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LADB Staff

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To hear many in Latin America tell it, this was to be a financial crisis that left the region only a bit bruised. Among those telling it were several in a position to know better. Brazil's President Luiz Inacio Lula da Silva is widely quoted as nearly dismissing the whole affair as "Bush's crisis." The financial systems of the hemisphere were strong, financial strategies independent enough to delink or uncouple them from the US and the rest of a foundering first world. Record high commodity prices would buffer the impact of a global slowdown for the countries flush from the export of food products, combustibles, and the mineral wealth of the continent and the isthmus. A different truth is emerging.

The prices of these basic exports are collapsing as manufacturers and their customers worldwide cease to spend on the finished products. Some of the region's national currencies have begun to sink in tandem. Capital has begun to flee from capitalist stalwarts and from the new leftist regimes alike. Among those expected to suffer most from the pulling in of horns of the consumer of last resort are Mexico and Central America. Jorge Mattar of the Economic Commission for Latin America and the Caribbean (ECLAC) counted the current situation as among the gravest in years and very different from the 1929 crash with which it is often compared.

Mattar said that he didn't know how bad it would get, but his analysis was that "the crisis will affect less South American countries such as Chile, Brazil, and Argentina" than it would the isthmus and Mexico, because the southern countries were more diversified in their markets while the latter were tied to the eye of the storm, the US. The reason for this, he said, was that the southernmost countries have more broadly selected their trading partners and do not depend so much on the US, either for trade or for remittances from their nationals living there. The same will hold for foreign direct investment (FDI), where "the marked uncertainty and volatility in the markets will affect investment decisions," said Mattar. A recent survey of investment perspectives for 2008-2010 from the UN Conference on Trade and Development (UNCTAD) predicts an overall decline in FDI of 10% compared with 2007, with the greatest declines centered in Mexico and Central America in the short term.

Mexico, still a relative economic star in the region, is predicted to fare better in the medium to long term. Data from the US suggest that prospects for improvement there that would lead to a better outlook for the neighbors are dim. The private Confidence Board in the US has for decades produced a widely watched survey. The most recent edition showed a plunge to record lows to a score of 38, where a score of 100 represents consumer outlook in 1985. Chief domestic economist of the research firm MFR interpreted this and other data to mean, "A consumer-led recession is upon us, and it promises to be a serious one." So, by extension, it promises to be a serious one for those of the isthmus who had hoped to see the Central America Free Trade Agreement (CAFTA) produce some poverty-relieving effects (see NotiCen, 2008-01-10 and 2008-08-28).

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It will be serious also for those who had hoped to improve their prospects through migration to the US, where the economy lost 159,000 jobs in September. That was the steepest decline in five years, topping a nine-month string of declining employment numbers for a total, over the period, of 760,000 jobs lost. As demand for foreign workers falls, Central America will see steep cuts in what has been one of the region's most profitable exports, labor.

This comes at a time when domestic demand for labor is also cascading. The Camara de la Construccion de Guatemala (CCG) announced the layoff of 109,000 workers so far this year, with a total of more than 150,000 expected by year's end. Cascading into poverty The past year has already seen hundreds of thousands of people of Central America slip into poverty in cascading fashion from nominal middle class to poverty, and from poverty to extreme poverty. A World Food Program (WFP) study, Price Rises, Markets, and Food and Nutritional Security in Central America, cataloged some 100,000 in El Salvador alone making that downward journey between September 2007 and June 2008. When Guatemala, Honduras, and Nicaragua are added, the figure tops a million.

A deadly prelude to the financial crisis, the food crisis, promises, said the Inter-American Development Bank (IDB) back in August, to plunge 26 million people in all of Latin America and the Caribbean into, or back into, extreme poverty. That translates to an increase in poverty rates in Guatemala from 51.45% to 59.4%; in El Salvador, from 35.1% to 41.7%; in Honduras, from 69.5% to 73.4%; and in Nicaragua, from 41.5%to 46.8%.

The WFP's El Salvador representative Carlo Scaramello fleshed out the numbers in human terms. In his country, the cost of the basic food basket increased by one-third in the past two years, while people have lacked the means to increase income. People are poorer. There has been "an increase in malnutrition among women and children. People are eating less and buying cheaper and less nutritional foods." Meanwhile, his agency's mission to come to the aid of people in this circumstance has suffered funding levels "much lower than before." According to the WFP, this poverty spiral began in mid-2006, with food prices as the main impetus.

