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Two weeks after the departure of Hurricane Mitch, Central American governments are assessing the damage, seeking international financial commitments, and considering action to control some of the environmental destruction that intensified the damage. Regionwide, preliminary estimates by the economic consulting firm Consultores Economicos y Financieros (CEFSA) set the economic loss at US$46.353 billion. CEFSA estimates that regional GDP will drop only slightly this year from the previously projected 5% but more drastically in 1999 and 2000.

Governments are debating how to adjust their budget proposals for 1999, though no final figures are likely until the effect of debt cancellations are factored in. In Honduras, revenues from agriculture will be severely restricted in 1999 as 70% of all agricultural production was lost to floods. Banana and coffee production, which accounts for 36% of foreign-exchange earnings, was especially hard hit (see NotiCen, 11/12/98). "There is no productive structure or infrastructure, and reconstruction requires resources we don't have," said Commerce Vice Minister Hernan Erazo.

Erazo said the 1999 economy would begin at "minus zero." Compared with the 12% increase in exports expected earlier in the year, Erazo now expects a severe drop in exports and a rise in imports this year and next. He predicted resumption of banana and coffee production will take more than a year.

The Honduran legislature is considering an administration proposal for cuts in the national budget for 1999. Minister of the Presidency Gustavo Alfaro said the proposal calls for a "complete change" in the administration's original budget sent to the National Assembly in September, though he mentioned no figures. The proposal has already exposed differences between the Assembly and the administration on how to rebuild the economy. Assembly deputies proposed tax exemptions on construction materials to allow the poor to rebuild their houses, but the administration opposes the measure. "Under the circumstances we cannot continue reducing state revenues with tax exemptions," said Alfaro.

At their meeting in San Salvador Nov. 9, the region's presidents agreed to set up a Grupo Consultivo Regional de Emergencia (GCRE) that will assess the storm's damage, coordinate efforts to secure foreign aid and foreign-debt cancellation, and implement a Plan de Rehabilitacion y Reconstruccion de Centroamerica. The group comprises the region's ministers of foreign affairs, treasury, economy, communications, and housing. Also included will be representatives from the International Monetary Fund (IMF), Inter-American Development Bank (IDB), World Bank, Banco Centroamericano de Integracion Economica (BCIE), the European Union (EU), and the G-7 group of industrial nations.
Realizing that financial aid is not enough, the leaders renewed a longstanding request that the US grant the same access to its market that Mexico and Canada enjoy under the North American Free Trade Agreement (NAFTA). They also asked to be included in the preferential trade terms of the Caribbean Basin Initiative (CBI). Central to the regional recovery plan is debt cancellation. International lenders are considering setting up a consultative group in Central America to assess damage and calculate reconstruction costs.

Most creditor nations were quick to support debt forgiveness, although so far formal announcements of debt forgiveness have come only from France, Cuba, and Austria. The French government announced Nov. 10 the cancellation of US$92 million in debts owed by Nicaragua and Honduras. Cuba canceled Nicaragua's US$50.1 million debt, and Austria canceled Nicaragua's US$50 million debt. Canada followed with an announcement of an indefinite moratorium on Honduras' US$20 million annual debt payment.

President Arnoldo Aleman's call for immediate cancellation of Nicaragua's US$6 billion debt received support from the IMF representative in Nicaragua, Jose Gil. With additional international funds, Nicaragua could implement its reconstruction plan without interfering with its ongoing economic-adjustment strategy, Gil said. In mid-November, multilateral lenders agreed to extend more credits, but Gil said the government would have to have policies in place to guarantee "macroeconomic health." Even so, debt cancellation alone will not be enough to reconstruct the region, said Gil.

Debate underway on changes in economic policy

Critics of neoliberal policies may see the economic ruin as justification for drastic modifications in the austerity measures required by the IMF's Enhanced Structural Adjustment Facility (ESAF). On the other hand, private-sector leaders are already pressing for even greater adherence to such measures as privatization, expansion of the export sector, greater reliance on nontraditional crops, labor-code revisions to permit "labor flexibility" and attract foreign capital, and reductions in government spending.

