



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

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No. 10



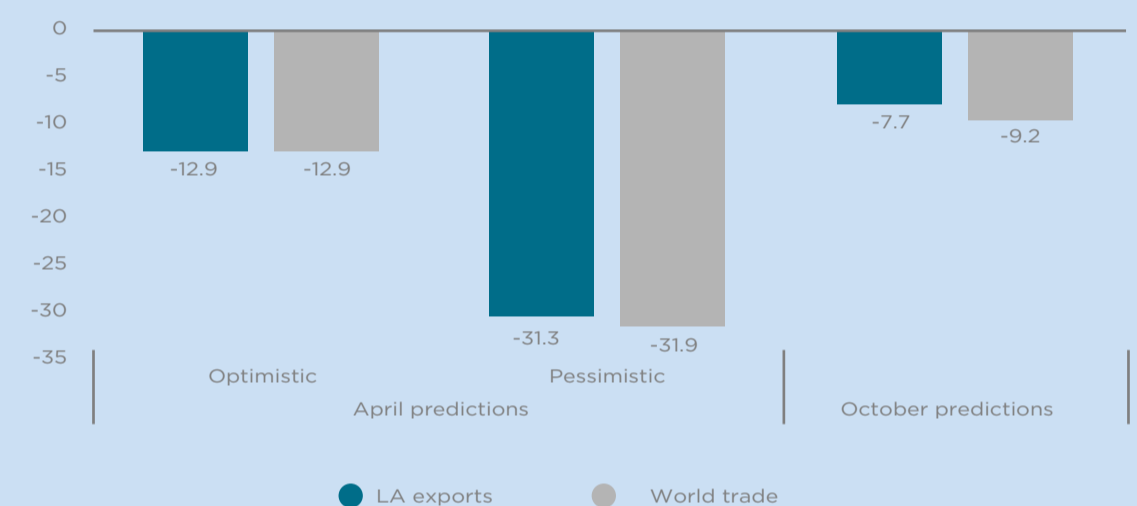
INTAL

- Despite ongoing uncertainty as to how the COVID-19 pandemic will develop, the 2020 drop in world trade will not be as great as was initially feared. To date, the contraction has been less intense and shorter-lived than recession of 2008-2009.
- Economic activity in Latin America's main trading partners improved slightly in October.
- Within Latin American trade, knowledge-based services have proved more resilient to the impact of COVID-19 than other service exports.
- Export prices continue to recover in Central America and MERCOSUR.
- Activity levels in the region's main ports remain depressed and deteriorated further in October.
- Intraregional trade in Latin America and the Caribbean has been more affected than trade with the rest of the world, a situation which has also been observed in other regions.

## WORLD TRADE FORECASTS IMPROVE SLIGHTLY

In April, the WTO estimated that the volume of global trade would drop by between 13% and 32% in 2020, but it modified these projections to -9.2% in early October. According to these estimates, Latin American exports will drop 7.7% in real terms (instead of the 12.9% predicted in April) and it will be the region that is second-least affected by the crisis, after Asia. Likewise, although in June the IMF predicted an 11.9% drop in global trade in goods and services in 2020, it reduced this forecast to 10.4% in its October report due to an improvement in the performances of developed countries (-11.5% in June vs. -13.2% in October). However, both organizations stressed that there is considerable uncertainty around these estimations because of possible new outbreaks of COVID-19.

Figure 1 · Estimates of the volume of global trade and exports from Latin America in 2020 (growth rate)



