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

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IDB INTAL

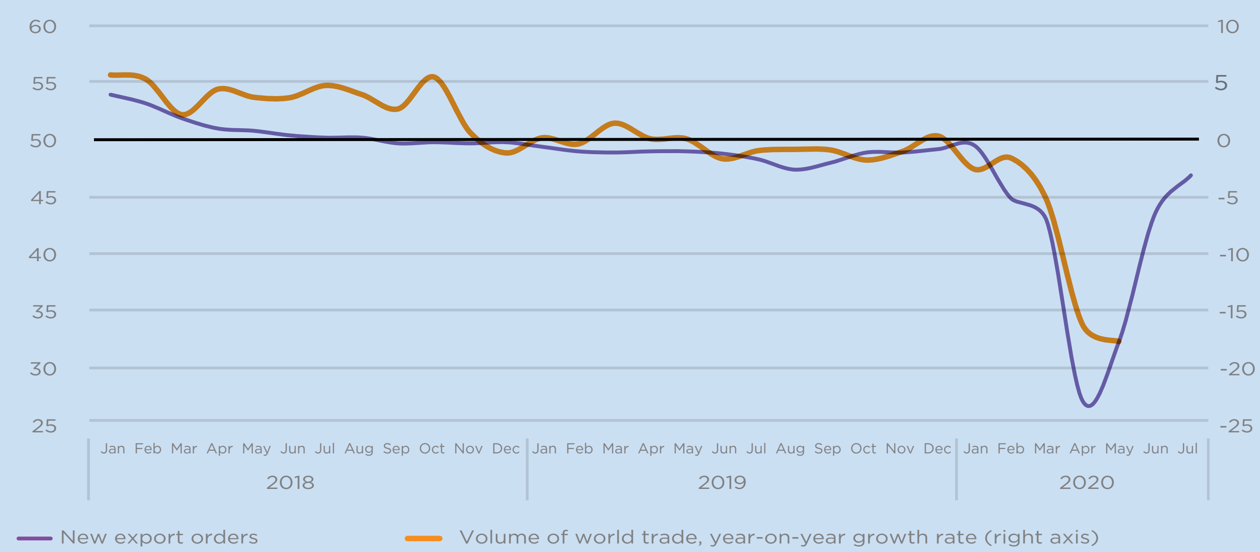
- **The relapse in global trade is slowing and forecasts are improving.**
- **Initial data on LAC service exports show that these have contracted significantly, especially in the travel sector.**
- **Hotel occupancy rates are at historic lows in the Caribbean and Central America.**
- **The evolution of commodity prices has benefited the trade balances of several countries in the region.**
- **The application of trade measures to sensitive products has started to ease.**
- **There are signs that economic recovery is beginning to slow in LAC's main trading partners.**

THE RELAPSE IN GLOBAL TRADE IS SLOWING

The new export orders component of the global PMI[1] began to show signs of recovery after hitting a record low in April. All the same, it remains on a downward trend. This indicator is closely correlated with the evolution of world trade, which means that global trade volumes may start to shrink at a slower rate, the first signs of which began to emerge in May.

1 The Purchasing Manager Index is an indicator that is based on surveys of companies' purchasing managers. The data they provide allow analysts to anticipate how economic activity in international trade will perform.

Figure 1 · New export orders and volume of world trade
(indexes and year-on-year growth rate)



Source: IDB/INTAL with data from IHS Markit and CPB Netherlands Bureau for Economic Policy Analysis.

EXPORTS OF SERVICES HAVE DECLINED SHARPLY IN LATIN AMERICA AND THE CARIBBEAN, ESPECIALLY IN THE TRAVEL SECTOR

Global sales of services from LAC fell 10% year-on-year in the first quarter of 2020, with travel falling at almost double that rate. This impact began to be observed even before the health emergency hit the region fully in April.

