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Manufacturing exports

September 2016

# PANORAMA

## LATIN AMERICA: WHY ARE MANUFACTURING EXPORTS STILL LACKLUSTER?

COFACE ECONOMIC PUBLICATIONS

By Coface LATAM Economists



**U**p until 2014, Latin America's exports were boosted by China's vast appetite for raw materials and the hike in their international prices. The region's abundant natural resources brought economic gains during the commodity bonanza period and it became a major supplier of basic products, particularly to China. However, this trend resulted in appreciation pressures on exchange rates in many countries in the region. As a consequence, the manufacturing sector became much more exposed to international competition than the primary sector. Local output was thus set aside, in favour of imports, to meet rising domestic demand. Countries in Latin America seemed unable to compete with low-income countries for the production of unsophisticated goods, or with advanced countries for high value products and technological services.

This panorama analyzes the performance of Latin American manufacturing exports from 1995 to 2015 and examines why they remain lackluster, despite the strong deterioration in exchange rates seen since mid-2014. We have studied data on the six main countries (Brazil, Mexico, Argentina, Chile, Peru and Colombia) which together represented over 90% of Latam's total manufacturing exports in 2015. The most recent decline in commodity prices was followed by significant depreciations in the main Latin American currencies. The Brazilian real, the Argentinean, Chilean and Colombian pesos and the Peruvian Nuevo Soles, have all depreciated in nominal terms. This should have been a great contributor to boosting manufacturing exports, as it reduced prices and increased competitiveness. Despite this advantage, countries have failed to report rebounds in revenues

from foreign sales. This suggests that the influence of the evolution in exchange rates on manufacturing exports in Latin America is somewhat limited.

The second section of this report examines other factors (besides the lack of dynamism in global growth, which has led to weaker foreign demand) that might have influenced the weak performance of manufacturing exports. These additional factors that could be hindering competitiveness include high labour costs, poor quality of infrastructures and the insufficient number of trade agreements. Overall, countries failed to take the advantage of the past commodity bonanza, to implement the reforms they needed. Serious challenges now remain, but government revenues have shrunk. There are big issues looming ahead for manufacturing exports as: (i) price competitiveness will not make important gains, due to appreciations in exchange rates and no reductions in labour costs; (ii) global activity is not expected to report vigorous growth in the near future, so demand for manufacturing products will be limited; (iii) overcoming bottlenecks in infrastructures will be complicated, in the light of corruption scandals and in the absence of a well-defined regulatory framework; (iv) protectionism is increasing globally and the development of trade agreements with important trade zones seems unlikely.

In summary, as manufacturing exports are not expected to show a rebound, trade is unlikely to be a main contributor to the growth of Latin America economies over the coming years. Growth in the region is therefore expected to remain sluggish and Coface forecasts that GDP will contract by 0.5% in 2016, followed by a marginal rebound of 1.2% in 2017.

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# LATIN AMERICA: WHY ARE MANUFACTURING EXPORTS STILL LACKLUSTER?



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“ Overall, countries failed to take the advantage of the past commodity bonanza, to implement the reforms they needed. Serious challenges now remain, but government revenues have shrunk ”

- Patricia Krause

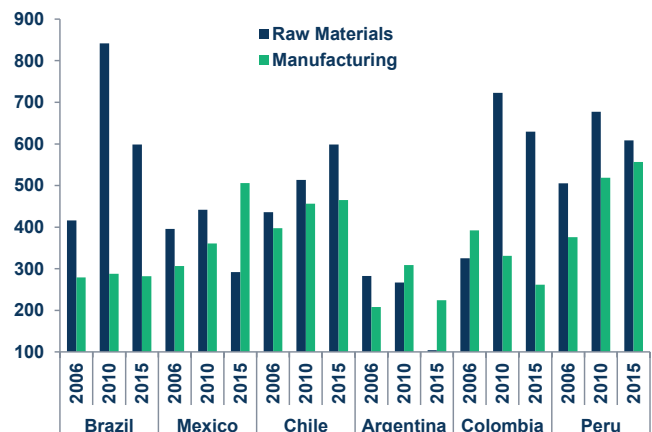
## 1 MANUFACTURING SECTOR: WEAK PERFORMANCE OVER THE TWO LAST DECADES, WITH PREDOMINANCE OF UNSOPHISTICATED GOODS

