FEATURED Q&A

What Is the Outlook for Latin American Trade Flows in 2023?

Latin American and Caribbean countries face an unfavorable international context for trade in the coming year, Renata Vargas Amaral writes below. The port of Callao in Peru is pictured. // File Photo: Peruvian Government.

Q

With a global recession an increased possibility, trade flows in global goods will likely fall to a more "subdued" growth rate of 1.2 percent in 2023, a figure that is below expected world GDP growth for next year, ING Bank said in a report in October. What factors are most shaping the global trade outlook, and how does Latin America and the Caribbean fit into the picture? Will congestion and delays, which spiked during the Covid-19 pandemic, persist into the new year? Is the region benefiting from near-shoring efforts? How has intra-regional trade changed since the pandemic, and will those trends continue into next year?

A

Carlos Alvarado Quesada, former president of Costa Rica and current professor of practice at The Fletcher School of Tufts University: “Globally we are experiencing a competition between regions and systems, and in this geopolitical scheme the game is played regionally. In this global/regional competition that involves trade, but goes beyond it, the Western Hemisphere risks falling behind to the detriment of Latin America and the Caribbean, and the United States. As opposed to Asia and Europe, the Western Hemisphere has consistently missed opportunities to exploit the potential of regional synergies. This must change. And a hemisphere-wide, green sustainable transformation needs to be at the center of efforts going forward. The industrial policy at the heart of the Inflation Reduction Act (IRA) represents an umbrella for joint development, partnership and investment in Latin America and the Caribbean to strengthen the political and economic position of the whole region while improving human development and...
Amnesty Int’l Calls on Petro to Condemn Gender-Based Attacks

Colombian President Gustavo Petro must condemn gender-based and sexual violence in the country, Amnesty International said Thursday as it issued a new report on attacks that happened during protests last year. In its report, “The police do not protect me: Sexual violence and other gender-based violence during the 2021 National Strike,” the human rights group documented 28 cases of sexual and gender-based violence at the hands of the country’s National Police that happened during the demonstrations beginning in April 2021. In all, Amnesty International said it received hundreds of reports of such violence. “Gender-based violence, and particularly sexual violence, have a painful history in the context of the Colombian armed conflict—a history that authorities have yet to overcome,” said the organization’s secretary general, Agnès Callamard. The cases that the group documented occurred in the cities of Cali, Palmira, Popayán, Soledad, Tunja, Manizales and Bogotá. “Women protesters were broadly targeted, with Afro-descendant and Indigenous women, human rights defenders, journalists, health care workers and mothers among the survivors,” the organization said in a statement accompanying the report. “The report reveals how the violence against women and LGBTQI people was inextricably linked with other factors of discrimination, such as race, ethnicity and sexual orientation,” it added. “As the ultimate head of the National Police, President Gustavo Petro must issue an order condemning all forms of sexual and gender-based violence and demand it to stop,” said Callamard. "Each complaint from the National Strike in 2021 must be investigated and those responsible must be held to account," she added. In the report, Amnesty International said the human rights violations took place during actions that Colombia’s National Police took to disperse protests and also during detentions of people who were arrested.

More Than 12 Killed in Gang Attacks Near Haiti’s Capital

More than 12 people were killed this week in the small town of Cabaret near Haiti’s capital as gangs struggle for control of territory, the town’s mayor, Joseph Jeanson Guillaume, told the Associated Press on Thursday. The town, which is northwest of Port-au-Prince, recently appointed area residents to serve as guards amid spiraling gang violence in Haiti, the mayor said. However, he added that gang members armed with machine guns overpowered them. “There was nothing they were able to do to defend themselves,” said Guillaume, the AP reported. “This is a terrible incident,” he added. Gang members also set fire to more than 20 homes in the town, the wire service reported. [Editor’s note: See related Q&A in the Oct. 25 issue of the Advisor.]

