"Economic and Social Impacts and Future Prospects of Covid-19 Crisis on Latin America and the Caribbean: Interviewing Three ECLAC Officials"

Japan Latin America and Caribbean Association (JALAC) publishes a quarterly journal（*Raten Amerika Jiho*）in Japanese. JALAC has been closely following the Covid-19 pandemic, and its economic and social impacts on the LAC region has been widely discussed in numerous articles. The Winter Issue, published January 2021 (No. 1433), covers a series of interviews with people of different backgrounds (international organizations, think-tank experts, public officials, media, and private companies) working directly on the Covid-19 pandemic. In a sense, this special issue gathers the "voices" from people working on the Covid-19 "frontier".

The Lead-off article of this special issue on Covid-19 is based on an exclusive interview by JALAC with three senior officials at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC: Spanish acronym CEPAL), headquartered in Santiago, Chile. ECLAC tracks the public policies that the 33 countries of the LAC region are implementing to limit the impact of the Covid-19 pandemic and offers analyses of the economic and social impacts that these policies will have at the regional, national, and sectoral level. JALAC is pleased to reproduce an unabridged version of this interview conducted in English. A Japanese version of this interview is also available in an abridged form (Winter Issue No. 1433).

Interviewees：

- Daniel Titelman：Director of the Economic Development Division
- Simone Cecchini: Senior Social Affairs Officer, Officer-in-Charge of the Social Development Division
- Keiji Inoue: Deputy Director of the International Trade and Integration Division

Interviewer:

- Mikio Kuwayama, Research Institute of Economics and Business (RIEB), Kobe University, Managing Director (JALAC)

1. **Please tell us ECLAC's views and assessment on how Covid-19 has been affecting the Latin American and Caribbean economies and societies?** [Mr. Titelman and Mr. Cecchini]

COVID-19 has brought an unprecedented sanitary, economic and social crisis to Latin America and the Caribbean. At ECLAC, we forecast that the regional economies will shrink on average by 7.7% in 2020, the worst recession in 120 years, which entails massive losses of jobs, increasing the unemployment rate from 8.1% in 2019 to 10.7% in 2020, and leading many people to abandon the labour force, as they do not see chances to find any work. As a consequence, poverty in Latin America will go up from 30.2% to 37.3% of the population, which means that 45.4 million people will fall into poverty, reaching a total of 231 million. Of those, 28.5 million people will fall in extreme poverty, totaling 96.2 million, 15.5% of the population of the region. Beyond poverty, the crisis has shown high levels of vulnerability of large sectors of the population, as more than half of the workers of the region are informal, lacking access to social security.

As highlighted in ECLAC's latest report "Building a new future: Transformative Recovery with Equality and Sustainability", the COVID-19 pandemic has turned a spotlight on structural problems that the region has been facing for decades: sluggish growth, a heterogeneous and poorly diversified production structure, high levels of informality and lack of protection, social inequalities and global asymmetries. It has also highlighted the unsustainability of a development pattern that is based on ever deeper inequalities, increasingly precarious social reproduction, environmental destruction and the weakening of multilateralism and international cooperation.

2. Given the impact on LAC, do you think the new Corona crisis is essentially different from the 1980s external debt crisis and the 2008-2009 financial crisis? Please explain how? [Mr. Titelman]

The COVID-19 crisis is very different to the debt crisis of the eighties and to the subprime crisis. The crisis of the eighties came about from excess indebtedness of the countries in the region due to the indiscriminate liberalization of the balance of payments that created large deficits especially in the trade and capital accounts. The subprime crisis originated from the bursting of a financial bubble in the developed countries which affected the Latin American countries but did not originate there. The COVID-19 crisis began from a public health problem which evolved into an economic and social crisis that combines supply and demand shocks in a peculiar way not seen before.

In addition, the countries of Latin America and the Caribbean recovered quickly from the subprime crisis and by 2010, they had recovered the GDP levels of 2008, growing at 6.2% after a fall in GDP of 1.9% in 2009. The recovery after the Covid-19 crisis will be much slower and according to ECLAC estimates, the region will not recover the already low levels of economic activity of 2019 before 2024 or 2025.

