



SHIFTING INTERNATIONAL TRADE ROUTES

INTERNATIONAL ECONOMIC OUTLOOK

Julián Villalba
Tampa, January 19th

Contents

- What is Latin America?
- The economic crisis: what about LA?

What is Latin America? Geography matters

Suramérica:

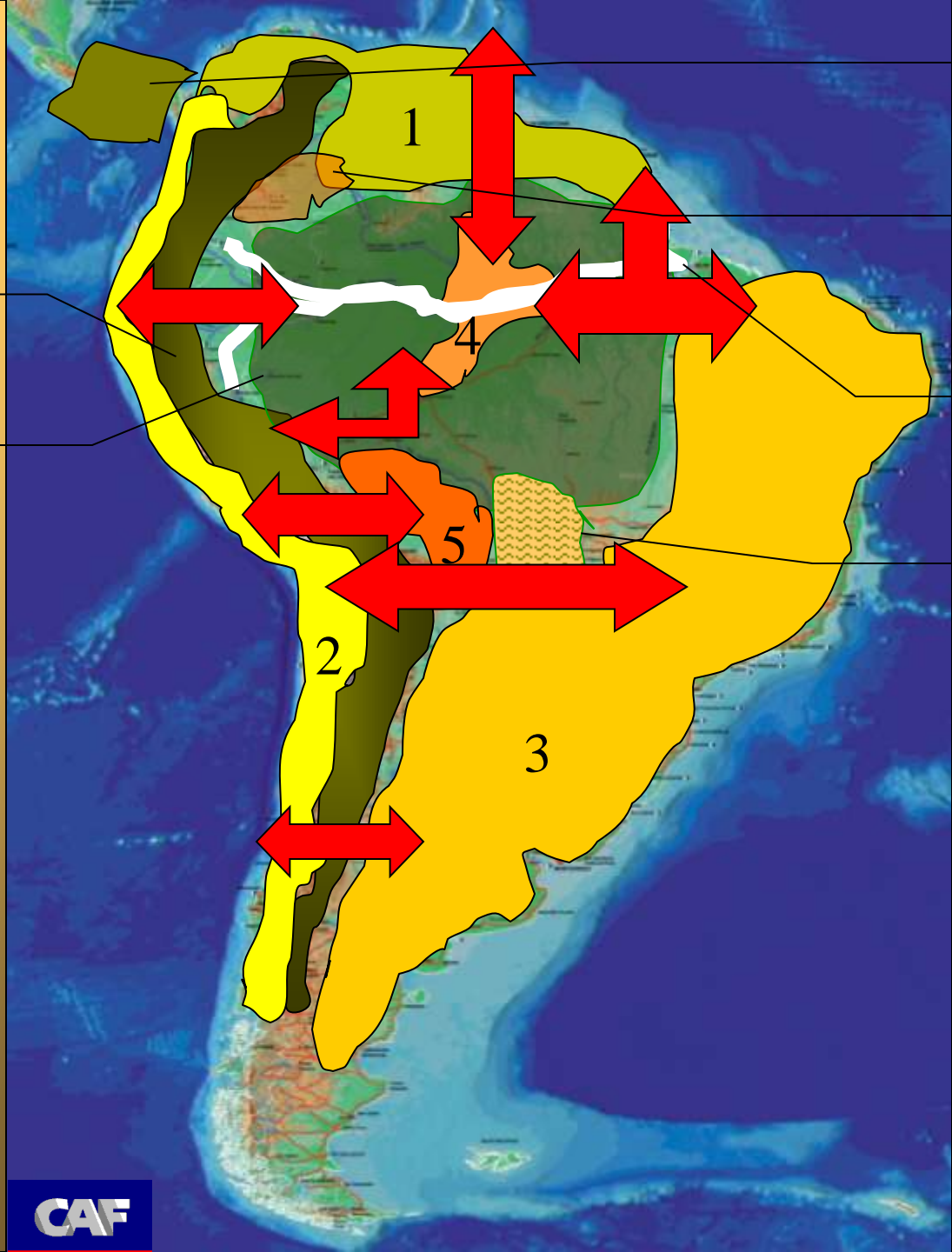
Is a territory with many barriers

The Andean mountains

Amazonian Jungle

Which form 5 Islands:

