

LAC opportunities and challenges from China and India Growth



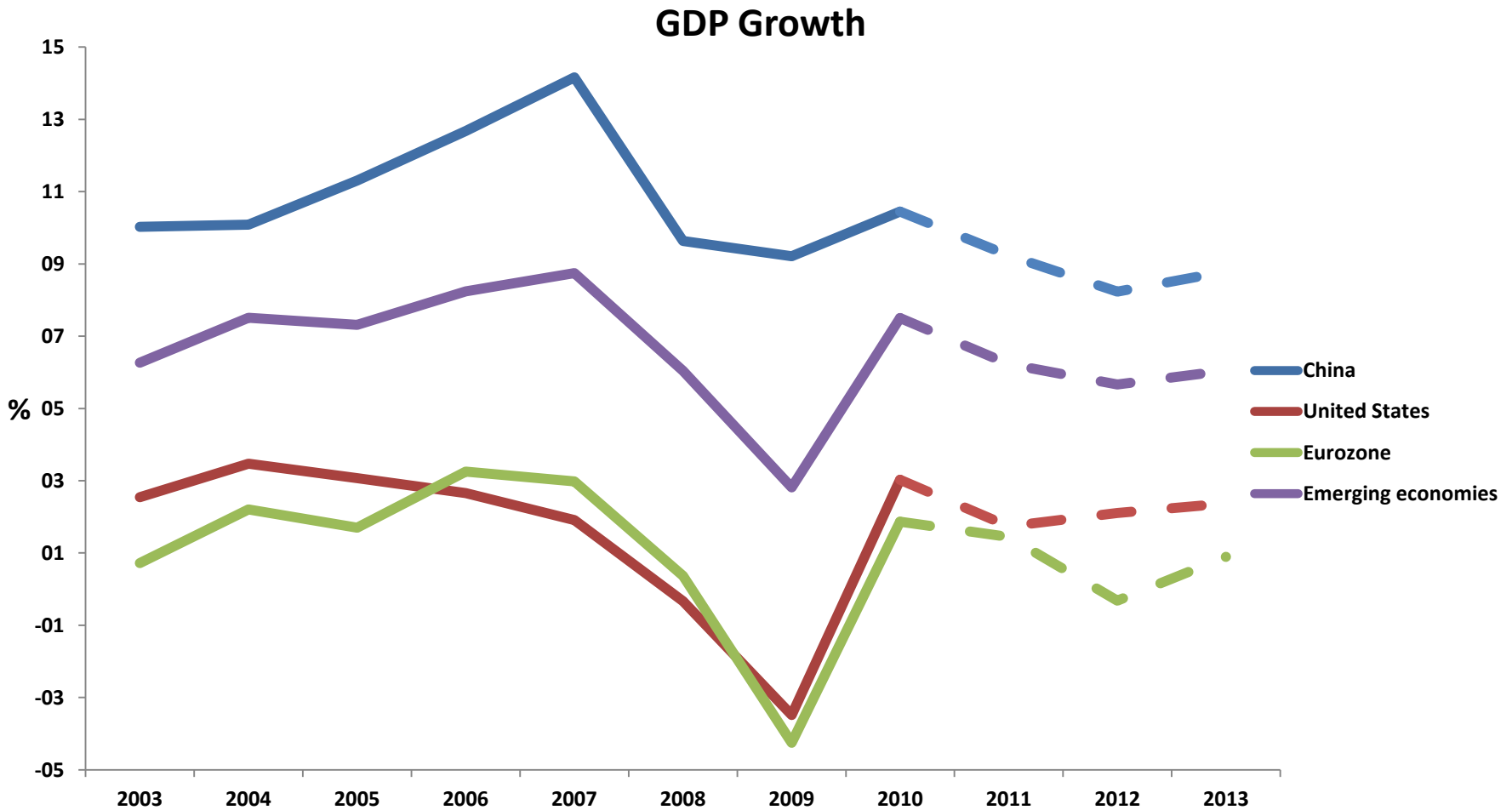
Guillermo Perry, Universidad de Los Andes/CGD/CAF

ILAS /CAF SEMINAR, BEIJING,

China and India: challenge or opportunity for Latin America?

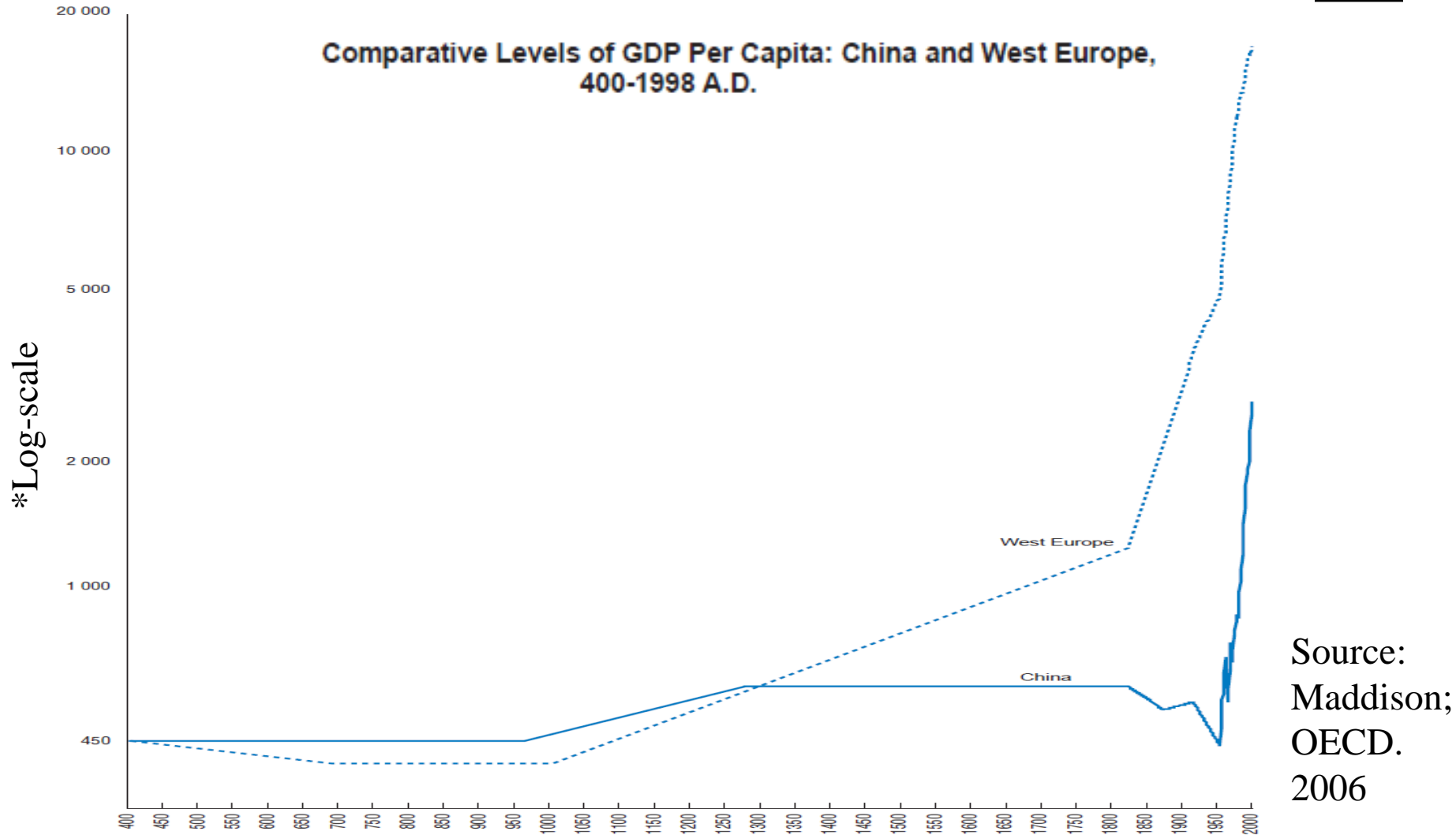
- 1) China and India's fast catching up. For how long?
- 2) Implications for Latin America
 - Increased co movement suggest aggregate gains across sectors and countries
 - But pain in some industries and countries
- 3) Implications for Latin American industry and Government policies

A new trend?: Developing countries growing faster than developed countries



Source: IMF-WEO, April 2012


China and Europe: long term cycles of divergence and convergence





China's fast convergence: for how long?