3. How do you evaluate the economic relief measures and economic stimulus measures that the LAC countries have taken so far? [Mr. Titelman]

Fiscal policy has become the most important instrument utilized by the governments in the region to confront the social and economic effects of the pandemic. Tax relief measures, public investment and greater liquidity have characterized government accounts in 2019. As the region begins to implement recovery and social and economic transformation plans, it will be essential to maintain and deepen an active fiscal policy that would allow an economic recovery and generate conditions to advance in a sustainable development path in the medium term. For this, it will be necessary to develop sustainable fiscal policy frameworks based on the strengthening of the fiscal capacity of countries through greater, more progressive and efficient generation of revenues, and improvements in the efficiency, efficacy and equity of public expenditures.

Government revenues were impacted by the economic crisis brought about by the Covid-19 disease. In Latin America, revenues were on average 13.1% of GDP up to September, while they reached 13.6% of GDP during the same period in 2019. The contraction was greater in the Caribbean, where total revenues fell to an average of 12.4% during the first six months of 2020 from 13.2% of GDP in 2019. The impact, however, varied depending on the type of revenue sources.

The contraction in tax revenues was the principal cause of the fall in total revenues in both Latin America and the Caribbean. The interruption in economic activity and the great fall in private consumption have negatively affected tax revenues. This pattern has been exacerbated in some countries due to the implementation of tax relief measures to alleviate liquidity problems of households and firms. However, an improvement in the collection of tax revenues could be seen from the month of June, especially in the value added tax. This improvement could be reverted depending on the evolution of the pandemic.

By contrast, other types of revenues, such as, non-tax revenues, capital revenues, grants and others had opposite trends in Latin America and the Caribbean. An increase in these types of revenues partly compensated the fall in tax revenues in Latin America, mostly due to extraordinary revenues in some countries. This is not a general trend as oil exporting countries suffered great losses in oil revenues, and the situation could worsen depending on the evolution of international prices. In the Caribbean, the fall in tax revenues was compounded by a reduction in other revenues, such as those associated to Citizenship by Investment programs.

Countries have adopted important fiscal packages to soften the impact of the crisis. These packages have meant great government expenditures to support the welfare of families and to maintain the productive capacity. In Latin America, public expenditures reached 18.1% of GDP during the first nine months of 2020 compared to 15.2% of GDP during the same period in 2018, an increase of 2.9 percentage points of GDP. At the same time, total expenditures in the Caribbean reached 14.9% of GDP during the first semester of 2020, 2.1 percentage points higher than the same period in 2018.

Current transfers have been the most utilized instrument during the year, which include extraordinary bonuses for households, support to firms to cover salaries and financial support to local governments and other public institutions. In contrast, there have been smaller increases in expenditures for goods and services and interest payments; although some countries incurred in substantive expenditures in this last item. Capital expenditures, which have been the principal variable of adjustment during the last decade, have remained stable as a percentage of GDP on average of the sub-regions. However, some countries have experienced important increases.

The fiscal balance in Latin America is on average equivalent to -5.0% of GDP for the first nine months of the year, compared to -1.6% of GDP for the same period in 2018. Similarly, in the Caribbean, the fiscal deficit was equivalent to 2.4% of GDP during the first semester of 2020, down from a surplus of 0.5% of GDP during the same period in 2018. In both sub-regions the primary result have turned negative in 2020 from surpluses during the same periods of comparison.

4. What are the social factors behind the widespread Covid-19 infection in LAC and the large number of deaths (including excess deaths observed in several LAC countries)? (Please consider the informal economy, urbanization, aging population, deficiency in health care and health insurance system, etc.) [Mr. Cecchini]

Latin America and the Caribbean is particularly vulnerable to the COVID-19 pandemic because of its high levels of labor informality, urbanization (about 80% of the population lives in urban areas), poverty, and inequality, and its weak health and social protection systems. Inequalities in access to water, sanitation, health systems and housing (and the consequent overcrowding), translate into higher rates of infection and mortality from COVID-19, especially among marginal urban populations. Inequalities in access to the internet, and the impossibility for many of working from home increases the risk of infection: ECLAC has estimated that teleworking is feasible only for 21% of workers. Also, the risk of death is greater among the poor and vulnerable because of the higher incidence of pre-existing health conditions such as lung disease, cardiovascular disease and diabetes.