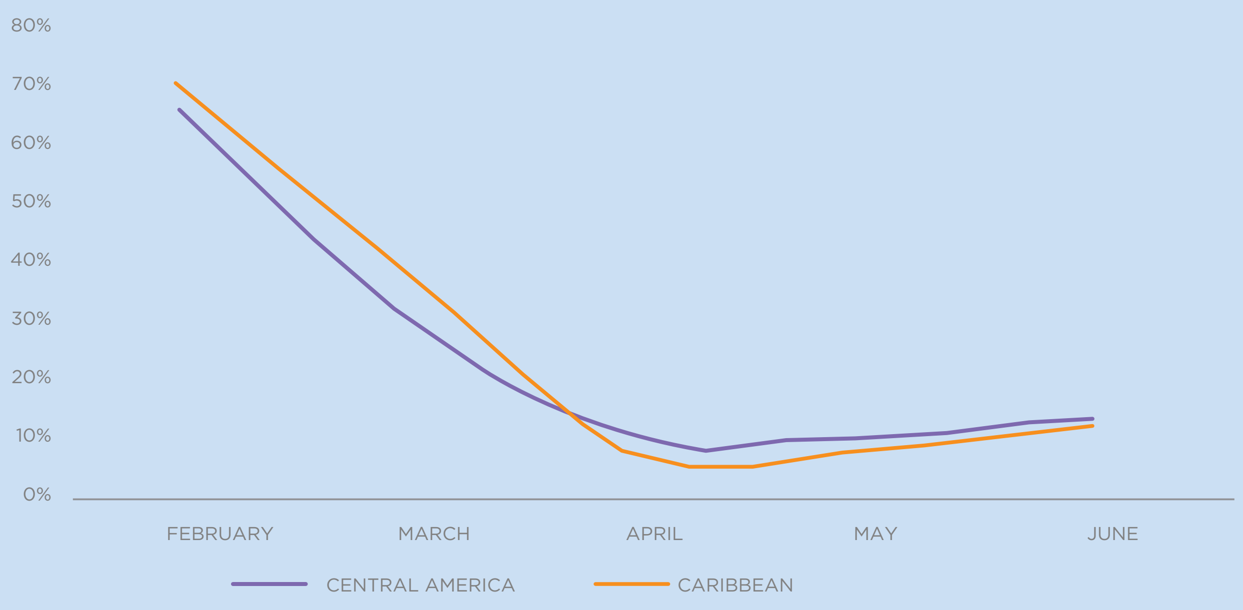
Figure 2 · Total exports of services and travel services from Latin America and the Caribbean
(Year-on-year growth rate, Q1 2020)

Source: IDB/INTAL based on data from WTO and CEMCA. The "total services" category represents commercial services. The aggregate for LAC only includes countries for which the data described in the figure was available.

HOTEL OCCUPANCY RATES ARE AT RECORD LOWS IN THE CARIBBEAN AND CENTRAL AMERICA

Hotel occupancy data points to a sharp drop in tourism in these subregions, where the travel sector accounts for more than half of total service exports. The greatest decline was in April, when occupancy rates fell below 10% of capacity. They have only risen slightly in subsequent months.

Figure 3 · Hotel occupancy rates in the Caribbean and Central America
(Percentage of total capacity, February–June 2020)

