China and India: Angel or Devils for Latin America?

Based on Chapter 4 of the Report

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China, March 2008
The OECD and Latin America: An emerging commitment

- Latin American market democracies matter for the OECD and its member countries
- The Latin American dimension at the OECD:
  - Mexico: Member since 1994; Chile: candidate since May 2007; Brazil: enhanced cooperation, May 2007
  - Economic Surveys:

- Latin American Economic Outlook 2008
The Development Centre: A bridge between the OECD and emerging regions

- **Membership of the Development Centre**
  With a Governing Board open to emerging countries, the Development Centre provides a framework for dialogue and experience sharing with regions all over the world.

- **Three Latin American countries are members of the Centre:**
  - Mexico
  - Chile
  - Brazil
The Center is less and less the Center and the Periphery less and less the Periphery

**Share of World GDP**

Source: OECD Development Centre, 2008; based on OECD Statistics.
For the first time, Major Outward FDI is coming from Emerging Countries

- Major share of FDI by emerging multinationals from emerging Asia, Latin America and the Middle East.

- New global players with headquarters in emerging countries.

- OECD-based companies increasingly targeted.

- In 2007 Outward FDI from Russia peaked to USD 48 bn.

For the first time, Major Outward FDI is coming from Emerging Countries

China: A Leading example of emerging markets multinationals

Figure 1. China’s Outward Foreign Direct Investment (1979-2006)

Data sources: Ministry of Commerce and China Statistics Bureau
1. Trade Competition: An echo of the Asian boom

2. Specialisation: Evidence of a potential draw

3. Infrastructure: A key for competitiveness
Emerging economies are increasingly present on the global scene but not everything is new.


Comparative Levels of GDP, China, United States and Latin America

Evolution of share in world GDP

China as a leading Asian Driver of world growth: Extraordinary or back to normal?

According to IMF estimates Chinese gross domestic product based on purchasing-power-parity (PPP) amounts to 13.6% of 2005 world GDP (20.7% in the case of USA).

China has doubled its GDP in 8 years…without the help of Money Doctors!

Chinese growth rates has been higher than those observed in Brazil and Mexico during their take-offs glorious years.
Latin America’s share of the world output is small when compared to Asia

GDP share of world output (WEO, 2005)

- **EU**: 30.3%
- **US**: 28.0%
- **Korea/Japan**: 12.0%
- **China**: 5.0%
- **Emerging Asia**: 9.1%
- **Latam**: 4.7%
The rise of the Asian Giants impacts all Latin America Economies: For the best or the worst

Descriptive Statistics on Trade for Selected Countries

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>12.8</td>
<td>23.6</td>
<td>9.7</td>
<td>22.8</td>
<td>Animal feed, fixed veg. oils/fats, soft, heavy petrol, oil crude, oil seeds</td>
</tr>
<tr>
<td>Brazil</td>
<td>34.1</td>
<td>14.5</td>
<td>6.8</td>
<td>30.1</td>
<td>Iron ore, oil seeds, meat, passenger cars, petrol/bitum., sugar</td>
</tr>
<tr>
<td>Chile</td>
<td>4.0</td>
<td>39.6</td>
<td>11.5</td>
<td>14.2</td>
<td>Copper, metal ore, fish, fruit/nuts, pulp, wood</td>
</tr>
<tr>
<td>Colombia</td>
<td>7.7</td>
<td>21.1</td>
<td>0.9</td>
<td>25.3</td>
<td>Petrol, coal, coffee, heavy petrol, crude materials, iron</td>
</tr>
<tr>
<td>Mexico</td>
<td>23.2</td>
<td>29.7</td>
<td>0.7</td>
<td>32.0</td>
<td>Petrol, passenger cars, telecomms. equipment, computer equipment</td>
</tr>
<tr>
<td>Peru</td>
<td>3.7</td>
<td>21.4</td>
<td>9.9</td>
<td>21.0</td>
<td>Metal ore, copper, heavy petrol, animal feed, silver</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4.0</td>
<td>32.9</td>
<td>0.2</td>
<td>21.8</td>
<td>Petrol, iron, aluminum</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit.
Increased Asian exports have nurtured fears in Latin America.


