformation and the need to build a robust manufacturing and industrial capacity. However, pursuing industrial policies in developing countries has to be integrated with complementary macroeconomic policies.

Developing countries were most vulnerable to the COVID-19 pandemic because of their low economic resilience, weak innovation and technological capability, underdeveloped healthcare systems, minimal resource bases, and social fabric. Various research has shown that the pandemic is significantly related to climate change and underlined the need for green transformation and carbon-neutral paths as essential elements of economic policies. COVID-19 exposed the vulnerability and inefficiency of the global value chains (GVCs) throughout the process. It has raised new research issues regarding the nature of

and shifts in the global value chain, such as diversification to regional value chains.

#### *Global collaboration*

A global threat like COVID-19 leaves no population or geographical area untouched. Because of this, dual policy responses are necessary: the need for international collaboration, and support for developing economies as part of international cooperation. The big powers, including the G7 and the G20, and the emerging economies must strengthen their collaboration with developing countries to overcome this global threat. Exceptional leadership is essential for an effective response to such an unprecedented global threat.

The collective and coordinated global response to the COVID-19 crisis should focus on installing diversified strategies, scientific collaboration and effective international governance systems.

First, each government's response to COVID-19 needs to reflect its specific conditions, such as demography, settlement patterns, healthcare systems, economic conditions, and political/governance systems, as these differ among countries and regions. Second, the COVID-19 pandemic is primarily a health issue, to which scientific advances and research breakthroughs are central. Developing new, affordable and effective vaccines and treatments is vital and a priority. Technological breakthroughs in tracking and tracing systems are critical, as are technologies that improve analytical and decision-making processes. Research and development to underpin scientific advancement require international collaboration between governments, the private sector, the scientific community and universities. Scientific breakthroughs should focus on identifying, protecting from and curing infectious diseases, which are a significant constraint on developing countries. These endeavours should also tackle climate change, a significant contributor to health risks.

Third, it must be noted that the international governance system and the essential roles of the Bretton Woods institutions, which served the realities of the post-Second World War era, have changed fundamentally. The nature of global capitalism and global power dynamics have also shifted significantly. Hence, the inability of institutions to respond effectively to global threats, including pandemics, the climate change crisis and cyberwar, suggests the failure of international governance systems. The developing world is underrepresented in international governance systems and agreements that serve the interests of the great core powers, while these fail to protect the interests of developing countries. The UN, WTO and other multilateral institutions struggle to fulfil their mandates (Gallagher and Kozul-Wright 2021).

#### *Adaptive leadership*

Policymakers and leaders must take swift and bold decisions in the face of inadequate evidence, incomplete scientific advice, and evolving uncertainty. Leadership, after all, is about building on strengths. COVID-19 has presented an opportunity to strengthen resilience and thrive on new opportunities. Governments need to understand their unique circumstances and take unconventional approaches. Despite the uncertainties, leaders must make swift decisions based on the best available scientific evidence. Standard prescriptions will not work in this multidimensional crisis, which will have long-term implications. It will require local and national responses that take the unique context of each country into account, along with united international responses and unified regional actions. The diverse and particular approaches taken by the governments of Sweden and Spain are examples.

### **Conclusions**

The COVID-19 crisis is unprecedented and multifaced and has overwhelmed all regions,

countries and industries, with significant implications for economic policies in developing countries. This paper highlights observations and insights with immense relevance to policymaking.

First, the effects of COVID-19 on countries have been diverse and, not surprisingly, the responses by governments have been uneven. This suggests that a ‘one-size-fits-all’ approach to policy response is unlikely to work. Economic policies need to reflect the specificities and capacities of countries and the context in which they are implemented. Unfortunately, developing countries had to cope with the crisis in the face of resource constraints and other developmental challenges. The Ethiopian Airlines example mentioned in this paper provides a valuable lesson – that when faced with unforeseen external shocks, firms and governments should build on their competitive advantage and use the crisis as an opportunity to build resilience.

Second, the COVID-19 pandemic showed the vitality of building health infrastructure and organising early-warning systems in preparation for future pandemics. Developing countries that fail to learn from this important lesson will live to regret the outbreak of another pandemic, which cannot be ruled out. For African countries, the COVID-19 crisis is a wake-up call on two levels – first, the urgent need to build a resilient and prevention-oriented public health system with emergency capability, and second, the need to develop their productive capacities, which are vital for producing some of the basic medical supplies and necessities that are required during a global pandemic and economic crisis.

Third, the review indicates that economic policies targeting economic recovery could synergise with productive transformation goals to ensure sustained growth and competitiveness. The evidence suggests that macroeconomic policies should synergise with industrial policies to support production transformation and reflect recent changes. The

policy response to public debt stress and inflation deserves focus to maintain and accelerate the recovery and momentum of production transformation.

Finally, and arguably, the COVID-19 story highlights the growing importance of industrial policy and the government’s developmental role – the implications of COVID-19 for policy. Although industrial policy has been revived recently, the COVID-19 crisis has placed it at the centre of policymaking, dashing any doubts about its importance. Many governments have responded swiftly, and the evidence shows the essential role of the state in this regard.

### Reference

Gallagher, K. P. & Kozul-Wright, R. (2021). *The case for a new Bretton Woods*. London: Polity.

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