

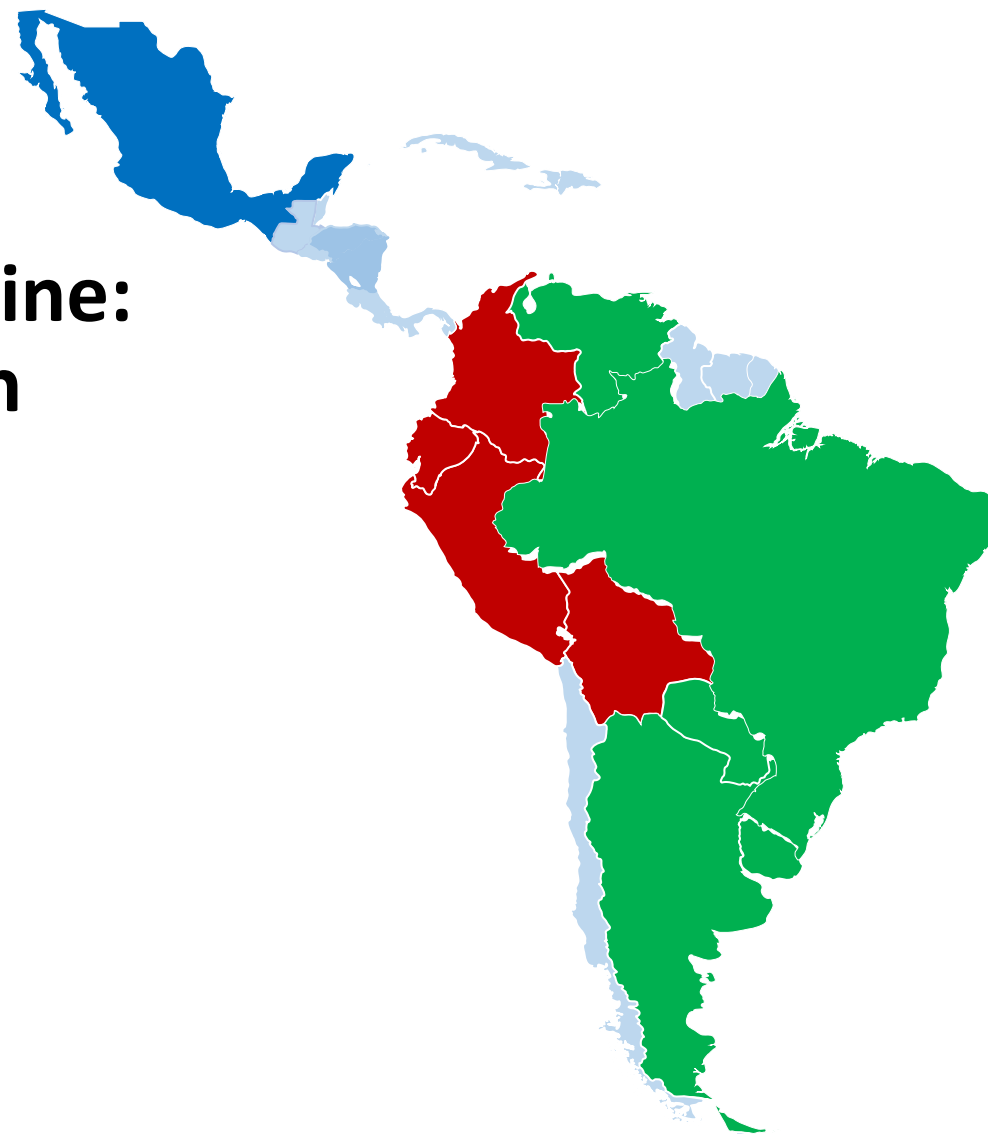
# Lights and Shadows of the War in Ukraine: Economic and Social Effects on Latin America and the Caribbean

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# Latin America and the Caribbean is a heterogenous region with three distinct groups of countries

- **Mexico and Central America**, with strong links with the U.S. economy (trade, FDI, migration, etc.) and specialized in the export of manufactures.
- **The Caribbean**, made up mostly of small island States whose economies are based on services (tourism and financial services). Highly vulnerable to natural disasters.
- **South America**, rich in natural resources (minerals, energy, and agricultural products). Within this subregion we have Brazil, a country of continental size.



# First of all, it is important to consider two points

## ***1.- The period between 2014 and 2023 will be remembered as “the new lost decade” for the LAC region***

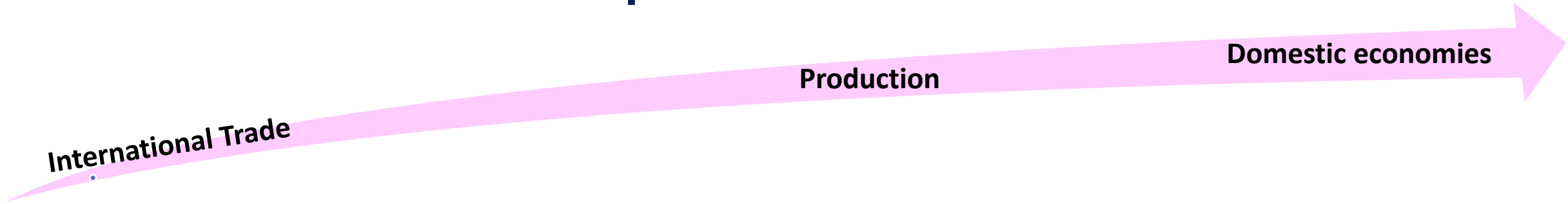
- Average GDP growth will be just 0.9% a year, considering not only the sharp fall during the COVID crisis (-6.8% in 2020), but also the interruption of the recovery (6.7% in 2021) due to the war and its consequences.
- This will be the second lost decade since the 1950s. In terms of GDP growth, it will be even worse than the first one during the debt crisis of the 1980s.

## ***2.- LAC, with 8% of global population, had about 30% of all deaths from COVID 19 in the world.***

# The list of negative effects is a long one

1. The fall in exports to Russia and Ukraine.
2. Rising import prices
3. Increase in freight prices due to disruptions in supply chains
4. The scarcity of fertilizers, key inputs for agriculture.
5. The increase in domestic inflation
6. Contagion to the world economy
7. The deterioration of the terms of trade
8. Setback in recovery from poverty

# The sequence of effects



1.

## *Trade disruptions*

Fall in exports to Russia and Ukraine.

Rising import prices (wheat, vegetable oil, and energy)

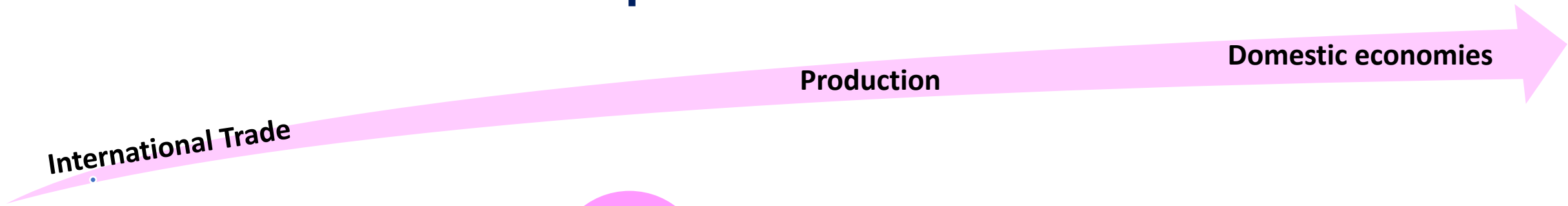
Increase of freight prices due to interruption of supply chains

**Limited impacts**



**Winners and losers according to structure of export patterns**

# The sequence of effects



1.

## *Trade disruptions*

Fall in exports to Russia and Ukraine.

