The Big Read Americas economy

Poverty and populism put Latin America at the centre of pandemic

With infections rising despite lockdowns, leaders fear another lost decade and a new debt crisis

Michael Stott in London and **Andres Schipani** in São Paulo YESTERDAY

Home to just 8 per cent of the global population, Latin America is now suffering half the world's new coronavirus deaths. Months of strict lockdowns have failed to succeed in flattening the curve of infections, as they did in Europe and east Asia, and the continent faces the worst of both worlds: a heavy human toll and crippling economic damage.

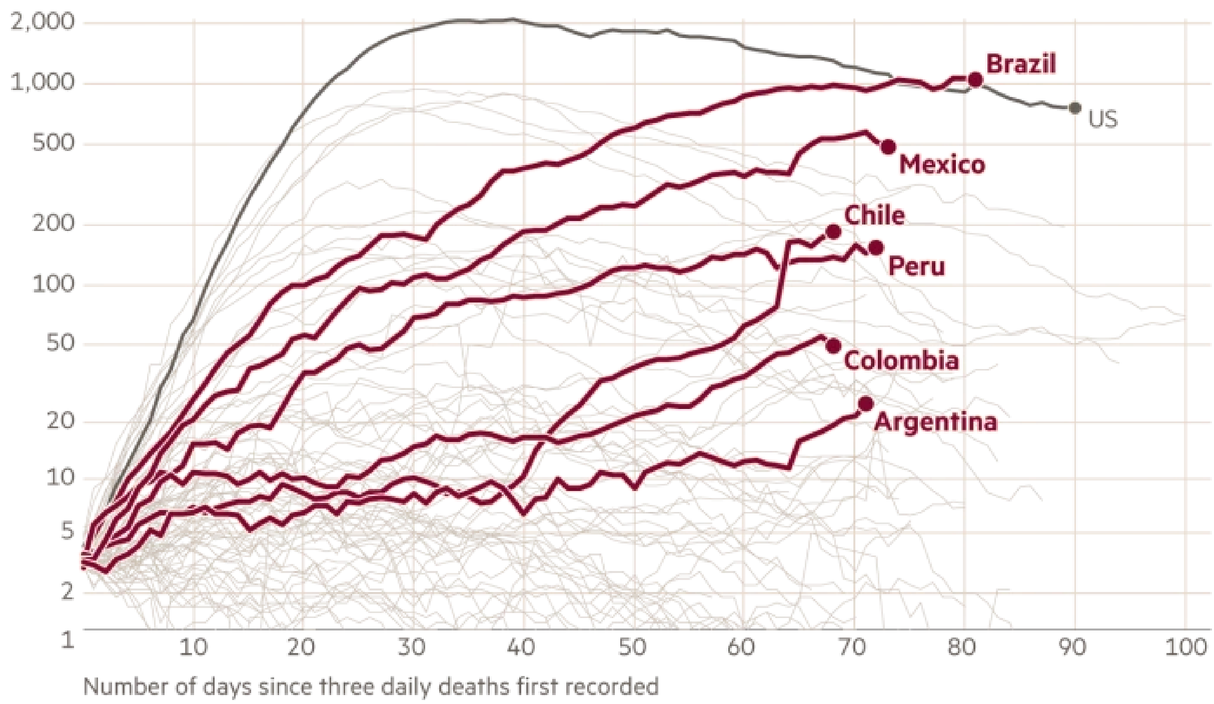
The example of Peru shows how an apparently model response failed to work as intended. President Martín Vizcarra initially won international praise for a tough, quick response, ordering the army on to the streets less than two weeks after the first Covid-19 case was detected to enforce a national lockdown and threatening to jail violators. His government also announced a $32bn package to support the economy, including a $110 one-off payment to the poorest families to help them survive.

But nearly three months on, Peru is struggling to contain the virus. Its population of 32m has reported more than 200,000 infections, more than France or Germany, and the death rate continues to climb. One of the key reasons the government's measures have failed to work, experts say, is the country's very large informal economy, covering around 70 per cent of the workforce.