- 1. Caribbean Plataform
- 2. Andean cornise
- 3. Atlántic Platform
- 4. Amazonian Enclave
- 5. Southern mazonian Enclave



Central American Istm

Political problems

Amazon river

Pantanal

With IIRSA South America tries to identify the bridges to unite these 5 islands



What is Latin America? Infrastructure

9 Axis for integration and development

PERU-BRASIL-BOLIVIA

ESCUDO GUAYANES

ANDINO

AMAZONICO

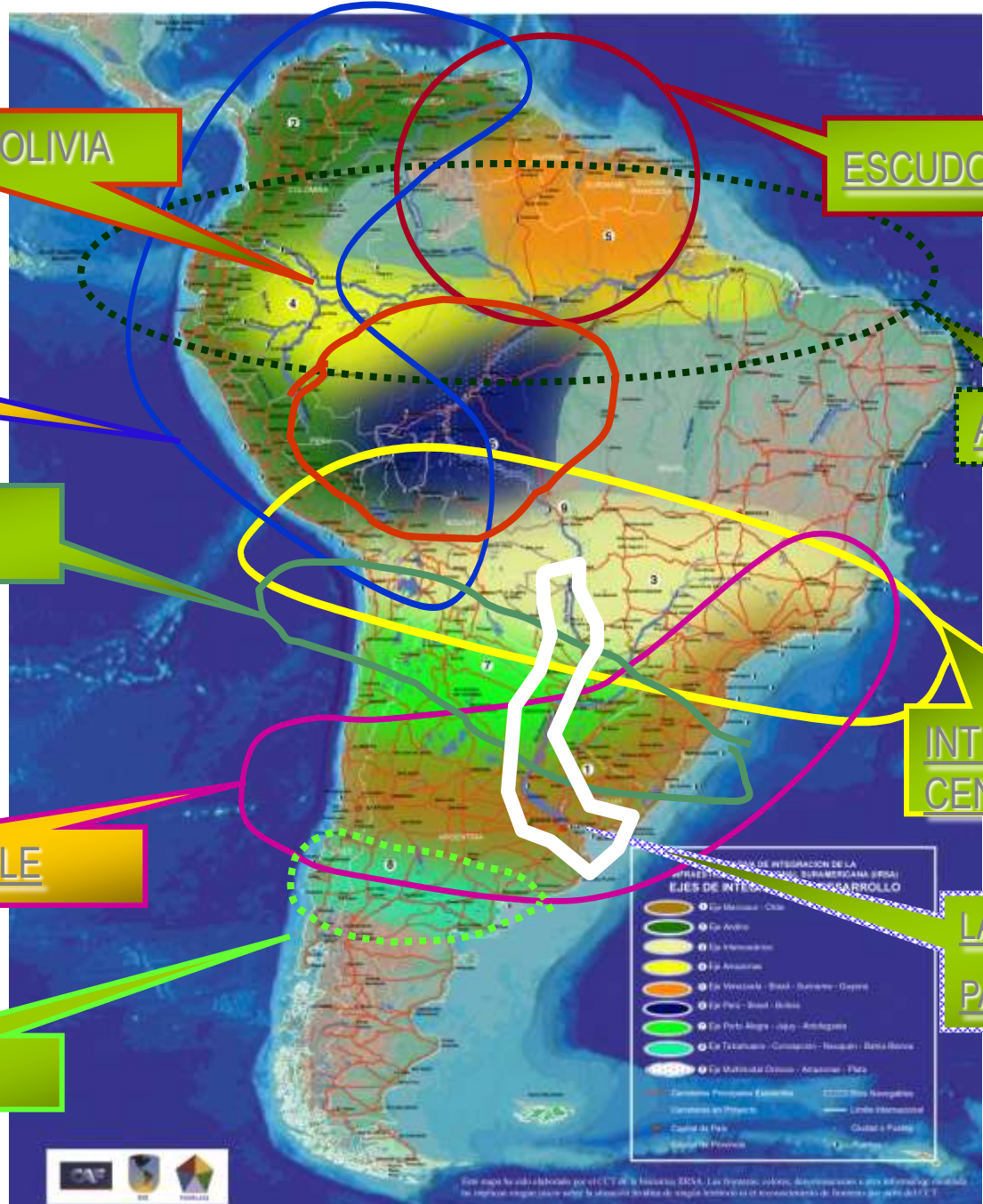
CAPRICORNIO

INTEROCEÁNICO CENTRAL

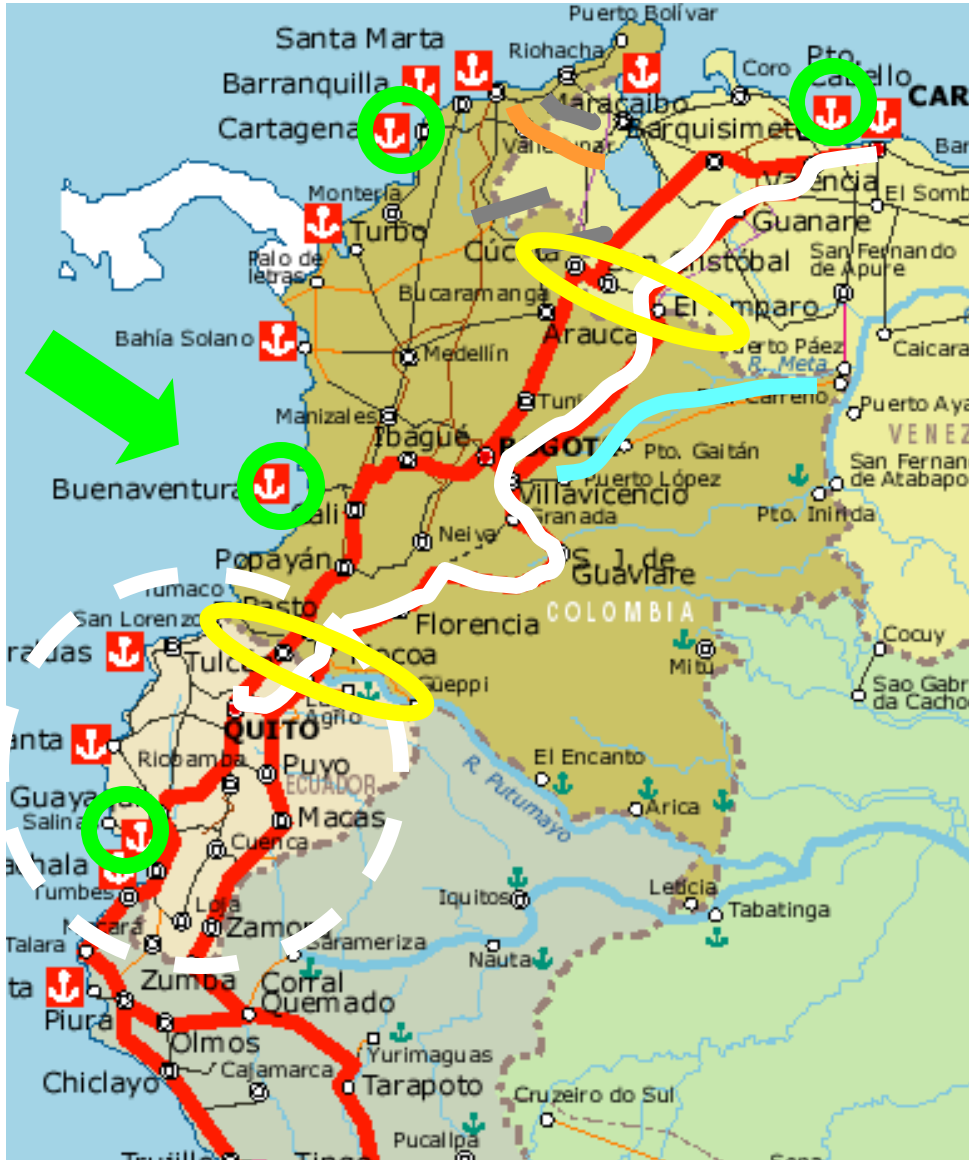
MERCOSUR-CHILE

LA HIDROVIA PARAGUAY - PARANA

DEL SUR



Some projects proposed for the Andean Axis



- Corredor de baja altura Caracas – Bogotá - Quito
