

How COVID-19 Is Impacting Foreign Trade, Investment, and Integration in Latin America and the Caribbean

April 8, 2020

Issue 2



INTAL

- In recent weeks, a growing number of LAC countries and integration schemes took measures to facilitate the supply of medical products. However, this trend was offset by greater restrictions on exports of these products within the region and globally.
- With some exceptions, LAC exports fell in the first few months of 2020, although the effects of COVID-19 are expected to hit hardest in the second quarter.
- The health emergency and low levels of economic activity in the region together explain the 12% contraction in imports of intermediate industrial goods from China (year-on-year for January–February 2020).
- Surveys of companies from LAC countries revealed how COVID-19 is already impacting export activity and the export sector.

MEASURES IMPLEMENTED BY LAC COUNTRIES THAT IMPACT TRADE IN GOODS AND SERVICES

In recent weeks, LAC countries have continued to take measures to counteract the effects of the COVID-19 pandemic. There have been widespread efforts to eliminate barriers to trade so as to guarantee the supply of medical products and some foods. However, an increasing number of countries have adopted export restrictions on medical inputs and equipment (figure 1).

These restrictive measures may compromise the recently adopted initiatives aimed at a more coordinated regional response to the health crisis and supply constraints (figure 2), and they may also hurt the credibility of future cooperation efforts.

What is even more worrying is the fact that these measures tend to exacerbate the impact of the trade and supply restrictions affecting LAC's and the world's main suppliers (figure 3). Indeed, China, the United States, and the European Union—which together account for 68% of LAC imports of medical inputs and equipment—have already imposed limitations on exports of these goods.

Supplies of medical equipment from China have already experienced a decline in recent months, which affects LAC economies in different ways (figure 4).

The upper left quadrant of the figure contains the countries that are most affected by this shock, notably Paraguay, Honduras, and Argentina, which are relatively highly dependent on Chinese supply of medical inputs and equipment (>10%) and whose purchases of them plummeted in January–February (>10%).

The recent measure to certify exports of medical inputs and equipment (see MOFCOM) may further complicate the outlook unless the Chinese economy gets back on the road to recovery.

Figure 1 · Measures Applied to Medical Products and Food

Countries	Import facilitation measures					Export restrictions
	Elimination of licenses and anti-dumping duties	Tariff elimination	Expedite Import procedures	Sector		
				Foods	Medical products and hygiene items	
Argentina	YES	YES	-	YES	YES	YES
Bahamas	-	-	-	-	-	-
Barbados	-	-	-	-	-	-
Belize	-	-	-	-	-	-
Bolivia	-	-	-	-	-	-
Brazil	YES	YES	-	YES	YES	YES
Chile	-	-	YES	-	YES	-
Colombia	-	YES	-	-	YES	YES
Costa Rica	-	-	-	-	-	YES
Ecuador	-	YES	-	-	YES	YES
El Salvador	-	YES	-	YES	YES	-
Guatemala	-	YES	YES	YES	YES	-
Guyana	-	-	-	-	-	-
Haiti	-	-	-	-	-	-
Honduras	-	-	-	-	-	YES
Jamaica	-	YES	-	-	YES	-
Mexico	-	-	-	-	-	-
Nicaragua	-	-	-	-	-	-
Panama	-	YES	YES	-	SI	-
Paraguay	-	YES	-	-	YES	YES
Peru	-	YES	-	-	SI	-
Dominican Rep.	-	-	-	-	-	-
Suriname	-	-	-	-	-	-
Trinidad and Tobago	-	-	YES*	YES	YES	-
Uruguay	-	YES	-	-	YES	-
Venezuela	-	YES	-	YES	YES	-

Source: Based on official country data, reports from SICA, the WTO, MacMap, Global Trade Alert, and Argentina's Ministry of Foreign Affairs.
Notes: *Access to foreign currency.

Figure 2 · Regional Measures

	Regional funds	Joint research and technical cooperation	Harmonized border measures	Mechanisms or reserves for equipment or inputs	Support for returning passengers	Share purchases
SICA	YES	-	YES	-	YES	YES
MERCOSUR	YES	YES	YES	YES	YES	YES
CARICOM	-	YES	-	-	YES	YES
CAN	-	-	-	-	-	-
AP	-	-	-	-	-	-
ASEAN	-	YES	-	YES	-	-
UE	YES	YES	YES	YES	YES	YES