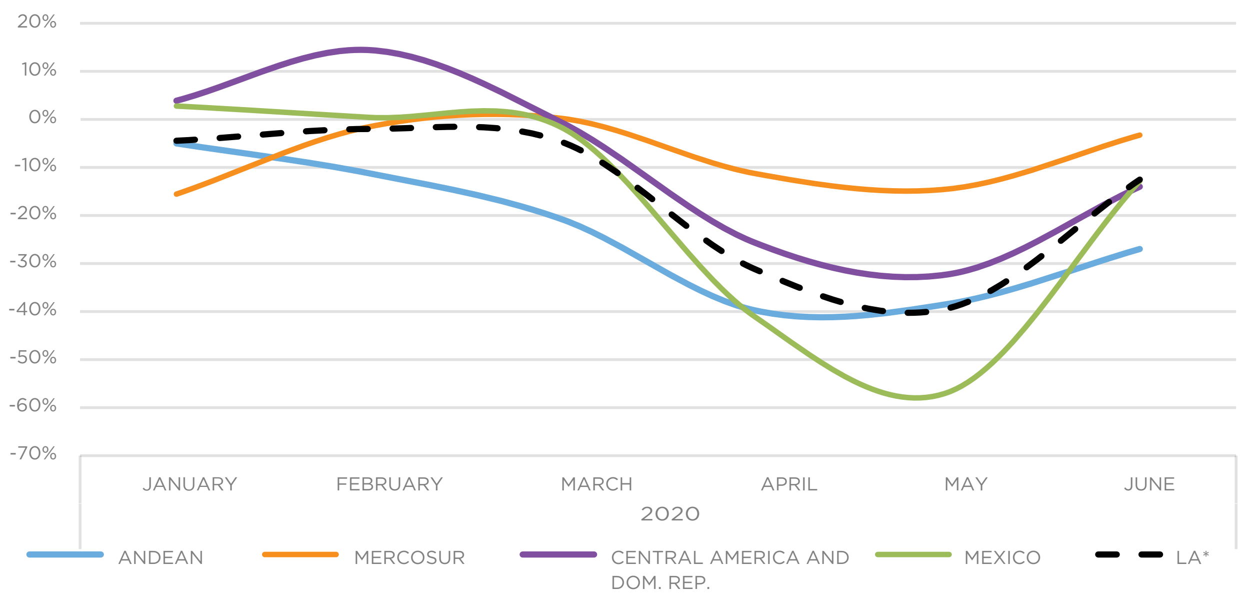


Source: IDB/INTAL based on data from STR.
Note: Monthly hotel occupancy rates are the total number of rooms sold as a percentage of available rooms.

THE CONTRACTION OF LATIN AMERICAN GOODS EXPORTS SLOWED IN JUNE

The region's goods exports are estimated to have contracted by 12.5% year-on-year in June after falling by around 40% in May and 30% in April. There was a relative improvement in the performance of external sales in most of the region, although this was significantly more Noteble in Mexico, which was affected more than any other country by the earlier downturn.

Figure 4 · Exports from Latin America
(Year-on-year growth rate, January–June 2020)

