

TRADE TREND ESTIMATES
LATIN AMERICA
AND THE CARIBBEAN

2016 EDITION



Coordinated by
Paolo Giordano

Integration and Trade Sector

Trade Trend Estimates Latin America and the Caribbean 2016 Edition

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Integration and Trade Sector
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This report presents estimates of Latin American and Caribbean international trade flows in 2015 prepared by the Integration and Trade Sector (INT) of the Inter-American Development Bank (IDB) in collaboration with its Institute for the Integration of Latin America and the Caribbean (INTAL), under the overall supervision of Antoni Estevadeordal, Manager of INT.

This edition was coordinated by Paolo Giordano, Principal Economist of INT, and written in collaboration with Kathia Michalczewsky, Patricia Iannuzzi, and Alejandro Ramos, Consultants and Senior Economist of INTAL, respectively, and Jeremy Harris, INT Economist.

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Estimates are based on preliminary quarterly and monthly data available for twenty four Latin American and Caribbean countries in national and international official sources as well as in INTradeBID, the international trade information system, available at: <http://www.iadb.org/intradebid>.

The English version is a translation of the original in Spanish.

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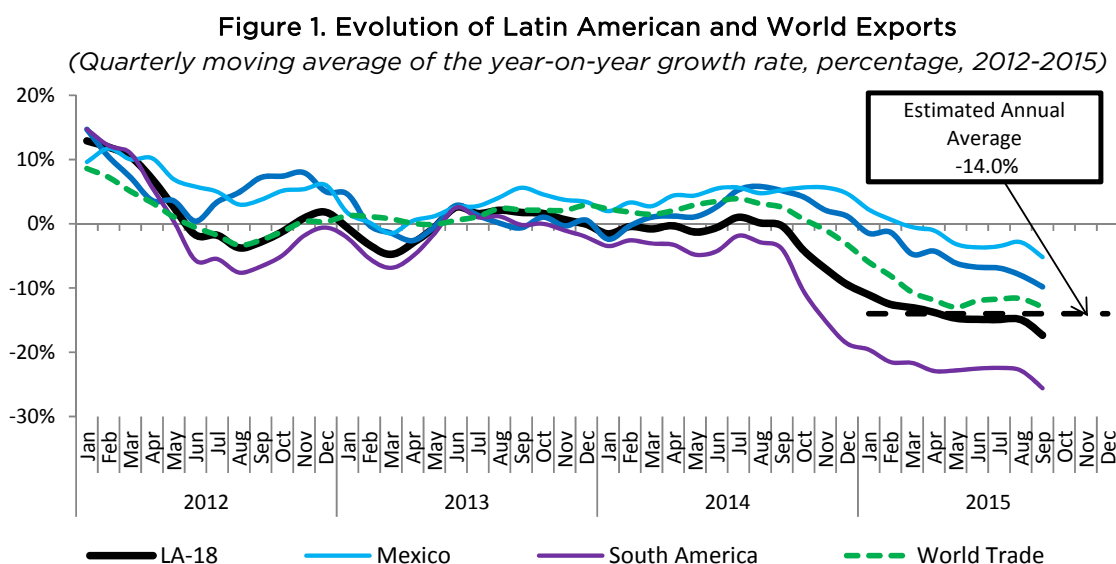
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Export contraction spreads and deepens

Estimates for 2015 indicate that the merchandise exports of Latin America and the Caribbean will show a contraction of 14.0%. This would mean the largest drop since the international financial crisis, and a result that will take the total value of exports close to US\$ 915 billion, barely above the 2010 level. Foreign sales will fall for the third consecutive year. Unlike in previous years, when performance was varied across subregional groups, in 2015 the contraction is estimated to affect nearly all countries. The behavior of the region's foreign sales is part -though with more intensity- of the ongoing trend in world trade whose value has fallen 11.9% in January-September as compared to the same period in 2014. Likewise, estimates indicate that regional imports will fall 10.3%, driven both by the commodity price dynamics and by the slower economic growth in the region.



Source: IDB Integration and Trade Sector, based on data from official sources and CPB for world trade.

Note: LA-18 corresponds to: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay, and Venezuela.

The weak performance of the region's foreign sales is explained mainly by the sharp correction in prices of the principal export products. This is due both to factors specific to those markets and to the deflationary pressure derived from the appreciation of the dollar, which is the unit of

measurement of global trade.¹ The price dynamics have not been compensated by meaningful growth in export volumes. In some cases, especially in the regional market, there have even been clear cases of lower real demand.