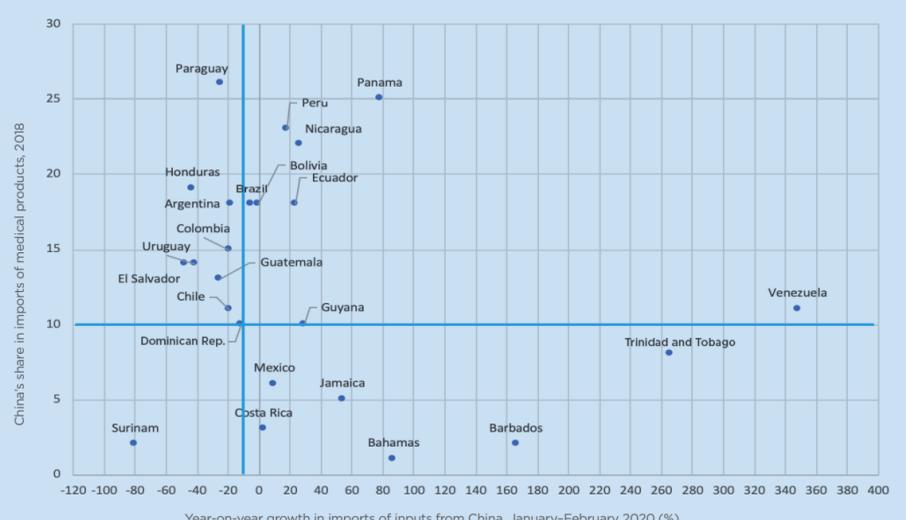
Notes: Based on SICA Report 13 (Central America Joins Forces to Fight COVID-19) and official data from integration agreements. The Pacific Alliance met on April 1 to discuss courses of action. Some governments have been coordinating initiatives within PROSUR.

Figure 3 · Main Export-Restricting Suppliers of Medical Supplies and Equipment to LAC



Notes: The table shows each supplier country's share in total for LAC. *Others: Russia, Ukraine, Serbia, Saudi Arabia, Albania, Belarus, Algeria, and Paraguay. Medical supplies and equipment is the subgroup of products on which the EU applied restrictive export measures (see Newsletter 1).
Source: Compiled by INTAL based on data from BACI 2018, country sources, SICA Report 13, the WTO, Argentina's Ministry of Foreign Affairs, and Global Trade Alert.

Figure 4 · LAC Imports of Medical Equipment from China (Rate of change and share in total)

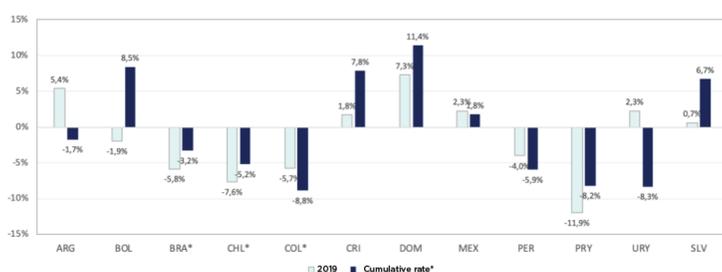


Source: Compiled by INTAL based on data from MOFCOM. This map only tracks medical equipment that falls within HS heading 9018 given its importance in handling the pandemic.

IMPACT OF COVID-19 ON TRADE IN LATIN AMERICA AND THE CARIBBEAN

LAC exports remained on a downward trend in the first few months of 2020, although the region is yet to feel the full economic effects of the pandemic. South American countries experienced the most notable drops, while in Central America and Mexico external sales maintained positive growth rates in January–February, before the pandemic hit the United States, their main export market (figure 5).

Figure 5 · LAC Exports (Rate of Change)



Source: Compiled by INTAL based on country data. Selected countries
Notes: the cumulative rate corresponds to the year-on-year rate for the last month available for each country. *For Brazil, Chile, and Colombia the rate is the cumulative rate as of March, calculated based on definitive data for Brazil and estimations for Chile and Colombia. Data is only available up to February for all other countries.

TRADE WITH THE UNITED STATES BEFORE THE IMPACT OF COVID-19

The United States is a major trade partner for many LAC countries, and bilateral trade evolved weakly in January–February, although the dynamics varied from country to country. Greater difficulties are anticipated from March onward as a consequence of the spread of COVID-19 there.

Overall, LAC exports to the United States continued to stagnate in January and February, replicating the pattern that was observed in 2019 (figure 6), while imports have contracted by 1.4%.

Figure 6 · LAC Exports to the United States
Year-on-year growth rate, January–February 2020, %



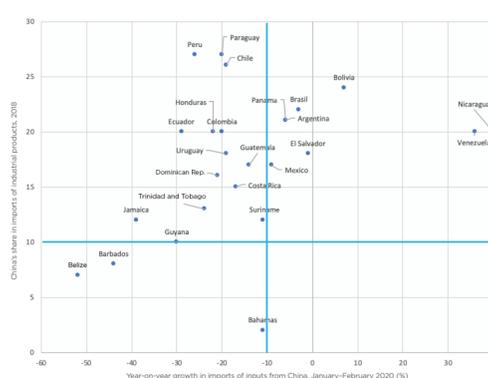
Source: Compiled by INTAL using United States Census Bureau data.