Leonor Lavado, a chicken seller at one of the country’s big public food markets, is one of those workers. She knows she should be staying at home and abiding by the national lockdown. When she turns on her mobile phone, a government voice message reminds her. But staying at home means going hungry.

Latin America is still in the acceleration phase

Seven-day rolling average of new deaths, by number of days since three average deaths first recorded



Source: FT analysis of data from the European Centre for Disease Prevention and Control and the Covid Tracking Project

“I go out to work at the market with the fear that an infected person will make me sick,” says Ms Lavado, 46, breadwinner for five people. “But if I don't go to work, there are bills and things to pay and food to buy.”

Her dilemma — shared by millions of other informal workers making up about half of Latin America’s workforce — over whether to obey government rules has emerged as one of the key factors in the spread of the virus.

“Our region has become the epicentre of the Covid-19 pandemic,” Carissa Etienne, World Health Organization director for the Americas, said on May 26. “Now is not the time for countries to ease restrictions.”

Policymakers fear the pandemic — forecast to damage the region's economies more severely than those in other developing regions — could wipe out two decades of social progress, plunge tens of millions of people back into poverty and risks triggering a repeat of last year’s wave of violent social protests. It could also spark new debt defaults.

"It's going to worsen the already unequal income distribution and poverty levels," says Alejandro Werner, director of the IMF's western hemisphere department. "When the sense of emergency is gone, we may see a forceful return of social discontent throughout the region. It's very important for the political system to focus on bringing people together and uniting their countries to implement a strong policy response to the pandemic."

Poor overcrowded neighbourhoods are a challenge for Latin American countries during the pandemic © AFP/Getty

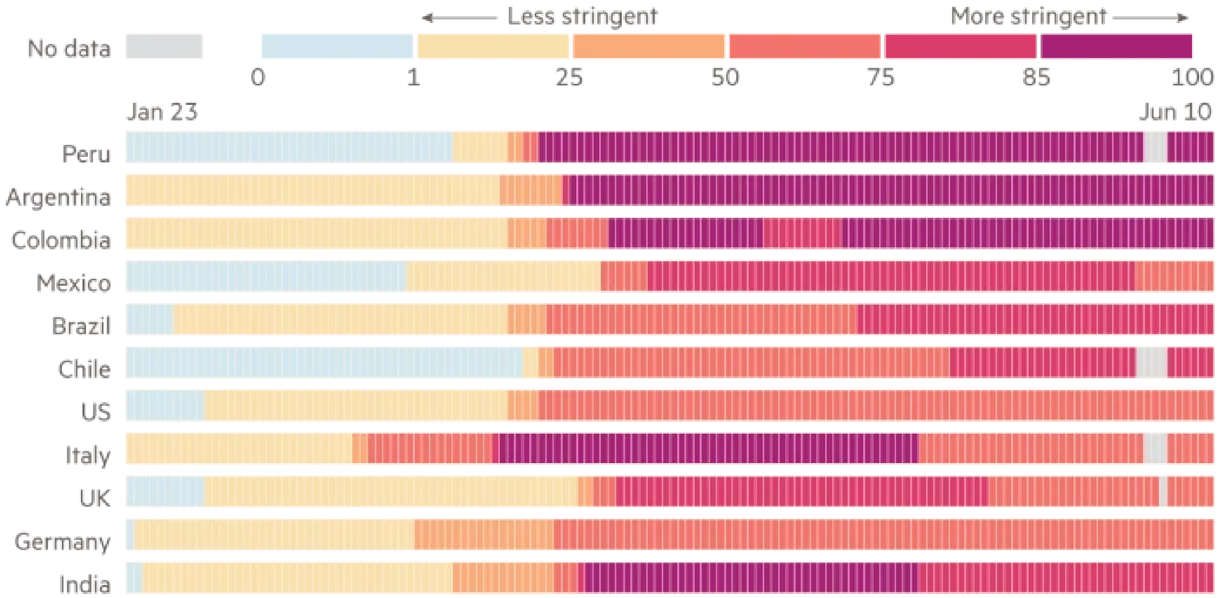
Covid-19 hit Latin America several weeks after Europe. The first case was reported in Brazil at the end of February, an elderly man returning from Italy. The delay in the virus's arrival and an apparently slow initial spread prompted hopes that the region might be spared the worst, because of its younger population and mostly tropical weather.