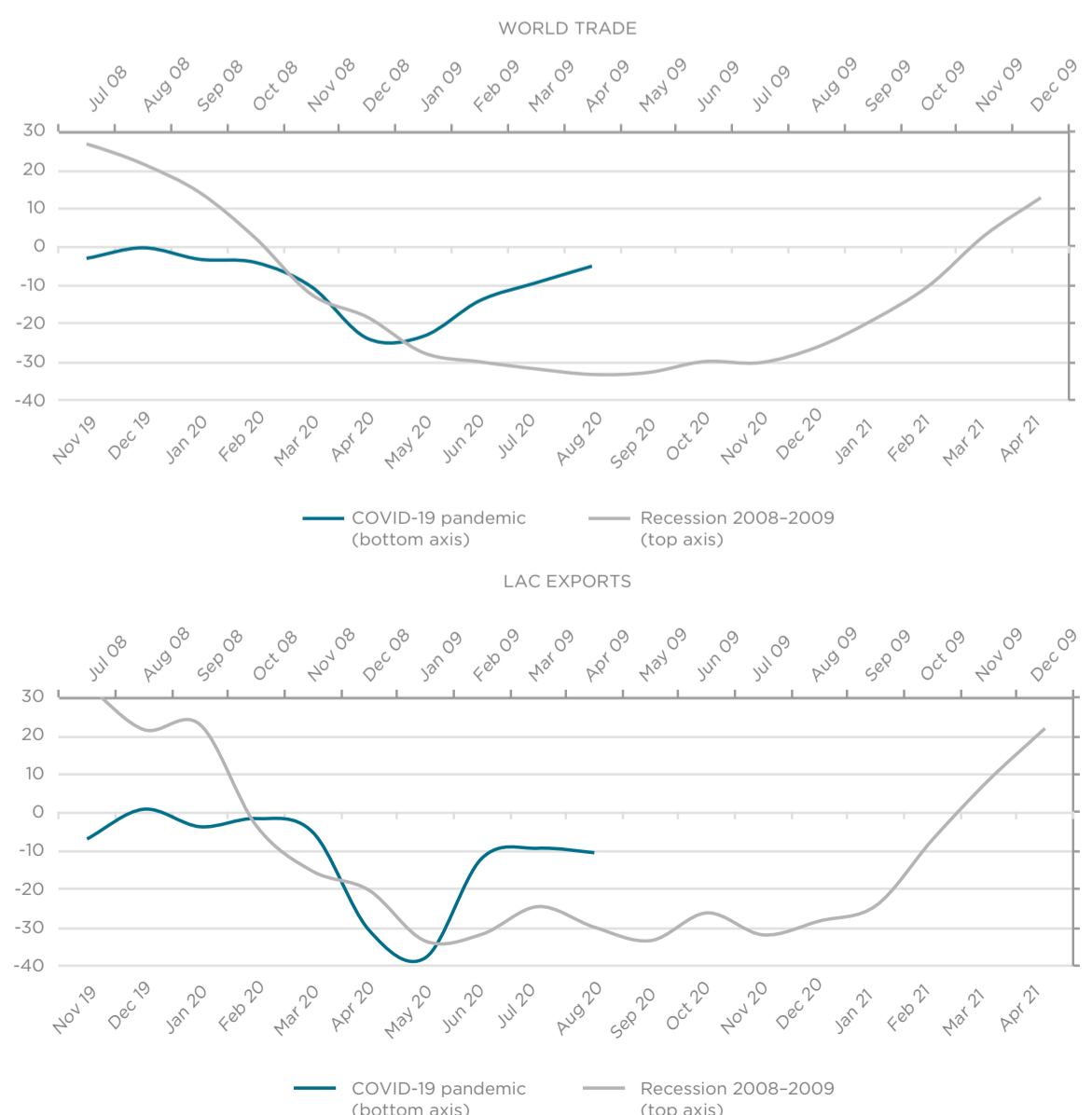
Source: IDB/INTAL using WTO data.

## THE CRISIS SEEMS TO HAVE IMPACTED GLOBAL AND LATIN AMERICAN TRADE LESS THAN THE RECESSION OF 2008-2009

Following the sharp drops in global trade in April and May 2020 (-24% year-on-year), the decline in trade flows has been slowing and has accumulated a contraction of around 14% between March and August as compared to 2019. During the previous crisis, the initial downturn in global trade was more pronounced (-33% in April-May 2009) and more enduring (falling by nearly 25% to 12 consecutive months).

In Latin America, although the critical phase was shorter, the contraction during the pandemic was more intense. The largest drop in LA exports during the Great Recession occurred in May 2009 (-33.4% year-on-year), while in the current crisis the sharpest drop was 37.9% (May 2020). However, while in the 2008-2009 crisis LAC exports fell for 13 consecutive months at an average rate of nearly 24%, during the pandemic the average contraction between March and August was 18% year-on-year. However, it remains to be seen what effect the health crisis will have in the coming months. The IDB's forthcoming *Trade and Integration Monitor 2020* compares these two crises in greater detail.