Rising import prices (wheat, vegetable oil, and energy)

Increase of freight prices due to interruption of supply chains

**Limited impacts**



**Winners and losers according to structure of export patterns**

2.

## *Disruptions in supply of key agricultural inputs*

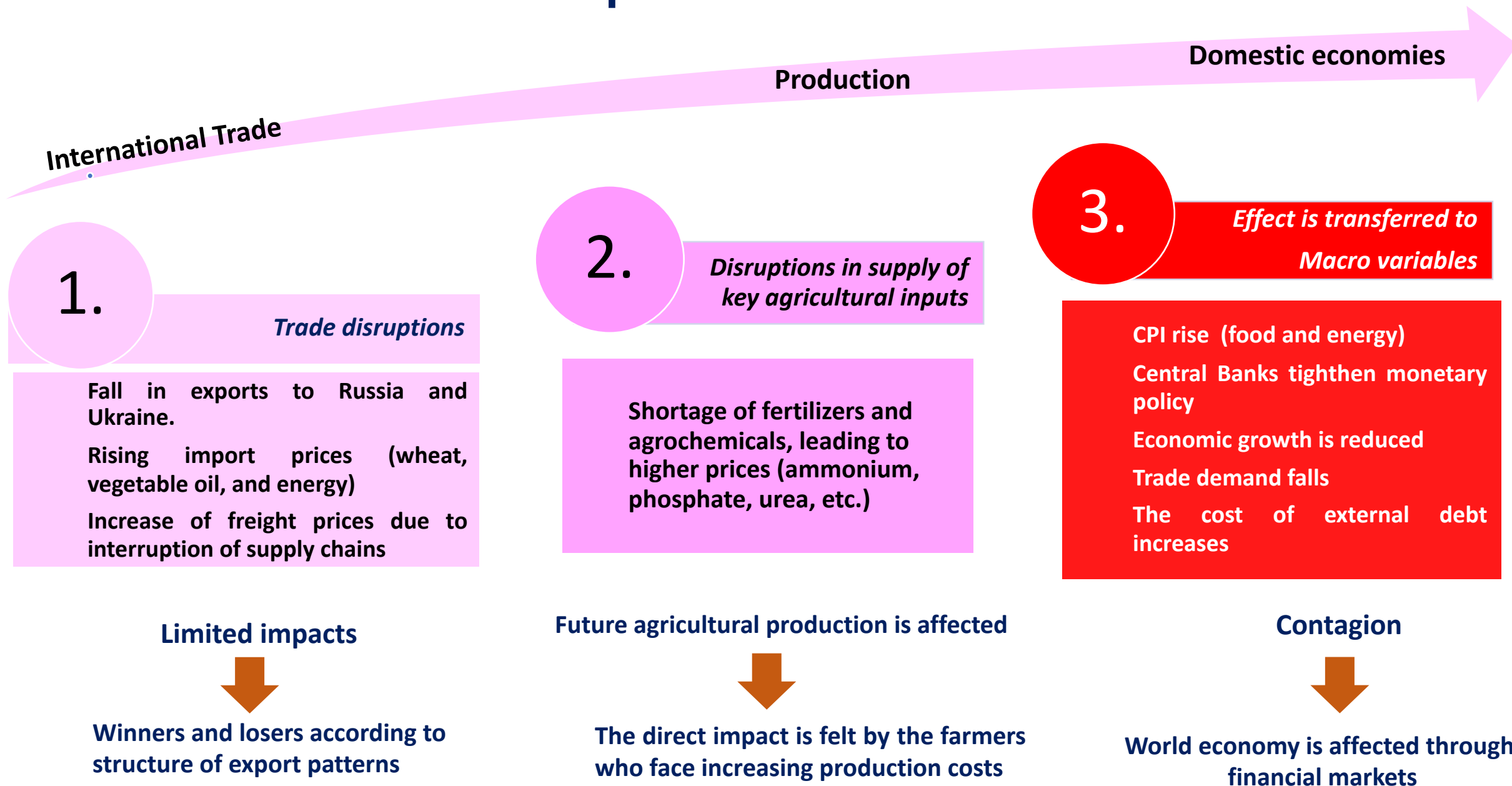
Shortage of fertilizers and agrochemicals, leading to higher prices (ammonium, phosphate, urea, etc.)

**Future agricultural production is affected**



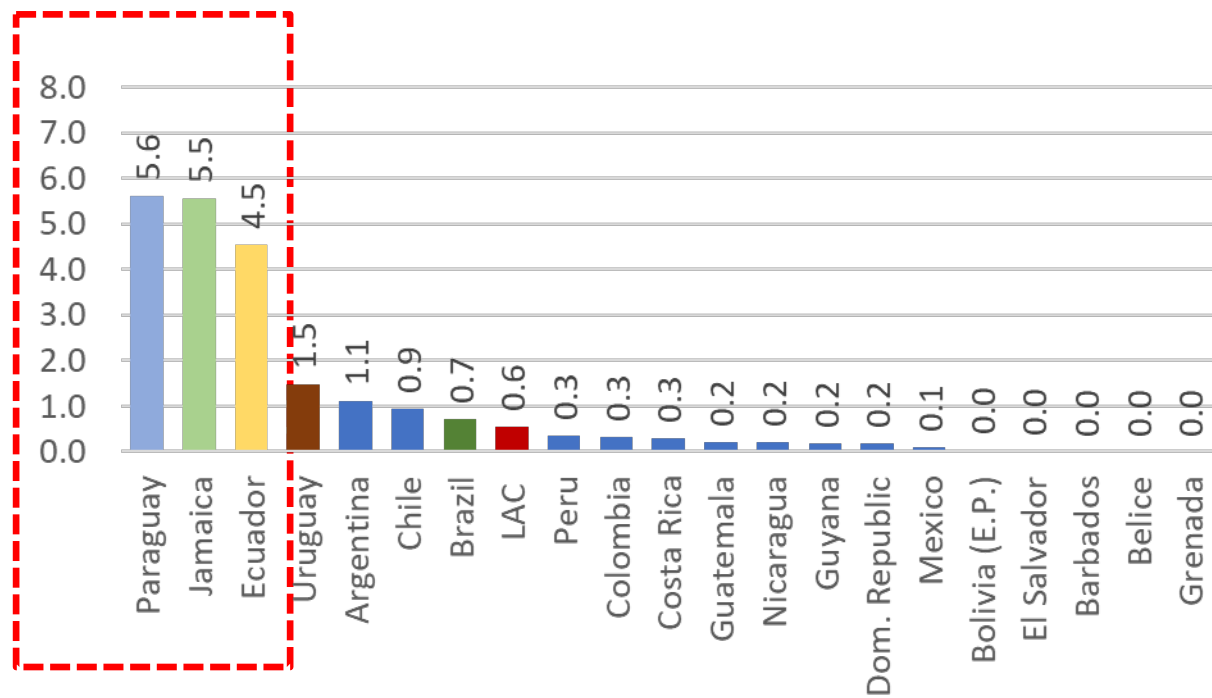
**The direct impact is felt by the farmers who face increasing production costs**

# The sequence of effects



# With a few exceptions, the export exposure of LAC countries to the Russian market is very low

Latin America and the Caribbean, exports to Russia by country,  
2020  
(Share of total exports)



- Paraguay: Butter and fats
- Jamaica: Aluminum oxide
- Ecuador: coffee, bananas, flowers
- Uruguay: bovine liver, chesses
- Argentina: butter, fresh chess
- Chile: copper, salmon, fresh cheese



