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Political Economy, Markets, and Institutions

# The Developed/Developing Country Division in the Global Economy: Losing Traction in the COVID-19 Era?

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This essay revisits the developed/developing country division in the global economy in the light of the economic repercussions of the COVID-19 pandemic. A trend that precedes the pandemic has been a seeming detachment of the binary distinction between "developed" versus "developing" countries and what has been described as growing economic diversity in the so-called "developing world." While emerging markets such as Brazil, India, or China have been able to catch up economically with the "developed" world, many African, Middle Eastern, or South Asian countries are increasingly marginalized in the global economy. At the same time, there is an increasing recognition that poverty is rising within the so-called "developed" world. Against this context, we investigate whether the economic repercussions of the COVID-19 pandemic reinforce this trend and further blur the developed/developing country divide in the global economy. We find a nuanced picture that contains elements of both continuity and change: while the short-term implications of the COVID-19 pandemic cut across the developed/developing country distinction, its long-term economic repercussions largely reiterate the divide—with the exception of China among the emerging markets.

## 1. INTRODUCTION

This essay revisits the developed/developing country division in the global economy in the light of the economic repercussions of the COVID-19 pandemic. A trend that precedes the pandemic has indeed been a seeming detachment of the binary distinction between "developed" versus "developing" countries and what has been described as the growing economic diversity in the so-called "developing world" (Farias 2019, 104; Berger 1994) and a "changing geography of poverty" (Fialho and Van Bergeijk 2017, 99). While emerging markets such as Brazil, India, or China have been able to catch up economically with the "developed" world, many African, Middle Eastern, or South Asian countries are increasingly marginalized in the global economy. At the same time, there is an increasing recognition that poverty is rising within the so-called "developed" world.

Against this context, we investigate whether the economic repercussions of the COVID-19 pandemic reinforce this trend and further blur the developed/developing country divide in the global economy. We find a nuanced picture that contains elements of both continuity and change: while the short-term implications of the COVID-19 pandemic cut across the developed/developing country distinction, its long-term economic repercussions largely reiterate the divide—with the exception of China among the emerging markets. The geography of poverty may thus be changing more slowly than expected.

## 2. THE PANDEMIC'S ECONOMIC REPERCUSSIONS AND THE DEVELOPED/DEVELOPING COUNTRY DIVIDE

Evaluating the economic consequences of the crisis for different groups of countries is important because these economic repercussions could either reinforce or cut across the developed/developing country distinction. To distinguish between these two groups, we rely on the World Bank classifications and use high income as a proxy for "developed countries," while "middle-income" and "low-income" countries are traditionally considered to be "developing countries."[1] To assess the economic consequences of the pandemic, we differentiate between short-term and long-term implications, in line with a recent approach developed by Diop, Asongu, and Nnanna (2020). They rank a country's

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1 World Bank classifications rely on Gross National Income per capita. For the income brackets for each country group, see: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

economic vulnerability (short-term) and economic resilience (long-term) in relation to the COVID-19 pandemic. While there are different ways to measure both economic vulnerability and resilience, Diop, Asongu, and Nnanna (2020) focus on a combination of political and economic indicators such as flow of remittances, governance effectiveness, sound regulatory quality and comparatively low corruption, inflation, unemployment, external debt, and fiscal deficits.

Our assessment shows the short-term effects of the pandemic across the developed/developing country distinction. Low economic vulnerability to COVID-19 in the short term does not necessarily coincide with a high level of economic development (see table 1). For example, multiple middle-income countries, such as Argentina, India, or South Africa, have rather well-diversified economies that have not been strongly affected by the sharp decline in oil prices and thus have been less vulnerable to the short-term impacts of the pandemic. Government interventions can also help explain the low economic vulnerability of some of the middle-income countries. For instance, Bangladesh, a major recipient of remittances, was able to avoid being hit by falling remittance flows in the wake of COVID-19 in part due to the provision of tax incentives to encourage remittances (see also Tsingou, this collection). Overall, existing evidence indicates that not only high-income countries have gotten through the crisis comparatively smoothly in the short run but that many middle-income countries have also dealt well with the more immediate effects.

Yet, in the longer run, high-income countries seem to be better equipped to manage the crisis. Compared to the short-term effects, the longer-term implications of COVID-19 are much more clearly tied to the distinction between developed and developing countries. In particular, the economic resilience of high-income countries is much higher compared to that of low- and middle-income countries (see table 2). High resilience to the economic repercussions of COVID-19 thus coincides with high levels of economic development, while low resilience is particularly pronounced in countries with lower incomes (compare Diop, Asongu, and Nnanna 2020). COVID-19's long-term economic implications are thus likely to reiterate the divide between developed and developing countries.