Note: Does not include NTB data.
However FDI flows to China have not diverted inward flows for other emerging markets.

Inward FDI Flows
USD Millions

Outward FDI Flows
USD Millions

Source: OECD Development Centre, 2008; based on UNCTAD.
Latin America is endowed with natural resources and dependent on the commodities’ cycle

Natural Resources as a percentage of Latin American Exports

Source: OECD Development Centre, 2008; Based on: National Balance of Payment.
Direct export competition in third markets with China is relatively low, although Mexico is on the spot.

Export Competition with China for selected countries (2000-05)

Note: CS and CC coefficients calculated with exports of country $i$ and exports of country $j$ (China, India).

Regarding competition with India in third markets, Latin America has little to fear (for the moment).

Export Competition with India for selected countries (2000-05)

Note: CS and CC coefficients calculated with exports of country i and exports of country j (China, India).

Trade complementarities and potentialities with China remain unexplored today…

Note: Modified CS and CC coefficients calculated with exports of country \( i \) and imports of country \( j \) (China, India).

Major economies in the region have a lot to win from increasing trade with Indian partners

Trade Opportunities with India for selected countries (2000-05)

Note: Modified CS and CC coefficients calculated with exports of country $i$ and imports of country $j$ (China, India).

Source: OECD Development Centre, based on WITS Database, 2007.
1  Trade Competition: An echo of the Asian boom
2  Specialisation: Evidence of a potential draw
3  Infrastructure: A key for competitiveness
In which sector is Latin America specialised? Let’s not forget intra-industry trade

Vollrath's Relative Comparative Advantage Index Latin America 2005 - Selected countries

<table>
<thead>
<tr>
<th>Good</th>
<th>Product Name</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Peru</th>
<th>Venezuela</th>
<th>Average LAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Food &amp; live animals</td>
<td>3.12</td>
<td>1.80</td>
<td>1.24</td>
<td>0.92</td>
<td>-0.16</td>
<td>0.61</td>
<td>-3.32</td>
<td>0.98</td>
</tr>
<tr>
<td>1</td>
<td>Beverages and tobacco</td>
<td>1.93</td>
<td>1.73</td>
<td>2.40</td>
<td>0.03</td>
<td>1.69</td>
<td>-1.48</td>
<td>-2.03</td>
<td>1.16</td>
</tr>
<tr>
<td>2</td>
<td>Crude mater. ex food/fuel</td>
<td>0.96</td>
<td>1.92</td>
<td>2.53</td>
<td>0.85</td>
<td>-0.63</td>
<td>2.65</td>
<td>-1.01</td>
<td>1.40</td>
</tr>
<tr>
<td>3</td>
<td>Mineral fuel/lubricants</td>
<td>1.57</td>
<td>-1.02</td>
<td>-2.30</td>
<td>3.43</td>
<td>1.36</td>
<td>-0.63</td>
<td>7.15</td>
<td>1.21</td>
</tr>
<tr>
<td>4</td>
<td>Animal/veg oil/fat/wax</td>
<td>4.28</td>
<td>1.40</td>
<td>-1.08</td>
<td>-0.34</td>
<td>-2.32</td>
<td>-0.51</td>
<td>-5.40</td>
<td>0.90</td>
</tr>
<tr>
<td>5</td>
<td>Chemicals/products n.e.s</td>
<td>-0.98</td>
<td>-1.33</td>
<td>-0.81</td>
<td>-1.04</td>
<td>-1.19</td>
<td>-2.04</td>
<td>-2.14</td>
<td>-1.17</td>
</tr>
<tr>
<td>6</td>
<td>Manufactured goods</td>
<td>-0.41</td>
<td>0.61</td>
<td>1.38</td>
<td>-0.40</td>
<td>-0.81</td>
<td>0.27</td>
<td>-0.90</td>
<td>-0.22</td>
</tr>
<tr>
<td>7</td>
<td>Machinery/transp equipmt</td>
<td>-2.06</td>
<td>-0.64</td>
<td>-3.57</td>
<td>-2.44</td>
<td>0.13</td>
<td>-3.93</td>
<td>-4.34</td>
<td>-0.71</td>
</tr>
<tr>
<td>8</td>
<td>Miscellaneous manuf arts</td>
<td>-1.27</td>
<td>-0.40</td>
<td>-2.52</td>
<td>0.07</td>
<td>0.27</td>
<td>0.21</td>
<td>-4.00</td>
<td>-0.21</td>
</tr>
<tr>
<td>9</td>
<td>Commodities nes</td>
<td>0.63</td>
<td>8.91</td>
<td>1.74</td>
<td>1.26</td>
<td>-1.21</td>
<td>9.78</td>
<td>2.04</td>
<td>0.81</td>
</tr>
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n.e.s. = not elsewhere specified.