# The greatest affectations occur in agricultural and agro-industrial products (Xs), and in inputs for the industry (Ms)

Países	Exportaciones (% de las Xs totales de cada producto)	Importaciones (% de las Ms totales del producto)
Argentina	Butter (99%); fresh cheese (32%); lemons (25%); butterfat (67%); tangerines (45%); horse meat (27%); apples and pears (23%)	Ammonium nitrate (70%); Rubber "BR" (36.2%); Potassium Chloride (35.5%); Paper and cardboard (32%);
Brazil	Peanut (43%); tractors (13%); coffee concentrates (15%); Apples (29%)	Iron or steel planes >= 600 mm. (98%); Ammonium nitrate (95.5%); Mineral fertilizers (54.5%); potassium chloride (49%)
Chile	Copper waste (61%); salmon (40%); fresh cheese (35%); Almonds (22%); frozen trout (21%); apples and pears (10%)	soprene Rubber "iR" (97.7%); Ammonium nitrate (75.5%); wooden boards (41%); Nitrates (38%); Flakes, granules and "pellets" of potato "potato" (25%)
Colombia	Milk cream (98%); butter (97%); cocoa paste (18%); coffee (15%); banana (10%); flowers (9%)	Ammonium nitrate (83%); Helicopters (99%); books and brochures (93%); urea (31%); aluminum (25%); potassium chloride (21%)
Ecuador	Coffee (34%); flowers (36%); bananas (21%); fish (18%); jams (15%);	Phosphate mineral fertilizers (77%); diammonium phosphate (69%); Ammonium nitrate (63%)
Jamaica	Aluminum oxide (99,95%)	Octiphenol (67%); monoammonium phosphate(62%); methylene chloride(54%)
Paraguay	Butter and fats (86%); bovine meat (20%); soy (11%)	Oil residues (35%); fertilizers (32%); inorganic chemicals (4.5%).
Uruguay	Bovine livers (97%); melted cheese (37%); butter (25%)	bitumen and asphalt (77%); Potassium Chloride (76%); Sodium dichromate (45%); sulfur (31%); Urea (22%)

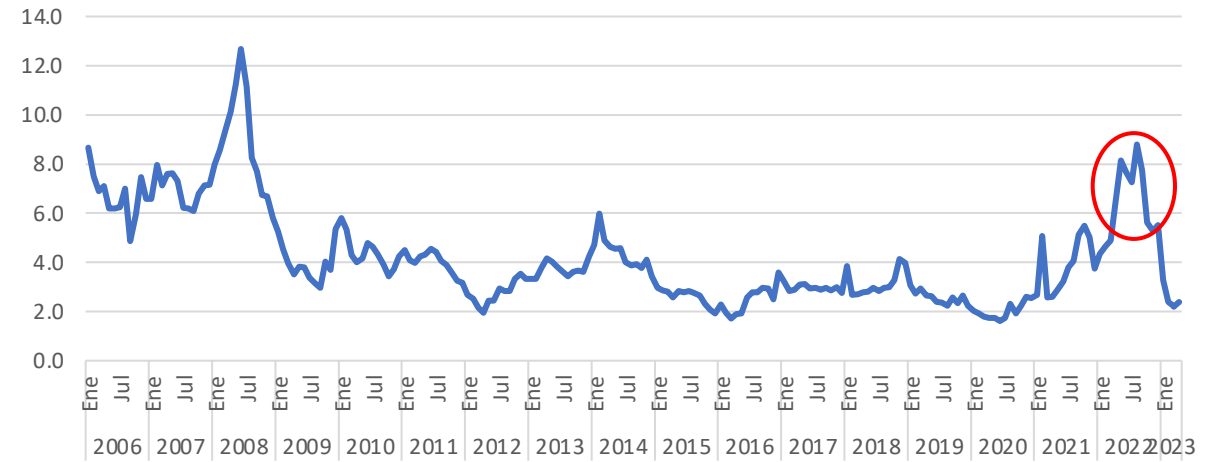
Source: Author, base on World bank price database

# Rise of energy import prices due the war

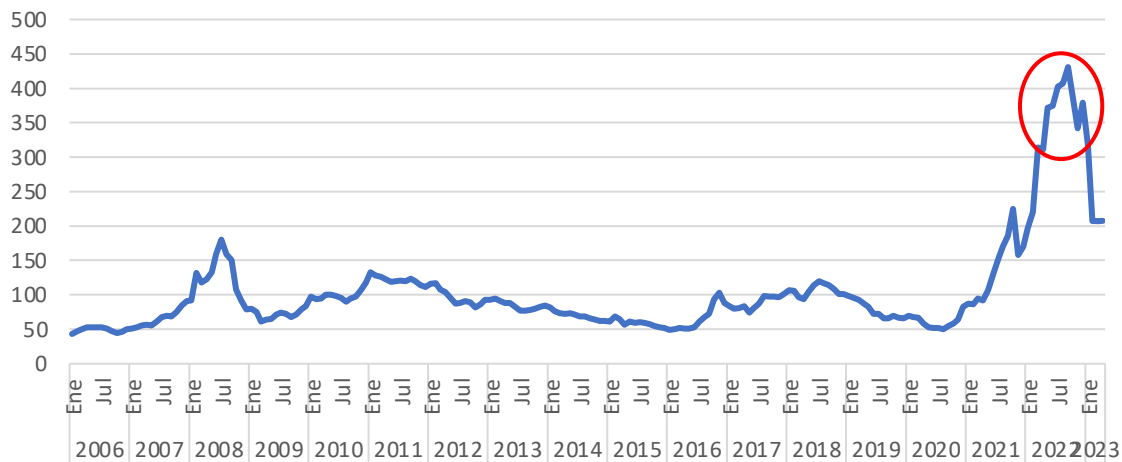
## Oil (US\$ per barrel)



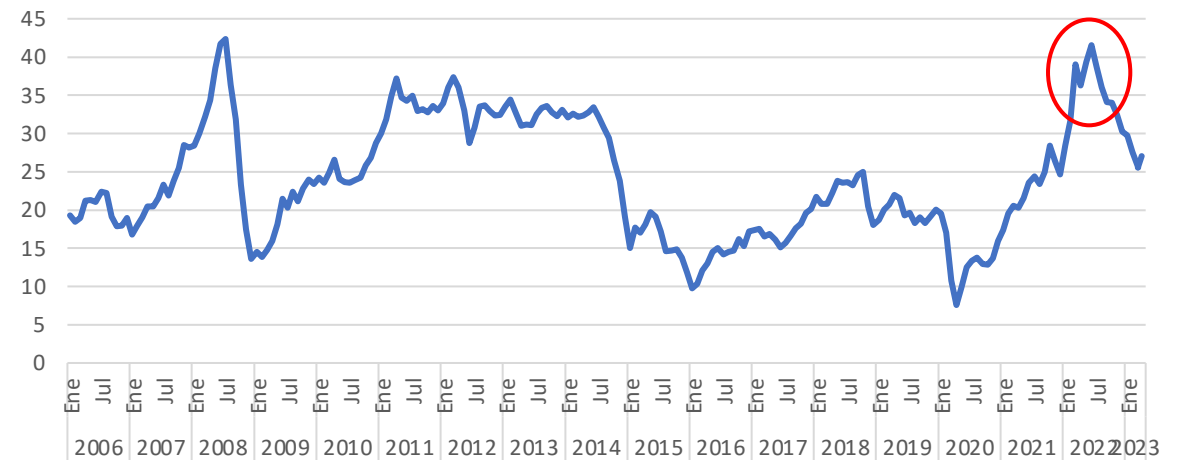
## Gas (\$/mmbtu)