### A – Export dynamics driven by raw materials

The evolution of manufacturing exports for all six countries analyzed in this panorama (Argentina, Brazil, Mexico, Colombia, Chile and Peru) shows an increase, in value terms (chart 1). As a whole, the evolution of primary exports was more important than that of manufactured goods. According to BBVA Research<sup>1</sup>, the predominance of raw material exports in some countries is mainly due to the increase in the price of raw materials (until mid-2014) that was accompanied by appreciations in real exchange rates, wage increases and, in some cases, further taxes. All of these have affected the competitiveness of the manufacturing sector over the last decade. This was particularly the case for Brazil and Colombia, where manufacturing exports seem to have been abandoned in favour of raw materials. Argentina did not suffer from strong volatility in its manufacturing exports during the period, whereas Mexico, Chile and particularly Peru observed improvements. Despite making important progress, Peru's share of total exports for the six countries was only 1% in 1995, 2005 and 2015. The situation is similar for Chile, with 2% in 1995, 2005 and 2015. In contrast, Mexico grew its share in manufacturing, reporting 62% in 1995, 65% in 2005 and 75% in 2015. Brazil's share fell to 25% in 1995, 24% in 2005 and 17% in 2014. Thus, a lower degree of competitiveness in manufactured products would be more problematic for Mexico or Brazil than it would be for Chile, Peru or Colombia.

Chart 1

Raw materials exports value (agricultural + metals + ore + hydrocarbons) + Manufacturing exports value (1995=100)



Source: UNCTAD, COFACE

The strong hike in international commodity prices can be mainly attributed to Chinese demand for primary goods. According to a recent panorama by Coface, China's role in Latin America is much more than a trade issue<sup>2</sup>. Commerce between China and Latin America has considerably increased over the past 15 years. Exports from Latin America to China grew from 2 % of the region's total exports in 2000, to 9 % in 2014, mainly driven by commodities. Copper, copper ores, copper ore concentrates, soybeans, oilseeds, iron ore, iron ore concentrates and crude petroleum, together represent roughly 71 % of Latin America's total exports to China.

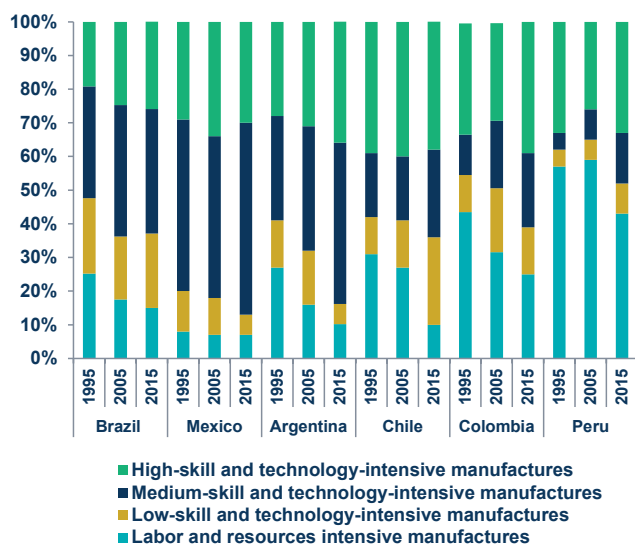
<sup>1</sup> BBVA Research (2014): Manufacturing sector competitiveness in Latin America, trends and determining, working paper 14/11

<sup>2</sup> Coface (2016): Panorama: China's Role In Latin America Is Much More Than A Trade Issue

On the whole, the region continues to be at a relative disadvantage, in terms of exporting manufacturing products, compared to low-income countries for the production of unsophisticated goods and compared to advanced countries for high value products and technological services. This disadvantage could also be explained by the low degree of technology employed by the region's manufacturing industries. Thus, the contribution of basic goods (which are labour and resource-intensive) and low tech manufactured goods, to total manufacturing exports, is on a downwards trend in all six countries – although it remains predominant in Peru (chart 2). In Brazil, Mexico and Argentina, which together represented 89% of the region's total manufacturing exports in 2015 (according to CEPAL<sup>3</sup>), the contribution of basic and low tech manufactured goods was reduced in favour of 'medium-technology' exports, while Chilean exports remained relatively stable. On average, over the last two decades, Chile has accounted for the greatest share of exports concerning manufactured goods requiring high skills and technologies.

Chart 2

Manufacturing goods by degree of skill and technology (% of total manufactured exports)



Source: UNCTAD, COFACE

Manufacturing exports have not seen significant increases in terms of ratio to GDP, apart from in Mexico. Mexico and Chile are the two economies with the highest ratio of total exports to GDP, at 30% and 20% respectively (see chart 3). The contribution of manufacturing exports to GDP has increased in all six countries, even if this trend seems to have reversed in 2015. In Mexico, the only country in the region where manufacturing exports are predominant, they rose to 27% of GDP in 2015, up from 19% in 2005. In the other five economies, manufacturing exports represented less than 5% of GDP in 2015.

