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Latin America: agricultural perspectives

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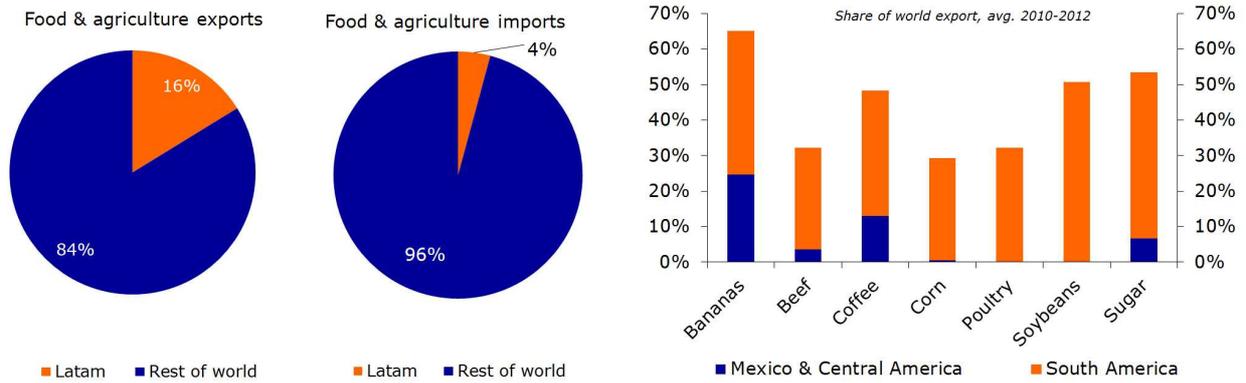
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- The Latin American region is an important net exporter of food and agricultural commodities, accounting for 16% of total global food and agriculture exports and 4% of total food and agriculture imports.
- The region is one of the few parts of the world with significant resources of unexploited agricultural land (concentrated in Brazil and Argentina), suggesting the region will continue to play a pivotal role in global food production and exports in the future.
- Many of the region's countries have achieved respectable rates of agricultural productivity growth in the recent past. Nevertheless, raising productivity will be essential to meet domestic food needs or to maintain or enhance export competitiveness.
- It will be as important to the region to sustainably raise the agricultural productivity and output of smallholdings as it will be to boost the output of export powerhouses such as Brazil and Argentina.

A profile of Latin American agriculture

Latin America has long been associated with the production and export of a diverse range of agricultural commodities, whether it is coffee from Brazil and Colombia, beef from Argentina, or bananas from Ecuador. Trade data show that the region is indeed an important net exporter of agricultural commodities to the world, accounting for an estimated 16% of global food and agriculture exports between 2012 and 2014, while representing just 4% of global food and agriculture imports over the same period (Figure 1). Behind the aggregate statistics for exports is an impressive list of commodities for which the region, and South America in particular, is the leading supplier to the world market.

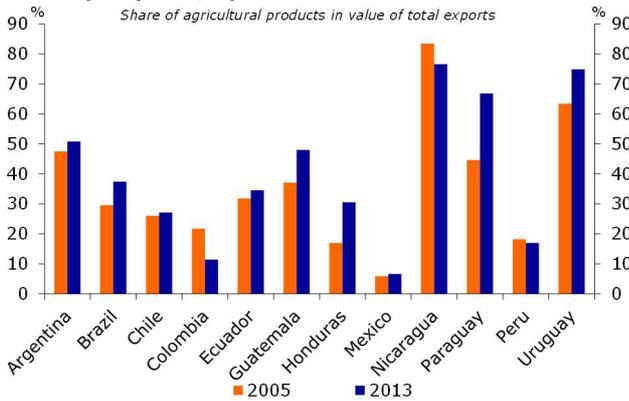
Figure 1: Latin America - share of global trade in food and agriculture



Source: UN Comtrade, FAO, Rabobank

Latin America is therefore important for the global food and agriculture sector. Furthermore, it is equally true that food and agriculture is important for Latin America - the sector accounts for an important share of the total exports of the region's member states (Figure 2).

