Current Situation and Economic Recovery Post-COVID-19 in Latin America and the Caribbean

Zebulun Kreiter, Economic Affairs Officer, ECLAC





The economic and social impact of the COVID-19 pandemic on Latin America and the Caribbean

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The most severe economic crisis in Latin America and the Caribbean in a century

Evolution of GDP per capita (Index, base year 1990=100)



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- GDP: -9.1%
- GDP Per capita: -9.9%
- Poverty: 231 million
- Extreme poverty to 96 million
- Exports: -14%
- Unemployment: 44 million
- Informality: 54%
- Business closures: 2.7 million

Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020.



Impacts differentiated by sector

Severe

- Tourism services
- Hotels and restaurants
- Traditional cultural industry
- Commerce
- Repairs of goods
- Transport
- Fashion
- Vehicles and parts

Significant

- Mining
- Electricity, gas and water
- Construction and construction materials
- Business services
- Financial activities
- Beverages
- Furniture and wood
- Chemicals
- Electronics, machinery and equipment

Moderate

- Agriculture, livestock, fishing
- Food production for the domestic market
- Medical supplies and equipment
- Medication
- Telecommunications
- Packaging



Simulations show heterogeneous impacts of lockdowns by sector





Source: ECLAC, on the basis of the FEALAC project input-output table (ADB-ECLAC-ESCAP)

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Severely affected sectors account for over a third of formal employment and a quarter of GDP

Latin America and the Caribbean (27 countries): GDP and employment by intensity of expected impact of the crisis

(Percentages)





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Significant or severe impact on 92% of the branches of industry with the highest technological content

Latin America (8 countries): percentage of production of different groups of industrial sectors by intensity of expected impact of the crisis



- The crisis is hitting the most technologically dynamic industrial sectors hardest, which will deepen their structural problems.
- Highly likely that a regressive structural change will lead to reprimarization.



Source: ECLAC, on the basis of official information.

19% of formal enterprises will close The smallest enterprises will be the hardest hit

Latin America and the Caribbean (27 countries): number of firms likely to close and of jobs likely to be lost, by size of enterprise

	Enterprises	Jobs
Microenterprises	2 650 528	6 383 958
Small enterprises	98 780	1 512 655
Medium-sized enterprises	5 943	390 155
Large enterprises	406	231 724

Latin America and the Caribbean (27 countries): percentage of firms likely to close and of jobs likely to be lost, by size of enterprise



Source: ECLAC, on the basis of official information.

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Laying the basis for a sustainable economic recovery in Latin America and the Caribbean



LAC was already falling behind in productivity prior to the pandemic



Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020.

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Reactivation entails substantial changes for companies



Safety of workers and customers

Disinfection of workplaces Supplies for personal protection Temperature checks Infrastructure for communal areas



Reorganization of production

Adjustments to internal logistics to increase efficiency

Reorganization of workforces (hybrid of telework and on-premises work)

Fast-tracked incorporation of digital technology



Business models

Enhanced monitoring of demand

Greater interaction with customers and suppliers to adapt products and services to consumer preferences Reorganization of supply chains Security as a key differentiating factor



An overhaul of production chains

- Strategic decisions within global production networks will take into account new risk factors
- Companies will seek to **improve the resilience of networks by**:
 - **Diversifying suppliers** by country and company ("China plus one" strategy)
 - Nearshoring by choosing geographically closer suppliers
 - Reshoring strategic production and technology processes
- The suppliers of transnational corporations are under the greatest pressure
- Breaks in networks: an opportunity to develop national and regional capabilities



It is necessary to think about a process of productive transformation

- Global demand will be reactivated with large sectoral differences
- Must think about which activities generate:
 - The highest **density** of high-productivity enterprises;
 - A new **social base**; and
 - Greater environmental sustainability will play an increasing role in the development of the world economy
- Redesign investment strategies favoring resilient, efficient and sustainable activities that promote connectivity and adaptation and mitigation of climate change



Seven dynamic sectors for a big push for sustainability

They play a strategic role in achieving growth, reducing inequality and enhancing sustainability because they promote technical change, create jobs, and reduce external constraints and the environmental footprint.