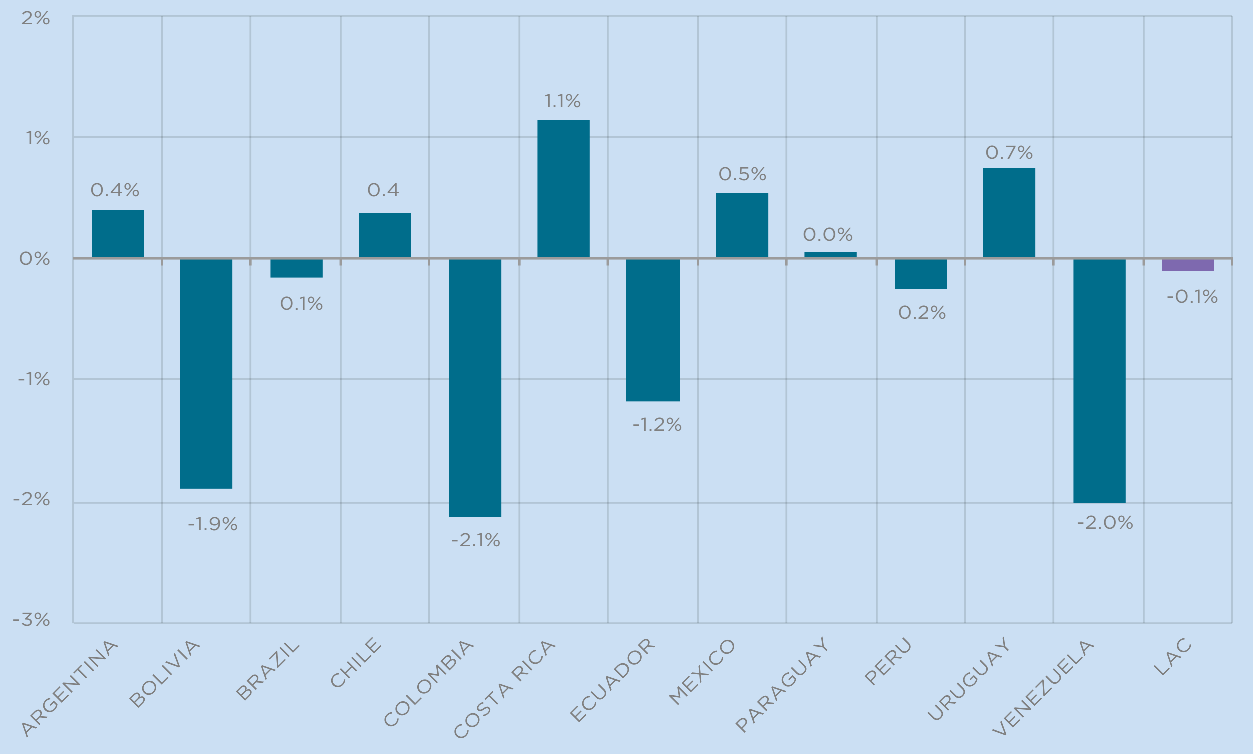


Source: IDB/INTAL using data from national sources.
Note: *LA is a sample of 13 countries for which data was available up to June and represents 95% of the region's total exports in 2019.

PRICES HAVE HAD A NET POSITIVE EFFECT ON FOREIGN TRADE FOR SEVERAL LATIN AMERICAN COUNTRIES

Since the start of the year, changes in commodity prices have had varying impacts on countries in the region. These changes have caused the value of some countries' sales to the world to drop while bringing foreign currency relief to the import patterns of others. The net impact of prices on imports and exports was positive in Argentina, Chile, Costa Rica, Mexico, Panama, Paraguay, and Uruguay due to the positive effects of falling oil prices (oil was the import product whose price changed most) and, on the export side, a slight improvement in the prices of food and agricultural products. In contrast, Venezuela, Bolivia, and Colombia have been hit hardest by price changes.

Figure 5 · Net effect of changes in commodity prices on trade balances
LA countries, % of GDP
Annualized values based on a comparison of average prices for Jan–Jul 2020 and average prices for 2019

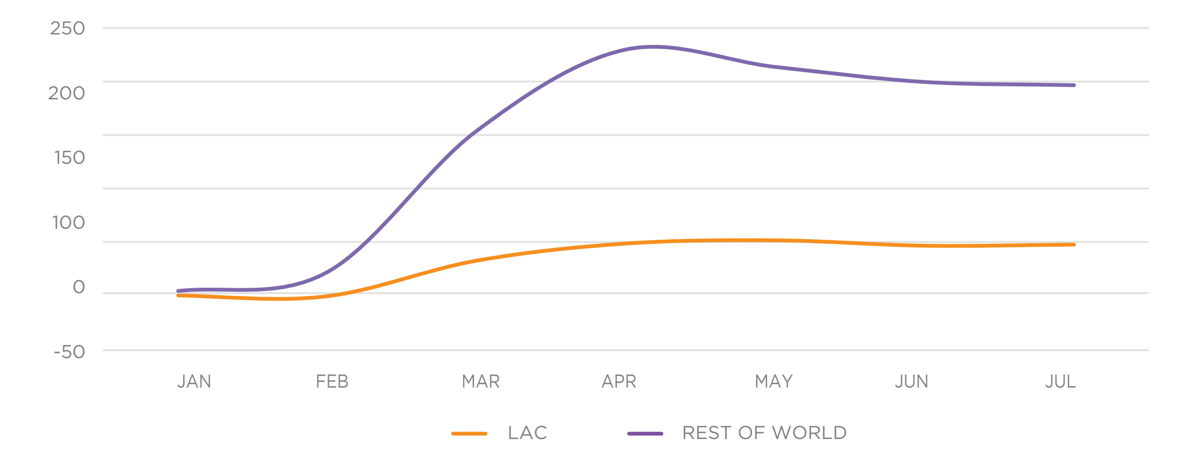


Source: IDB/INTAL with data from COMTRADE, WTO, and World Bank. Note: These calculations were based on the World Bank's monthly commodities price data (The Pink Sheet), weighted by the respective export structures of LAC countries for 2018. Energy, food, non-food agricultural products, and minerals were included, using 1-digit SITC categories.

THE APPLICATION OF TRADE POLICY MEASURES TO SENSITIVE PRODUCTS HAS BEGUN TO EASE

Countries stopped implementing new trade measures in the food and medical and pharmaceutical input sectors from April onwards. The number of active policies has also decreased since May. Similar effects were observed in LAC, where there was an 8% drop in the number of measures as of May.