Notably, most emerging economies still fall into the group of countries that are characterized by rather low economic resilience and prospects for recovering from COVID-19. With China being the outlier, even emerging economies have not only been hit extremely hard relative to their growth paths prior to the pandemic (IMF 2020) but also are expected to face challenges in terms of tackling the long-term implications of COVID-19. While China's economy continued to grow by around 2 percent in 2020, Brazil, India, and South Africa had to deal with a shrinking of 7 percent. Moreover, they are not ranked as particularly resilient in terms of longer-term effects of the pandemic (Diop, Asongu, and Nnanna 2020) and are ranked as very low in terms of their prospects of recovering from the crisis in light of corrupt or ineffective governments (Wille and Cartwright 2020). They can thus be expected to struggle with the aftermath of COVID-19 long after more affluent countries have moved on. Conversely, China's economy had already started to thrive again in late 2020, backed by effective strategies to control the pandemic, strong policy measures, and buoyant exports (World Bank 2020).[2]

One major reason why COVID-19 largely reiterates the developed/developing country divide is that high-income countries are in a much better position to react to the pandemic's economic repercussions compared to middle- and low-income countries. High-income countries not only adopted strict lockdowns to contain the pandemic but also are able to offer comprehensive support to their citizens, whereas less affluent countries can typically not implement such widespread programs. For example, data on the fiscal policy responses to COVID-19 shows that high-income countries are relying on much larger sums of money (IMF 2021). While high-income countries are spending an average of 10 percent of their GDP on stimulus packages, the figure is around 3 percent in emerging economies and only 1 percent in the forty-seven least developed countries (LDCs) (Malpass 2020). The high stimulus packages and more substantial assistance for companies in richer countries also creates long-term competitive advantages because they may affect countries' ability to modernize their economies. The modernization of the economies of the high-income countries in the direction of transformations toward sustainability, which are made possible by the stimuli, will amplify the global structural differences between developed and developing countries in the longer term. This trend can also further intensify existing regional inequalities. For instance, African countries are characterized by the lowest economic resilience scores across all world regions (Diop et al. 2020).[3]

In contrast to prior trends of "catching up," most emerging markets (and other middle-income countries) are thus likely to be more negatively affected by the pandemic compared to high-income countries. Moreover, those developing countries that showed little signs of catching up with developed countries prior to COVID-19 are likely to be left



2 It is important to note, however, that China's economic recovery is likely to deepen inequality within the country, with the bottom 60% of incomes facing the severest losses (Babic, this collection).

3 Europe has the highest economic resilience index, followed by Asia-Pacific, the Middle East and the Americas and then Africa ranking last (Diop, Asongu, and Nnanna 2020).

behind even more (for similar trends in foreign aid, see Egger, this collection). While almost half of all low-income countries were already heavily indebted before COVID-19 (IMF 2020), the debt situation has now strongly worsened as a result of the pandemic. Many developing countries will not be able to cope with the resulting debt on their own and will be threatened by a debt crisis. These dynamics might further reinforce the developed/developing country divide in the longer run.

## 3. CONCLUSION

Prior to the COVID-19 pandemic, the developed/developing country divide had increasingly been challenged by growing economic heterogeneity among the latter and a catching up of emerging markets such as Brazil, India, or China with the former. We find that the pandemic adds a layer of complexity to this trend, since we find elements of both continuity and change. We have argued that the division between developed and developing countries does not capture countries' economic vulnerabilities to the pandemic in the short run, but that the long-term implications of COVID-19, with the exception of China, seem to largely correspond to the developed/developing country divide. Given countries' unequal abilities to recover from the pandemic's economic repercussions, this divide may become even more pronounced in the future. Most emerging markets, including India and Brazil, were not particularly resilient, despite their global economic relevance. At the same time, China's ability to quickly recover from the crisis sets it apart from the other emerging markets—and from developing countries in general.