Economist Luis Eduardo Montiel told the Nicaraguan Chamber of Commerce that Nicaragua cannot afford to abandon ESAF because it is the channel through which new aid and debt cancellation will flow. He suggested the government adopt even greater austerity measures. He said government expenditures are too high and state agencies such as the Empresa Nicaraguense de Telecomunicaciones (ENITEL), the Empresa Nicaraguense de Energia Electrica (ENEL), and the international airport are "milk cows" centers of corruption that should be sold. He warned against any higher taxes or other government remedies that would interfere with the free market.

Threat of mass emigration concerns Mexico, Central America, US

Economic dislocations in Central America are expected to affect emigration both within the region and to the US. Costa Rican, Mexican, and US officials are concerned that the 3 million people made homeless and destitute by Mitch could create a migration crisis.

President Bill Clinton's administration has already temporarily halted deportation proceedings against illegal immigrants from Honduras, Nicaragua, El Salvador, and Guatemala and has begun
plans to grant limited resident status to an estimated 400,000 immigrants legal and illegal from the same countries. The plan would probably come under a 1990 law permitting "temporary protected status" for immigrants facing dangers in their home countries. To date, no major migrations have been reported, although 400 Guatemalans have entered Mexico since the hurricane.

Meanwhile, Nicaragua and Costa Rica have agreed to set up refugee camps on the Nicaraguan side of the border. Costa Rican Foreign Minister Roberto Rojas denied rumors that Nicaraguans would be expelled from his country but admitted that any massive migration of Nicaraguans would create serious problems in Costa Rica. He noted the rising unemployment in Costa Rica caused from storm damage to coffee plantations.

Between 500,000 and 800,000 Nicaraguans, many of them illegal immigrants, already live in Costa Rica. If another 100,000 come here, it would be "a social and labor catastrophe," said Public Security Minister Juan Rafael Lizano. He said Costa Rica is preparing a plan to manage any such massive migration. Although the plan includes reinforcing the border guard, the major emphasis would be on seeking financing for development projects to provide work on the Nicaraguan side and helping Nicaragua with construction materials, health, and other services in the planned refugee settlements. Role of environment in flood damage is examined Experts are assessing the effect of environmental degradation on the storm's damage.

In Nicaragua, a report by the Centro Humboldt noted that Mitch's greatest impact was on the areas of greatest ecological fragility caused mainly by deforestation and soil erosion. In some of these areas, the damage to flora and fauna is irreversible, said the report. Floods and landslides carried with them tons of residual pesticides, cyanide from mining operations, anti-personnel mines planted in the 1980s, and other dangerous materials. Much of this has been deposited as sediment in low-lying areas.

Along the Pacific coast, the sediment buildup could destroy fishing grounds. Scientist Jaime Incer Barquero said the mudslide from Nicaragua's Casitas Volcano could have been caused or worsened by deforestation. The Casitas slide killed more than 2,000 people at last count. Deforestation from agricultural cutting and the 18,000 forest fires this spring (see NotiCen, 05/21/98) exposed the soil to uncontrollable erosion, said Incer. Discussions on tougher environmental laws are underway in the region.

The Salvadoran Legislative Assembly will take up a comprehensive bill to prepare the country for natural disasters. Included in the bill, proposed by the Centro Salvadoreno de Tecnologia Apropiada (CESTA), is a program to educate the public about climatic changes, to create reforestation campaigns, and to establish emissions controls on contaminating gases. The bill would also set up an emergency fund to aid victims of natural disasters, both present and future. CESTA proposes to take the money for the fund out of the budgets for defense and electoral campaigns.

The Catholic Church in Honduras joined in the criticism of environmental mismanagement. In its weekly magazine Fides, the Honduran church rejected the opinion of some that Mitch was a "divine punishment." Former US president George Bush, in a recent visit to view the situation in Honduras, called the disaster "an act of God." But a Fides editorial said the blame lies with...
"the boundless egoism of the worshipers of 'the god of money,' which has degraded the natural resources to the point of producing profound changes in the world's climate." [Sources: Agence France-Presse, 11/07/98; Inter Press Service, 11/10/98; El Diario de Hoy (El Salvador), 11/12/98; La Prensa (Nicaragua), 11/10/98, 11/11/98, 11/12/98, 11/13/98; The Washington Post, 11/14/98; Notimex, 11/10/98, 11/12/98, 11/13/98, 11/14/98, 11/15/98; The Miami Herald, 11/14/98, 11/15/98]