- O The transformation of energy systems based on renewable energies
- Sustainable mobility and urban spaces
- The digital revolution for sustainability
- The healthcare manufacturing industry
- The bioeconomy: sustainability based on biological resources and natural ecosystems
- The circular economy
- Sustainable tourism



Decarbonizing the electricity matrix costs less than maintaining it 30% less emissions and nearly 7 million more jobs

SCENARIOS	Share of renewables (excluding hydropower) in installed capacity	COST In percentages of annual GDP between 2020- 2032	Accumulated emissions of CO2 (gigatons) 2020-2032
Current situation	12.7%	-	6 (2010-2020)
Baseline scenario (national energy plans)	24.6%	1.40%	4.8
Renewables without integration	41.1%	1.35%	-30.1%
Renewables with integration	39.5%	1.33%	-31.5%

Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020.



Electromobility: an opportunity for the manufacturing industry and the urban agenda

Mexico City: total cost of bus ownership over a 10-year lifespan (In dollars per kilometer)



- Advantages in the region:
 - Lower operating cost in the life cycle of electric vehicles compared to conventional ones for public transport
 - Extensive **public transport systems** and fleet of conventional buses to replace
 - Capacity of the **automotive industry**
 - Abundant lithium and copper, solar and wind energy (green hydrogen at low cost).
- Converting diesel buses to electric costs half as much as buying a new bus

Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020.



Invest 1% of GDP annually in a basic digital basket to universalize broadband access

More than 40 million households without an internet connection:

- 67% of the population used the internet in 2019
- 33% of urban households and 77% of rural ones are not connected
- 42% young people under 25 years old and 54% of adults over 66 years old do not have an internet connection
- More than 1/3 of the countries do not have the necessary download speed for simultaneous data-intensive activities

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Devices Laptop/tablet Smartphone Internet plan Cost: 1% of GDP annually

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Bank, World Development Indicators, Washington, DC, 2019 [online database] http://data.worldbank.org/data-catalog / world-development-indicators.



Boost the healthcare manufacturing industry



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- Investment to reduce the external deficit, particulary in more advanced products
- Linking the public and private sectors to address supply shortages in very short periods
- Assets for industrial development:
 - Cores of high-quality basic research
 - Incipient start-up process
- National efforts with a regional perspective (production and purchasing power)

Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020.



Two pillars of sustainability: bioeconomy and circular economy

Bioeconomy

- Diversify the productive structure with sustainability
 - Transition towards agroecology
 - Development of value chains and diversified systems of crops native to the region
 - Low emission aquaculture

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- Combine advanced biotechnology with digital technology
- Accelerate the adoption of nature-based solutions

Circular economy

- Increase the recycling rate and number of recyclable materials
- Develop activities related with the circular economy on the basis of local productive chains and waste management and recycling
- An adequate boost to the sector would generate 450,000 stable jobs and increase GDP by 0.35%



Need for a sustainable recovery of tourism



Employment

GDP

Expected fall in GDP and employment in the tourism sector, 2020 (Percentages)

- Key sector for employment and foreign exchange
- Worker protection
- Support to companies in national and regional chains
- Short-term facilitation of the recovery of the sector
- Strengthening its sustainability and resilience in the medium term
- Regional and subregional cooperation

Source: ECLAC, Economic Commission for Latin America and the Caribbean, Building a New Future: Transformative Recovery with Equality and Sustainability (LC/SES.38/3-P/Rev.1), Santiago, 2020. Note: The series for GDP, exports and gross fixed capital formation were obtained on the basis of 10-year moving averages.



Sector conclusions: synergy between companies, policies and capacities

- The basis of success: combination of business strategies with public policies that established systems and incentives that made investment and the development of human and business capacities viable
- The capacities that were developed in the national innovation systems (companies, universities and sectoral government agencies) were important in the transfer of knowledge and innovation, as seen in low carbon agriculture and other activities related to the bioeconomy
- Take into account the interrelationships and synergies between the sectors analyzed, for example, between digitization, the move towards non-conventional renewable energy sources and the promotion of electromobility, and urban management



Five medium- and long-term policies



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Thank you!