Figure 2 · Comparative evolution of the value of world trade and LAC exports during the COVID-19 pandemic and the recession of 2008-2009 (year-on-year growth rates)

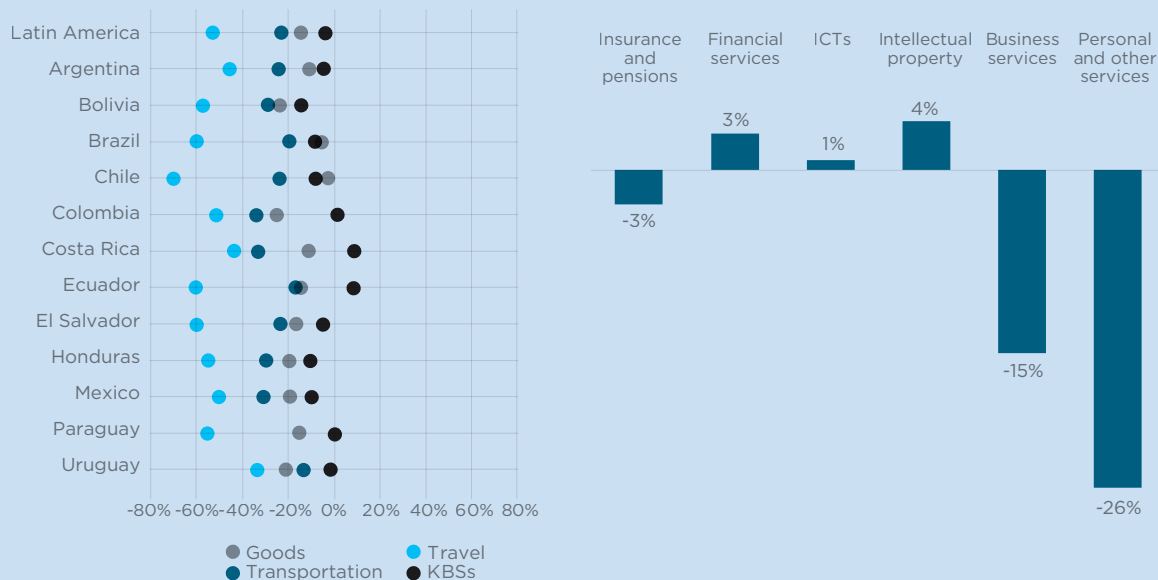


Source: IDB-INTAL with data from the Trade and Integration Monitor 2020 (IDB, forthcoming) and CPB.

## EXPORTS OF KNOWLEDGE-BASED SERVICES FROM LA ARE COMPARATIVELY MORE RESILIENT THAN EXPORTS OF GOODS, TRAVEL, AND TRANSPORTATION

Preliminary records for 11 Latin American countries show year-on-year declines in travel, transportation, and goods exports of -53%, -22%, and -15%, respectively, in the first half of 2020. In the same period, external sales of knowledge-based services (KBSs) contracted just 3%, while financial services, information and communications technologies (ICTs), and charges for intellectual property use grew by 3%, 1%, and 4%, respectively. Chile and Brazil were the only countries in which exports of KBSs dropped more than those of goods.

