Coronavirus impact on China to weaken Latin American exports and growth in H1

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The outbreak and spread of the novel coronavirus, which the World Health Organization has now named COVID-19, will affect Latin American economies, particularly those that have China as a key trade partner. Supply-chain disruption is likely in the coming weeks.

The Valparaíso port in Chile handles much of Chile's copper and fruit exports. Metals, agricultural, and oil exports in Latin America will be among the most affected by reduced Chinese demand.
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- **Coronavirus (COVID-19) is likely to slow the Brazilian economy in 2020 through lower exports and depressed prices for key commodities such as soybeans, iron ore, and oil.** China accounts for 30% of Brazilian exports. The effect will also damage manufacturing, agribusiness exports, and the solar panel industry. Manufacturers of electrical appliances are reporting supply shortages of component parts, many of which are sourced from China. Several companies are stopping production in the second half of February as a result. Meat exports are also being disrupted by delays at Chinese ports. The solar energy industry has warned of project delays, with firms seeking alternative sources for component parts.
- **Disruption at Chinese ports is likely to delay copper shipments from Chile and Peru in the coming weeks**. Confinement measures have caused Chinese ports to reduce their operating capacity, delaying marine-cargo shipments. China is Chile and Peru's largest trade partner and the main market for their copper exports. China receives more than 33% of Chile's total exports and 47% of its mining exports, and over 25% of Peru's exports and 65% of its copper production. Reduced Chinese economic activity will curtail demand and weaken copper prices, which have already fallen by 10% since the outbreak of the virus in the third week of January. Disruption and delays to shipments are likely through to March.
- **The Argentine and Uruguayan agribusiness sector will also be affected by lower prices and demand**. China is Argentina's second-largest trade partner after Brazil, particularly for agricultural produce, mainly meat and soybeans; 75% of Argentina's beef exports go to China, while over 70% of Argentine exports to China are soybeans. Soybean prices fell by 7.4% between 2 January and 12 February. Uruguay, which has a much smaller domestic market for meat, is also very dependent on China. It exports 75% of its beef production, with China being its main importer; China's beef imports reached USD1 billion in 2019. IHS Markit will downgrade Argentina's export growth forecast for 2020 from -2.6% to -2.7%, but we expect exports to revive in 2021 as demand for Argentine produce recovers from the effects of COVID-19. This is combined with the effect of efforts by the exporting sector to reduce stock, which had accumulated in 2019 as firms reacted to the potential depreciation of the peso.
- **Operational delays are likely for all vessels transiting the Panama Canal at least until the end of March 2020**. The Panama Canal Authority (Autoridad del Canal de Panamá: ACP) on 29 January announced increased controls for vessels that have passed through COVID-19-affected countries in the previous 30 days. These include on-board sanitary checks and holding vessels in quarantine. The checks and associated increases in administrative burdens are likely to raise transit times through the canal in the coming weeks. Panama has higher exposure to infectious diseases than many of its regional neighbours, with 6% of global trade passing through the canal.
- **Poor health services and customs controls in Venezuela and Haiti leave them more exposed to an outbreak of the virus**. Due to a lack of preventive measures and poor state control over both

customs and migration, any cases of COVID-19 are likely to spread more rapidly in Venezuela and Haiti than elsewhere in the region. A potential outbreak would be likely to provoke border closures by neighbours Colombia and the Dominican Republic, causing severe operational disruption, as well as further increasing political instability and civil unrest risks because of popular demands for greater government intervention to reduce contagion.
- **Protest risks are likely to increase in oil-producing countries such as Venezuela, although others such as Mexico are better prepared to deal with an oil price decline**. The economies of these countries rely heavily on oil exports and are likely to be hurt by lower oil prices as COVID-19 affects global demand. IHS Markit energy estimated on 4 February that oil demand in China was 1.4 MMb/d less than a year ago, without counter-balancing gains elsewhere. The degree of quarantine as well as travel and commercial restrictions in China is unprecedented, threatening to push oil demand even lower. Although this increases the risk of economically motivated protests in Venezuela, IHS Markit assesses that these are unlikely to generate a change of government. By contrast, Mexico has an oil-hedging programme that will help it to mitigate the effects of a major decline in the oil price. However, manufacturers operating in Mexico are likely to experience delays and disruption, affecting imports from China.
- **We assume that the negative economic effect will be concentrated in the first half of 2020, resulting in a downward revision of 0.1 percentage point for full-year 2020 GDP growth for most Latin American countries**. However, the eventual lifting of confinement measures should boost GDP growth in 2021; the 2020 loss is expected to be fully recovered in Brazil, Ecuador, and Uruguay, while we forecast an upward revision of four-tenths of a percentage point in Argentina. Less positively, Chile’s GDP growth forecast will be revised downward by 0.1 percentage point in 2020 and in 2021, also affected by ongoing protests and uncertainty over a new constitution. No revisions are currently projected for Colombia, Panama, and Peru in 2020–21.

Indicators of changing risk environment

Increasing risk

- Significant rises in the number and geographic spread of confirmed cases would raise the risks of further restrictions, such as temporary suspensions of maritime traffic at the Panama Canal, affecting vessels from more affected countries.
- The extension of the outbreak beyond March would significantly affect Argentina’s exports, reducing its scope to contain the peso's depreciation. This would contribute to increasing inflation and reduce economic growth, therefore prolonging economic recession, threatening a tougher stance on debt renegotiations by the Argentine government.
- Labour unrest would increase if manufacturing companies in Brazil run out of stocks, forcing them to stop production and make job redundancies.
- If Chinese companies invoke force majeure against Brazilian agribusiness exporters, the latter would be likely to call for the Brazilian government to intervene, raising risks of a subsequent commercial and diplomatic dispute.
- Continued expansion in the number of global cases of COVID-19 beyond the next two weeks would increase protest and strike risks in Latin American countries with existing economic and social grievances, such as Argentina, Brazil, and Chile, where popular tolerance for export losses, reduced commodity prices, or increased austerity measures would be lower.

Decreasing risk

- COVID-19 is contained by March 2020, leading to the lifting of confinement measures, reducing operational and supply-chain disruption. This will mitigate the economic impact on Latin American economies.
- Latin American exporters swiftly secure alternative markets, minimising trade losses.
- A sharp decline in chicken and pork production in China generates large-scale increases in exports of Latin American produce, such as meat.
- The rapid development of a vaccine for COVID-19 in 2020 rather than in 18 months, as suggested by the World Health Organization, reduces future risks, including those of a renewed outbreak in 2021.

Analyst Contact Details: Paula Diosquez-Rice, Diego Moya-Ocampos, Claudia Wehbe, Carlos Caicedo, Carla Selman, Johanna Marris, Ellie Vorhaben, Carlos Cardenas