- Trasmisión eléctrica Col-Ven
- Gasoducto Col - Ven
- Ampliación Buenaventura
- Programa de Marca de Calidad en puertos
- Rehabilitación y construcción de carreteras en Ecuador
- Programa navegación en el Meta
- Pasos de frontera

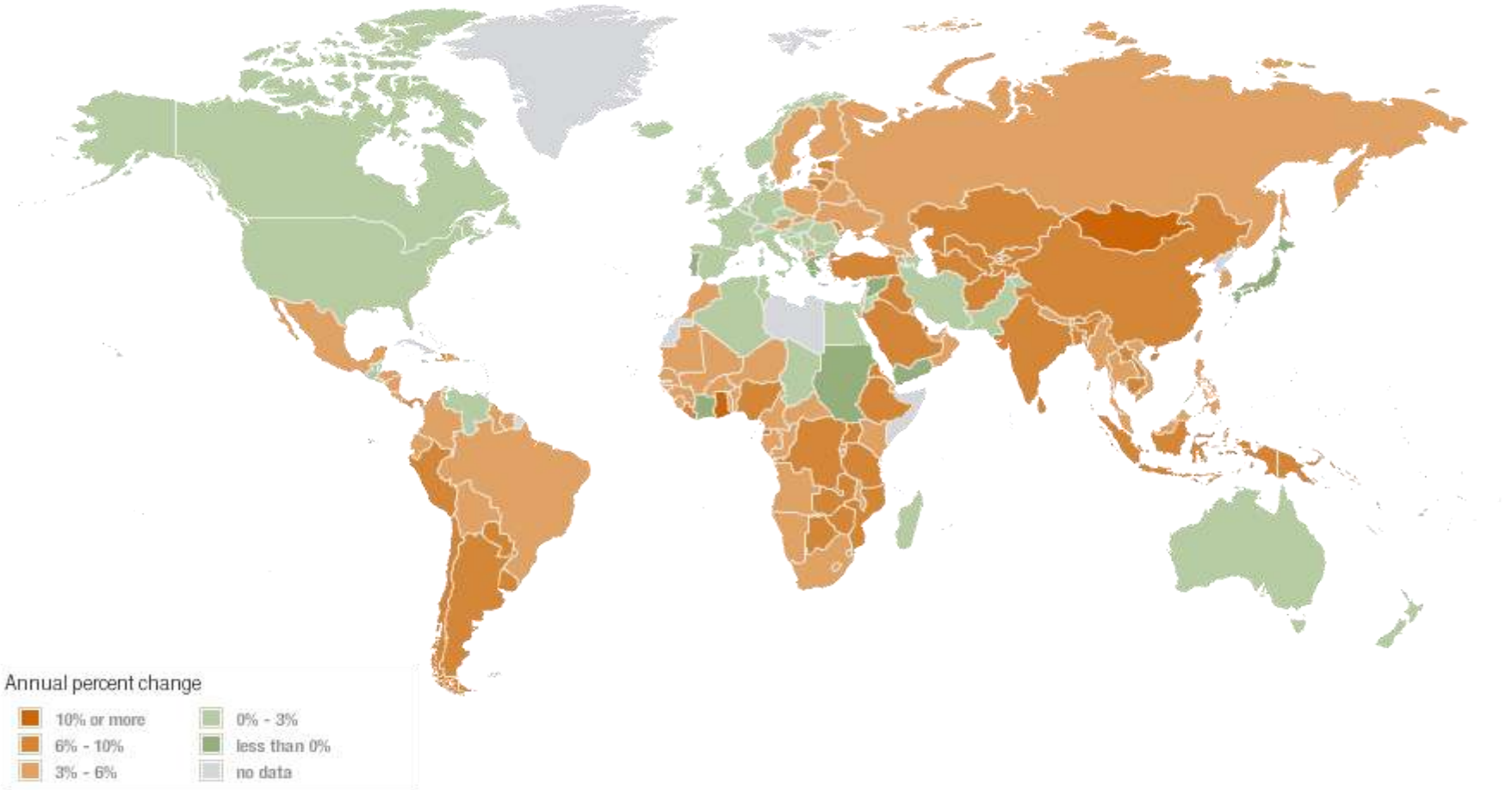
The economic crisis: What about LA?

