

Executive summary

The *Latin American Economic Outlook 2020* focuses on the role of the digital transformation as a tool that can help foster development in the region, particularly in the context of the current Covid-19 crisis, and emphasises that international partnerships are essential to reaping the benefits of the transformation. This report also presents current macro-structural challenges and policies, in the context of the Covid-19 pandemic, and urges for further action to be taken, at both national and international levels.

Digital technologies can contribute to improving productivity, help tackle climate change, foster inclusiveness and transform public institutions. However, this can only happen if all citizens and firms are able to benefit from a digital transformation driven by a human-centric approach. The agenda is ambitious and requires the implementation of a comprehensive approach aligning national development strategies with digital agendas. More than ever international co-operation is needed to reach the full potential of digital transformation in the region.

The Covid-19 pandemic is affecting digital transformation differently across countries, with unprecedented socio-economic consequences in Latin America and the Caribbean (LAC), accentuating an already complex scenario characterised by structural development traps. The region entered the Covid-19 crisis with a majority of countries presenting low potential growth, limited fiscal space and social discontent, driven by higher demands for better public services and overall standards of well-being. The report highlights the potential of digital transformation to address these challenges in LAC, as well as to support a sustainable recovery of the region from the current crisis.

The socio-economic impacts and policy responses to face the Covid-19 crisis

The socio-economic impact of the pandemic is unprecedented in the region. Despite high heterogeneity across countries, they are all being hit by the crisis. On average, GDP growth will contract by more than 9.0% in 2020, and poverty rates may increase by 4.4 percentage points in 2020. The Covid-19 crisis is particularly difficult for close to 40% of workers who do not have access to any form of social assistance or social protection mechanism, but also for micro and small firms, that lack the capacity to absorb this shock. 2.7 million companies are likely to close, most of which are micro-enterprises, which would entail the loss of 8.5 million jobs.

Co-ordinating a global response to address the impact of the crisis in LAC remains vital. The region has adopted expansionary policies to protect the most vulnerable and to preserve human and productive capacities. Nevertheless, interventions are constrained by a narrow fiscal space, and action limited to the national level is not enough. Indeed, exceptional and well-coordinated action at the global level is necessary to rebuild the economy and promote inclusion. On the fiscal front, this concerns a series of interventions, including public debt management and improving tax transparency. Stronger policy dialogues and knowledge sharing on multiple dimensions affecting inclusive and sustainable development are more important than ever.

This sequence of policy action is fundamental for a stronger recovery and to foster well-being. In the phasing out of lockdown measures, continued income support to stimulate consumption and inclusiveness, as well as investment efforts to promote activity are fundamental. In the medium term, the aftermath of this crisis must be turned into an opportunity to redefine the social contract, putting well-being at the centre, with a focus on stronger social protection systems, more robust and inclusive public finances and the

implementation of inclusive and sustainable productive strategies. The aftermath of the economy also presents an opportunity to achieve a green recovery.

The role of digital transformation to Build Back Better

The digital transformation brings new opportunities for the region to cope with the current crisis and overcome its long-term consequences. Digital technologies have allowed part of the population and firms to keep working or studying while complying with social distancing measures. However, despite progress in the past decade, digital divides remain across households, workers and firms, leaving especially those most vulnerable behind.

Going forward, digital technologies can also play an important role in the recovery of the region, while addressing its persistent challenges. With the right policies, new technologies can contribute to improving the quality of jobs and skills, and to creating new formal jobs. In addition, new digital tools can be instrumental to improving public institutions; by properly adopting new technologies, they can become a source of productivity and increased competitiveness. Ensuring the right underlying conditions in Internet access and use, and foundational and digital skills for all, combined with a clear digital strategy aligned with national development plans (NDPs), will be fundamental.

