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FEATURED Q&A

Is the Coronavirus a Major Threat to Latin America?

The coronavirus outbreak poses a "very grave threat for the rest of the world," the head of the World Health Organization, Tedros Adhanom Ghebreyesus, said in a press briefing Monday. // Photo: WHO.

Q **Some analysts in Brazil have revised down their economic forecasts in light of the coronavirus epidemic that started in China, as the fast-spreading illness' potential effects on global trade and supply chains sparked concerns. Meanwhile, commodity prices have been volatile, leaving exporting countries of Latin America wondering what they stand to lose, or gain, as a result of increasing global disruptions. How serious is the risk of the coronavirus spreading to Latin America and the Caribbean? What will be the disease's global economic fallout, and how will such trends affect Latin American and Caribbean economies? Which sectors in the region could be hurt the most, and which industries might benefit from the trade disruptions?**

A **Fiona Mackie, regional director for Latin America and the Caribbean at The Economist Intelligence Unit:** "Although there is still a lot of uncertainty around the eventual path of the coronavirus, there is clear evidence already of an impact on emerging market financial markets and on commodities that will transmit rapidly to Latin America, and especially South America's large commodity exporters. There will be a direct impact from reduced trade with China, and the region's open economies that export a lot to China will be particularly vulnerable here. There will be indirect impacts too from commodity prices, exchange-rate movements and the uncertainty effect on global business investment. All this raises questions as to how much policy space Latin America has to support growth in the near term. Most

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Salvadoran President Nayib Bukele's display of military force Sunday in the country's National Assembly building drew condemnation from opposition parties and some foreign nations.

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Ratings Agency Downgrades Costa Rica Debt

Among the reasons behind the downgrade, Moody's said the country's high fiscal deficits are leading to an upward trend in debt metrics and recurring funding challenges prompted by relatively large borrowing requirements.

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U.S. Takes Nations Off Developing Countries List

U.S. Trade Representative Robert Lighthizer narrowed the United States' internal list of developing countries in order to reduce the threshold for triggering a U.S. investigation into whether nations are harming domestic industries.

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Lighthizer // File Photo: U.S. Government.

POLITICAL NEWS

Criticism Continues to Build Against El Salvador's Bukele

Salvadoran President Nayib Bukele's display of military force Sunday in the country's National Assembly building drew condemnation from opposition parties and some foreign nations Monday, NBC News reported. Lawmakers met on Monday in an emergency session and condemned what Assembly President Mario Ponce called "an attempted coup." "We cannot respond to the executive branch with a gun to our head," he said, BBC News reported. Bukele showed up unannounced to the session Sunday, which many opposition lawmakers

Engel // File Photo: Organization of American States.

boycotted, with a group of uniformed soldiers wielding automatic weapons. Officials in the United States, which has been an ally to Bukele, also chimed in Monday. "The Salvadoran military should not be used to resolve disputes between the president and congress. Civilian differences should be resolved by civilian institutions," said Eliot Engel (D-N.Y.), chairman of the U.S. House of Representatives' Foreign Affairs Committee. "The eyes of the world are on El Salvador and @nayibbukele at this critical moment," he added in a post on the committee's Twitter account. Bukele, 38, also warned lawmakers Sunday that the people have a right to "insurrection." Both of El Salvador's traditional parties, the conservative ARENA and leftist FMLN, founded by former guerrillas, accused Bukele of attempting a type of "coup" against other branches of government. Oscar Ortiz, secretary general of the FMLN, said Bukele's actions marked "the blackest day" for the country's democracy. Bukele's right-wing Great National Alliance (GANA) party and its allies control only 11 of the 84 seats in the National Assembly.

ECONOMIC NEWS

Moody's Downgrades Costa Rica Debt

New York-based Moody's Investors Service on Monday downgraded Costa Rica's long-term issuer and senior unsecured bond ratings from B1 to B2 and changed its rating outlook from negative to stable, the ratings agency said in a statement. Among the reasons behind the downgrade, Moody's said the country's high fiscal deficits are leading to an upward trend in debt metrics, which it expects to remain above rating peers, and recurring funding challenges prompted by relatively large borrowing requirements, which introduce risks to Costa Rica's credit profile. "The stable outlook on the B2 rating reflects Moody's view that funding and liquidity pressures will remain contained even as debt metrics continue to rise," the statement added. The agency forecasts the government's debt will reach 63 percent of GDP this year, higher than the 56-percent B peer median. Costa Rica's fiscal deficit increased last year, reaching 7 percent of GDP, La Nación reported. That figure is more than double the median for similar tested sovereigns, Moody's said in the statement, although it noted that the 2018 fiscal reform will reduce deficits gradually. The last time Moody's downgraded Costa Rica's rating was in December 2018, La Nación reported.