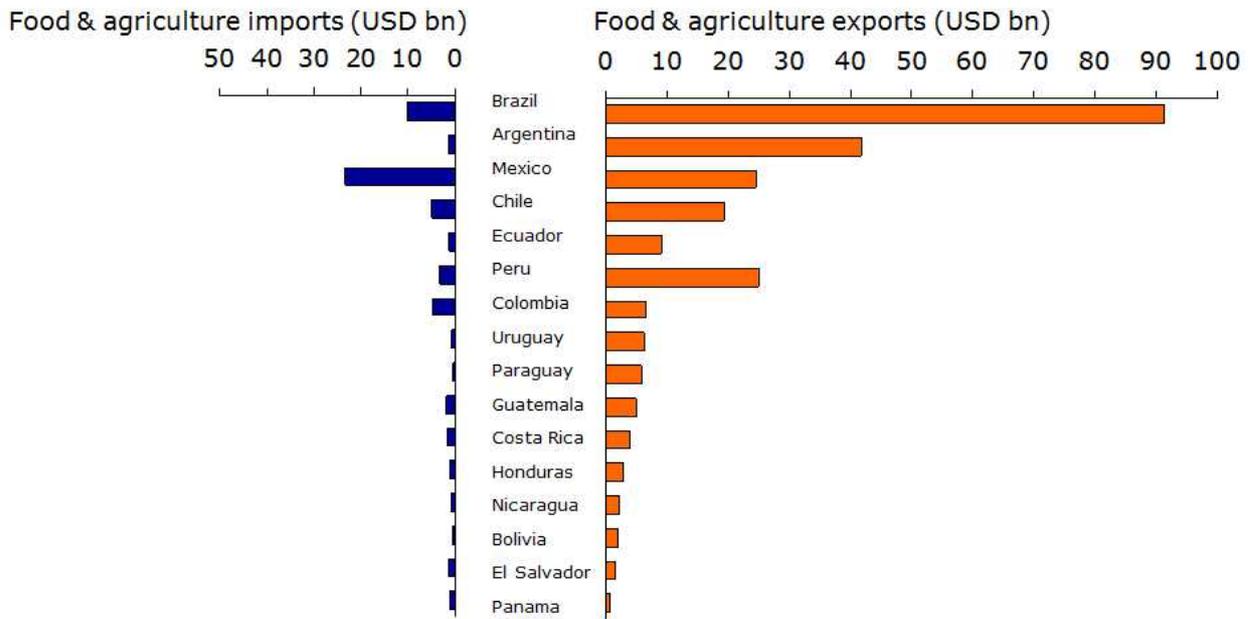
Figure 2: Share of agricultural exports in total country exports, by value



Source: WTO International Trade Statistics 2014

Figure 3 presents more detail on the agricultural trade balance of individual countries, highlighting their respective contributions to the region's agricultural trade. Brazil and Argentina lead the region in terms of exports and net exports, thanks to their global importance as exporters of grains and oilseeds and animal protein. Mexico features as the region's largest importer, with net exports close to zero.

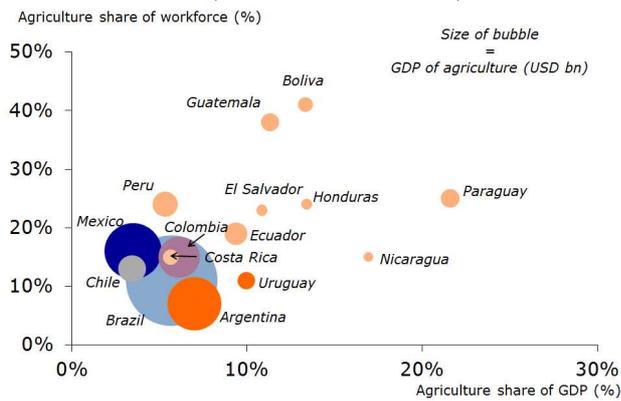
Figure 3: Latin America - agricultural imports and exports (USD bn, average 2012 - 2014)



Source: UN Comtrade database 2015

The structure of the region's agriculture is very diverse. Although large farms account for much of the commercial agriculture that generates Brazilian and Argentinean exports, it is estimated that more than 50% of the Latin American region's food production comes from its 14 million smallholder farmers (IDB/Global Harvest Initiative, 2014). For this reason, there is an enormous variation - in terms of the scale and sophistication of agriculture and in terms of its contribution to the economy - between Latin American countries, as illustrated in Figure 4, comparing agriculture's share of GDP, agriculture's share of the workforce, and the absolute value of agricultural GDP across the region.