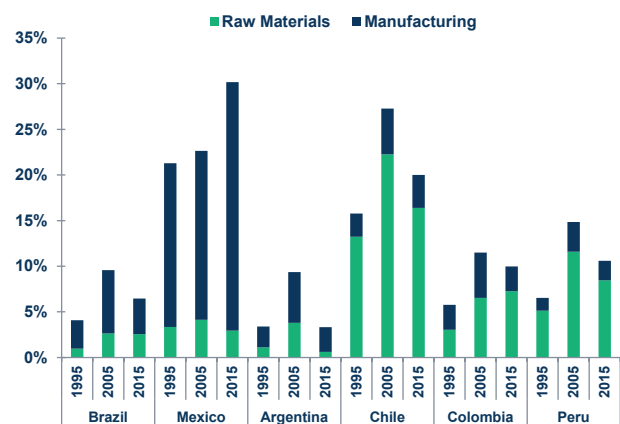
The contribution of primary exports to GDP has also increased in nearly all of the six countries, mainly due to the high prices

of raw materials. This boost in exports of raw materials has varied in its contribution to GDP ratios, for each specific country. The Chilean economy seems to be the most dependent on exports of raw materials, where they represented almost 16% of GDP in 2015, followed by Peru and Colombia (at 8% and 7% of GDP, respectively). In contrast, Brazil (the leading exporter) is less exposed to the primary sector. Exports of raw materials represented only 3% of Brazil's GDP in 2015, as was the case for Mexico. Finally, in Argentina, exports of raw materials accounted for only 1% of GDP in 2015.

The evolution of the region's manufacturing exports over the two last decades highlights the general decline of the sector (both in terms of GDP contribution and in total exports), to the benefit of natural resources. This is a result of the boom in commodity prices and the subsequent appreciation of currencies of exporting countries in the 2000s, which put non-commodity exports at a disadvantage and favoured imports of consumer goods.

Chart 3

Raw materials (agricultural + metals + ore + hydrocarbons) + Manufacturing exports: % of GDP



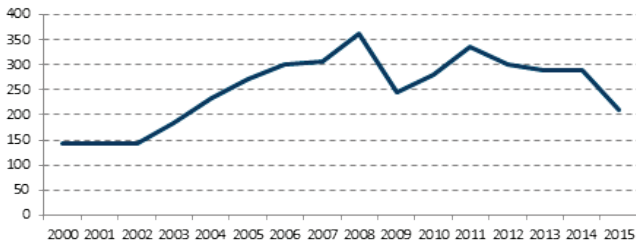
Source: UNCTAD, IMF, COFACE

## B- The evolution of manufacturing exports is relatively unaffected by exchange rate movements

In the middle of 2014, commodity prices fell significantly. This movement was followed by the depreciation of Latin America's main currencies. The CRB index (chart 4) dropped by 42 % from its peak in 2008 to the average level observed in 2015. As already mentioned, countries in the region are heavily reliant on commodity exports, while the representativeness of commodities to total imports are usually not very high in these economies. The sharp contraction in international prices of primary goods, which began in 2014, was followed by depreciation pressures on exchange rates. The Brazilian real, the Argentinean, Chilean, Colombian and Mexican pesos and the Peruvian Nuevo Soles all depreciated in nominal terms. Between the end of June 2014 and December 2015, they depreciated by 75 %, 60 %, 28 %, 67 %, 33 % and 21 % respectively. The Brazilian real was the most impacted, not only due to lower commodity prices, but also to the

<sup>3</sup> CEPAL: Statistical yearbook for Latin America and Caribbean, 2015

**Chart 4**  
**Commodity CRB Index**



Source: Thomson Reuters

weakening of its macro fundamentals and corruption scandals involving large business groups and major political leaders. The lifting of Argentina's exchange rate controls, at the end of 2015, was immediately followed by a sharp depreciation of the peso. The depreciation of the Colombian peso was driven by the collapse in oil prices.