## Coal (US\$/mt)



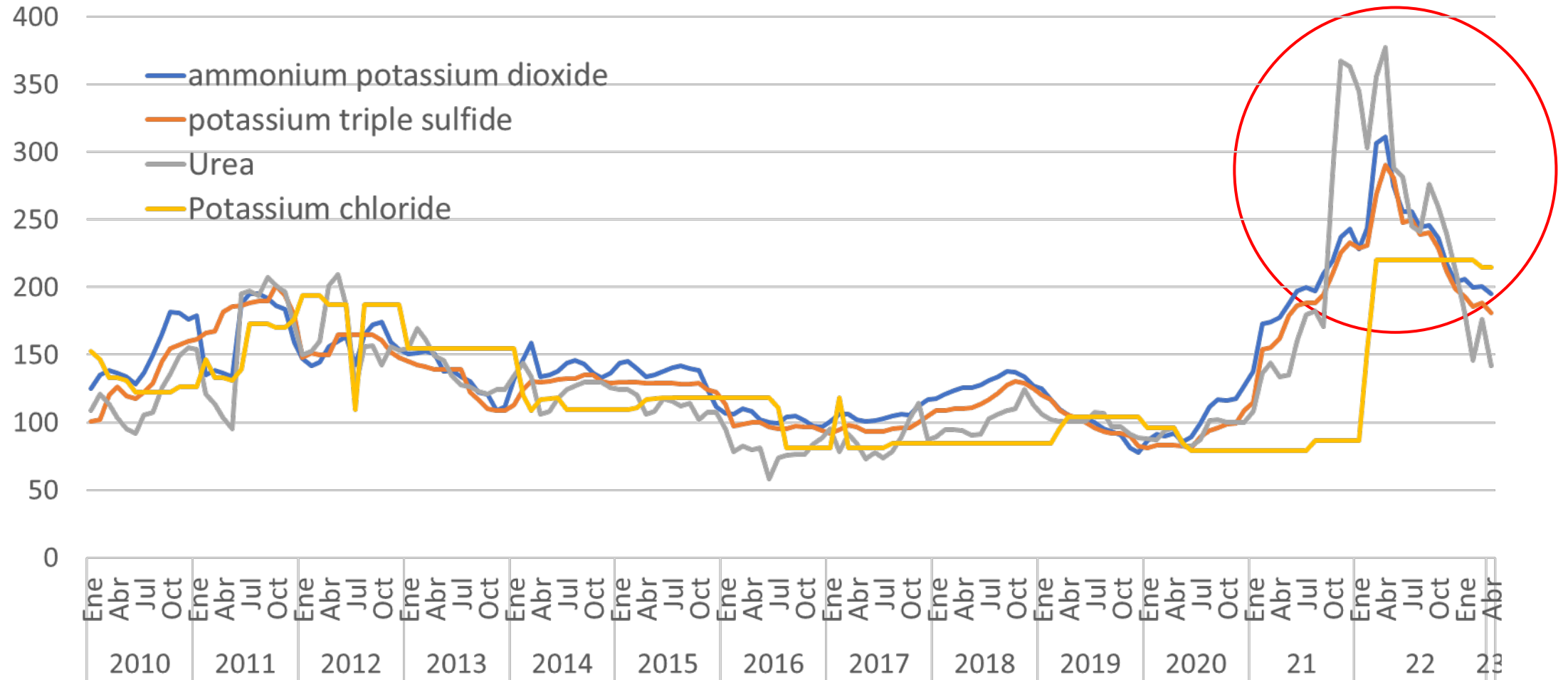
## Energy (Index 2019 = 100)



Source: Author, base on World bank price database

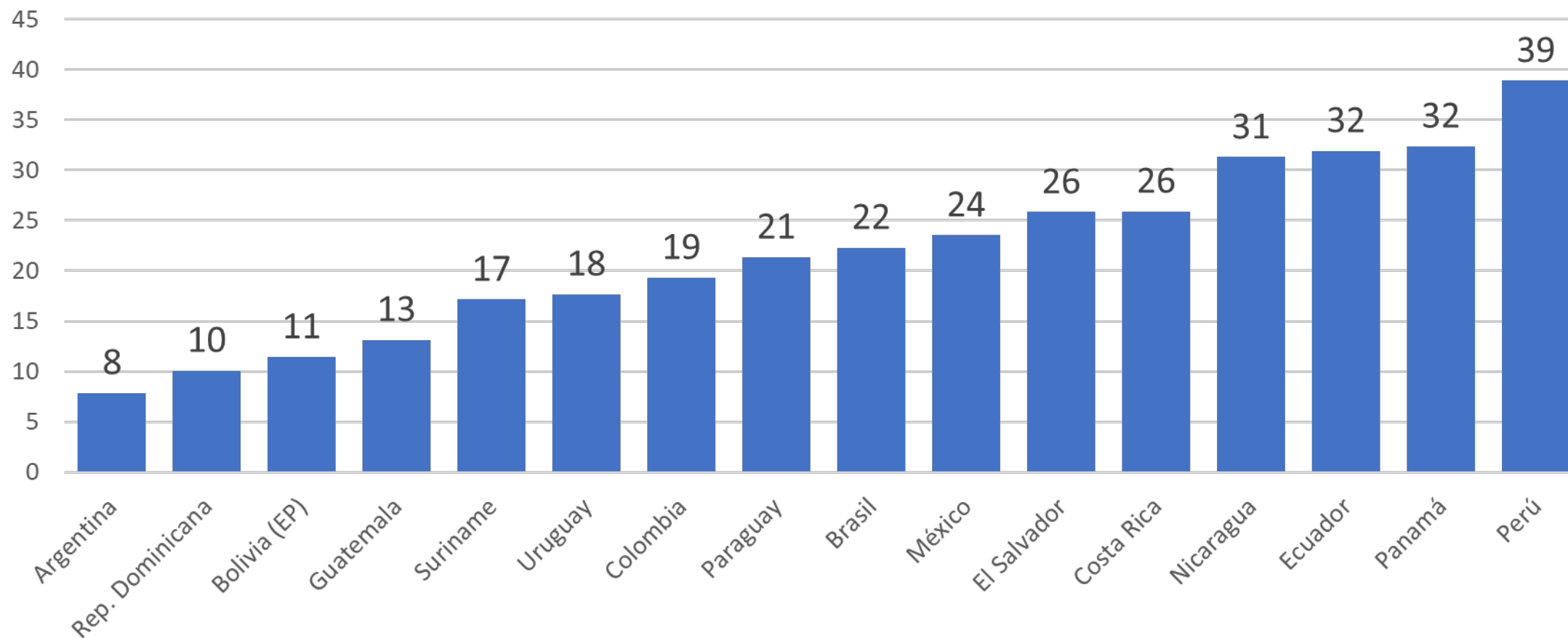
# Rise of fertilizers prices. All prices are still higher than pre-pandemia

Fertilizer prices (Index 2019 = 100)



