



## LAC response to the growth of China and India



Daniel Lederman, Marcelo Olarreaga, Guillermo Perry,

Office of the Chief Economist - Latin America and the Caribbean



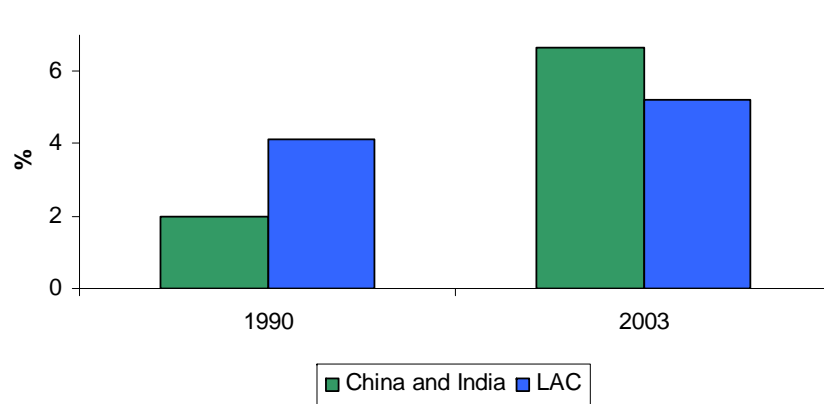
# This presentation

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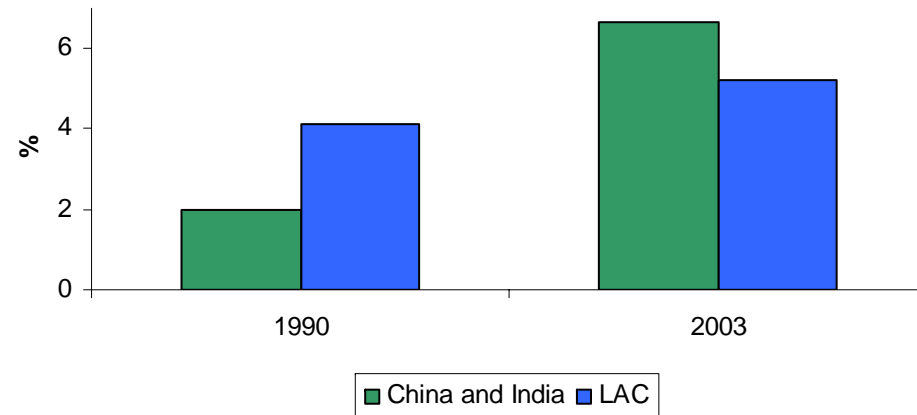
- 1) China and India's growing presence relative to LAC
- 2) Pain in some industries and countries
- 3) Though some aggregate gains across sectors
- 4) Industry and Government adjustments
- 5) Policy implications