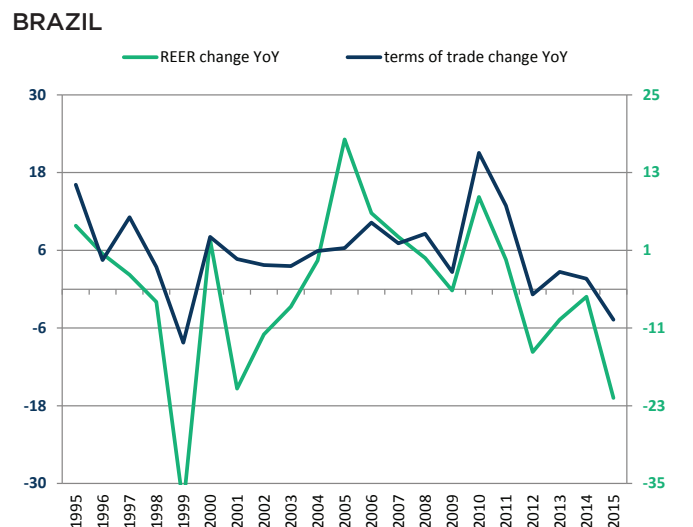
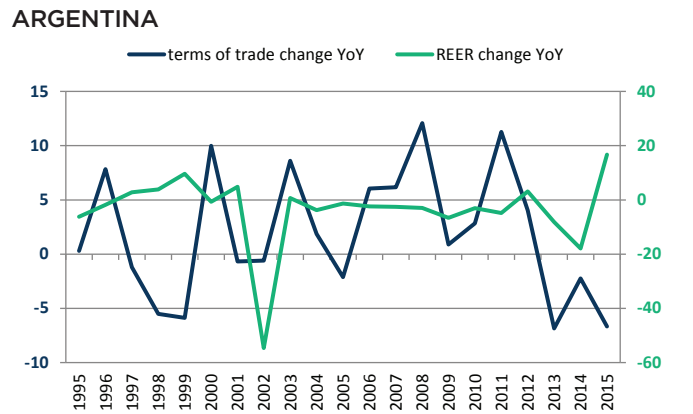
Economic theory indicates that the devaluation of an exchange rate makes manufacturing exports more competitive, as they appear cheaper to importers. In this section we examine the behaviour of real exchange rates<sup>4</sup>, as well as terms of trade, in Argentina, Brazil, Chile, Colombia, Mexico and Peru, from 1995 to 2015 (see charts below). Although the weight of manufacturing exports to total exports and GDP decreased, they did, in fact, increase in terms of total revenues in US dollars. A sharp drop was reported in the aftermath of the subprime crisis, in 2009, but it came back on track one year later. Nevertheless, manufacturing exports have been decelerating in all countries (with the exception of Mexico), since around 2012. This means that exports have not only lost representativeness, but also contracted in absolute terms. Surprisingly, this movement is occurring despite the context of depreciating real exchange rates observed over the last two years.

The relationship between exchange rates and terms of trade for goods is clearly evident in Latin America. According to economic theory, episodes of currency depreciation reduce a country's terms of trade, as its goods become cheaper. The opposite behaviour applies in periods of currency appreciation. This correlation was noted in four of the six countries studied - Brazil, Colombia, Chile and Mexico. However, this relationship is less evident in Argentina and Peru. Argentina's use of exchange rate controls, over a significant period of time, certainly contributed to this. The dynamism of world trade seems to have a higher influence on the performance of manufacturing exports than the exchange rates of each country. According to the IMF, the volume of world trade increased by an annual average rate of 6.7 % during the period from 1998 to 2007. This average is expected to drop to 3 % for the subsequent period from 2008 to 2017. The slowdown in growth during this second period began in 2012, following the slowdown in growth in the volume of world trade,

to 2.8% in 2012 (down from 12.4 % in 2010 and 7.1 % in 2011). Since then, annual growth has remained close to 3 %.

A Goldman Sachs study on Brazil, from December 2015<sup>5</sup>, suggested that a long period of significant currency overvaluation (the Brazilian real strongly appreciated between from 2005 until 2011) is likely to have impaired the capacity of the exporting sector to quickly respond to improved external competitiveness. It further added that it might have led to the loss of foreign trade knowledge, erosion of exporting culture and of the relationship-capital with international trading partners. It would therefore take longer for exports to regain strength. It is also noteworthy that, despite the strong exchange rate depreciation in recent years, the level reported in 2015 is far from the currency's historical minimum. All in all, there is much more behind the behaviour of the region's manufacturing exports than simply the evolution of exchange rates.

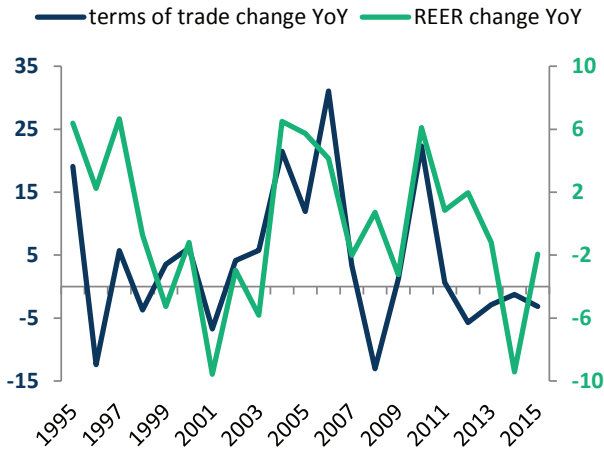
**Chart 5**  
**The relation between real effective exchange rate and terms of trade among Latin America countries**



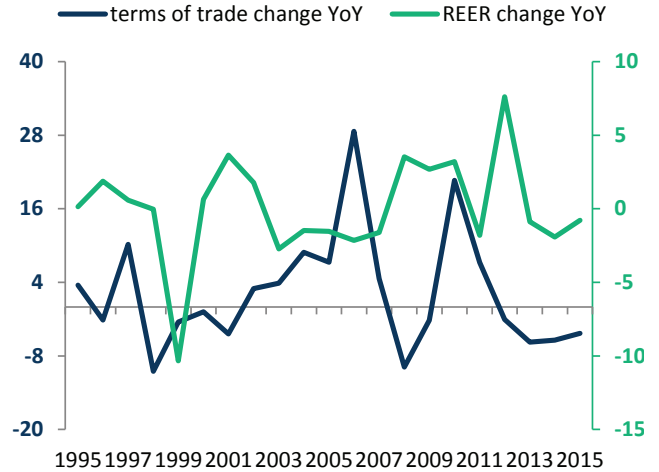
<sup>4</sup> Real exchange rates are nominal rates adjusted for differences in price levels