LAC IMPORTS OF INDUSTRIAL INPUTS FROM CHINA ARE DOWN

The health emergency in China, coupled with weak economic activity in LAC, reduced the region's imports of industrial inputs by 12% year-on-year in January–February 2020.

The countries that are most affected by this slump (shown in the upper left quadrant) combine high dependence on Chinese inputs (>10%) with a downturn of more than 10% in imports and include Peru, Paraguay, Chile, Honduras, Ecuador, and Colombia (figure 7).

Figure 7 · LAC Imports of Industrial Inputs from China
(Rate of change and share in total)



Source: Compiled by INTAL based on data from MOFCOM.

WORLD TRADE IS EXPECTED TO PLUMMET IN THE COMING MONTHS

Although no official world trade data is available for March, the new export orders component of the global PMI for the month shows the worst drop since the 2008 financial crisis. To some extent, these figures anticipate how COVID-19 will impact international trade flows (figure 8).

Figure 8 · New Export Orders and Volume of World Trade
(indexes and year-on-year growth rate)



Source: Compiled by INTAL based on data from IHS Markit and CPB.

PRIVATE-SECTOR EXPECTATIONS IN URUGUAY AND PANAMA AROUND TRADE

In a survey of 122 manufacturing firms, Uruguay's Chamber of Industries found that:

- Some 69% of firms saw a decrease in sales in March.
- Exporting companies experienced a lower relative impact than those that focus on the domestic market.
- By April, 64% of the surveyed firms expect substantial declines in sales, while 22% anticipate slight declines. Exporting firms are somewhat more optimistic than those that mainly serve domestic markets.
- There were no major problems with raw material supplies in March: only 29% of respondents said they experienced difficulties due to logistics-related problems and delays in the arrival of shipments by sea and air.
- The industrial sector has asked the government to guarantee the free movement of goods, particularly within the rest of LAC. In Panama, the Chamber of Commerce, Industry, and Agriculture presented the results of a survey of 217 firms:
- Some 84% of respondents claimed to have reduced their operations since the start of the COVID-19 crisis (60% said operations were down by more than 50%).
- Some 70% of respondents said they were experiencing problems with foreign suppliers (delays in deliveries, increased costs, product shortages).
- Companies are requesting government support for transporting export goods (due to the lack of ships) and help in negotiating with foreign suppliers.

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NEW PUBLICATIONS AND STUDIES ON TRADE AND COVID-19

The outbreak of COVID-19 has triggered a large number of publications by academics, organizations, and the media in general (see here for a complete overview of these). Some of last week's main findings are summarized below:

- The **IDB** introduced trade policy guidelines for the pandemic: avoid trade-restrictive measures, particularly for medical supplies and equipment; coordinate policy responses at the regional and global levels; promote simplified customs procedures; and maintain free trade in services, among other recommended measures.
- In line with the IDB, the **PIIE** proposed trade policy measures that may help the fight against the pandemic: lowering tariffs and transportation costs for medical supplies and equipment, facilitating the free movement of health professionals; avoiding export restrictions; and implementing coordinated global trade policy measures, and so on.
- **Goldin and Muggah** argue that international health organizations were unable to achieve their primary objective of protecting global health. The complexities of globalization can only be addressed through greater international coordination. A global Marshall Plan will be fundamental to keeping governments and societies around the world afloat. The authors argue that the pandemic will accelerate the reshoring process that has already been observed in recent years.
- The **INAI** advocated avoiding protectionist measures and coordinating responses globally. It drew attention to the **G20 statement** that calls for countries to guarantee flows of vital medical supplies, critical agricultural products, and other goods and services. The INAI mentioned countries that are putting restrictive measures on food exports (such as wheat flour from Kazakhstan and rice from Vietnam) while others are bringing food imports forward (such as China with rice imports).
- **Hufbauer and Jung** sounded a warning against protectionist pressures. Some 54 countries have restricted exports of medical supplies and equipment. Since neither the WTO nor the G20 can coordinate efforts to curb this, the authors proposed increases in plurilateral cooperation. In Asia, this should start at the bilateral level to guarantee free trade, and then be extended to ASEAN+6.
- **Mattoo and Ruta** argued that restrictions on exports of medical supplies and equipment may lead to shortages and/or price increases, which will affect the whole world, but particularly the poorest countries.
- One **group of countries (Canada, Australia, Chile, Brunei, Myanmar, New Zealand, and Singapore)** committed to keeping their supply channels open and removing restrictive measures on medical supplies and equipment.
- In LAC, the different subregional integration schemes continue to attempt to coordinate their initiatives. These include the **MERCOSUR**, which approved an emergency fund, while **SICA** implemented a contingency plan and **CABEI** established a special aid program.