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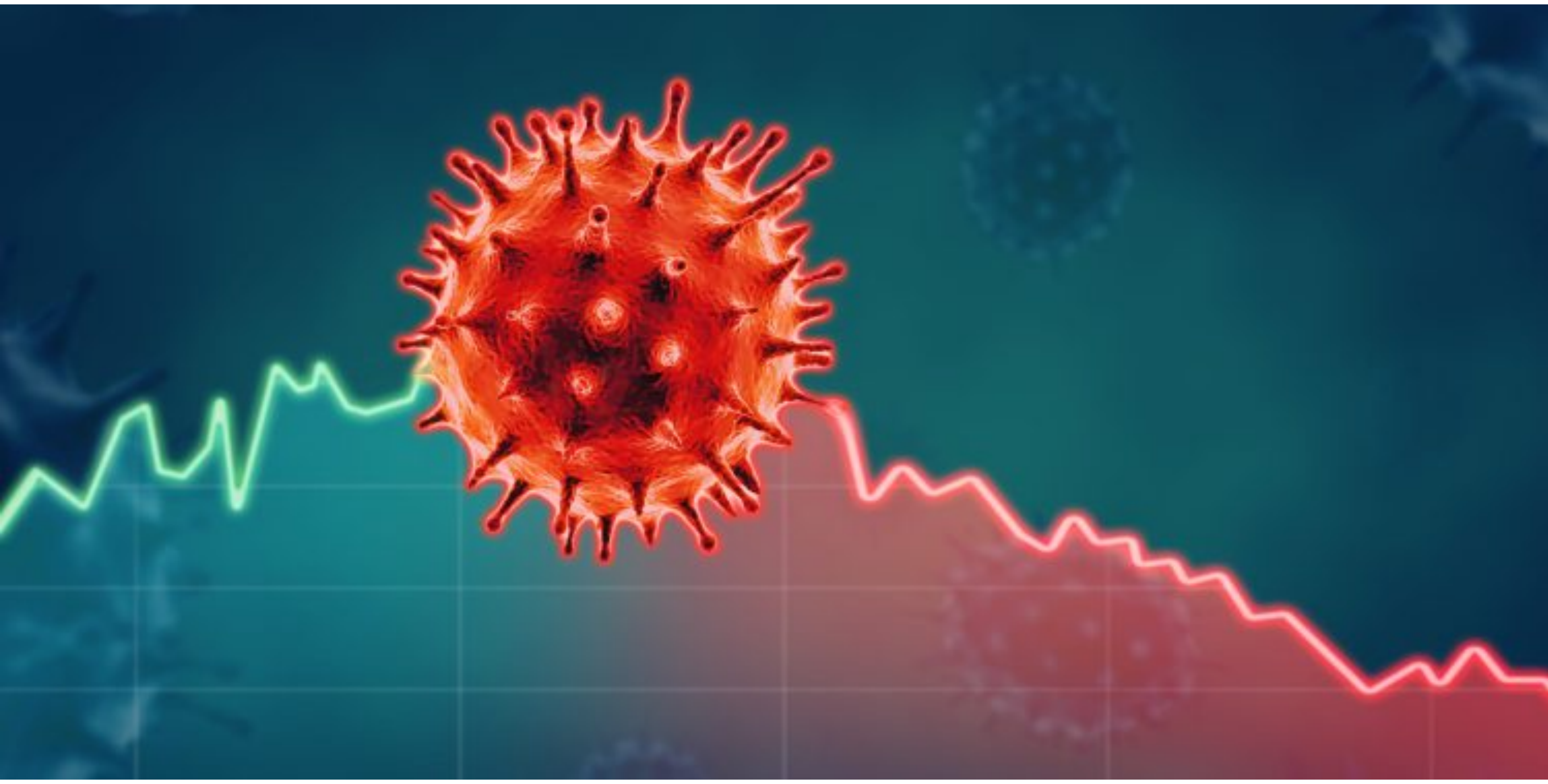

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China-U.S. Trade War, Brexit, the end of the Oil price boom, and now, COVID-19. How is Latin America facing this new unprecedented crisis? As a recent publication of Baldwin and Weder di Mauro shows, COVID-19 is a far greater challenge than any other pandemics, including the Spanish flu, which spread across Europe 100 years ago and took the lives of an estimated 20 million to 50 million victims. The effect of COVID-19 will be far worse on the economy than the Spanish flu. Unlike in the Spanish flu, nowadays economic movement is driven by in-person services, hospitality, and globalized supply chains. All these sectors are greatly affected by the coronavirus outbreak.

With few exceptions, governments initially underestimated the virus' impact, disregarding it as a "Chinese problem." But now, as the virus turned into a pandemic. it is everyone's problem. As the number of those infected grew exponentially, governments began to impose severe social distancing policies, shut down schools and nonessential work. Even as enforcing these strict social distancing measures further destabilizes the economy, they are necessary to protect public health.