<sup>5</sup> Goldman Sachs: Brazil: Cyclical Current Adjustment and Hysteresis in Exports Response to BRL depreciation, 2015

CHILE

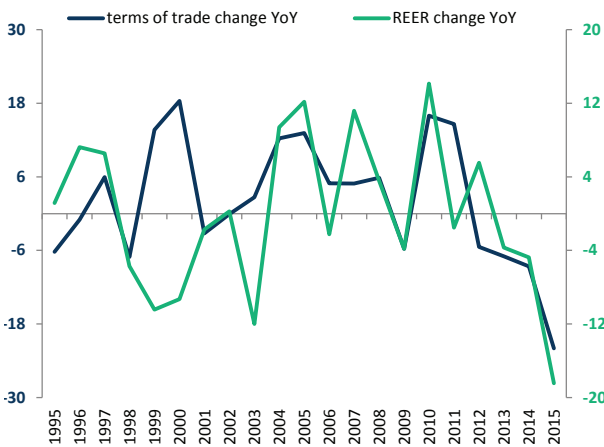


PERU

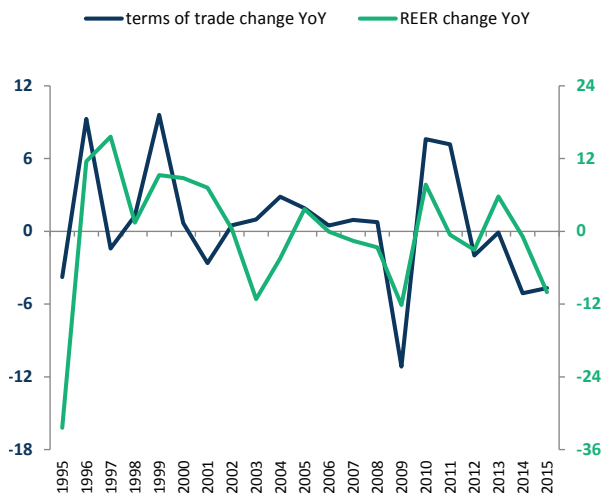


Sources: BIS and ECLAC

COLOMBIA



MEXICO

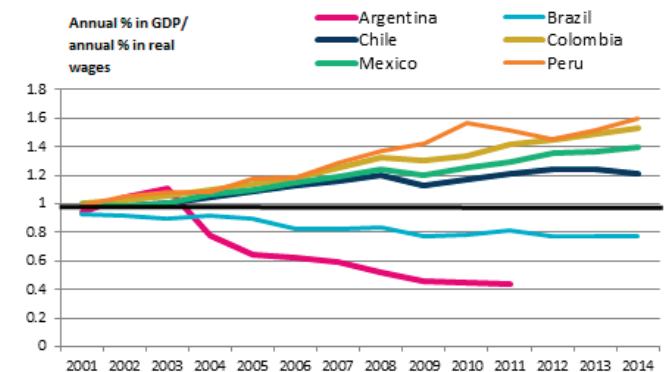


## 2 WHAT IS CAUSING LACKLUSTER EXPORTS?

### A - Companies facing increased labour costs in some countries

Real wages also play a major role in determining the competitiveness of products, as labour generally weighs high in companies' cost structures. The comparison between annual GDP growth rates observed in Latin American countries and the evolution in real minimum wages per country over the last 15 years, can be seen in chart 8. A ratio above 1 indicates that GDP has climbed above real wages, while a ratio of less than 1 suggests that wages have increased at a higher rate than productivity. A ratio equal to 1 means that both indicators have risen in line. Taking into account the evolution of this ratio, from 2001 until 2014, Argentina and Brazil lost competitiveness. Minimum wages in these two countries have systematically increased at a higher rate than gains in GDP. For Argentina, there is a break in the data after 2011, but this behaviour did continue until 2015. This tendency has now lost strength, as both countries are currently in recession. Moreover, increases in wages are not always aligned with increases in human capital. For example, although Brazil has experienced a high increase in minimum wages, average education levels remain very low. The World Economic Forum's human capital index ranks countries on the quality of education (table 3). The 2016 survey revealed that Brazil is weak in this respect, not only when compared with advanced economies, but also relative to neighbouring countries in Latin America. Chile is the leader in Latin America (once again) in terms of quality of education, followed by Argentina, Mexico, Peru and Colombia. Countries with below average educated workforces can obviously not be major exporters of high added value manufacturing products.

