



Latin American Economic Outlook 2008

China and India: Angel or Devils for Latin America?

Based on Chapter 4 of the Report

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Director, OECD Development Centre

■ Rio de Janeiro, 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:



1992, 1995, 1997, 1998, 1999
2000, 2002, 2003, 2005, 2007



2003, 2005, 2007



2000, 2005, 2006



- **Latin American Economic Outlook 2008**

The Development Centre: A bridge between the OECD and emerging regions



- **Membership of the Development Centre**

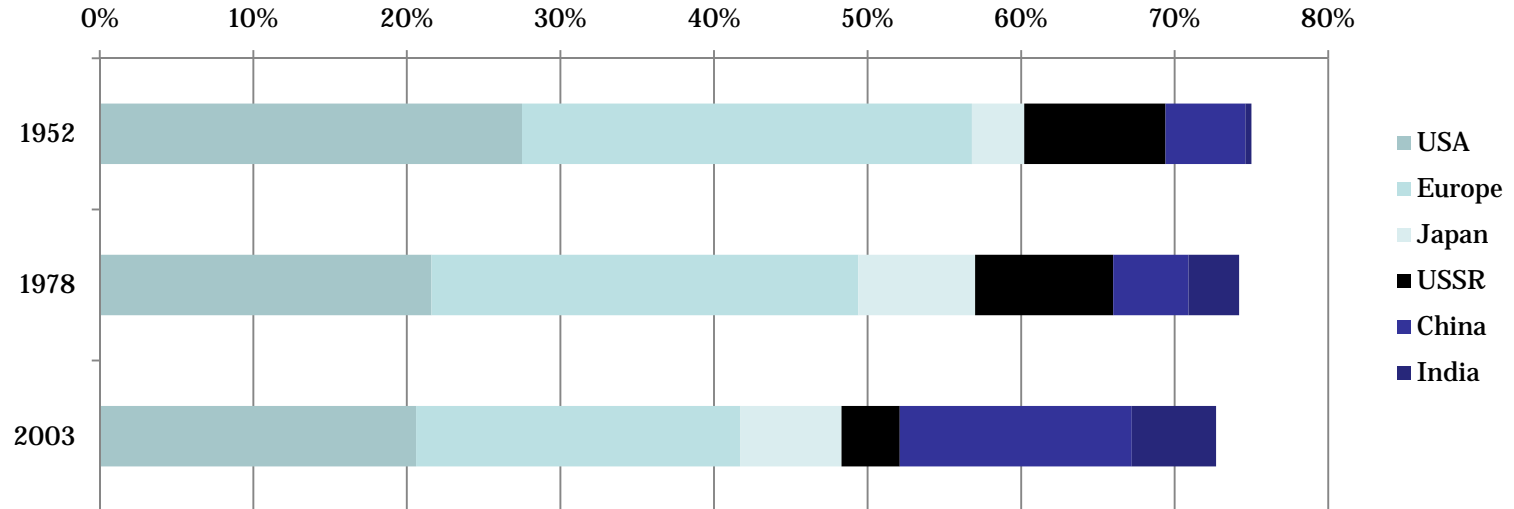
With a Governing Board open to emerging countries, the Development Centre provides a framework for dialogue and experience sharing with regions all over the world.

- **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 the Periphery

Share of World GDP

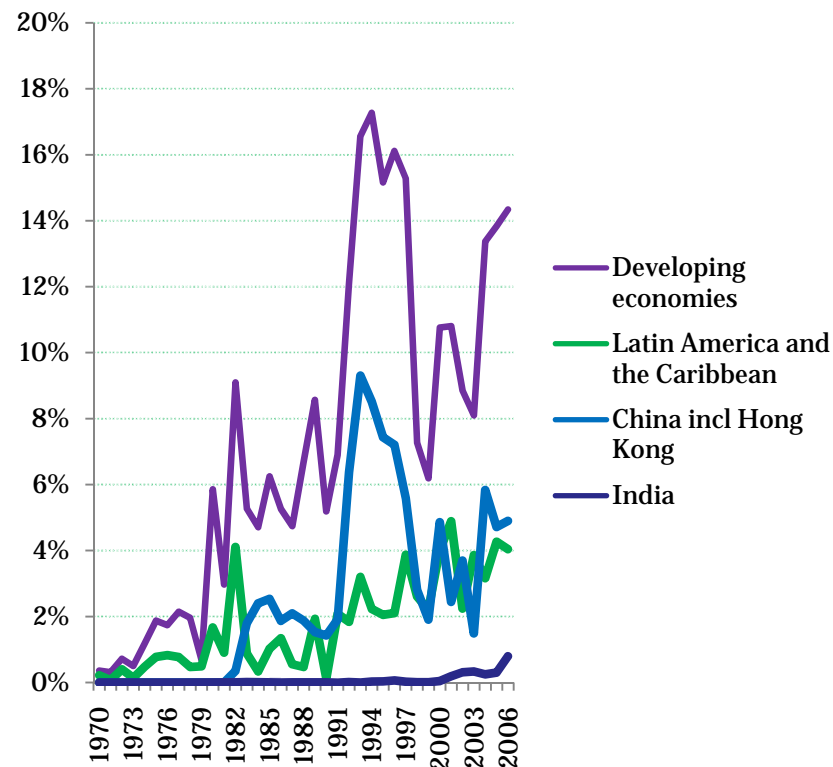


Source: OECD Development Centre, 2008; based on OECD Statistics.

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.

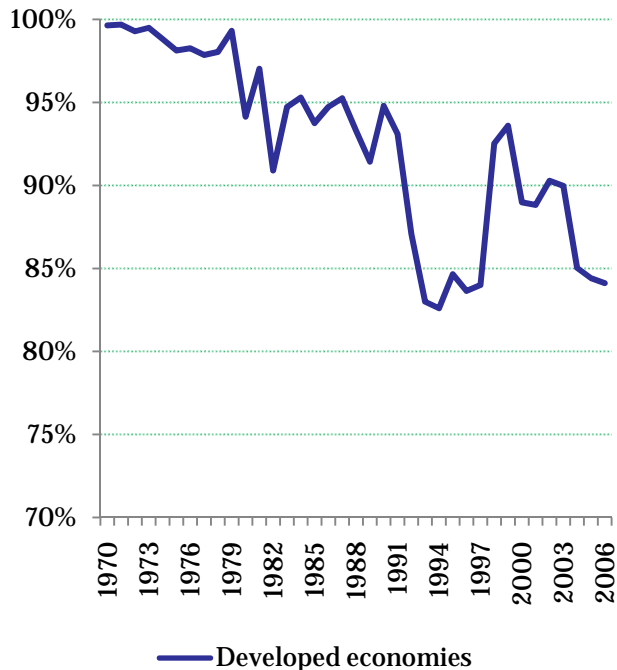
Share of Outward FDI



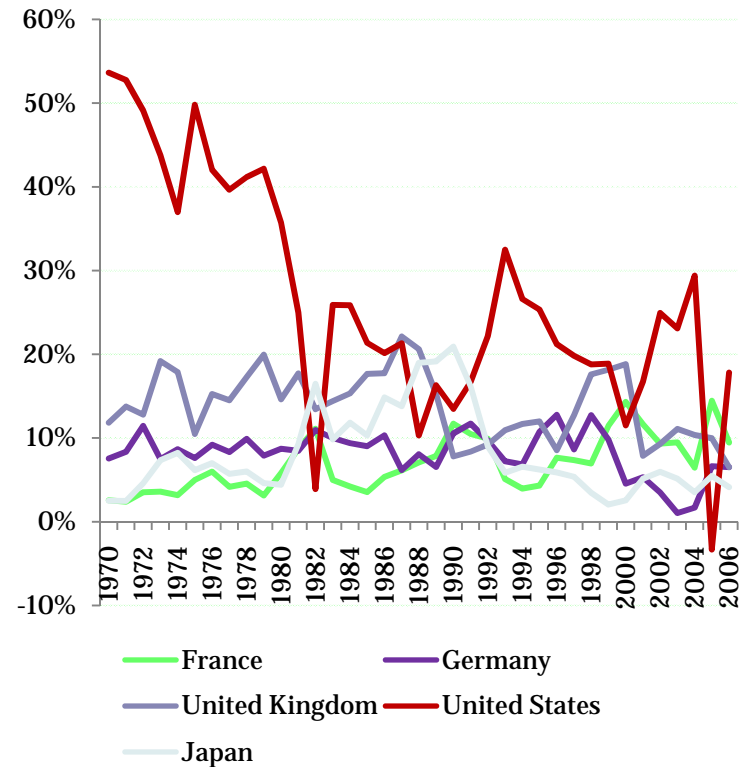
Source: UNCTAD, World Investment Report 2007