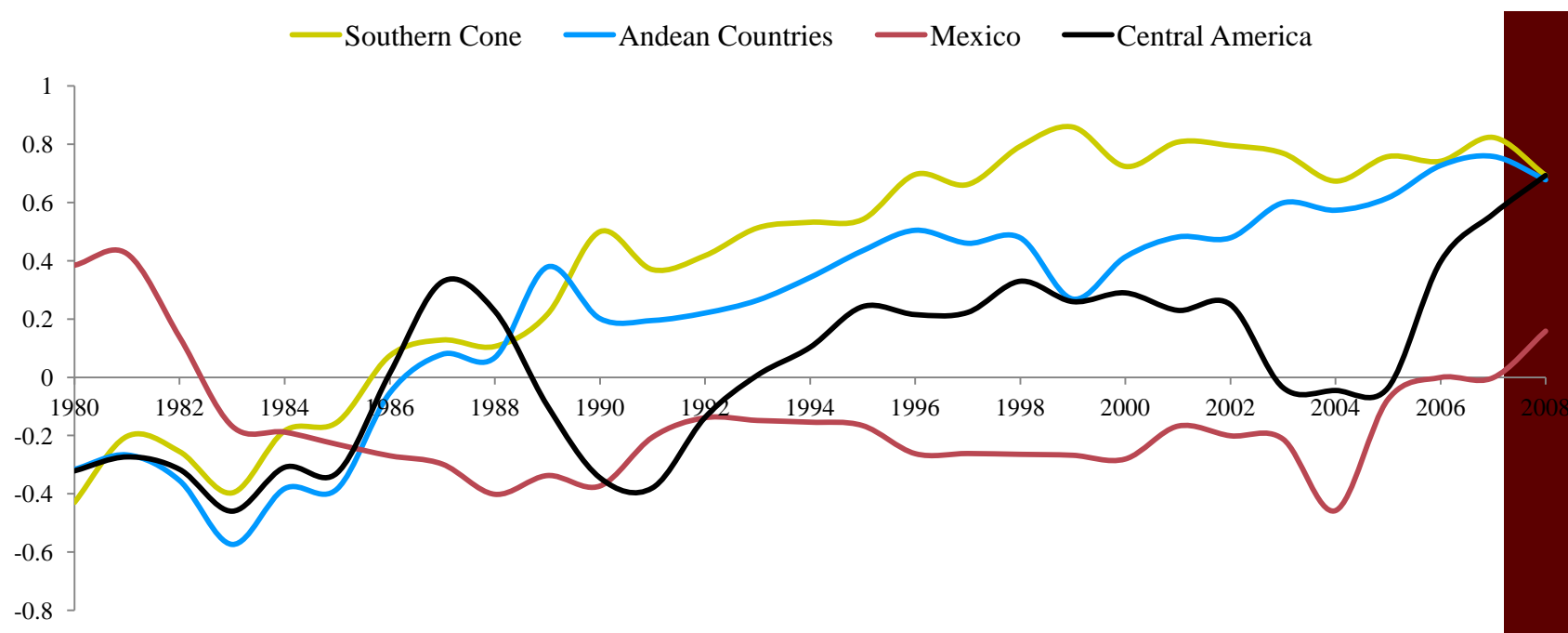
- Points to watch: Policy risks of:
 - Rebalancing export and domestic demand led growth
 - Rebalancing low consumption and high investment rates
 - Dealing with pending banking problems
 - Dealing with inflationary pressures
 - Dealing with democratization pressures
- Our Chinese friends will answer all these questions on China
- I'll just assume their answers are positive



Aggregate effects of China's
growth on Latin America:
increased co movement

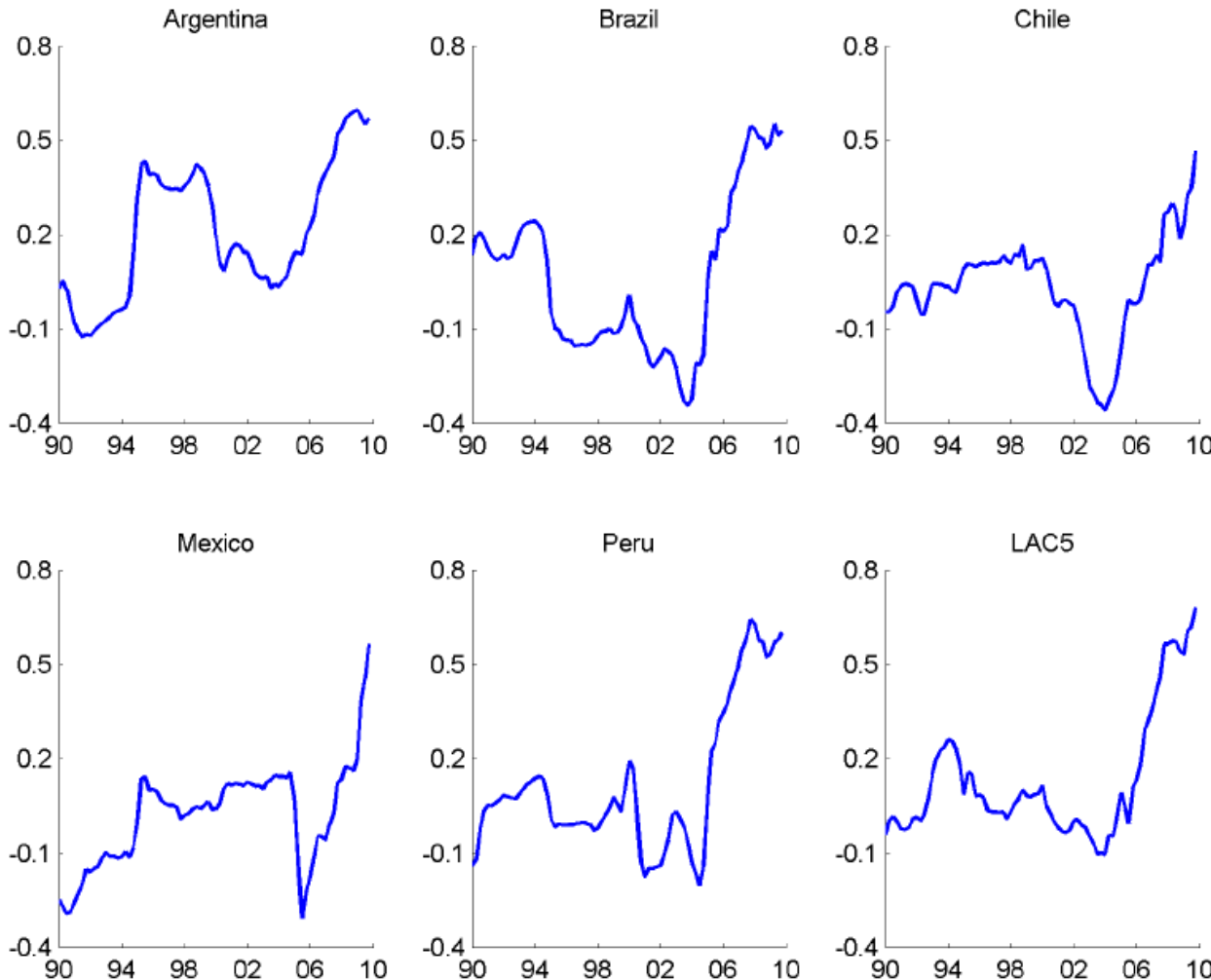
Growing co movement with China for most of Latin America

Growth in Output Correlation between Latin America and China, 1980-2007
(10 year window rolling correlations)



