COVID-19 Pandemic and the Informal Economy: Exploring its Impact on Workers Wellbeing in Latin America and the Caribbean

Valentine Smith PhD

Senior Lecturer, In the Academic Affairs Department, Cipriani College of Labour and Cooperative Studies, Trinidad and Tobago

Abstract: ***The paper is an analysis of secondary data from journals, newspaper articles and personal sources that focused on the effects of the COVID-19 pandemic and the containment measures that involved the informal economies of Latin America and the Caribbean. Globally, workers in informal economies have been particularly vulnerable to the virus. While also being more vulnerable financially. While the COVID-19 virus itself may not discriminate, inequalities embedded in social, economic, and political structures mean that the impact of both the virus and containment measures are significantly worse for vulnerable populations.***

Keywords: COVID-19 pandemic; global economy; developed countries; informal economy; developing countries

1. COVID-19 Pandemic And The Global Economy

The United Nations Conference leveraged on Trade and Development (UNCTAD) projections of the potential impact of the COVID-19 shock on economies around the world for the year 2020 vary widely. However, there is broad agreement that the global economy will contract given the sudden stop to large swathes of activity and the resulting income loss in the manufacturing and services sectors across most advanced countries and China, combined with the adverse effects on financial markets, consumption (through both income and wealth effects), investment confidence, international trade, and commodity prices.

For developed country governments, now scrambling to contain the economic impact of the COVID -19 pandemic, the is compounded by persistent fragilities surrounding highly speculative financial positions, in particular, the already unsustainable debt burdens associated with high corporate loans. These have been built up over the last decade of easy money and against a backdrop of heavily under-regulated 'high-tech-cum-gig economies' and deeply ingrained income inequalities. Besides, the avalanche of cheap credit since 2008 has also spilled over to developing countries, creating new financial vulnerabilities, and undermining their debt sustainability.

Developing countries, however, face distinct pressures and constraints which make it significantly harder for them to enact effective stimulus without facing binding foreign exchange constraints. And as these countries do not issue international reserve currencies, they can only obtain them through exports or sales of their reserves. What is more, exports themselves require significant imports of equipment, intermediate goods, know-how, and financial business services? Finally, the financial turmoil from this crisis has already triggered sharp currency devaluations in developing countries, which makes servicing their debts and paying for necessary imports for their industrial activity far more onerous.

Many developing countries were slowing down in the final quarter of last year with several entering recession. However, the speed at which the economic shock to advanced economies has hit developing countries – in many cases in advance of the health pandemic is dramatic, even in comparison to the 2008 global financial crisis (UNCTAD 2020).

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As Figure 1.a below shows, net portfolio flows, both debt and equity, from main emerging economies, amounted to $59 billion in the month since the Covid-19 crisis went global (21 February to 24 March). This is more than double the portfolio outflows experienced by the same countries in the immediate aftermath of the global financial crisis ($26.7 billion). The drastic and much larger drop in net portfolioflows from developing countries, compared to other recent crisis episodes.

Figure 1.a **Net portfolio flows, selected developing countries: Debt and equityPost-GFC and onset of COVID-19 crisis**

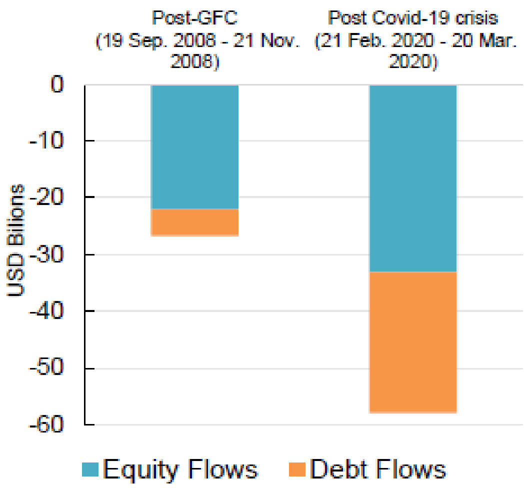
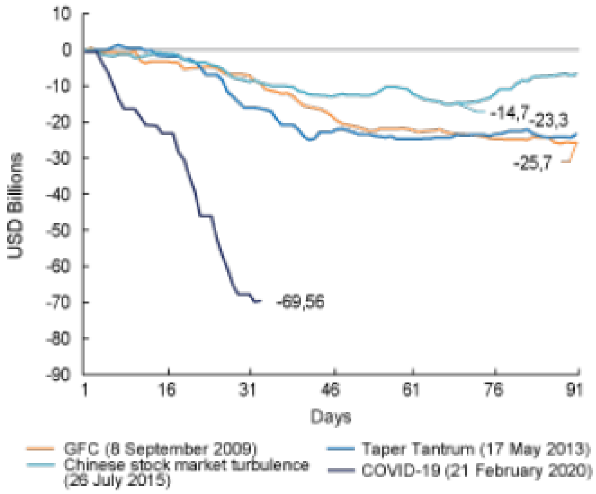