Chart 6  
GDP growth versus growth in real minimum wages



Source: ECLAC and IMF

TABLE 1

## Human Capital Index - 2016

Country	Position in Ranking (130 countries)
Chile	51
Argentina	56
Colombia	64
Mexico	65
Peru	79
Brazil	83

Source: World Economic Forum

Labour taxes are also weighing on corporate profits. Data from the World Bank shows that employers in Brazil pay 40.3 % of their profits in labour taxes and contributions to social security. Brazil thus has the sixth highest ratio in this respect, among the ranking of 189 economies. In Argentina the percentage stands at 29.3 % of profits, followed by Mexico at 25.4 %, Colombia at 18.6 %, Peru at 11 % and Chile at 4 %. This indicator thus imposes a serious burden on production costs in Brazil and Argentina. of export tariffs in Argentina<sup>3</sup> will have a positive effect on its production in 2016, thus increasing the world supply of soya, corn and wheat and reducing Brazil's potential markets. Within this backdrop, the sector assessment is expected to remain at high risk.

## B - Poor infrastructure is a major impediment

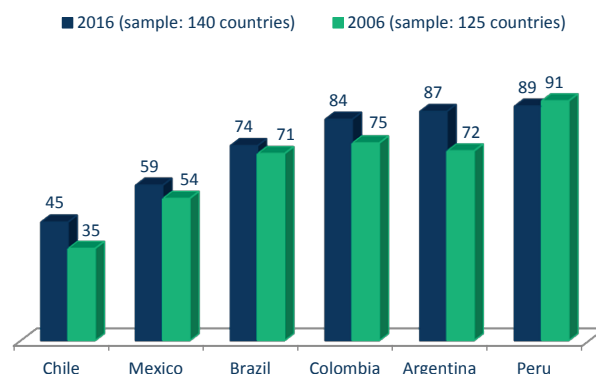
Latin America's poor infrastructure is a well-known issue, but unfortunately little was done during the commodity bonanza period to improve its quality. This aspect is one of the factors that could be preventing a rebound in exports. Poor quality transportation links make deliveries costly and time consuming, with a higher probability of damage. Improved transportation links, such as better airports, ports and paved roads, would lead to reductions in manufacturers' costs and raise the competitiveness of local products.

Latin American countries are low in world rankings, in terms of quality of infrastructure. The World Economic Forum publishes its assessment of this annually and the 2015-2016 edition compared some 140 countries (chart 6). Chile is noted as having the best infrastructure among the Latin American countries, followed by Mexico (at 59th position). The infrastructures of all other Latam countries are below world average. Peru was the only country that was able to improve its position in ranking during the commodity bonanza period. Despite this, Peru still a lot of work to be done - as its 89th position in the ranking suggests. Complex export bureaucracy is also hampering the region's manufacturing activities. One of the subcategories of the World Bank's Doing Business index<sup>6</sup> examines the ease of trading across borders (chart 7 and table 1). This indicator measures the time and costs (excluding tariffs) involved in three sets of procedures - documentary compliance, border compliance and domestic transport - within the overall process of exporting or importing shipments of goods.

Within the ranking of 189 countries, Mexico is the best-positioned in Latin America (59th). This was already to be expected, as the country is Latin America's main manufacturing exporter. On the other hand Brazil, which is the second main player in terms of total revenues, is only ranked at 145th place - the worst ranking of the six analyzed countries). Peru, Colombia and Argentina are also poorly positioned in the listing. Border compliance procedures for exporting goods from Latin America take, on average, 86 hours and cost approximately 493 dollars. In OECD high income countries, these procedures would take, on average, 15 hours.

Chart 7

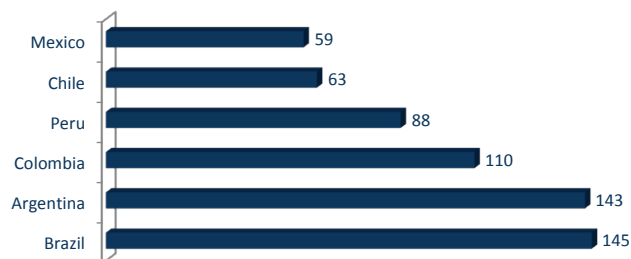
## Quality of Infrastructure Ranking



Source: World Economic Forum

Chart 8

## Trading Across Borders (189 countries)



Source: Doing Business Index 2016

TABLE 2

## Time and cost to export per region

Region	Border compliance (hours)	Border compliance (USD)	Documentary compliance (hours)	Documentary compliance (USD)
OECD high income	15.2	159.9	4.5	35.6
Europe & Central Asia	27.6	219.2	30.7	143.8
East Asia & Pacific	51.4	395.7	74.7	166.9
Latin America & Caribbean	86.1	492.8	68.0	134.1
South Asia	60.9	375.6	79.8	183.9
Middle East & North Africa	65.4	445.1	78.8	351.1
Sub-Saharan Africa	108.2	542.4	96.6	245.6

Source: Doing Business Index 2016

<sup>6</sup>The Doing business Index provides objective measures of business regulations for local firms in 189 economies. It takes into account data such as the time it takes to: start a business, obtain credit, get an electricity supply, register a property and carry out insolvency proceedings, as well as information on paying taxes, protecting minority investors and so on.

