



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

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INTAL

- Various integration schemes have moved forward despite the COVID-19 pandemic.
- Several global and regional indicators show that the recovery of the global economy and trade stabilized in August.
- The indicator for the evolution of economic activity in LAC's main buyers began to show greater dynamism in the first 10 days of September.
- Latin American exports are beginning to lose momentum even though some prices have recovered.
- Initial evidence on the evolution of FDI and knowledge-based services in the first half of 2020 reveals the scale of the current crisis.
- The pandemic has prompted the implementation of new measures to support the agrifood sector worldwide, intensifying a trend that has been observed since 2008.

INTEGRATION PROCESSES CONTINUE TO PROGRESS DESPITE THE COMPLEXITIES OF THE INTERNATIONAL ARENA AND THE COVID-19 PANDEMIC

Despite a backdrop of sharp declines in global trade and little progress in the multilateral sphere, various integration agreements have made significant progress.

Figure 1 · Main areas of progress on regional integration processes

Regional Comprehensive Economic Partnership (RCEP)	The members of this mega-agreement -the 10 ASEAN countries and Australia, China, Japan, Korea, and New Zealand- agreed they would strive to sign the founding document in November 2020, on the occasion of the 4th RCEP Summit. The possibility of India joining the partnership in due course remains open.
EU Recovery Plan	In July 2020, European leaders agreed on a 750-billion-euro Recovery and Resilience Facility, part of which will be provided in the form of nonreimbursable contributions and part in loans. They also approved the EU budget for 2021-2027. These agreements represent a major step toward increasing European integration after the shock of Brexit.
USMCA	On July 1, NAFTA was replaced by USMCA, which updates and expands the former. Specifically, new chapters were added on labor, environmental, and energy issues. The updated agreement also establishes new regulations for the automotive industry—up to 45% of cars must be manufactured by workers earning more than US\$16 per hour—and stipulates that the entire agreement will be reviewed every six years.
Digital Economy Partnership Agreement (DEPA)	The agreement signed by Chile, New Zealand, and Singapore includes disciplines to regulate an up-to-date digital trade policy, including: a) the free flow of data, b) nondiscrimination of digital products, and c) nonimposition of forced data localization. It aims to promote inclusive, sustainable digital trade.

Source: IDB/INTAL with data from official sources.

THE RECOVERY OF GLOBAL TRADE AND THE WORLD ECONOMY HAS STABILIZED

Some high-frequency indicators¹ that are published with less of a lag than trade and activity-level data but that are highly correlated with these reveal that after the strong rebound seen in both variables in June and July, the dynamic stabilized in August.

