SHIFTING INTERNATIONAL TRADE ROUTES

INTERNATIONAL ECONOMIC OUTLOOK

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- What is Latin America?

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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 Amazonian Enclave

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

Central American Istm

Political problems

Amazon river

Pantanal
What is Latin America? Infrastructure
9 Axis for integration and development

- **PERU-BRASIL-BOLIVIA**
- **ANDINO**
- **CAPRICORNIO**
- **MERCOSUR-CHILE**
- **DEL SUR**
- **ESCUDO GUAYANES**
- **AMAZONICO**
- **INTEROCEÁNICO CENTRAL**
- **LA HIDROVIA PARAGUAY - PARANA**
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

Source: IMF
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 polices are adopted

Asumptions

- 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)

- Global:
  - Baseline: 4.2
  - Downside²: -1.4

- Advanced Economies:
  - Baseline: 1.8
  - Downside²: -1.6

- Oil prices:
  - Baseline: -3.1
  - Downside²: -16.5

- Non-oil prices:
  - Baseline: -4.7
  - Downside²: -15.4

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)

South America 1/
Mexico and Central America 2/
Emerging Asia 3/

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

**Dependence**
(Net commodity exports in percent of GDP)

**Diversification**
(Gross commodity exports in percent of total exports)

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
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