LATIN AMERICA: Commodity reliance will stunt exports

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Abstract

Latin America's trade deficit is set to rise sharply this year.

Latin America's export performance in 2013-15 will be the worst since the Great Depression, according to a report released by the UN Economic Commission for Latin America and the Caribbean (ECLAC) on October 20. External factors led by China's slowing growth, have been exacerbated by problems endogenous to the region -- principally a lack of export diversification and very limited participation in global value chains.

Full text

SUBJECT:Latin America's trade deficit is set to rise sharply this year.

SIGNIFICANCE:Latin America's export performance in 2013-15 will be the worst since the Great Depression, according to a report released by the UN Economic Commission for Latin America and the Caribbean (ECLAC) on October 20. External factors led by China's slowing growth, have been exacerbated by problems endogenous to the region -- principally a lack of export diversification and very limited participation in global value chains.

ANALYSIS: Impacts.

LAC's goods exports will drop to an estimated 929 billion dollars this year, down from 1,079 billion in 2014.

LAC's trade deficit with China, equivalent to almost 80% of its exports to this market in 2014, will widen further this year.

Investment in trade-facilitating public infrastructure will be constrained by the fiscal impact of lower exports.

According to ECLAC's new report, Latin America and the Caribbean in the World Economy 2015, the value of region's goods exports will shrink for the third consecutive year in 2015.

Falling exports.

The drop will deepen from 0.4% in 2013 and 3.0% in 2014 to 14.0% this year. This would be the result of a 15.0% reduction in average price -- the largest since the Great Depression, according to ECLAC -- and a 1.0% increase in volume.

Commodity prices .

The region's hydrocarbons exporters have been hardest hit by the decline in commodity prices, with ECLAC estimating that their terms of trade will drop by 32% this year (as compared to a regional average of 7%).

The largest reductions in the value of goods exports would be in Venezuela (40.6%), Bolivia (29.5%), Colombia (29.2%) and Trinidad and Tobago (27.8%), followed by minerals exporters such as Chile (16.8%) and Peru (16.3%).

Weak demand in export markets.

The largest drop would be in exports to the EU (17.3%) and China (16.2%), followed by the United States (9.8%).

According to the report, the currency depreciations seen in the region since mid-2014 have not been as effective as expected in boosting non-commodity exports.

It attributes this mainly to the narrowness of most countries' export baskets, which hampers the speed of their response to price signals. In addition, it points out that, when depreciation is a general trend, the potential competitiveness gains for each country are reduced or cancelled out.

	Exports			Imports		
	2013	2014	2015	2013	2014	2015
South America	-1.6	-7.3	-21	4.1	-4.0	-16.7
Argentina	1.8	-11.9	-16.8	7.5	-11.4	-9.9
Brazil	-0.2	-7.0	-15.1	7.4	-4.5	-22.6
Chile	-1.7	-1.0	-16.8	-1.1	-9.0	-15.7
Colombia	-2.1	-5.5	-29.2	-0.8	8.0	-15.8
Peru	-9.6	-7.8	-16.3	2.7	-7.7	-5.5
Mexico	2.5	4.5	-4.1	2.8	4.8	-1.0
Central America	-1.4	4.2	-3.7	0.8	2.4	-5.4
Caribbean	-1.7	-3.8	-17.5	-2.1	-1.1	-16.2
Latin America / Caribbean	-0.4	-3.0	-14	2.4	-1.2	-10

Latin America: Goods exports and imports, 2013-15 (annual variation, %)
Source: ECLAC

Export performance by sub-region .

In a trend also seen last year, the export performance of the sub-regions of LAC will vary significantly this year:

South America .

Exports from South America would reach 480 billion dollars, down by 21.0% on last year. This would reflect a 20.4% reduction in average price, due principally to lower hydrocarbon and mineral prices, and a 0.6% reduction in volume.

Mexico .

By contrast, Mexico's exports would drop by only 4.1% to 382 billion dollars, with their average price falling by 8.7% and volume increasing by 4.6%.