USTR Takes Latin American Countries Off Preference List

The administration of U.S. President Donald Trump on Monday narrowed its internal list of developing and least-developed countries in order to reduce the threshold for triggering

NEWS BRIEFS

Former Bolivian President in Cuba for Treatment

Former Bolivian President Evo Morales, who is in self-exile in Argentina, traveled to Cuba on Monday in an unscheduled trip for medical treatment, Argentine President Alberto Fernández said, the Associated Press reported. "Nothing impedes him as a political refugee from going to Cuba," Fernández added. He did not detail what sort of treatment Morales would receive. He has gone to Cuba several times for medical care before.

Brazil Inflation Rate Likely to Fall Even More: Survey

Economists in Brazil expect the inflation rate this year to fall to 3.25 percent, according to a central bank survey released Monday, Reuters reported. This is the sixth consecutive week that the average 2020 inflation forecast has fallen, according to the bank's "FOCUS" survey of around 100 economists. At the start of the year, economists expected inflation to total 4.13 percent. The forecast is below the central bank's official target of 4 percent. Expectations for inflation next year remained steady at 3.75 percent.

Court Order in U.K. Halts Jamaica Deportations

A flight chartered by the United Kingdom's government on Monday night deported 17 convicted offenders to Jamaica despite a last-minute legal challenge, the Jamaica Gleaner reported. An emergency out-of-hours court order stopped the government from deporting 25 others who had been due to leave, amid concerns they may not have had access to legal counsel. The high-profile legal dispute follows tension between Great Britain and its former colony over the Windrush scandal, which in 2018 revealed that perhaps hundreds of Jamaicans were wrongly detained or deported from the United Kingdom by the Home Office.

a U.S. investigation into whether nations are harming domestic industries with unfairly subsidized exports, Bloomberg News reported. A U.S. Trade Representative notice included four self-declared developing countries from Latin America on the list, nearly a quarter of the total: Argentina, Brazil, Colombia and Costa Rica. The list also includes economic powerhouses such as China, India, Indonesia, Singapore and South Korea, among others. The change could result in more stringent penalties for some of the world's top exporters, according to the report. Officials in Brazil had been expecting the move. On his trip to Washington last year, Brazilian President Jair Bolsonaro said he was willing to give up his country's developing nation status in exchange for U.S. support for Brazil's bid to join the Organization for Economic Development and Cooperation, or OECD, a group of the world's richest countries, Folha de S.Paulo reported. Singapore and South Korea also have already agreed to relinquish their developing-country rights in future trade talks.

BUSINESS NEWS

Canadian Solar Secures Funding for Brazil Solar Projects

Ontario-based Canadian Solar on Monday announced it has secured $55 million in project financing from Banco do Nordeste do Brasil for its Lavras solar power projects. The 152 megawatt-peak Lavras project will be funded over 21 years across its construction and operation phases. The debt is tied to the National Consumer Price Index. Over the last year, Canadian Solar has secured $247 million in solar project financing with BNB, a public sector regional development bank headquartered in Brazil's Ceará state. In related news, London-based solar power developer Faro Energy on Monday issued Brazil's first so-called sustainable bond, aiming to finance solar energy and an education project for public school students, Reuters reported. A small amount of the proceeds will be used to teach emotional intelligence to 600 local students.

