COVID-19: Effects on Global South Economies

Lessons from the pandemic on foreign dependence

Introduction

If we look at the global power structure today, we easily notice a system where weaker economies are heavily reliant on stronger and developed economies, in their economic and political behavior. Today, not just poor economies, but also developing and emerging economies are bound to adopt policies that are often more suited to the interests of developed economies instead of the host economy. Poor economies are trapped in a web of exporting primary commodities at cheap rates to economies like USA and China who then manufacture products out of these and sell the products back to the poor economies, but with a profit margin. This dependency on income from foreign sources for the poor, developing and emerging economies, mostly which fall in the category of Global South, has not only affected the policies due to the external influence, but also destroyed the ability of self-reliance to a large extent. At the time of writing this article, the world has already witnessed more than 1.2 million coronavirus infection cases resulting in more than seventy thousand deaths. Out of these, more than three quarter of the cases

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emerged from the developed nations like USA, Spain, Italy, Germany, France and other European nations (worldometers, 2020). These nations, besides China, where the virus erupted and has since been contained, are not only the biggest energy consumers, but also the main importers of products like textiles and raw materials from developing and emerging economies (Energy Consumption By Country 2020, 2020). With most nations adopting lockdown measures, which possibly will remain in place for weeks or even months to come, the global supply chains stand disrupted. The case of China however, is interesting. The nation is a part of the Global South, however its hegemony in the developing world and resultant dependence of African, Latin American, and South-East Asian economies on China and the dependence of even those supply chains related to nations of the Global North like the US, makes China stand beyond the regular definition of a developing and emerging economy (Hung, 2018).

As the nation is often termed as ‘Exporter of the world’, ‘World’s factory’ etc., for the purpose of studying the effects of foreign dependence (Shepard, 2020), I have kept China aside from the regular Global North-South divide, even at times, clubbing the nation with developed economies. Through this article, I will take a look at some of the Global South nation’s economies and how their dependence on foreign markets shape their survival and what can be done better to avoid the economic collapse that the world is staring at today.

### Bangladesh

With a population of more than 160 million, and an estimated nominal GDP of $348 billion, Bangladesh, (World Economic Outlook Database, 2019), is the world’s seventh fastest growing economy. Large population, with an enormously high population density which is ready to work on low wages, has helped the nation build its garment industry which employs more than 4 million people today. This has resulted in the nation becoming world’s second largest clothing exporter behind China, as per Moody’s rankings. Today, ready-made garments comprise 84.21 percent of the nation’s total exports which in 2018-19, made it $40 billion dollar industry. (WEF, 2019) Bangladesh’s biggest market is the European Union, which imports as much as 60 percent of the total output and gives the products preferential treatment by waiving off the taxes on the garment products from Bangladesh. Another major market is the United States with 16 percent of total exports. Besides the garment sector, the nation majorly exports leather and leather products, and jute products. The biggest import partner for the nation is China from where more than one-fifth of the total imports arrive. This data reflects how massively the economy will get affected in the present scenario when the biggest market in form of European Union is itself the worst hit region with the virus, with deaths occurring by the rate of thousands per day. As per several news articles over the past weeks, it has been confirmed that due to lockdowns, the biggest retail stores worldwide have cancelled or suspended their orders as they will find it impossible
to sell the already withheld inventory. Many factories in Bangladesh are expected to end in shutdowns as the future remains bleak, thus creating a situation where millions of people will lose their jobs and the nation may face economic depression (Alam, 2020).

