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

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- Latin America’s intraregional trade is being significantly more affected by the COVID-19 crisis than its exports to the rest of the world.
- The number of ships departing from LAC ports has declined considerably.
- The oil crisis will have substantial impacts on the economies of LAC countries that specialize in hydrocarbon exports.

MONITORING TRADE POLICIES AND BARRIERS TO TRADE

Measures to contain the pandemic have made in-person customs procedures extremely complex. This has put the spotlight on how far different countries in the region have advanced with implementing electronic (paperless) documentation systems for cross-border traffic (figure 1).

1 For a complete list of measures adopted by LAC countries in response to the COVID-19 pandemic that are impacting trade, see here.

INTRAREGIONAL TRADE IN LATIN AMERICA FALLS SHARPLY

Compared to other regions, intraregional trade in Latin America (LA) is being significantly more affected by the COVID-19 crisis than LA’s exports to the rest of the world.

Estimates for the first quarter of 2020 show a 7.9% drop in intra-LA flows, more than twice the rate at which its extraregional sales have contracted (-2.1%). Within the European Union and NAFTA, intra- and extra regional trade has shrunk at similar rates, although intra-EU trade seems to be slightly more resilient (figure 2).

Source: Compiled by INTAL using data from official sources.

*Note: EU data is for the first two months of 2020.
SHARP CONTRACTIONS IN ECONOMIES THAT ARE KEY TO LAC TRADE

Using IMF projections, we estimated how the GDPs of the countries that absorb the majority of LAC exports will change in 2020. We then calculated the potential effect of these changes on LAC, weighting our estimations by their share in each country’s external sales in 2019 (Figure 3). This calculation reveals that for two-thirds of LAC countries, the average contraction will be greater than 4%. The most significant effects will be felt in Mexico and the countries of the Caribbean and Central America, whose economies are most closely tied to North American demand.

In 12 of the 16 LAC ports, the number of cargo ship departures in April 2020 was significantly lower than in April 2019— in some cases, departures were down by more than 50% (Figure 4). The most significant drops were observed in the ports of Buenos Aires (Argentina), Santo Tomás (Guatemala), Guayaquil (Ecuador), and Moin (Costa Rica). Records for the first week of May show signs of improvement in six LAC ports, where the rate of downturn slowed and even reversed in two cases (Santo Tomás, Guatemala, and Cristóbal, Panama). The ports of Caucaudo (Dominican Republic) and San Antonio (Chile), did not experience negative year-on-year variations in their averages for April and May.

NEW PUBLICATIONS AND STUDIES ON TRADE AND COVID-19

Some of last week’s main findings are summarized below:

- **A PHIL study** argues that the COVID-19 pandemic will step up the trend toward deglobalization. The 2008 crisis ushered in an era of “slowbalization” that now looks set to intensify.
- An article in **Project Syndicate** warns of increased fragmentation in the post-pandemic world, with greater restrictions on the flows of goods, services, capital, labor, technology, and information.
- A **WB** paper estimates that the impact of COVID-19 on LAC will imply a 1.8% to 3.7% drop in GDP. The two activities that will be most affected are domestic service provision (-9%) and tourism (-10%). Real exports will fall between 2% and 4.5%.
- A new ebook from **CEPR** argues that in an internationalized world, raising barriers to trade makes it hard to keep supply routes open.
- An article in **Foreign Affairs** argues that barriers to trade may delay economic recovery after the pandemic and affect the future development of the multilateral trading system.
- The latest **Global Trade Alert** report lists 150 protective measures for medical and pharmaceutical products that have been put in place since the start of the COVID-19 pandemic. This number stands at 123 for trade in food.
- A paper published by the **CEPR** notes that unlike during the 2008 crisis, the COVID-19 pandemic struck “Factory Asia” first, then “Factory Europe,” and then “Factory North America.” It also observes that the kind of international cooperation that the G20 led in 2008 is now in tatters.
- An article in **Vox** emphasizes the impact of COVID-19 on trade in services, especially those requiring movement of people. It estimates that at least half the world’s total trade in services (US$7 trillion) will be compromised.
- A study from Maplecroft calculates a food security index for LAC and warns that most of Central America and the Caribbean are at high risk of suffering problems in access to foods.
- A report from the **Elcano Royal Institute** (link in Spanish) argues that COVID-19 may help LAC make progress on reforms that will drive modernization and accelerate a new social contract.

Subregional documents on the COVID-19 pandemic

- A study from **SIECA and SECHMA** (link in Spanish) estimated that the pandemic will cause a 6.9% drop in GDP in Central America in 2020 and a 1.4% drop in 2021.
- At the meeting of the High Authorities of the Joint Summit Working Group of the OAS, the secretary of **SICA** (link in Spanish) announced that the bloc’s US$15-billion contingency plan is now being implemented.
- At a **MERCOSUR** meeting, Argentina (link in Spanish) expressed that countries need to move forward with their external agendas at different paces. A week later, the **country** (link in Spanish) said it would support these negotiations but would protect the most vulnerable sectors.
- The secretary general of **CAN** (link in Spanish) assured that he would promote joint actions to help production in the bloc to recover, promoting market recovery, diversification, and diversification.
- At a **Presidium** (link in Spanish) meeting, health ministers agreed to coordinate actions to seek financing for collective purchases of medical supplies.
- A **CABICONT** document analyzed the energy problems the region is facing as a consequence of COVID-19 and put forward policy suggestions. (link in Spanish)

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