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Latin American economies are in monetary easing mode, but coronavirus-related currency weakening could now complicate monetary policy. Space for fiscal stimulus will be even more limited. The relatively good news is that, based on our provisional baseline scenario for the spread of the coronavirus in China (which assumes the outbreak comes under control by end-March), we expect a recovery in China's import demand and in commodity prices in the second half of 2020. On this basis, although we expect first-quarter data to be very weak, significant downward revisions to our GDP growth forecasts are likely to be limited to countries most exposed to commodity prices and to demand from China, including Chile and Peru. In Brazil, for example, we have for now revised down our 2020 growth forecast by only 0.1 percentage points in response to the coronavirus. However, substantial downside risks to the region are clear. If our assumptions about the spread of the coronavirus ultimately prove too benign, much larger effects from global investor uncertainty would start to hit hard."

A **Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue:** "Fortunately, there isn't yet any evidence of the novel coronavirus having spread to Latin America, but some countries in the region are already feeling the outbreak's economic effects. Latin America's major commodities producers are grappling with a drop in prices for copper, oil and liquefied natural gas (LNG), for example, as industrial activity slows in China. LNG prices hit a record low last week, according to S&P Global Platts. And copper traders in China have reportedly asked miners from Chile to cancel or delay shipments as the outbreak hits demand. Chile has also struggled to offload exports of wine, cherries and seafood as Chinese demand slows for these and other goods. Brazil's meat industry nevertheless expects that food safety concerns among Chinese consumers, which pre-dated the coronavirus outbreak, along with the effects of African swine fever and a new outbreak of bird flu in China, could increase Chinese demand for Brazilian meat. That said, China is likely to address Chinese concerns about food safety with some reforms at home, including possible long-term restrictions on illegal wildlife markets and trade. The speed of economic recovery will depend on just how fast Chinese businesses can get up and running again. Despite the official end to the Lunar New Year holiday, many businesses remain closed and schools and universities are still suspended. With no clear signs that the spread of the virus is slowing, China and other countries will continue to feel its effects."

A **Peter Sand, chief shipping analyst at BIMCO:** "The continued widespread shutdown of many of China's industries and transport restrictions has already and will continue to harm the Chinese economy. Because of the importance of the Chinese economy to that of the rest of the world, the economic damage caused by the virus will not be limited to China. The most immediate effect of the coronavirus on Latin American countries will be on their exports to China. As factories and offices have remained closed past the Chinese Lunar New Year holiday, trade has been severely affected, impacting Chinese imports. Affected commodities include many key Latin American exports with falling volumes already being felt by the shipping industry. Brazil, for example, exported 217 million metric tons of iron ore (80 percent of total Brazilian exports), 58 million metric tons of soya beans (60 percent) and 38 million metric tons of crude oil (60 percent) to China in 2018. These exports are all in the firing line as Chinese demand falls. Imports of manufactured goods by Latin American countries from China and other Far Eastern countries may also suffer as factories in China have shut down. Factories around the

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Far East are dependent on supplies from neighboring countries, meaning that factory closures in China have caused disruption to manufacturing across the region. In the short term, there is little scope to find new suppliers, but in the medium to long term, should the virus continue to affect the Chinese economy, alternative producers will be found, which could provide opportunities for Latin America."

A **Zhen Pan, associate attorney at Diaz, Reus & Targ:** "The coronavirus outbreak has claimed hundreds of lives, raising serious public health concern around the world. Besides the risks of a global spread of the disease, the virus affects China's economy and causes business interruptions at all levels. The ripple effects of the outbreak will negatively affect global business in general, and Latin America's economies in particular. Since the early 2000s, China's economy has doubled its size. It has become the second-largest trading partner in Latin America and the top importer from Brazil, Peru, Uruguay and Chile for products such as oil, copper, wine, seafood and fruits. As the virus continues to spread across China and business interruptions and closures remain in place, exports from these countries will plummet, and Latin America's economies will be hurt given their reliance on trade and investment with China to drive growth. The specific impact on each Latin American country depends on how important trade is to that country's economy. The more the economy is dependent on exports to China, the greater the country would be exposed to weaker Chinese demand. In Chile and Peru, their exports to China account for more than 33 percent and 25 percent, respectively, of their total exports. As trade accounts for almost 50 percent of the countries' GDP, it appears that Chile and Peru would be most exposed to a weaker import demand from China. While exports to China account for 25 percent of Brazil's all exports, the impact would be somewhat smaller because Brazil has a more diversified export basket."

> **Chile and Peru would be most exposed to weaker import demand from China."**
>
> **— Zhen Pan**

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