2011 vs 2010: some facts

- 1. A foreseeable fact: during 2010 we observed a rebound effect in the world economy, after the 2009 crisis (growth was 5,1% whereas it was forecasted to be 3.1% in September 2009)**
- 2. The impact of Japan's earthquake over supply chains**
- 3. The impact of the Arab spring over oil prices**
- 4. The fiscal blockade within the US**
 - By impeding the tax hikes, Congress is forcing a short term reduction in the public expenditures. This has a procyclical contractive effect**
 - The downgrading of US treasury notes has had an impact on the markets risk aversion**
- 5. The lack of leadership and decision making about the handling of Europe periphery debt**

The global economy shows the economic performance varies across regions and countries

GNP GROWTH 2011



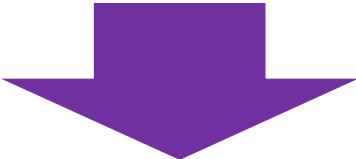
Emerging economies: a radical and structural change

The world economy does not behave like the advanced countries

- **Measured in PPP:**
 - ✓ In 2010, the participation of China and India (13,6% + 5,5%) in the global GNP almost equates that of the US (19.6%), and is superior to that of the Euro zone (14,6%).
 - ✓ By 2013, the GNP of the emerging economies will surpass the GNP of advanced economies
 - ✓ By 2016, China's GNP will surpass that of the US
- **At market rates, by 2020 China's GNP will surpass that of the US**
- **Emerging economies contributed to 75% of the global demand growth during 2010. This percentage used to be below 25% in previous decades.**

Global baseline for 2011-2012 (4%): Weaker growth, but necessary policies are adopted

Assumptions

- Europe contains crisis
 - U.S. finds adequate balance on fiscal policy
 - Emerging Asia growth remains strong
- 
- Cheap financing, with bouts of risk aversion.
 - Lower commodities prices, but still high