Source: WDI, WEO, Latin Focus

Increasing co movement between LA countries and China GDP Growth

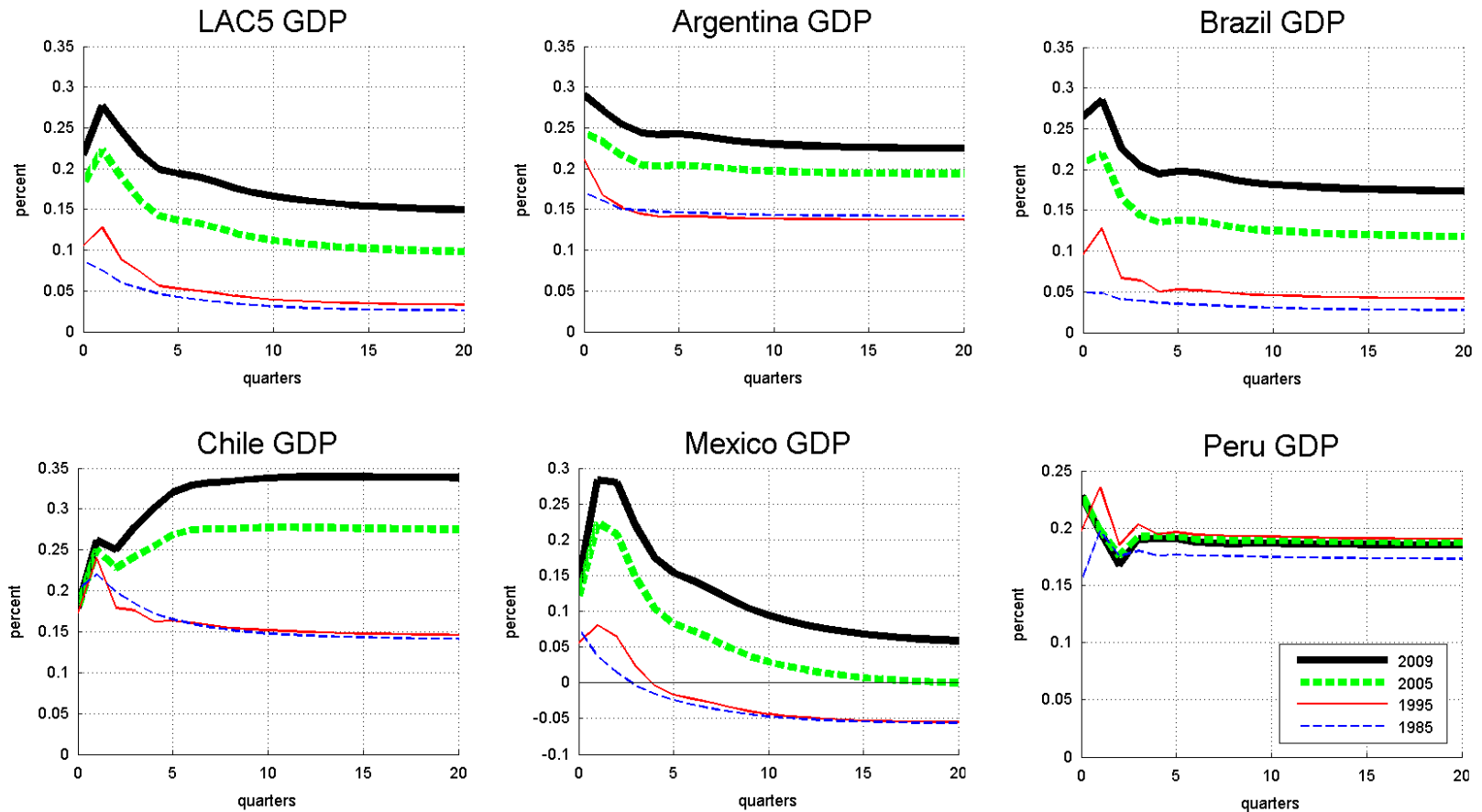


10-year moving
correlation of annual
growth rates; 1990-q1
2009-q4

Source: Cesa-Bianchi et
al. IDB. 2011

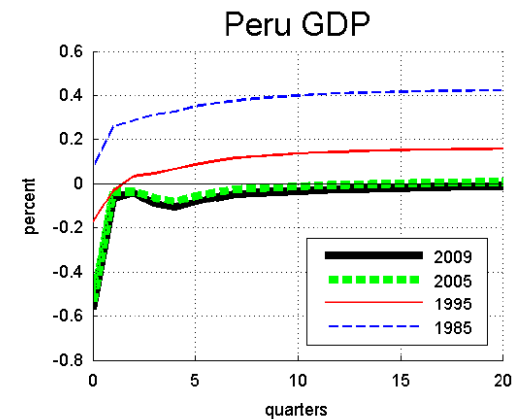
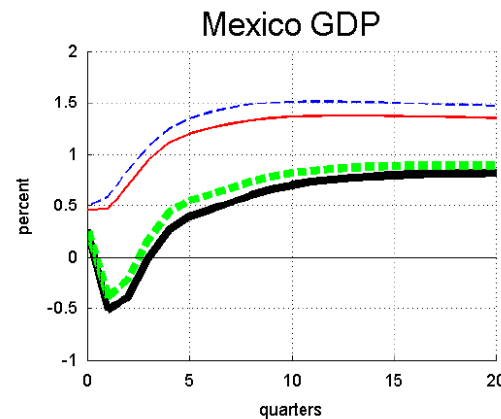
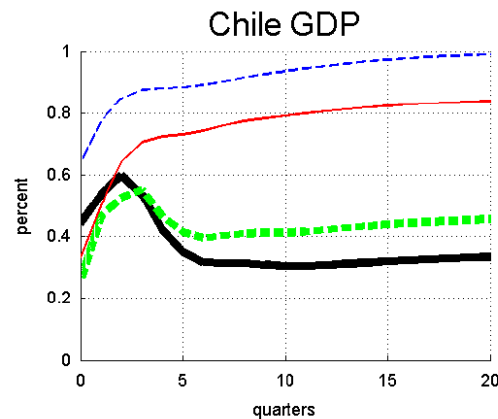
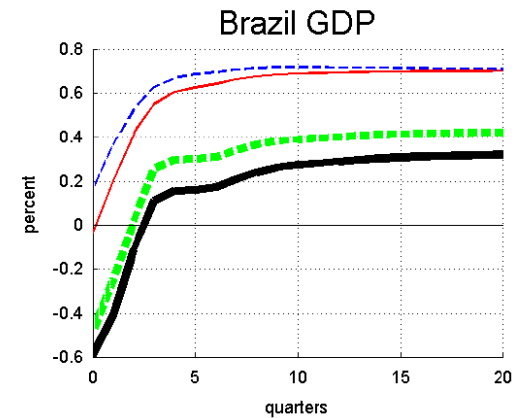
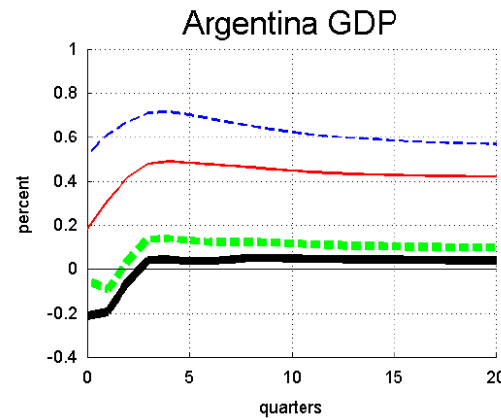
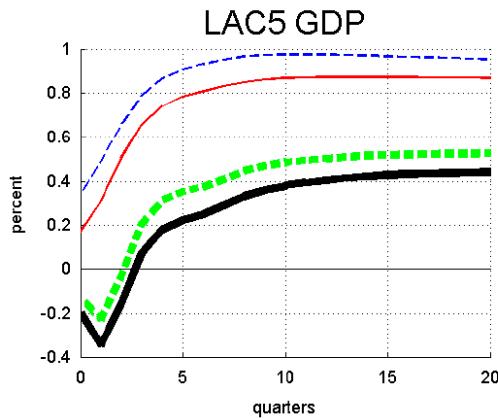
Increasing impact of an exogenous 1% increase in China growth on LAC

GIRFs for One Percent Increase in China GDP



Decreasing impact of an exogenous 1% increase in US growth on LAC

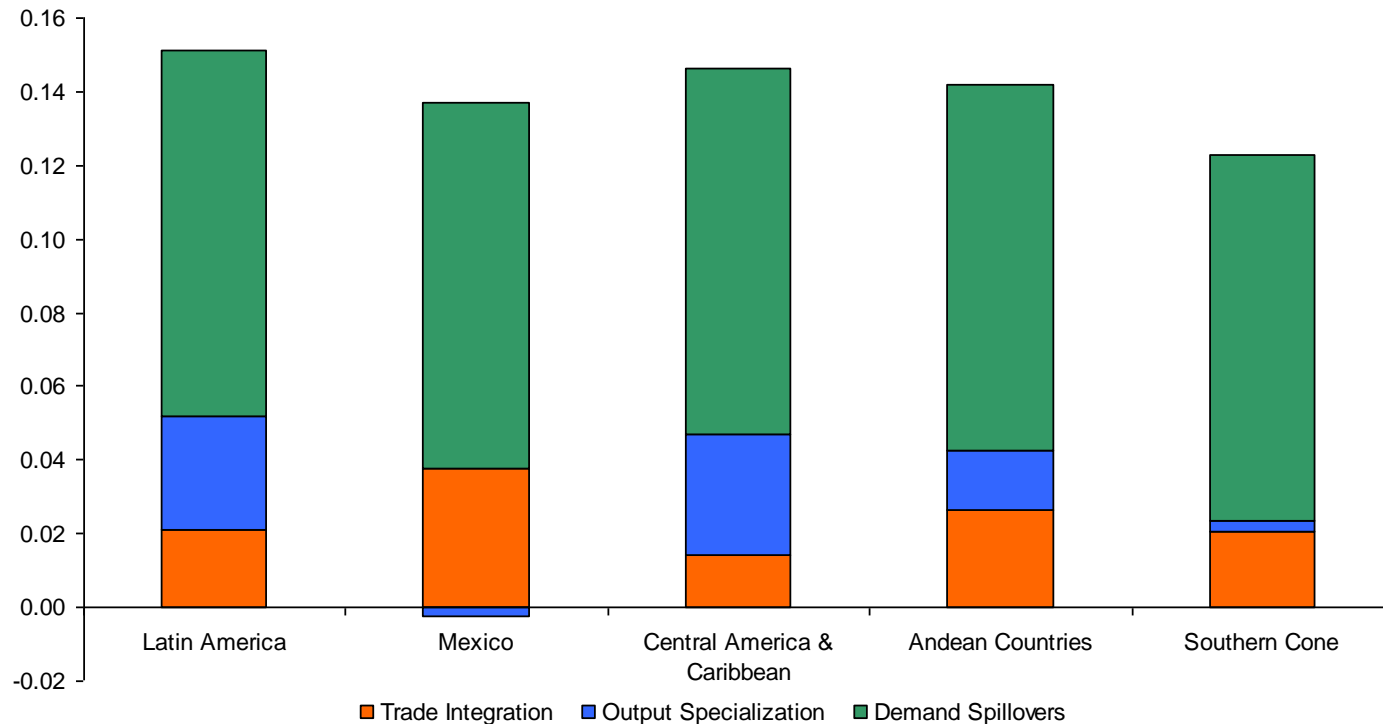
GIRFs for One Percent Increase in US GDP