Figure 4: Latin America - agricultural GDP, agriculture's share of GDP and agriculture's share of the workforce (2012 and 2013 data)



Source: Rabobank, using data from the World Bank, FAO (2015)

comparison.

At the other end of the spectrum, in countries such as Bolivia, Guatemala and Paraguay, agriculture accounts for a somewhat larger share of GDP (13.3%, 11.3% and 21.6%, respectively) and a much larger share of the workforce (41%, 35% and 28%, respectively), but the absolute value of agricultural GDP is relatively small.

With regard to the structure of agricultural production, the majority of Latin American countries for which data is available (Table 1) show a significant concentration of land holding in the hands of large private owners, a

Brazil stands out as being the regional leader in terms of absolute agricultural GDP. This may seem natural as Brazil is also by far the largest country in the region in terms of land area and in terms of mouths to feed. It is also evident that agriculture in Brazil accounts for relatively small percentages of the country's GDP (5.7%) and workforce (11.0%), although it is worth noting that *agribusiness* in Brazil has a far higher share of GDP (an estimated 25%) than agriculture alone, as is also the case for Argentina (agribusiness share of GDP estimated at 25% - 30%). However, since statistics on the contribution of agriculture to the economy are available for far more countries than is the case for statistics on the contribution of agribusiness to the economy, we opt to use the former indicator in this

legacy of the colonial period in many countries' histories.

Table 1: Structure of land holdings in Latin American countries

	% total agr area	
	Land holdings < 1 hectare	Land holdings > 50 hectares
Brazil	< 0.5%	88%
Argentina	< 0.5%	98%
Chile	< 0.5%	90%
Ecuador	1%	61%
Peru	< 0.5%	78%
Colombia	< 0.5%	72%
Uruguay	< 0.5%	97%
Paraguay	< 0.5%	90%
Guatemala	12%	21%
Honduras	< 0.5%	< 0.5%
Nicaragua	< 0.5%	66%
Panama	1%	67%

Source: FAO 2014

Naturally, the quality of land and climate in a country or region is important in determining the agricultural potential of each hectare of farmland. It is this, together with the structure of land holdings, that largely determines the agricultural profile of countries and regions.

The relatively low share of labour in agriculture combined with relatively large holdings in Argentina, Uruguay and Brazil reflects the importance in these countries' agricultural profiles of large holdings of savannah/cerrado/pampas land where the focus has been on (i) highly mechanised large-scale production of field crops such as grains and oilseeds and (ii) extensive livestock rearing. Elsewhere, irrigation contributes substantially to the productivity of drier land in regions of North and Central Mexico, Peru, Chile and western Argentina. In the highlands of the Andes, coffee production - predominantly on small family farms - is concentrated in valleys and on lower slopes in Colombia and Peru, but throughout the Andes, with increasing altitude land becomes progressively less productive, and poverty correspondingly more prevalent.

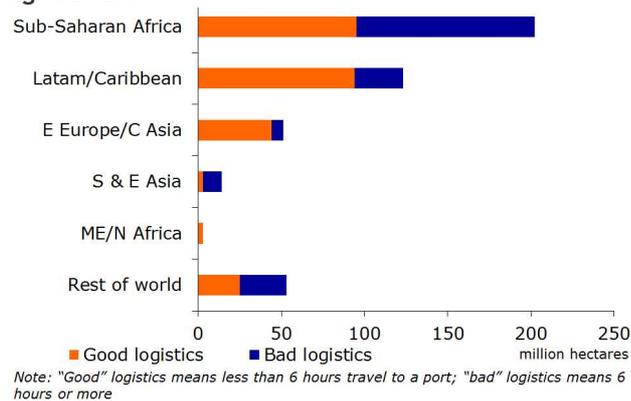
The outlook for Latin American agriculture: challenges and opportunities

Global demand for agricultural commodities is rising as a result of the growing global population and rising real incomes. The world's population is projected to reach 9 billion people by 2050, and demand for food is forecast to be 60% higher than it is today (Rabobank, 2014). Although part of the need for greater output can be met by raising productivity, new land will nevertheless be required for agriculture in the future. The distribution of unexploited agricultural land around the world is extremely uneven, with the Latin American region - and specifically Brazil and Argentina - standing out as having considerable future potential (Figure 5). In addition, the region is home to an estimated one-third of the planet's fresh water resources. For these reasons, Latin America is seen as a pivotal supplier of agricultural commodities to a growing world population, and it is no coincidence that international trading companies have been investing in infrastructure and origination capacity for grains and oilseeds around the region.