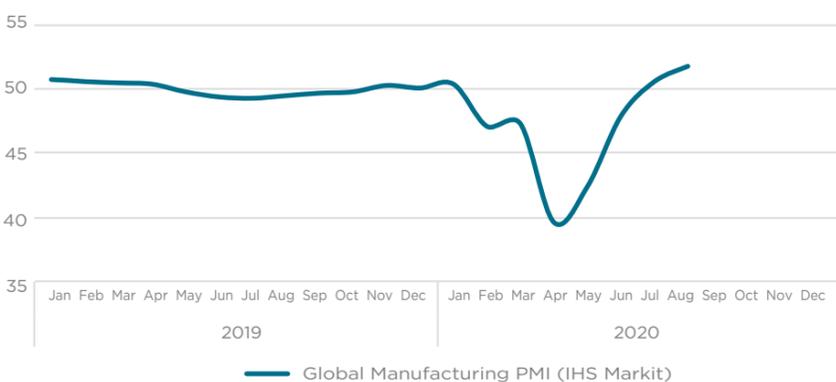
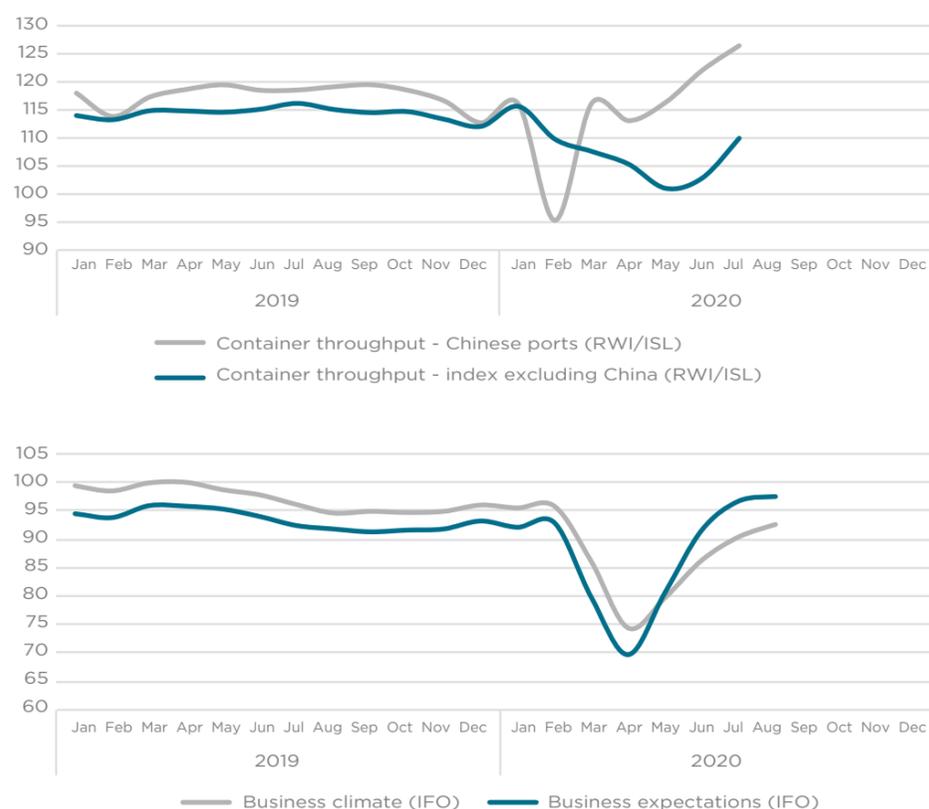


Figure 2 · Global trade and economic activity indicators



¹ These include container throughput (RWI/ISL), business climate and expectation indexes (IFO), and purchasing managers indexes (PMI).

Sources: IDB/INTAL with data from RWI/ISL, IFO, and IHS Markit.

ECONOMIC ACTIVITY IN LATIN AMERICA AND THE CARIBBEAN'S MAIN TRADING PARTNERS BEGAN TO RECOVER SLIGHTLY AT THE START OF SEPTEMBER AFTER TWO MONTHS OF CONTRACTION

The indicator that INTAL built using data from the Google Mobility Report weighted according to each LAC economy's export market structure shows that activity picked up slightly in the first 11 days of September.

Figure 3 · Evolution of mobility in LAC's main trading partners
Indexes, January 2020=100, February–September* 2020

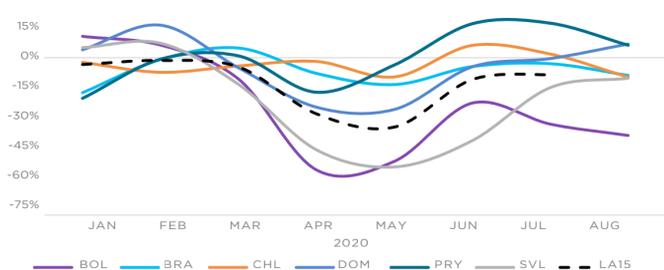


Source: IDB/INTAL with data from the Google Mobility Report, IMF, and national sources. Note: Variation in mobility to workplaces compared to the average for the base period (January 3 to February 6, 2020), IMF (weighting of countries' trade structure for 2019), and national sources. * The data for September is for the first 11 days of the month. Weekly moving averages were used to smooth out seasonality issues caused by weekends and holidays. As mobility data is not reported for China, data for Hong Kong was used as social distancing measures have evolved similarly there.

LAC'S EXPORT RECOVERY LOSES STEAM

After experiencing the worst year-on-year drops between April and May, Latin America's external sales began to show signs of recovery in June. However, the records for July and August for a limited sample of countries reveal a tempering of this positive trend, in line with what is happening at the global level.