Aggregate Channels

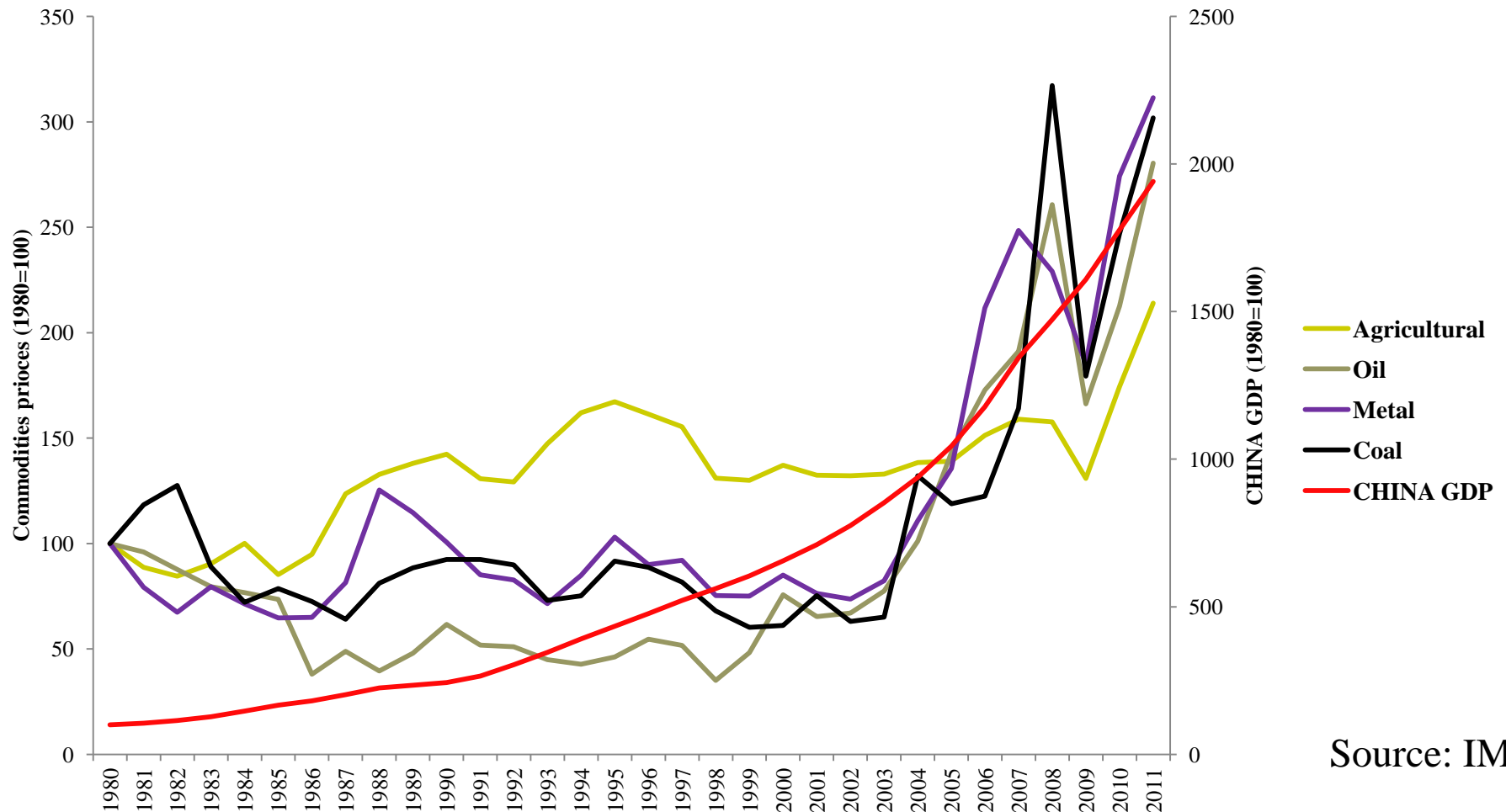
Demand externalities explain most of the rising output correlation between China and India and LAC



□ 2/3 of the correlations explained by demand externalities

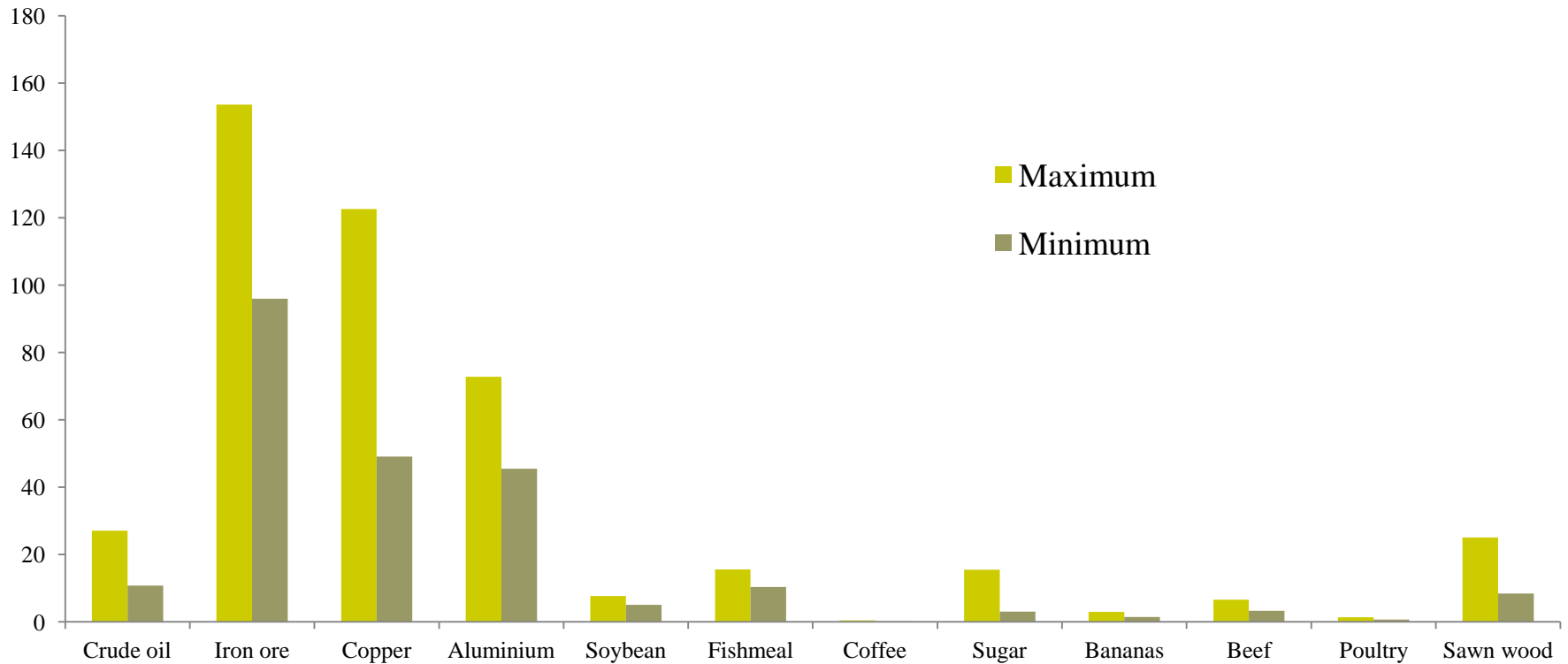
The effect of China's growth on commodity prices explain most of demand externalities