Within three weeks, most Latin American governments had ordered lockdowns, bans on flights, border closures and the shutting of all non-essential services. But cases continued to multiply, leaving weak public health systems — stunted by years of underfunding — unable to cope.

"The adherence of the population to social distancing measures is very different to Europe, where they don't have so many poor people and they don't have big slums," says Jarbas Barbosa, assistant director at the Pan American Health Organization. "It's very difficult to sustain these measures for a long time."

Global responses to the pandemic

Composite score developed by researchers at Oxford university, to compare policy responses to the coronavirus pandemic



Source: Blavatnik School of Government, University of Oxford. Data for the most recent seven days may not yet reflect government response changes implemented during that period
© FT

Pressure cooker countries

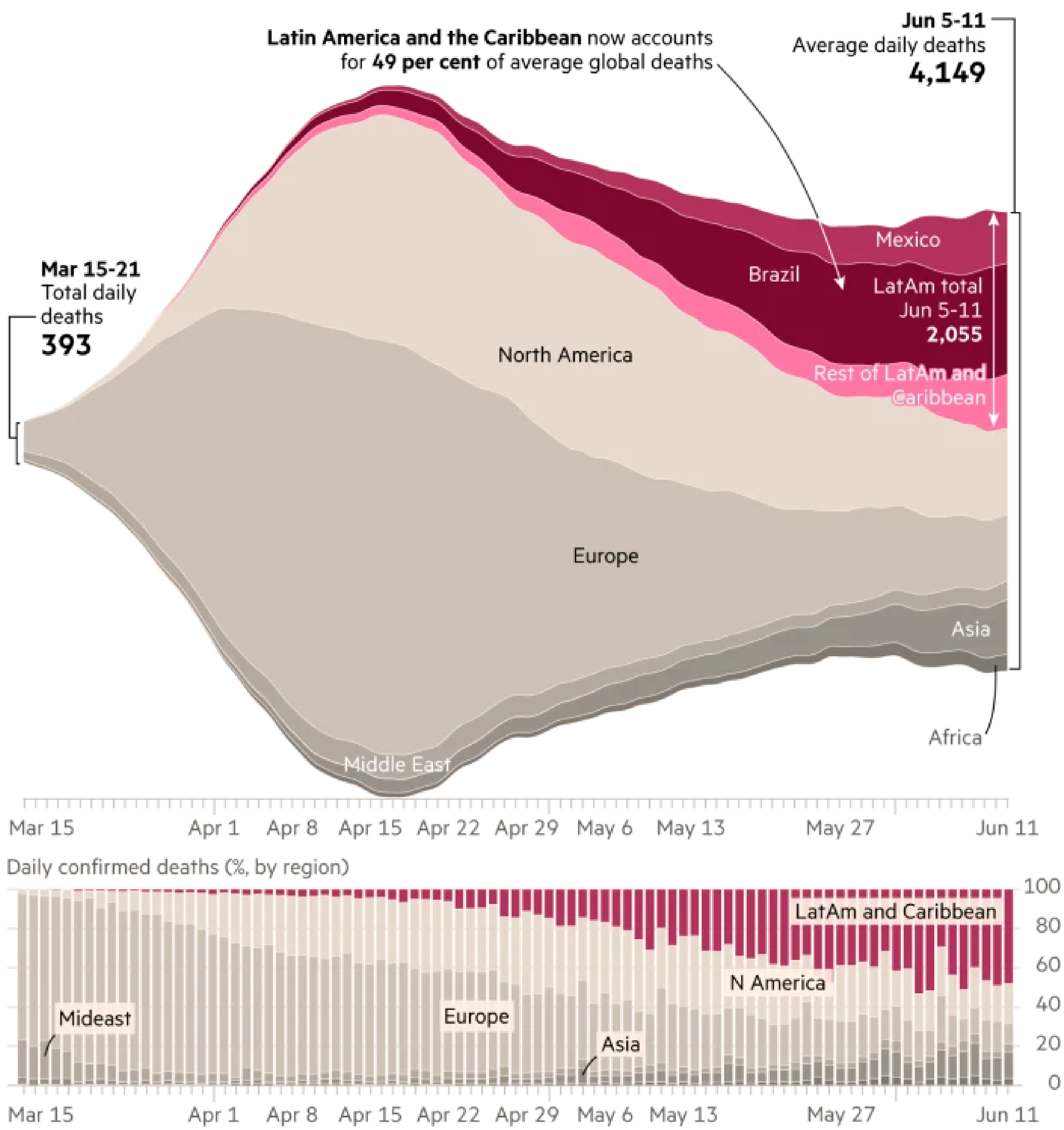
The region's politics have not helped. Populist leaders in Brazil and Mexico, Latin America's two largest nations, played down the seriousness of the virus. Their leaders undermined with their own behaviour the medical advice of professionals to stay at home.

