

COVID-19 in Latin America – an opportunity for a “new social contract”?

Take-aways from #FlorenceLive conversations season II

#FlorenceLive 9 on “Latin America’s battle with COVID-19”, 30 September 2020

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The second session of this fall’s #FlorenceLive conversations focused on Latin America’s battle with COVID-19. Following the debate on Africa in June 2020, it was the second #FlorenceLive conversation to take a regional perspective in analysing the challenges and consequences of the global pandemic. The high-level panel featured Luis Almagro, Secretary General of the Organisation of American States (OAS), Rebeca Grynspan, Secretary General of the Ibero-American General Secretariat (SEGIB), and José Gabriel Porcile Meirelles, Senior Economic Affairs Officer of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Carlos Closa, part-time Professor in Regional Governance at the School of Transnational Governance (STG) and Professor at the Spanish National Research Council (CSIC) moderated.

The debate centred around the questions:

- What explains the intensity with which the pandemic has hit Latin American?
- How can Latin American countries cope with the huge economic impact of the pandemic?
- What are the political consequences of Covid-19?
- How could Covid-19 affect regional cooperation and, more extensively, Latin America’s place in the global scene?

9 key take-aways:

Analysis

1. **Latin America was hit the hardest by COVID-19.** With over 10.1 million cases and almost 370.000 deaths,¹ no other world region has been more affected by the COVID-19 pandemic than Latin America. The Economic Commission for Latin America (ECLAC) expects the steepest recession in a century, causing the GDP to drop by 9.1% in 2020. Unemployment could rise from 8.1% in 2019 to 13.5% by the end of 2020. Up to 45 million people could slide into poverty, half of which may experience extreme poverty. The already high levels of public debt will rise further.²

¹ As of 12 October, source: Johns Hopkins University.

² United Nations, Policy Brief: The Impact of COVID-19 on Latin America and the Caribbean, July 2020, URL: https://www.un.org/sites/un2.un.org/files/sg_policy_brief_covid_lac.pdf, (12.10.2020).

2. **Structural problems and weak institutions aggravate the crisis.** Among the factors explaining the severe impact of the pandemic are pre-existing structural problems as well as weak public institutions. Latin America is among the world regions with the highest degree of inequality. A high proportion of informal labour, slow growth rates, limited fiscal space, the dominance of low-technology economic sectors, high levels of violence and trafficking and exposure to natural disasters have rendered Latin American societies vulnerable to an external shock such as a pandemic. Public institutions, despite attempting to implement both a lockdown and economic support measures, were unable to enforce restrictions and lacked the capacity to reach those parts of the population most in need for help, e.g. those working in informal industries.
3. **Precarious political landscapes.** Already before the crisis, Latin America saw increasingly volatile political situations in a number of countries. While waves of social unrest swept Chile and Colombia in 2019, the crisis surrounding the Maduro-Regime in Venezuela continued. Inequality and government inefficiency eroded trust in public institutions, fuelled the rise of populist politicians and undermined public adherence and successful implementation of emergency measures when COVID-19 arrived. So far neither right nor left were able to profit from the crisis. But an ineffective crisis management risks to push voters further from the centre to the extremist fringes of the political spectrum.
4. **A largely absent international community.** Unlike during the financial crisis in Latin America in 2008, the reaction of the international community has been largely absent. With international support primarily geared towards low-income countries, the middle-income countries of Latin America have not received targeted help. The International Monetary Fund, for example, did not enable Special Drawing Rights (as was the case in 2008), the World Bank did not provide for additional capitalization of regional development banks (as it did in 2008) and no debate on foreign debt relief was initiated through the G20 (as had been done in 2008) in order to increase the fiscal space for Latin American governments.

Recommendations

5. **Reform of democratic institutions and a “new social contract”.** Given the existing structural problems and the absence of reforms over the past decades, concerted recovery efforts have to start with a renewal of democratic institutions including fighting corruption and rebuilding public trust. Reform efforts in combination with economic recovery measures can form the basis for a “new social contract” (Grynspan) that is able “to reduce inequality and prepare the ground for a better social reality” (Almagro).
6. **International finance needed.** To power these recovery efforts, the international community has to provide financial instruments that can boost and sustain the economic recovery. Only the IMF has the muscle to provide the liquidity needed and should decide to emit Special Drawing Rights to the benefit of middle-income countries (MICs). Creditors, moreover, have to consider measures to mitigate the debt burden that have severely hampered public economic responses to the crisis so far. [Accounting for ca. 75% of the world’s population and a third of the globe’s GDP](#), the international community cannot leave the MICs behind in its effort to restart the global economy.

7. **The socio-economic opportunity.** Today, and not least in the wake of the pandemic, public expenditure and sound fiscal policies are no longer considered irreconcilable. Given the need for reform and innovation in Latin American economies, the recovery efforts offer the opportunity to commit to “building back better”, the UN’s mantra in preparing a post-COVID world. Given adequate financial instruments and harnessing private investment, Latin American economies could invest in more innovative and more indigenous production capacities, promote renewable energy resources, green economy, and modern technology. On the state level, increased efforts to strengthen public health, social welfare and universal education can also contribute to forging of a new social contract.
8. **Strengthen regional cooperation.** Despite positive examples, such as the Mexico-Argentina agreement to commonly produce a COVID-19 vaccine and make it available to all Latin America or the technical coordination on the level of health authorities, the crisis has not yet ignited closer political cooperation in the region. A new approach to regional cooperation could aim at promoting an “integration from the bottom up” (Grynspar) by creating conditions for people and businesses to link and interact. Helped by technology, cooperation in value chains, academia and other sectors of societal life could be deepened.
9. **Strengthen Latin America’s collective voice.** On the international level, Latin American countries need to strengthen their collective voice and propose development plans geared towards their specific requirements. The IMF and other supporting institutions should seek such regional plans rather than imposing fiscal rules and exerting restraints. If multilateralism has suffered from the nationalist reflexes the crisis brought to the fore, then a renewed multilateralism needs to provide more space for the developing countries to formulate their own policies for a post-COVID world.

Online reactions: The event was livestreamed on YouTube and followed by an international audience. It elicited numerous comments and questions.

(Re)watch the conversation at stg.eui.eu/events/FlorenceLive