Commodities prices and China's GDP



Source: IMF

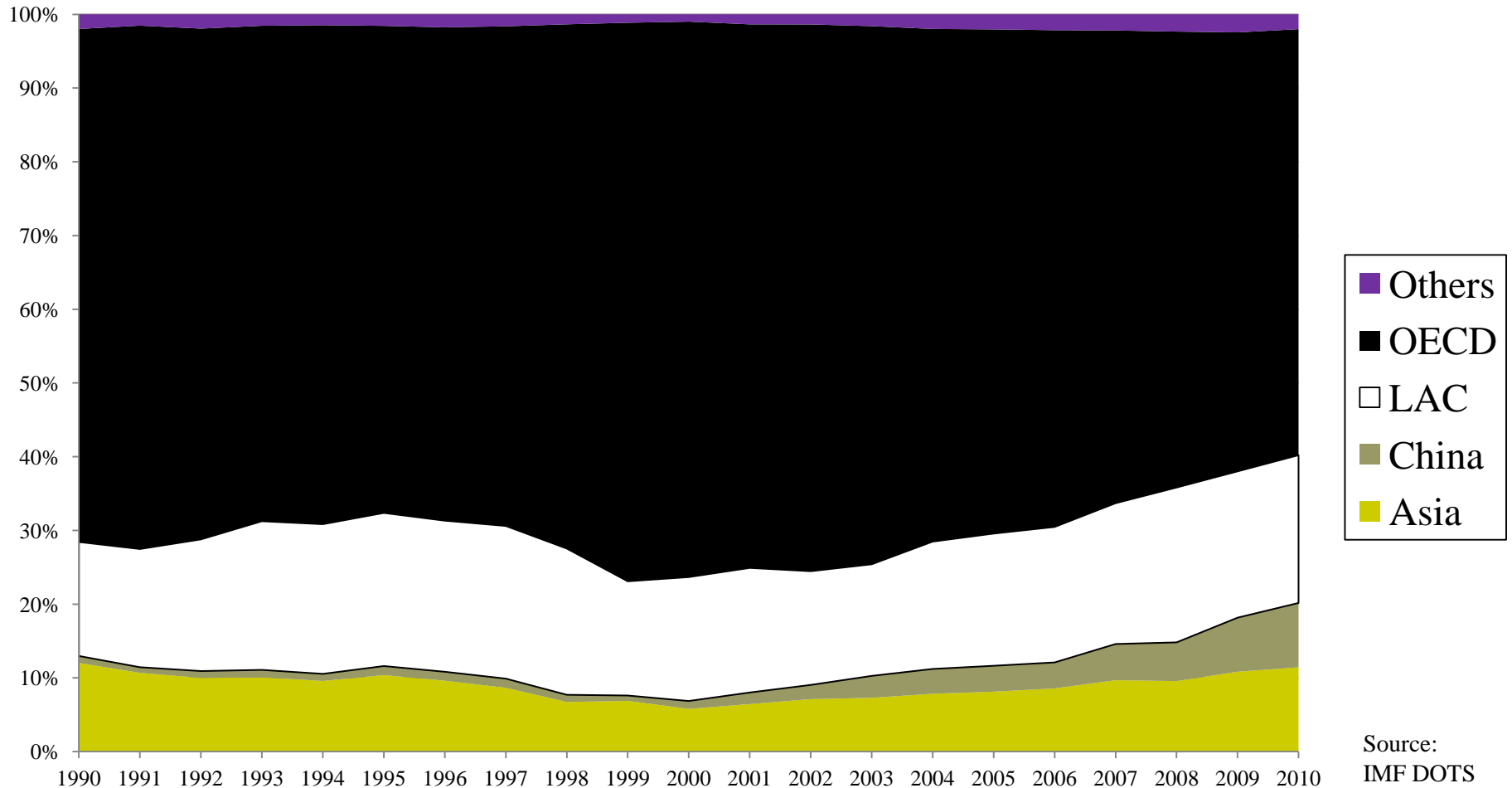
Estimated impact of Chinese demand 2002-2007 in world commodity prices in 2007 (in %)



*this measures how much higher the world price for the commodity was in 2007 that it would have been had demand in China increased at the same time as in the rest of the world between 2002-2007

Source:
Jenkins, 2011

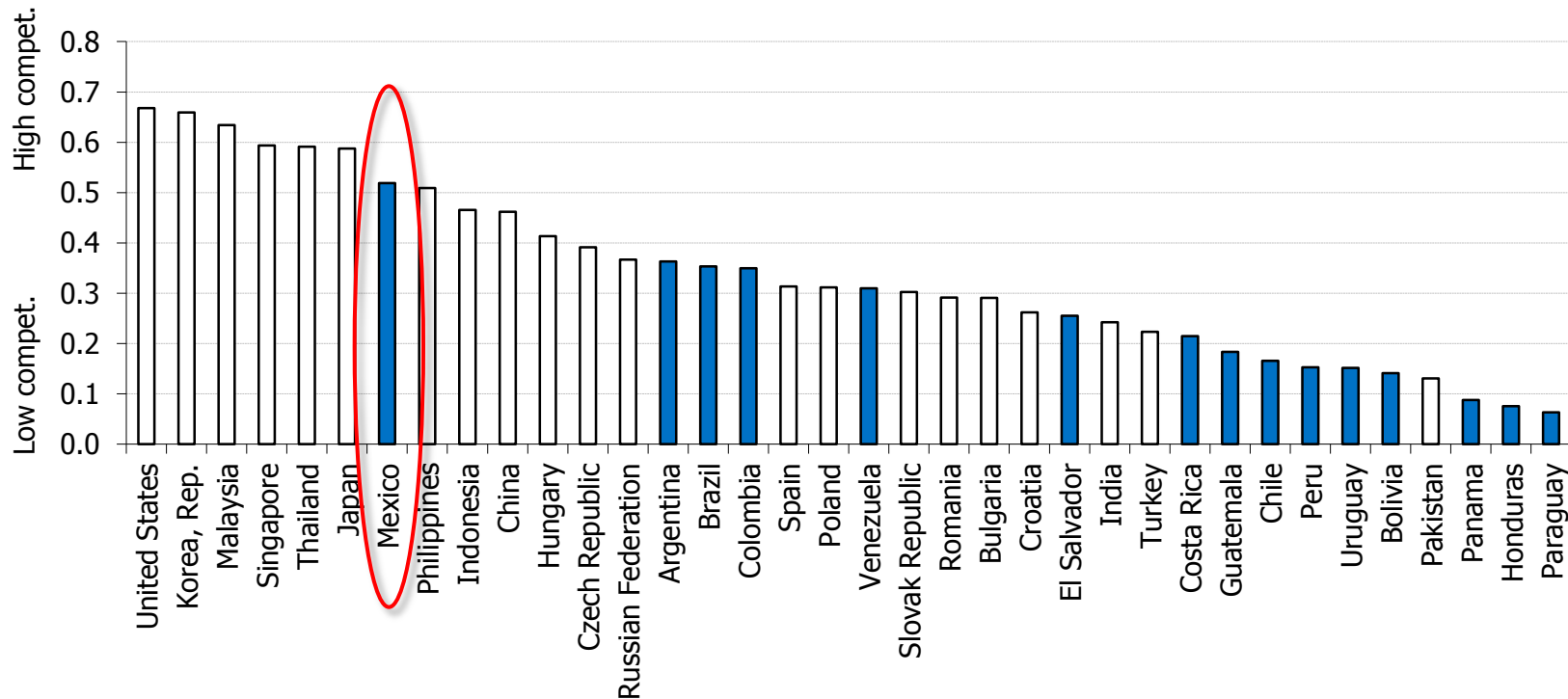
In addition China and Asia shares in LAC exports have been increasing



Source:
IMF DOTS

There are large direct trade opportunities between LAC and China

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

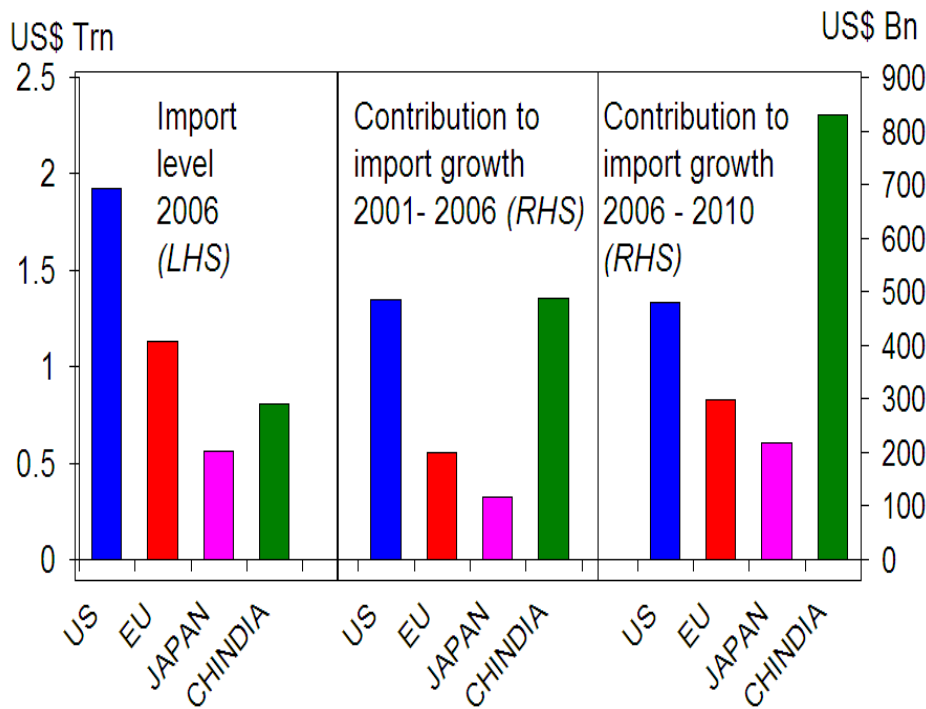


Note: Modified CS and CC coefficients calculated with exports of country i and imports of country j (China, India).