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

Share of Outward FDI



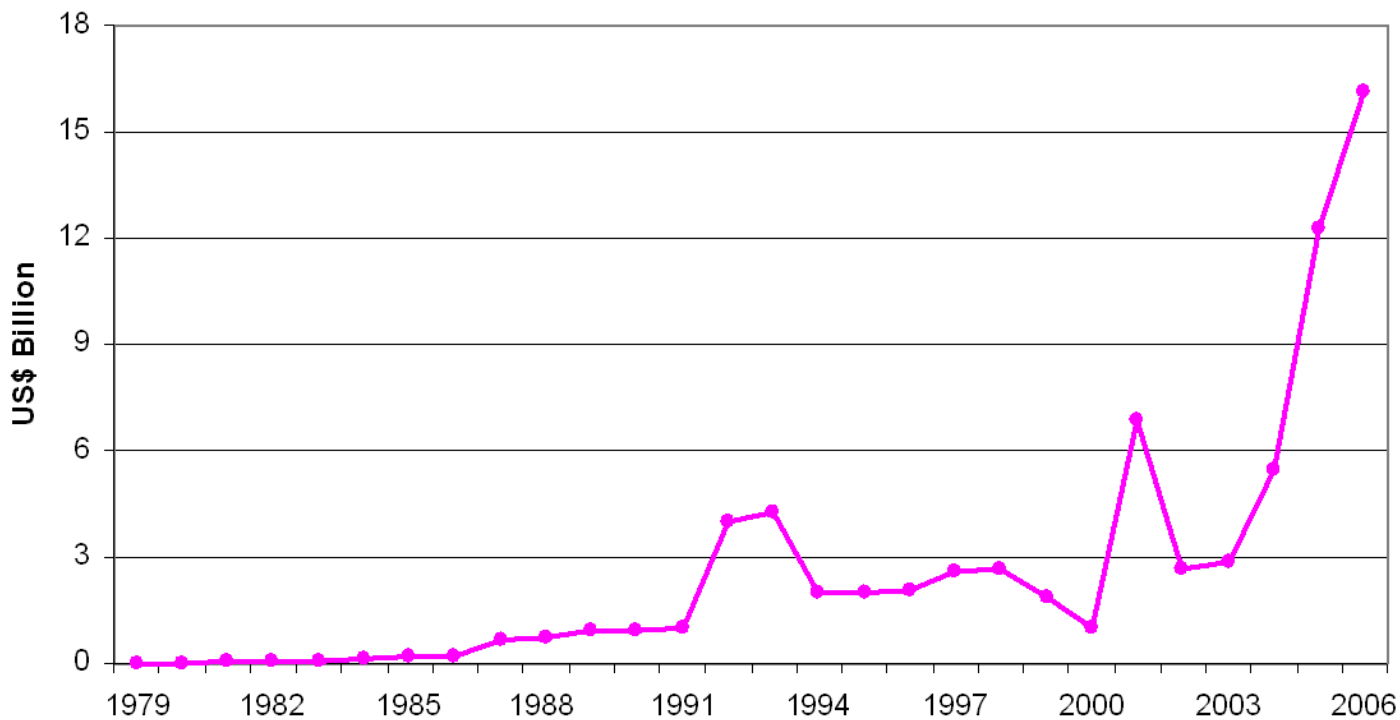
World Investment Shares



Source: UNCTAD, World Investment Report 2007

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

Emerging multinationals are becoming global players.

- By the end of 2006, FDI outflows from emerging markets amounted to an estimated \$210 billion, increasing to an estimated \$258 billion by the end of 2011 (World Investment Prospects to 2011). In 2006, developing countries attracted \$380 billion in foreign direct investment — more than ever before.
- In 2006, total FDI outflows from these groups of economies reached \$193 billion, or 16% of world FDI outflows. Total outward stock of FDI from emerging markets for 2007 is estimated \$1.6 trillion. The performance of Brazilian, Russian, Indian and Chinese firms is indicative of this trend.
- Chinese mainland outbound foreign direct investment reached \$21.2 billion in 2006 according to official statistics (representing a meager 0,6% of the world total in 2006 in terms of DFI stock).

Latin Multinationals are becoming global players: the rising example of Brazil.

- Brazil top 20 multinationals have USD 56 bn of assets abroad in 2007, equivalent to half of the outward FDI stock. As a percentage of total assets, the foreign assets of the Top 20 Brazilian firms range from 1% to 46%. Only two have more than US\$ 10 billion in foreign assets.
- For the group as a whole, foreign assets were 20% of total assets in 2006, compared to 12% in 2005 (Vale's acquisition of Inco). This compares to 33% for the 100 largest multinationals from emerging countries in 2005.
- Brazilian firms have embarked on investing more aggressively abroad. Over the course of 2006, Brazilian outflows of foreign direct investment (FDI) exceeded inflows for the first time ever totaling US\$28.2 billion. The FDI outflow was unusually large due to Vale's US\$ 17 billion acquisition of Inco.

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Trade Competition: An echo of the Asian boom

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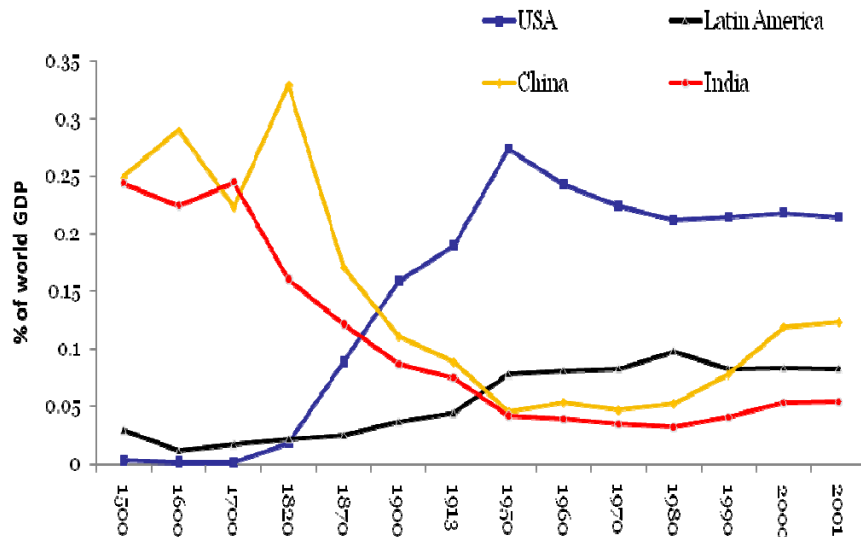
Specialisation: Evidence of a potential draw

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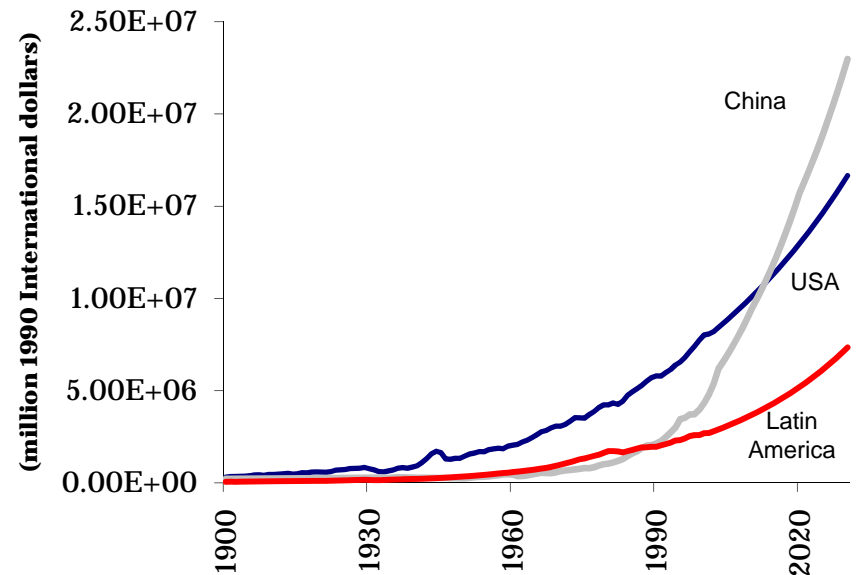
Infrastructure: A key for competitiveness

Emerging economies are increasingly present on the global scene but not everything is new

Evolution of share in world GDP



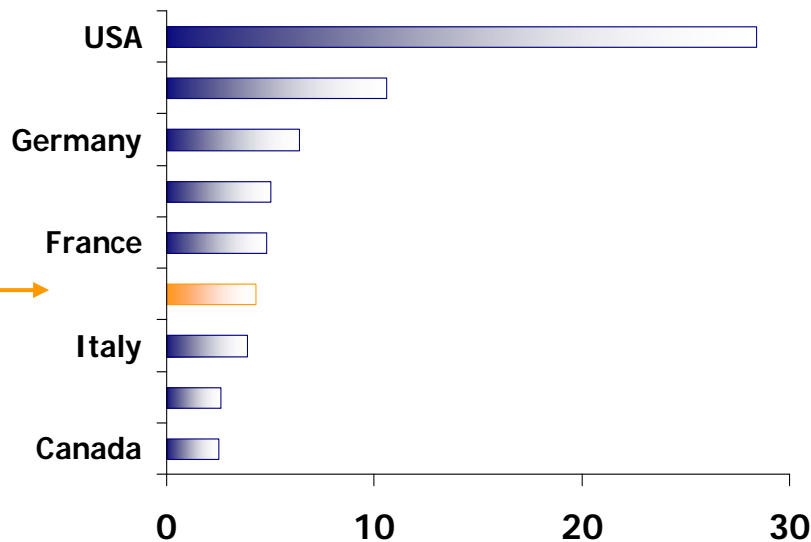
Comparative Levels of GDP, China, United States and Latin America



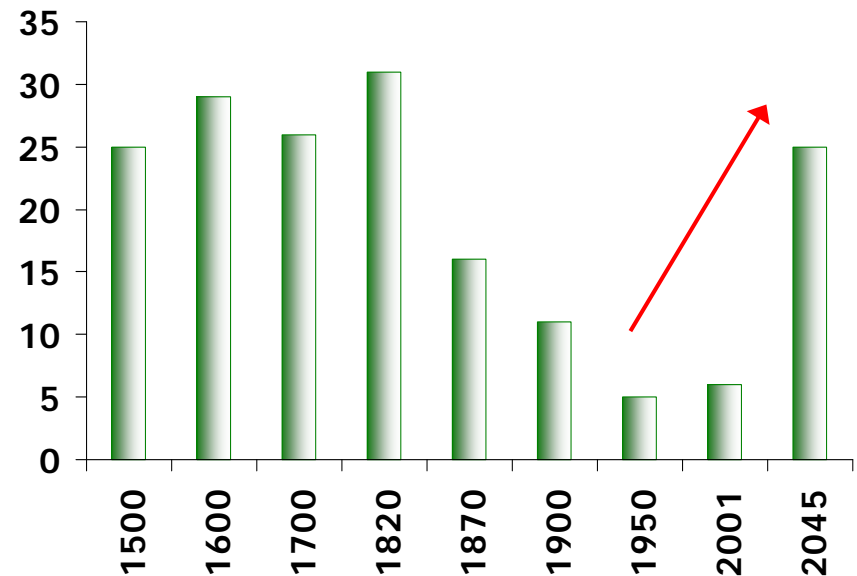
Source: OECD Development Centre, 2008; based on Maddison (2003) "The World Economy Historical Statistics".

