

Climatic, financial 'El Niño' slams Peru

by Sara Madueño

In the past few months, the harsh climatic cycle known as "El Niño 1997-98" has hit the Pacific coast of South America with unprecedented force. Peru and the Pacific's equatorial region have historically been the epicenters of this phenomenon, and therefore the primary victims of its catastrophic effects: torrential rains, overflowing rivers, mudslides, floods, drought, and the ensuing collapse of roads and urban infrastructure. Add to this the loss of human life, widespread crop destruction, and changes in marine fauna.

Although much of the international media have incorrectly blamed El Niño for climatological events in North America—which, in fact, have deviated very little from the norm in that region—there is no doubt that El Niño is responsible for the destruction wrought in Peru and other parts of South America.

There is almost no part of Peru's national territory which has escaped El Niño's effects. To date, more than 300 people have died, while a half-million have been left homeless and penniless, as a result of unceasing floods and mudslides. Destruction of sanitation infrastructure has contaminated drinking water, causing the incidence of cholera (among other diseases) to shoot up to 5,000 cases just in the first two months of this year. There were 1,000 cases reported for all of 1997.

The economies of these regions have been devastated. As of now, the losses caused by El Niño are estimated to exceed \$2 billion. Almost all of the country's national network of bridges, as well as entire cities, will have to be rebuilt. Floods and mudslides have wiped out the national highway network, as well as infrastructure for electricity generation and transmission. The repair of the Machu Picchu hydroelectric dam in the department of Cuzco alone, will cost \$200 million. The dam was completely buried by a mudslide.

Peru's topography consists of inter-Andean valleys on the coast and in the mountains, characterized by a steep incline and precarious terraces. It is on the latter that cities and population centers have historically been located, heightening the country's vulnerability to El Niño. (The people of ancient Peru worshipped the Andean mountains, which were the primary deities prior to the arrival of Christianity in America in the 15th century.) As a study of history shows,

El Niño has caused enormous economic and demographic cataclysms in these regions. In the 5th century A.D., in northern Peru, it wiped out the entire Moche culture, which was based on highly developed agriculture. Similarly, in 1720, it destroyed and completely buried several cities in the country's north.

The financial El Niño

In anticipation of El Niño's most recent occurrence, President Alberto Fujimori undertook certain precautions, mainly in the area of building or strengthening infrastructure, to protect populated areas most likely to be affected. But, because of inadequate budgetary resources and the financial and economic crisis which is also wracking Peru, he was unable to guarantee the investment in infrastructure of the magnitude required to withstand El Niño's anticipated effects.

Fujimori's major problem is that he is committed to the radical free-market policies demanded by the International Monetary Fund (IMF), so assiduously applied by his Mont Pelerin Society-linked Finance Minister, Jorge Camet. Continued application of these policies, combined with the effects which the Asian financial meltdown has had on Peru, will make it impossible for Fujimori to adequately deal with the El Niño disaster. The country's financial books are already in the red, and no one appears to have the slightest idea of how to reverse this situation. Short-term speculative capital, which entered the country to take advantage of exorbitant profits to be won on the Lima stock market, has now begun to flee. For years, the Lima stock market was hailed as one of the most profitable of all the emerging markets internationally. But over the past six months, it has dropped 12%.

The situation is worse for long-term capital. Because of the plummeting price of copper and other minerals which Peru exports, at least 50% of the \$10 billion in foreign investment that was slated largely for mining projects between now and the year 2000, has been suspended. Large foreign mining concerns were the first to cancel their investment plans, among them the two big copper projects, La Granja and Antamina. The Canadian firm Cambior, owned by Barrick Gold, has suspended its \$2.3 billion investment in La Granja, that was to have been made between now and the year 2000. INMET, Rio Mining, and Algom own Antamina, and they have suspended a \$2.5 billion investment which had been scheduled for the same time frame.

Aside from mining, fishing exports, the country's second most important export sector, are expected to drop by 50% this year. Agricultural exports, mainly produced in coastal areas, will also plummet. And, certain other export products, such as mangos and asparagus, will simply disappear. It is feared that Peru's trade deficit will double this year compared to 1997. With this kind of trade deficit, no short- or long-term capital in sight, and flight capital rapidly increasing, it can be said that the IMF-dictated economic program, is truly sinking Peru.