**Figure 3 · Performance of Latin American exports of goods and services**  
(year-on-year growth rate, H1 2020)

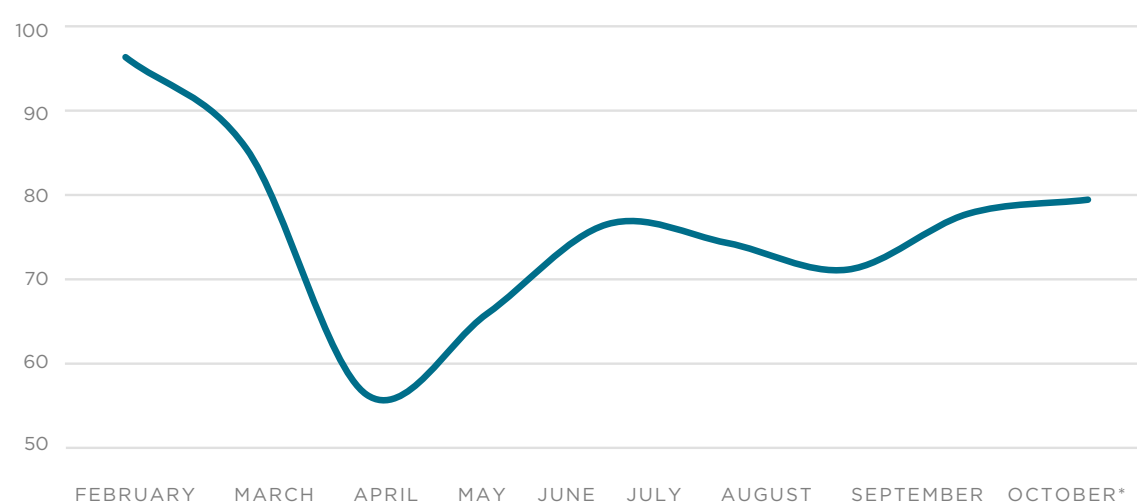


**Source:** INTAL/IDB based on national record systems. Note: Knowledge-based services are defined as the following types of service exports, according to BPM6: (1) insurance and pension services, (2) financial services, (3) charges for the use of intellectual property, (4) telecommunications, computer, and information services, (5) other business services, (6) personal, cultural, and recreational services. The breakdown of these categories for Mexico includes those in points (1), (2), and other exports of services. In the figure, the rate for Latin America represents the average for the countries that were analyzed.

## ECONOMIC ACTIVITY IN LATIN AMERICA'S MAIN TRADING PARTNERS IMPROVED SLIGHTLY IN OCTOBER

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 in the first 20 days of October was only slightly higher than the September average. The indicator is still 20% below the January benchmark, before lockdown and distancing measures were implemented in the Western Hemisphere.

**Figure 4 · Evolution of mobility in LAC's main trading partners**  
Indexes, January 2020=100, February-October\* 2020

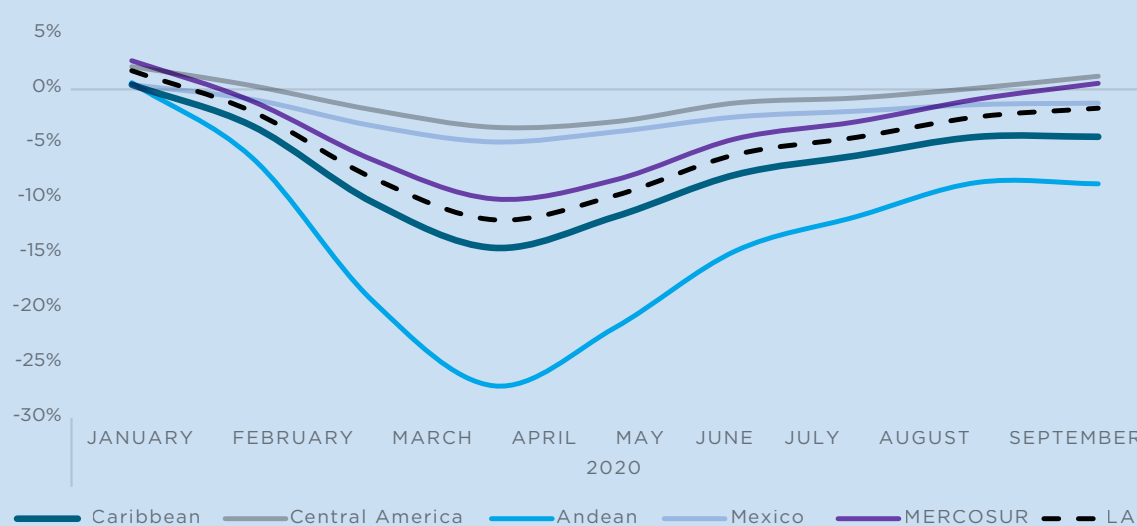


**Source:** IDB/INTAL with data from the Google Mobility Report, IMF, and national sources. **Note:** Variation in mobility to workplaces compared to the average for the base period (January 3 to February 6, 2020), IMF (weighting of countries' trade structure for 2019), and national sources. \*The data for October is for the first 20 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.

## EXPORT PRICES RECOVER IN CENTRAL AMERICA AND MERCOSUR

The impact of prices on LAC exports continued to improve in September in comparison with previous months. In Central America and MERCOSUR in particular, comparisons with average prices for 2019 were positive, while for Mexico, the Caribbean, and the Andean countries, the trend toward recovery slowed before returning to 2019 levels.