# China and India's growing presence relative to LAC

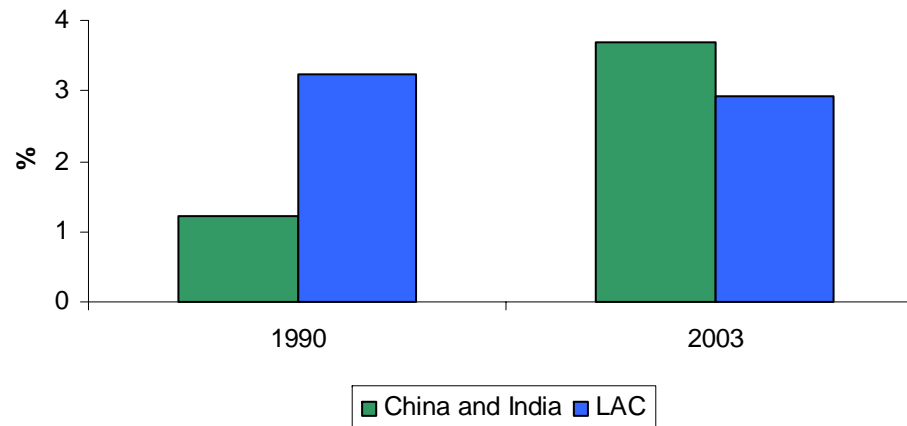
## Share in world GDP



## Share in world trade merchandise

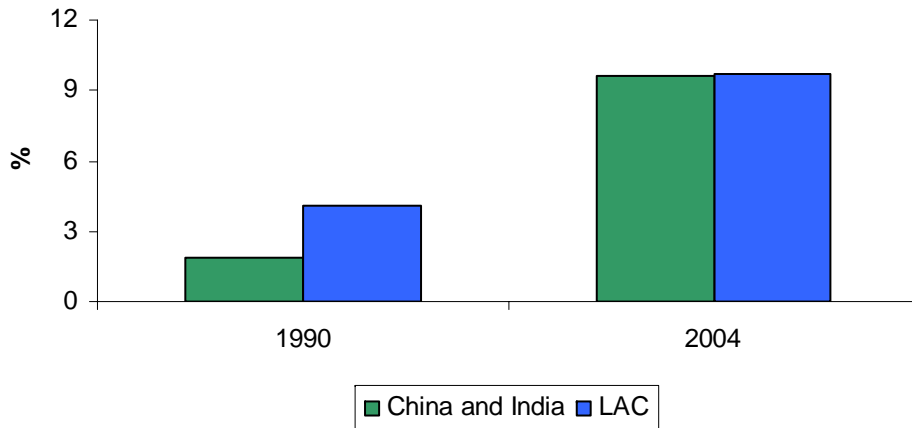


## Share in world services exports

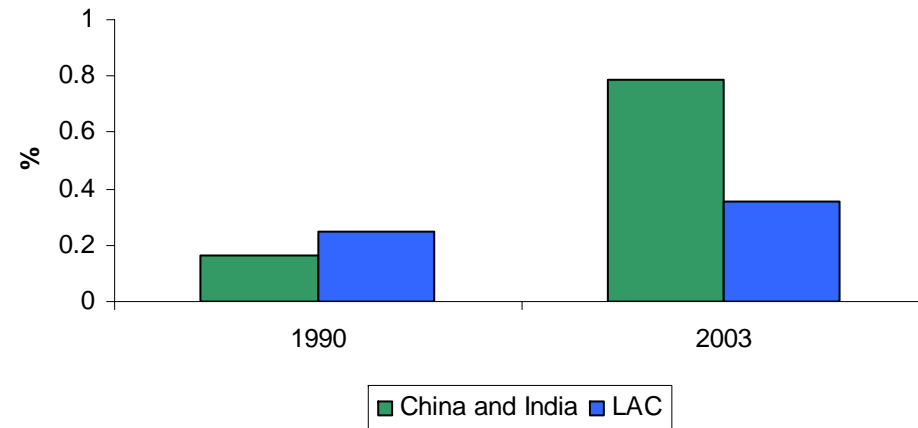


# China and India's growing presence relative to LAC

Share in world FDI net inflows



Share in US granted patents to non residents





# Pain in some industries and countries

- Exports of some LAC manufacturing industries
- Exports of some services
- FDI inflows in manufacturing in some countries

# China's impact within industries on some LAC manufacturing exports

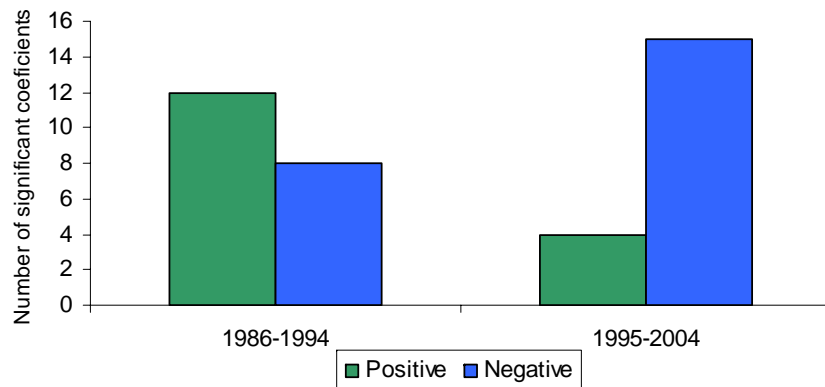
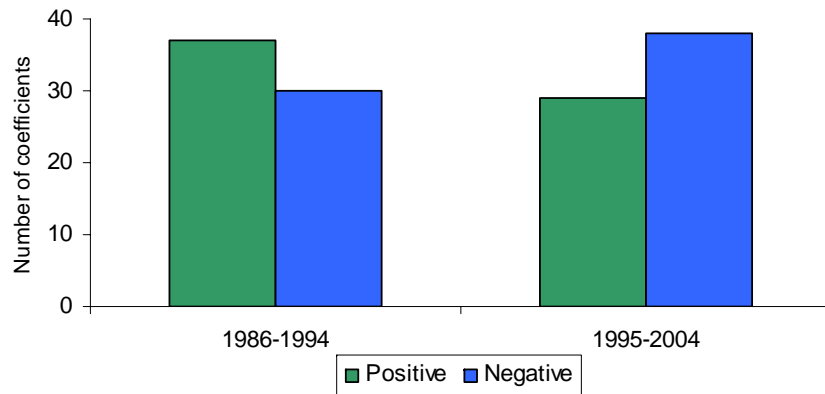
Period	Impact of China on LAC manufacturing exports
Argentina	
1995-2000	-0.004
2000-2004	-0.011
Brazil	
1995-2000	-0.007
2000-2004	-0.014
Chile	
1995-2000	-0.008
2000-2004	-0.023
México	
1995-2000	-0.012
2000-2004	-0.031

Source: Hanson and Robertson (2006)

W7

Significado Coeficientes: Mexico 3.1% menos por Crecimiento Ch e India?  
Ecuaciones (controles)?  
No contradice vision positiva efecto global?  
WB50006, 09/13/2006

# 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

■ To a lesser extent, Central America

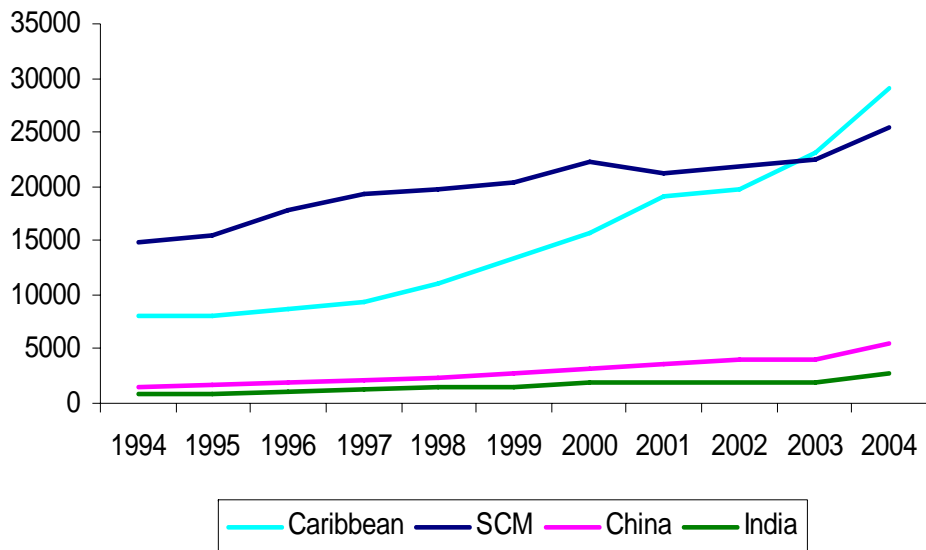
W8

Esto no contradice que la correlacion de especializacion ha caido?

