

In the COVID-19 aftermath, China will continue to expand its role as a main destination for Latin American exports at the expense of the U.S.

Hong Kong S.A.R., October 13, 2021 – The trade relationship between China & Latin America has expanded considerably over the past two decades, gradually standing out compared to the U.S & LatAm relationship. The reasons behind this sustained trend range from the difference in growth rates observed in the world’s two largest economies to the trade policies implemented by the U.S. and Chinese governments in recent years.

Looking ahead, and considering the six largest Latin American economies (Argentina, Brazil, Chile, Colombia, Ecuador and Peru - excluding Mexico¹) as a group, Coface observes that these countries’ foreign sales growth rates are expected to exceed their domestic demand expansion. Indeed the region’s activity rebound should be lower than the global average recovery, and more specifically lower than the Chinese and U.S. recoveries. Therefore, sales to China and the U.S. should post a bright performance in 2021. In terms of significance for Latin American exports, China should continue to gain ground over the U.S.

« Latin America's export composition to China and the U.S. is poorly diversified overall and highly commodity dependent. This dynamic is even stronger for trade with China. The increase in the commodity prices is a clear tailwind for the Latin America region as it benefits most countries », comments **Patricia Krause, economist at Coface.**

China has been catching up with the U.S. as a major market for LatAm exported goods, which are still poorly diversified

China overtook the U.S. as the main export market for the group’s exports in 2010. The Asian giant’s significance continued to gain strength even after the end of the commodity price bonanza in 2014, while the U.S. contribution to their exports remained fairly stable from 2010 to 2019. **Regarding the United States, their lagging share can be attributed to the lack of interest in digging into trade relations with Latin America**, which became clearly more prominent during Donald Trump’s term in office (2017-2021) as his administration’s focus on reducing the U.S. trade deficit with Mexico and China, as well as an overall lack of engagement with the region, have created a space that China has filled. **Finally, the U.S.-China trade war under Trump has also caused the transformation of some “export routes”** of the global agri-food sector, benefiting Latin American producers, like Brazil, to the detriment of U.S. producers. Currently, the U.S. has trade agreements with Chile, Colombia and Peru, while China has agreements with Chile and Peru. Argentina, Brazil and Ecuador do not have broad agreements with either of the two giants.

The weight of goods exports in GDP diverges among the six selected LatAm countries. In 2020, Chile registered the highest participation of exports to GDP (29%), followed by Peru (21%), Ecuador (20%), Brazil (15%), Argentina (14%) and Colombia (11%).

¹ Mexico is not included as it historically has tight trade relations with the U.S., supported by their geographic proximity and the NAFTA trade agreement, which came into force in 1994 and was ultimately replaced by the USMCA in July 2020.

Moreover, the ranks of the U.S. and China in foreign sales vary from one country to another. China is the main market for Brazil, Chile, and Peru, while the U.S. is the major export destination for Colombia and Ecuador. Regarding Argentina, Brazil is the main buyer of goods, followed by the European Union (EU), China and then the U.S. Furthermore, in Brazil, Colombia and Ecuador, the EU is also the second main export destination, with the U.S. coming third in the first country and China third in the latter two. It is also worth noting that the U.S. and China receive together over 50% of Chile's foreign sales and more than 40% of Brazil and Peru's exports. In fact, **exports to the U.S. and China outweigh intraregional trade.**

Latin America's export composition to China and the U.S. is poorly diversified overall and highly commodity dependent. This dynamic is even stronger for trade with China. Overall, exports of metals (40%), agri-food (35%) and energy (18%) account for 93% of the six countries' foreign sales to China. Exports to China are heavily concentrated in agri-food in Argentina and Ecuador, metals in Chile and Peru, and energy in Colombia. There is also a prevalence of the same three commodity groups regarding the U.S even though this dependence is relatively lower (72%).

Latin America was not immune to the impact of the COVID crisis on global foreign trade. The six countries registered a drop of 8% YoY in total exports in 2020. Last year, **exports to the U.S. were generally more impacted than the ones to China.** While the former dropped by 19% YoY, the latter rose by 4%. The stronger resilience of exports to China is explained by the fact that its economy rebounded faster than the U.S. Moreover, **the basket of goods exported also played an important role, such as the high prevalence of agricultural exports to China.** Demand for food, as an essential good, has proved resilient or even increased during the crisis.

China will maintain its compelling position for LatAm exports; no relevant export basket diversification in sight

In 2021, Latin American countries' foreign sales are expected to outperform their domestic markets. The region's delayed COVID vaccination, as well as the longer time taken to significantly flatten the curve of new cases and deaths from the virus, have hindered a full-fledged economic recovery relative to other markets. In fact, **Coface expects the average growth rate in Latin America to stand at 5.2% in 2021 – compared to U.S. and China's rates, which would increase by 6.5% and 7.5% over the same period.**

Furthermore, **the increase in international commodity prices observed this year also represents a tailwind for the region as a major net exporter.** For instance, average prices for iron ore, copper and soybeans all surpassed their yearly record levels between January and end September 2021. This conjuncture bodes well for Brazil, the world's second largest iron ore producer. As for copper, current price levels (4% above the 2011 record) benefit Chile and Peru, as the world's leading and 2nd largest producers, respectively. Regarding agriculture, record price levels primarily benefit Brazil and Argentina.

China should maintain its role as a major destination for LatAm exports relative to the U.S. While President Biden's arrival in the White House eases the harsh anti-trade rhetoric seen during Trump's term, he is unlikely to put the emphasis on deepening trade relations or pursuing new trade agreements. It is far more likely that the new U.S. administration will focus on dealing with the current strong migration flows from Guatemala, El Salvador and Honduras, and the implementation of the USMCA trade agreement with Mexico and Canada. **However, it is noteworthy that the Asian giant's shift towards a consumption-oriented growth model at the expense of investments and exports, which has gained strength in recent years, requires fewer commodities overall.**

Looking ahead, the divergent performances among commodities should persist, with the global green agenda gaining momentum and requiring more copper, lithium... This conjecture brightens the outlook for the copper market, hence some tailwind for Chile and Peru. Nonetheless, the political environment in these two countries could minor the gains for locally operating mining companies. The current high international prices and strong social tensions notably triggered by the COVID crisis, have contributed in emphasizing the discussion about increasing royalties in both countries.

Find the [full study here](#).

MEDIA CONTACT

Karen YIK – T. +852 2585 9121 karen.yik@coface.com

Leo CHAK – T. +852 2585 9132 leo.chak@coface.com

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