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Latin American Leaders Cope with Spreading Global Financial Crisis

by Guest

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The fallout from the global financial crisis that exploded in the US spread around the world and left many analysts pondering how viable the neoliberal phase of capitalism can still be. It put the Latin American economic systems, governments, and various transnational agencies on a state of alert.

In every bilateral dialogue and multilateral meeting comments are heard on the outbreak of socialism evidenced by the decision of the administration of US President George W. Bush and various powers to nationalize banks, insurance companies, and credit institutions in what has become the biggest financial rescue plan in history.

The Spanish magazine Sin Permiso said, ironically, that the banners flown by the Latin American guerrilla movements during the revolutionary spring of the 1970s have returned in the northern autumn at an extraordinary cost, but now in the hands of the International Monetary Fund (IMF), the World Bank, the White House, or the World Trade Organization (WTO). Until yesterday, these entities were dictating to poor countries "the failed prescriptions" that neoliberalism wrote at the end of the last century.

"The most worrisome aspect is that, despite the failure of those policies, they are still approaching the situation from the perspective of neoliberal thought," wrote the Argentine daily Pagina 12.

The governments of the region, from Mexico to Argentina, spent all of 2008 trying to downplay the significance of the open crisis as the housing bubble burst and, with it, the best known banks in the US fell. These were the same banks that, until then, had been giving reports on the quality of South American bonds, advising actions to take, lowering or raising the rating of those economies, or measuring the risk premiums of the stocks issued in those markets.

Finally, those same governments saw reality and understood that, for a crisis of this magnitude, there was no national solution, and they had better adopt joint measures, as Brazil’s Treasury Minister Guido Mantega said in a meeting with foreign journalists. Little by little, the regional governments with the most influence either because of the size of their economies or because of their closeness to the US began to tell their citizens what was happening in the world and the repercussions it could have on each of them.
"The depression that is coming will be monumental," said Luis Tellez, Mexico's communications minister in the administration of President Felipe Calderon.

"Until now I have been telling you to be calm, but today I want to tell you that I am fully aware of the risks that are coming in sensitive areas like employment and poverty. We run the risk that the economic deceleration will become a recession that will cause us to have more unemployment and more poverty," said Colombian President Alvaro Uribe.

During the UN General Assembly last September, Argentine President Cristina Fernandez de Kirchner met with 20 leaders of some of the largest multinational groups. She answered sharply when they repeatedly questioned how she planned to extract the country from the global crisis.

"The First World that has been held up to us as Mecca is falling apart, and you all are asking me whether Argentina has a Plan B to confront the crisis! Gentlemen, we are in good shape, the ones who need a Plan B are you, the US and the European Union [EU]. And you can have it by just managing your economies responsibly, staying away from the prescriptions that until yesterday you tried to dictate to us." Days later, she modified her statements and warned that the crisis "will have economic and social consequences that are going to require much sacrifice."

**Ongoing consultations at the highest levels**

Something similar happened with Brazilian President Luiz Inacio Lula da Silva. In statements to Folha de Sao Paulo, carried by ANSA, he said on Oct. 4 that he was "very calm," although he admitted that the crisis would affect the financing of exports. "We have US$207 billion, which is considerably more than what we owe. We paid the IMF, and now we have the freedom to confront the crisis," he said.

Lula explained that Brazil is no longer dependent on the US. "Twenty years ago, 30% of our exports went to the US market, today it is only 15%. And now we have trade with Argentina worth US$35 billion, when 20 years ago it was only US$9 billion."

Five days later, on Oct. 9, Brazil was acting in the same vein as the hardest hit countries, and Lula confirmed his invitation to 33 regional heads of state to meet on Dec. 16-17, in Salvador in the state of Bahia, to draw up an agenda for the region to work together to face the effects of the crisis. Between now and Dec. 16, the South American countries will have carried out a series of consultations seldom seen in other critical situations.

The meetings have included or will include the presidents of the central banks, the economy ministers, the Union de Naciones Suramericanas (UNASUR), the Southern Cone Common Market (MERCOSUR), the directors of the Inter-American Development Bank (IDB) and the World Bank, experts from private organizations, and delegations from the Economic Commission for Latin America and the Caribbean (ECLAC).

The region "has become aware that in the international financial system there are elements of excess and imprudent and irrational risk-taking that seem like the gambling that goes on in a casino," said
the former director general of Citigroup Carlos Fedrigotti to the magazine America Economia. Lula had already spoken on the issue from a similar perspective when he said, "The poor countries that made a great fiscal effort to have a period of growth are victims, now, of the casino set up in the US financial system." The crisis is already counting its victims in South America.

The largest businesses, beginning with auto companies, have laid off or outright terminated thousands of workers. The reduction in buying has not yet been felt in the region, "but there will be less demand for our exports oil, soy, and other commodities which, in addition, will be sold at lower prices.

However, those who bear major responsibility for this crisis opened their umbrellas before it began to rain," said Walter Cancela, president of the Banco Central of Uruguay. In an inevitable reference to the crash of October 1929, Cancela added, "We are facing the deepest crisis of the last 80 years and controlling it is consuming an incredible amount of resources, which in the future will bring worldwide inflation."

Experts and officials of the international organizations consulted by media throughout the region agree with the following forecast: 1) there will be a generalized contraction of international credit; 2) demand in the US will drop, and the crisis will lead to a global recession; and 3) prices of Latin American raw materials will drop, which is already being seen with oil, soy, maize, wheat, and other agricultural products.

Until now, all the analysts and economic forecasters have focused on the crisis' macroeconomic effects. Little has been said about the immediate repercussions that will be seen in poverty indices. In recent years millions have escaped from poverty thanks to remittances from family members living and working abroad in search of better economic futures.

The Multilateral Investment Fund (MIF), a member of the World Bank Group, reported that in 2007 emigrants from 23 countries in the region sent back a total of US$72 billion, an amount that exceeded total foreign aid and foreign direct investment (FDI). The MIF estimated that in 2008 those remittances would surpass US$80 billion and in 2010 they would top US$100 billion.

The IDB expects remittances to decline this year by 1.7% because of the crisis, but according to official data, that estimation seems far from the reality. The Banco Central de Mexico, which has 23 million people in the US, reported that, in August alone, remittances fell by 12%.

According to the Argentine daily Clarin, South America's three largest recipients of remittances in 2007 (Brazil, US$7.4 billion, Colombia, US$4.2 billion, and Ecuador, US$2.9 billion) have already seen an average reduction of around 7.7%. Consequently, solely from the standpoint of remittances, in 2008 millions more people will be among the legion of Latin America's poorest.

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