Cuanto es el # total de coeficientes? (seria mejor como %)

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# 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

W9

Cual es la ecuacion basica (controles)?

Que tan importante es el desplazamiento en Other business?

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# Displacement of FDI by China in manufacturing sectors in Central America

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## China and India Effects across LAC Sub Regions

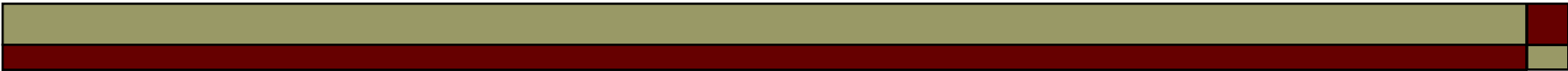
	China's Effect	India's Effect
Central American Countries	-0.33 (0.03)**	0.86 (0.00)**
Andean Countries	0.07 (0.73)	-0.03 (0.94)
Southern Cone's Countries	0.24 (0.12)	-0.37 (0.13)

W10

Significado Coeficientes: FDI en CA 33% menor debido a CH&I?!!!!

Ecuacion? Controles?

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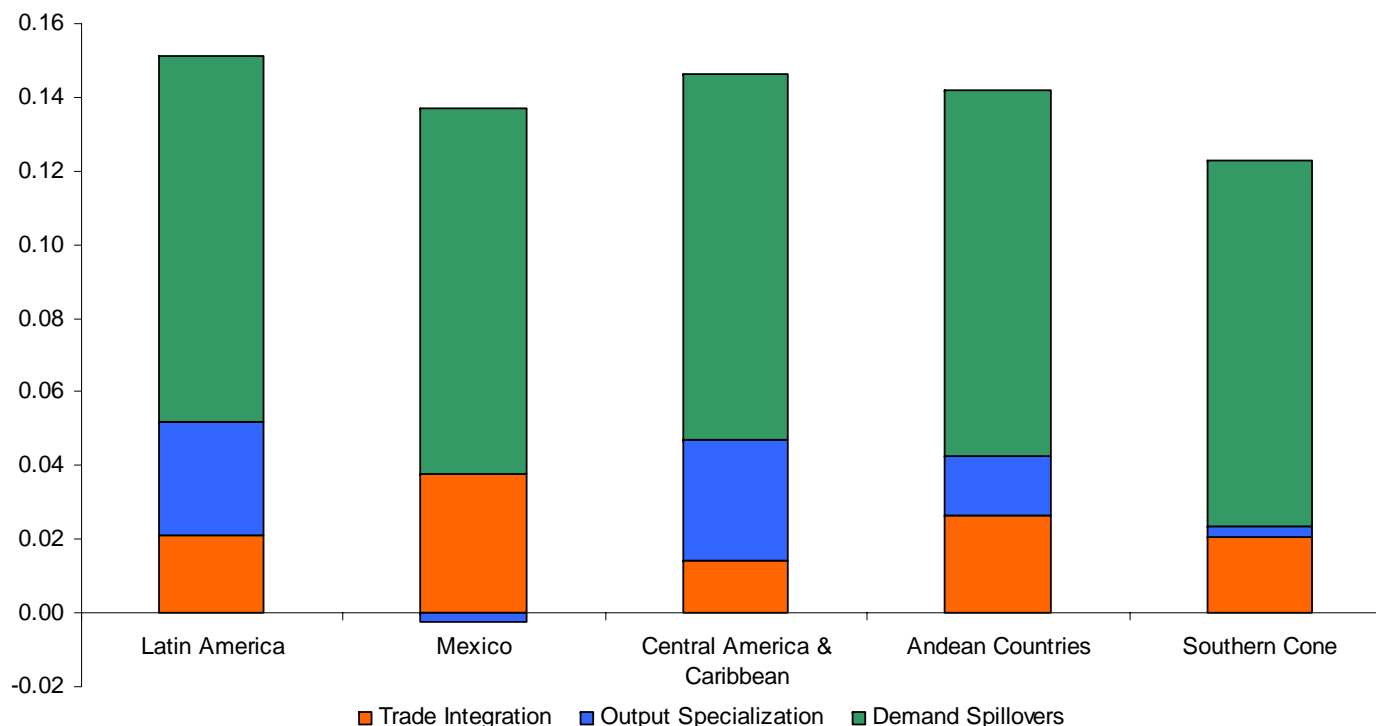
But it is not a zero sum game:  
some aggregate gains across sectors

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- Correlation of output in South America
- Growing opportunities in China and India's internal markets
- Complementarities in exports to third markets
- Complementarities in growing FDI
- Complementarities in innovation

# Growing correlation between China and India and LAC output in South America

Explaining the rising output correlation between LAC and China



- 2/3 of the correlations explained by demand externalities
- Declining correlation in CAC and stable in México

W3

Podemos quitar CA?