For the region to achieve its potential as an increasingly important supplier of food to the world, a number of challenges need to be overcome. In a world of volatile commodity prices, businesses or economies that are highly dependent on sales of one product need to be robust in order to deal with price cycles and price volatility. As output rises, the need for good infrastructure becomes increasingly important to avoid an increase in costs and in losses or waste of food.

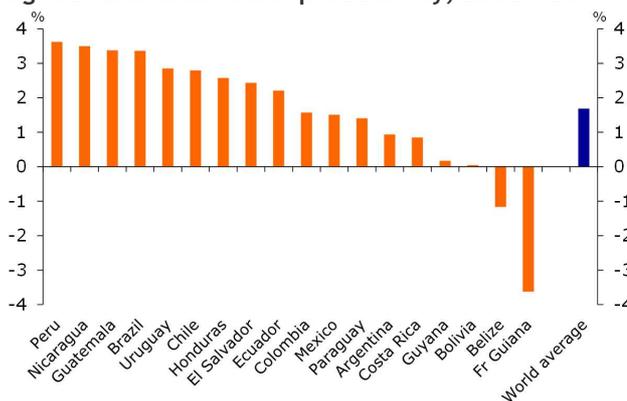
Although there are substantial reserves of unexploited agricultural land in the region, these are not evenly distributed among countries, meaning that raising productivity will be essential in many parts of the region in order to meet domestic needs and to capitalise on export opportunities. As a result, it will be as important to the region to sustainably raise the productivity and output of smallholdings as it will to boost the output of export powerhouses such as Brazil and Argentina. Given these challenges, what will be the most important factors influencing the extent to which the region capitalises on its potential in the future?

Figure 5: Potential supply of new land for rain-fed agriculture



Source: World Bank, 2010

Figure 6: Latin America - average annual gains in agricultural total factor productivity, 2002 - 2011



Source: USDA

Moreover, the LatAm region has achieved rates of growth of agricultural total factor productivity^[1] that are above the global average (Figure 6), although there has been substantial variation in the performance of individual countries. Peru, Nicaragua, Guatemala and Brazil all achieved an average annual growth in agricultural total factor productivity of over 3% in the decade 2002 - 2011, according to USDA analysis based on FAO data (USDA, 2015).

In the cases of Brazil and Argentina, growth in production and export has been achieved despite various structural and institutional headwinds. In Brazil's case, the combination of poor logistics, high taxes and institutionalised bureaucracy - referred to locally as the 'custo Brasil' - has been offset by investment in research and development and by a system of official rural credit which is extensively supplemented with finance from input suppliers, trading companies and private sector banks. In Argentina, the innate quality of the land combined with the rapid adoption of technology (no-till farming, Genetically Modified seeds) has enabled the agriculture sector to thrive despite frequent macroeconomic volatility and punitive export taxes.

Investment in technology is clearly one route to boosting productivity and raising output. At a national level, this requires resources for research and development activities. For large commercial farms in the region, this means investment in precision agriculture and in the latest crop varieties produced by plant breeders. For the smaller-scale agriculture that accounts for 50% of regional food production, it may mean access to technology via targeted financial support schemes such as the CRIAR programme in Bolivia (IDB, 2015) or via better access to extension and information services.

Aside from technology, other general themes for enhancing the contribution of agriculture to the Latin American region's economic development are investment in infrastructure (to reduce both costs and losses/waste) and the maintenance and improvement of access to markets via trade agreements at the regional and international levels. Specifically for smaller farmers, the building of stronger collective institutions such as cooperatives and producer associations has already proved successful in helping the region's farmers to get better access to information, to credit and to markets.

Footnote

[1] Total Factor Productivity is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilised in production, and it often reflects improvements (or lack thereof) in the quality of inputs, in technology and in management.