General Outlook

Subregional Impact - After two years of virtual stagnation, a severe deterioration in exports of Latin America and the Caribbean began to be observed in the final months of 2014, which deepened throughout 2015 (Figure 1).² During the middle of the year, the quarterly moving average of the year-on-year growth rate began to stabilize, but in recent months the downward trend has strengthened again.

The countries of **South America** were the first to be affected as a consequence of the drop in commodity prices -especially of oil and metals- as well as the deceleration of demand in Asian economies. These factors are also responsible for the fact that the estimated contraction of South American exports in 2015 -at -21%, a rate double that of world trade- has most contributed to the overall regional decline.

In **Mesoamerica** export performance has deteriorated since the beginning of 2015 but is projected to have the smallest contraction of any LAC subregion, with an estimated decline for the year of 4%. This average encompasses a more significant contraction of Central American exports (-7%) than for Mexican exports (-4%), where the latter has a relatively larger weight in that subregion.

For their part, exports from the countries of the **Caribbean** will decline 23%, though this figure is only -9% when excluding Trinidad and Tobago, which accounts for a large share of subregional exports and is intensive in energy products.

The aggregate result for Latin American and Caribbean exports is the product of declines in almost all countries (see Table 1 for more detail). Of the 24 countries considered only two show growth in foreign sales: El Salvador (6%) and Guatemala (2%). The countries with the largest estimated contractions are those where hydrocarbons are an important

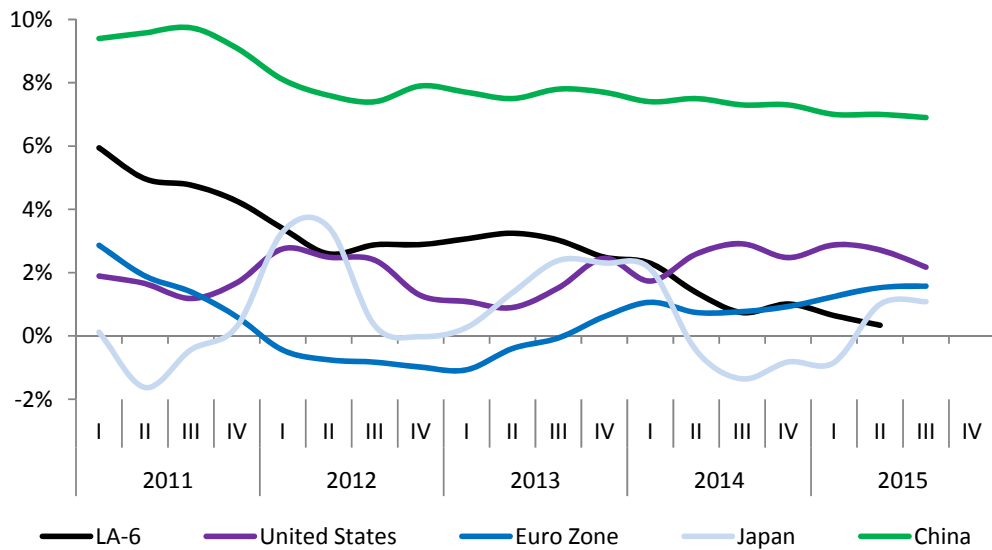
¹ For given the volumes and prices of traded goods expressed in local currencies, an appreciation of the dollar is reflected in a lower value of trade expressed in dollars. See Giordano (coord.) [Integration and Trade Monitor 2015](#), IDB.

² For more detail, see Giordano (coord.), [Integration and Trade Monitor 2015](#), IDB.

component of the export basket: Venezuela (-49%), Colombia (-35%), Bolivia (-32%), Ecuador (-28%), and Trinidad and Tobago (-27%).

Markets – The poor performance of Latin American and Caribbean exports in 2015 comes in the context of scarce and irregular growth in principal trading partners, where the deceleration of economic activity in the Chinese economy and in the region itself are notable (Figure 2).

Figure 2. GDP Growth of Latin American and Selected Economies
(Year-on-year growth rate, percentage, 2011-2015)



Source: IDB Integration and Trade Sector with data from the OECD and other official sources.
Note: LA-6 corresponds to the weighted average of the annual percentage changes of GDP in Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The weighting is based on GDP measured in terms of purchasing power parity.

In this context, there has been a clear, continuous contraction in the external demand for LAC exports (Figure 3).

