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Latin America poised for economic rebound, accelerated trade activity in 2010

RBS is forecasting a sharp rebound in the economies of Latin America in 2010, along with a substantial increase in trade between the region and the rest of the world.

Key factors contributing to this forecast are the comparatively minor impact of the global economic crisis on Latin America and a two-decade trend of increasingly open trade in the region, according to Benito Berber, RBS senior vice president and economist for Latin America.

Region avoids brutal shock

With the exception of Mexico, which is closely tied to the U.S. economy, Latin America has not been impacted as severely by the recent global economic downturn as many other parts of the world, such as Eastern Europe, Berber reports. This is reflected in his projections for gross domestic product (GDP) growth in 2009, which is the year in which the full force of the downturn will be recorded, he says.

"I'm estimating 2009 GDP growth for Mexico of negative 6.5%, but for the other Latin American countries, growth should range from negative 1% to positive 1%," Berber says. "In a sense, the global financial crisis hasn't been a huge problem for the region."

In the wake of the crisis, Latin American trade has fallen off due to the "double whammy" of reduced prices for the region's commodity exports and decreased demand for Latin American goods in the developed world, in particular in the United States and Europe, Berber says. With less export revenue, Latin American imports also declined, he says. Current account deficits, which measure the health of trade activity, widened across the region from an average of negative 2% to negative 3%.

"Trade decreased, but it was more like a temporary shock, even in the case of Mexico," Berber says.

'Sharp rebound' on the way

Berber is projecting a "sharp rebound" in the economies of Latin America next year and escalating trade activity, fueled by rising commodity prices, increased government spending, accommodative monetary policy and rising private consumption.

Berber notes that equity markets in Latin America have already bounced back. "Share prices are already factoring in that next year is going to be a good year," he says.

He predicts that the region's mainstay economies, Brazil and Mexico, will grow at a rate of at least 3.5% in 2010. And GDP numbers in countries such as Peru and Chile should be even higher, he predicts.

"Both imports and exports in the region will be up," Berber says. "I expect trade between Latin America and the rest of the world to substantially accelerate next year."

Open-trade trend

One reason Berber is bullish on Latin America's trade prospects in 2010 and beyond is the continuing trend toward greater integration with the world economy, which he traces back to the North American Free Trade Agreement (NAFTA) between the United States, Mexico and Canada. Since NAFTA's implementation in 1994, Latin American countries have been lowering tariffs both within the region and with countries outside of it, he says.

Economists can measure a country's "degree of openness," which is defined as exports plus imports as a percentage of GDP. For the last 20 years or so, this indicator has climbed in many Latin American countries. Two decades ago the degree of openness for most Latin American economies was below 15%, Berber says. But today Chile leads the region with a 90% degree of openness, followed by Mexico at 63%, he says.

The fact that there is plenty of room for even greater openness is another reason Berber sees more trade growth in Latin America's future. Brazil, the region's largest economy, is still relatively closed with just a 30% degree of openness, he says.

"If Brazil were to sign a free trade agreement with Mexico — there have already been negotiations — and eventually sign a trade pact with the United States, then trade in the region would continue to increase at the same pace or faster," Berber says.

The one exception to this growth story, notes Berber, is Venezuela, which is curbing trade with countries outside of President Hugo Chavez's orbit of influence. However, given the country's dependence on oil exports to the United States and the drop in oil prices, Chavez has less money to spend outside Venezuela and his influence has diminished.