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# Mind the gap: stimulus packages set to give developed countries post-Covid-19 advantage

Developing countries will face greater challenges to restarting their economies compared with their wealthy counterparts, based on the relative sizes of their Covid-19 stimulus packages.


By Sofia Karadima - 28 May 2020

With much of the world locking down in an attempt to ease the spread of the Covid-19 virus, two words tend to be included in any report on the pandemic: ‘problem’ and ‘solution’.

However, in the case of Covid-19, there is a widespread feeling that a global solution might not be the answer to this global problem. This is because economic and social disruptions are varying from country to country, meaning that a one-size-fits-all remedy to the problems thrown up by the pandemic is not suitable.

“Covid-19 made the world stop, but not at the same time everywhere, and this is key,” says Fernando Casas Pascual, general director at the Innovation and Development Agency of Andalusia and the Invest in Andalusia operations unit.

## Rolling out the stimulus mat

Some countries managed to fight Covid-19 better than others, either by recording a smaller number of deaths, or by managing to ease their lockdowns earlier than others. However, as governments across the world look to restart their economies, all eyes are on support packages that could get economies back on track, as well as help countries emerge as attractive investment locations.

"Companies are now reassessing their business and operating models, with the crisis acting as a catalyst for rebalancing and de-risking operations, and changing corporate footprints," says global director, location and incentives strategy at Hickey & Associates Alex Ash. "Rebalancing is going to require significant investment at a time when cost-cutting is top of mind for chief financial officers – and that is where governments have to play a crucial role in terms of providing stimulus and support to individuals and companies."

While some countries vowed massive economic incentive packages, including the US's $2trn coronavirus stimulus bill, other countries with fewer resources face falling further behind their wealthier counterparts in a post-Covid-19 world.

Indeed, developing countries are likely to spend six times less than developed countries on fiscal support in response to Covid-19. Analysis by NS Media Group found that, as of 10 April, the pledged fiscal support as a percentage of GDP is 0.81% for developing countries and 4.88% for developed countries, based on data from the Covid-19 Economic Stimulus Index published by the Centre for Economic Policy Research.

The NS Media Group analysis examined economic policy packages from 164 countries, of which 109 are considered to be developing, according to the Human Development Index.

"Those countries or regions with fewer resources will not be as effective in providing the robust economic stimulus needed to respond to both the devastating employment losses and reduction in spending we are witnessing worldwide," says principal at Parker Poe Consulting Mark Simmons. "It will be incumbent on us all to work directly with these less fortunate areas to aid and assist in their recovery. Given the dependence of emerging countries on trade for their well-being, trade policies are one key element of this support."

The data analysis also finds that only nine countries are dedicating more than 10% of their GDP to Covid-19 fiscal support. Austria ranks first with 17.8%, followed by Malaysia (16.22%) and Luxembourg (15.6%).

## Job creation more visible on the radar

Though economic stimulus packages are vital in enabling countries to keep businesses running or attract future investments, many in the economic development community warn that companies aiming to invest in a country should look beyond these measures.

“Even though incentives are very important for many companies, they should not be the main reason for investment,” says Casas Pascual. “However, being aware of the importance that companies grant to this type of support, the Andalusian Government has implemented several measures to increase economic activity, foster the creation of stable and quality employment, and combat the effect of Covid-19 in the region.”

Job creation is key when it comes to a government awarding financial incentives, especially amid the current crisis where cities are facing unemployment rates not seen since the Great Depression of the 1930s, says John Boyd of New Jersey-based location consultancy Boyd Company. He adds that there are going to be greatly expanded incentives related to workforce training, in addition to traditional incentives linked to corporate income tax credits or property tax abatements.

“Incentives – under fire from many policy wonks and government watchdogs that oppose giving taxpayer money to large, well-heeled corporations – can at times be argued as a public good, especially in those instances where funds are used for worker training or for infrastructure improvements such as roads and bridges that benefit the public at large, not just the company,” Boyd explains.

## Shift to protectionism

Every country in the world is facing a unique set of challenges amid an unsettling environment. This seems to be causing many of them to focus purely on domestic matters, with protecting their own interests at the top of their agendas, even in countries that are part of a wider partnership, as in the case of the EU.

In a bid to prevent shortages of medical personal protective equipment (PPE) within the country, Germany initially banned the export of masks and gloves, along with other PPE products, in early March, a decision that was reversed a few weeks later. However, the ban created diplomatic tension between Germany and its EU neighbour Austria, as well as with Switzerland.

Indeed, the pharma and life sciences industries have emerged as key sectors during the pandemic, with many expecting these fields to see an increase in reshoring in an attempt to minimise the impact of future disruptions on global supply chains.

Indeed, many fears are being voiced that countries are increasingly looking inward and adopting policies that are more nationalistic or protectionist.

“A decided turn to protectionism will only create new problems that will, undoubtedly, hamper recovery,” says Simmons. “By working together, the international community will witness a faster recovery than if each country acts alone.”

He adds that as the world emerges from the health crisis that the pandemic has caused, international cooperation, especially when it comes to trade and trade policy, will be required to boost confidence in global trade and preserve open markets.