Mexico Sees Record Level of Remittances in October: Banxico

Mexico received $5.35 billion in remittances in October, a record amount as citizens living abroad continued sending money back home, the Bank of Mexico, known as Banxico, said Thursday. The amount sent back to Mexico in October grew 11.2 percent as compared to the same month last year and surpassed the previous record of $5.3 billion set in July, the central bank added. Remittances have helped to prop up Mexico’s economy since the beginning of the Covid-19 pandemic. The country’s gross domestic product fell 8.2 percent in 2020 and has experienced a slow recovery. Remittances have also helped to boost the Mexican peso, which this year has been among the world’s top performing currencies, Bloomberg News reported. “Solid workers’ remittance flows have been adding support to the current account

Perú’s Congress Launches Third Impeachment Attempt Against Castillo

Perú’s Congress on Thursday approved a motion to start impeachment proceedings against President Pedro Castillo, Reuters reported. The motion, brought forward by opposition lawmakers, marks the third formal attempt to oust the sitting president, who took office last year. It was approved with 73 votes in favor, 32 against, and six abstentions, and Congress summoned Castillo to respond on Dec. 7 to accusations of constitutional violations.

Gunmen Kill Warden of Ecuadorean Prison

Gunmen on a motorcycle killed the warden of an Ecuadorean prison as he drove along a road in Quito on Thursday, the federal prisons agency said, Agence France-Presse reported. Retired police colonel Santiago Loza assumed his position as head of Quito’s Pichincha 1 prison on Nov. 9, a week prior to deadly riots erupting there as gang leaders were transferred to another facility. Since February 2021, more than a dozen gang-related riots have broken out in Ecuador’s overcrowded prison facilities, killing more than 400 inmates.

Moody’s Announces Acquisition of Ratings Agency Group SCRiesgo

Moody’s Corporation announced Thursday that it has agreed to acquire SCRiesgo, a group of local credit ratings agencies that serve financial markets in Central America and the Dominican Republic. “The acquisition significantly expands Moody’s presence in Latin America and reaffirms its commitment to and support for the ongoing development of regional capital markets,” Moody’s said in a statement. Following the acquisition, SCRiesgo will become an affiliate of Moody’s domestic credit ratings platform Moody’s Local.
and to private consumption, particularly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers,” Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York, said Thursday in a note. [Editor’s note: See related Q&A in the June 30-July 13 issue of the biweekly Financial Services Advisor.]

Top U.S., Mexican Officials Discuss Energy, Environment

U.S. Trade Representative Katherine Tai met with Mexican Economy Minister Raquel Buenrostro to discuss Mexico’s energy policies and its fisheries-related environmental laws, Tai’s office said, Reuters reported on Thursday. Tai also highlighted the importance of avoiding disruptions to U.S. corn exports to Mexico, which has been subject to an ongoing trade dispute. On Monday, the U.S. government threatened legal action over Mexican President Andrés Manuel López Obrador’s plan to prohibit exports of genetically modified corn starting in 2024, Reuters reported. Those in favor of the ban state it is needed to protect Mexico’s corn from contamination. “At the core, this issue is about the longstanding Mexican small plot farmer concerned with more efficiently grown U.S. corn,” Jon Huenemann, former assistant U.S. Trade Representative and NAFTA Coordinator told the Advisor in a Q&A published Nov. 21. “They have cloaked that argument in the politically appealing concern over GMOs,” he added. The United States and Mexico have also been engaged in prolonged talks to resolve a dispute over energy policy, Bloomberg News reported. The United States is accusing López Obrador’s energy policies of discriminating against U.S. companies and violating the USMCA trade pact. If the disagreement is not resolved within 75 days of consultation, it could escalate to a dispute panel. The Mexican economy ministry invited Tai’s team for a third round of energy consultation, to be held in the coming days in Mexico City, according to a ministry statement, Reuters reported.