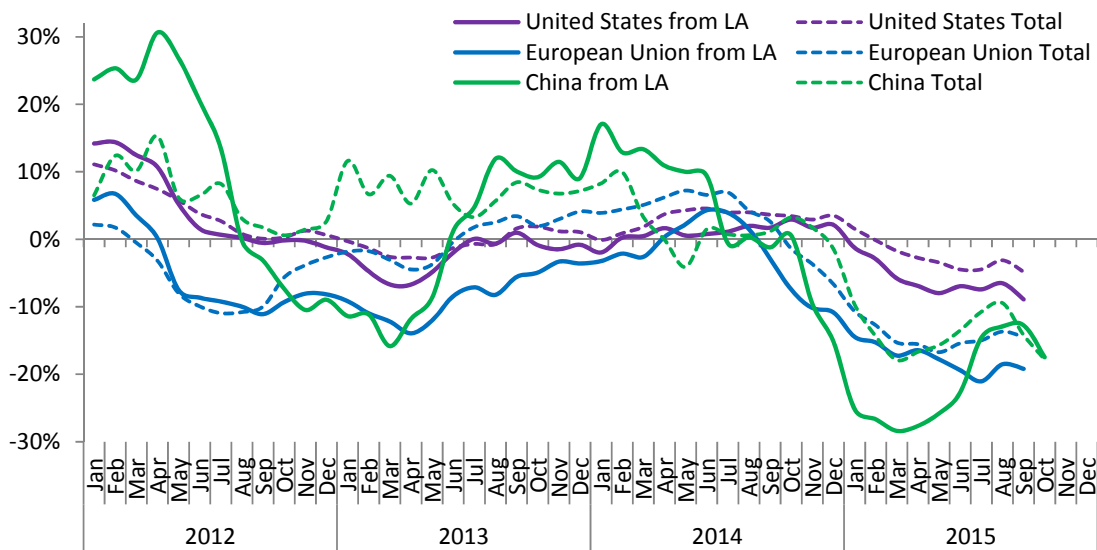
The value of **Chinese** imports from the region suffered a sharp contraction in the first part of the year, which has moderated in recent months. Growth in the volume of commodities imported by China did not compensate, in most cases, the downward dynamics of prices. In volume, purchases of iron ore even fell slightly with respect to the same period in 2014. The growth in volume of copper imports was lower than the previous year, while that for oil was stable. Only for soybeans was the volume growth of Chinese imports from the region greater than in 2014. In value terms, exports to China are estimated to close the year with a decline of around 14%.

The fall in purchases by the **United States** is due to the sharp decline in commodity purchases -driven by lower prices and a strong influence of oil imports- and an insufficient recovery in imports of manufactures. Regional exports to the United States are estimated to fall 7% in 2015. In the case of imports by the **European Union**, there is an acceleration of the rate of decline, largely explicable by the depreciation of the Euro against the dollar over the course of the year. Regional exports to this destination are estimated to fall 18% in 2015. Lastly, **intra-regional imports** are estimated to fall 19% in 2015.

In general, the contraction of imports from the region by these economies has been larger than the contraction of their total imports, showing the severity of the situation faced by the external sector in Latin America and the Caribbean.

Figure 3. Imports of the United States, the European Union, and China from Latin America and the World

(Quarterly moving average of the year-on-year growth rate, percentage, 2012-2015)



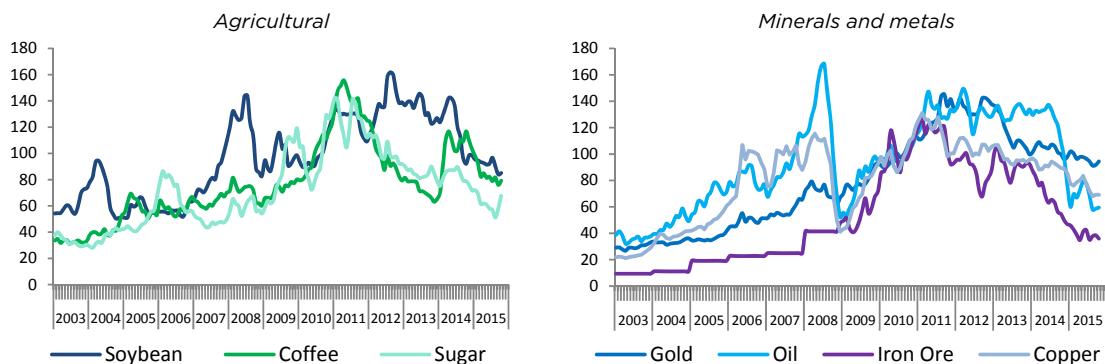
Source: IDB Integration and Trade Sector with data from IMF, United States International Trade Commission (USITC), Eurostat, China Customs, and national sources. The import series of all economies are valued in U.S. dollars.