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

GDP in US\$ (% of World GDP,
2005)



China GDP (% of world total)

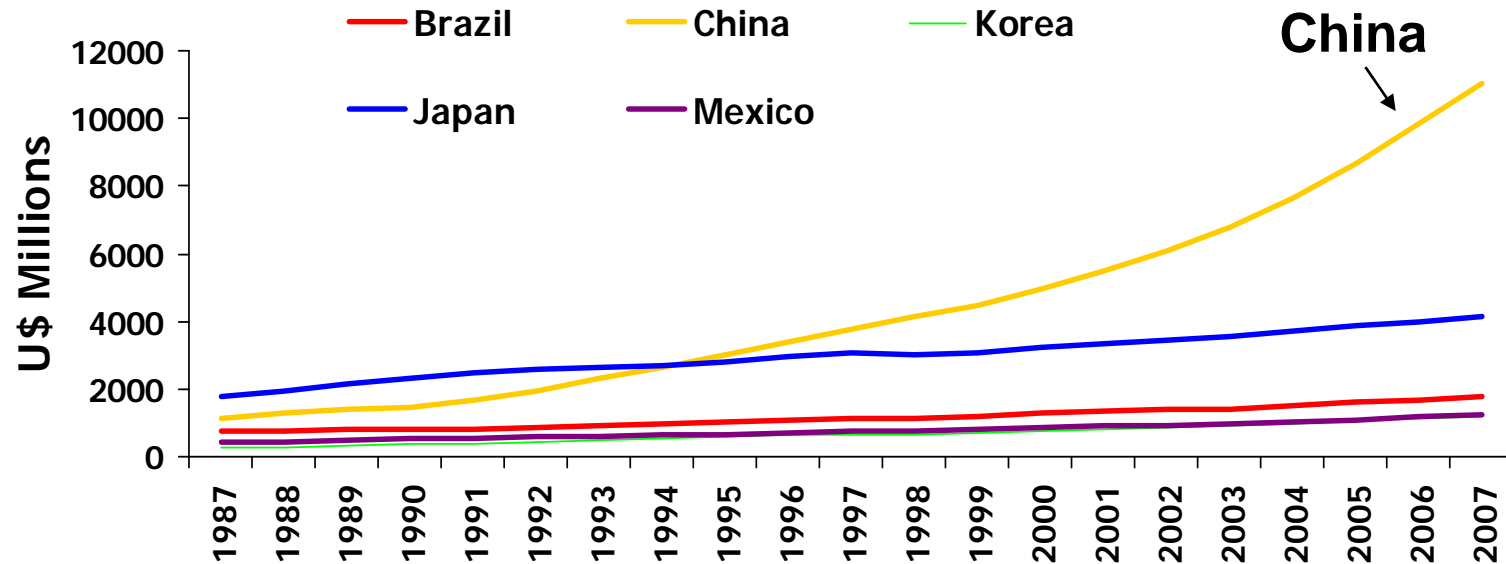


According to IMF estimates Chinese gross domestic product based on purchasing-power-parity (PPP) amounts to 13.6% of 2005 world GDP (20.7% in the case of USA).

Source: OECD Development Centre, 2008; Based on: International Financial Statistics and Angus Maddison, 2007.

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

GDP in constant prices

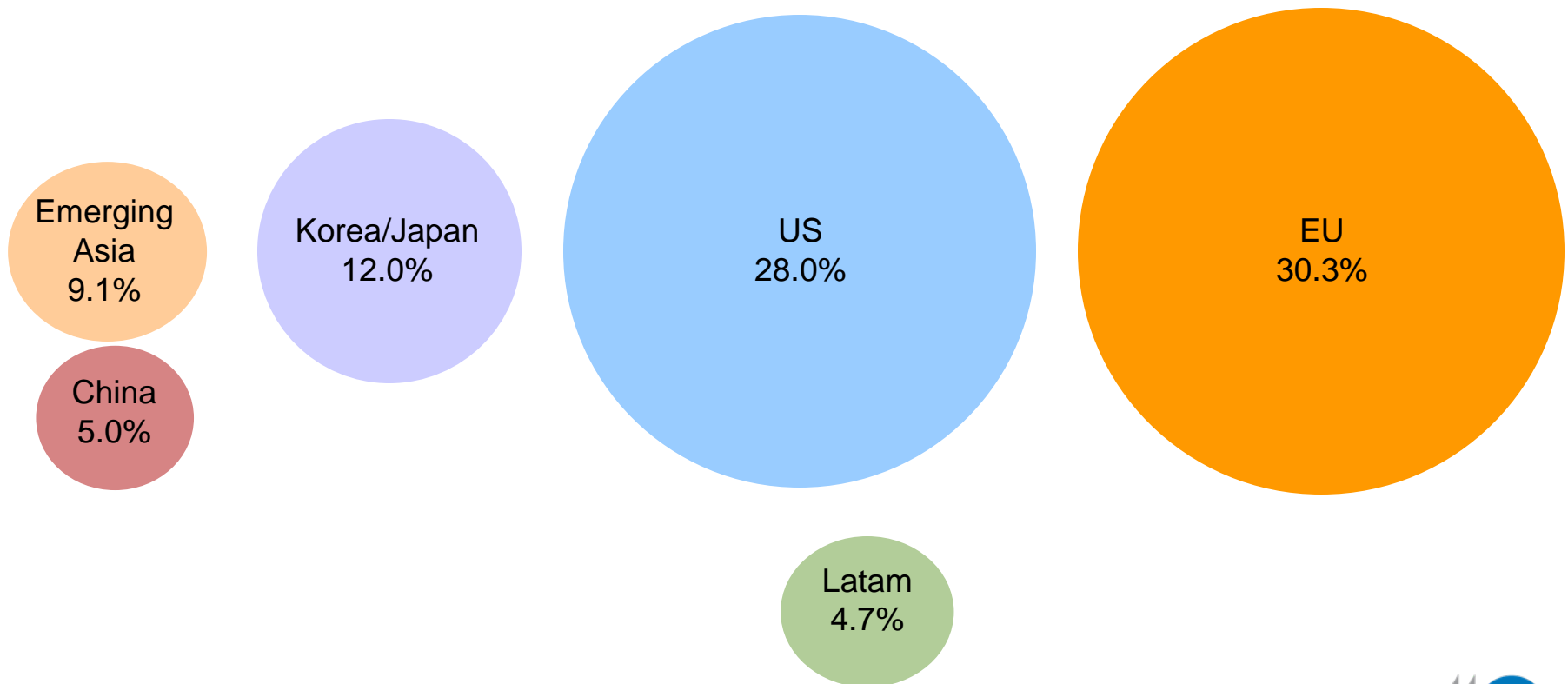


Source: OECD Development Centre, 2008; based on Datastream (Economist Intelligence Unit)

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)



The rise of the Asian Giants impacts all Latin America Economies: For the best or the worst

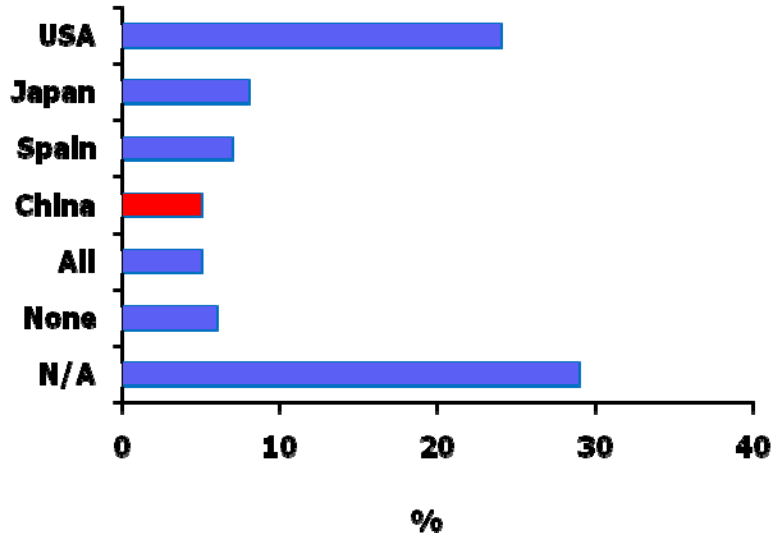
Descriptive Statistics on Trade for Selected Countries

Country	Share in Latin America GDP (%) 2006 in PPP	Exports Goods-Services as % of GDP	Share of Exports to Asian Drivers (Avg. 2000-2006)	Trade Restrictiveness Index (WB-OTRI 2005)	Main Exports
Argentina	12.8	23.6	9.7	22.8	Animal feed, fixed veg. oils/fats, soft, heavy petrol, oil crude, oil seeds
Brazil	34.1	14.5	6.8	30.1	Iron ore, oil seeds, meat, passenger cars, petrol/bitum., sugar
Chile	4.0	39.6	11.5	14.2	Copper, metal ore, fish, fruit/nuts, pulp, wood
Colombia	7.7	21.1	0.9	25.3	Petrol, coal, coffee, heavy petrol, crude materials, iron
Mexico	23.2	29.7	0.7	32.0	Petrol, passenger cars, telecomms. equipment, computer equipment
Peru	3.7	21.4	9.9	21.0	Metal ore, copper, heavy petrol, animal feed, silver
Venezuela	4.0	32.9	0.2	21.8	Petrol, iron, aluminum

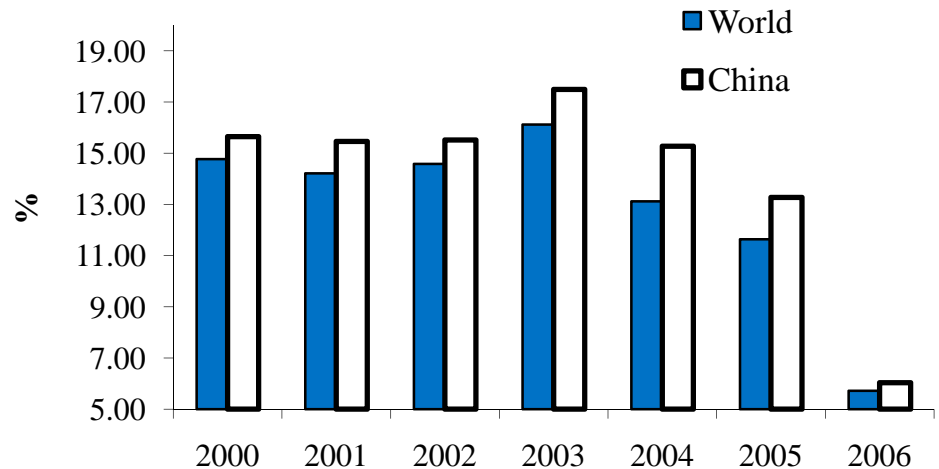
Source: Economist Intelligence Unit.

