LATIN AMERICA 16.07.2020 | Thea Riofrancos

Latin America can only thrive with a new eco-social pact

With Covid-19 ravaging across the region and fossil fuels in free fall, Latin America needs to embrace a just transition

Latin America is in dire straits. The region is not only a global epicentre of the Covid-19 pandemic but also faces an unprecedented economic shock.

According to the World Bank, Latin America and the Caribbean face the worst downturn in a century, with an expected 7 per cent contraction in GDP, skyrocketing unemployment and trillions of dollars in external debt. In addition to the lives lost from Covid-19, the social consequences of this economic devastation will be tragic, reversing impressive reductions in poverty and inequality over the past two decades.

The political ramifications are also unpredictable, though more discontent is a near certainty. In response to growing immiseration, and despite quarantine lockdowns, the cycle of popular protest is already showing signs of resuming, with recent protests in Chile over the mounting crisis of food insecurity and in Ecuador over proposed cuts to public education.

Latin America's dependencies

The causes of the current conjuncture are myriad. But much of the blame can be attributed to the region's economic model and its position in the global economy. The prevailing export-oriented, primary commodity dependent model, historically rooted in colonialism, leaves economies vulnerable to volatile markets.

The policy reforms promoted by international financial institutions compound the problem. Despite increased social spending under Pink Tide governments during the first decade of the millennium (and associated declines in poverty, inequality and malnutrition), prior

decades of neoliberal reforms, as well as more recent decisions by right-wing governments, have left the region's social safety net in tatters—including, crucially, in healthcare. And ballooning debt keeps Latin American governments beholden to the IMF, a situation afflicting the Global South more broadly and prompting many to call for radical changes to the world economic order.

Meanwhile, industry analysts are predicting that so-called 'peak demand'—the point of inflection at which global demand for fossil fuels begins to decline—could arrive as early as 2027, much sooner than initially thought.

The inadequate welfare system particularly impacts informal workers, which compose 40 per cent of the region's workforce and have zero job security. Of course, the flipside of fiscal austerity is low taxation rates, letting Latin American elites off the hook as they accumulate vast wealth, little of which is captured by the state for redistribution. This not only worsens inequality, but also exacerbates the region's dependency on global markets for its exports—which have taken a severe hit since the end of the commodity boom in 2014, and, more recently, the coronavirus-induced downturn in trade.

What is to be done?

It is clear that the region needs a transformation, away from an extractive, export-dependent model of accumulation and towards an economic paradigm that centres economic security, dignified jobs and social care. It is equally clear that such a paradigm shift must address the climate crisis and the localised forms of environmental devastation that mining, oil, and mega-agriculture cause.

Counter-intuitively perhaps, the region's fossil fuel sector, and specifically state-owned oil and gas companies, could play a crucial role in such a transformation. Currently, along with the rest of the world, the region's hydrocarbon sector is in free fall. Making matters worse, Latin American producers are 'price-takers' and have seen declining rates of investment, and thus are particularly vulnerable to global price shocks.

Meanwhile, industry analysts are predicting that so-called 'peak demand'—the point of inflection at which global demand for fossil fuels begins to decline—could arrive as early as 2027, much sooner than initially thought. Of course, from the perspective of the climate and the communities directly impacted by extraction, 'peak demand' is a good thing, boding well for the prospects of a renewable energy transition. However, without progressive policies in place, the collapse of oil and gas

markets deprives governments of a crucial revenues at a moment when the public sector is more needed than ever.

Therefore Latin America is at a crossroads: governments can either embrace a just transition to renewable energy, centring workers and frontline communities, or double-down on oil and gas, betting on declining industries. Worryingly, administrations have now opted for the latter, propping up financially and environmentally unsustainable projects and shelving renewable energy plans, often under the banner of resource nationalism and energy independence.

The theory and practice of leftist goals

In Argentina, for example, successive governments across the ideological spectrum—Presidents Cristina Fernandez de Kirchner (2007-2015), Mauricio Macri (2015-2019), and currently Alberto Fernandez—have promoted developing the enormous Vaca Muerta gas and oil fields. Despite environmental concerns and opposition from the indigenous Mapuche community, this fracking project has received billions of dollars in state subsidies, as well as being promoted by the IMF (the institution has since reversed its support).

Most recently, Fernandez appears poised to fix the price of oil above that of current international markets in a bid to guarantee the project's profitability. Regardless of these overtures, in the context of Argentina's debt crisis, Vaca Muerta's fate is increasingly uncertain. And it remains to be seen whether the Argentinian public will accept more massive subsidies for fossil fuel extraction in a moment when the public sector is needed more than ever to protect health and provide economic security.

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More broadly, the example of Vaca Muerta shows that leftist goals of equality, sovereignty, and environmental sustainability won't be served by extractive sectors. Instead, governments should redefine resource nationalism, using its tools and institutions—state-owned firms, progressive contracts and long-term planning—to empower workers and protect indigenous rights, all while transitioning to a more equitable, low-carbon economic model.

A new eco-social pact

As Daniel Aldana Cohen and I argue, Latin America's many historical experiences with the left in power and vibrant popular movements provide inspiration for a '21st century ecosocialism.' Across the Americas, movements and policymakers are pushing for a new 'eco-social pact.' In Argentina, scholars Maristella Svampa and Enrique Viale initially penned this framework, which, among other aspects, proposes a basic income, the prioritisation of food sovereignty, the cancellation of external debt and progressive tax reform. The goal of the eco-social pact, which has since garnered the support of social movements from across the region, is a post-extractive transition towards a society based on social and ecological care.

Unexpectedly perhaps, I argue that national oil and gas companies could play a key role by shifting workers to clean energy and environmental remediation, and shifting investment priorities toward the region's untapped potential of wind, solar and geothermal.

An essential element of this transformative paradigm is *energy democracy*: the idea that energy is a common good and should be governed by workers and communities under the banner of socio-ecological wellbeing. The notion that energy is a public good resonates with resource nationalism—but it also challenges governments' continued commitment to extractivism at all costs, as well as the vested interests of top-down, bureaucratic state-owned companies.

Instead, energy democracy today means worker and community ownership, combined with public investment to ensure reliable access to renewable energy and to create dignified green jobs in the energy sector. Of course, such policy innovations will prove challenging given the severe external constraints imposed on Latin American economies.

As the eco-social pact makes clear, cancellation of external debt is a sine qua non of an equitable green transition. And an upending of the global order in turn rests on regional collaboration among states in Latin America and the Global South more broadly—otherwise, they face the constant pressure to protect their individual access to international finance. Such transformations at the domestic, regional and global scale are the only path forward for an inclusive and sustainable economy for all.

This article is an extended version of a text published for the Energy Advisor.



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