The different socioeconomic impacts of COVID-19 reflect the social inequality matrix in the region, which is built around the axes of socioeconomic stratum or social class, gender, life-cycle stage, ethnicity or race and territory, along with other factors such as disability, migratory status and homelessness. These inequalities accumulate, strengthen and interact, causing multiple forms of discrimination that lead to differences in the exercise of rights. For instance, indigenous populations (60 million people who account for just under 10% of the Latin American population) and Afro descendant people (130 million people, or 21% of the Latin American population) are being disproportionately affected by COVID-19, since they tend to live in worse socioeconomic conditions, have limited access to health services and social protection compared to the rest of the population, and face high levels of discrimination in the labor market.

5. What has been the impact of the pandemic in the areas of international trade and regional integration amid the Corona crisis and what may be some of the repercussions? [Mr. Inoue]

The outbreak of COVID-19 has severely hit Latin America and the Caribbean´s foreign trade. We project that in 2020 the value of the region´s exports of goods will drop by 13%. Merchandise imports are expected to fall even more (20%) as a result of the deep recession the region is undergoing. Regional exports of services have suffered the largest decline (-26% in the first half of 2020) due to the virtual drying up of international tourist arrivals.

This bleak outlook should not hide the fact that the region has shown a weak export performance for several decades. Its share of world merchandise exports in 2019 (5.6%) was the same it had back in 1968. Its share of world exports of services is even lower at 3.2%. The region (especially South America) has been unable to reduce its dependence on exports of primary products, with all the negative features that entails (price volatility, reduced employment creation and technology spillovers, environmental damage, just to name a few). This reflects several weaknesses, including low R&D levels, weak industrial policies, education gaps, and low levels of regional economic integration.

Globally, the pandemic is likely to reinforce two interrelated trends that were already discernible before its outbreak. The first is a shift towards less interdependence in production, trade and technology among the world's major economies, particularly between the United States and Europe on the one hand, and China on the other. The second is a trend towards world trade that is less open, more influenced by geopolitical and national security considerations, with more frequent disputes and a weakened multilateral governance. The result may not be the reversal of globalization, but perhaps a more regionalized world economy, organized around three major production hubs: North America, Europe, and East and South-East Asia.

In a global context of increased regionalization, regional integration must play a key role in the crisis-recovery strategies of Latin America and the Caribbean, for several reasons:

- An integrated market of 650 million people would provide the countries of the region with a significant buffer against external supply or demand shocks.
- It would help achieve the scale required to strengthen strategic industries such as pharmaceuticals and medical supplies, and to foster shared production and research networks. This would in turn reduce the region's overdependence on commodity exports (especially in South America) and its vulnerability to supply disruptions such as those seen during the early months of the pandemic.

- Intraregional trade is crucial for development. The region is the main destination for Latin America´s manufactures, absorbing 50% of its industrial exports[1]. The regional market is also the most important one for Latin American exporting firms (especially MSMEs[2]) and is also crucial for the region´s exports of high-value services.
- In a context of weakening multilateralism, greater regional coordination is vital to foster a more equal dialogue with the main actors in the global economy.
-

Despite all these positive developmental features, the share of intraregional exports in Latin America´s total exports has been steadily falling since 2014 and it was barely 13% in 2019. Moreover, ECLAC estimates that intraregional exports will be hit the hardest by the pandemic, with a projected 24% drop in their value in 2020. In the meantime, exports to China, which are mainly primary products, are expected to grow 2%. Thus aggravating the reprimarization of LAC's export basket.