Increased Asian exports have nurtured fears in Latin America

Preferred Country as Investor In Latin America



Latin American tariffs to China and the rest of the World Manufactured goods (SITC 6)



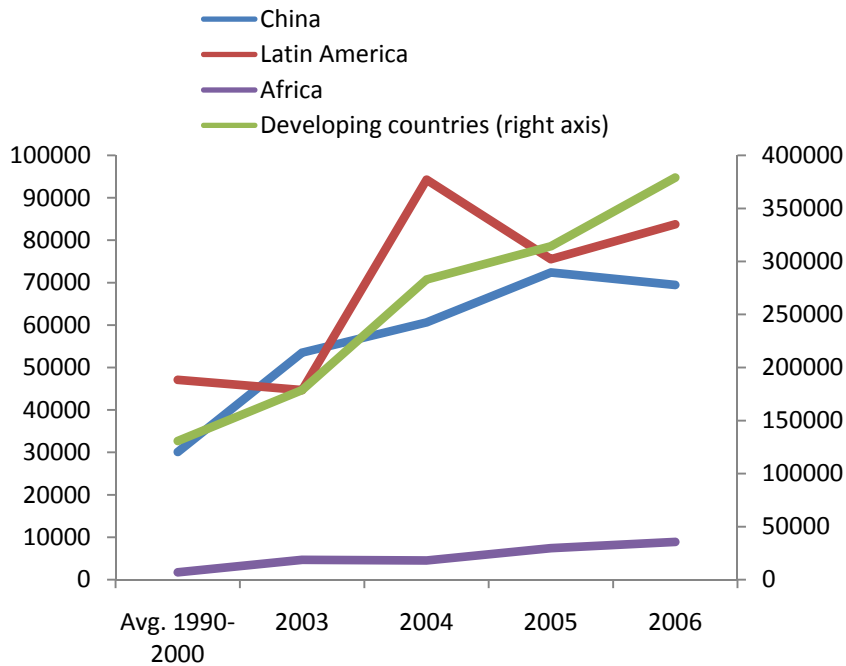
Note: Does not include NTB data.

Source: Latinobarómetro survey. Santiago de Chile, 2007.

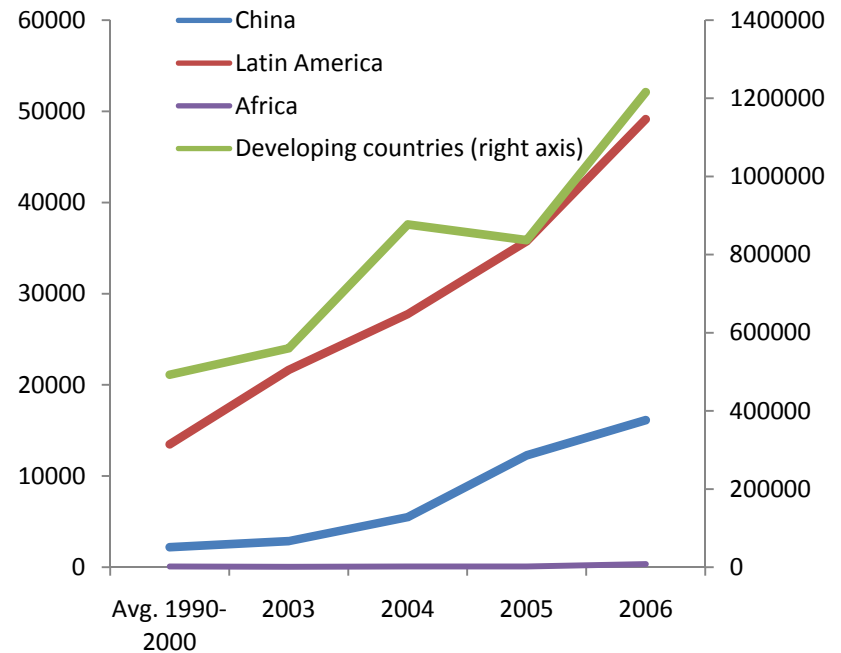
Source: TRAINS Database (World Integrated Trade Solution), Nomenclature SITC Revision 3, 2007.

However FDI flows to China have not diverted inward flows for other emerging markets

Inward FDI Flows USD Millions



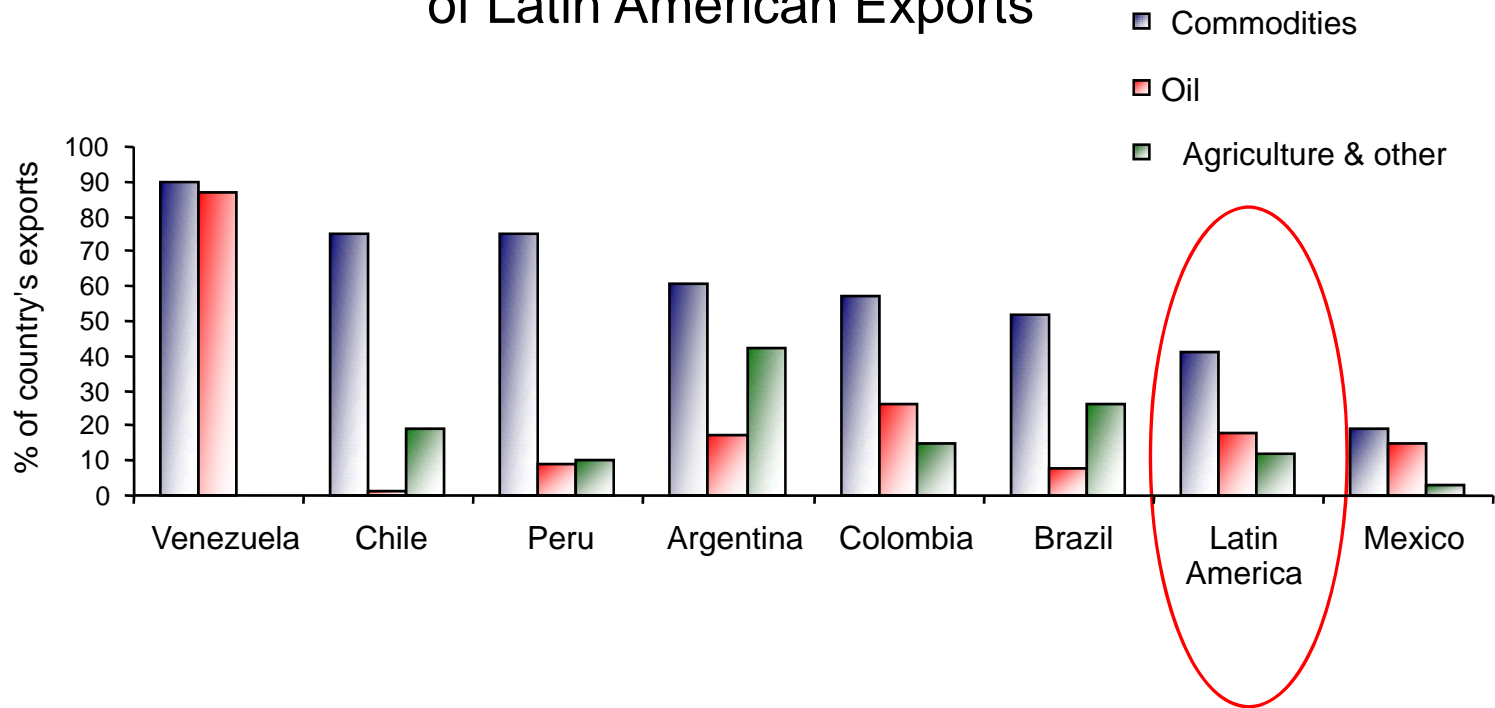
Outward FDI Flows USD Millions



Source: OECD Development Centre, 2008; based on UNCTAD.

Latin America is endowed with natural resources and dependent on the commodities' cycle

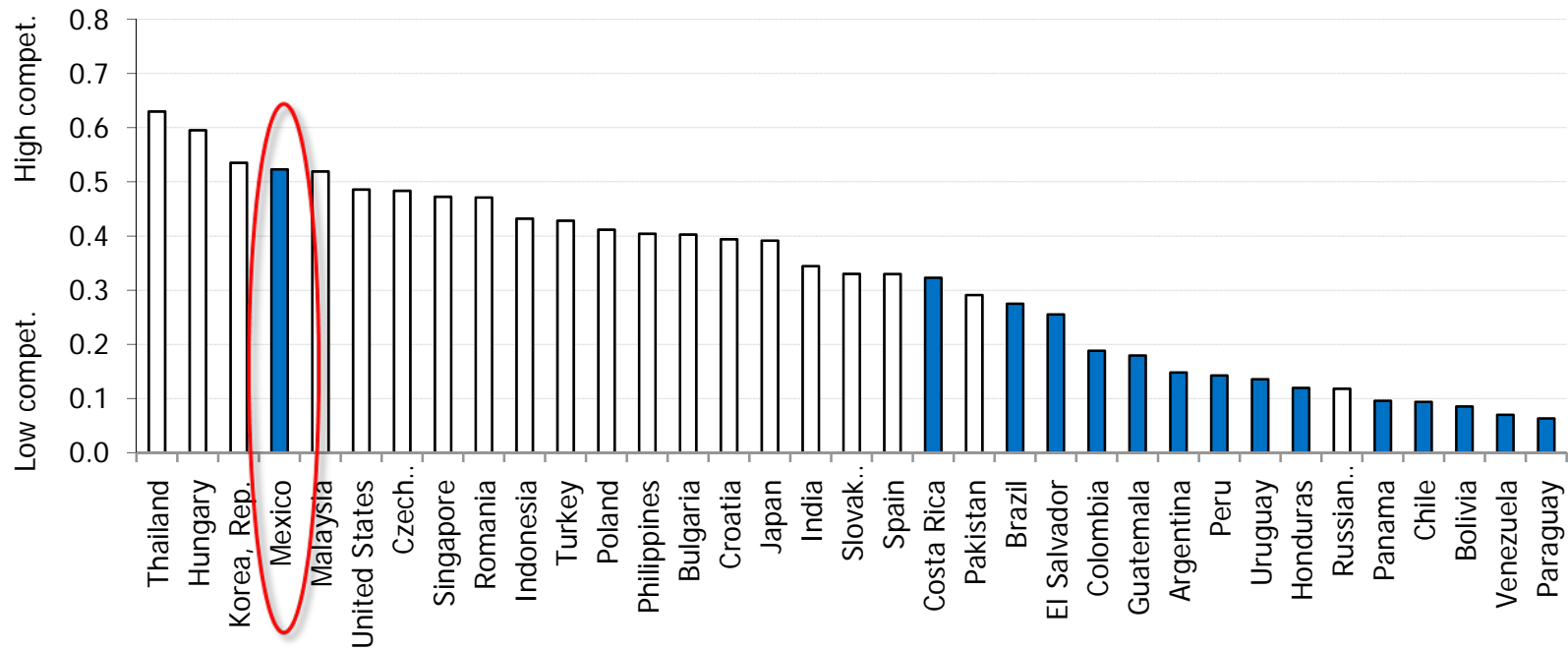
Natural Resources as a percentage of Latin American Exports



