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Latin America Facing the Challenges of the Post-Pandemic Era

Dear friends,

Thank you kindly for the invitation to participate in this forum convened at a time when collective action is required to overcome the enormous global challenges that humanity faces.

I will talk about the obstacles and opportunities that Latin America and the Caribbean faces amid the current political and economic juncture. To complement my analysis, I will use some of Enrique García's views, taken from his excellent essay written as part of the book "Envisioning 2060". I just hope he does not accuse me of plagiarism.

To start, it is important to highlight the heterogeneity of Latin America and the Caribbean, which is an array of different cultures and traditions and of political and institutional trajectories. It hosts prosperous and poor nations, long-standing democracies as well as autocracies, large countries and small ones. However, unlike other regions, rather than finding unity in our differences, our process of integration is weak and without a clear path. Nevertheless, it is possible to identify some common tendencies which I would like to comment in this presentation.

The first of those trends, is that the region showed an improved capacity to rebound from the economic shock of 2020 compared to previous crises, but that it is still showing signs of macroeconomic and institutional vulnerability.

Latin America and the Caribbean was the region of the world hardest hit by the pandemic. With less than 9% of the world population, it accounted for about 20% of the Covid-19 cases and almost 30% of the deaths in 2020¹. Likewise, regional GDP contracted by 7% in 2020, the largest economic downturn among the emerging markets, and foreign direct investment dropped by 45%, also the largest reduction in the developing world. This resulted in tens of millions of jobs lost and in tens of millions of more people living in poverty. Women were especially affected by the pandemic, resulting in a reversal of the previous upward trend in levels of women's labor participation since two thousand ten (2010).

In 2021, we saw our region expand by almost 7%, though most countries are still below their 2019 pre-pandemic levels. However, the outlook for 2022 and beyond is not promising but characterized by a sharp deceleration in growth, a slow recovery in employment, and a reduced fiscal space.

¹ WHO, Coronavirus (Covid) Dashboard. <https://covid19.who.int/>

Even more, these forecasts are likely to worsen as a result of the global effects of the war in Ukraine on trade dynamics, economic growth, inflation, and financial stability. According to the most recent estimates by the Economic Commission for Latin America, an average growth of less than 2%² is predicted for the region in 2022. Yet, the situation will vary among countries depending on multiple variables. Inflation will also add to the economic pressures. By March this year, the region's average inflation rates rose to 7.5%, with most countries surpassing their upper inflation target.

In addition to the abovementioned challenges, and as speakers in the previous days have underlined, the expected monetary adjustments in the developed economies, including rate hikes and the reversal of monetary stimuli, will accentuate the current tight global financial conditions, exposing vulnerable emerging and highly indebted economies, like some in Latin America, to higher interest rates and more financial volatility. Hence, these economies will have less space to implement the necessary fiscal and financial policy responses to pressing social and economic needs.

The second tendency that I would like to highlight is that the region's low growth expectation going forward is closely link to structural challenges and a long list of pending reforms.

The discouraging scenario that characterizes the region today was already taking shape before the pandemic. Between 2013 and 2019, the region experienced the lowest growth period since 1950, with its GDP stagnant in 2019, and triggering a warning for the region by the International Labour Organization of "a slow-motion crisis in the labor markets". Additionally, before the pandemic, 54% of jobs were in informal activities and, what had been gained in reducing poverty and inequality at the beginning of this century, was progressively disappearing.

Latin America's history is full of wasted opportunities. While some countries have experienced episodes of strong economic growth or have achieved remarkable development goals, it is common the occurrence of new economic recessions, political breakdowns, or new social upheavals that reverses their achievements, setting-them-back years, if not decades³. For example, while Asian economies have closed dramatically the gap between their average GDP per capita and the United States since 1950, that gap is now wider for the economies of Latin America and the Caribbean. Furthermore, the IMF has projected growth-rates for our region in the coming years that are the lowest compared to other regions of the world.

There are some critical structural factors that have historically hindered our ability to achieve sustained economic growth and social progress. These include: low productivity and a lack of economic

² 1.8%

³ Argentina, during the second post-war, was the 5th larger economy of the world. Most notable example Venezuela whose GDP/per capita, by the mid of the past century, was similar to that of the USA, and higher than those of Germany, France, England and Canada.).

competitiveness⁴; high dependency on external demand and commodity prices; unfinished and erratic processes of regional integration; poor quality of governance, corruption and weak Rule of law⁵; and the pervasive inequalities and social imbalances that makes us a highly unequal region.

As an expert in public policy myself, it is fulfilling to hear in many interventions of this forum, dominated by economists and experts on finance, about the fundamental importance of politics and institutions in the present context. In other words, about the crucial role that democratic governance plays in securing higher levels of development.