Figure 1.b **Net portfolio outflows from selected developing countries: Total flows after recent crisis**



Source: UNCTAD secretariat calculations based on *IFF Daily Emerging Market Portfolio* database.
Note: Figure 1.a includes: Brazil, India, Indonesia, Philippines, Republic of Korea, South Africa, Thailand and Turkey for both data points. Figure 1.b also includes China, Mexico, Pakistan, Qatar, Saudi Arabia, Sri Lanka and Vietnam.

2. Informal Economy and Developing Countries

Keith Hart, a social anthropologist, introduced the concept in a developing country context. He defined the 'informal sector' as a small self-employed urban labour market (Hart, 1973).According to Gerxhani (2004), there is no single definition of the informal economy because researchers have attempted to define the informal sector following the policy concern that motivated their analysis. Data availability has also been mentioned as a motivation to define informality in one way or another (OECD, 2011).

Regulation is a frequently used element to define the informal sector activities. The report of the International Labour Office on employment in Kenya (ILO, 1972) explains informality as the avoidance of government regulations and taxes to provide a way for families to subsist. For De Soto 1989, the informal sector is, in essence, the expression of the deep-rooted desire of people to acquire private property and to engage in entrepreneurial activity.

By comparing studies on informality in developed and less developed countries, Gerxhani concludes that there is an agreement in defining informality in all countries. Undeclared labour, tax evasion, unregulated or unlicensed enterprises, illegality, or criminality would be the elements that best describe informality (Gerxhani 2004). Likewise, others have defined the shadow economy as including all economic activities which are hidden from official authorities for monetary, regulatory, and institutional reasons (Medina, Jonelis and Cangul, 2018).

The informal economy in less developed countries seems, however, to be marked by small-scale and survival activities. Contrary to developed countries, the informal sector in less developed countries generates low income, little if any accumulation and it is mainly a survival activity. (Gerxhani, 2004)

A working paper from the IMF estimated the size of the informal economy in, along with other jurisdictions, several Latin American and Caribbean countries in the early 2000s (Vuletin, 2008) showing significant differences in the size of the informal economy across countries. While in countries like Paraguay and Nicaragua the informal sector reached values around 70% of total GDP, in economies like the Bahamas, Grenada, St. Kitts and Nevis, Trinidad and Tobago, and Barbados, the informal share is below 25% of GDP (Vuletin, 2008).

Vuletin (2008) identified four causal variables: Tax Burden, Labour Market Rigidity, Agriculture and Inflation.

Table 1: Relative Contribution of Causal Variables to the Size of the Informal Economy in the Caribbean (Vuletin 2008)

Country	Tax Burden	Labour Rigidity	Agriculture	Inflation
The Bahamas	0.6	58.6	42.3	3.1
Grenada	57.1	0.0	40.9	2.0
St Kitts and Nevis	34.0	32.4	28.1	5.5
Trinidad andTobago	61.4	26.5	6.5	5.6
Barbados	65.6	0.0	31.2	3.2
Antigua and Barbuda	60.5	31.3	6.1	2.1
Dominica	43.2	24.7	30.7	1.4
Jamaica	36.2	33.3	17.6	12.9
Guyana	46.3	0.0	47.6	6.1
St Lucia	32.9	16.4	48.7	2.0
DominicanRepublic	23.9	44.4	26.3	5.4
Belize	22.9	26.7	49.3	1.0

Source: Vuletin, 2008.

In 2013, informal employment, including all informal jobs in the formal and informal sector, affected 130 million workers in Latin America and the Caribbean and represented 46.8% of total non-agricultural employment, showing a constant, though modest, downward trend since 2009 (at 50.1%). The share of informal employment in non-agricultural activities varies from country to country, ranging from 30.7% in Costa Rica to 73.6% in Guatemala. Only sub-Saharan Africa and South and East Asia have higher informality rates (European Parliament, 2016).

3. Caribbean Economics and Information Technology

Caribbean economies have been facing major challenges in the rapidly changing global economic environment created by a capitalist viewpoint with a technique that is facilitated by transnational corporations' global governance policies that prompted a reorganization process of markets, value creation and value capture and inevitably a reorganization of work. According to Kenney and Zysman (2016); Langley and Leyshon (2016), this new development has been facilitated by new information and communication technologies and in particular by the movement of computable algorithms.