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)

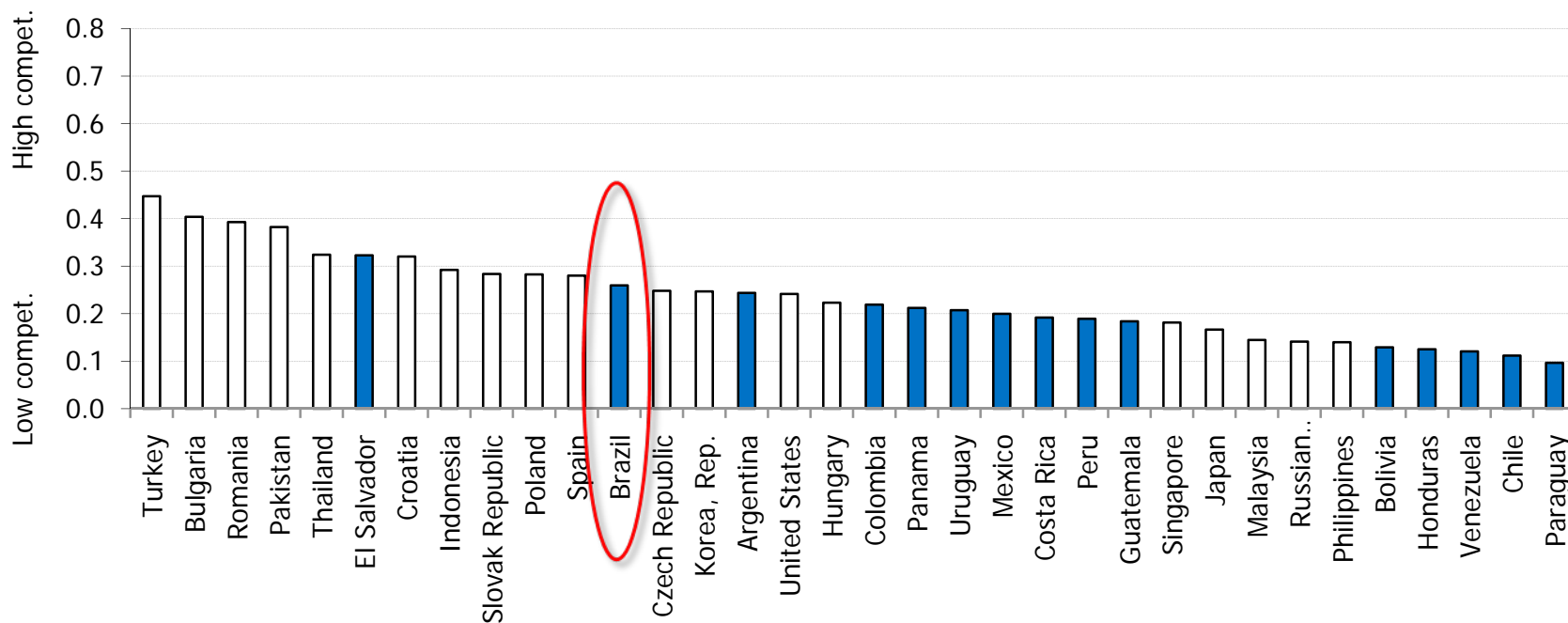


Note: CS and CC coefficients calculated with exports of country i and exports of country j (China, India).

Source: OECD Development Centre, 2008; based on WITS Database, 2007.

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)

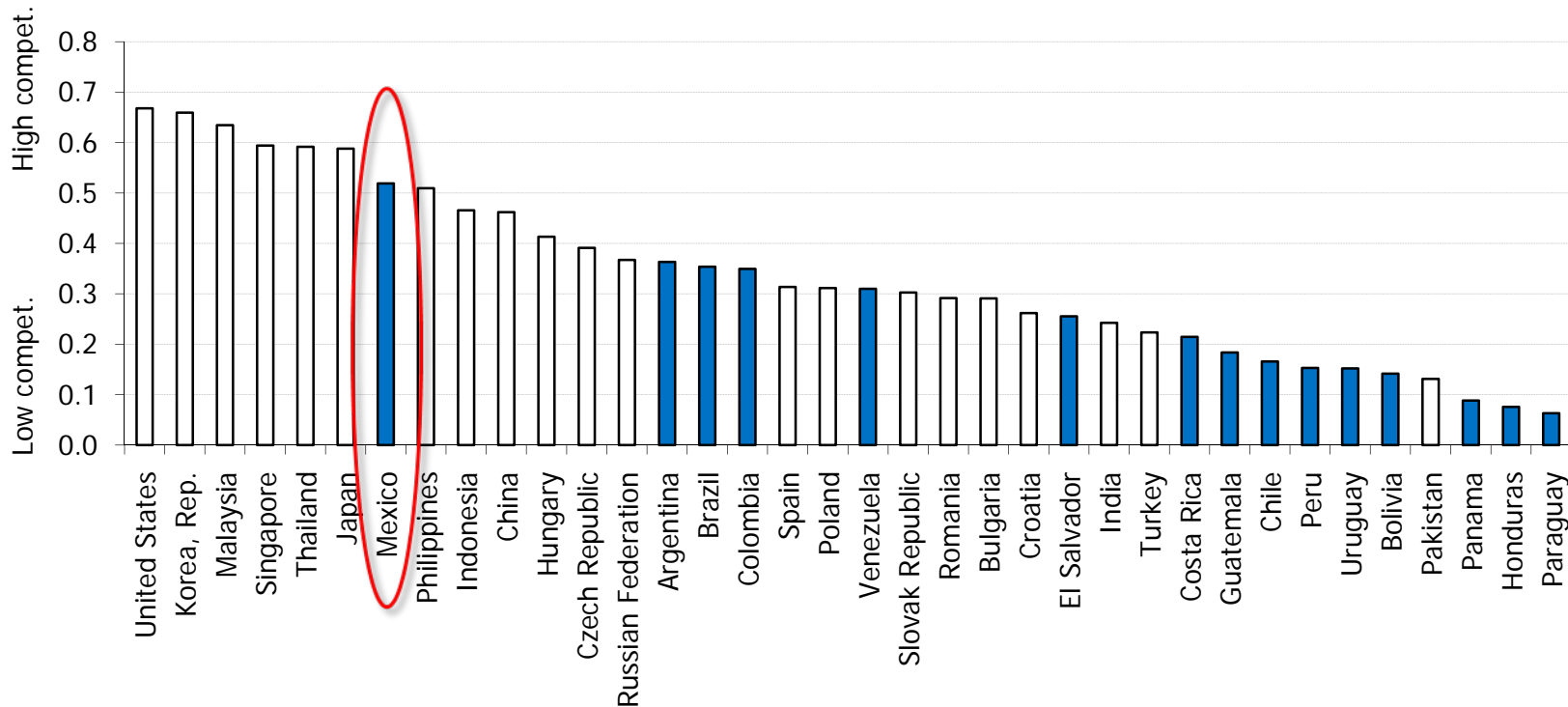


Note: CS and CC coefficients calculated with exports of country *i* and exports of country *j* (China, India).

Source: OECD Development Centre, 2008; based on WITS Database, 2007.

Trade complementarities and potentialities with China remain unexplored today...