Prices - The primary factor behind the export deterioration is rooted in the downward trend that, since the middle of 2011, has impacted the prices of the principal export commodities of Latin America and the Caribbean. This trend was accentuated in late 2014 (Figure 4).

The prices of commodities for final consumption such as soybeans, sugar, and coffee, are at levels similar to those recorded before the international

financial crises began in late 2008, that is, almost 50% below their historical peaks. Just between January and October of 2015 the price level of these three products fell, year-on-year, 25.5%, 26.2% and 19.5%, respectively. Prices for energy products, mainly oil, and those related to investment, such as iron ore and copper, have suffered sharp declines. The first two essentially collapsed, with January-October accumulated year-on-year 2015 declines of 47.9% and 43.5%, respectively. In the case of copper the corresponding drop was 18.1%, with the decline accelerating in recent months. Oil and copper prices are at levels similar to those seen between 2005 and 2006, while for iron ore, the price is at the level of early 2008.

Figure 4. Prices of Latin America's Principal Exported Commodities
(Index 2010=100, 2003-2015)



Source: IDB Integration and Trade Sector, based on data from IMF and Cochilco.

Performance by Subregion

Mesoamerica - Exports from this subregion are expected to close the year at US\$ 427 billion with an estimated contraction of 4%. The rate essentially reflects the evolution of Mexican exports (-4%), due to its weight in the total, though slightly accentuated by the relatively worse performance of Central American foreign sales (-7%). The rest of the countries in Mesoamerica have shown varied outcomes. Significant drops estimated for exports of Costa Rica (-17%), Panama (-15%), the Dominican Republic (-14%), Nicaragua (-5%), and, to a lesser extent, Honduras (-1%), are expected to be partially offset by moderate expansions in El Salvador (+6%) and Guatemala (+2%). Intra-regional trade has acted as a countercyclical factor during the year, with an estimated growth of 2%. The main contribution to this growth is in manufactures such as processed foods, plastics, textiles, and pharmaceuticals, among others. In contrast,

exports to principal trading partners, the United States and the European Union, will have negative growth falling 3% and 7%, respectively.

Despite signs of recovery in the United States economy, **Mexico's** principal trading partner and the destination of around 80% of its exports, foreign sales are estimated to fall 4% in 2015. The 3% reduction in sales to the United States is aggravated by contractions in shipments to China (-20%), to the European Union (-7%), and to the rest of Latin America (-10%). The combination of weak performance of manufactures and the dramatically lower price of oil explain this result.

Table 1: Growth of exports by selected destination
(Annual growth rate, percentage, and billions of US\$, 2015)

Exporting Group/member	Growth rates (%)							US\$ Billions	
	Subregion	Latin America and the Caribbean	United States	Asia (excl. China)	China	European Union	World Total	Change vs 2014	Total 2015
MESOAMERICA	2	-7	-3	-4	-25	-7	-4	-17	427
Mexico	1	-10	-3	-2	-20	-7	-4	-14	383
Central America	5	-1	-3	-12	-50	-6	-7	-3	44
Costa Rica	9	7	-11	-68	-82	-12	-17	-2	9
El Salvador	3	4	8	6	424	-12	6	0.3	6
Guatemala	1	2	0	-16	375	5	2	0.2	11
Honduras	-7	1	-2	-29	-80	8	-1	-0.1	4
Nicaragua	-5	-9	8	-6	n.d.	-4	-5	-0.3	5
Panama	12	1	-16	18	-46	-11	-15	-0.1	1
Dominican Republic	13	-18	-8	314	-29	-15	-14	-1	9
SOUTH AMERICA	-22	-22	-21	-21	-13	-21	-21	-126	471
Argentina	-23	-21	-18	-4	13	-15	-16	-11	61
Bolivia	-37	-37	-46	-6	-6	-7	-32	-4	9
Brazil	-16	-16	-11	-13	-13	-20	-16	-36	189
Chile	-18	-15	-9	-20	-9	-24	-16	-12	64
Colombia	-25	-25	-30	-59	-63	-39	-35	-19	36
Ecuador	-39	-44	-34	6	56	-8	-28	-7	18
Paraguay	-6	-8	-27	-32	-52	-5	-15	-1	8
Peru	-29	-26	-22	-23	-3	-14	-16	-6	32
Uruguay	-27	-25	32	-15	-14	-14	-16	-1	8
Venezuela	-46	-57	-28	-58	-31	-36	-49	-36	38
CARIBBEAN	-35	-25	-34	9	30	-13	-23	-4	15
Barbados	-7	-16	24	58	3	16	-5	-0.03	1
Belize	-5	-25	-2	0	-80	-14	-13	-0.04	0
Guyana	45	33	-6	21	21	21	-4	-0.04	1
Jamaica	-34	-42	-13	11	-9	-26	-7	-0.1	1
Suriname	-47	-45	-73	33	-34	-28	-14	-0.3	2
Trinidad and Tobago	-40	-26	-35	7	129	-13	-27	-4	11
LATIN AMERICA AND THE CARIBBEAN	-19	-19	-7	-19	-14	-18	-14.0	-148	914