6. Please tell us about ECLAC's post-Covid policy recommendations. If possible, elaborate on how to finance these programs? [Mr. Titelman, Mr. Cecchini and Mr. Inoue]

To face the COVID-19 emergency, ECLAC has proposed several short-term measures, such as an emergency basic income, a hunger bonus, co-financing of firms' payrolls, investments to universalize broadband internet access and provision of a basic basket of technological products comprising a laptop, a smartphone and a tablet, and increased investment in health and its infrastructure. However, under a longer-term view, to promote sustainable development post-COVID, the new "Building a new future: Transformative Recovery with Equality and Sustainability" report by the ECLAC proposes a shift in development style, inducing structural change. This entails promoting key sectors such as non-conventional renewable energies, electromobility, the digital economy, the health care sector, bioeconomy, tourism, and the circular economy. Crucially, in order to ease the transition towards a new development pattern, it is key to strengthen, renew and expand the welfare state and promote universal social policies.

Changing the development path in Latin America and the Caribbean requires an active fiscal policy and bolstering tax collection, changing the historic situation whereby tax revenues have been insufficient to finance the level of public spending needed for sustainable development and not sufficiently progressive. For instance, whereas taxes levied on the consumption of goods and services, which are fundamentally regressive, generate 50% of total tax revenue in the region, compared to 32% in OECD, revenue from direct taxation is low, particularly in the case of personal income tax. The tax system must nurture a fairer, more egalitarian and sustainable society and economy, through taxes that redistribute income and wealth while also altering consumption and production patterns.

To reverse the trend aggravated by the pandemic of hollowing and weakening of intraregional trade and a greater dependence on commodity exports, LAC countries must overcome the fragmentation of the regional market by building bridges between the region's largest blocs, especially the Pacific Alliance and MERCOSUR. ECLAC considers that there are three areas that stand out for their potential to lead an inclusive and sustainable recovery of regional integration:

[1] This figure excludes Mexico since it sends 80% of its total exports to the United States.
[2] Micro, small and medium enterprises.

1. Trade facilitation: There is a growing awareness in the region of the importance of streamlining cross-border procedures to enhance their participation in global and regional value chains and to support the internationalization of MSMEs. Therefore, regional initiatives such as the mutual recognition agreements of authorized economic operators and the interoperability of electronic single windows should be accelerated. The current pandemic is an opportunity to move more decisively towards the digitalization of trade procedures, thereby reducing the risk of contagion.

2. Infrastructure and logistics: The region's poor infrastructure raises the cost of intraregional trade, undermines the development of regional value chains, and prevents a balanced territorial distribution of the gains from trade and investment. In the coming years more, but also better, investment will be required, especially one geared towards greener, more resilient infrastructure. Given the limited fiscal space available to the countries of the region at the current juncture, this is an area in which coordination with regional development banks will be crucial.

3. Digital cooperation: The region lacks an institutional framework for the discussion of policies, norms and standards on digital cooperation. This is a shortcoming that must be addressed urgently. Specifically, ECLAC has proposed a work agenda in the following areas: digital infrastructure (including 5G high-speed networks) and connectivity to guarantee universal access to broadband Internet; data protection and digital security; competition and regulation policies, and digital taxes. Coordinated actions in all these areas would pave the way towards the gradual establishment of a digital common market for Latin America and the Caribbean, with great development potential.

7. Please brief us with prospects for the LAC economy in 2021. [Mr. Titelman]

ECLAC forecasts an average growth of 3.7% for the economies of Latin America and the Caribbean in 2021. In general, this forecast reflects a statistical rebound due to the significant fall of the economic activity in 2020.

The 2021 forecasts are subject to risks given the degree of uncertainty due to various factors in 2021. In particular, news of the availability of a vaccine brings expectations of its widespread distribution during the second semester. However, if this does not occur, the region's growth may be worse than projected. Secondly, an implicit assumption in the forecasts is the continuation of an expansive monetary policy by the central banks of the largest economies, that would guarantee the availability of liquidity in dollars and boost growth in the respective economies. The early retraction of monetary and fiscal stimuli could interrupt the recovery in the larger economies which would have a negative impact in the region through trade and other channels of transmission of external shocks.

In the rest of the region, it is also expected that monetary and fiscal stimuli will continue and not be retracted prematurely, which would otherwise interrupt the expected recovery in activity.

Finally, the scars left by the greatest crisis in decades in unemployment, poverty and inequality levels could intensify latent social tensions, which could impact the recovery of economic activity. At the same time, other types of tensions in the international context, such as geopolitical tensions including technological and trade frictions, could also affect the performance and prospects of the region.