Brazil is now the world's second most infected country after the US, with more than 800,000 cases and over 40,000 deaths. It had the world's highest death toll in the week to June 11, 6,898, and experts believe the pandemic may be at least four weeks from its peak in the country.

Far-right president Jair Bolsonaro has taken a particularly aggressive stance, dismissing coronavirus as "a little flu", continuing to greet crowds of followers and telling his nation it was inevitable that most of them would catch the virus and they should "take it like a man" — a message enthusiastically embraced by his followers.

Global Covid-19 death toll: Latin America offsets decline in Europe and the US

Daily deaths of patients diagnosed with coronavirus (seven-day rolling average)



FT graphic: Steven Bernard / @sdbernard
Source: FT analysis of ECDC and Covid Tracking Project data

The banner at the entrance of a makeshift camp protesting against local lockdown restrictions in São Paulo, Brazil's biggest city, just says: "Bolsonaro is Right."

Mexicans have also received mixed messages. President Andrés Manuel López Obrador, a leftist nationalist, was still encouraging fellow citizens at the end of March to dine out in restaurants to boost the economy and was himself continuing to tour the country and hug supporters, violating health protocols on one trip to greet the mother of the country's most notorious convicted drug trafficker.

Official data confirms more than 130,000 cases and 16,000 deaths, but at least three independent studies suggest Mexico is grossly under-reporting the toll. One found four times more deaths attributable to the virus in Mexico City than officially reported. And levels of testing have been woeful, ranking among the lowest in the world.

Despite the number of Covid-19 cases continuing to rise, the government has begun easing restrictions and Mr López Obrador insists that it has "tamed" the virus.

"I do understand it's urgent to open up the economy — people need to eat," says one senior hospital doctor in Mexico City. "But doing things inconsistently and based on flawed epidemiological forecasts makes this country a pressure cooker."

A woman walks past graffiti depicting a cleaner spraying viruses with the face of President Bolsonaro in Estacio neighbourhood in Rio de Janeiro © Bruno Prado/Getty

'Never been a crisis like this'

While Latin America's two biggest economies muddled their responses, most other nations in the region acted like Peru, locking down their populations quickly. But many of them found that the measures which had proved successful in containing the pandemic in developed nations were far less successful in a continent with a long history of weak law enforcement and scepticism of government measures.

Ecuador suffered a particularly horrific wave of infections in its business capital Guayaquil in April. As in other Latin American nations, the virus was often introduced by wealthier citizens coming home from trips to Spain and Italy. Local hospitals and morgues were overwhelmed, bodies were left uncollected for days in the tropical heat and relatives had to resort to makeshift cardboard coffins to bury their loved ones.

A soldier walks in between people lining up to take the bus in Quito, Ecuador. The country suffered a particularly horrific wave of infections in April © Dolores Ochoa/AP

"We have had volcanic eruptions, we have had epidemics, we have had earthquakes," a haggard-looking Lenín Moreno, Ecuador's president, told the Financial Times in a video interview from Guayaquil. "But there has never been a crisis like this." The president says the budget deficit will be at least $12bn this year, around 12 per cent of GDP. To help fill the gap, his government has announced $4bn of spending cuts, including scrapping state-owned companies, liquidating the national airline and asking government employees and teachers to reduce their hours and pay.