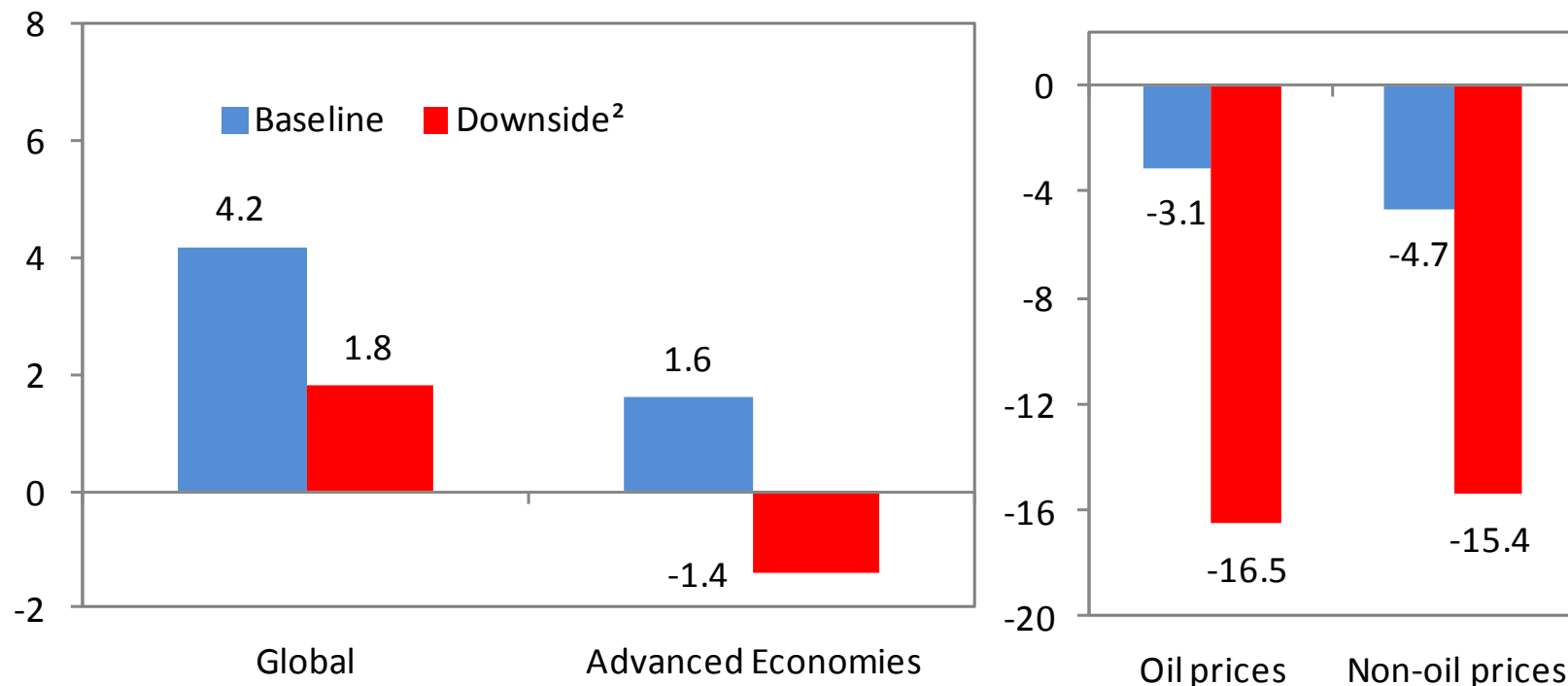
Downside risks

- Problems in the European periphery are spreading, growth is slowing, and policy actions may not contain negative feedback loops between sovereigns and banks
- U.S. fiscal adjustment becomes too frontloaded and the stimulus is not renewed
- Overinvestment and credit risk in China?

Latam and the Caribbean: Juggling two Scenarios

Baseline vs. Downside Scenario: Impact on Growth and Commodities in 2012

(percent change)