Still, anti-recession measures should be introduced to alleviate immediate economic hardship. Just as Mario Draghi pledged the European Central Bank would do "whatever it takes" to save the euro during the euro area crisis in 2010-11, policymakers should work on ensuring their citizens feel protected during these vulnerable times. Germany, Spain and several countries have taken several actions to stimulate the economy. According to Olaf Scholz, Finance Minister of Germany, an additional 2020 budget has now cleared the Bundestag. About €600 billion has been freed to solve liability issues for large corporations, €50 billion will go to supporting those who are self-employed or small businesses with up to 10 employees; and € 100 billion will be set to protect large German companies from hostile takeovers in the stock market. Some economists suggest that a "pandemic bond" might be a proper response to the shock. It would serve the dual purpose of helping to finance the costs of the crisis—including the necessary health expenditures—and send a strong signal to markets, firms and citizens that policymakers are working for the benefit of all.

Unlike the Great Depression (1930s) and Great Recession (2008), the shock we are facing these days comes more from the real economy (e.g., growth, and job creation), than from finance (e.g., interest rates and stock prices). As analysts have argued recently, the problem today is not demand or inflation (typical of the finance sector), but fear of the unknown – figuring out the best way to tackle the reconstruction of the economy whenever the crisis ends. Any action taken today to lessen the effects of the COVID-19 outbreak on the economy will be peanuts in comparison to doing nothing.

In 2013, the World Bank estimated that a global pandemic could cost $3 trillion to the world economy. One of the major reasons is a pandemic's effect on the labor market. Although conversations about how working from home will become the new normal, only a small fraction of work can be done from home. A recent study of the International Labor Organization (ILO) shows that the incidence of working from home varies substantially worldwide, from "2% to 40% of employees, depending on the country, occupation, sector and the frequency with which employees engage in this type of work. Across the EU, an average of about 17% of employees are engaged in Telework/ICT-mobile work (T/ICTM)." A total migration from physical to telework will not be that easy, and this is part of the reason why ILO projects that around 25 million jobs could be lost worldwide as a result of COVID-19

In this very complex context, Latin American governments will need to (many are already doing) launch strict containment measures in the upcoming days. Activities in informal sectors such as markets, domestic employment could be paralyzed, and only part of this overall decline may eventually be recovered. According to some analysts, government fiscal response will depend on funding capacity, and already primary fiscal numbers are in the red for most countries in the region. Funding fiscal stimuli to repair the supply shock appears to be more important than pumping money to fuel demand under such circumstance. Defensive policies should focus on protecting workers and firms at risk of closure. Also, money should go into the health sector, the strength of "the health system is directly linked to the depth and length of the crisis." What worth noticing is according to some analysts, government fiscal response will depend on funding capacity, and primary fiscal numbers are already in the red for most countries in the region.

COVID-19 will surely have a severe detriment on the economies of Latin America and the Caribbean. The interruption of supply chains is already causing problems in the region. For example, Brazil and Mexico—which import Chinese goods for their manufacturing sectors— the two largest Latin American economies—are facing less available inputs due to factory closures and disruptions in global trade. As China's economic growth slows, its trading partners in the region are highly exposed to injury of lower trade.

The real problem is, the region has limited capacity to offset the external shock with monetary and fiscal policies, especially with the oil price war coming at the worst possible time. With Saudi Arabia announcing that it will raise production to 12.3 million bpd in April from 9.7 million bpd last January, and the United Arab and Russia both saying they would increase output by 1 million bpd and half a million respectively, the downward pressure on oil prices is getting more serious. This will definitely cause a significant deterioration of fiscal accounts for almost all the large economies in the region, considering they deeply rely on oil revenues to support their fiscal

expenditures. This should be a point of concern for countries imposing fiscal policies to accommodate health expenditures and stimulus packages to impacted sectors. The outflow of foreign capital only adds to the economic strain countries across the region are experiencing due to the pandemic. Along with the oil price war, the effect of COVID-19 will have a long-lasting effect on the economies of the region.

While a good number of countries in the region have placed strict quarantine measures—with notable exclusions being Brazil and Mexico—there are many variables that make Latin America vulnerable to the virus. With high poverty rates, highly dense urban areas, and lagging sanitation and healthcare systems, a failure to contain the virus could have devastating consequences for public health. The region's medical systems are also not prepared to handle the strain of a surge in coronavirus cases—governments like Brazil have already announced their healthcare systems will collapse in the coming weeks. And this is where the "pandemic bond" might function.

In conclusion, in this emergency context, Latin American governments should start thinking about post crisis regulations to mitigate the socioeconomic impacts we will have to face. For instance, lifting restrictions on companies and allowing work on weekends and at night, evaluating reforms to overtime payment obligations (example, extend working hours to 9 hours a day), considering that the school year of national education runs until February (proportional at the time when classes could not be taught normally), evaluate a regulation in which the employee grants 5 days of their annual leave (which are they could add to the normal license within a period of 2 years when the situation stabilizes). In counterpart, evaluate extending license days in 2021 for the health sector.

Note: This article tries to collect in one-piece valuable insights from different analysts and organizations that have been suggesting different ideas for governments to face this very difficult and unpresented crisis. The sources used for this article are:

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