

Editorial

Latin America and the Caribbean (LAC) has been the region worst affected by the pandemic and is only re-emerging from what is the deepest recession in the region's history. Although prompt and proactive policy responses since the beginning of the coronavirus (COVID-19) crisis averted more pessimistic scenarios, the pandemic has left profound scars, notably on the most vulnerable (in particular women and youth). Urgent and resolute action is still needed to overcome the pandemic, mitigate its long-term socio-economic consequences and lay the foundations for a better future.

The *Latin American Economic Outlook 2021* (LEO) conceives the recovery from the COVID-19 crisis as an opportunity to implement reforms to address structural challenges and discusses the kind of policies and international co-operation approaches that can help governments build forward better. The response to the crisis can provide the necessary impetus to design and implement a renewed strategy for development that promotes inclusiveness, resilience and sustainability, responds to citizens' expectations and accelerates progress towards the United Nations 2030 Agenda for Sustainable Development. The LEO 2021 takes forward the *Development in Transition* (DiT) approach as a general framing for domestic and international action, aimed in particular at fostering regional integration and reinforcing the social contract – two crucial goals for overcoming the vulnerabilities and development traps that hold back progress in the region.

The region is highly heterogeneous in terms of the impact of the pandemic and the ability to react to its challenges. However, LAC countries share an extraordinary common challenge. In the short term, implementing effective and equitable vaccination strategies as a key element for recovery. In the medium term, overcoming the pandemic impacts while transforming the region's development traps of low productivity, social vulnerability, institutional weakness and environmental unsustainability, into virtuous circles that set the region on a path towards greater well-being for all citizens.

We see the recovery also as an opportunity to continue reshaping the role and potential of regional and international co-operation, in line with the DiT narrative developed in the LEO 2019. Co-operation and policy dialogue will remain essential in bringing together the expertise of multiple actors to embark on a better trajectory to achieve the Sustainable Development Goals. Key ingredients for an enhanced policy dialogue within the LAC region and across regions include the strengthening of institutions, social cohesion, supporting a green transition and the digital transformation in a renewed production model. In this context, LEO 2021 places a particular focus on the potential of LAC to strengthen partnerships, including with the European Union and its Member States.

The COVID-19 crisis highlighted the global nature and interdependency of development challenges and reinforced the need to better co-ordinate recovery actions across national, regional and international levels.

At the national level, LAC governments should use fiscal, social and production transformation policies as part of building a new social contract. In particular, elements of inter- and intra-generational socio-economic mobility and equity should be duly considered, and the challenges associated to climate change and transitioning to a low-carbon development model.

The pandemic has shed light on the urgency to rethink and redefine national policies through greater consultation and consensus-building with citizens. Strengthening accountability and trust in institutions is key to embark on a virtuous cycle of pending national reforms needed for the recovery that can be packaged in the framework of a new social contract. Key objectives of the new social contract include greater social protection

coverage, better and more accessible public services, a production transformation strategy, fairer fiscal frameworks and promoting citizen participation in the design and implementation of policies.

Greater financing for development will be key for the recovery and financing policies of a new social contract. Most LAC countries entered the crisis with limited fiscal space. While the situation reflects the anaemic growth over the past years, challenges in terms of economic structures and tax policy and administration cannot be downplayed. A strong, sustainable and inclusive recovery demands an urgent holistic fiscal response and should be implemented through a well-defined sequencing of reforms, backed by a broad consensus built through national dialogue and clear communication strategies. Better co-ordination in public debt management with all creditors and market actors will also be necessary. In this respect, the design of debt treatment will have to pay special attention to each country's characteristics, in particular the challenges that Small Island Developing States of the Caribbean and Central American countries face.

The COVID-19 crisis hit an already vulnerable social structure, resulting in a significant increase in poverty and inequalities. When the crisis hit the region, labour informality affected more than 50% of workers. LAC countries need to promote innovative options for formalisation and reduce social coverage gaps to protect the most vulnerable populations – in particular, women, youth, climate-vulnerable populations and migrants – while improving the quality and coverage of basic services, especially health care and education.

The main challenge LAC faces in achieving a strong and inclusive recovery is generating quality jobs. Ambitious policy actions from LAC countries to spur innovation and capacity development, diversify and upgrade the economic structure and attract quality investment are urgently needed.

At the regional level, an effective response to the health crisis could be the “big push” needed for LAC to move towards greater regional co-operation. National strategies should converge to promote a production transformation agenda and further regional and global integration.

LAC lags behind in terms of integration. Barely 14% of LAC exports stayed within the region in 2019, and the proportion has been declining steadily since 2014. Fostering intra-regional trade, creating regional value chains and improving the region's participation in global value chains, by better connecting firms, notably small ones, to markets remain key objectives in the post-COVID-19 context. Trade, industry and investment policies can play an important role in addressing the vulnerabilities in production structures that the pandemic has exposed. If properly designed, they can help deliver a triple dividend of greater competitiveness and job creation, better preparedness to withstand future crises and greater readiness to embark on the green and digital transitions. Some sectors that could specifically benefit from further regional integration and help reduce vulnerabilities are the automotive, pharmaceutical and renewable energy sectors, the circular economy, and sustainable agriculture.

Globally, international co-operation should be a facilitator for the emergence of a new development model and a new social contract in LAC. The impact of the pandemic has highlighted the importance of moving towards renewed and more effective multilateralism. With this in mind, it will be important for countries to consolidate the DiT narrative, relying on new approaches to national policy making and international co-operation that place sustainability, resilience and well-being at their core, and provide multi-dimensional policy responses including efforts to measure development beyond income. This implies further exploring mission-driven and equal-footing partnerships that are grounded on shared values and ensure greater policy coherence, co-ordination and

synergies across national and international development efforts. Enhanced equal-footing policy dialogue, increased regional co-operation and renewed participatory mechanisms for citizens could be essential elements underpinning these reinforced partnerships and making full use of their potential. Last, a balanced combination of innovative sustainable finance, global rules and standards, technical co-operation and policy dialogue would be key to enhance the partnerships with LAC.

The LEO aims to stimulate the national and international debate on transitioning to better development models and partnerships. Three aspects give special relevance to its 2021 edition: *timeliness*, as the report's analysis and policy messages come at a crucial moment to address the transversal impact of the crisis in LAC; *readiness*, as each institution behind LEO is working to create new financial instruments and/or policy approaches to support the region; and *togetherness*, as, more than ever in these extraordinary times, there is a need to join forces to advance a strong, sustainable and inclusive recovery through the creation of participative dialogues that enable the emergence of a large consensus to underpin co-ordinated action at the national, regional and international levels.

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