Regional cooperation and integration: building blocks towards sustainable recovery in Latin America and the Caribbean

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A new political context

1. Multilateralism in crisis
   - Geopolitical tensions
   - New economic geography
   - Diminished global governance models

2. New global challenges
   - Climate change
   - Biodiversity loss
   - Technological revolution
   - Migration

3. Structural challenges
   - Insufficient growth
   - Intersecting inequalities
   - Structural fiscal and trade deficits

4. The new development agenda
   - Agenda 2030
   - Paris Agreement
   - Samoa Pathways

5. Social discontent
   - Fragmentation of health services
   - Poverty, inequality, informality
   - Containment, confinement and violence
   - Authoritarian tendencies

COVID-19 has magnified structural gaps

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A new political context
The worst crisis in a century which complicates Agenda 2030

- Decline of 9,1% of GDP
- Poverty will rise to 231 million (37,3%) and extreme poverty to 98 million !15,5%
- Unemployment will rise to 13.5%, with 44 million unemployed
- Regional exports set to fall by 14%
- Closure of 2.7 million formal businesses
- 40 million households without digital connectivity
Intraregional trade has collapsed in all the subregional mechanism: urgency to move on trade facilitacion, logistics and digital
Countries have responded but COVID-19 calls for a new development paradigm/observatory

1. High fiscal efforts (4.5% GDP) to mitigate the effects of COVID-19 with limited fiscal space and 10% of GDP in guarantees

2. External cooperation will be needed with favorable access for MICs, SIDs and LLDCs.

3. Crisis will be longer with great uncertainty so fiscal expansion with an active role of the State will be key to support recovery.

4. Building forward better with equality and sustainability at the center.

- Emergency basic income
- Tax exemptions, subsides and grace periods to MSMEs
- In kind transfers: food & medicines,
- Unemployment insurance, advance pension payments
Six ECLAC proposals to connect the emergency with the recovery and the change of the model

1. Extend the **basic emergency income** for 12 months and terms and grace periods to MSMEs
2. A **basic digital basket** to guarantee universal digital inclusion of 40 million households
3. Expansive **fiscal and monetary** policies: austerity is not an option
4. International solidarity: **debt relief in the Caribbean** and interest payments in Central America and create regional resilience fund.
5. **Recovery plans with job creation**, supported by climate action, environmental sustainability, nature-based solutions and basic infrastructure
6. Political and fiscal **pacts** for universal, progressive and redistributive social protection.
Five sectors driving the big push for sustainability

1. The energy transition to renewals with employment.

2. Agroecology, agroforestry and oceans (Oceans)/aquaculture; restoration.


5. Strengthening the care economy as part of health infrastructure, equipment and expertise.

- Historic
- Transformative
- Universal, comprehensive and indivisible goals
- Participative
- Vision of the future with equality and sustainability
Priority to regional cooperation in digitalization

- **Universalize digital access**: expand fixed broadband coverage
- **Promote productive transformation with** digital technologies in SMEs and supply chains
- **Promote trust and digital security with** regulatory frameworks and rules on privacy and cybersecurity
- **Strengthen regional digital cooperation (eLAC)**: regional digital market
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:
  o Diversifying suppliers by country and company (“China plus one” strategy)
  o Nearshoring by choosing geographically closer suppliers
  o 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
Multilateral responses for the needs of Middle-Income Countries have been important but insufficient.

- Increased capitalization
- Mandated requirements to channel a given percentage of portfolio loans to green investment
- Remove barriers to the expansion of climate finance
- National development banks can support SMEs by widening financial inclusion through financial innovation,

![Graph showing response to the urgency of the Pandemic (Billion dollars)]

- **CAF**: 2.5
- **BCIE**: 1.96
- **IDB**: 1.5
- **CDB**: 0.2

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<th>Financing needs of developing</th>
<th>$2.5 trillion</th>
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<td>Total effective IMF lending capacity: $700-800 billion</td>
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<td>Current IMF lending commitments: $250 billion</td>
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- 63.2 billion to 20 LAC countries.
- Rapid Financing Instrument
- Rapid Credit Facility
- Extended Fund facility Catastrophe Containment and Relief Trust (CCRT)
- Flexible Credit Lines: to 3 LAC countries
Multilateral cooperation to address liquidity needs

- New SDRs issuance of 500 billion and reallocation of existing SDRs
- Fund to Alleviate COVID-19 Economics (FACE) proposed by Costa Rica.
  - The fund of a modest size of 516 billion for concessional funding with long repayment periods and near-zero interest rates to low and middle-income countries with no conditionalities
- Expanding the scope and extending the term G20 Debt Service Suspension Initiative (DSSI): to include MICs and SIDs
- Concerns over credit downgrades during the pandemics
Multilateral cooperation to address debt vulnerability of SIDS

- **Special dispensation for vulnerable Caribbean SIDS** through:
  - Access to *grant and concessional funding*
  - *Debt relief/cancellation without conditionalities*
  - Access to *enhanced DSSI (bringing in private creditors)*

- **Engage bilateral creditors including Paris Club**

- **Establishment of a Caribbean Resilience Fund** with an *initial capitalization in the order of US$6.9 billion (12.2% of regional debt)* is being sought

- **Green Climate Fund’s involvement in the ECLAC Debt Swap Initiative**
  - Access to concessional/grant resources from GCF and establishment of the Resilience Fund needs to be agreed to move the Initiative forward
Changing the development strategy

- Growth in production and employment is fundamental
- New technologies: efficiency and productivity
- Social and fiscal pacts to establish welfare states
- A big push for sustainability with equality
- Strengthening and expanding regional productive integration schemes

*Address the emergency and implement a strategy to overcome the structural weaknesses of economies and societies*