Note: Positive values of the index reveals a comparative advantage, whereas a negative indicates a comparative disadvantage.

Source: OECD Development Centre, based on WITS Database, SITC Revision 3 (three-digit classification) 2007.
India and China’s increasing demand can have adverse effects

Source: OECD Development Centre, based on WITS Database, 2007.
Product specialisation has increased in the region in the last five years.
Latin America’s is increasingly looking towards Asia for exports…

**LATIN AMERICA: EXPORTS TO CHINA AS PERCENTAGE OF TOTAL EXPORTS**

- **Chile**: 2005 - 12%, 1999 - 2%
- **Peru**: 2005 - 10%, 1999 - 2%
- **Argentina**: 2005 - 8%, 1999 - 4%
- **Brazil**: 2005 - 6%, 1999 - 2%
- **Colombia**: 2005 - 1%, 1999 - 0.5%
- **Venezuela**: 2005 - 0.5%, 1999 - 0.2%
- **Ecuador**: 2005 - 0.2%, 1999 - 0.1%
- **Mexico**: 2005 - 0.1%, 1999 - 0.05%

Source: OECD Development Centre 2008; and UNCTAD, 2007.
...which has made the region more resilient and diversified geographically

Source: OECD Development Centre, 2008; Based on CEPAL (2006) and World Trade Integrated Statistics.
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<td><strong>Infrastructure: A key for competitiveness</strong></td>
</tr>
</tbody>
</table>
Latin America’s performance on trade infrastructure is poor

...and most of its competitors score better on infrastructure

Source: OECD Development Centre, 2008; based on CG/LA database. 2007.
A wake up call for reforms: The proximity to export markets

Mexico benefits from its geographic proximity to its major export markets:
• Lower transport and communication costs
  • Access to FTA
  • Just-in-time delivery

Shipping time

Mexico is more competitive in manufacturing more sophisticated products which require frequent communication with the client or supplier and short reaction times.
Conclusion: For the first time ever the key question for the region is China (Commodity Prices)

- The impact of China on the World Economy is increasing. Market participants do not anticipate a considerable slowdown of this economy.
- This is good news for Latin America given its growth trade connexion with China.

China's and India's trade with Latin America (US$ millions)

Source: OECD Development Centre, Latin American Economic Outlook, 2008
Conclusion: For the first time ever the key question for the region is China (Commodity Prices)

- Chinese demand for Latin American commodities as well as commodity prices are increasing.
- Good news in the short term. It could be a bad news in the long run.

China’s and India’s rising demand for Latin American commodities (US$ millions, 1998-2005)

Source: OECD Development Centre, Latin American Economic Outlook, 2008

Commodity Prices (100 Basis Index = 1975)

Source: OECD Development Centre, Latin American Economic Outlook, 2008
Thank you

Merci

Obrigado

Gracias