Source: IDB Integration and Trade Sector, based on official national sources, except Venezuela, estimated from OPEC and IMF figures.

Notes: The table does not include the growth rates or absolute changes corresponding to destinations not selected; as a result, the sum of the absolute changes of selected destinations does not match the total. Data for Costa Rica, El Salvador, Guatemala, Nicaragua and the Dominican Republic include exports under Special Trade Regimes (STRs). For the countries of Central America, the subregional export growth corresponds to Mesoamerica; the Central American aggregate excludes Mexico. See Methodological Notes for further information on the procedures, time periods, and sources of data used in the estimates. The annual rates of change at the country and sub-regional levels are rounded to the nearest unit.

China, the rest of Asia, and the United States are responsible for the substantial decline in exports from **Costa Rica** (-17%). The contraction is derived mainly (13 percentage points) from the fall in exports covered by

Special Trade Regimes (STR),³ severely affected by the lower sales of electronic components due to the closure of the INTEL manufacturing plant. Sales to the rest of Mesoamerica had a relevant increase of 9%, but this was insufficient to compensate for the decline to all other partners. It is worth noting that this growth is composed of an 11% increase in exports to Central America and an 8% decline in those to Mexico.

El Salvador is projected to show good performance (+6%). Sales under STR showed greater dynamism than the rest: 9% vs. 5%, respectively. However, due to their greater weight, general exports contributed more than two thirds of the growth of total exports. With the exception of the European Union, sales expanded to all partners. The largest contributions came from the United States, the rest of Mesoamerica (especially Guatemala and Nicaragua), and China. To the latter, exports quintupled due to a surge in sugar exports.

The estimated modest growth of foreign sales from **Guatemala** (+2%) results from an uneven performance among its most relevant partners. The strong growth to China (mainly sugar), the ASEAN countries, Japan, and to a lesser extent the rest of Latin America, was compensated by an important drop in exports to Korea, El Salvador, the United States, and Canada. The products with the largest positive contributions are iron and steel, bananas, pharmaceutical products, and textiles and apparel which were undermined by the drop in exports of oil, lead, alcoholic beverages, rubber, and precious metals and stones.

In **Honduras** there is also a small estimated change in exports, although negative (-1%).⁴ Notable contractions in sales to China (-80%) and Mexico (-48%) were partially compensated by growth of sales to the European Union (+8%) and to countries of South America (+47%). During the year there were observable increases in exports of the most relevant products, coffee and bananas, and important declines in shipments of palm oil, shrimp, and iron oxide.

The estimated contraction in shipments from **Nicaragua** (-5%) responds to similar drops in definitive and STR exports. Canada, Mexico, and Venezuela were the destinations with the largest negative contributions to this change. There was growth in shipments to the United States (+8%),

³ STR include regimes such as "free zones" in which goods are admitted under special dispositions (customs, tariffs, taxes, etc.) for processing and subsequent export. General exports do not benefit from such dispositions.

⁴ The data for Honduras do not include exports under STR.

principally of gold, and to the rest of Central America (+7%), propelled by foodstuffs.

General exports from **Panama** are estimated to show a significant contraction (-15%) explained by severe reductions in sales to China (-46%), the United States (-16%), and the European Union (-11%). The increases to the rest of Mesoamerica and Asia were scarcely relevant.