Nigeria

Africa’s most populous country, Nigeria, also holds the title of being Africa’s largest economy. The nation remains a lower middle-income emerging market with its government depending on oil exports for as much as 70 percent for income and as massively 90 percent for its foreign income. (World bank, 2019) Although the nation has diversified in recent years and has become one of the fastest declining crude petroleum exporters, with energy commodities reaching even less than a quarter of the total exports now, Nigeria’s economy still depends largely on the oil price stability. From a price of $90 per barrel in June 2019, the subsequent price drop forced the nation to chalk out its budget based on a price of $57 per barrel (Olurounbi, 2020). However, today, the oil price has slumped to $27 per barrel, making it impossible for the nation to make any profits from its production due to the high cost involved in oil pumping in Nigeria. Whereas developed infrastructure has enabled nations like Saudi Arabia and Russia to pump oil at a mere cost of $5 per barrel and less, Nigeria cannot pump oil at lower than $30 dollar per barrel, leaving the African nation stranded in an oil price war where Russia and Saudi Arabia are colliding head-on during the coronavirus crisis. At the same time, Nigeria’s main import partner is China, on which the country depends to maintain the supply chain for processing goods and also to build infrastructure as Chinese firms have in recent decades invested heavily in Nigeria (Davis, 2020). In light of the disruption of global supply chains and slump in oil prices, there seems to be no way out for Nigeria to survive the economic impact that coronavirus would cause.

Brazil

Since February 26 this year, when Brazil reported its first coronavirus case, its currency has lost more than 20 percent of its value. In the recent times, Brazil has been among the top 10 largest economies by nominal GDP and has been the largest economy in Latin America by a big margin as compared to the other Latin American nations. Despite the fact that, more than three-quarters of the GDP comes from the services sector, Brazil stands as the 22nd largest export economy with the major exports being Soybeans, crude petroleum, iron ore and cars. (OECD, 2020) The top export destinations for Brazil are China, EU and US who take up as much as half of the total exports combined. Furthermore, the nation depends on EU and China for commodities like electrical and transport equipment, machinery and chemical products to sustain its own domestic supply chains. Even before the pandemic hit the world, Brazil had been reeling under economic slowdown coupled with inflation from the past few years (World Bank, 2019). The new government which formed in late 2018, although attempted at an economic reform, failed due to domestic political rifts (Stott & Schipani, 2019).
these circumstances have now made Brazil to stand in front of a looming possibility of a severe recession.

Iran

Considered as an energy powerhouse due to large proven oil and gas reserves, Iran is an upper-middle income, developing economy (World Bank, 2018). Based on the nation’s reserves, it undoubtedly depends on oil and gas export for revenues. However, the strong sanctions placed by US on trade with Iran has in recent times hit the nation hard who has since then, witnessed continuous decrease in the takers of its energy commodities (Rosenberg, 2020). Under these circumstances, China remains both the largest importer as well as exporter for Iran. This also explains why the nation had emerged as a hotspot for coronavirus infections in the very initial stages itself (Katz, 2020). Tourism had remained a sector which escaped the wrath of sanctions and was bringing the much-needed revenues for the nation. Iran was even ranked as the third fastest-growing tourism destination in 2019 by the UN World Tourism Organization. However, the virus outbreak has shunned all the hopes of the country to survive the sanctions and made the government to ask the IMF for the first time in 60 years, for $5 billion in emergency funding to fight the outbreak. Also, oil price slump combined with the lockdowns, have resulted in decrease in trade with China (IRAN NEWS, 2020) for at-least one quarter in 2020, which may very well stay the same in second quarter as the cases in Iran increase. This shows how the dependence on energy commodities alone and the resulting financial insecurity which can leave nations stuck in times of dire need.

Why This is a Different Situation?

Besides the above presented cases, which have somewhat diverse trade baskets, the cases of nations like those of Africa, for instance South Sudan who almost totally relies on China for revenues through oil export\(^2\), and South-east Asia, which relies heavily on a single partner for trade (Mirchandani, 2020) and tourism (Campbell, 2020) reflects how during a situation of unforeseen proportions, the economies can simply go down without any solutions in sight.