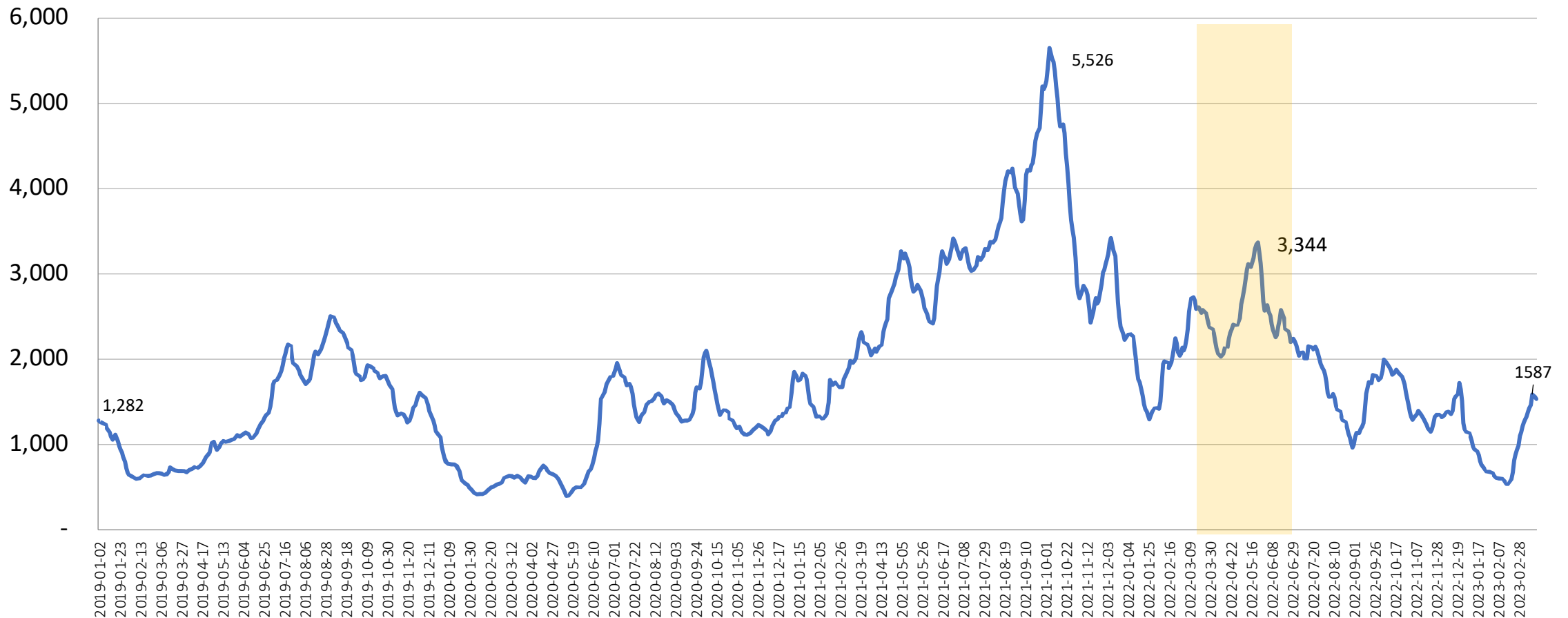
# The region is highly dependent on Russian fertilizers

*SHARE OF RUSSIA IN FERTILIZER IMPORTS, 2020 (%)*



# The war also produced a new rise in maritime freight prices following the one caused by the pandemic

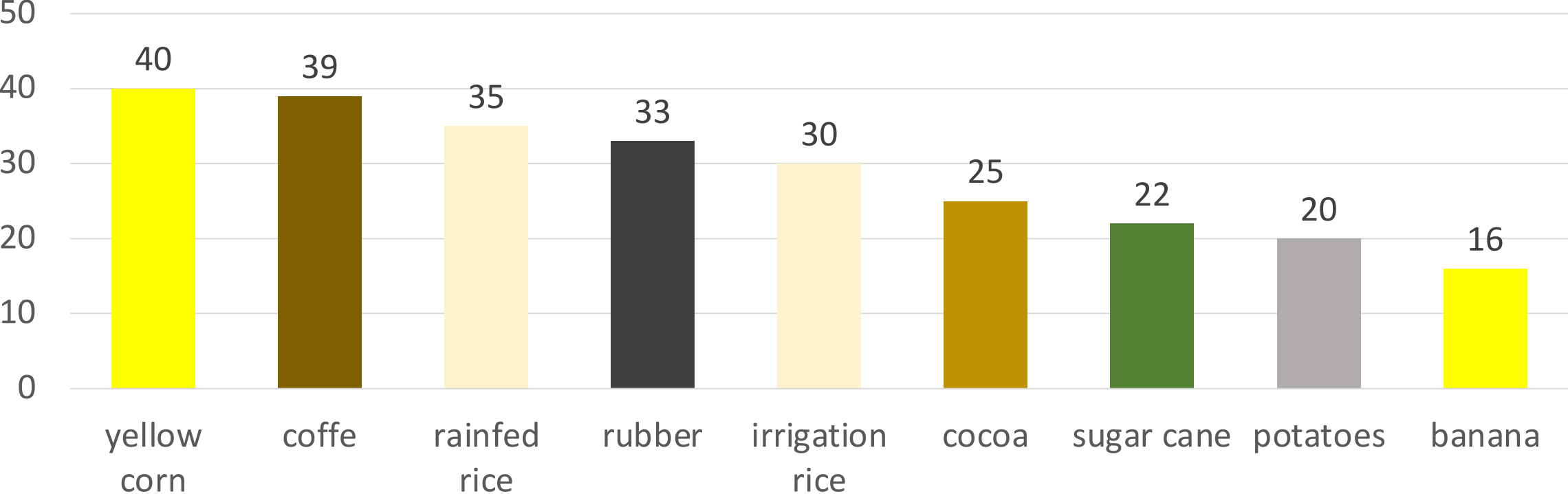
**Baltic Dry Index – BDI, January 2019 to February 2023**



Source: ECLAC, based on Bloomberg. Note: A shipping and trade index created by the London-based Baltic Exchange that measures changes in the cost to transport raw materials such as metals, grains and fossil fuels by sea

# Fertilizers represent a significant share of the cost structure of several agricultural products

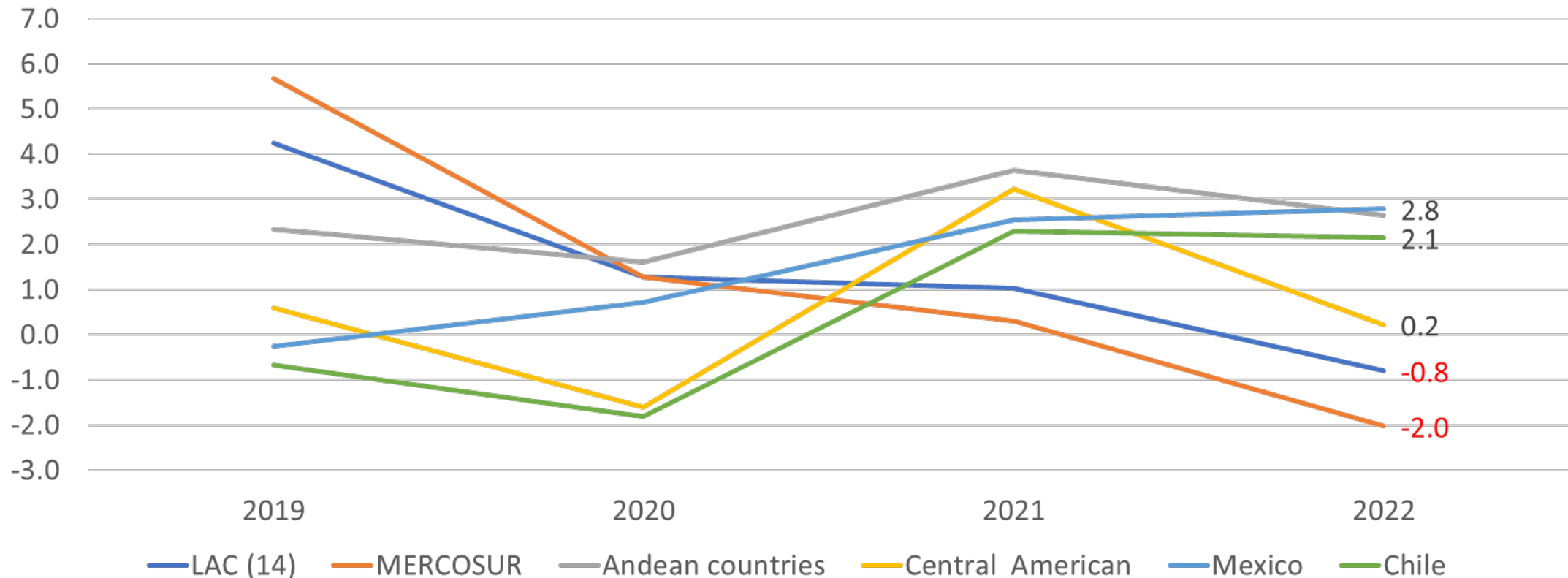
## Fertilizers (share of cost in percentages)



Source: ECLAC, based on Aldana (2022), Cadenas productivas sienten el impacto del incremento en los costos. En línea en: <https://www.contextoganadero.com/economia/cadenas-productivas-sienten-el-impacto-del-incremento-en-los-costos> Perfetti y Otros (2012), Costos de Producción de doce productos agropecuarios. En el caso del arroz incluye fertilizantes y plaguicidas.