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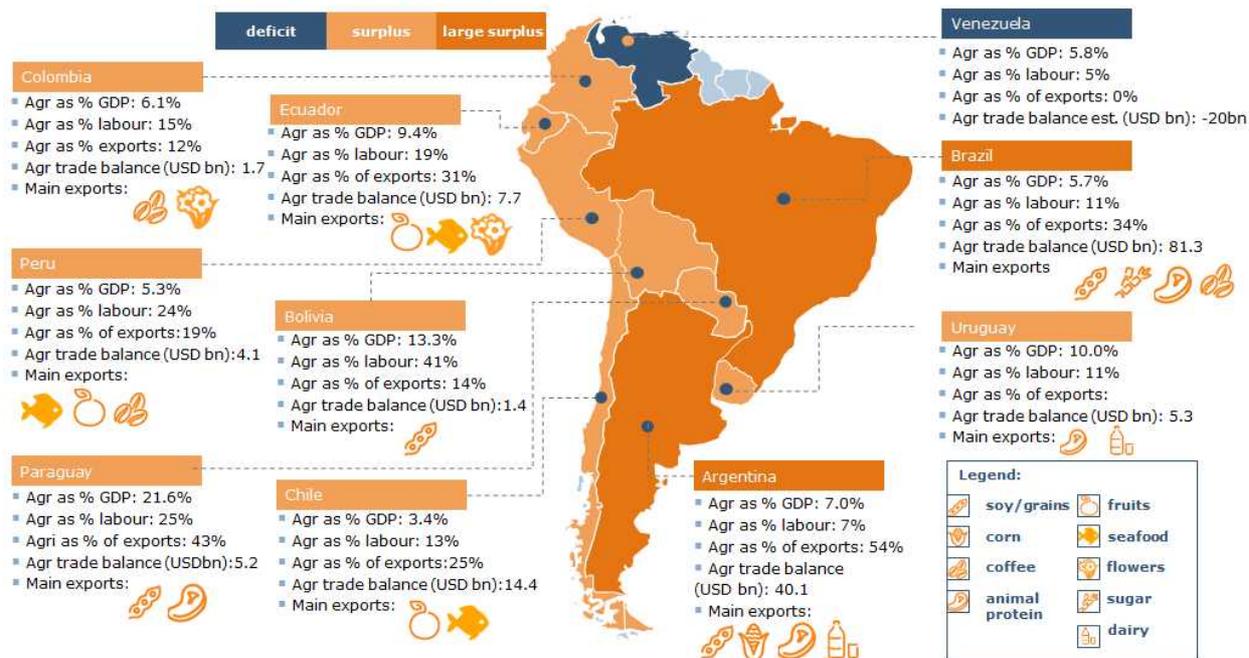
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Annex 1: maps



South America



Figures in *italics* represent averages for the period 2012–2013 or estimates; otherwise all figures represent average values for the period 2012–2014.

Annex 2: country profiles

Argentina

Argentina is a major agricultural exporter, second only to Brazil among its Latin American peers. Total agricultural exports have averaged USD 42 billion per year in the past three years, while imports only amount to USD 1.5 billion per year. Given its temperate climate and extensive land area, agricultural production is mostly based on the production of row crops. The soybean complex is the most important crop, representing 52% of overall agricultural exports. Argentina is the largest exporter of soybean meal and soybean oil in the world, and third in bean exports. Grain exports (mainly corn and wheat) are second in importance, accounting for 18% of the total and bringing the overall share of grain & oilseeds to about 70% of total agricultural exports. Meats and dairy products are secondary in importance nowadays, although historically meat exports represented a much larger share than at present. In recent years, meats and dairy products represented approximately 5% and 4% of total exports, respectively. Of lesser importance in overall exports, but still relevant internationally, are the exports of wines and fruits such as lemons, apples and pears.

The country has benefited from high international prices, and both production and exports have grown accordingly in the past decade. However, macroeconomic and sector policies have been an obstacle to further growth in recent years, particularly in sectors such as meat, wheat and dairy, eroding profitability and ultimately resulting in a further shift towards soybeans, the crop with the highest profit margins. Going forward, agricultural exports will remain the driving force of overall exports, with soybeans and grains continuing to lead the growth. We expect total crop production to increase by 18% and, assuming that a new administration (which should take office in December 2015) introduces some changes in the government's agricultural-related policies (reducing export restrictions and improving exchange rate competitiveness), we expect to see a recovery in both the meat and dairy sectors.