Renata Vargas Amaral, adjunct professor at American University’s Washington College of Law: “Among the factors shaping global trade for 2023, import demand is still expected to soften as growth slows in major economies. According to the World Trade Organization, in Europe, high energy prices stemming from the Russia-Ukraine war will squeeze household spending and raise manufacturing costs. Here in the United States, monetary policy tightening will hit interest-sensitive spending. Latin America and the Caribbean are among the groups of countries with growing import bills for fuels, food and fertilizers that could lead to food insecurity and debt distress. The deceleration is expected to intensify next year in Latin America and the Caribbean, with growth of 1.4 percent in 2023 (according to data from the United Nations Economic Commission for Latin America and the Caribbean), in a scenario subject to significant restrictions, both external and domestic. Furthermore, in 2023, Latin American and Caribbean countries will still have to face an unfavorable international context, with forecasts for a deceleration in both global growth and trade, higher interest rates and less global liquidity. Domestically, the regions’ countries will keep confronting a complex environment for fiscal and monetary policy. In the international trade context, while trade restrictions may be a tempting response to the supply vulnerabilities that have been exposed by the shocks of the past years, especially because of the Covid-19 pandemic, a retrenchment of global supply chains would only deepen inflationary pressures. While it will still not be normal, signs are now pointing to a better year in general for supply chains in 2023. Finally, although there is an optimistic prediction from the Inter-American Development Bank that nearshoring could add an annual $78 billion in additional exports of goods and services in Latin America and the Caribbean in the near and medium term with opportunities for quick wins in the auto industry, textiles, pharmaceuticals and renewable energy, for example, the major positive results are still to be seen.”

Juan Carlos Sikaffy C., former president of the Honduran Council of Private Enterprise (COHEP): “Inflation continues to position itself as a determining factor for the world’s economic and trade prospects. The World Bank foresees that global inflation by the end of 2022 will be exceed 7 percent and will not decrease until after 2024, which generates greater pressure on the central banks of the world to substantially increase interest rates and counteract the inflationary effects. The secondary effects of this restrictive monetary policy would be reflected in lower rates of economic growth, greater restrictions on levels of private consumption and lower investment flows, and therefore, less international trade. For Latin American countries, the increase in interest rates would be reflected in the collapsing of macroeconomic variables such as exports, production, investment and tourism, accentuating the economic problems that have not yet been overcome by the countries of the region since the start of the Covid-19 pandemic. On the fiscal side,
the increase in interest rates would translate into an increase in the cost of public debt, limiting the fiscal space of governments to implement policies that protect households and companies from the negative effects of a potential economic recession. Regarding the congestion and commercial delays caused by the Covid-19 pandemic, a prompt solution is not envisioned since the frequent confinements derived from the zero-Covid policy implemented by China have represented a significant obstacle to trade and world activity. In addition, this fact has prevented the region from exploiting the benefits of proximity due to the importance of China for global supply chains.

Manuel Agosin, professor in the school of economics and business at the University of Chile: "At this moment, Latin America is experiencing a significant slowdown, as the handouts to households during the height of the pandemic have been wound down. At the same time, exports are suffering from the slowdown in China (a primary customer for the region’s raw materials) and Europe's descent into recession. Higher inflation resulting from the Russian invasion of Ukraine is adding to the sluggishness in consumption. China's deceleration may be more stubborn than initially assumed, as that country's top leader insists on his zero-Covid policy and the overhang in the real estate sector weighs heavily on the economy. In addition, his attacks on the private sector may be killing the hen that lays the golden eggs. Stock prices of major Chinese information technology companies have taken a beating, and their principal owners have disappeared from public view. For Latin American countries, this picture spells lower export prices and volumes. What the near future will bring depends in large part on whether the United States will descend into a recession. Recent indications are that inflation has begun to abate. If so, the Federal Reserve may be less enthusiastic about another aggressive increase in interest rates, and the United States will probably avoid a technical recession, which will be good for countries such as Mexico and Central America that export mainly to the United States."