This finding reiterates an important lesson for international political economy (IPE) scholars who seek to analyze the developed/developing country divide, and global inequality more generally (Wade 2014). It reminds us—in line with recent IPE scholarship on indicators (Mügge 2020)—that it matters how we measure the structurally advantaged or disadvantaged position of "developed" or "developing" countries in the global economy. Assessing the economic repercussions of the COVID-19 pandemic requires us to go beyond traditional economic indicators related to growth to be able to capture the multidimensional nature of shocks such as COVID-19. Our findings thereby also demonstrate that what indicators are used in IPE analyses remains a highly political choice. Depending on the criteria we rely upon in our own analysis, the shifting "geography of poverty" may look differently.

The way in which the COVID-19 pandemic affects the developed/developing country divide has, moreover, important repercussions for global governance. In many international organizations, the developed/developing country distinction not only serves as an analytical lens that captures structurally different positions in the world economy, but also signals a different political status that confers differential rights to "developed" versus "developing" country members (Weinhardt 2020). The World Trade Organization (WTO), for instance, prominently grants its developing country members more flexibility in terms of liberalization commitments and financial or technical assistance. Recently, however, there has been a push by the United States

**Table 1. COVID-19 Economic Vulnerability Index: The 20 Least Vulnerable Countries**

| Countries | Vulnerability Index and ranking | World Bank classification |
|---|---|---|
| Hungary | 0.092 (150) | High-income country |
| Netherlands | 0.112 (149) | High-income country |
| China | 0.120 (148) | Upper-middle-income country |
| Argentina | 0.128 (147) | Upper-middle-income country |
| Brazil | 0.136 (145) | Upper-middle-income country |
| Switzerland | 0.136 (146) | High-income country |
| Japan | 0.138 (143) | High-income country |
| Paraguay | 0.138 (144) | Upper-middle-income country |
| Botswana | 0.141 (140) | Upper-middle-income country |
| India | 0.141 (141) | Lower-middle-income country |
| Turkey | 0.141 (142) | Upper-middle-income country |
| Bangladesh | 0.142 (139) | Lower-middle-income country |
| Pakistan | 0.143 (138) | Lower-middle-income country |
| Indonesia | 0.144 (137) | Upper-middle-income country |
| Finland | 0.146 (136) | High-income country |
| United States | 0.147 (135) | High-income country |
| Korea Republic | 0.150 (134) | High-income country |
| Italy | 0.154 (132) | High-income country |
| South Africa | 0.154 (133) | Upper-middle-income country |
| United Kingdom | 0.157 (131) | High-income country |

Based on Diop, Asongu, and Nnanna (2020).

and other "developed" countries to reconsider who counts as a "developing" country member in the WTO. The economic indicators they propose (WTO 2019) would imply that emerging markets such as Brazil, India, or China ought to give up their developing country status—and the benefits it comes with—in the world trade regime. However, our findings underline that it is a complex undertaking to find the right set of indicators to assess at what point countries indeed graduate from "developing" to "developed" country status. Taking into account economic resilience, there remain some doubts about the extent to which emerging economies—except for China—have already been able to overcome the developed/developing country divide.

For IPE scholars, our findings show that in order to capture the power transformations in the global economy associated with the COVID-19 pandemic, it will be important to analyze both changing economic realities and the ways in which they may (or may not) be reflected or reiterated by the rules of those international organizations that govern the economy (compare Fehl and Freistein 2020).

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## COMPETING INTERESTS

No competing interests exist.

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**Table 2. COVID-19 Economic Resilience Index: The 20 Most Resilient Countries**

| Countries | Resilience index and ranking | World Bank classification |
|---|---|---|
| New Zealand | 0.714 (1) | High-income country |
| Netherlands | 0.699 (2) | High-income country |
| Switzerland | 0.699 (3) | High-income country |
| Norway | 0.697 (4) | High-income country |
| Finland | 0.695 (5) | High-income country |
| Hong Kong, China | 0.693 (6) | High-income country |
| Canada | 0.691 (7) | High-income country |
| Sweden | 0.691 (8) | High-income country |
| Denmark | 0.690 (9) | High-income country |
| Australia | 0.680 (10) | High-income country |
| Luxembourg | 0.679 (11) | High-income country |
| United States | 0.671 (12) | High-income country |
| Iceland | 0.669 (13) | High-income country |
| United Kingdom | 0.663 (14) | High-income country |
| Japan | 0.654 (15) | High-income country |
| Ireland | 0.653 (16) | High-income country |
| Austria | 0.650 (17) | High-income country |
| Germany | 0.638 (18) | High-income country |
| Estonia | 0.634 (19) | High-income country |
| Belgium | 0.625 (20) | High-income country |

Based on Diop, Asongu, and Nnanna (2020).

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