

Statement of Mr. Mario Cimoli, Deputy Executive Secretary, ECLAC

ECOSOC Integration Dialogue 2: Building back better towards inclusive, sustainable, and just economies for recovery: Re-designing the contract between people and planet

3 June 2021, 9:00 a.m. – 10:30 a.m. EDT

- I will focus my intervention on the importance of considering causality and the relationship between variables when we discuss the important economic and social issues that form part of an integrated approach for building back better. Critically, we must consider the asymmetries that exist between developed and developing countries.

Latin America and the Caribbean's "development hysteresis"

- Prior to the COVID-19 pandemic, Latin America and the Caribbean was already struggling to overcome the intertwined challenges of low productivity, social vulnerability, environmental fragility, and institutional weaknesses that hindered its progress towards achieving the 2030 Agenda.
- Growth in the region had been stagnant since 2015, and hard-won gains in poverty and inequality had begun to recede, leaving an ascendant middle class at risk of rapidly slipping back into poverty. During the 2014-2019 period, GDP growth averaged only 0.3%, reaching a level of 0.1% in 2019. A growing distrust in institutions translated into demands for substantive transformations to build more just and inclusive societies through social mobilizations in different countries of the region.

- Behind the recent development problems in Latin America and the Caribbean lies its technologically unsophisticated productive structure, mainly oriented to the production of low-technology goods, intensive in natural resources and that demand low-cost and unskilled labor. Since the start of the commodity price boom, the region had experienced a “reprimarization” with many countries deepening their reliance on primary products, often to the detriment of environmental sustainability.
- In the absence of industrial and technological policies that promote convergence with the countries at the technological frontier, there was little construction of new capabilities and consequent productivity gains, leaving the region in a state of hysteresis, unable to overcome its structural challenges.

Impacts of the COVID-19 pandemic on Latin America and the Caribbean

- The pandemic has had devastating economic and social effects on Latin America and the Caribbean, with a 7.1% drop in regional GDP in 2020. At the end of 2020, the region's poverty rate increased to 33.7%, affecting 209 million people, and extreme poverty reached 12.5%, that is, 78 million people in the region.
- In the context of falling revenues, during 2020 the region's governments mobilized the equivalent of 4.6% of GDP in emergency response and 2.5% of GDP in public credit guarantees. Hundreds of non-contributory social protection measures were adopted throughout the region, including cash transfers, the delivery of food and medicines, and guaranteed supply of basic services, equivalent to 78 dollars per inhabitant and 1.25% of 2019 GDP. Many of these have continued in 2021. ECLAC estimates that if these support mechanisms are removed, poverty and extreme poverty are poised to rise further this year.

- These impacts, added to years of stagnant growth, have contributed to LAC becoming the most indebted developing region in the world with the debt stock of the general government reaching 77% of regional GDP for 2020 and the total external debt service equaling 59% of its exports of goods and services in 2020.

Rethinking development policies amidst global asymmetries

- Globally, countries at all income levels are rethinking their development strategies. Developed countries have moved beyond emergency response measures and actively redesigning the contours of post-COVID societies with new approaches to labor market, welfare, and productive policies supported by long-term expansionary fiscal and monetary policies, many of which aim to enhance environmental sustainability.
- For example, the European Union has financed an economic recovery plan “NextGenEU” with a value of 750 billion euros. In the United States, pandemic emergency spending plus the proposed infrastructure and care economy would amount to over 8 trillion dollars.
- However, there are significant asymmetries between Latin America and the Caribbean and developed countries that make similar approaches more difficult for the region to follow.
- On the one hand, developed countries benefit from central banks that issue widely accepted reserve currencies, low borrowing costs, broad market access, strong representation in international financial institutions, and a history of industrial development and technological capabilities.