# On average, Latin America closed 2022 with a decline of agricultural GDP of 0.8%

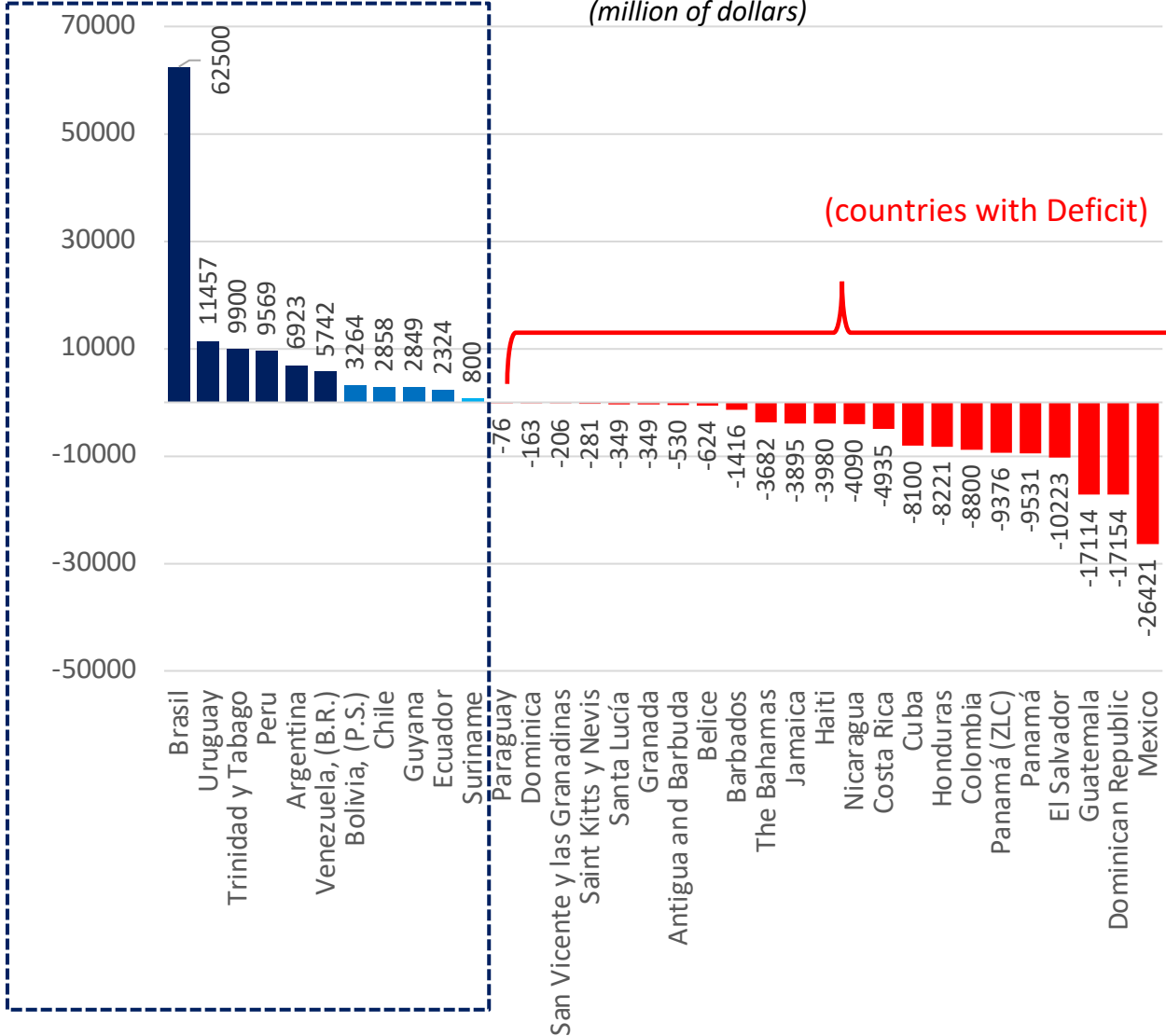
Latin America (14 countries): Variation in Agriculture, Livestock and fishing GDP, 2019-2022 (%)



# LAC countries which are highly dependent on energy imports suffered in 2022 an increase in their trade deficits and a negative impact in their terms of trade

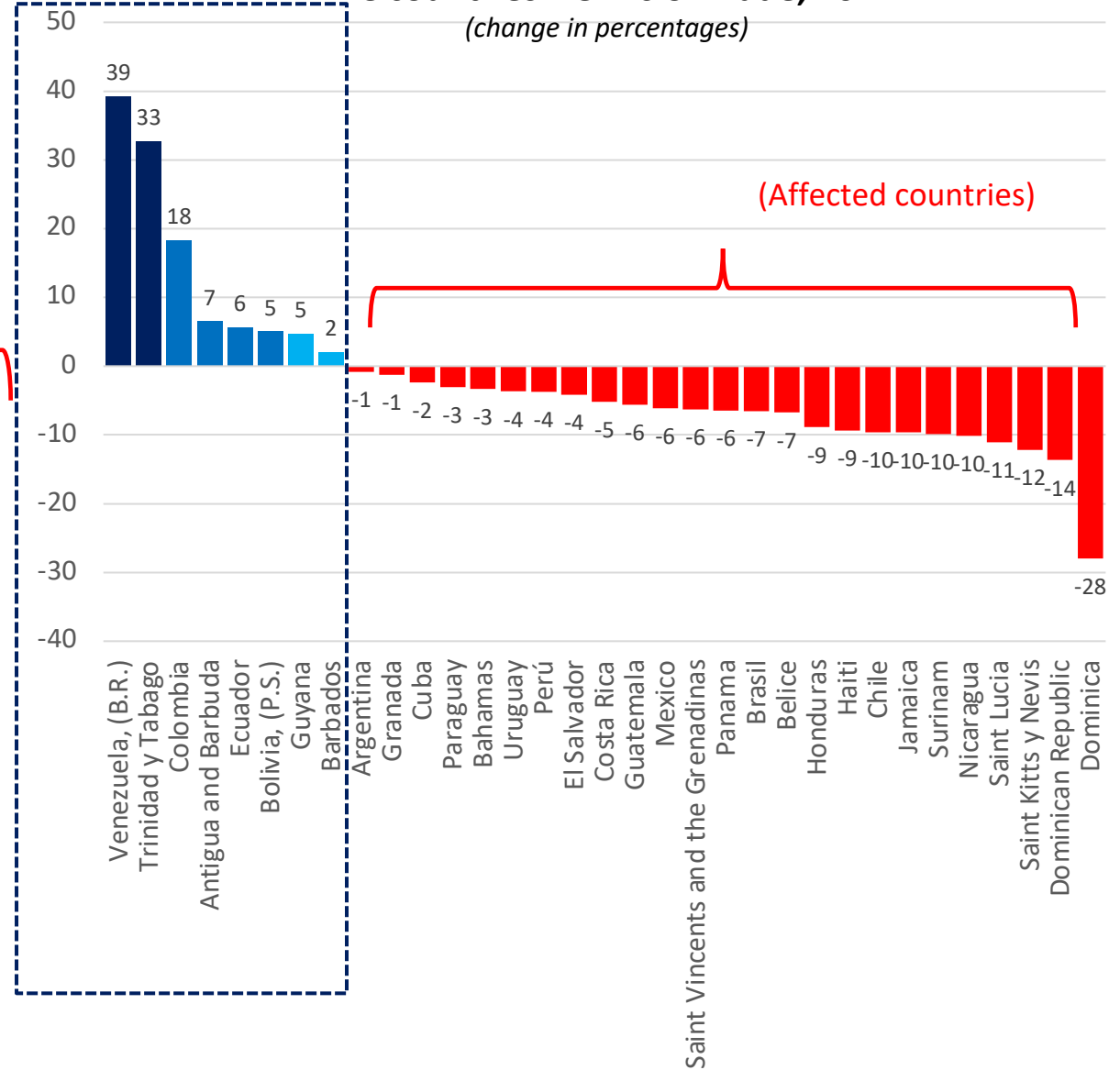
LAC countries: Balance of trade, 2022

(million of dollars)



