Trade Trends
With Taneli Ruda

Latin American focus

Never in history has trade expanded at the rate it is today. People are doing business with each other from every corner of the globe. Trade is on an exponential upward curve, growing as it has for decades at 6 to 7 percent per annum.

The reasons for this are multifaceted: enlightened and more open trade policies, the rise of multinational corporations with far-extending international supply chains, advances in communications and logistics, and a dramatic rise in living standards. The list goes on.

Look at the number of foreign trade agreements (FTAs) as an example: In 1994 there were some 100 FTAs in place, while today there are close to 400. Most are bilateral, but some are regional or multilateral. By 2024, there are expected to be another 200 FTAs.

Global trade is a megatrend. Max Rose, a researcher at Oxford University, has studied the historical impact that international trade has had on gross domestic product (GDP). He estimates that in 1850 trade in Europe represented 18 percent of GDP. More than a century later the global contribution to GDP from trade jumped to 25 percent. Fast forward to 2012, and that figure increased to 61 percent of global GDP.

Latin America is very representative of this megatrend if we look at the value of imports and exports for six countries — Argentina, Brazil, Chile, Peru, Colombia and Mexico — over a 20-year period. Trade volume for these countries grew almost 500 percent, or $1.4 trillion, between 1995 to 2013 — equivalent to the entire GDP of Spain.

The traditional trade patterns for Latin America are north-south, such as from Chile to the United States, or Brazil to Germany. Historically, the pattern is of commodities (such as mineral, timber, and agriculture products) flowing from the south to the north, and manufactured goods going from the north to the south.

This pattern continues today. However, other patterns have quickly changed the composition of traded goods and services to and from Latin America. One such driving force is the increasing proliferation of extended supply chains across Latin America, in part to serve a growing consumer market of 600 million people, but also to take advantage of smart trade schemes such as the North American Free Trade Agreement (NAFTA).

Mexico is a perfect example. Mexico accounts for more than 43 percent of all imports and exports among the six countries mentioned above. Half of all Mexican imports come from the United States and 78 percent of all exports flow to its neighbor to the north. Last year was the 20th anniversary of NAFTA’s enactment. NAFTA certainly stimulated trade between Mexico and the United States, but it also ginned up trade between Mexico and other countries with companies that moved production to Mexico to take advantage of open trade policies. Trade accounts for 35 percent of Mexico’s economy today. It’s important to remember this expansion didn’t shrink other parts of the economy. It grew the GDP pie.

A second trend has been the shift of trade from north-south to east-south — to and from the Asia Pacific markets. While the United States is still the largest trading partner for most countries in Latin America, China’s rise has been meteoric. In 1995, China was not a top five trade partner with any of the six countries mentioned above — except for Peru. At the time, China was Peru’s 4th largest export market.

Today, China is the largest import partner for Brazil and the second-largest for Argentina, Mexico, Chile, Peru, and Colombia. And it’s the leading export market for Brazil and Chile, as well as the second-largest for Colombia, Peru, and Argentina.

Yet, if you look at the composition of traded goods from these six Latin American countries to Asia, it follows the traditional commodities pattern. Ninety percent of the export value from these countries to China, Japan and Korea — the top three Asian export markets — are commodities. Inversely, 82 percent of their imports from these Asian partners are manufactured goods.

China’s participation in Latin American trade didn’t happen in a vacuum. Trade liberalization, specifically NAFTA, played a large role. Today, China is Mexico’s second largest import partner, registering 16 percent of the value of all imported goods. Yet, only 1.6 percent worth of Mexican exports head to China.

In 2013, Mexico ran up a $54 billion dollar trade deficit with China. No other country in the region even comes close. The deficit is greater than China’s trade value with Chile, Argentina, Peru, and Colombia combined. Yet the pattern can be understood by examining the $112 billion deficit the
United States has with Mexico. It could be argued that China has become a de facto NAFTA member.

The automobile industry is a prime example. General Motors, Honda, Nissan and Ford have all established manufacturing operations in Mexico. In 1994, Mexico produced 1.1 million vehicles, mostly for domestic consumption. That number has surged to 3.2 million vehicles per year. Less than a third of all cars are sold domestically, with 80 percent of all exported vehicles heading to the United States. Chinese suppliers are tightly integrated within production supply chains. Exports of Chinese steel and components to Mexico have surged as companies comply with rules of origin to take advantage of qualified tariff preferences under NAFTA.

This is illustrative of the new trade patterns in which goods exported from one country undergo final assembly in another for eventual re-export.

In 1985 less than 10 percent of goods sold by developing countries overseas were manufactured products compared to 70 percent today. I see this trend in action everyday as the 300 customers we support in Latin America require more efficient technology and real-time methods to expand and control their supply chains.

We’re living in an exciting and historic moment. Globalization is changing our day-to-day lives in profound ways and nowhere is this more apparent than in Latin America.

With operations in more than 100 countries and 60,000 employees globally, Thomson Reuters combines industry expertise, intelligent information sources and one of the largest news organizations in the world to inform decision makers in the financial and risk, legal, tax and accounting, intellectual property, commodity, science and media markets.

Led by Taneli Ruda, Thomson Reuters has launched a new global trade management business. Its ONESOURCE Global Trade product supports companies working to improve their global supply chains by combining trade information with technology tools.