Figure 4 · Exports from Latin America
Year-on-year growth rate, 2020

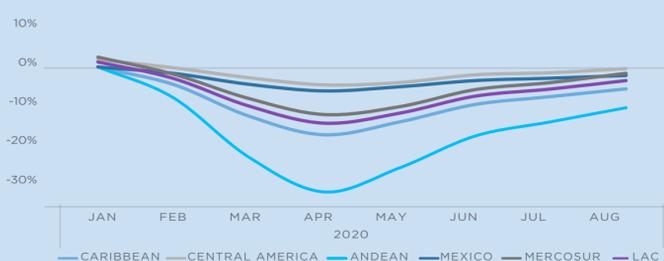


Source: IDB/INTAL using data from national sources. Note: LA-15 is a sample of 15 countries that accounted for 98% of the region's total exports in 2019.

PRICES CONTINUE ON AN UPWARD TREND

In August, the impact of prices on LAC exports continued to improve in comparison with previous months. Even so, the price effect on the region's exports remains negative in relation to average prices in 2019.

Figure 5 · Effect of changes in commodity prices on the total value of LAC exports
Growth in prices compared to average prices for 2019, January–August 2020

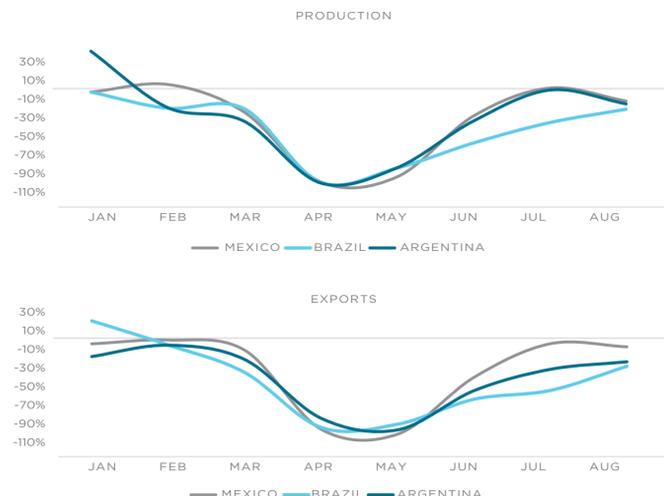


Source: IDB/INTAL using data from COMTRADE, WTO, INTrade-IDB, ECLAC, and the World Bank. Note: The World Bank's monthly commodities price data (The Pink Sheet) was used, weighted by the respective export structures of LAC countries for 2018. Energy, food, nonfood agricultural products, and minerals were included, using 1-digit SITC categories. A weighted average based on countries' 2018 GDP measured in constant dollars (ECLAC) was used to aggregate different country results by subregion. Country groupings are as follows: Caribbean: Bahamas, Belize, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago; Central America: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama; Andean countries: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela; Mercosur: Argentina, Brazil, Paraguay, and Uruguay.

LAC'S AUTOMOTIVE SECTOR IS RECOVERING BUT REMAINS ON NEGATIVE GROUND

Although both production and external sales have rebounded since May in LA's main three producing countries (Argentina, Brazil, and Mexico), in the last two months both variables continue to show negative year-on-year growth.

Figure 6 · Evolution of the automotive sector in Argentina, Brazil, and Mexico
Year-on-year growth, January–August 2020

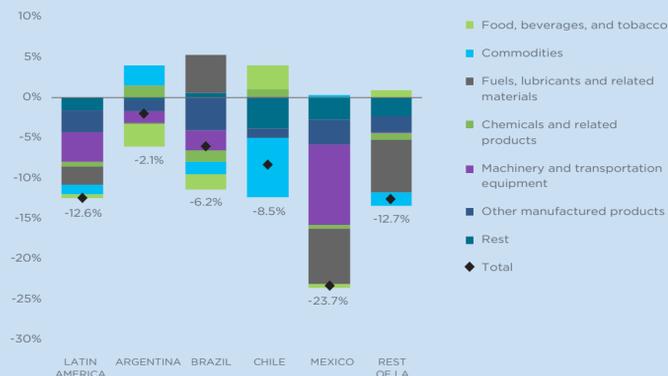


Source: IDB/INTAL with data from Adefa, Amia, Anfavea, INDEC, Ministério da Economia, INEGI.