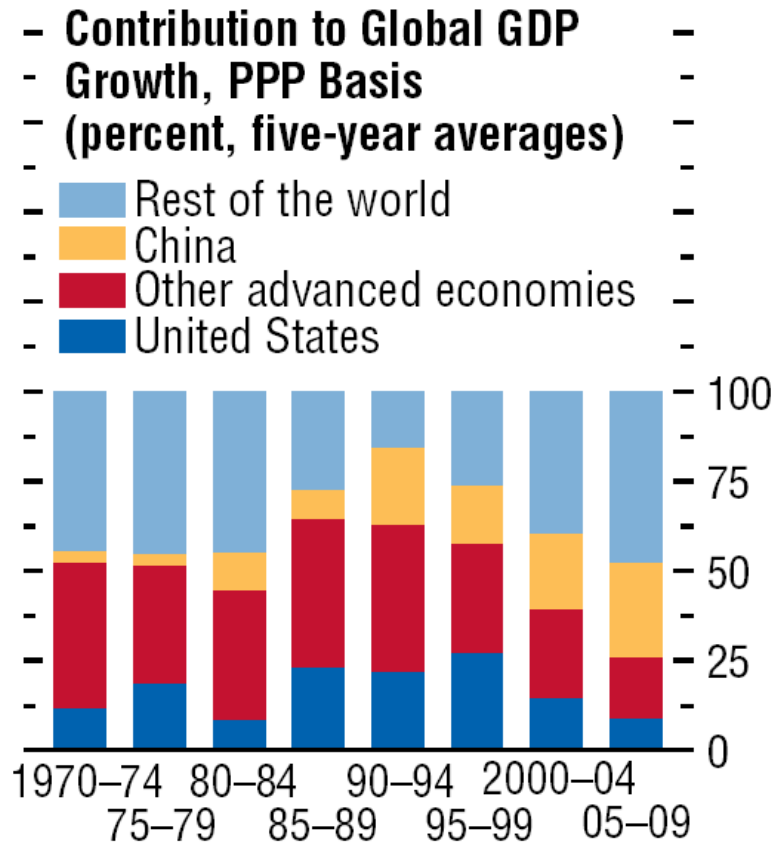
Sources: OECD Development Centre, 2008; based on WITS Database, 2007.

Further, there is the growing contribution of China to world GDP growth

Contributions to import growth



Source : Oxford Economics
2008

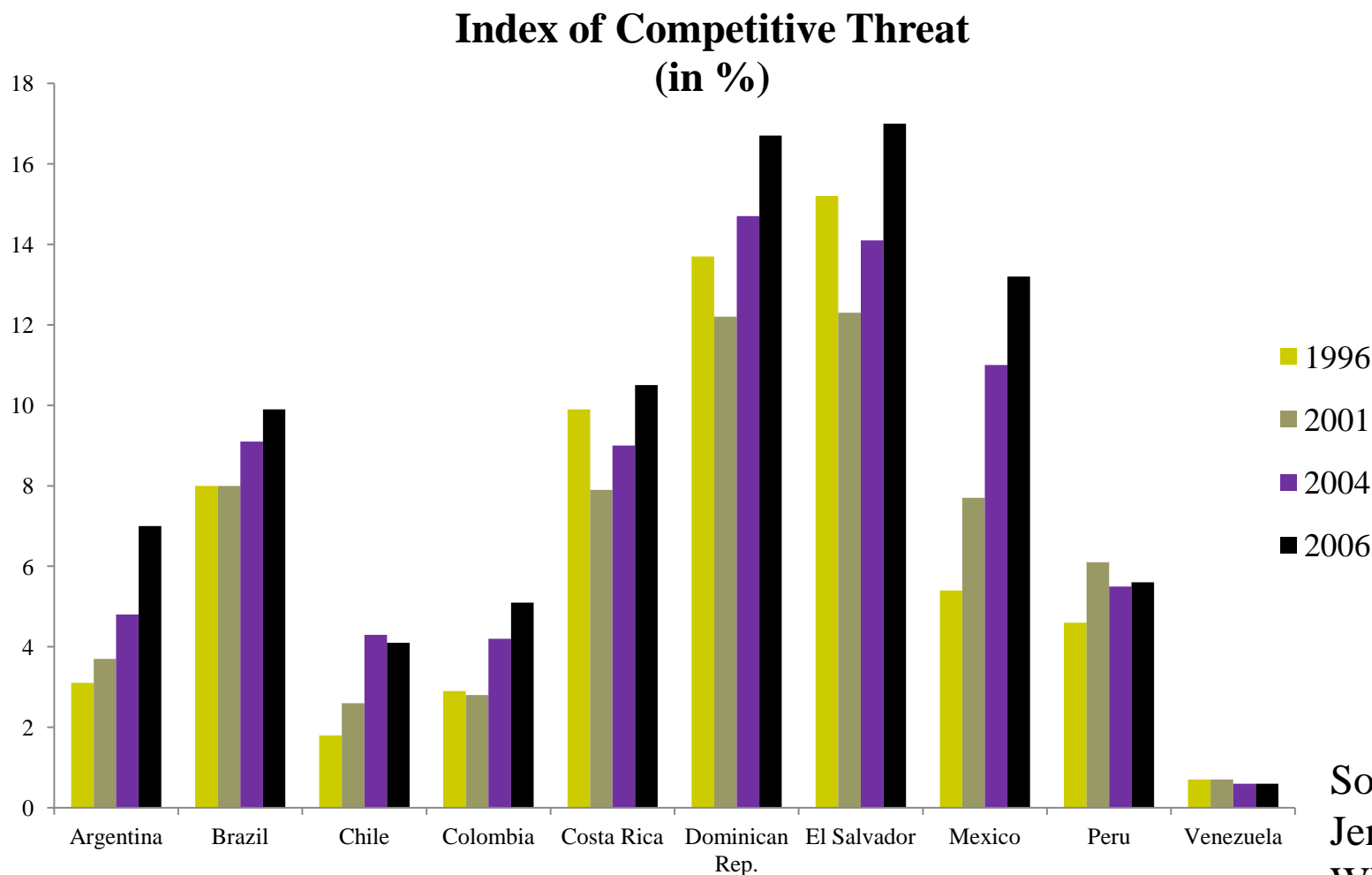


Source: IMF



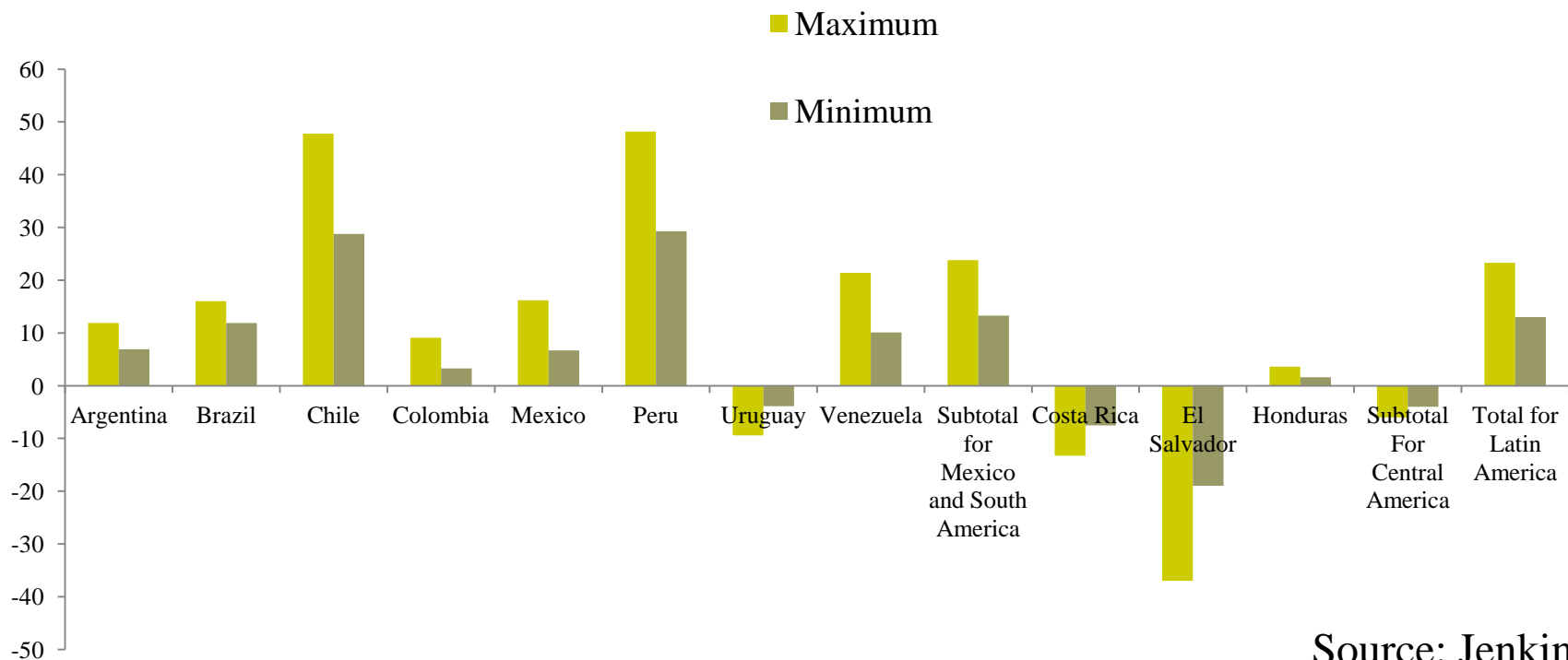
But not everybody wins:
disaggregating effects