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

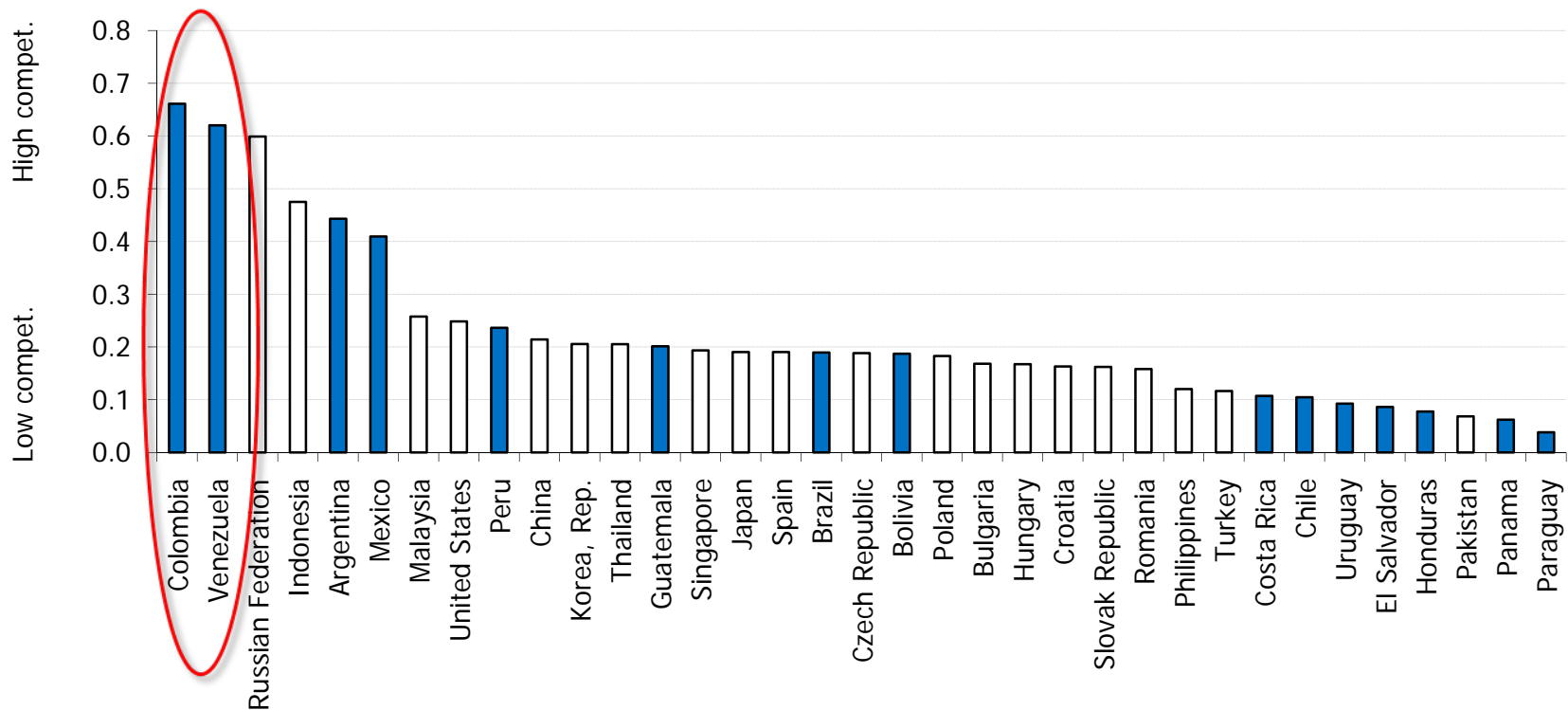


Note: Modified CS and CC coefficients calculated with exports of country *i* and imports of country *j* (China, India).

Source: OECD Development Centre, 2008; based on WITS Database, 2007.

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.

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Specialisation: Evidence of a potential draw

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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

Good	Product Name	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Average LAC
0	Food & live animals	3.12	1.80	1.24	0.92	-0.16	0.61	-3.32	0.98
1	Beverages and tobacco	1.93	1.73	2.40	0.03	1.69	-1.48	-2.03	1.16
2	Crude mater.ex food/fuel	0.96	1.92	2.53	0.85	-0.63	2.65	-1.01	1.40
3	Mineral fuel/lubricants	1.57	-1.02	-2.30	3.43	1.36	-0.63	7.15	1.21
4	Animal/veg oil/fat/wax	4.28	1.40	-1.08	-0.34	-2.32	-0.51	-5.40	0.90
5	Chemicals/products n.e.s	-0.98	-1.33	-0.81	-1.04	-1.19	-2.04	-2.14	-1.17
6	Manufactured goods	-0.41	0.61	1.38	-0.40	-0.81	0.27	-0.90	-0.22
7	Machinery/transp equipmt	-2.06	-0.64	-3.57	-2.44	0.13	-3.93	-4.34	-0.71
8	Miscellaneous manuf arts	-1.27	-0.40	-2.52	0.07	0.27	0.21	-4.00	-0.21
9	Commodities nes	0.63	8.91	1.74	1.26	-1.21	9.78	2.04	0.81

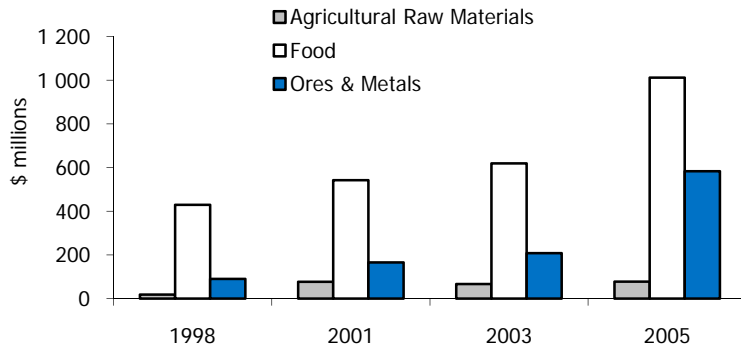
n.e.s. = not elsewhere specified.

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

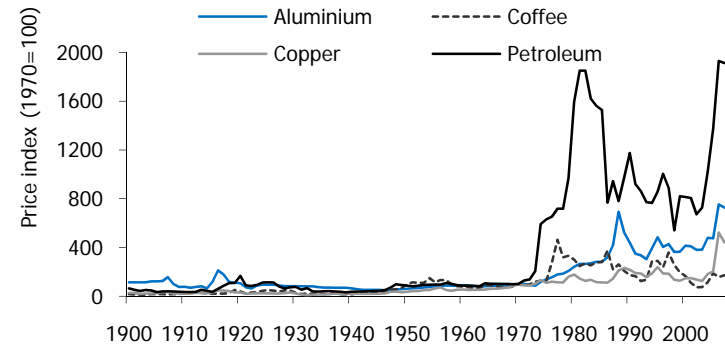
Source: OECD Development Centre, based on WITS Database, SITC Revision 3 (three-digit classification) 2007.

India and China's increasing demand can have adverse effects

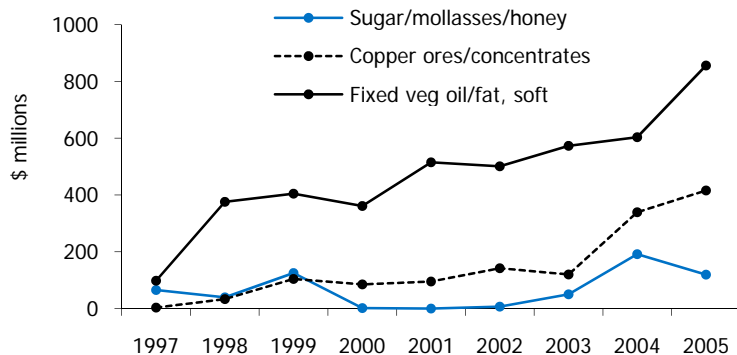
China's and India's rising demand for Latin American commodities (1998-2005)



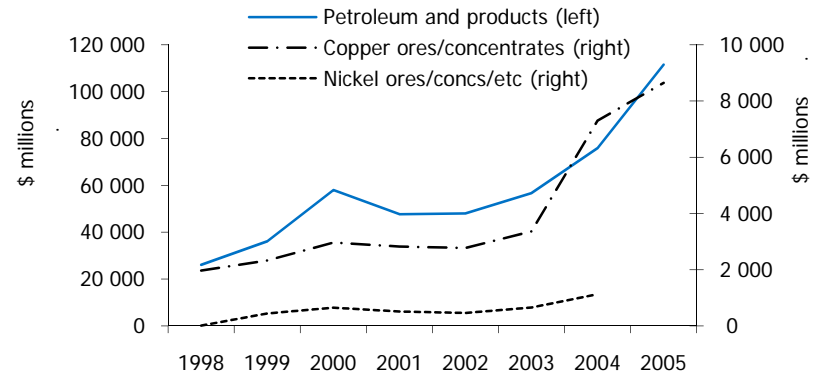
Increasing commodities prices (1900-2005)



Rise in Indian imports from Latin America (1997-2005)



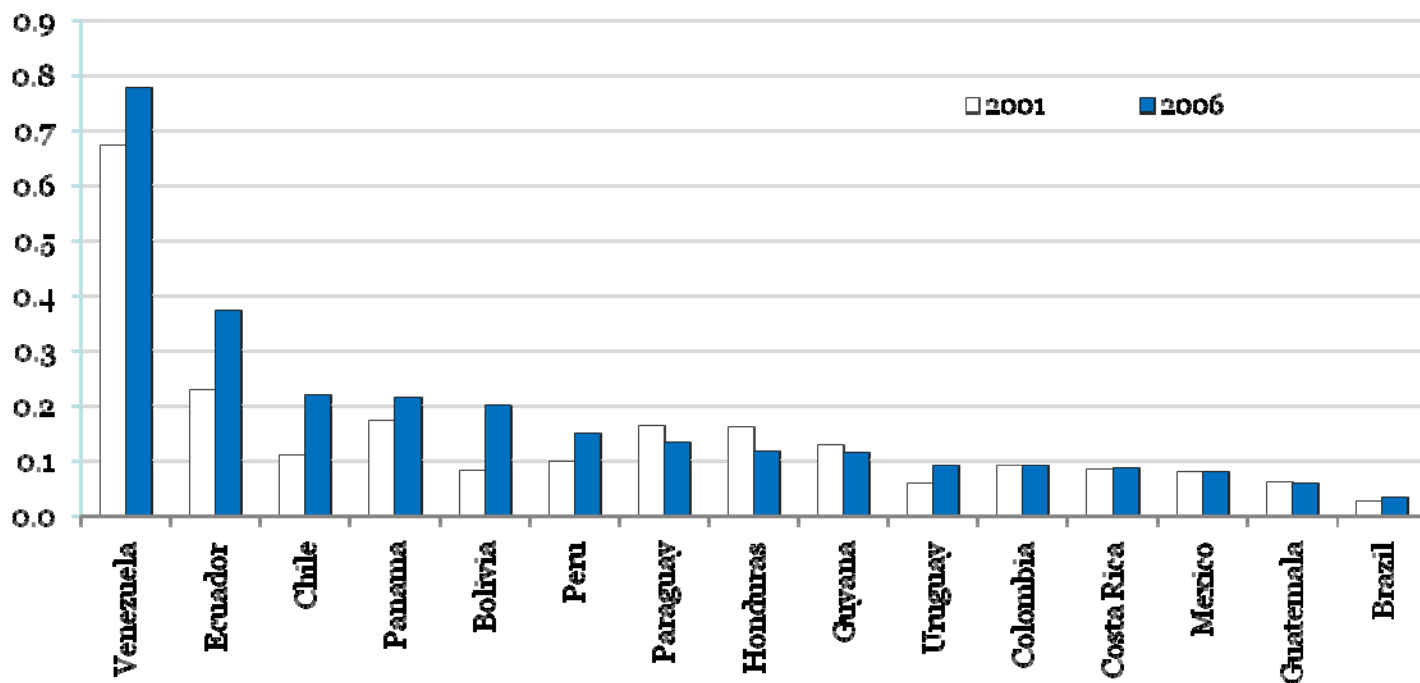
Rise in mineral exports from Latin America (1998-2005)



Source: OECD Development Centre, based on WITS Database, 2007.

