How covid-19 could impede the catch-up of poor countries with rich ones

The Economist

2021/5/22

Covid-19

- It once seemed possible that covid-19 might deliver a softer blow to poor economies than rich ones.
- Instead, the virus seems likely to set the emerging world back in its quest to attain advanced-economy incomes.

Convergence

- Real GDP per person in America shrank by about 4% in 2020, only about half a percentage point more than the average across emerging markets, in purchasing-power-parity terms.
- But projections made by the IMF in April suggest that American growth is set to outpace that in the emerging world this year.
- More worrying still, the pandemic may reshape the global economy in ways that make continued convergence towards rich-world incomes a tougher slog.

Hefty returns

- Economists once reckoned that incomes in poorer economies should naturally catch up to those in richer ones.
- Backward countries could borrow the latest know-how from leading ones, the thinking went, and their limited capital base promised hefty returns to investors.
- In the 1950s two economists, Robert Solow and Trevor Swan, separately developed models of economic growth

Divergence, big time

- As scholars gathered more data on more countries, however, it became clear that the 20th century was not a period of convergence, but rather of “divergence, big time”, in the words of Lant Pritchett.

Incomes converged

- Then, just as economists had all but given up on the idea of convergence, poorer countries began outgrowing rich ones in an extraordinary way.
- Between 1985 and 1995 incomes per person in the emerging world fell behind those in rich countries at a rate of 0.5% per year,
- But from 2005 to 2015, incomes converged at a rate of 0.7% per year.

Not certain why

- This turn in fortunes had enormous consequences for matters from global poverty.
- Economists are not certain why growth suddenly took off
- Even before the pandemic there were puzzling trends. Low-income countries outgrew high-income ones by 1.5 percentage points a year in the 2000s … but the gap shrank to just 0.65 percentage points in the 2010s.

Asia and Latin America

- While incomes in Asian and European emerging economies continued to gain on those in America, Latin America, the Middle East and sub-Saharan Africa began to fall further behind around 2013.

Asia and Latin America

- In some ways developing countries have also become more economically resilient.
- Yet other factors that buoyed growth in the 2000s and 2010s—such as rapid Chinese development and the explosion in trade associated with the spread of global supply chains—cannot easily be repeated.

The pandemic

- Perhaps most worrying is the possibility that the trauma of the pandemic could fan political and social instability, particularly in lagging regions, undermining the basis for stable growth.
- Poor places remain more vulnerable to crises.