There are much lower death rates in Argentina and Colombia, the region's third and fourth biggest economies, but they still do not have the virus fully under control and have been forced to extend their lockdowns, increasing the economic damage.

Only in Uruguay and Costa Rica, two of the smallest nations, can the governments claim a high degree of success and very low rates of infection. Both have good state-funded health systems and Ernesto Talvi, Uruguay's foreign minister, points to very high public compliance with the lockdown, and effective testing and tracking as other key factors.

Implicitly contrasting his country with bigger regional neighbours, he says that Uruguay's strong democratic tradition meant citizens trusted their leaders' instructions. "For me, that's the big lesson of all this. The trustworthiness of institutions," says Mr Talvi.

Brazil's President Jair Bolsonaro talks with interim Health Minister Eduardo Pazuello before a national flag hoisting ceremony last week © Adriano Machado/Reuters

But these have been isolated exceptions in a continent which has otherwise struggled. Wall Street banks are forecasting falls in gross domestic product of between 6 per cent and 9 per cent this year across Latin America's worst-affected economies, including Brazil, Mexico and Argentina, followed by a weak recovery next year. By contrast China, Taiwan and Vietnam are still forecast to grow slightly this year with India and Indonesia predicted to suffer only moderate recessions.

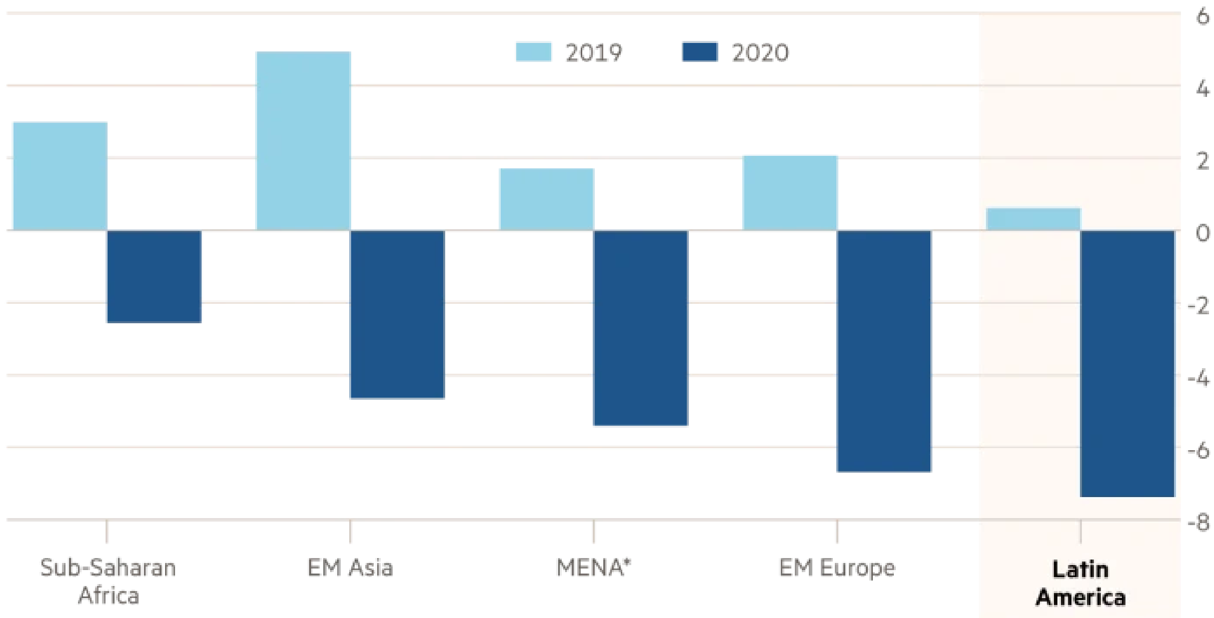
The pandemic has hit hardest, says Luis Alberto Moreno, head of the Inter-American Development Bank, in the most vulnerable parts of Latin American economies, pushing down oil and commodity prices, halting tourism and sharply reducing remittances.

