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by LADB Staff
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While those most inexact of scientists, economists, argue about whether the US will go into recession, Central America is reportedly bracing for the worst. Unlike the rest of Latin America, which has reduced its dependence on the US economy by taking advantage of trade openings to the emerging economies of India and China, Central America has remained a one-trick pony. Most isthmus analysts now fear a twofold effect of a recession in the north a reduction in demand for regional exports and a decline in the amounts of remittances sent home by Central Americans working in the US.

One recent poll of economists in the US on the question of the probability of recession puts the likelihood at 50%, up from 30% when the newspaper USA Today asked the same question in October 2007. According to the survey, published Jan. 29, a marked slowdown is anticipated for the first half of the year, with consumer spending and business investment picking up later in 2008, "but the economy is by no means expected to be strong...." The survey of 51 economists found the mood gloomier than in October. Back then, only 6% said the odds of a recession were greater than 50%. Now, nearly one in three says the odds are greater than 50%. Threatening the mainstay, remittances On the isthmus, analysts were already anticipating the slide.

In San Jose, Costa Rica, the Fundacion Arias de Costa Rica put on a seminar on The Challenge of Migrations and Social Cohesion, at which participants agreed that a dangerous dependence upon remittances had built up and increased the region's vulnerability. Participants represented governments, civil-society organizations, and universities from Central America, Mexico, France, Spain, and Ireland. Rodolfo Garcia of the Universidad de Zacatecas noted that, for Mexico, as for Central America, "the economy is not prepared to confront the return of hundreds of thousands of compatriots," whose exodus, forced or voluntary as a result of a US recession, would be inevitable. For Central America, remittances are more important than the tourism, maquila, and nontraditional-export sectors. This is true for Guatemala, El Salvador, Honduras, and Nicaragua. These three categories, however, are crucial to the isthmus' economies, and all three are US oriented. All three would see steep declines in a US recession. Said Emilio Lozoya of the Latin America section of the World Economic Forum (WEF), "Relative to GDP, Mexico and Central America export significantly to the US, making them more vulnerable to tumults in the US economy.

Economies in South America are more diversified and therefore more protected." South America has taken advantage of global opportunities that Central America, virtual US client states, has feared to follow. "For the first time we have a situation in the world economy where world growth is actually protected from a major slowdown by the projected performance of the developing market economies, led by China, but many others also," said Kemal Davis of the UN Development Programme (UNDP). "More than half of the growth next year is expected to come from these economies." It remains unsettled, however, whether these emerging economies are sufficiently insulated from the US to hold their own in a US crash-and-burn scenario. There are indications they are not.

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When the US stock market headed south with a vengeance in January, Asian and South American markets plunged, too. Still, said Pamela Cox, World Bank vice president for Latin America and the Caribbean, "Latin America is in a far better position than it has been in the past. The good news is that there is good news in Latin America." The exception, she clarified, would be "those countries that have strong trade ties with the US and that receive a large amount of remittances from the US." On the isthmus, some analysts see positive possibilities in the US downturn. Edgar Balsells, congressional representative to the Guatemala Monetary Board, notes that lack of investment opportunity in the US could provide incentive for national capitalists to return capital home, with the effect of stimulating the economy. He points to the increase in the country's GDP in 1991, when the US was in recession. Balsells says he also believes that the country benefits from the Chinese economy by importing cheap Chinese goods to offset rising fuel and food prices.

In El Salvador, World Bank managing director for Latin America and the Caribbean Juan Jose Daboub, a Salvadoran, said Central America and El Salvador in particular are less sensitive to the US economy than in the past. "If the US economy decelerates, obviously there will be an impact on our economies. Nevertheless, this impact will be significantly less than it would have been 10 or 15 years ago, when the economies were less diversified, with fewer international reserves, and with more debt in other currencies." El Salvador's economy is effectively a dollarized economy, so that, while the country suffers the dollar's weakness, at the least exchange issues do not worsen its debt. As for remittances, Daboub was unfazed there, too. "Our compatriots are in sectors of the economy that, if the US economy decelerates, can easily move to other sectors," he said. "For this reason the impact won't be as negative." These comments were at odds with the US Bureau of Labor Statistics (BLS) December 2007 employment report, whose household survey found unemployment rising .3% to 5%. The US economy lost 13,000 jobs. During the year, unemployment was up .6%, and the economy added 1.3 million jobs, 1 million fewer than for 2006. These are recessionary numbers by many analysts' reckoning and hardly the kind of job environment in which Daboub's compatriots could be expected to "easily move to other sectors."

Nicaraguans, too, have their doubters. Economist Cirilo Otero told the newspaper Nuevo Diario, "Nicaraguan businesspeople say that exports and remittances will drop, but this shouldn't be cause for alarm," because the economy is not tied to international trade to the extent that others are. Economist Nestor Avedano, however, refuted Otero's view and told the paper that, if remittances and exports tank, there will be significantly negative effects for the country's economy. Jared Bernstein of the Economic Policy Institute (EPI) wrote that the uptick in unemployment of the magnitude seen in December "has historically been either a symptom or a harbinger of recession." Of particular concern is that the sector in which most Central Americans find work in the US, construction, is the industry contracting the fastest as the housing market continues to wane. According to the Inter-American Development Bank (IDB), construction employs 28% of migrants, domestic services, 22%, hospitality services, 21%, agriculture and textile manufacturing, 10%, administration and professional services, 8%. At any given time, 8% are unemployed. The remaining 3% are students and housewives.

In December, the US construction industry lost 49,000 jobs. Since September 2006, the industry has shed 236,000 jobs. Textiles lost 46,900 and agriculture dropped 1,000. Domestic service jobs grew by 10,000 and hospitality added 352,000. All told, the US economy showed a small net gain

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in the jobs Central Americans tend to work in, and remittances held their own, even growing, for 2007, although the rate of growth for Salvadoran workers slid from 17% in 2006 to 6.5% last year. Remittances account for 12% of Guatemala's GDP, 17% of both Nicaragua's and El Salvador's, and 27% of Honduras' GDP; 75% of remittances are used in Central America for daily consumption.

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