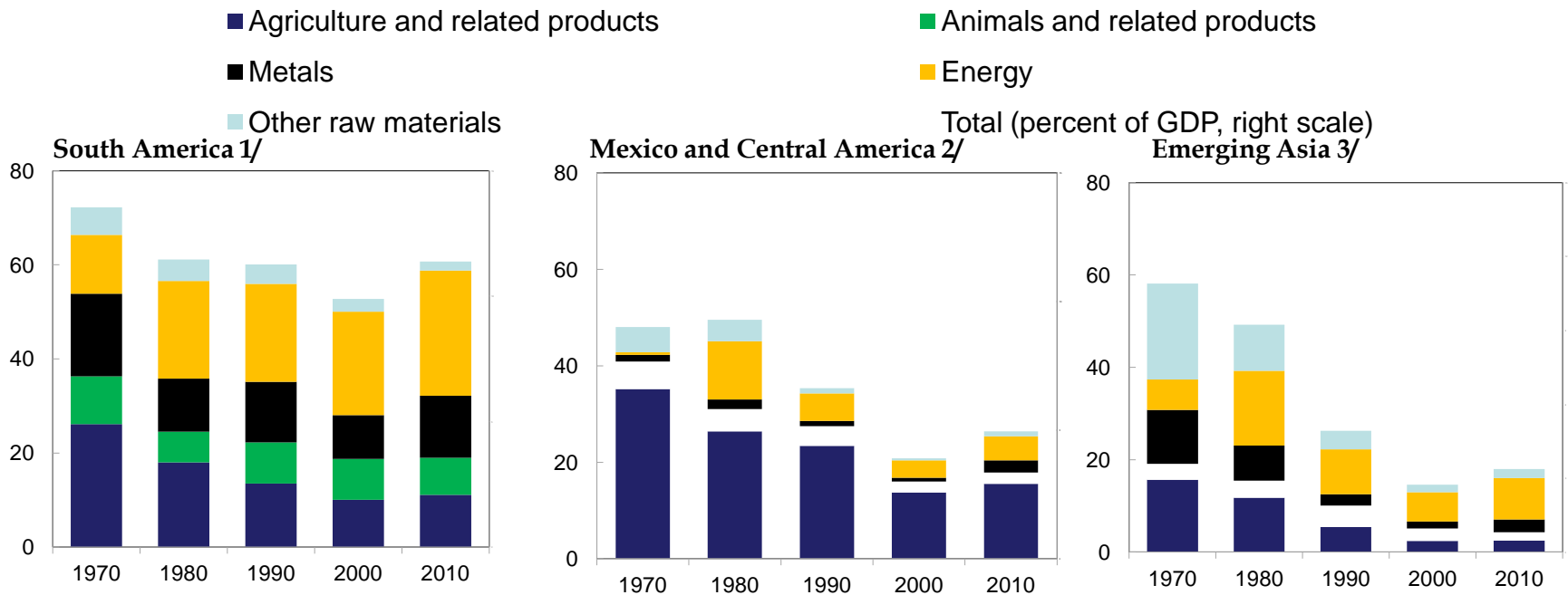


Source: IMF, World Economic Outlook.

²Estimated shock from a European debt crisis, slowing of U.S. potential GDP, and rising loan defaults in emerging Asia.

While export diversification has improved in most cases

Export Diversification: A Regional and Historical Comparison (Gross commodity exports, in percent of total exports of goods and services)



Sources: World Integrated Trade Solutions database; and IMF staff calculations.