Brazil

Brazil is the world's third largest agricultural exporter after the US and the EU, with annual exports that have averaged USD 98 billion over the past three years. Imports averaged USD 10 billion per year during the same

period, helping the sector generate a large surplus of nearly USD 80 billion. Brazil is the largest producer and exporter of sugar, coffee and orange juice in the world, as well as the largest exporter of beef, soybeans and poultry. The country is the most important competitor to the United States in international sales of soybeans. Exports in marketing year 2015/2016 are expected to reach a record 48mmt, up 4 percent from the previous marketing year. Soybeans will remain the primary oilseed produced in Brazil, with approximately 41 percent of the 2015/2016 production expected to be used for processing. In corn, Brazil is the third-largest producer and the largest exporter of the cereal. Production increasingly comes from the so-called 'safrinha' crop, whereby the producer takes advantage of a long tropical growing season to produce two crops in a single marketing year. According to data from the Brazilian National Supply Agency (CONAB), the amount of land in double-cropping has increased 4-fold since 2000, to 9.6 million hectares (54 mmt). The double crop harvest now out-produces first-corn volumes (estimated at 30.3 mmt), which are largely used by the domestic market. The growth of the 'safrinha', which is largely targeted at exports, has made Brazil a corn exporter equivalent to the size of the US in the November-to-December window. Brazil is also the world's largest poultry exporter, the second-largest beef exporter and the fourth largest pork exporter. Even so, there is still room to grow in animal protein, and with the real's depreciation against the US dollar, Brazilian meat will remain even more competitive in coming years. In orange juice, Brazil remains the world leader with 80% of global exports, with volumes expected to remain at around 850 thousand tonnes in FCOJ equivalent in coming years. Fruit availability and industrial scale with costs mostly in local currency show that Brazil is well positioned to retain its dominant position as orange juice supplier in coming years, particularly given the challenges faced by the industry in Florida. Brazil is also the world's leader in the production and export of sugar. In 2014, the country exported USD 9.5 billion in sugar as well as USD 0.9 billion of ethanol.

Going forward, Brazil is expected to continue expanding its soybean production as a result of increased planted area and improvements on yields. Improving logistics infrastructure is likely to allow Brazil to feature one of the lowest soybean production costs in the world, meanwhile allowing it to greatly benefit from the growth in global demand for protein. As the country still features a lot of room for allowing an expansion of corn production as a rotation crop to soybeans, Brazil is expected to continue its production and exports of the cereal over the next decade. However, the pace for such expansion will depend on how logistics in Brazil will develop over the next few years, as well as on how international and domestic prices will behave. Still, Rabobank expects Brazil to continue to increase its corn production at a 1.4% compounded annual growth rate (CAGR) over the next five years. In addition, the Brazilian meat industry might continue to take advantage of the expected increased availability of grains in the domestic market. This will enable the industry to continue to produce feed cheaper than other countries over the next five years. Therefore, we expect that the Brazilian market share in the international meat market might be even higher by 2020 than it is now. New commercial access agreements that Brazil has made internationally will also contribute.

Chile

Chile is the fourth-largest agricultural exporter in Latin America, with annual exports that have averaged USD 19 billion over the past three years. Annual imports totalled USD 4.9 billion over the same period, which means that Chile generated the third-largest surplus in agricultural exports after Brazil and Argentina at USD 14 billion. Sales of edible fruits and nuts are the most important group of exports at USD 5.8 billion, with salmon and other fish in second place at USD 4.9 billion. Other relevant sectors include cellulose pulp and paper (USD 2.9 billion), wines (USD 1.9 billion) and beef (USD 900 million). With regards to imports, values have remained stable over the past three years at around USD 5 billion. Animal proteins accounted for USD 1.2 billion with cereals and vegetable oils the other two largest product types being imported at USD 800 and USD 600 million respectively. In terms of imports, animal protein meats were the largest single type of imports at USD 1.2 billion in 2014. Beef imports represented USD 840 million, poultry USD 142 and pork USD 111 million. Cereals were the second-largest import at USD 690 million in 2014, with corn and wheat accounting for the majority. Other important imports include vegetable oils at USD 640 million and sugar at USD 330 million.

The Chilean agribusiness sector is expected to continue growing faster than the overall economy. For 2015, a 5% expansion is forecast while the overall economy should expand at just 2% (GDP).

In nuts, almonds and hazelnuts are set to account for most of the growth in the next five years. With regards to fruits, cherries, berries, avocado and mandarins have high potential, while table grapes and apples should see moderate or no growth. It is likely that the salmon sector will see further consolidation. The factors that will determine the sector's performance in the next five years include the strength of international demand, the exchange rate and water availability, which remains an important concern in several regions.