The well-known underlying factors included production losses in the US and in Australia because of drought, fuel price surges, and increased demand for basic grains resulting from crop diversion to bio-fuels and from upgraded nutrition in emerging economies. These gains never had the time to consolidate, and now, said Pedro Medrano, director of WFP for Latin America and the Caribbean, "For Central America, this economic shock could reverse the social advances achieved until now, particularly for the most vulnerable sectors." He said it was a call to governments, civil society, and all economically influential sectors to coordinate responses to avoid this.

The WFP study shows that Central America's governments have taken measures to deal with the prices, but they have been short-term actions to boost agricultural production and aid families. An example of this would be El Salvador's effort to keep up with the need to feed the population. President Antonio Saca's government has, since October 2005, had in place a program that pays families between US$15 and US$20 a month per child on the condition that the children stay in school and the mothers have regular health care. But now Antonio Hernandez, the mayor of the tiny village of Talchiga, told Inter Press Service, "With today's high prices, the money just doesn't stretch

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far enough. We can't feed our children." Hernandez farms a tiny field of about one-quarter hectare, whose production lasts the family about two months. The little village has a very high incidence of malnutrition.

The WFP recommends attacking the problem from three principal angles. First, it calls for reinforcing and expanding social protections for the most vulnerable populations in each country of the region. Second, it recommends increased investment in food production and diversification of income sources for small producers, farm workers and day laborers, and subsistence households. Third, it recommends taking measures to ensure efficient market functioning and to protect the buying power of the most vulnerable populations.

As the WFP tracks hunger, the International Labor Organization (ILO) tracks the decrease in gainful work. The organization has estimated that, worldwide, 20 million people could lose their jobs and join the ranks of the 200 million already unemployed. Many of these will migrate in desperation, even while, said a UN official, "It is inevitable that if GDP growth globally declines as it clearly is doing, then this will have an effect on migrants, either in terms of wanting to go home or in terms of being unemployed in the places to which they've come."

The UN special representative on migration Peter Southerland nevertheless cautioned against developed countries increasing restrictions on migrants. "We've seen how ineffective simple prohibition policies in regard to migration actually are," he said. "They really don't work." The International Trade Union Confederation (ITUC) estimates that there are 40 million illegal migrant workers around the world, and a quarter of them are in the US. Many of these are Central Americans who have contributed with their remittances to what improvements their home countries have seen economically. But studies show the poor sectors from which these contributors came have not benefited at home from the better economies.

Wilson Romero of the Instituto Interamericano de Derechos Humanos (IIDH) noted, "The public poverty-reduction policies are no such thing but rather economic-growth policies. There could have been economic growth but not necessarily poverty reduction." These insights are taken from a recent IIDH report presented at the XXXIX Reunion del Consejo Centroamericano de Procuradores de Derechos Humanos. Romero and the human rights community have been stressing with limited success for some time the point that economic growth does not translate to poverty reduction. The IIDH is now demanding of the governments of the isthmus the creation of specific poverty-reduction policies. The confluence of crises continues to lay bare the economic practices and programs that were supposed to help one sector but which have in fact helped another.

The giant nongovernmental organization (NGO) Oxfam is one more that takes aim at these policies as they are flushed from cover. A recent Oxfam report reiterates the paradox and says events disprove the notion that market forces working untrammeled through the private sector would somehow improve the fortunes of the poor. An author of the report, Carlos Galian, prescribed access to credit, increased public spending in agriculture, social assistance, creation of strategic food reserves, and trade reforms to correct the situation. Unanswered is whether, even if governments were to adopt these recommendations, the resources would be available.

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The 18th Ibero-American Summit opened in San Salvador Oct. 18 with a proposal from Chilean President Michelle Bachelet to rework the agenda to discuss the economic crisis behind closed doors. The situation could even eventuate in a new lease on life for the regionally repudiated International Monetary Fund (IMF). Spanish Prime Minister Joe Luis Rodriguez Zapatero raised the possibility of the fund's return after its policies were ridiculed by regimes benefiting from the now waning growth. Said Ricardo Hausman, a Harvard economist, "The financial markets are practically closed to emerging markets, and sooner rather than later businesses and governments will have to study that alternative."

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