According to Nobel (1986), revolutionizing the productive forces is a constant imperative of capital. Take, for instance, the creation of digital infrastructures also called platform economy (Amazon, Facebook, Google, and eBay) that enable a wide range of activities. Rochet and Tirole (2006) elucidated that digitalization has increased the fluidity of markets and the ease of entry it has also dramatically increased society's dependency on global digital platforms. These digital platforms enable direct interaction between producers and consumers. Digitalization is changing the labour process in organizations. The platform economy and crowd-work represent a change in how work is organized. According to Naderi, B. (2018), crowd-workers are the key components and the main drive of the crowdsourcing micro-tasks platforms.

4. COVID-19 Pandemic Impact on the Informal Economy

According to the International Labour Organization (ILO) monitor on the COVID-19 pandemic on the global informal economy, amongthe most vulnerable in the labour market, almost 1.6 billion informal workers are significantly impacted by lockdowns measures and working in the hardest-hit sectors. The first month of the crisis estimated to decline in earnings of informal workers of 60 percent globally. By regions, the expected decline is largest in Africa, 34 percentage points globally for informal workers, ranging from 21 percentage points in upper-middle-income countries to 56 percentage points in lower-middle-income countries.

The International Labour Organization (ILO) calls for urgent and significant policy responses, to protect both enterprises, particularly smaller businesses, and workers, especially those operating in the informal economy. Around 68 percent of the world's total workforce, including 81 percent of employees and 68 percent of own-account workers, are currently living in countries with recommended or required workplace closure.

Nearly all employers and own-account workers in lower-middle-income countries are affected since these are economies with high levels of informality and limited financial means and policy space to respond to the needs of such enterprises and own-account workers. Workplace-closure has an immediate and severe impact on enterprises and own-account workers in current operation and leave them at highrisk of insolvency. Even once containment measures are lifted, surviving enterprises and own-account workers will continue to face challenges given the recovery is expected to be uncertain and slow.

For those that are engaged in global supply chains,disruptions are likely along with the forward and backward linkages of the chain as other countries continue to face a reduction in economic activity. Restarting businesses will require significant adjustments with cost implications, including securing safe work environments. Unless tackled by effective policies, where new requirements are likely to put a severe constraint on businesses. (ILO COVID-19 Monitor 2020).

The COVID-19 pandemic has generated enormous uncertainty around the world (Baberet et al 2020). Research has shown that this increase in uncertainty has led firms to reassess business models that rely on global supply chains. They are accelerating robot adoption leading to a rationalization process in manufacturing to developed countries. Globalization and robotics (globotics) are transforming the world economy at an explosive pace. While much of the literature has focused on rich nations, the changes are quite likely to affect developing nations in important ways. What does development look like when Digitech has rendered manufacturing jobless and many services freely traded? We conclude that the service-led development path may become the norm rather than the exception; think India, not China. Since success in the service sector is based on quite different factors than success in manufacturing, development strategies and mind-sets may have to change. This is an optimistic conclusion since it suggests that developing nations can directly export the source of their comparative advantage - low-cost labour - without having first to make goods with that labor (Baldwin and Forslid 2020).

Since the 1990s firms have organized production using global value chains by relocating production countries. The period from 1990 until the Global Crisis of 2008 has been called the era of hyper-globalization in which global value chains (GVCs) account for 60 percent of the growth in world trade (Timmer et al 2016). Most of these countries have passed their development strategy on being part of the global value chains (GVCs) that emerged after the 1990s.

Today, we are observing changes in the world economy with a renewal of manufacturing in developed countries. The share of manufacturing in value-added will rise in developed countries but will not benefit workers. The COVID-19 crisis accelerates the changes in the international division of labour. The situation in developing countries looks potentially more difficult. While developed countries are for the most part, already enacted major stimulus programs, developing countries are facing a far more difficult scenario.

At the beginning of the COVID-19 crisis, investors began to pull out of developing countries what the International Monetary Fund (IMF) described as the largest ever outflow of capital from the developing world. Developing countries can borrow to enact stimulus programs but they struggle to retain the capital they have and will struggle to find lending agencies that are willing to fund stimulus programs.

5. Conclusion

Many relief programs including tax relief and wage subsidies bypass individuals and businesses in the informal economy while direct cash transfers may better reach the informal economy, they come with enormous implementation challenges. In the long run, informal economies may bear the brunt of financing these relief effects as the government may seek to "broaden the tax base", through "formalization" strategies, rather than focusing on, for example taxing the wealthy in the post-COVID-19 crisis period.

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