China-LAC: Index of competitive threats in third markets



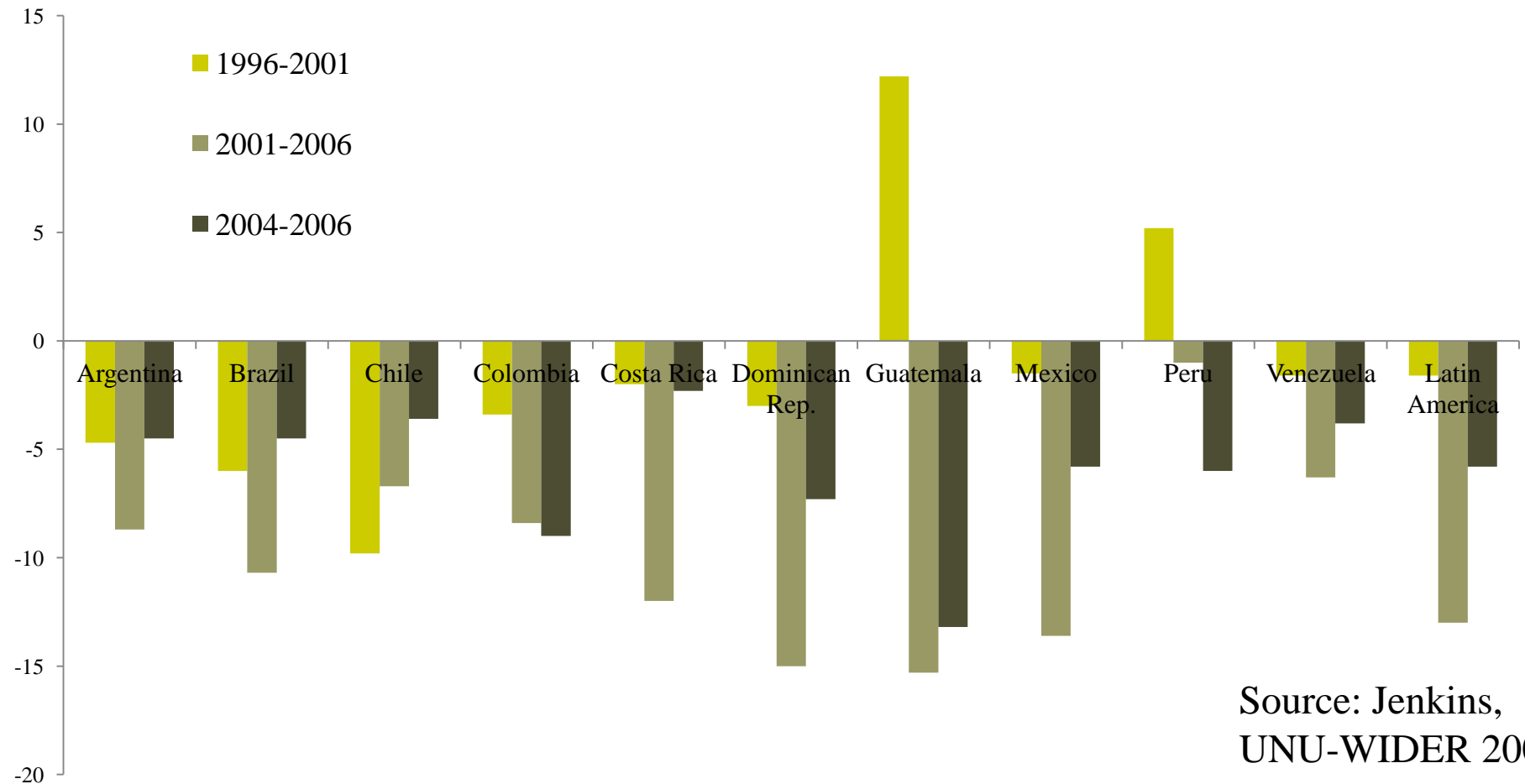
Source:
Jenkins, UNU-
WIDER 2008

China's estimated impact on the net export earnings of Latin American economies, 2007 (%)



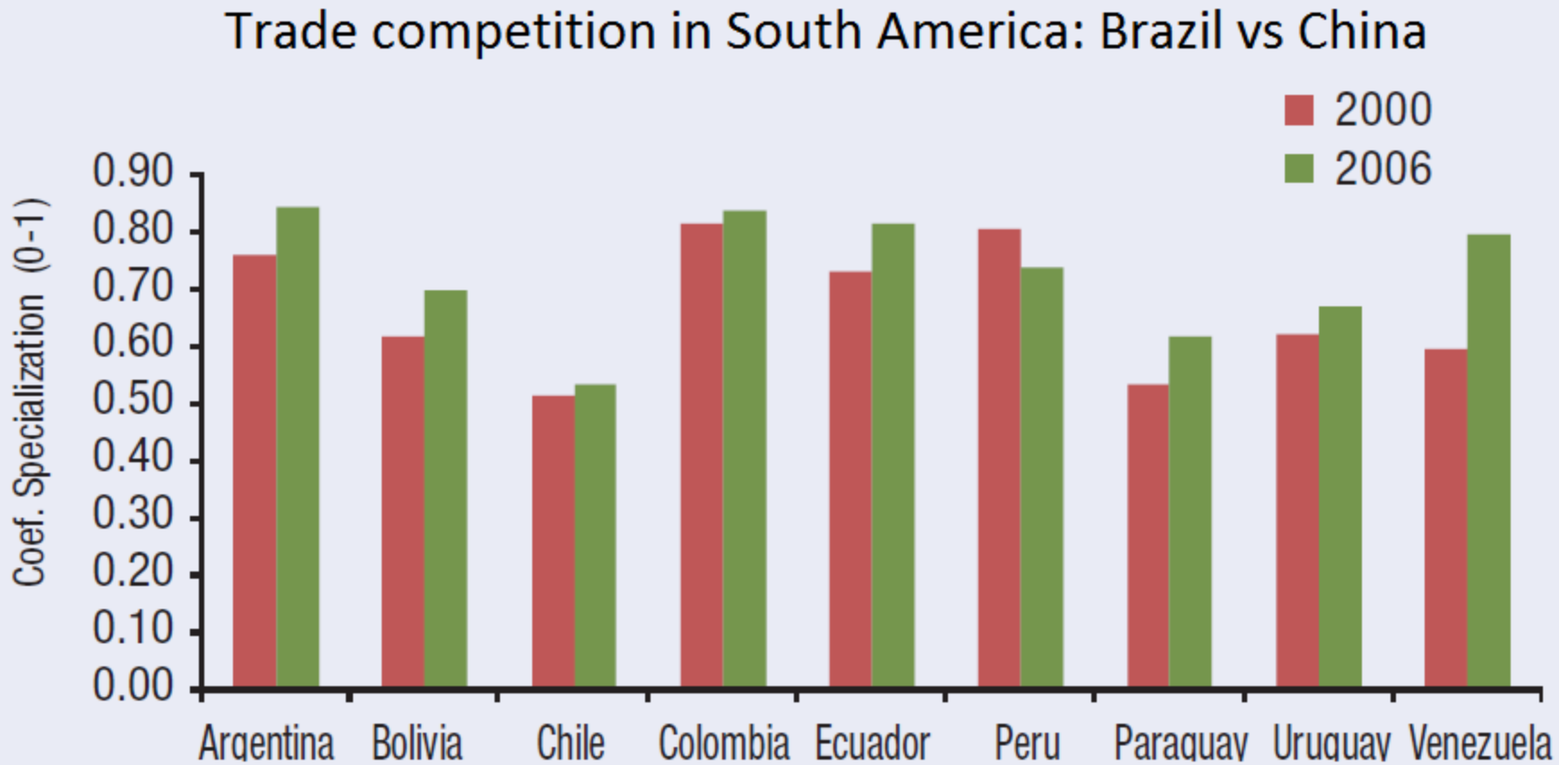
Source: Jenkins,
UNU-WIDER 2008

Loss of manufactured exports in the US to China (as % of country's total exports to the US)