Trade integration es bilateral?

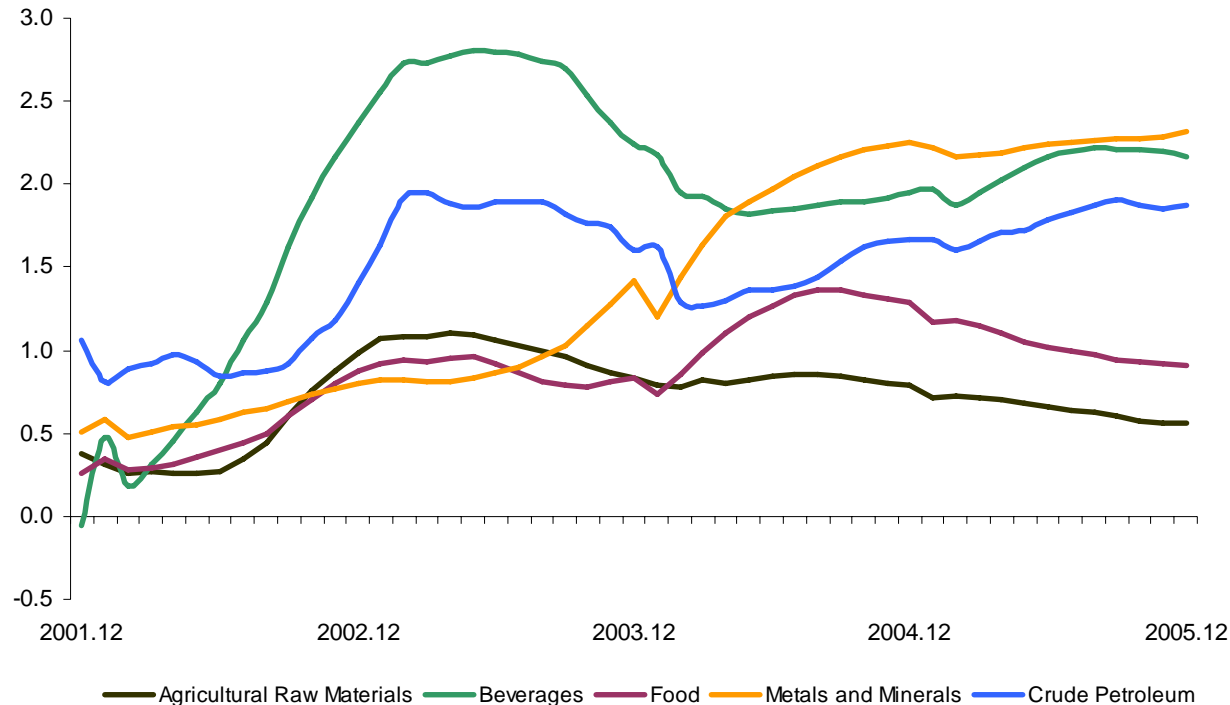
Que es output specialization?

Como se define demand spillovers?

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# Demand externalities are partly explained by China's impact on commodity markets

Industrial production in China vs. World commodity prices indices



- Growing statistical significance specially from 2002 onwards

W11

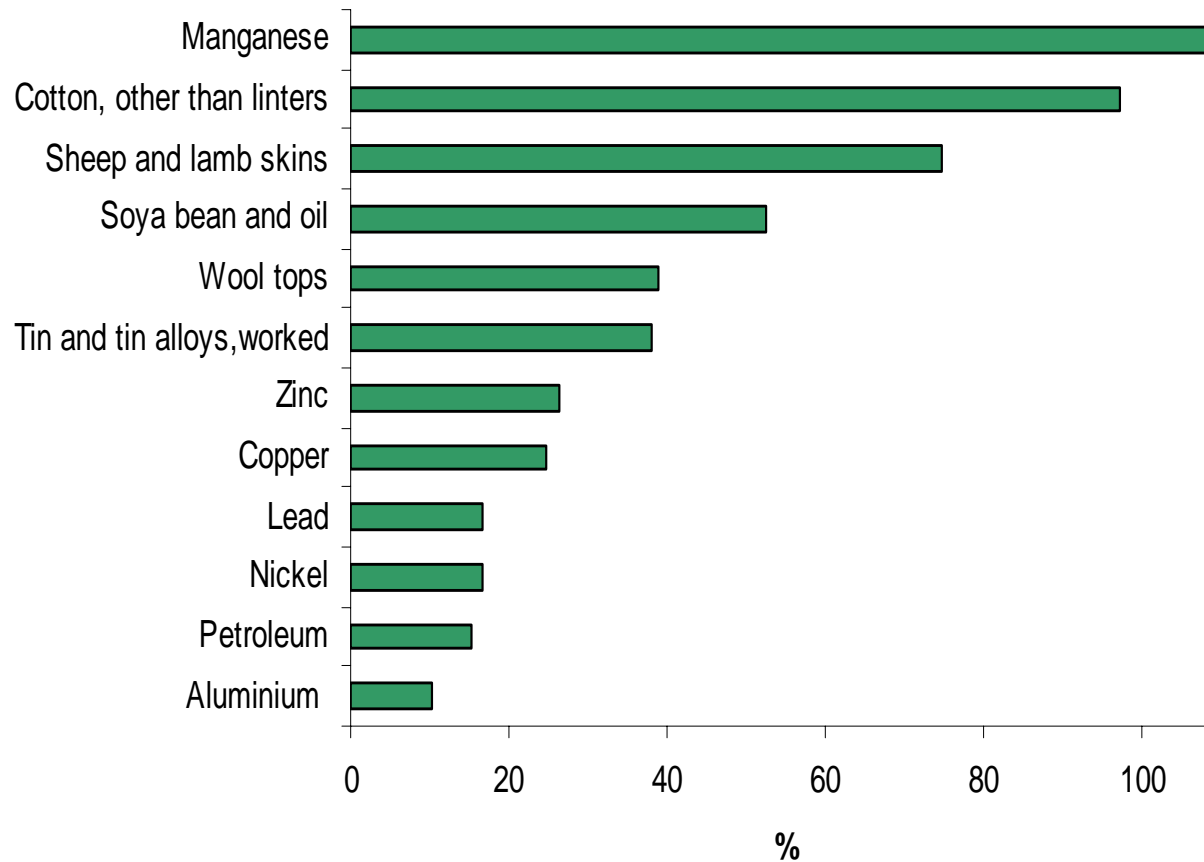
Que significa un coeficiente de 2.0?