LAC countries: Terms of Trade, 2022

(change in percentages)

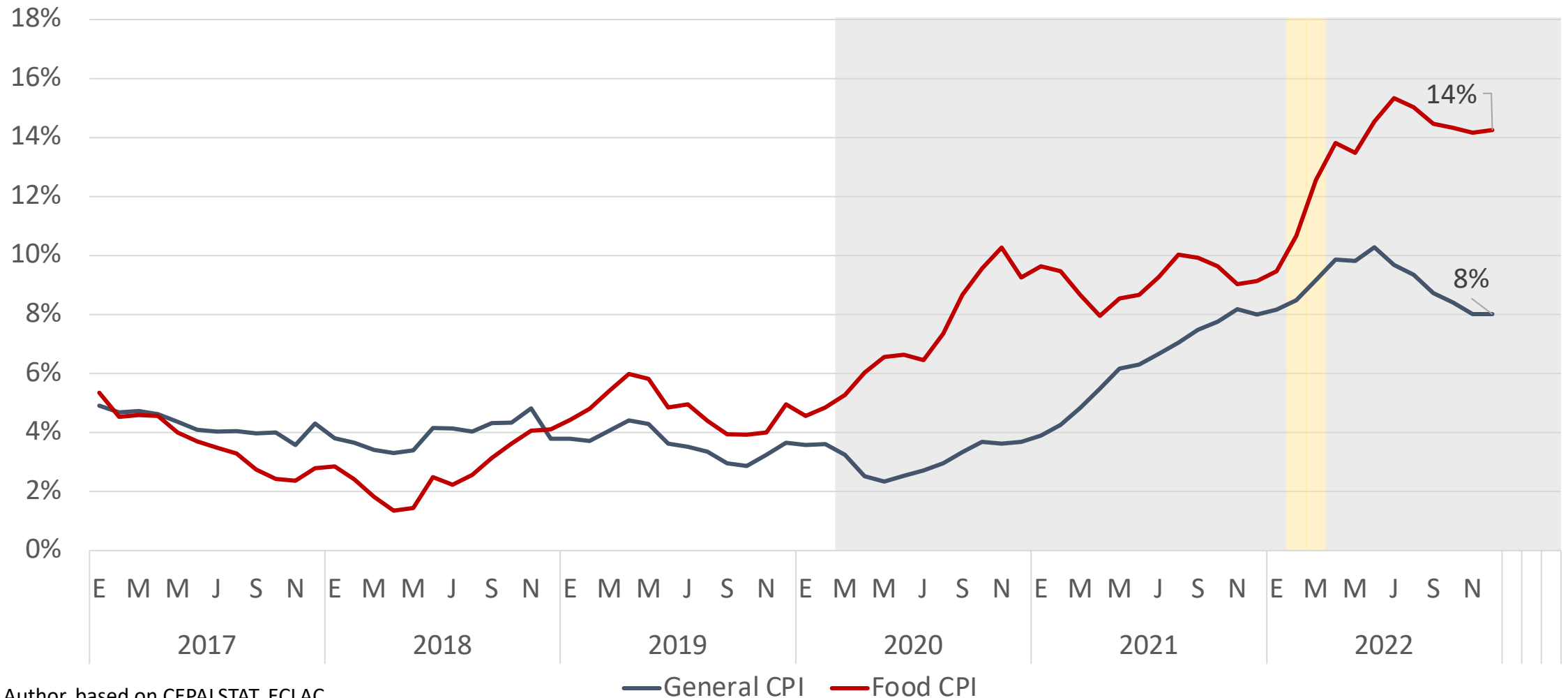


Source: Author, based on National Statistical Offices



# The consumer price index increased dramatically

Latin American CPI Index (variations in percentages excluding Argentina and Venezuela)

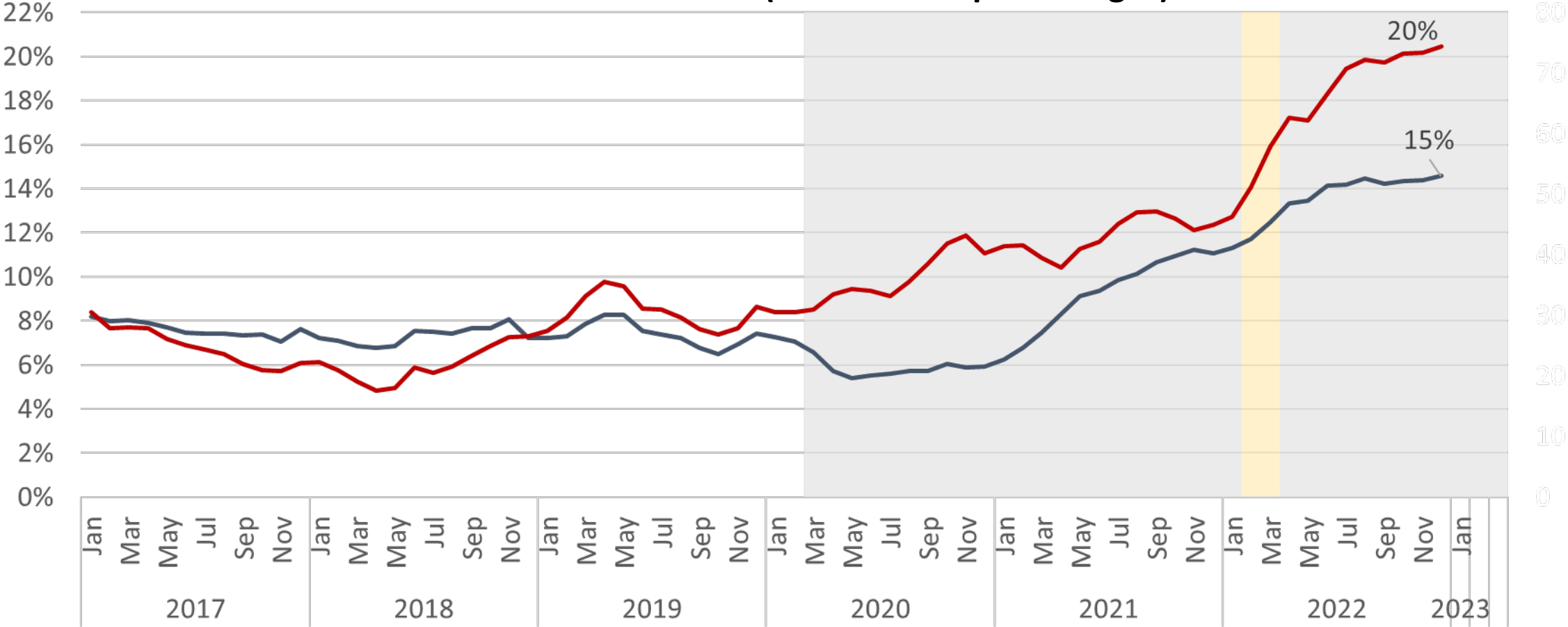


Source: Author, based on CEPALSTAT, ECLAC.