The partners that most contributed to the estimated reduction of exports from the **Dominican Republic** (-14%) were the United States, Haiti, and Canada. Sales to Asia (excluding China) quadrupled as a result of greater shipments of gold to India. Although insufficient to compensate for the drop in sales to principal markets, this growth attenuated the steep drop in Dominican exports. An increase in sales to the rest of Mesoamerica had a moderate impact, given its low relative weight.

South America - In 2015 exports from the countries of South America are estimated to be US\$ 471 billion, after a sharp drop of 21% with respect to 2014. The contraction in shipments is common to all destinations. Venezuela, Colombia, Bolivia, and Ecuador, whose economies are specialized in hydrocarbon exports, suffered an export collapse of 49%, 35%, 32%, and 28%, respectively. The rest of the South American economies, though less dramatically, also are estimated to show significant drops in exports: in Argentina, Brazil, Chile, Peru and Uruguay exports fell 16%, and in Paraguay 15%. The weakness within the subregion (-22%), in Asia (excluding China) and in the United States (-21% in both cases) are the main contributors to the drop in South American exports.

Argentina's exports (-16%) were affected mainly by the fall in exports to Brazil (-24%), the primary trading partner. In contrast, shipments to China grew 13%. Other destinations, however, contributed to the contraction, in particular the European Union (-15%) and the United States (-18%).

In **Bolivia**, the decrease in exports (-32%) is mainly explained by the decline in intra-regional exports, especially to Argentina and Brazil, the most important partners. The lower natural gas prices, held down by lower oil prices, have strongly affected the value of exports to those countries. The contraction in exports to the United States (-46%) also was an important factor in Bolivia's export performance.

Foreign sales of **Brazil** (-16%) experienced pronounced declines to all principal trading partners. Iron ore, oil, and soybeans explain half of the reduction in exports, mainly due to the price effect.

Around half of the reduction in exports from **Chile** (-16%) is explained by the drop in exports to China (-9%) and to the rest of Asia (-20%). The European Union and the intra-regional market also adversely affected the total. The performance of copper, due to the price decline, held back Chilean exports.

Colombia's foreign sales (-35%) suffered intensely from the drop in oil prices. All destinations contributed negatively to the export performance. In particular, shipments to China (-63%) and the rest of Asia (-59%) fell at rates greater than the price of oil, evidence of contractions in the volume exported due to deceleration in those economies.

Half of the decline in exports from **Ecuador** (-28%) is explained by lower exports to the United States, mainly due the price effect. Other countries of the region account for the other half. It is worth noting that Ecuador managed to expand sales to Asia, especially China (+56%), but this was not sufficient to offset the contractions in exports to other destinations.

The reduction of soybean exports, mostly due to lower prices, accounts for half of the reduction in exports from **Paraguay**, which fell to all destinations (-15%). Soy meal and beef also posted important declines.

Exports from **Peru** (-16%) to the rest of Latin America and the Caribbean (especially Brazil, Chile, and Venezuela) and to the United States were the main sources of weakness (-26% and -22%, respectively). The price decline for minerals explains these drops.

Uruguay, which posted an overall decline of -16%, expanded exports substantially to the United States (+32%). However, there was a strong contraction in shipments to all other destinations, particularly to MERCOSUR partners that were responsible for almost half of the total reduction. Similar to the rest of the exporters of agricultural commodities, the decline is explained mainly by lower prices.

According to estimates based on unofficial sources, the exports of **Venezuela** have experienced a severe contraction (-49%) to all destinations. Lower oil prices are the main factor.

The Caribbean - For the six countries of the Caribbean for which 2015 export data are available, estimates show an aggregate decline of 23%, or 9% when Trinidad and Tobago is excluded. The most pronounced contraction is observed in this latter country (-27%), followed by Suriname (-14%), Belize (-13%), Jamaica (-7%), Barbados (-5%), and Guyana (-4%).

The principal markets of the Caribbean -the United States, the European Union, and the subregion itself- all showed negative performance.

The reduction in exports from **Barbados** (-5%) responds mainly to the decline in intra-regional shipments, which offset the increases in sales to the United States and to the European Union.

The European Union and Mexico are the partners that most contributed to the decline in the exports of **Belize** (-13%).

The moderate decline in exports from **Guyana** (-4%) is explained by a contraction in sales to the United States and Canada, attenuated by higher shipments to Panama, to Caribbean partners, and to the European Union.