During the previous widespread economic shock that was the Global Financial Crisis, back in 2008, where the housing bubble collapsed, leading to cascading effects for world economies and resulting recession, the IMF had responded with aid to developing countries from its reserve currency (IMF, 2016). That crisis had shown how much damage an interconnected and globalized economy can do and how much worse it can be for the developing economies. However, this pandemic also has certain stark differences. It not only has traits of a financial crisis due to lockdowns and employment losses, but also has a health-related dimension which can suck up any gains made by the economies in the last few decades. The worst part being that a vaccine may still not be anywhere near the final development stage. The cascading spillover effects are feared to give this pandemic a security threat dimension too. As the Global South
economies, many of which depend on external aid and income and are going through security related issues, may witness mass migrations, civil wars and fights over existing resources. The pandemic has also shown the tendency of shifting of capital from the fragile and developing economies, to more secure alternatives leaving these economies under even more burden of surviving their problems on their own. As being currently observed in economies like India where strict lockdown measures have made it extremely difficult for those involved in informal employment like the migrant laborers who now are stuck without food and shelter in many cases, the case is even worse for economies like those in Central Asia which heavily depend on remittances from developed economies of EU and China, besides Russia (Kyzy, 2020). The dependence of these Central Asian economies on foreign economies to take care of their citizens in normal times have left them reeling under tremendous economic burden during the most difficult of times as the migrant workers come fleeing back home.

Conclusion

The lessons from the coronavirus will be multifold. Not just heavy reliance on developed economies for export will now come under scrutiny, but also the mechanisms for self-sustainability will be challenged. Sole dependence and expectations from export of energy commodities for the yet to arrive future can lead to huge debts for nations like Nigeria, who are accustomed to expenditure based on their predicted incomes from commodities like oil which due to external factors like oil price slumps can disrupt the entire economic progress. Similarly, many of the other African economies, are already under huge debts (The World Bank, 2020), and situations like this pandemic may leave no breathing space for these economies. High speculation and dependence on revenues from foreign markets in scenarios like the virus outbreak, leading to huge disruptions in global market chains, hold massive potential to hurt the economies which are not self-reliant and diverse enough to sustain periods of emergencies when revenues from sectors like energy, tourism and remittances are expected to take hardest hits.

As developed economies will look towards stabilizing themselves, various issues already existing in the poor and developing economies will simply get overlooked, leading to spillover effects in the spheres of polity and security.

Unlike the economies of Russia and Saudi Arabia, who have built huge reserves from their oil profits and can even in these conditions of global panic still get involved in oil wars (Standish & Johnson, 2020), and economies like US and China who can very well give shape to the dictates of international finance organizations like IMF and World Bank and escape the economic damage comparatively better than the smaller and developing economies, those of Global South will need to understand the downsides of foreign dependence if they want to survive future situations like this, when every country becomes bound to look after their own interests.
Policies and steps taken in order to create jobs by establishing robust industrial and service sector mechanisms will be one of the most important elements in reducing foreign dependence. Another important element is to establish institutional capacity that will ensure that the limited resources that nations possess are used in sectors the economy that will lead to its own development instead of avoid falling into structures that will hinder economic survival. The pandemic situation also highlights the fact that depending on foreign aid for healthcare and ignoring capacity building in the healthcare sector while focusing on issues of security and polity may not be the best idea for nations. Long term investments are the need of the hour in fields like food security, employment and infrastructure, for which heavy reliance on other nations, like in the case of Africa and China, may well prove to be recipe for disaster. In order to present a strong stand, the economies of the Global South will need to stand together, and fight against the selfish agendas that the established economies fulfill by creating dependency. Return to Autarky is neither desired nor practical, however, the need for a certain degree of self-reliance undoubtedly has become a reality which should not be ignored if the countries desire to safeguard themselves in adverse situations like the one the world is currently witness to.

References


WEF. (2019, Nov 19). Here’s what you need to know about Bangladesh’s rocketing economy. Retrieved from World Economic Forum:
Endnotes


2 For more on South Sudan’s trade, check https://oec.world/en/profile/country/ssd/