Figure 6 · Number of trade policy measures applied to trade in medical inputs and food

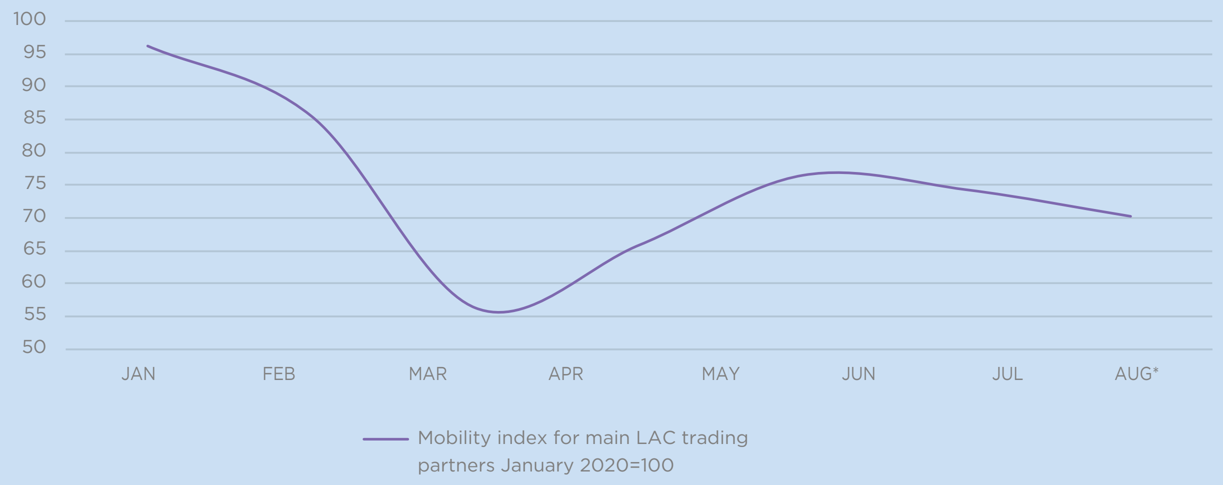


Source: IDB/INTAL based on data from https://www.macmap.org/covid19

THE ECONOMIC RECOVERY HAS BEGUN TO SLOW IN LATIN AMERICA AND THE CARIBBEAN'S MAIN TRADING PARTNERS

This indicator, which INTAL built using data from the Google Mobility Report weighted according to each economy's buyer structure, shows that the trend toward economic recovery began to contract again between July and the first week of August. Although some of this decrease may be linked to the summer vacation period in the northern hemisphere, it also reflects the application of some restrictions on labor mobility and/or lockdown measures in different countries.

Figure 7 · Evolution of mobility in LAC's main trading partners
(Indexes, January 2020=100, February–August* 2020)