Product specialisation has increased in the region in the last five years

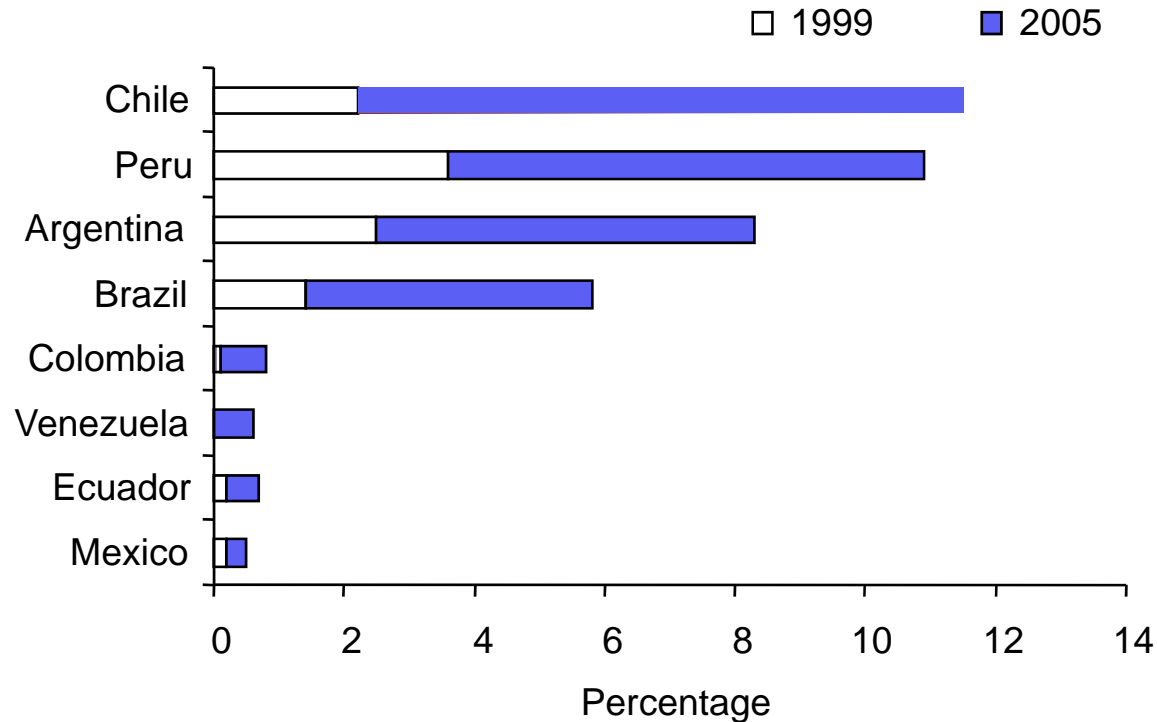
Export Concentration in Products for Latin America Herfindahl Hirschman Index



Source: OECD Development Centre, 2008; Based on ECLAC and World Trade Integrated Statistics.

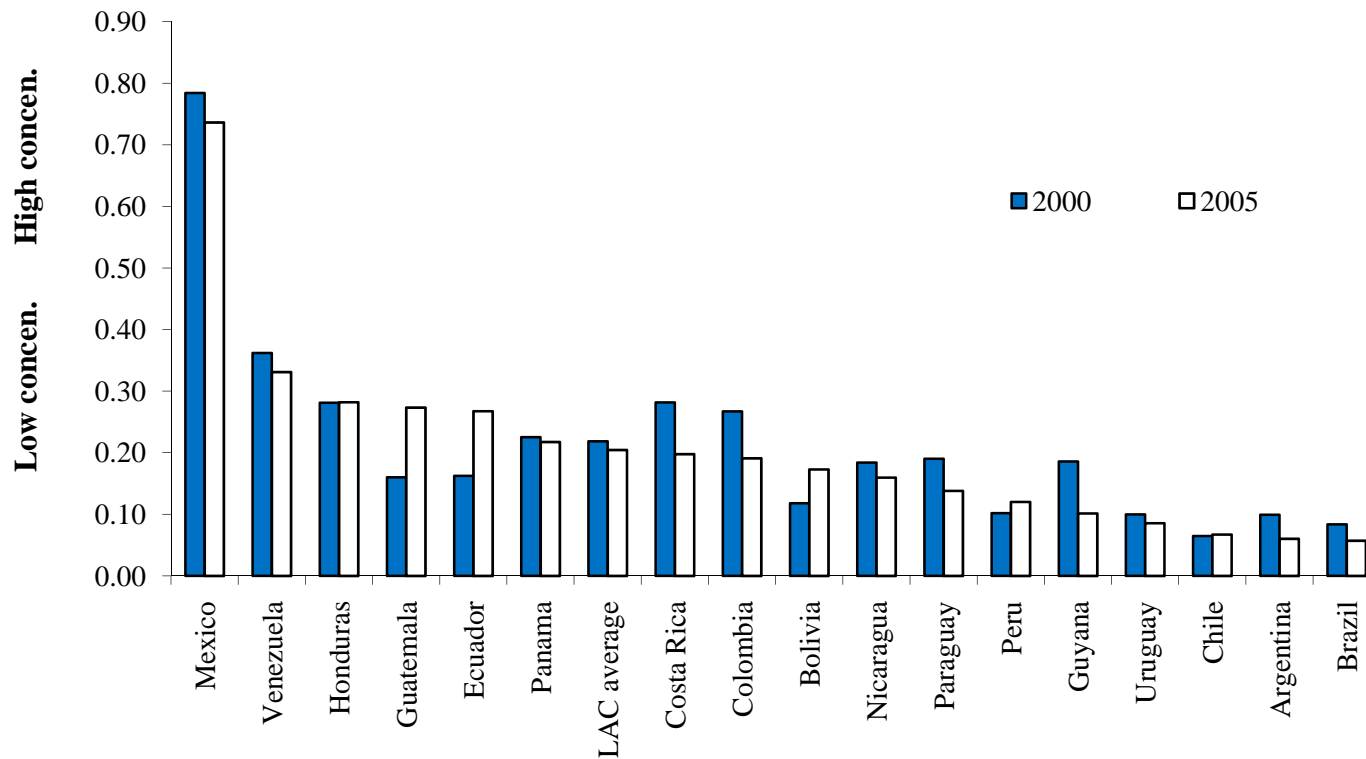
Latin America's is increasingly looking towards Asia for exports...

LATIN AMERICA: EXPORTS TO CHINA AS PERCENTAGE OF TOTAL EXPORTS



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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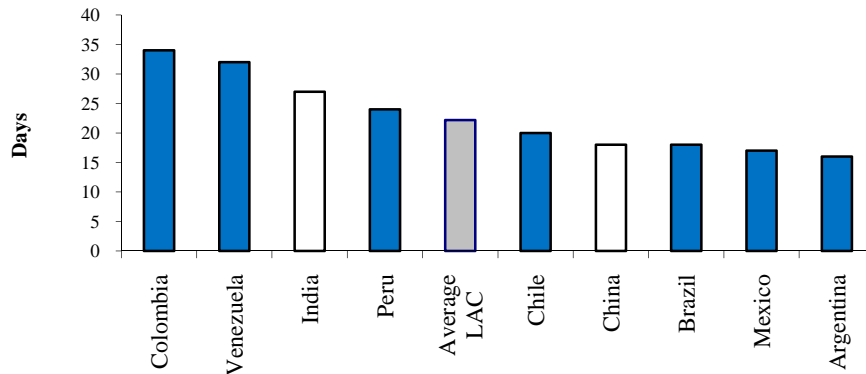
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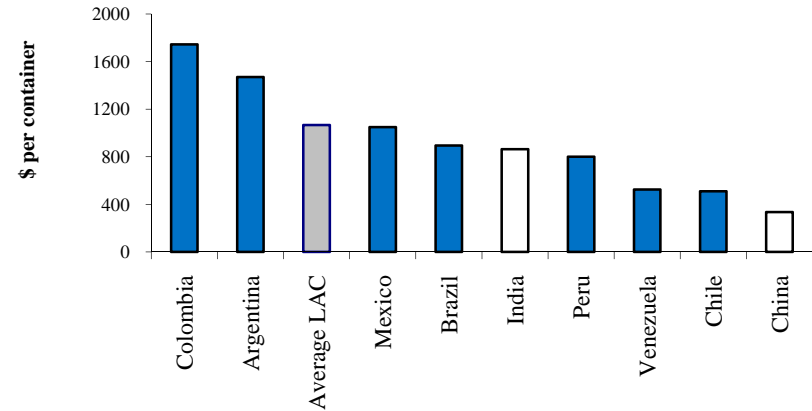
Infrastructure: A key for competitiveness