Ecuacion (controles)?

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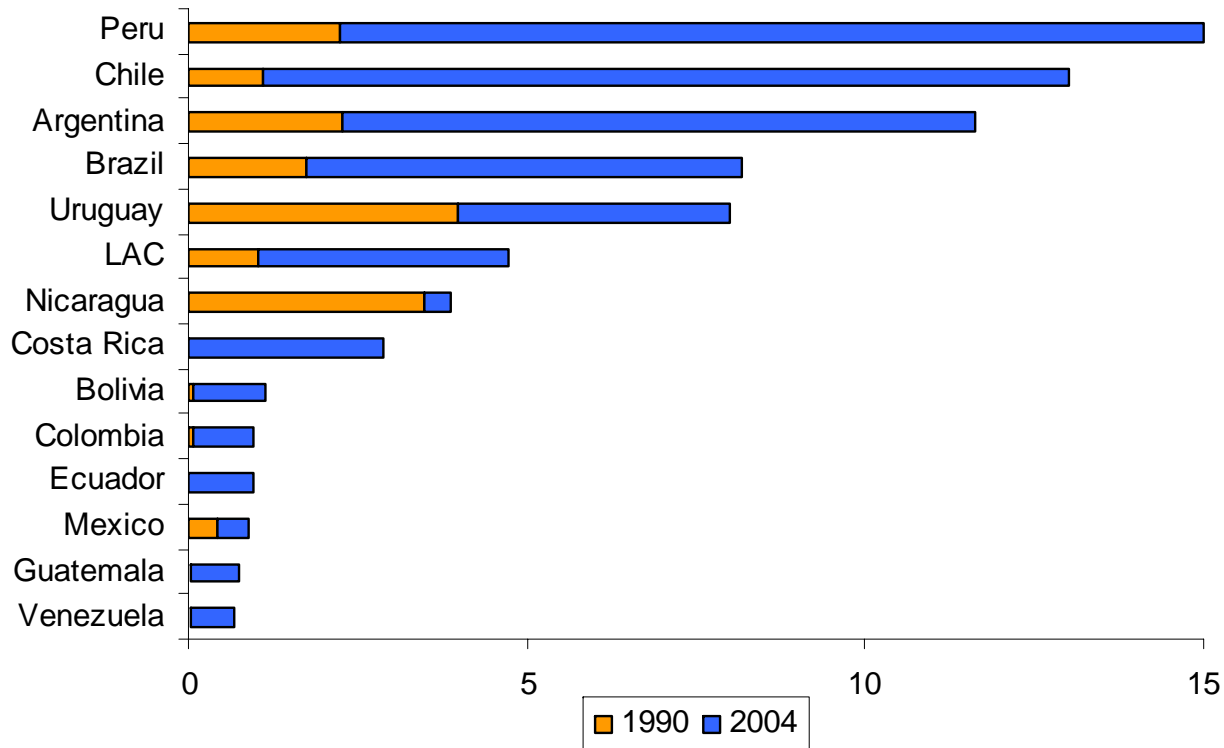
# Large contribution of China and India to the growth in world demand for commodities