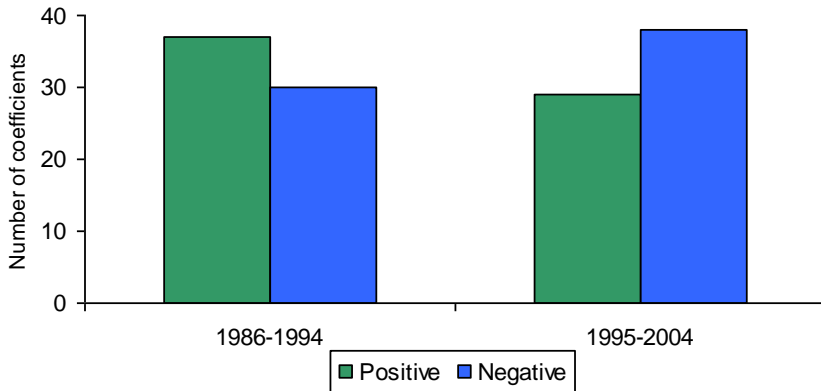
Source: Jenkins,
UNU-WIDER 2008

Trade competition in South America: Brazil vs China



Source: OECD, 2009

China's impact within industry on LAC exports to the world



□ Negative impact concentrated in

■ Textiles

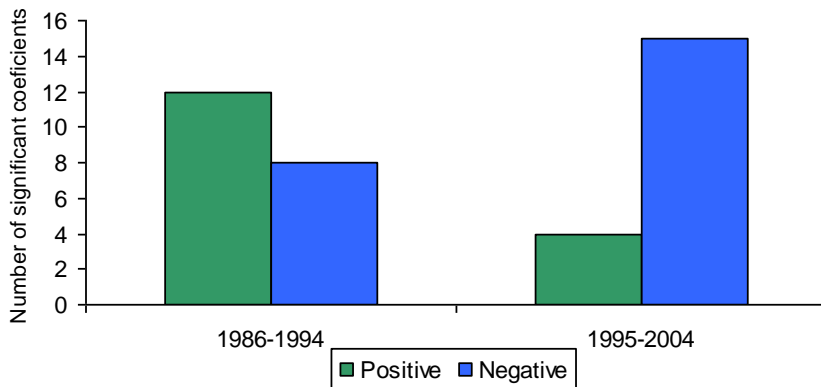
■ Telecommunication equipment

■ Electronic equipment

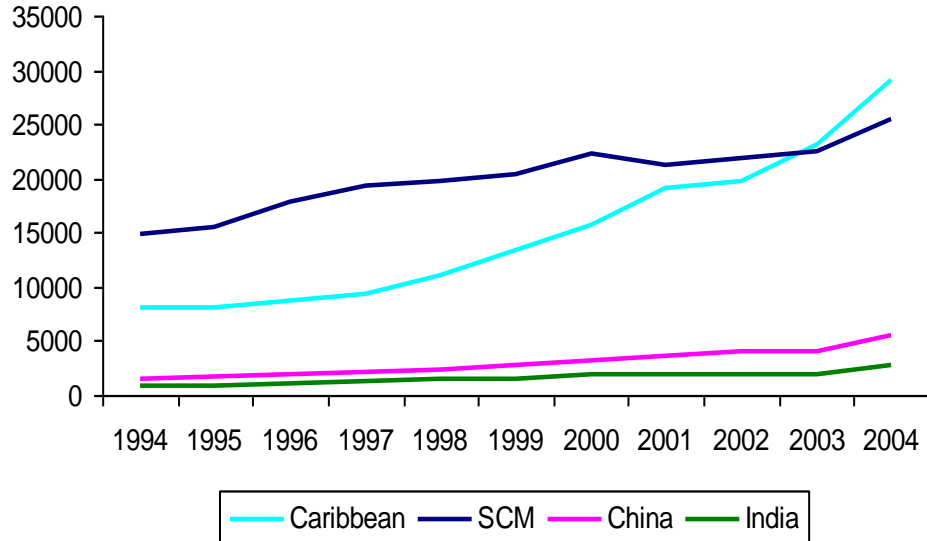
□ And also in a few countries

■ México

■ Central America



Exports of services to the US: China, India and LAC



□ Displacement by India only in some sub-sectors:

- Industrial engineering
- **Other business, professional services**
- Legal services
- Research & development and technical services

□ Positive impact on construction and engineering services

□ LAC is performing relatively well on :

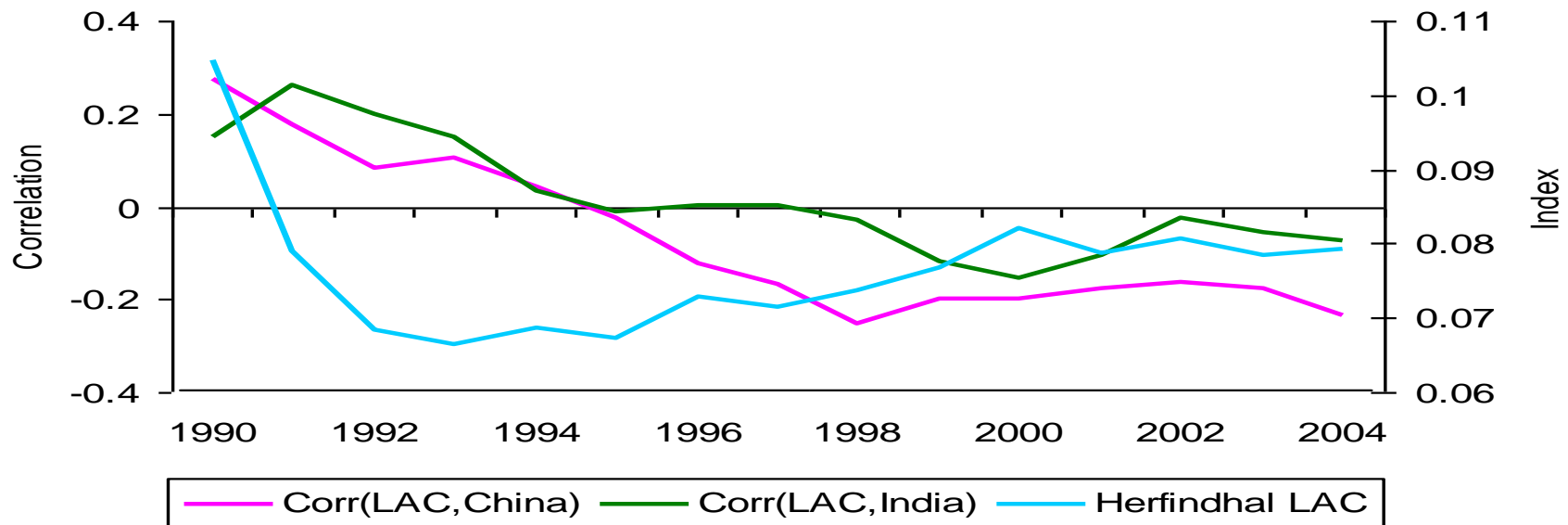
- Tourism
- Health



Industry and policy responses

LAC has been moving away from China and India's comparative advantage

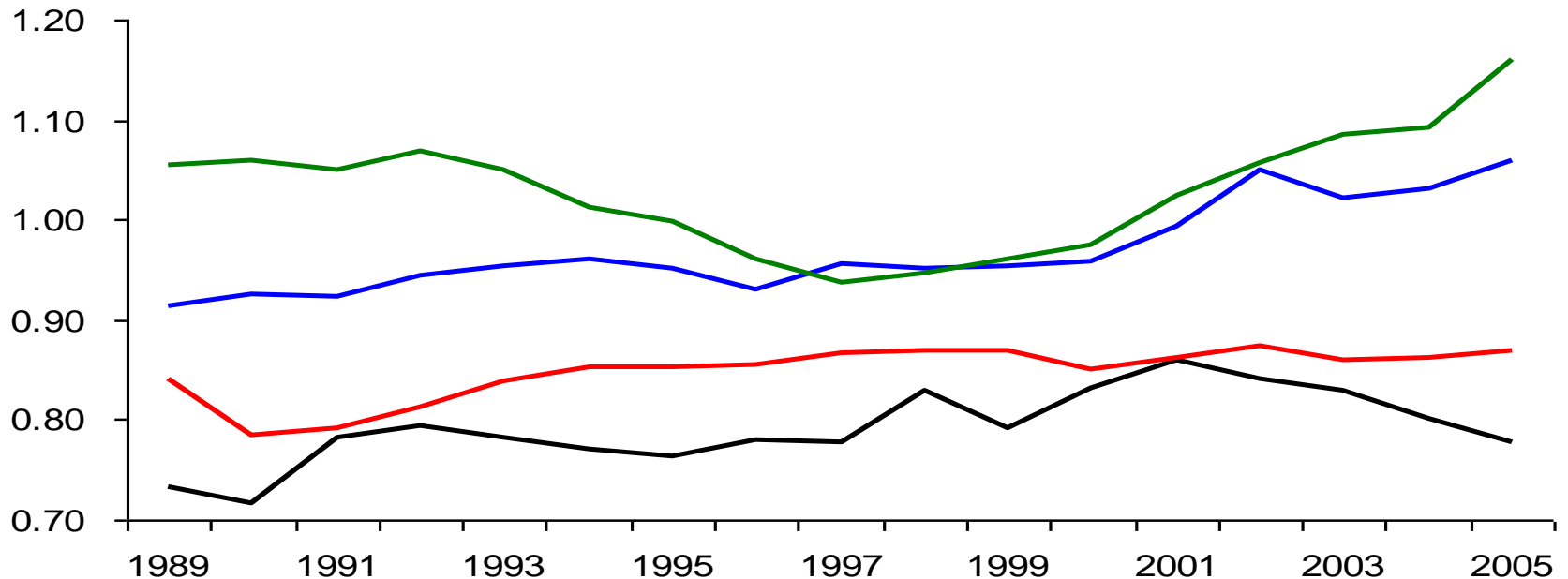
Correlations in revealed comparative advantage



- ❑ Specialization has been diverging, except for Mexico
- ❑ LAC specialization is shifting towards natural resources and scientific knowledge intensive products

Different industry adjustments in different countries

Relative exports prices of apparel, 1989-2004



— Haiti + Nicaragua

— Honduras + Guatemala + El Salvador

— Costa Rica + Dominican Rep

— Mexico

Policy implications

- Promote bilateral trade, FDI and innovations flows with China and India: trade and investment agreements!
- Further shift of LAC comparative advantage towards natural resources and scientific knowledge facilitated by:
 - Sound natural resource management and promotion of backward and forward linkages
 - Improving the quality of infrastructure, skills and R&D to shift specialization towards goods and services with higher technological content
- Protectionist forces should be resisted:
 - Governments should give more weight to consumers and users of imported intermediate goods in their trade policy
 - Help restructuring of adversely affected sectors

THE END