- Developing countries, on the other hand, face balance of payments constraints, limited fiscal space and indebtedness, restricted market access, reduced input into international financial architecture, and low productivity and technology absorption with high informality.
- With these constraints, many countries in Latin America and the Caribbean are returning to the same development models that have not worked in the past. The region is growing again, and the terms of trade have improved, but the engines are the same as before. Higher external demand, particularly from the US and China, and the increase in the prices of raw materials, together with the reopening of economies throughout the region have led to a reactivation of growth.
- This reversion to the status quo is evident in labor markets too. Even though the region managed to recover over half of the total jobs that were lost during the crisis by the first quarter of 2021, informality has increased. Even in countries where the labor market recovery has been more rapid, for example in Mexico, where 93 out of 100 people who lost their jobs at the beginning of the health crisis have regained them, the recovery has been concentrated in low-paid jobs.
- Investment in the region has reached a nadir. In 2020, Latin America and the Caribbean had the lowest investment rate of all regions, reaching its lowest level in the last three decades (17.6% of GDP). These factors have the potential to further exacerbate the region's development challenges.
- Addressing the interconnected structural crises facing the region requires policies and new social pacts that tackle them simultaneously, encompassing policies for social welfare but crucially investment, employment creation and productivity. Compacts between countries built on new forms of multilateral cooperation, should support developing countries to implement such social pacts, to achieve a growth rate compatible with external balance, reduce poverty and be consistent with environmental sustainability.

- It also means reducing the asymmetries by enabling policy space for sustainable industrialization in developing economies, including through investment and trade cooperation, the transfer of green technologies and capacity building as important areas for a globally fair green recovery and as priority areas for new types of international cooperation.
- Importantly, green recovery policies and market access criteria in rich countries should not be designed to the detriment of the industrialization prospects of developing countries. Moreover, high emitter developed countries should walk the talk on the green transition. G7 countries continue to pump recovery funds into fossil fuel industries with no strings attached and at higher levels than into renewable sectors, and merely 18% of announced recovery spending in 2020 of 50 leading economies can be considered green.
- In addition, mustering the necessary resources will require fiscal pacts and new forms of international financial cooperation and solidarity.

An integrated development policy agenda for Latin America and the Caribbean

- Policy priorities must focus on reorienting public spending linking the emergency with transformative recovery. In the short-term, fiscal efforts should be targeted at expanding emergency social transfers during 2021 and at measures to avoid the wide scale closing of SMEs.
- In the medium-term, expenditure policy should prioritize the universalization of social protection systems, health care and education as pillars for a more inclusive and sustainable recovery and adopt

investment spending on strategic growth sectors to generate employment and improve productivity while enhancing welfare.

- To overcome the lock-in effects of the region's productive structure, industrial and technological policies are necessary to develop capabilities, diversify and develop more complex sectors to overcome external constraints.
- ECLAC believes that a set of coordinated policies (public and private, national, and subnational, sectoral, fiscal, regulatory, financial, planning, etc.) that redirects domestic and foreign investments to a set of sectors that are able to produce, simultaneously, a virtuous cycle of economic growth, employment and income generation that reduce inequalities and poverty (endogenously and through redistribution) while lowering the environmental footprint can drive a “big push for sustainability” that would address many of the region’s structural development challenges.
- This entails strengthening regional value chains and the region’s insertion into global ones in lower environmental footprint sectors such as renewable energies, mass transit and public services infrastructure, nature-based solutions and bioeconomy, circular economy, care economy and health related industries, low environmental impact tourism and closing the digital divide.
- There are already success stories of this approach. For example, Uruguay introduced the Energy Policy 2005-2030 composed of strategic guidelines, goals, actions, and a situation analysis of the energy sector in 2008. In a short period of time, Uruguay has become the world leader in renewable energy investments as a proportion of GDP. This has permitted higher growth by reducing the country’s external restriction without endangering the environment, in a more diversified economy.

- ECLAC is working to foster these aims in its role as a regional think-tank through policy dialogue and analysis. Leaving the COVID-19 crisis behind will require a new vision of development for the region that allows it to escape from its state of hysteresis and avoid the trap of Lampedusa's *The Leopard* that "everything needs to change, so everything can stay the same."