Latin America's performance on trade infrastructure is poor

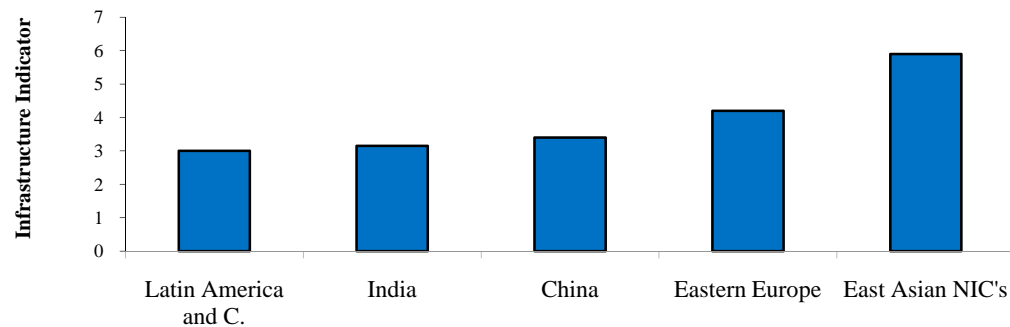
Time for exports



Cost to exports

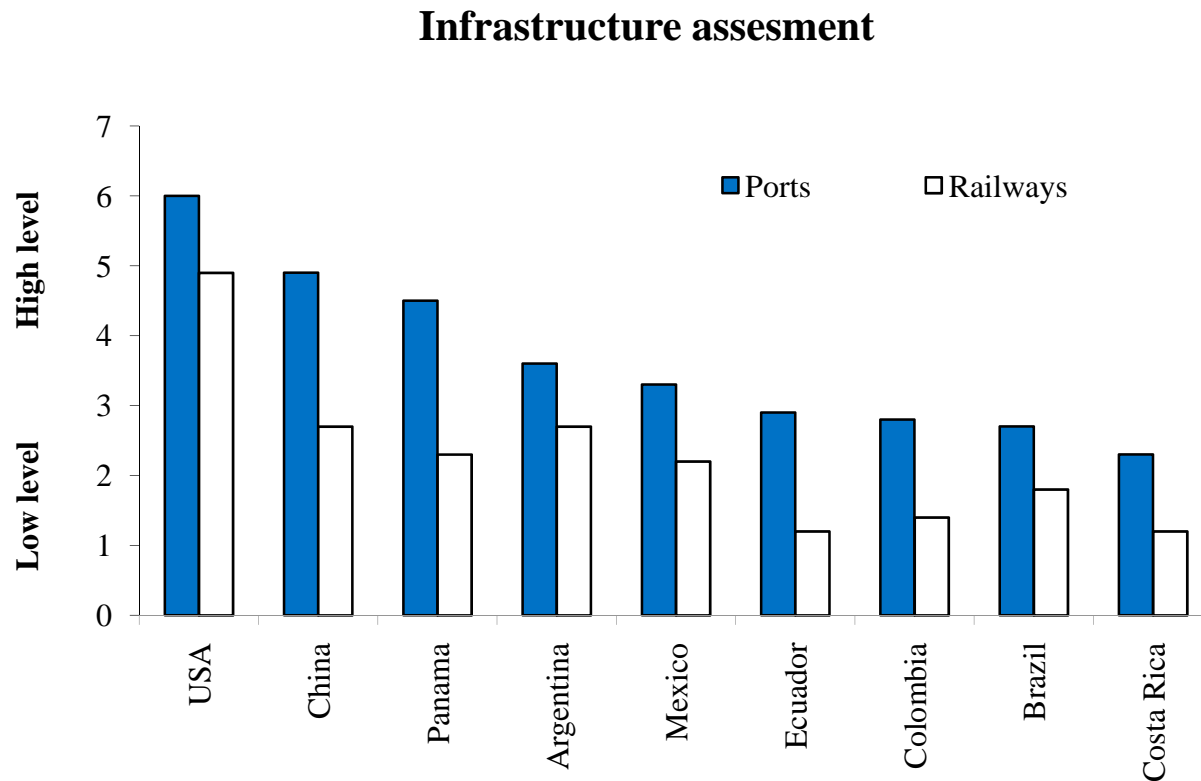


Regional performance in the infrastructure pillar



Source: Based on Doing Business Report. World Bank, 2007.

...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*

24 Days

4 Days

11,700 Km

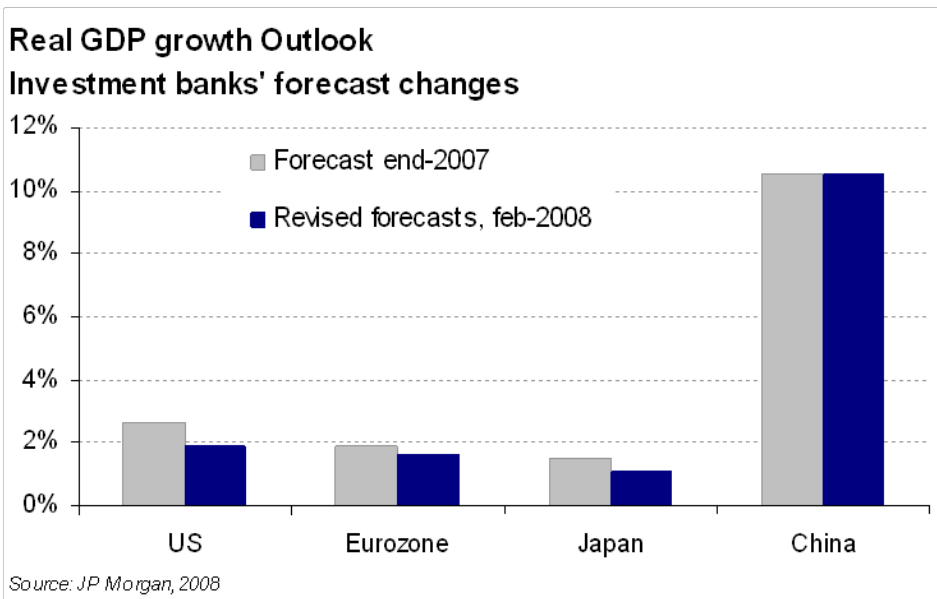
160 Km

Shipping time

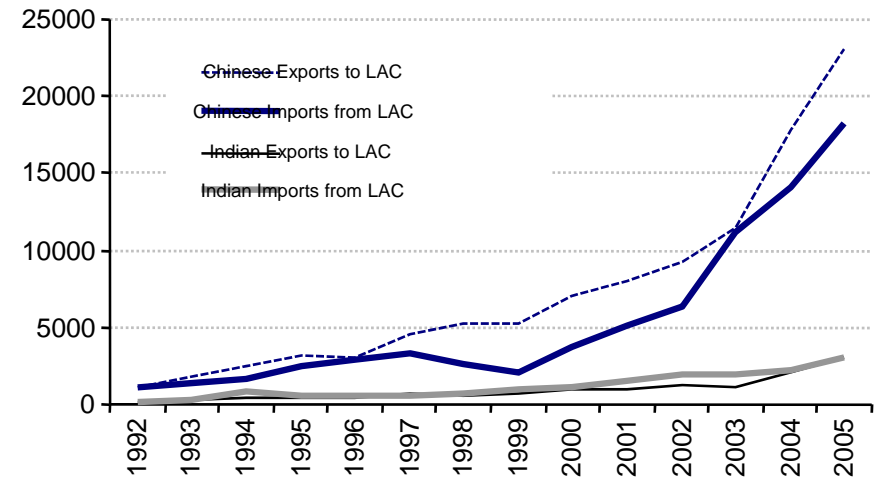
Mexico is more competitive in manufacturing more sophisticated products which require frequent communication with the client or supplier and short reaction times.

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)

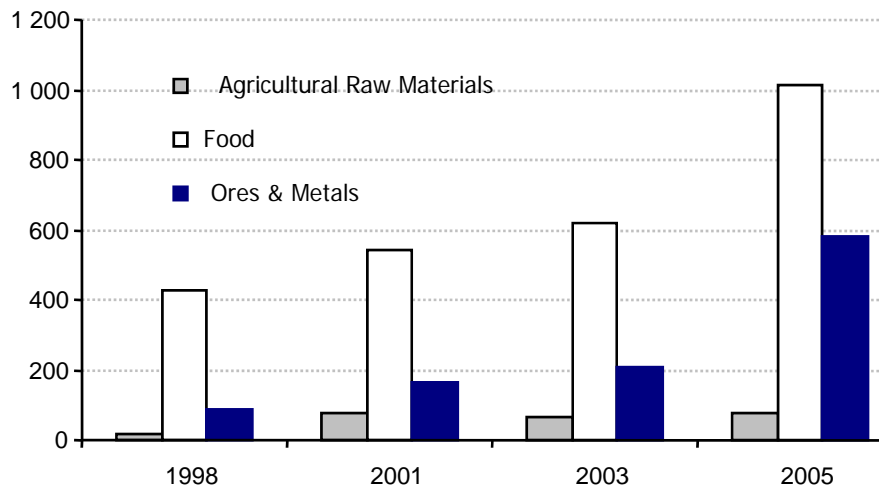


Source: OECD Development Centre, Latin American Economic Outlook, 2008

Conclusion: For the first time ever the key question for the region is China (Commodity Prices)

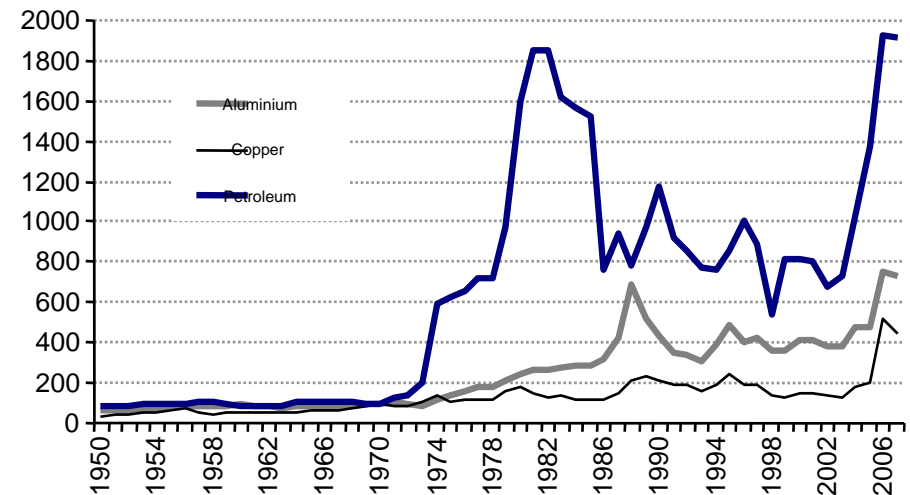
- Chinese demand for Latin American commodities as well as commodity prices are increasing.
- Good news in the short term. It could be a bad news in the long run.

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



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

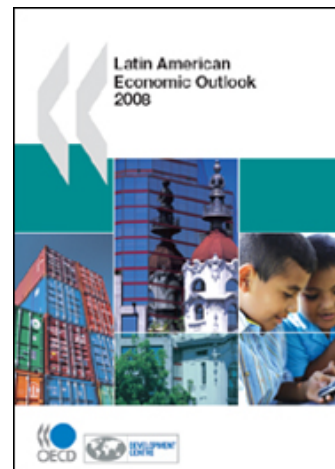
Commodity Prices(100 Basis Index = 1975)



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

Latin American Economic Outlook 2008

www.oecd.org/dev/leo



Thank you
Merci
Obrigado
Gracias