The digital transformation to increase productivity

LAC has been characterised by a high and increasing productivity gap in comparison with developed economies. The digital revolution should be a driving force of productivity growth, particularly for micro and small companies that find themselves lagging behind. Digital tools are triggering innovation in business and production systems, the reorganisation of economic sectors, the emergence of new dynamics in the world of work, the supply of smart goods and services, and new conditions of competitiveness. Indispensable and complementary dimensions such as a holistic digital ecosystem, adequate infrastructures, including transport infrastructure, and widespread digital skills, are needed to benefit from the digital revolution.

A digital transformation that improves well-being for all families, workers and students

The digital transformation influences quality of life, labour markets and learning. Lockdowns revealed that many activities can be performed remotely but, despite considerable improvements in recent years, insufficient skills and disparities in access and use across socio-economic groups persist. In the context of the Covid-19 crisis these disparities can widen, creating winners and losers. For instance, less than half of Latin Americans had enough experience using computers and digital tools to carry out basic professional tasks, effectively excluding more than half of the region's population from performing remote activities.

New technologies bring both opportunities and challenges to the labour market. Two out of ten jobs are at high risk of automation in Latin America, while another four may undergo substantial changes in terms of tasks. On the other hand new job opportunities are appearing. Policies to support the transition of workers in declining industries towards new job opportunities are crucial.

Developing digital skills early in life and along people's lifespan is necessary for all, especially for women. Among workers with lesser skills, a higher proportion of women than men have no computer experience. Providing disadvantaged schools and students with more access to ICTs is not enough, programmes that develop the right skills for both students and teachers are also required.

Policy action must help accelerate digital transformation, making sure it supports cohesive societies and becomes a driving factor towards better social welfare.

Leveraging the new digital era to transform the State

Digital technologies can help restore trust in public institutions by making them more credible, efficient, inclusive and innovative. They can become more credible by adopting open government policies that support a culture of transparency, access to information, and public scrutiny over the use of public funds. Institutions can become more efficient by simplifying complex bureaucratic systems. The digital transformation of governments can support more inclusive public services, particularly relevant in the Covid-19 context, through e-health or e-learning and open data policies, as well as facilitate stakeholder interaction and the involvement of citizens in decision-making. The digital transformation can help reach the most disadvantaged segments of society. Finally, digital tools can help governments use new sources of data and be more innovative in the way they approach public policy, ultimately improving the policy-making process.

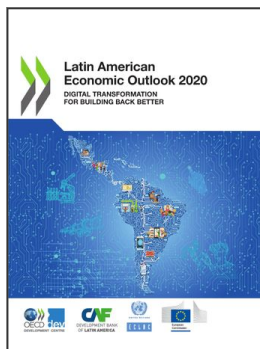
In LAC, policy areas related to access to and use of digital technologies, communication infrastructure and the future of jobs are currently more incorporated in NDPs than any other area. The digital transformation englobes a series of public policies that need to be included in NDPs through a coordinated approach, with a direct link to Digital Agendas. Finally, new digital tools can contribute to optimising the design, adoption and monitoring of these development strategies.

International co-operation to make the most of the digital transformation

As the digital transformation generates both challenges and opportunities that transcend national borders, even more so since the Covid-19 crisis, it is essential for LAC to coordinate digital policies at the international level. International and innovative partnerships can serve the region, by promoting and facilitating nationally driven processes and aligning countries on an equal footing to share knowledge on digital inclusion policies that ensure better digital skills for all. They should also aim to build on existing capacities and to create new ones to spur national and global reforms.

Building a regional digital market could help LAC tap into its digital potential. LAC countries need to further integrate regional co-operation initiatives such as eLAC, and exchange experiences with other regions. LAC stands to learn from other regions' experiences, particularly the EU's Digital Single Market, aimed at including citizens and their rights in the digital age, and at strengthening businesses.

Multilateral co-operation is more crucial than ever. For instance, tax challenges of the the digitalisation of the economy demand international co-ordination across countries and LAC can largely benefit from further co-operation within the region and with other jurisdictions on these issues. On an equal-footing basis, the region should play an active role in the international debate to reach consensus and solutions, through effective multilateral co-operation, to the issues related to the taxation of the digitalisation of the economy.



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