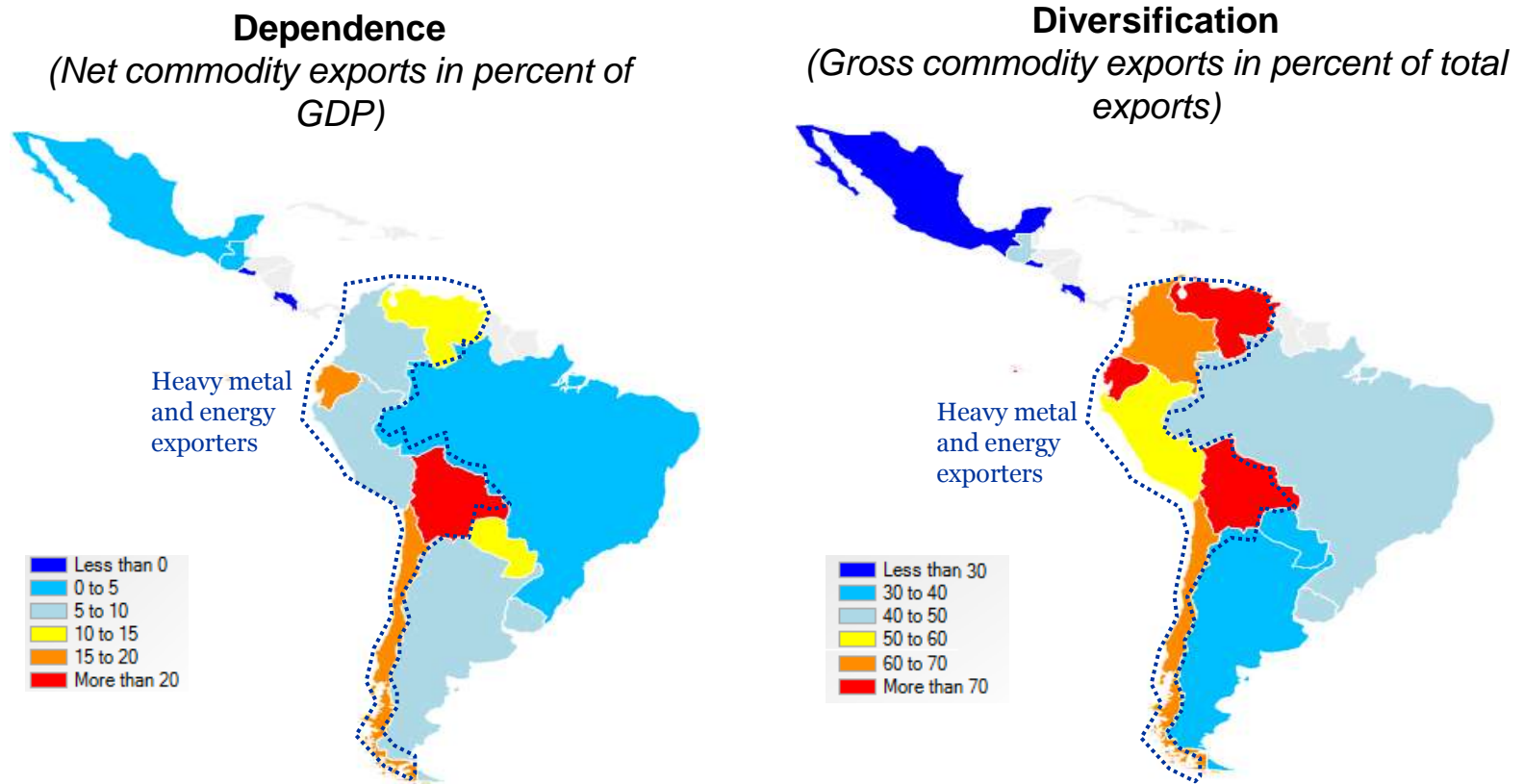
¹ Simple average for Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.

² Simple average for Mexico, Costa Rica, El Salvador, and Guatemala.

³ Simple average for China, India, Indonesia, Korea, Malaysia, Philippines, and Thailand.

With the exception of metal and energy exporters

Commodity Dependence and Export Diversification in Latin America, 2010



Sources: World Integrated Trade Solutions database and IMF staff calculations.

Conclusions

- **Although diversification has improved, Latin America—in particular South America—remains heavily dependent on commodities.**
- **And so vulnerable to a global recession**
- **Metal and energy are particularly exposed**
 - **Higher dependence & less diversification**
 - **Those commodities are more sensitive to global output**
- **Policies during the boom can help mitigate the bust**
 - **ER flexibility can play a powerful role as shock absorber—less so in highly dollarized economies**
 - **Strong underlying fiscal and external positions—lead to better performance after the bust**

Thanks

julian_villalba@cantv.net

villalbajulian@gmail.com