Colombia

Colombia is the region's seventh-largest exporter of agricultural products, with annual sales of USD 6.6 billion over the past three years. Imports are sizeable at USD 4.9 billion per year, which means that the country generated only a modest surplus of USD 1.7 billion in agricultural products per year over the same period. Coffee and fresh flowers account for just under two thirds of Colombia's agricultural exports, with fruits and sugar the other two relevant products sold internationally. In coffee, Colombia remains a key player in the global market as the third-largest exporter overall after Brazil and Vietnam (in volume), with estimated exports of 11.7 million 60 kg bags in 2014. In fresh flowers, the country ranks second globally behind the Netherlands, with the US as its key buyer. Colombia has an estimated market share of 16% of the global fresh flower market. Fruits and sugar account for the bulk of the remainder in exports, with bananas, mango and pulp fruit standing out. In sectors such as cereals, Colombia lacks competitiveness internationally due to high production and logistical costs. This is reflected in significant imports, in particular corn and wheat, which account for around 40% of Colombia's agricultural imports. Other relevant imports include vegetable oils, beverages, oilseeds and subtropical fruits and nuts. Colombia has a modest trade surplus in agricultural products of around USD 1.7 billion (average for 2012-2014). The country signed a number of FTAs (free trade agreements) with several countries and trading blocs over the past decade (US, Canada, Chile and the EU) that will give its producers gradually more access to foreign markets but will also increase the exposure of its domestic market to foreign suppliers.

A number of new highways, tunnels and improvements to existing roads are currently under construction in Colombia. This could contribute to lower logistical costs, reducing the transport time from key production centres to ports. However, large-scale investments in agribusiness are unlikely to accelerate until Congress approves law reforms and guarantees on land property rights. In some regions where violence has caused internal displacement, disputes and legal battles have emerged over ownership entitlement. A favourable outcome to the current peace agreement in negotiations with the FARC guerrilla could also contribute to further investment in agricultural development. However, this will only have a clear impact on the agricultural trade in the long term. In the medium term it is unlikely that Colombia will improve its trade surplus in agribusiness in any significant way.

Ecuador

Ecuador exported an average of USD 9 billion of agricultural goods per year between 2012 and 2014, which is a sizeable amount given the size of its economy, making it the fifth-largest exporter in the region. It imported just USD 1.3 billion on average over the past three years and so its trade surplus in agricultural goods was the fourth largest in Latin America, at USD 7.7 billion. Ecuador's agribusiness exports are diversified into several sectors: bananas, shrimps, tuna, flowers and cocoa. Bananas continue to be the largest agribusiness export of Ecuador, at around USD 2.5 billion in 2014. The country has consolidated its position as the leading global supplier of the fruit with an estimated market share of 30% globally. Shrimps and other shellfish accounted for export sales of USD 2.3 billion in 2014, up from just USD 1.2 billion in 2012, an increase of 91.7% that reflects a significant increase in value per tonne, given that in volume terms shipments of shrimp increased by 26%. Sales of tinned tuna stood at USD 1 billion in 2014, unchanged from 2013 as the third-largest contributor to agribusiness exports. Fresh roses are the fourth-largest sector for Ecuadorian agribusiness exports at USD 590 million in 2014. Ecuador is the third-largest fresh flower exporter after the Netherlands and Colombia, with an estimated global share of 10%. Cocoa is another important export product at USD 580 million in 2014, up from USD 345 million in 2012.

Ecuador imported an average of USD 1.3 billion in agribusiness goods over the past three years. The most relevant imports are cereals at USD 360 million, vegetable fats and oils at USD 163 million and fruits and nuts at USD 150 million. Imports have remained relatively stable over the past three years and are unlikely to increase by a significant amount over the next five years.

Ecuador's export sectors are mature and should see organic growth in volume terms over the coming five years. The commercial agreement approved with the EU in 2014 should be implemented in the second half of 2016. This will be crucial to maintaining sales to the EU of key products such as tuna, shrimp, flowers and cocoa. Bananas are subject to a separate agreement that guarantees a gradual reduction of import taxes to the EU and provides similar terms to those negotiated between the EU and Colombia.