MANUFACTURES HAVE BEEN MORE AFFECTED BY THE CRISIS THAN ANY OTHER AREA OF TRADE BETWEEN LATIN AMERICA AND THE EUROPEAN UNION

Between January and July, exports from LA to the EU contracted by 12.6%. Half of this drop was explained by lower sales of machinery and transportation equipment and other manufactures. The least affected sectors were food, beverages, tobacco, and commodities. Exports from Mexico were hit hardest, dropping by 23.7%, which explained half of the total downturn in European purchases from LA.

Figure 7 · Latin American exports to the EU
Year-on-year growth rate and percentage point contributions, January–July 2020

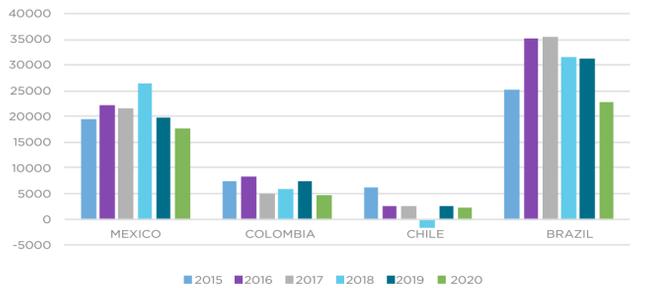


Source: IDB/INTAL with data from Eurostat.

IN THE FIRST HALF OF 2020, THE FDI RECEIVED BY BRAZIL, CHILE, COLOMBIA, AND MEXICO DROPPED BY 23% YEAR-ON-YEAR

This contraction reached 11% in Mexico, 36% in Colombia, 19% in Chile, and 27% in Brazil.

Figure 8 · FDI inflows in selected countries in LA
In millions of US dollars, cumulative totals for 1st and 2nd quarters, 2015–2020

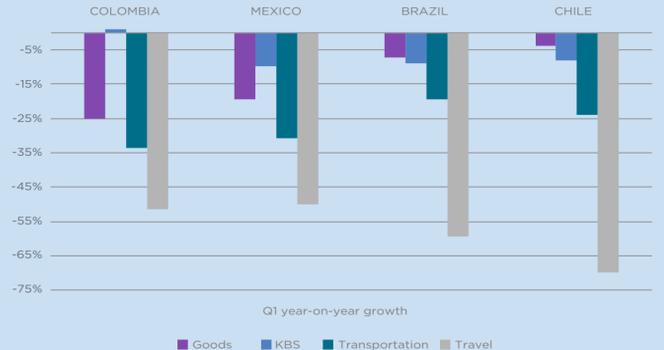


Source: IDB/INTAL with data from national balances of payment.

EXPORTS OF KNOWLEDGE-BASED SERVICES FROM LAC BEHAVED UNEVENLY IN THE FIRST HALF OF 2020

Based on a sample of four countries (Colombia, Mexico, Brazil, and Chile), sales of knowledge-based services (KBS) to the world from two of these, Chile and Brazil, declined more sharply than those of goods exports. In contrast, in the two remaining countries, Colombia and Mexico, KBS performed relatively better than goods—slight growth was even recorded in Colombia in the first half of the year. As might be expected, in all four countries the worst performance was in exports of travel and transportation services, which have been seriously affected by restrictions on human mobility during the pandemic.

Figure 9 · Performance of exports of goods and services
Year-on-year growth rate, first half of 2020