Latin American governments have become much more indebted over the past decade as economic growth faltered in the wake of the global commodities boom. Gross government debt was 48.9 per cent of GDP in 2009 but that figure had shot up to almost 70 per cent by 2019, according to IMF statistics. The region's total external debt more than doubled, from $1.1tn in 2009 to $2.4tn a decade later.

"It would seem that we are in the steepest part of the growth of the pandemic," the IDB's Mr Moreno says. "But although it's true that all countries are trying to flatten the curve, the debt curve for governments and companies and families is also growing along with poverty and unemployment and that leaves some very difficult consequences for the region."

Latin America is the region hit hardest by the Covid-19 crisis

Annual change in gross domestic product (%)



*Middle East and north Africa
Source: Capital Economics
© FT

Trading blow

Murat Ulgen, global head of emerging markets research at HSBC, says Latin America's economies were already in a weak position going into the crisis. He blames the sharp fall in total factor productivity — a measure of economic efficiency — in the preceding decade as structural reforms stalled and countries deindustrialised too quickly, increasing their reliance on raw materials exports.

"This put Latin America behind other emerging markets as a starting point," he says. "Then you had falling commodity prices and collapsing oil prices which hurt the terms of trade of many Latin American countries."

It adds to the doubts over how quickly the region can recover from the pandemic. Gross government debt is set to exceed 80 per cent of GDP this year in Brazil and Argentina and approach 60 per cent in Mexico, according to Bank of America, levels almost twice as high as during the global financial crisis.

The region has low levels of savings, making it heavily dependent on external financing. This increases its vulnerability to outflows of capital as investors flee riskier nations; the Institute of International Finance predicts that foreign portfolio investors will pull $25.5bn of capital out of Latin America this year, mostly from stock markets.

"This crisis has shone light on a lot of problems which were there and which as societies we haven't resolved," says the IDB's Mr Moreno. Last year's protests, he adds, happened because of the quality of education, especially secondary education, and the quality of healthcare services. It wasn't a complaint that there weren't services, it was a complaint about the quality of them."

Cemetery workers carry a coffin at the municipal cemetery Recanto da Paz, in Breves, in the Brazilian state of Para © Tarso Sarraf/AFP/Getty

Preserving jobs is a top priority. Iván Duque, Colombia's president, lists a series of employment protection and economic stimulus measures — from helping companies pay salaries to incentives for the construction industry — his government is rolling out to lessen the pandemic's economic impact, adding that "efforts like this have never been seen in Latin America in a situation like this". But he adds the region has "a middle class in a condition of some vulnerability and we have high levels of informality and that means [the virus] hits us harder".

'Up to our eyeballs in debt'

Multilateral financial institutions are doing what they can to help. The IMF has disbursed or committed an extra $50.6bn to Latin America and the Caribbean in flexible credit lines, increases in existing programmes and emergency assistance, while the IDB is lending record sums — up to $15bn to the public side and another $7bn for the private sector.

Peru and Chile have joined Colombia in announcing stimulus packages but Argentina, with borrowing already approaching 90 per cent of GDP and having already defaulted on its foreign debt, has very little room to manoeuvre. In Mexico, Mr López Obrador has ruled out government help for any but the smallest businesses and has doubled down on austerity, refusing additional borrowing even though debt levels are comfortable by international standards. In Brazil, the ambitious free market economic reform agenda launched by finance minister Paulo Guedes has stalled.

A patient suffering from coronavirus and diabetes is taken by paramedics from one hospital to another in Mexico City © Edgard Garrido/Reuters

Uruguay's Mr Talvi says he and his fellow Latin American foreign ministers have discussed the urgent need for international financial institutions to be ready to "unleash massive assistance for those countries which lose access to credit or to trade financing".

He warns that the region faces another “lost decade” like the 1980s, which crucified Latin America with falling real wages and spiralling debts until the launch in 1989 of the Brady Plan — mainly for Latin American countries — in which defaulted loans were repurposed as bonds. “We are going to come out of this pandemic up to our eyeballs in debt,” says Mr Talvi. “We need an instant Brady Plan.”

Additional reporting by Jude Webber in Mexico City and Gideon Long in Bogotá