Around 80% of Mexico's exports go to the United States and an estimated 83% correspond to manufactured goods, whose price has dropped less than that of commodities.

Mexican manufacturing has enjoyed healthy investment in many areas of late, including aerospace and the auto sector (see MEXICO: Auto industry enjoys strong momentum - April 17, 2015).

Central America .

Similarly, a focus on the US market will benefit Central American countries whose exports, at 34.5 billion dollars, would drop by only 3.7% (down by 7.2% in price and up by 3.5% in volume).

Caribbean .

ECLAC anticipates that exports from the Caribbean will drop by 17.5% this year to 31.7 billion dollars, due principally to the impact of lower natural gas prices on Trinidad and Tobago, its largest economy (see TRINIDAD AND TOBAGO: New leader faces daunting agenda - September 24, 2015).

Imports .

According to ECLAC, LAC's goods imports will contract for the second consecutive year, dropping by 10.0% to 997 billion dollars.

The largest drop, at 16.7%, would be in South America, with the reduction reaching 18.8% in the Mercosur trade block. This partly reflects the lower price of fuel imports but also a reduction in volume of imports, principally of capital goods in line with weak investment.

In Brazil, imports would drop by 22.6% to 177 billion dollars, with a 10.9% drop in price and an 11.7% reduction in volume in line with ECLAC's forecast that its GDP will contract by 2.8% this year.

In Mexico and Central America, on the other hand, import volume is forecast to increase by 4.9% and 6.6%, respectively, due to their greater insertion in global value chains.

Trade balance.

ECLAC expects that LAC's trade deficit will more than double this year to 1.2% of GDP, up from 0.5% in 2014.

Due to the contraction of its imports, Brazil would be one of the few countries with a surplus, reversing its small deficit in 2014 (see BRAZIL: Trade surplus rises amid economic crisis - November 2, 2015).

Challenges.

The report identifies three key challenges for LAC's future trade performance:

Export diversification .

During the commodity price boom, LAC's dependence on primary exports increased. For example, they accounted for 68% of exports to Asia and the Pacific in 2014, up from 48% in 2000.

This trend has been further reinforced by Chinese investment in the region but, even in the case of China, ECLAC suggests that there are opportunities for diversification, principally in processed foods and tourism (see LATIN AMERICA: China trade poses rising pitfalls - September 19, 2014).

However, China's impact on LAC trade is not limited to the effects of its weaker demand on global commodity prices; China is also increasingly competing with some LAC exports by selling products abroad for which its domestic demand has waned.

Intra-regional trade .

Other countries within the region are typically the first target of small companies seeking to export for the first time which are, therefore, also key for diversification.

In 2015, however, ECLAC anticipates that intra-regional exports -- already low in LAC compared to many other regions (see LATIN AMERICA: Trade obstacles cut growth prospects - October 13, 2014) -- will contract by 21% (as compared to 13% for extra-regional exports). The sharp drop in demand for imports of consumer durables such as cars -- a key component of Argentine-Brazilian bilateral trade -- will not be reversed rapidly, increasing the obstacles to greater intra-regional trade.

Trade facilitation .

According to a recent survey by ECLAC, LAC has made considerable progress on trade facilitation (albeit with the Caribbean lagging).

However, the report urges further efforts in this field in order to facilitate participation in global supply chains and export diversification through the internationalisation of small companies which, in LAC, do not generally export.

According to the survey, the principal problem is a lack of coordination among government agencies which the report points out could be addressed without putting undue pressure on currently limited fiscal resources.

CONCLUSION: According to ECLAC, Latin America and the Caribbean (LAC) will see its exports drop again in 2016. This reflects not only the unlikelihood of an early rebound in commodity prices but also the fact that, during their boom, the region became increasingly entrenched as a supplier of primary products. Despite the short-term incentive of currency devaluation, export diversification is a longer-term challenge that will require an important shift in production structure.

Details

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