### C - Trade agreements are now weaker drivers

Trade agreements are another key area for improving foreign trade. Atlantic countries, such as Brazil and Argentina, remain close to the Mercosur trading bloc. Over the past decade, Mercosur has only successfully negotiated two trade deals, both with countries of lower importance in terms of trade volumes (Israel and the Palestinian Authority). Moreover, Mercosur members are not permitted to negotiate individual agreements with other countries. The group has become increasingly protectionist since the beginning of the 21st century and the rise of populist governments within its member countries. As an example, in May 2012, the bloc agreed to increase the maximum common external tariff to 35%. In parallel, the countries of the Pacific (Chile, Colombia and Peru) have become more open to trade during the last decade. Chile holds 21 trade agreements - the largest number in the region, followed by Mexico with 18, Peru with 16 and Colombia with 11 (see table 2). Nevertheless, even Pacific countries have failed to report dynamic manufacturing exports. Mexico is the only country that has observed an improvement in manufacturing exports in the last decade - but this is thanks to the NAFTA agreement and Mexico's tight relations with the US market (which benefit from its geographical location). Large gains are not expected for Chile, Peru and Colombia, as their industries lack diversification. A study by the Economic Commission for Latin America<sup>7</sup> forecasts that Argentina, Brazil and Chile face premature deindustrialization, as they have increased their specialization in commodities, resource-based manufacturing and low productivity services.

TABLE 3

Trade Agreements

	With US	With EU	With China	Total number of trade agreements
Chile	Yes	Yes	Yes	21
Colombia	Yes	Yes	No	11
Mexico	Yes	Yes	No	18
Peru	Yes	Yes	Yes	16
Brazil	No	No	No	5

Source: BBVA

As previously mentioned, there is no clear evidence that episodes of strong depreciation in Latin American exchange rates are always followed by an increase in manufacturing exports. The region's weak current performance, in terms of manufacturing exports, could be linked to the following factors:

### 3

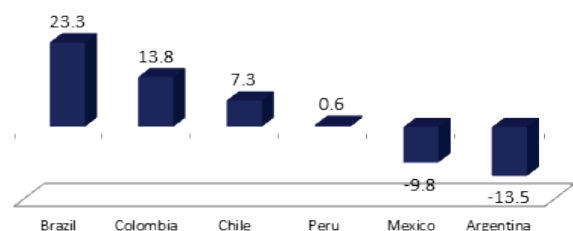
### MANUFACTURING EXPORTS: POSITIVE PERFORMANCE NOT EXPECTED IN THE NEAR FUTURE

#### A - Price competitiveness is unlikely to improve significantly, due to recent exchange rate appreciations and the lack of reductions in labour costs

As in other emerging markets, Latin American countries have seen their currencies appreciating over recent months. This movement has been supported by the continuation of high global liquidity, a recent rebound in commodity prices, a pause in the strengthening of the US dollar and signs of stability in China. Of all the 61 currencies covered by the BIS (Bank for International Settlements) real effective exchange rate index, the Brazilian Real has observed the highest appreciation since the end of 2015 (+23.3% as at July 2016, compared to December 2015). The Colombian Peso came in third, with a hike of 13.8%. The Chilean Peso and Peruvian Novo Soles also appreciated during the period, by 7.3% and 0.6% respectively. The relative strengthening of the Real and the Colombian Peso over this period was not unexpected, as these two currencies were the ones that had depreciated the most over the last two years. The Mexican and Argentinean Pesos, on the other hand, are continuing to depreciate, by 9.8% and 13.5% during the first seven months of 2016. The behaviour of the Mexican peso is closely connected to the US Presidential elections (in November) and the uncertainties that they represent, as the country is very reliant on the US market. In Argentina, however, the downward movement of the peso is being driven by the end of foreign exchange controls in December 2015 and subsequent adjustments during the current year.

Chart 9

Real effective exchange rate (% July 2016 against December 2015)



Source: BIS

Significant reductions in labour costs are unlikely in the near future. In Brazil, which is facing a strong, long-lasting recession, sharp downward pressures on wages are expected. However, this will be somewhat cushioned by the country's very restrictive labour legislation, which does not allow companies to adjust wages during low demand times. This policy prevents the natural adjustment of the labour market, inflicting cost pressures on companies and causing a rapid climb in unemployment. This year, average real wages are expected to decrease by 3.2%, with a marginal improvement of 0.7% forecast for 2017. In Argentina, wages this year will be negatively impacted by the economic recession and the strong hike in inflation. The new pro-business

<sup>7</sup> Economic Commission for Latin America: Premature industrialization in Latin America, 2016

government is more likely to put an end to the former habit of adjusting wages above productivity. For the remaining countries, there are no factors to indicate future reductions in labour costs.