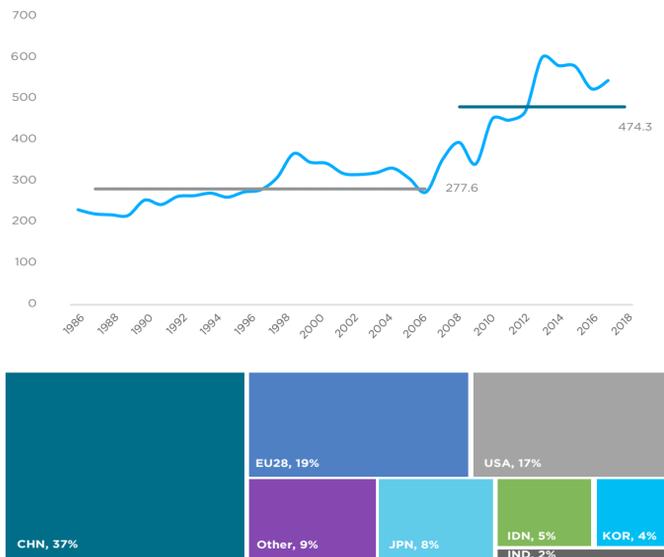


Source: IDB/INTAL based on national record systems. Note: Knowledge-based services are defined as the following areas within service exports, according to BPM6: (i) insurance and pension schemes, (ii) financial services, (iii) charges for the use of intellectual property, (iv) telecommunications, computer, and information services, (v) other business services, (vi) personal, cultural, and recreational services. The breakdown of these categories for Mexico includes points (i), (ii), and other exports of services.

THE COVID-19 CRISIS HAS LED TO NEW MEASURES TO SUPPORT THE AGRIFOOD SECTOR WORLDWIDE, ADDING TO A TREND THAT HAS BEEN ON THE RISE SINCE 2008

The OECD indicator that estimates annual state transfers to the agricultural sector (total support estimate or TSE) in different countries has increased sharply since the start of the 2008 crisis, exceeding US\$500 billion in 2019. In the first few months of 2020, at least 35 countries and the EU implemented new measures to support the agrifood sector (OECD, 2020), in addition to the restrictive trade measures implemented in response to COVID-19².

Figure 10 · Total Estimated Support (TSE) and country share (2019)
Billions of US dollars and percentage share



Source: IDB/INTAL based on OECD data (2020).
Note: TSE includes support facilities for the agricultural sector such as general services provided to agriculture (public goods specifically aimed at the agricultural sector), transfers to producers, and support for consumers. The share does not include negative values in countries where rather than receiving support, producers are taxed (Vietnam and Argentina).

²See IDB/INTAL Newsletter No. 7
http://conexionintal.iadb.org/descargas/index.php?file=Newsletter%20INTAL%20Comercio%20y%20COVID-19%20Num7&origen=conexion_INTAL

NEW PUBLICATIONS AND STUDIES ON TRADE AND COVID-19³

The most noteworthy publications of the last few weeks are summarized below:

- An [Americas Market Intelligence](#) report analyzes and quantifies the growth in e-commerce in Latin America as a consequence of the COVID-19 pandemic.
- An [OECD](#) document tracks the risks and challenges that COVID-19 poses to global value chains.
- An [IIF](#) study examines how the pandemic has catalyzed and accelerated the digitization of financial services.
- The [WTO](#) Services Trade Barometer points to signs of resilience in certain specific activities despite the widespread downturn in the sector.
- An [ECLAC](#) (link in Spanish) newsletter analyzes how the digital transformation of logistics processes has accelerated as a result of the COVID-19 pandemic and where LAC stands in this regard.
- A [GTA](#) policy brief warns of the increase in industry subsidies (and the resulting impact of these on trade) in response to COVID-19 and suggests possible solutions to this within the G20.

Subregional documents on the COVID-19 pandemic

- The MERCOSUR [Common Market Group](#) (link in Spanish) met online at the start of September and agreed on a shared course of action on economic and trade-related issues, cooperation, foreign affairs, and institutional matters.
- The 73rd Meeting of the Executive Committee of [SICA](#) (link in Spanish) took place on September 8, with the aim of monitoring the regional agenda. The digital transformation and the functional organization of SICA were at the core of the agenda.
- The fourth meeting of the presidents of [PROSUR](#) (link in Spanish) took place at the end of August. The main topics of discussion were access to COVID-19 vaccines and proposals to reopen borders.
- On September 18, the [CARICOM](#) heads of government agreed on a “travel bubble” to foster the recovery of tourism and free transit in the region.
- The presidents of the [CAN](#) (link in Spanish) countries signed a declaration in support of democratic rule in Peru and called for dialogue to preserve the current constitutional order.
- The 22nd Meeting of the [Pacific Alliance Finance Ministers](#) (link in Spanish) was held in late August. The meeting stressed the importance of the PA as a platform for economic and financial integration and for articulating cooperation efforts.

³ See complete overview [here](#)

Information up-to-date as of September 28, 2020