**Figure 5 · Effect of changes in commodity prices on the total value of LAC exports**  
(Growth compared to average prices for 2019, January-September 2020)

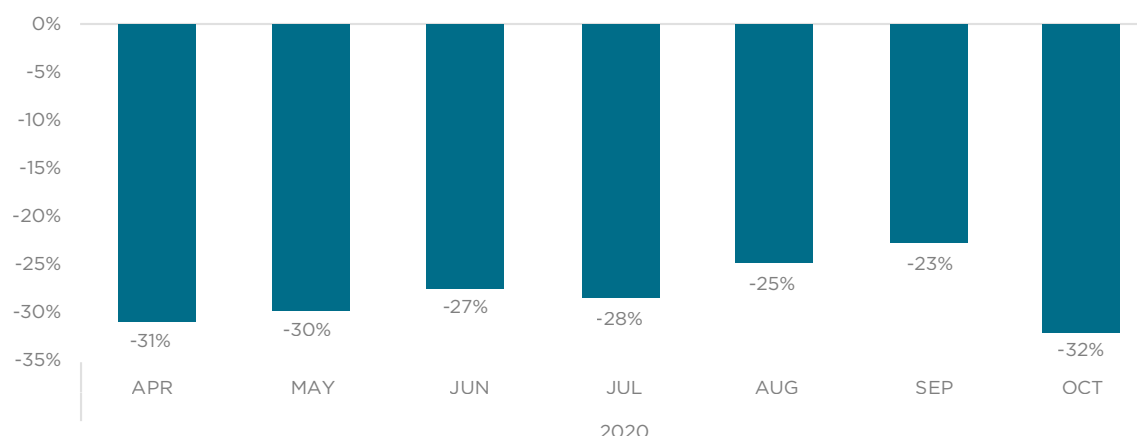


**Source:** IDB/INTAL using data from COMTRADE, WTO, INTrade-IDB, ECLAC, and the World Bank. Note: The World Bank's monthly commodities price data (The Pink Sheet) was used, weighted by the respective export structures of LAC countries for 2018. Energy, food, nonfood agricultural products, and minerals 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.

## PORT ACTIVITY REMAINS FAR BELOW PRECRISIS LEVELS

Weekly records of cargo ship departures from some of Latin America's main ports reveal a year-on-year reduction of around 30% since the onset of the COVID-19 pandemic, with a slight trend toward recovery in recent months. However, the initial records for October point to a further deterioration that may indicate a reversal to the recent upturn.

