

Guest view: Another lost decade for Latin America?**Three strikes**

29 September 2020 By William Rhodes

Latin America is facing three simultaneous challenges, which when combined pose the gravest threat seen across the region in over a century. It will take far-reaching political vision and leadership to move forward in implementing reforms that can set a course through this triple crisis to restore stability.

First, the Covid-19 pandemic has engulfed the region, taken a huge human toll, placed an unprecedented burden on healthcare systems, and tested the administrative skills of governments to provide emergency assistance effectively.

Second, the financial fallout from the virus on the economies in the area. According to recent forecasts from the International Monetary Fund and World Bank, Latin America and the Caribbean will be the most impacted of all emerging-market economies in the world due to the pandemic.

And third, the Venezuelan refugee problem, which people often forget is the largest migrant problem in the history of the region, covering approximately five million people, or one-sixth of the country's entire population.

The region has become the global epicenter of the pandemic since early June, accounting for more than 40% of the Covid-19 deaths despite having only 8% of the population, a recent report in the Financial Times suggested. The health crisis is being translated into a historic decline in GDP. A recent estimate by economists at Bank of America projects a 2020 economic decline of 8.2% – worse than the Middle East, Africa or emerging Asia. Earlier estimates by the IMF and World Bank indicated an even larger decrease in GDP, close to some 10%.

The region's two largest economies, Brazil and Mexico, may be particularly hard hit, suffering the worst economic downturn since the Great Depression. The latest forecast for Brazil, which had only recently emerged from recession, is a contraction of 5%-7%. And the Bank of Mexico, the country's central bank, recently estimated a drop in GDP of between 8.8% and 12% for this year.

Argentina, Latin America's third-largest economy, was already suffering a severe economic recession before the virus hit and is presently undergoing a major sovereign-debt restructuring after the ninth default in its history. GDP is expected to fall 11.5% this year, according to a recent Citigroup forecast.

Peru, which over the last decade had the best growth rate in Latin America and one of the highest of any emerging-market economy in the world, has been hard hit by the pandemic. According to Johns Hopkins University, Covid-19 is leading to a per-capita death toll in the country that is the world's largest after Belgium. This has resulted in Peru having one of the world's highest declines in its economic growth rate, of 30.2% year-on-year in the second quarter. This, in turn, is contributing to yet another serious political crisis.

The other large Andean economies, Colombia and Chile, are also suffering, but will have lesser declines of about 7%, according to the most recent IMF forecast. Colombia is also struggling with accommodating the largest number of Venezuelan refugees of approximately 1.5 million migrants, adding a special burden on the country.

Venezuela has been hit hardest of all. It was in political and economic turmoil before Covid-19 struck and before the sharp decline in global oil prices earlier this year. The economy could well shrink by close to 30% this year under President Nicolas Maduro's repressive economic and political management. Venezuela is also suffering from one of the highest inflation rates in the world, and the value of its currency, the bolivar, has collapsed.

In looking at these catastrophic falls in GDP, we should remember that Latin America is an area where 10 years ago the head of the Inter-American Development Bank, Luis Alberto Moreno, predicted that the 2010s would be the decade of Latin America and the Caribbean.

The triple crisis across the region can provide an opportunity. Its brutal force is exposing deep-seated structural problems that now must be addressed with far-reaching and long-overdue reforms in education, healthcare services and the implementation of the rule of law. There must be more emphasis as well on institution building. Additionally, on the trade side, serious consideration needs to be given to linking the trade pacts of Mercosur and the Pacific Alliance to create one of the world's most important trading blocks.

I believe that comprehensive reforms, such as these, can pave the way for a renewal of Latin America.

A crisis sometimes also presents an opportunity. This can be the case for Latin America if the terrible calamity it is going through lays the groundwork for a new era of stability and sustained economic growth.

Much will depend on strong political leadership to ensure that governments carry out these essential reforms. If there is political failure, then Latin America will indeed suffer another lost decade.