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South America: trade policy responses to the crisis and implications for regional integration

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The international financial and economic crisis hit South American countries at a moment in which most were experiencing a very positive evolution in relation to trade flows, with a steady expansion of imports and exports.

The explanation for this performance was centered upon the sustaining of international prices of commodities, which have a very important role in these countries' exports. Pushed by a significant growth in international demand – mostly Asian – international prices of food and mineral products sustained the steady growth of the value and participation of primary products in the exports of the great majority of South American countries.

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This movement led to the appreciation of exchange rates in some countries and stimulated the debate on the risks of tendencies to "primarize" exports, particularly in Brazil.

The effects of the international crisis on South American exports were felt quickly. The pathway followed by exported values, accumulated in twelve months, showed a variation between September and November in all countries and kept the declining tendency throughout the entire first semester in 2009.

From March 2009 the Chinese demand resumed – shortly after other Asian countries – and this contributed to the gradual price increase for some basic products and for the recovery of South American exports of these products. Because activities resumed in the countries in the American continent – the main export destination of the region's manufactured products –in a much slower pace, the Chinese participation and the basic products in South American countries' exports have begun to grow again in the last few months.

In the imports sector it took slightly longer for the impacts of the crisis to show, but here yet sharper drops were registered - in relation to exports - in most South American countries, as a reflection of the strong adjustment in domestic demand and depreciation in exchange rates.

The differences in the dynamics of export and import flows caused a rapid deterioration in the commercial surpluses in most South American countries during the two quarters following the inception of the crisis. However, as the impact of the crisis on the levels of activity in these countries caused a marked decline for imports, while prices of some commodities showed signs of recovery, from the second quarter of 2009 the balance of trade in several countries began to improve once more. Despite this, the trade flows still fell below the levels observed immediately before the crisis.

The contribution of intra-regional trade for the performance of South American countries' exports during this crisis period was varied. Although there was an expectation from many analysts that commercial integration agreements such as ALADI should contribute to soften the negative impacts on trade due to international crises, this did not happen at the height of the crisis.

The first aspect to be considered is that the relevance of the regional bloc as a destination for South American exports varies. Thus, the ability of intra-regional trade to contribute as a buffer for the crisis' negative impacts on exports would also vary greatly.

Intra-regional exports are characterized by a larger participation of semi-manufactured and manufactured products when compared to the extra-regional exports. Manufactured products are more sensitive to drops in demand and lack of financing. Thus, from the moment that the crisis was reflected on the domestic economies of the region, it was expected that the shrinkage in demand would have a negative impact on its manufactured exports.

Moreover, the recovery of Asian demand for commodities had a positive effect on the extra-regional exports in several South American countries, increasing the Asian continent's participation in foreign sales and causing, naturally, a drop in ALADI's relative participation. The trade preferences negotiated in the intra-regional agreements are not enough to dampen the macroeconomic factors which unleashed the crisis.

The South American countries analyzed in these studies adopted diverse strategies in trade policy to deal with the impact of the crisis in foreign trade. In general, the strategies reflect the deepening of the trade policy trends which were already being followed by these countries, or in the case of Ecuador, the need to deal with the great macroeconomic difficulties, reinforced by the characteristics of the current crisis.

The two South American countries which had been adopting more aggressive strategies of trade openness and international integration – Chile and Peru – sustained their course of action and did not resort to protectionist measures. Peru followed in its strategy of implementing recently negotiated free-trade agreements (Chile, US, Canada and Singapore) and continuing to negotiate new trade agreements with several countries and/or blocs.

In Brazil, the governmental measures have been largely directed at improving access to credit for exporters, extending coverage (in terms of number of companies and beneficiary countries) in the official financing programs and significantly reducing credit line costs.

Concerned with fostering regional trade – the main destination of manufactured products exported by Brazil – the government has invested in some regional initiatives, with the emphasis on backing the availability of financing and on trade in local currency. The implementation of the Local Currency Payments System between Argentina and Brazil, in October 2008, and the offer of credit lines as currency swaps to neighbors – in the same pattern as offered by the US to Brazil in the height of the crisis – were some examples. The first initiative is in operation but the second has not been carried forward.

Argentina, which had been adopting import restriction policies aiming to foster the re-industrialization, reinforced these policies, protecting a greater number of sectors and adopting non-tariff measures to contain imports. The main instrument used by the government was the significant increase in the number of products whose importing would be subject to non-automatic licensing.

Aggravation of external accounts and pressures on the system of dollarization of the Ecuadorian economy, the government adopted several measures with the aim of strengthening the external sector and protect the local production sectors. The measures were adopted in two steps. In the first one, begun in November 2009, the measures were focused on stimulating exports. In the second, measures for protection prevailed and the government of Ecuador decided to apply balance of payment safeguards due to the aggravation of deficit levels in external accounts. The measure was applied to imports of all kinds, in a non-discriminatory manner, not respecting the tariff preferences of countries with which Ecuador has trade agreements, including members of the Andean Community of Nations (CAN).

The following chart summarizes the trade policy options adopted by the countries included in this project, evaluating the intensity with which the main options were used by each of them. It can be seen that Argentina and Ecuador, for different reasons, fiercely resorted to protectionist measures, while Chile and Peru adopted slightly interventionist strategies and Brazil chose to reinforce its policies for strengthening exports.

Intensity of trade policy responses

Countries	Import restrictions	Support for exports	Trade openness
Argentina	**Strong**	Weak	None
Brasil	Weak	**Strong**	Weak
Chile	None	Medium	None
Equador	**Strong**	Medium	None
Peru	None	Weak	**Strong**

The analysis of these economic policy responses to the international crisis shows the lack of intra-regional coordination in the formulation of South American countries' strategies. Beyond the speeches given in the UNASUL Summit, in December 2008, blaming the rich countries for the crisis, there were no coordinated policies or measures.

The impact of the international crisis on regional integration is a result of the macroeconomic development in each country as well as the trade policy choices adopted by each of them. The deterioration of the levels of domestic activity in most countries had a negative impact on intra-regional trade, although the region's participation in the total exports of the South American countries is relevant only for Argentina, amongst the countries analyzed.

In this way, the anti-cyclical measures adopted by Brazil, the largest economy in the region, should have positive effects on the country's trading with other partners in the region. Despite this, only for Argentina did the Brazilian recovery have a relevant impact on foreign trade. In the other countries, the Brazilian participation as an import market is relatively small; thus, its ability to leverage economic growth is reduced.

The trade policy options adopted by most of the countries in the region after the start of the crisis do not contribute to the growth of regional trade integration. Argentina and Ecuador became South American trade partners with their protection measures, whereas Peru continued to advance in its strategy of strengthening extra-regional agreements. Brazil did not adopt trade measures which could have affected its neighbors' interests in the last few months, but it keeps alight the expectation of pursuing initiatives which may help to create a monetary zone for the Brazilian currency in South America.

Yet the perception that the differences in trade policy options as responses to the crisis reveal the diversity of economic models which have been characterizing the environment in South America over the last years is of greater significance.