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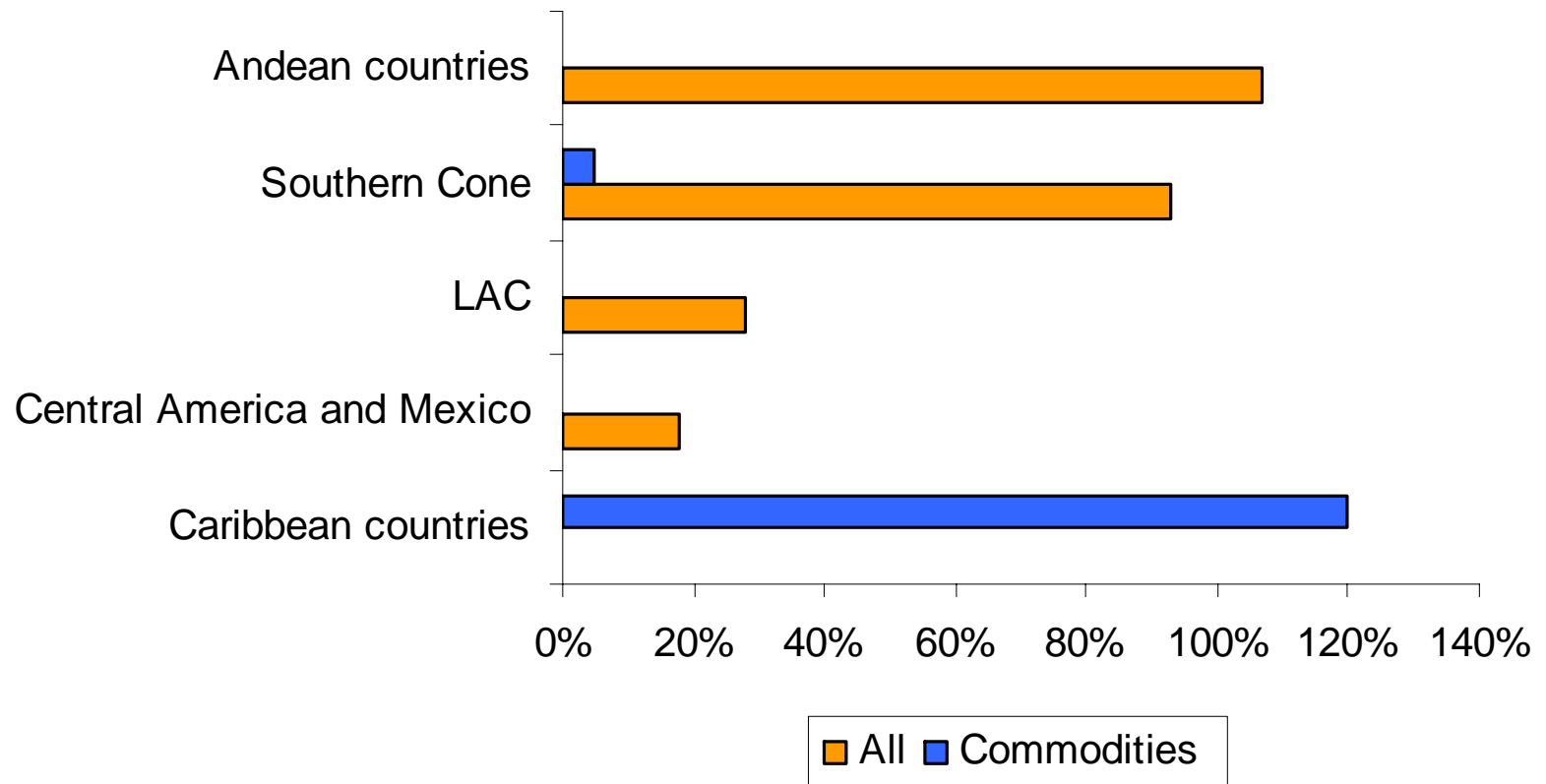
# Large increases of LAC exports to China and India

Share of LAC exports to China and India



# Though opportunities have not been fully tapped

Unsatisfied Chinese demand for LAC products, as share of bilateral LAC exports



## Trade: evidence of complementarities in third markets with China, some substitutability with India

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Growth in LAC exports to third markets associated with China and India's growing presence in world markets (as a share of LAC exports in 2004)

LAC	China	India
China/India exports to third countries	32%	10%
China/India imports from third countries	0%	-6%
China/India exports to LAC	7%	-10%
China/India imports from LAC	7%	2%

W12

Esto contradice Slide 6 o esta domiunado por Commodities?

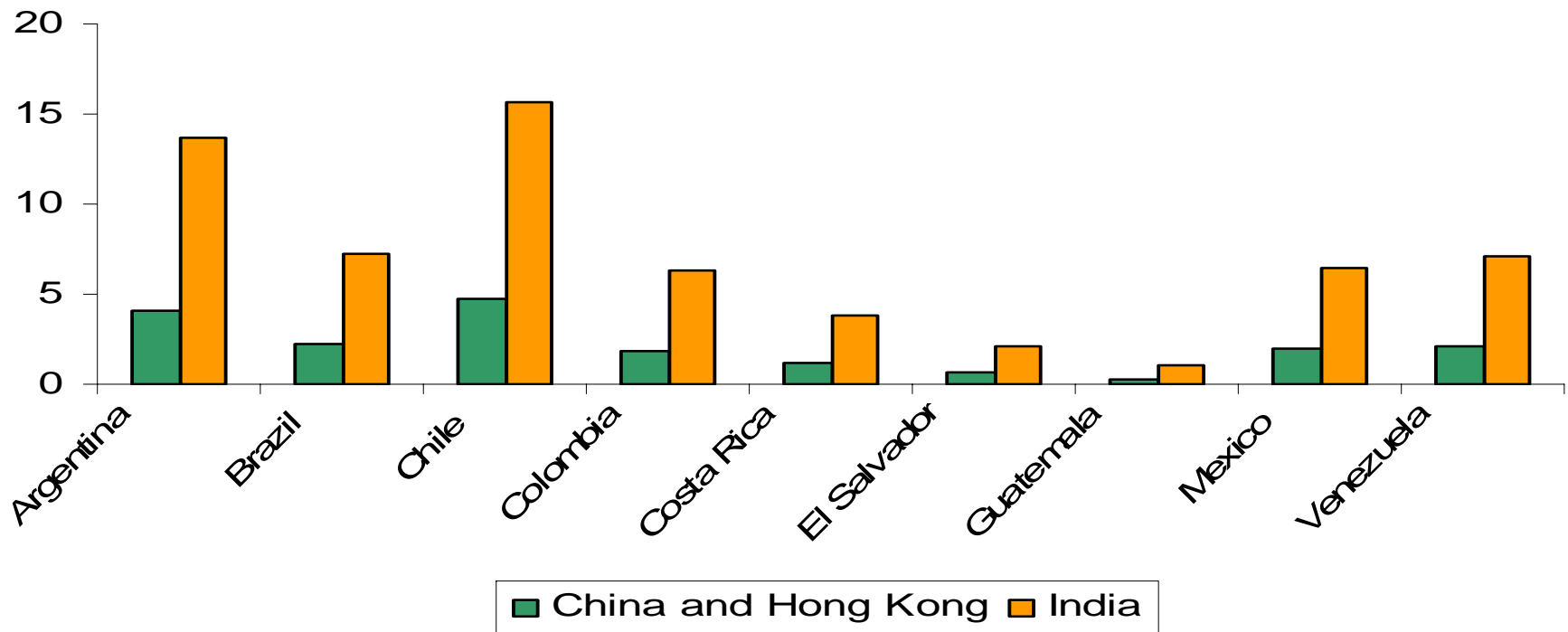
Que significa el 32%?

