

# Emerging markets and covid-19: structural weaknesses and consequences

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## Summary

Institutional Economics always play an important role in my lectures. In this specific context, I use to quote the “father” of New Institutional Economics (NIE), the great economist and Nobel Prize Winner Douglass North (1920-2015). North defines institutions as follows:

*“Institutions are the humanly devised constraints that structure human interaction. They are made up by formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, self-imposed codes of conduct) and their enforcement characteristics”.*

## **Institutions determine economic growth**

In these three above quoted lines we can find two characteristics of institutions that are often neglected or forgotten even by professional analysts – *first* the “informal constraints” like behavior and traditions, *second* the “enforcement characteristics”. Looking deeper in these areas makes it more understandable why so many emerging market countries have been suffering so seriously from covid-19.

Traditions such as living and moving around closely to the own family and friends contributed certainly to the high infection numbers in many emerging countries but also in advanced countries like Spain and Italy. Without having clear statistical evidence it seems to be plausible that rules and recommendations were not - or could not be - followed because of poor communication or other deficits in the enforcement of rules and recommendations.

Getting back to Douglass North, it is also worthwhile to point once more at the words he used at his Nobel Prize speech in 1993: *“Institutions form the incentive structure of a society, and the political and economic institutions, in consequence, are the underlying determinants of economic growth”.* Douglass North tells us in other words that institutions have a decisive impact on the long-term development of GDP.

## **Why are institutions not improved sufficiently?**

An issue that occupied me already in my early professional years was a good answer to the question why developing countries usually did not - and still do not - try to improve their institutions more ambitiously against the background of their enormous importance to economic growth. In this respect, the important researcher and continuous Nobel Prize candidate *Olivier Blanchard* concludes that *“poor countries often are too poor to afford a good judicial system”.*

Other important factors with negative effects on institutions can be added, such as autocratic and corruptive political systems, insufficient education, poor communication, unfavorable geographical location, wrong priorities by foreign aid donors, etc. All these factors can impede progress for institutions.

In my view, more foreign financial aid - in both absolute and relative terms – should be given to institutional improvements, for example to education on all levels, IT skills and use, health care, governance of all kind, and *incentives* for developing countries to use foreign aid in a future-oriented and institutional-improving way.

*Thus, I would like foreign aid by developed countries like Sweden – when possible – to include incentives for shaping better institutions on both micro and macro levels. Incentives for creating better institutions should become a keyword for developing and emerging countries.*

### **Many emerging countries particularly affected by covid-19**

Currently, at the end of September 2020, one can find many emerging countries that have been strongly hit by the corona virus. 18 out of the 30 most heavily attacked covid-19 countries belong - in absolute numbers - to the group of emerging countries; when looking at the top 10 countries, we are even looking at 80 percent compared to 60 percent for the list of 30 countries. By the way, I choose absolute numbers for being able to include countries like India and Pakistan in the lists – countries that would not been noted if the corona numbers had been related to the population (because of statistical shortcomings).

As a kind of mini test, one may link together the above observed 18 emerging countries with two different institutional indicators – the World Bank’s publication “Doing Business 2019” and Transparency International’s “Corruption Perceptions Index”. One can realize that the whole group of the above-mentioned 18 emerging countries have a *group average position of 85 for “Doing Business” and of 101 for the “Corruption Perceptions Index”*). Even measured as an average these two institutional results are extremely poor.

Of course, these weak averages reflect only a very rough and limited correlation for the assumed institutional nexus with the high number of corona infections in emerging market countries. For the future, I would like to see that research will have a more profound look into this issue for finally coming to better institutional protection against futures viruses - and simultaneously to find better guidelines for domestic economic policy and for foreign aid donors.

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