This is particularly true in a region like Latin America and the Caribbean. Part of our recurring problems are the consequences of poor democratic governance and a growing inability of societies and political elites to reach broad collective agreements. According to the Democracy Index, in 2021 Latin America was the region in the world that recorded the greatest deterioration in democracy and has registered a sustained deterioration over the last six years in variables such as civic freedoms, pluralism, Rule of law and government effectiveness.

During almost the same period, support for democracy has progressively declined across Latin America and the Caribbean, with only 48 per cent of the population preferring democracy to any other form of government, according to the *Latinobarómetro 2020* report.

The risks of low levels of trust in collective organizations of political representation are twofold. On the one hand, they directly open a window of opportunity for populist and authoritarian actors to emerge, whether from the right or the left. On the other, they show the lack of collective vehicles of trust to aggregate interests and build political consensus on critical policy issues.

However, not everything is negative in our countries, which leads me to the third trend that I want to highlight: **Latin America and the Caribbean nations have strengths and there are opportunities that should be harnessed to accelerate growth and social inclusion, and transform the region for good.**

Our countries are well-positioned to gain from a process of “nearshoring”, following the disruption in global supply chains brought about by the pandemic and prolonged by lockdowns in China and the war in Ukraine. This is especially true for those nations located in the north of the region, such as Mexico, Central America, and the Caribbean. Their geographical proximity and close economic ties to the United States,

⁴ It is estimated that companies in Latin America exhibit productivity rates of about half of that of companies in the U.S. A report by the World Economic Forum found that not a single economy in the region improved its productivity gap between 1980 and 2011 – the years it grew the most.

⁵ Each year, the World Economic Forum’s Competitive Index reminds us that Latin America’s institutional pillar is in many instances as weak as in some Sub-Saharan Africa countries. Likewise, the Economist Intelligence Unit Democracy Index of 2019 reports that Latin America is the region that has experienced the biggest democratic decline from 2012 to 2019.

supported by trade and investment agreements already in force, offer opportunities to some companies to move part of their operations to our region and away from Asia.

It is also worth highlighting that entrepreneurship continues to show extraordinary levels of dynamism and innovation. For example, in March 2022 there were 27 Latin American startup companies valued at 1 billion dollars or more, whereas in 2018 there were only four. Most have activities in the financial sector and e-commerce, with large value-added and boosting financial inclusion. Similarly, the region houses some of the most dynamic renewable energy markets, thanks to their abundant hydroelectric power and a growing presence of wind and solar energy generation. Greater dynamism in this sector will contribute to drive economic growth in line with the goals of the Paris Agreement.

Likewise, for the last three decades, and thanks to sensible fiscal and monetary reforms put in place after the debt crises of the late twentieth century, we have witnessed the consolidation of macroeconomic and fiscal responsibility frameworks in most Latin American countries, with a few known exceptions. A region once infamous for the great volatility of its markets has enjoyed considerable economic stability, even weathering the worse effects of the 2008-2009 global financial crisis.

To protect these achievements and harness opportunities, the region's countries must prioritize domestic policies that boost economic growth based on innovation, strengthen social inclusion networks and human capital, accelerate the democratization of digital technologies, promote green and sustainable development, and foster fair, efficient and transparent institutions to build more robust democracies.

Finally, for domestic policies to thrive amid these turbulent times it is necessary to ensure an international community that upholds the highest principles and rules of international cooperation, solidarity, and multilateralism. Multilateral institutions must take center stage in leading the transformation in a post-pandemic world, especially in emerging markets.

With regards to the multilateral development banks, we need less conventional approaches. More than being a source of cheap financing, they must become trusted advisors in helping countries to improve their accountability, transparency, the quality and effectiveness of public spending, and their international coordination, which in turn should spearhead private sector mobilization. All these efforts are essential to fostering higher, more inclusive, sustainable economic growth, maintaining global liquidity, and managing debt distress.

Dear friends / *Chers amis*:

In 1831, in the prologue of one of his masterpieces, “Notre Dame de Paris”, the great Victor Hugo wrote that while rummaging through the cathedral of Notre Dame, in a dark corner of one of its towers, he found a Greek word engraved by hand on the wall: “fate”. He was particularly drawn towards the fatal and melancholy meaning contained in that word and used-it as an inspiration for the story of his book.

I believe I am not alone in my reflections that “fatality” and “melancholy” are feelings that run deep with us these days. Having not yet recovered from the pain caused by the pandemic, we are now mourning the deaths of innocent men, women, and children in Ukraine, as the result of an unprovoked and absurd attack to its territory by Russia.

Nothing of what we have discussed during these days with regards to economic prosperity will be possible without peace. In Europe, as in the rest of the world. So, I make vows for strengthening not only economic but also peace and security multilateralism. Multilateralism, which is nothing more than collective action at the state level, is the most powerful tool that we have at hand to restore peace and create prosperity. Just like Victor Hugo forged beauty and greatness from darkness, I believe so can the world.

Muchas gracias / *Merci*.