Controles?

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# No aggregate evidence of displacement of inflows of OECD FDI into LAC by China and India

OECD Stocks of FDI in LAC relative to their stock of FDI in China and India, controlling for host country economic size, 2003



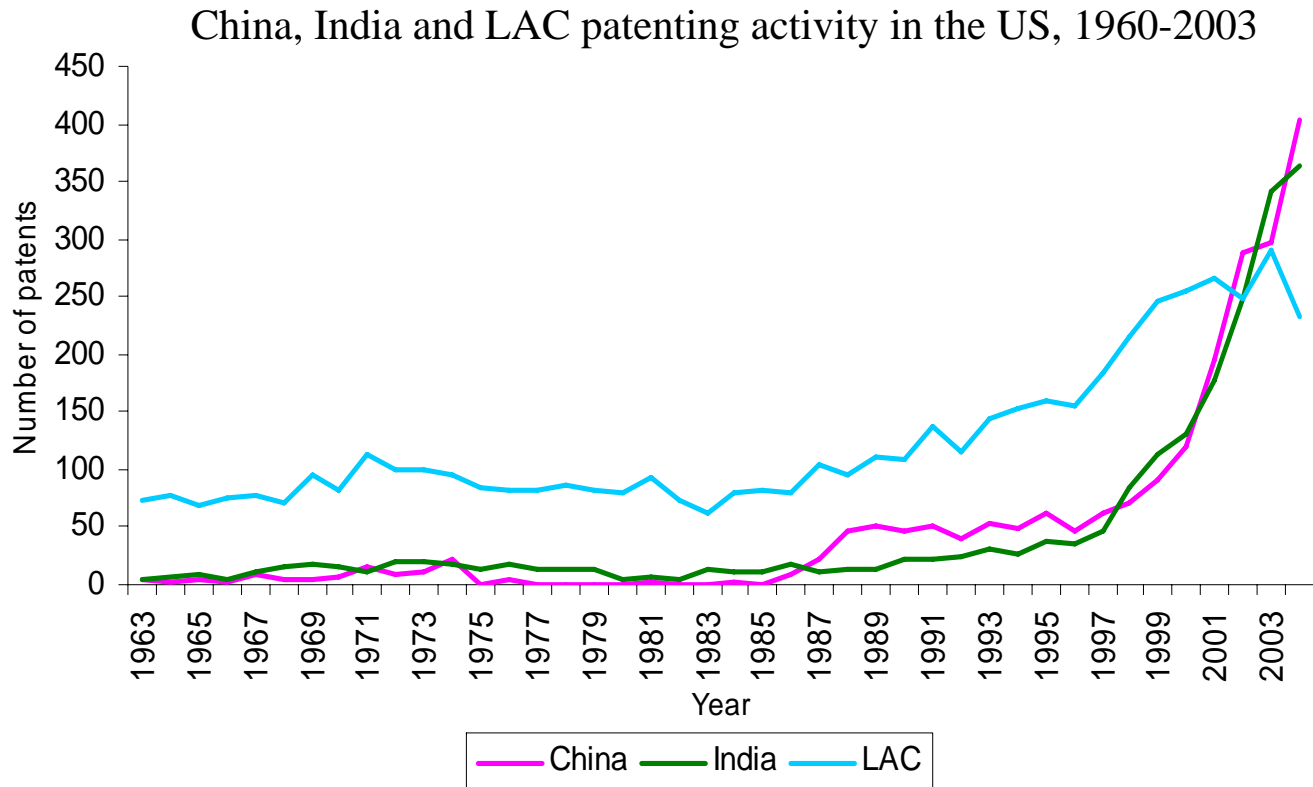
W13

Contradice slide arriba.

Cual es el test? Ecuacion (controles)

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# No evidence of displacement of LAC innovation by China and India



No contemporaneous effect of China and India's growth either way; positive effect of past Indian innovations

Probably another partially unexploited opportunity (especially with India)

W14

Ecuacion (controles)?

