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Caribbean's Economy to Suffer Through Multiple Channels Because of Covid-19, Says Economic Commission Chief

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SANTIAGO, CHILE — The Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), Alicia Bárcena, on Thursday warned that the region's economies will suffer coronavirus (COVID-19) pandemic's negative consequences via numerous channels.

She said that the pandemic will have devastating effects on the global economy that will "certainly be more intense than and distinct from those felt during the 2008-2009 global financial crisis," adding that "Latin American and Caribbean countries will not be spared since they will be affected through numerous channels."

The senior United Nations official participated in an Inter-American Dialogue Conference Call on the “Coronavirus and its Consequences for Latin American & Caribbean Economies,” moderated by Michael Shifter, president of that institution, headquartered in Washington.

According to Bárcena, the COVID-19 crisis will “go down in history as one of the worst the world has endured.”

She said that this virus “endangers an essential global public good, human health, and it will impact an already weakened global economy, affecting it both from the supply and demand side, whether through the interruption of production chains – which will severely hurt global trade – or through the loss of income and profitability due to higher unemployment and greater difficulties to pay debt service obligations.”

“Latin America and the Caribbean, as well as other developing regions, will be negatively affected,” Bárcena warned, stating that the region grew at an estimated rate of just 0.1 percent in 2019, and that the commission’s latest forecasts made last December projected growth of 1.3 percent for 2020.

However, “forecasts have been significantly revised downwards in the current scenario,” she said, adding that, at this time, ECLAC is estimating a contraction of -1.8 percent in regional Gross Domestic Product (GDP), “which could lead to unemployment in the region rising by 10 percentage points.”

“This could lead to the number of poor in the region rising from 185 million to 220 million people, out of 620 million inhabitants in total,” she said. “And the quantity of people living in extreme poverty could increase from 67.4 million to 90 million.”

Bárcena said that the coronavirus will affect the region through five channels.

She said the first channel of transmission is the effect that the decline in economic activity in several of the region’s main trading partners will have on countries’ exports of goods.

China, for example, she said, is an important destination for exports from several Latin American economies, and it is the top trading partner of Chile, Peru and Brazil. ECLAC estimates that the value of region’s exports to that destination could drop by as much as 10.7 percent.

Bárcena said a second channel comes from lower demand for tourism services, which would most sharply affect Caribbean countries.

She said that if a travel ban prompted by the virus were to last for one, two, or three months, tourism activity in the Caribbean, for example, would contract by 8 percent, 17 percent or 25 percent, respectively, in 2020.

The ECLAC chief said a third transmission channel would involve the interruption of global value chains. This would mainly affect Mexico and Brazil, countries that import parts and intermediate goods from China for their manufacturing sectors (particularly in the case of auto parts, household appliances, electronic products and pharmaceuticals).

A fourth channel that would affect the region of Latin America and the Caribbean is the drop in commodities prices, above all for South American countries that export raw materials, Bárcena said.

She said a fifth transmission channel stems from greater risk aversion on the part of investors and the worsening of global financial conditions.

“Part of these effects are reflected in the decline in the stock market indices in the region,” Bárcena said.

During the conference call, ECLAC’s Executive Secretary also referred to the measures that governments in the region are already taking to try to counteract the negative economic effects of the pandemic.

These range from sanitary steps to reduce and prevent contagion, to social containment measures that seek to protect the most vulnerable groups.

Bárcena said governments are also taking economic, fiscal and monetary measures that involve increasing social spending, lowering interest rates, intervening in foreign exchange markets, suspending bank credit fees, providing lines of credit for the payment of company payrolls, freezing the reconnection fee for households that fail to pay their water bills, and actions to avoid depleted stocks of basic goods, among others.

She also stressed the importance of protecting the most vulnerable groups from the crisis, particularly the elderly, lower income sectors and the poor.

“The degree of inequality is also important in assessing the extent to which the crisis will impact on the most vulnerable groups of society,” Bárcena said. “The more unequal a country is, the more vulnerable groups will bear the burden of the economic impact of the pandemic and the fewer resources they will have to fight the pandemic.

“Special attention must be paid to women for their dual role as workers and caretakers,” she urged.

Bárcena, therefore, called for global and regional coordination and cooperation to cope with COVID-19.

“No country will be able to fight this pandemic without global and regional cooperation,” she said. “At the end of the day, what we really need to consider is what will happen to multilateralism. There must be more integration.

“Without a doubt, we must move towards greater coordination, and the policy priority must be how to address the current social and health crisis,” she added.

“This pandemic has the potential to reshape geopolitical globalization, but it is also an opportunity to recall the benefits of multilateral action,” Bárcena continued. “That is what, for example, the United Nations Secretary-General António Guterres is trying to do: see how policy coordination can serve to support developing countries, since the asymmetries between developed and developing nations will be ever more clearly noticeable.

“We have already seen this with the movements of social discontent against these models of globalization that are not meeting people’s expectations,” she said. “We need to rethink everything, the entire economy. We need a new vision to focus ourselves on how to cope with the extremely difficult scenario that lies before us.”