Note: Excluding Argentina and Venezuela

# Including Argentina, regional inflation is notably higher

Latin American CPI Index (variations in percentages)



Source: Author, based on CEPALSTAT, ECLAC.  
 Note: Excluding Venezuela

— General CPI — Food CPI

# Some LAC countries benefited from higher commodity in 2022

## Benefited with higher energy prices

oil (40%); gas (65%); coal (150%)

- Brazil, Bolivia, Colombia, Ecuador, Venezuela, and Mexico in Latin America
- Bahamas, Guyana, and Trinidad and Tobago among the Caribbean countries.

## Benefited with higher agricultural prices

Chicken (60%); wheat (36%); beef (33%); sunflower oil (32%); corn (23%); rice (22%); sugar (16%),

- Argentina, Brazil, Uruguay, Paraguay and Peru

# Some ideas about the future lights

- ***There is a set of latent interdependences in the Global landscape***
  - A link between production and trade
  - development of research and development on frontier issues: development of new materials, the transition towards electromobility, and above all the search for less polluting production patterns, and scientific development.
- ***In the background of these transformations are the increasing tension between the great world powers, The United States, Europe, China, Japan.***
- ***After the pandemic, the war in Ukraine, and the current geopolitical tensions are changing production patterns.***

# What are the changes?

- ***Production is concentrating more on investment in regional poles.***
  - A movement from a Global to a Regional Value Chain approach
  - Asia Pacific is deepening its intraregional ties by advancing toward the implementation of RCEP
  - United States focuses more on promoting trade relations with Mexico and Canada within the USMCA framework
  - Europe follow the same way.
- ***There is a perception of a loss of space in the technological development and production of strategic manufacturing: pharmaceutical, aeronautical, nanotechnology, computer and cybernetic development, and electromobility, to name a few fields)***
- ***The United States and Europe promote a greater regional interdependence, for reasons like the preservation of autonomy and control of essential production chains.***

# And the concern

- ***China has advanced significantly***
  - The number 1 producer of Electrical Batteries
  - The main producer of electrical vehicles. More than 90% of Electrical buses
  - The main supplier of electronic devices and software for smartphones.
  - Very active in research and development, etc.
- ***In some of these sectors, China has advanced significantly, and intellectual and political circles are concerned about the security implications of China's increasingly dominant position.***
- ***European agriculture's reliance on energy for industry***
- ***The dependence on large markets such as China and Russia for Latin America poses a great risk at the time of abrupt disruptions.***

# In this scenario, is it possible that Latin America could receive some benefits?

- ***As is widely known, Mexico and Central America have a strong connection with the United States. Mexico and Costa Rica are part of the North American value chains for:***
  - electronics, medical equipment, vehicle production,
- ***South American countries are more connected to China and the Asia Pacific than to each other. They are the main suppliers of:***
  - oil, gas, copper, iron ore, zinc, bauxite, lithium, precious metals, among others.
- ***South America participates in the Chinese and Asian value chains as a supplier of basic raw materials***
- ***The dependence on large markets such as China poses a great risk for South American exporters at the time of abrupt disruptions such as war, or the rupture of supply chains.***

# And what about the space of LACs in this scenario

- *Seems to have a suitable space for a new form of economic and trade relationship with the United States*
- *There is a space for greater integration of LACs in a continental-type value chain*
  - Production of medical equipment, battery cells, electrical batteries, green hydrogen
  - Promote investments in cleaner and more sustainable production systems.
- *And, for what purpose?*
- *To counterbalancing the predominance of China in many strategic sectors that have left the United States and Latin America in a disadvantageous situation.*



# And what about the space of LACs in this scenario

- ***In the sense that it could better take possession of a strategy that promotes a new hemispheric regionalism in which nearshoring in Latin American and Caribbean countries is feasible,***
  - Not only with Mexico, Costa Rica and the rest of Central America
  - Also, with other South American countries. Many countries can be part of this strategy.
- ***Spaces can be opened for new American and Latin American investments throughout the hemisphere in strategic sectors in which some countries in the region have comparative advantages, and which for now are more connected with China and Asia.***

## LAC is rich in minerals which are key inputs for several strategic industries (biomedical, electronic, semiconductors, electrical batteries)

#	Minerals	MAIN USES	COUNTRIES
1	Arsenic	Biomedical, electronics, photovoltaic applications, solar cells, bateries.	PERU
2	Boron	Chemical, glasses and ceramic, cleaning products, semiconductors	AR, BOL, CHL,PER
3	Cadmiun	Niquel Cadmiun batteries, pigments, plastic stablizers	MEXICO, PERU
4	Graphite	Vehicle batteries, battery cells, drive units, and energy storage products.	BRASIL, MEXICO
5	Cooper	electric and electronic devices, comunications, batteries	BOL, CHI, MEX, PER, ECU. PAN
6	Indium	alloys and solders, electrical components and semiconductors	PERU
7	Iodin	X-ray contrast media, pharmaceuticals, liquid crystal displays (LCDs), iodophors and biocidas	CHILE
8	Iron ore	Steel industry, car industry, electromobility	BRA, CHI, PER, MEX
9	Kyanite	Abrasive products (vehicle brake shoes and pads and grinding and cutting wheels) ceramic products (electrical insulating porcelain)	PERU
10	Lithium	Batteries, 74%; ceramics and glass, 14%; lubricating greases, 3%; continuous casting mold flux powders, 2%; polymer production, 2%	AR, BRA, BOL, CHI
11	Molybdenum	Intermediate products, such as ferromolybdenum, metal powder, and various chemicals	ARG, CHI, MEX, PERU
12	Rhenium	Electrical contacts, electromagnets, electron tubes and targets, heating elements, ionization gauges, mass spectrographs, metallic	CHILE

# An example. Electromobility industry (1)

- Instead of exporting to China the raw materials required to produce battery cells in some Latin American place. Maybe Brazil, Colombia,....
- Latin American countries could be destined strategic raw material for plants on the continent, in countries with the potential, to supply the existing demand for the automotive industry, which then could produce cell batteries for electric vehicles in small factories in other countries (connecting the electrical car production with the main component, the battery).
- To do that the region needs to match the production capacity from Argentina, Brazil, Colombia, and México, with FDI from United States firms (also EU firms), and the network of regional suppliers of parts and components, including body cars and assembler of heavy vehicles (buses, trucks, pick up, etc.).

## An example. Electromobility industry (2)

- Cities need zero-emission cars, especially electric buses to reduce pollution in public transport, but also, in the transport of goods (trucks, trailers, ...).
- There is a demand for electric buses in Sao Paulo, Mexico, DF., Bogota, and Santiago.
- Consumers in Latin America will increase their well-being, because the prices of electric cars will down, and the level of emissions of the cities will decrease.

# Looking for the future. 2023 forecast

- How continued tensions between Russia and Ukraine could affect the growth of the world economy in 2023.
- Financial turbulences are affecting growth expectations and casting doubt on the strength of global economic growth.
- Let me tell you that the next few months of 2023 will be months of great volatility in the financial and commodity markets
- Prices of energy and fertilizers are still higher and will put pressure on inflation. Risk of new increasing of interest rate.
- The GDP growth target of 5% in China will support oil prices around US\$ 70 dollar per barrel in 2023. And, a higher price (US\$ 90 d/b) if GDP recovers the pre-pandemic dynamic.

**It is to be hoped that these tensions will cool and economic international relations between Ukraine and Russia will normalize, with the consequent recovery of world economic growth and peace**

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