**Figure 6 · Number of cargo ship departures from LAC ports**  
(Year-on-year growth rate, April-October\* 2020)

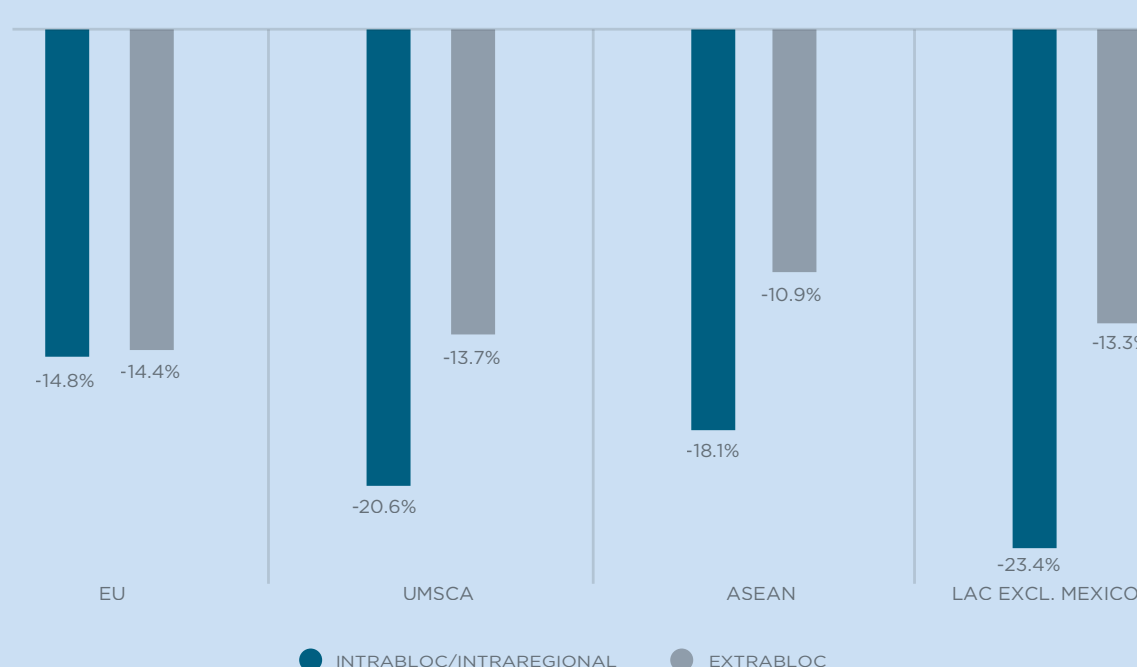


**Source:** IDB/INTAL with data from MarineTraffic. **Note:** \*The records for October are for the first three weeks of the month. A simple average of the year-on-year growth rates in weekly cargo ship departures was calculated for the six main Latin American ports for which records were available: Buenos Aires, Argentina; Callao, Peru; Cartagena, Colombia; Guayaquil, Ecuador; Manzanillo, Mexico; and Santos, Brazil. Cargo ships include containers, other cargo carriers, dry bulk, wet bulk, reefer containers, vehicle carriers, and livestock carriers.

## INTRAREGIONAL TRADE WAS AFFECTED RELATIVELY MORE BY THE PANDEMIC IN MAJOR REGIONS AROUND THE WORLD

This difference was more marked in Latin America and the Caribbean than other parts of the world. Intra-LA trade fell 23.4% year-on-year in the first half of 2020, 10.1 percentage points (p.p.) more than extraregional sales. In ASEAN and USMCA, intrabloc exports contracted by around 7 p.p. more than those to the rest of the world. Only the EU experienced a drop in exports to both destinations. In every case, the fact that exports to China performed relatively better than those to other destinations partly explained the smaller drop in extraregional flows. Latin America's intraregional trade performance is analyzed in greater detail in the *Trade and Integration Monitor 2020*, a forthcoming IDB publication.

**Figure 7 · Intra- and extraregional exports**  
(Year-on-year growth rate, H1 2020)



**Source:** IDB/INTAL with data for LAC from the Trade and Integration Monitor 2020 (IDB, forthcoming) and TradeMap. **Note:** ASEAN only includes data reported by Singapore, Malaysia, and Thailand.

# NEW PUBLICATIONS AND STUDIES ON TRADE AND COVID-19<sup>1</sup>

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

- The [Investment Trends Monitor](#) (UNCTAD) estimates a 49% drop in global foreign direct investment flows in the first half of 2020 (-75% for developed countries and -16% for developing countries).
- The [WTO](#) estimates that global trade in services decreased 30% in the second quarter of 2020. Travel was the sector that was affected most, and IT services the least.
- The [FAO](#) noted that LAC fisheries and aquaculture have been severely jeopardized by the current crisis and suggests that technology and innovation may play a part in the recovery process.
- An [ECLAC](#) report highlights the crucial role that regional integration and public-private partnerships will play in LAC's post-COVID-19 recovery.
- An [ECIPE](#) paper argues that online shopping platforms have facilitated global trade and that more and more goods are being purchased at better prices.
- An [RSCAS](#) working paper analyses the behavior of value chains during past health crises and concludes that COVID-19 may trigger changes in supply from China and lead to the reshoring or nearshoring of some activities.

## Subregional documents on the COVID-19 pandemic

- The MERCOSUR [Committee of Permanent Representatives](#) (link in Spanish) approved a payment of USD 1 million to Argentina as part of the joint action plan to combat COVID-19 (via the FOCEM Project, which was approved in early 2020).
- The 81st meeting of [SICA Foreign Ministers](#) (link in Spanish) highlighted the importance of consolidating regional integration for the postpandemic recovery. The USD 1.9 billion Contingency Plan was reviewed, and 99% of the initiatives included in it were found to be under way.
- The [Caribbean Public Health Agency](#), with funding from the EU, agreed to take part in the COVAX Facility to ensure fair and equitable access to a COVID-19 vaccine.
- The [Andean Community](#) (link in Spanish) approved three supranational standards to facilitate trade in household and personal hygiene products and cosmetics during the pandemic.
- The National Coordinators of the [Pacific Alliance](#) and their counterparts at ASEAN agreed on actions to strengthen relations between the two regional blocs.

<sup>1</sup> See complete overview [here](#)

Information up-to-date as of November 02, 2020