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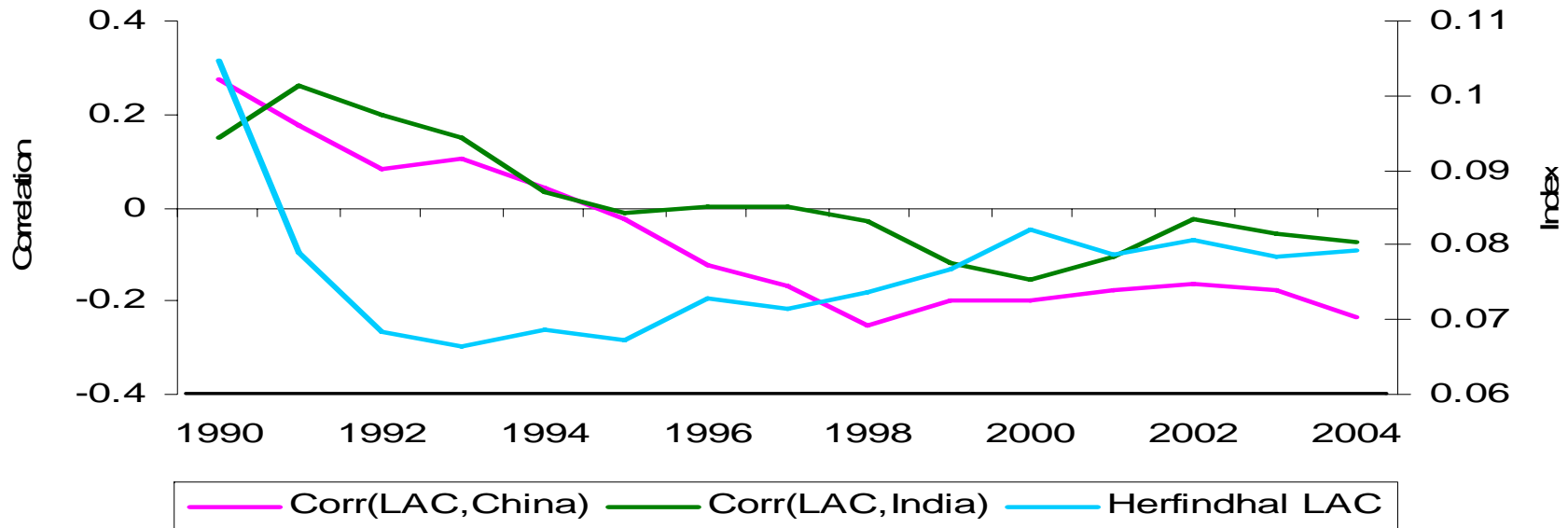
# INDUSTRY AND GOVERNMENT ADJUSTMENTS

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- Evolution of comparative advantage
- Heterogeneity in quality adjustments
- Protectionism at the border and behind the border

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

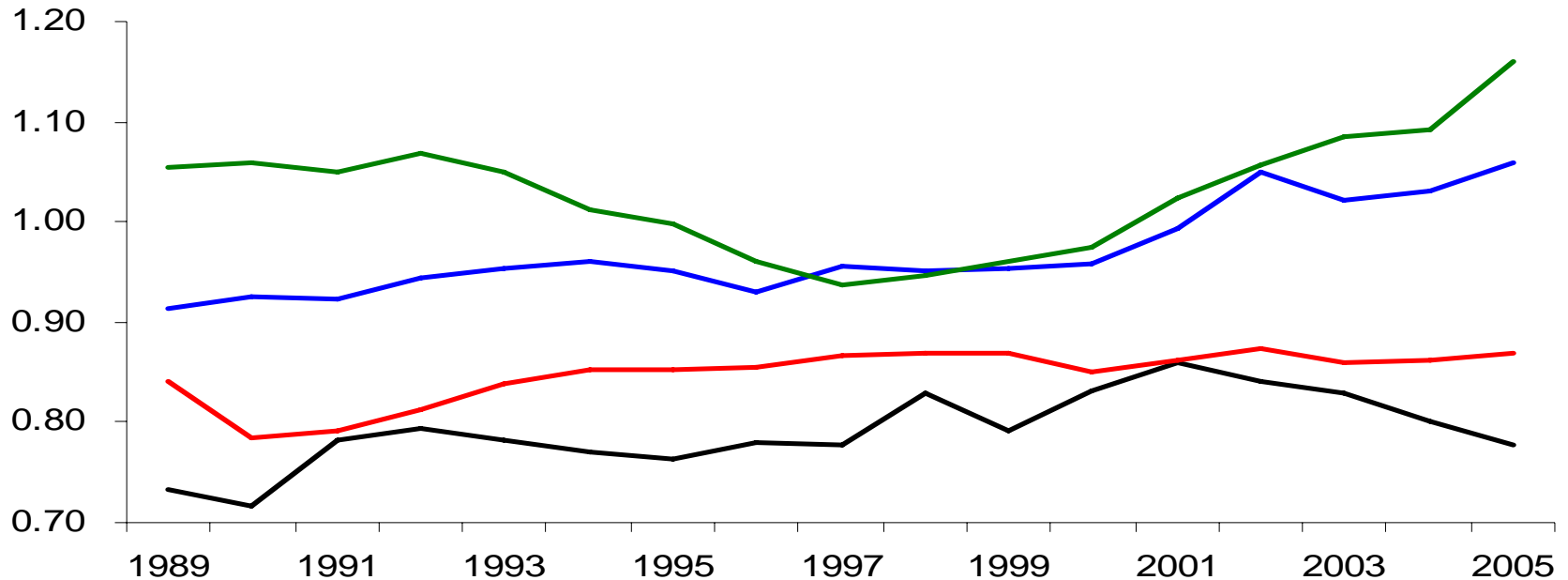
Correlations in revealed comparative advantage



- ❑ 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



# Summary Conclusions

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- Evidence of negative impact of China and India's growth within some manufacturing industries in some countries (Mexico and Central America) and some service sectors
- But positive direct and indirect demand impacts across industries : not a zero sum game. Divergence in specialization trends, except in Mexico
- Aggregate net gains in trade, FDI and innovation for South America, though some missed opportunities
- Required industry adjustments that need to be accompanied by sound government policies

# THE END

