

Latam trade at a crossroads: emerging trade policies

Robert Wood

Director Country Risk Latin America

The Economist Intelligence Unit

CLACE, Miami May 2016

The global context – GDP and trade

World summary

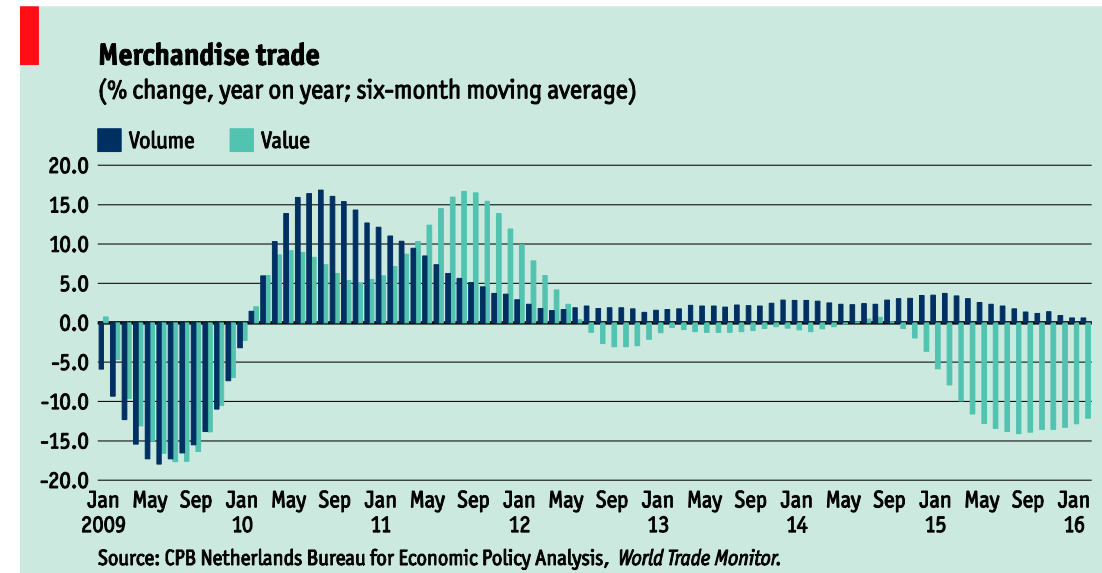
(% change)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (market exchange rates)										
World	2.8	2.2	2.2	2.5	2.4	2.2	2.6	2.7	2.2	2.6
North America	1.7	2.2	1.6	2.4	2.3	2.0	2.3	2.3	1.0	2.1
Latin America	4.7	3.1	2.9	1.3	0.1	-0.5	1.9	2.7	2.9	3.1
Trade in goods										
World	7.1	3.4	3.8	3.6	2.7	2.9	3.6	3.5	2.7	3.2
OECD	6.0	2.0	2.4	3.8	4.1	3.4	3.4	3.2	2.3	2.9
Non-OECD	9.3	4.6	5.2	2.6	-0.2	1.7	3.7	4.1	3.4	3.8
Oil prices										
Brent; US\$/b	110.9	112.0	108.9	98.9	52.4	40.2	55.5	67.5	62.8	61.8
Non-oil commodities (% change in US dollar prices)										
Total	26.3	-10.3	-7.2	-5.2	-17.3	-6.2	6.0	5.2	-2.7	-0.8
Food, feedstuffs & beverages	30.0	-3.5	-7.4	-5.2	-18.7	-5.6	4.8	4.2	-0.9	-0.1
Industrial raw materials	21.7	-19.4	-6.8	-5.1	-15.2	-7.0	7.9	6.5	-5.4	-1.9

Source: The Economist Intelligence Unit.

- Protectionist rhetoric and policies on the rise
- TPP – impetus to be felt after 2020
- Other trade agreements RCEP; TTIP?