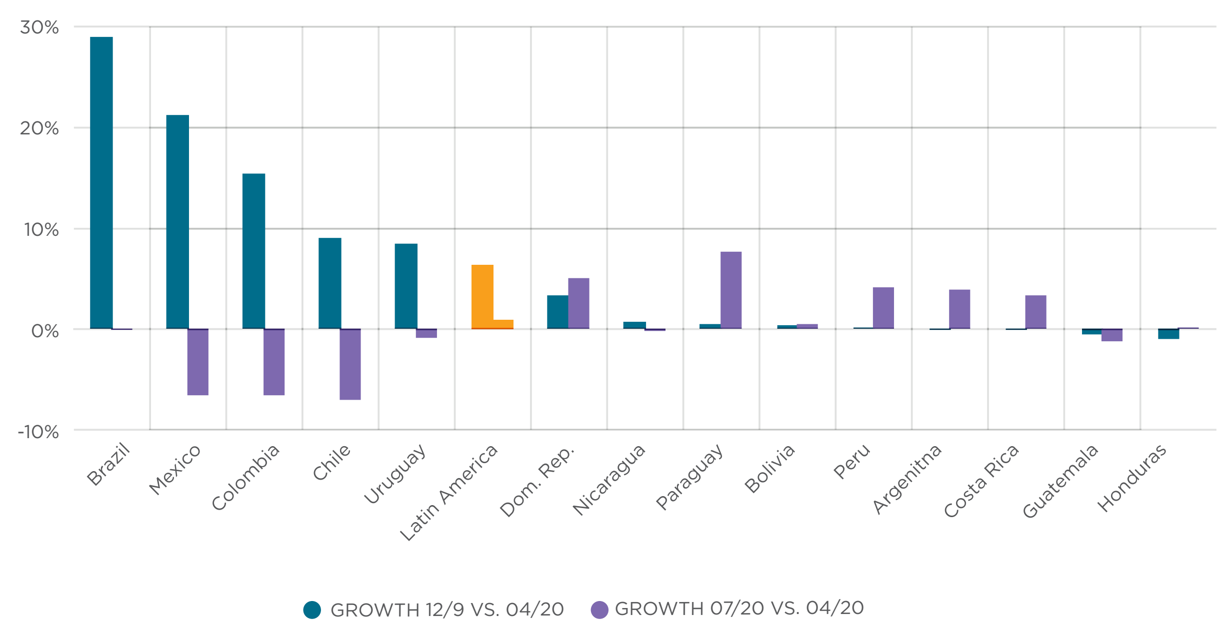


Source: INTAL/IDB with data from the Google Mobility Report, IMF, and national sources.
Note: Variation in mobility to workplaces compared to the average for the base period (January 3 to February 6, 2020), IMF (weighting of countries' trade structure for 2019), and national sources. *August data is for the first week 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 isolation measures have evolved similarly there.

THE REAL BILATERAL EXCHANGE RATE WITH THE UNITED STATES APPRECIATED IN SEVERAL COUNTRIES AFTER SHARP DEVALUATIONS AT THE START OF THE COVID-19 PANDEMIC

Following the changes observed in several LAC countries' real exchange rates at the start of the health emergency, several countries have experienced real appreciations or slower rates of depreciation in their currencies in recent months. In parallel, some LAC economies that did not see any changes in their exchange rates in the first part of the year experienced currency depreciations between April and July. Between December 2019 and April 2020, the average real exchange rate in Latin America devalued by 6.4%, but between April and July 2020 the decrease was 0.9%.

Figure 8 · Real bilateral exchange rate with the United States



Source: IDB/INTAL based on national sources.
Note: The bilateral real exchange rate with the United States was generated by multiplying each currency's nominal exchange rate with the US dollar by the US CPI rate over the rate for each economy. In the figure, the rate for Latin America represents the average of the economies that were analyzed. The end-to-end variations for Nicaragua were calculated as follows: RER 12/19 vs. 04/20 and 04/20 vs. 06/20. The increase (fall) in the real exchange rate shows a depreciation (appreciation).

NEW PUBLICATIONS AND STUDIES ON TRADE AND COVID-19[2]

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

- A **Friedrich Ebert Foundation paper** analyzed how the international outlook has been changed by the COVID-19 pandemic and noted that this has brought an opportunity to revive the WTO (by modifying special and differential treatment, among other factors).
- **The McKinsey Global Institute** examined the resilience and rebalancing of global value chains that may emerge in the postpandemic world.
- **ECLAC** anticipated more regionalized production and argued that regional integration in LAC is key to moving past the current crisis.
- An **IDB** (link in Spanish) report emphasized the role that infrastructure investment has to play in boosting LAC's recovery from the COVID-19 pandemic, stressing its importance in stimulating trade and improving countries' regional and global integration.
- The **WTO** estimated how the costs associated with international trade have increased as a result of the COVID-19 pandemic, Notebly with regard to transportation, logistics, and regulation.
- The WTO **goods barometer** suggested that figures are confirming the least pessimistic estimates of the annual drop in global trade (13%).

Subregional documents on the COVID-19 pandemic

- Tourism officials from the **Pacific Alliance** (link in Spanish) countries met to coordinate good practices to foster the sector's recovery.
- **CAN** (link in Spanish) is fast-tracking the implementation of the Andean Digital Agenda (especially in relation to tourism), given how important this will be after the pandemic.
- **CARICOM** officials made headway on a program focusing on collaboration, harmonization, and digitalization within the region's service sector to mitigate the impacts of the pandemic.
- The **MERCOSUR** Trade Commission finalized a list of international trade measures adopted by its partner countries in 2020.

[2] See the complete list here