Mexico

In 2014, Mexico's agricultural exports reached USD 26 billion, with an average annual growth of 6 percent in the past two years, making the country the third-largest exporter after Argentina and Brazil. Imports averaged USD 23.3 billion per year over the same period, meaning that the country had a minor surplus. While Mexican exports remain highly concentrated on the United States, they have found new markets such as Canada, Japan, Hong Kong and Europe. In addition, Mexico has signed new trade agreements with China and under the TPP. Mexico's agrifood exports are mainly vegetables (23%); beverages (15%); fruits (14%); sugars and confectionery (9%); and products processed from cereals and flour (6%). Mexico is a leading exporter of fresh tomatoes, avocados, papayas, hot salsas, beer and tequila. In addition, it is an important player in coffee (organic and decaffeinated), cocoa powder, bakery products, bell peppers, livestock, strawberries, chocolate and many other products. Also, Mexican beef and pork meat exports have grown substantially to the US and Asia, as the country is able to compete in value added cuts. In 2014, the value of meat exports increased 21 percent over a year ago and we anticipate a positive growth in the years to come. Agrifood exports are expected to grow at around 6% between 2015 and 2020. Fruit and vegetable exports growth will continue to grow at this pace as they become more integrated into the US food supply chain and into other markets such as Europe. Other products such as pork and beef meat exports could potentially double by 2020 as producers continue to maximise their competitive advantage by producing value-added products. The growth in Mexican sugar exports has been challenged as a result of a US-Mexico trade dispute.

In 2014, Mexico's imports reached over USD 25 billion. They are the largest in Latin America and crucial for many markets, particularly the US. Mexico is the second-largest importer of corn, with around 10 million tonnes and a value of USD 2.3 billion. It is also the second importer of soybeans (far behind China), with 4 million tons and a value of USD 2 billion. In addition, last year, Mexico imported around USD 4.5 billion in meat. Mexico is the second-largest importer of pork, with over 800,000 tonnes, and the third importer of poultry meat (including pastes) with over 700,000 tonnes, and the leading importer of turkey meat (including pastes), with a total of 150,000 tonnes.

Peru

Peru exported an average of USD 7.4 billion over the past three years, making it the sixth-largest exporter in Latin America with well-diversified exports. Imports totalled USD 3.3 billion, which means the trade surplus stood at USD 4.1 billion per year over the same period. Fishmeal and fish oils represent the largest proportion of exports at USD 1.8 billion or 26% of total exports. Edible fruits and nuts, which have been growing significantly in recent years, represent 15% of exports at USD 1.1 billion. Coffee at USD 800 million, fish and crustaceans at USD 770 million and edible vegetables at USD 630 million are the other top five agribusiness export sectors in Peru. The development of new large scale crops of avocados, asparagus, cranberry and peppers have enabled Peru to increase its presence in edible vegetables in the international market. Traditional exports such as fishmeal and fish oil, fish and coffee are growing moderately, with vegetables and fruits accounting for the majority of incremental growth in recent years. This should not change significantly.

In terms of imports, cereals are the main type of product purchased from world markets, at USD 1.4 billion

(average for 2012-2014), with rice, corn and wheat being key contributors. Vegetable oils are also a relevant type of import that contributed USD 500 million on average during the past three years. Dairy products are the third most important type of imports in terms of agribusiness products at little over USD 200 million. Although per capita consumption of milk and dairy products is low by regional standards, Peru remains a net importer of dairy. Overall, Peru registered a healthy surplus in its agribusiness trade balance of USD 4.1 billion (average 2012-2014).

In the medium term it is likely that growth will be led by the non-traditional sectors such as fruits and vegetables. Peru's mild winters allow the country to grow several crops year round and in the coming years this sector should continue expanding. With regard to fish and oils, Peru should maintain its global leader status but growth in volume will continue to fluctuate depending on availability. However, the industry is adding value by selling products ready for human consumption instead of selling ingredients for further processing in other countries. This will drive value growth in coming years.

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Colophon

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Abbreviations for sources: WEO: World Economic Outlook, EIU: Economist Intelligence Unit, IMF: International Monetary Fund, WEF: World Economic Forum, DOTS: Direction of Trade Statistics

Abbreviations used for countries: AR: Argentina, BZ: Belize, BO: Bolivia, BR: Brazil, CL: Chile, CO: Colombia, CR: Costa Rica, EC: Ecuador, SV: El Salvador, GT: Guatemala, GY: Guyana, HN: Honduras, MX: Mexico, NI: Nicaragua, PA: Panama, PY: Paraguay, PE: Peru, SR: Suriname, UY: Uruguay, VE: Venezuela

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