- Weakest trade since 2009
- Commodity prices bottoming out
- **Trade growth to 2020 will not return to pre-crisis levels, as China and GVCs slow**



Regional outlook – GDP

- Latam will contract by 0.5% in 2016, after no growth in 2015
- Changes in macro-policy management (Argentina/ Brazil); mixed performance amid ongoing adjustments and debt
- GDP growth to pick up in 2017 (2%) and in 2018-20 (averaging 3%)
- Competitiveness-enhancing reforms/ investment cycle/ trade liberalisation?
- Biz environment: lagging behind in reforms. Education/infrastructure gaps

GDP growth (% change)	2014	2015	2016	2017	2018	2019	2020
USA	2.4	2.4	2.0	2.3	2.3	1.0	2.1
LATIN AMERICA	1.3	0.1	-0.5	2.0	2.8	2.9	3.2
ARGENTINA	0.5	2.1	-0.8	3.0	3.6	3.7	3.3
BRAZIL	0.1	-3.8	-3.7	0.9	1.6	2.3	2.4
CHILE	1.9	2.1	1.7	2.3	3.3	3.6	3.5
COLOMBIA	4.4	3.1	2.3	3.0	3.6	3.5	3.8
COSTA RICA	3.5	2.8	3.8	4.1	4.3	3.9	4.1
CUBA	1.0	4.0	3.8	4.0	4.7	4.5	4.9
ECUADOR	3.7	0.3	-2.7	0.5	1.8	1.7	1.9
MEXICO	2.3	2.5	2.4	3.0	3.1	2.9	3.1
PANAMA	6.1	5.8	5.7	5.5	5.3	5.2	4.8
PERU	2.4	3.2	3.5	4.5	4.4	4.1	4.0
URUGUAY	2.9	1.5	1.6	2.2	2.9	2.7	3.2
VENEZUELA	-3.9	-5.7	-13.9	-8.3	0.2	0.5	3.3

Regional outlook – Trade

- Commodity prices bottoming out
- Shift towards more open, market-oriented policies versus statist, inward-looking models
 - Realignment within the region
- Export and import volumes to grow faster than GDP
- Can Latam companies insert into regional and global value chains?

	2014	2015	2016	2017	2018	2019	2020
Nominal GDP (US\$, bn)	6,178	5,408	5,124	5,555	5,538	5,804	6,151
Brazil	2,417	1,772	1,622	1,670	1,781	1,881	2,004
Mexico	1,298	1,144	1,057	1,183	1,290	1,404	1,532
Total exports fob	1,062	903	887	976	1,075	1,137	1,217
Brazil	225	191	197	212	230	246	264
Mexico	397	381	378	405	437	461	495
Total imports cif	1,094	977	955	1,033	1,117	1,183	1,267
Brazil	229	171	157	172	189	204	219
Mexico	400	395	392	416	442	466	501
Export volume of goods; % change	3.1	6.7	3.7	3.1	4.6	3.2	4.0
Import volume of goods; % change	1.2	-1.6	2.3	5.1	6.3	4.4	6.0
Export prices (% change pa; US\$)	-5.0	-20.4	-6.5	8.5	6.5	1.3	2.3
Import prices (% change pa; US\$)	-1.7	-8.3	-4.5	2.8	2.6	0.7	1.2
Terms of trade (1990=100)	115.7	100.4	98.2	103.7	107.7	108.3	109.5

Pacific Alliance

- Mexico, Colombia, Chile, Peru (others to join)
- Based on “affinity, rather than proximity” - open to trade
- Integration – bourses, trade rules, labor movement; but regional supply chains currently still weak
- Greater diplomatic clout for deals with Asia, TPP
- WB study - TPP would boost GDP by 2030 in Peru (+2.1%); Mexico (+1.4%); Chile(+1%)



Mercosur 2.0

- Ongoing FTA trade talks with EU
- Drive from Brazil and Argentina to “renew” pact
 - Allow bilateral FTAs?
 - Improve ties with Pacific Alliance 2.0
- Brazil’s new foreign policy:
 - Trade promotion key
 - Less protectionist – lower national content rules
 - Improve trade facilitation with US; reduce NTBs
 - Will this insert Brazil’s manufacturing into GVCs?
- If TPP ratified, US FTA with Mercosur is less likely



Latam trade at a crossroads: emerging trade policies

Robert Wood

Director Country Risk Latin America

The Economist Intelligence Unit

CLACE, Miami May 2016