### B - Global activity is not expected to report vigorous growth in the near future, limiting international demand for manufactured products

Growth in developed economies remains lackluster. The US labour market has been improving in recent months, but gains in wages are still modest and second quarter GDP was very disappointing. Activity rose by only 1 % during the first half of 2016 (YoY) - the weakest growth since 2011. In addition, the Brexit vote in the UK has increased uncertainty in the European Union and is expected to take its toll on confidence as well as on investments. Finally, in Japan, another easing package was announced in July, to try to boost activity. Coface estimates that GDP in advanced economies will increase by 1.6 % in both 2016 and 2017 (down from 1.9 % in 2015).

In emerging markets, GDP is expected to grow by 3.7 % this year and by 4.2 % in 2017, up from 3.4 % in 2015 - although this is far below the pre-crisis levels. In China, activity is expected to continue its gradual deceleration. India will continue to lead growth among the emerging economies, while Russia and Brazil are expected to leave recession in the upcoming year. Latin American growth should return to positive in 2017 (+ 1.2 %), thanks to the slow recovery of its main economies and a pick-up in growth in Argentina. According to the IMF, the volume of world trade should increase by 3.1 % in 2016 and by 3.8 % in 2017.

### C - Improvements to infrastructure will continue to stumble, as governments cope with a squeeze on budgets and corruption scandals inhibit foreign investments

Resolving infrastructural problems is crucial to boosting the productivity of regional goods, as it would reduce freight costs. Governments have been trying to reduce their expenses in line with the fall in tax revenues from commodities (as is the case for Mexico, Colombia, Venezuela and Ecuador). This means that the amount of public resources available for investments in infrastructures are lower. As commodity prices are not expected to rebound significantly in the near future, policymakers are trying to attract private investors to back essential infrastructure projects.

Public-private partnerships are being highly encouraged by local governments - although investors remain cautious, due to the deteriorated business environment. There has been an increase in corruption scandals in the region. The most notorious of these is the car wash operation in Brazil, which is investigating bribes made by contractors of the state-owned oil giant, Petrobras, not only to the Labor Party (from the impeached President Dilma Rousseff), but also to opposition parties. Other countries in the region (such as Mexico and the former governments of Argentina and Peru) are also making headlines for corruption scandals. Even Chile, which usually tops the region's performance indicators, is not immune. Although corruption investigations have made progress, there is still a perception that corrupt politicians are

exempt from punishment - or at best judged very leniently. A more developed and responsive legislation would contribute to increased investments in the region.

### D - Rising protectionism will hamper growth in exports

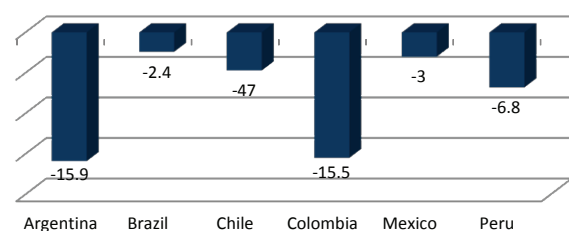
The swearing-in of Argentina's new pro-business president, Mauricio Macri (in December 2015), has seen the country begin to address its need to make progress in foreign trade - with or without Mercosur. This impetus gained further strength when Michel Temer became Brazil's interim President, following the temporary removal of left-wing President Dilma Rousseff from office, in May 2016. In late August the impeachment was confirmed and Temer officially took office for the remaining 28 months of this term. Nevertheless, the global political and economic environment is less favourable to open trade than before.

Protectionism, which gained force with the Brexit at the end of June 2016, could continue to develop - especially as there is still a risk that other European countries may follow the movement. This would denote a significant step back from open trade. The tendency could also gain further force in the United States, depending on the outcome of the Presidential elections in November. Recent polls suggest a relative tight margin between democrat Hillary Clinton, the leading candidate, and the republican candidate, Donald Trump. Donald Trump is arguing that manufacturing jobs in the country have evaporated, as political leaders have embraced global institutions and freely flowing trade, rather than focusing on boosting competitive industries. If Trump wins and starts to implement protectionist measures, Mexico would certainly be the most heavily impacted country in the Latam region, as over 80 % of its exports goes to the US. Chile, Colombia and Peru also hold individual trade agreements with the US.

In summary, we expect manufacturing exports to remain weak in the near future and recent figures corroborate this point of view (chart 9). During the first half of 2016 all of the region's main economies reported a decrease in manufacturing exports. A major rebound is not expected this year. Even in 2017, a strong recovery is unlikely, although a gradual increase in world demand and commodity prices could result in a slight improvement.

Chart 10

Manufacturing exports: first semester 2016 (compared to 1s 2015)



Source: National Statistic Institutes



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#### RESERVATION

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