All principal trading partners contributed to the 7% decline in **Jamaica's** exports in 2015. The most relevant, due to their weight in the total, were with the United States, the European Union, and the Caribbean subregion.

The estimated reduction in exports from **Suriname** (-14%) is due to lower purchases from the United States.

The collapse in oil prices has severely affected the exports of **Trinidad and Tobago** (-27%), with the United States and intraregional partners being the destinations the most contributed to the contraction.

Conclusion

In 2015 Latin American and Caribbean exports experienced their greatest decline since the international financial crisis, with an estimated reduction of 14.0%. Although to a large degree this rate reflects the impact of the sharp contraction in the prices of the commodities that make up the regional export basket, weak performance of manufactured goods was also a factor. There was an almost immediate impact of the extra-regional decline on the levels of intra-regional trade, evidence of the strong linkage of the economic cycle of Latin American and Caribbean countries with the performance of the external sector. Only in the case of the Mesoamerican countries is the subregion functioning as a countercyclical outlet for exports.

For 2016 the risks for Latin American and Caribbean export growth are tilted to the downside. First, there are no signs of a reversal of the downward trend in commodity prices, which are approaching the levels

seen at the beginning of the export boom in the early 2000s. Second, the modest growth of the United States and of the European Union are now combining with the deceleration of the Chinese economy and with the erosion of intra-regional demand to lower overall real export demand. Finally, the divergence in monetary policies in the United States and the Euro zone make a sustained appreciation of the dollar more likely, which could accentuate deflationary pressures on regional trade.

In the current environment it is urgent to implement trade promotion and facilitation policies that contribute to reverse the downward trend and to support trade diversification.

Methodological Note

The estimates were made using data available through December 4, 2015 and are based on the assumption that international trade trends observed in Latin America during 2015 will continue until the end of the year.

The data used corresponds to the following intervals: January-November for Brazil; January-October for Argentina, Bolivia, Chile, Costa Rica, El Salvador, Mexico, Paraguay, and Uruguay; January-September for Belize, Colombia, Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama, Peru, Suriname, and Trinidad and Tobago; January-August for Barbados; and January-June for Guyana and Jamaica.

The following official data sources were used. Argentina: National Institute of Statistics and Censuses; Barbados: Barbados Statistical Service; Bolivia: National Institute of Statistics; Belize: Statistical Institute of Belize; Brazil: Ministry of Development, Industry and Foreign Trade; Chile: Central Bank of Chile and National Customs; Colombia: National Administrative Department of Statistics and Direction of National Taxes and Customs; Costa Rica: Central Bank of Costa Rica, the National Institute of Statistics and Census, Foreign Trade Corporation of Costa Rica; Ecuador: Central Bank of Ecuador; El Salvador: Central Reserve Bank of El Salvador; United States: US International Trade Commission; Guatemala: Bank of Guatemala; Guyana: Bureau of Statistics; Honduras: Central Bank of Honduras; Jamaica: Statistical Institute of Jamaica; Mexico: Bank of Mexico and the National Institute of Statistics and Geography; Nicaragua: Central Bank of Nicaragua; Panama: National Institute of Statistics and Censuses; Paraguay: Central Bank of Paraguay; Peru: Central Reserve Bank of Peru, National Customs and Tax Administration and Ministry of Foreign Trade and Tourism; the Dominican Republic: Central Bank of the Dominican Republic and the National Statistics Office; Suriname: General Bureau of Statistics; Trinidad and Tobago: Central Statistical Office; Uruguay: Central Bank of Uruguay. The data on exports of Venezuela combine information from OPEC with estimates based on IMF data. Data from Costa Rica, El Salvador, Guatemala, Nicaragua, and the Dominican Republic include Special Trade Regimes (STR).

The following abbreviations are used in this document: Cochilco: Chilean Copper Corporation; CPB - Netherlands Bureau for Economic Policy Analysis; DR - the Dominican Republic; EU - European Union (28 countries); IMF - International Monetary Fund; LA - Latin America; MERCOSUR - the Southern Common Market, whose members are Argentina, Brazil, Paraguay, Uruguay and Venezuela; NAFTA - North American Free Trade Agreement, whose members are Canada, Mexico and United States; OECD - Organization for Economic Cooperation and Development; OPEC: Organization of Petroleum Exporting Countries; STR - Special Trade Regimes; US - United States; USITC - United States International Trade Commission.