

**Latin America and the Emergence of Asia: Current and Prospective  
Economic Implications**

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**Summary**

No region of the world will remain immune to the rise of China and India. This is already clear regarding China, much more so than India. In Latin America the economic impacts of the emergence of China and India, though they vary from country to country, have been limited so far in aggregate terms and have been felt primarily in the realm of trade. These impacts may be summarized as follows:

- for the time being, the worries and expectations of Latin American policy makers and economic agents are focused on China. India is still a very minor partner in the region, in terms of both trade and investment;
- trade has been the primary conduit for the effects of the emergence of the two Asian countries on the region; these effects have been conveyed through: (i) growth in bilateral trade flows; (ii) increased prices for commodities exported by Latin American countries; and (iii) growing competition faced by Latin American producers and exporters of manufactured goods, both domestically and in third markets;

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- the emergence of China has had an impact primarily on commodity-exporting countries that have a diversified industrial base capable of producing exports for both the region itself and other parts of the world. These countries—Brazil, Argentina, and Mexico—are feeling the effects of the Chinese emergence via the three aforementioned channels;
- in bilateral relations with China, the dynamism of Latin American exports remains concentrated in a small number of primary products; China, on the other hand, is able to compete in both Latin American and third markets vis-à-vis a growing range of manufactured goods produced and exported by the countries of the region;
- so far, the impact of Chinese competition on production and employment levels in Latin America seems to have effected primarily labor-intensive sectors tied to the electronics supply chain in Mexico and Central America;
- direct investment flows have not yet been a significant conduit of the effects of the Asian emergence on the economies of Latin America; and,
- to date, the policies proposed by Latin American countries in response to the challenge of China have involved measures related mainly to commerce, since the effects of the Chinese emergence on the region have been felt primarily through trade. Two clear lines of response stand out among Latin American countries: on the one hand, contingent protection measures (essentially antidumping) applied to Chinese imports; on the other, the negotiation of preferential trade agreements with China.

The impacts already being felt today are the result of developments that are unlikely to be reversed in the coming years, although the speed and intensity with which they will be felt in the short term depends on variables beyond the control of the countries of the region. Further impacts that have not yet emerged or that have

heretofore occurred on a small scale are sure to gain importance in the coming years: for example, the role of India as an exporter of goods and labor-intensive services and the growth of Chinese and Indian investments in the region.

The impact of this set of developments on flows of trade and investment involving Latin America, and on the formation of interests in the realm of trade negotiation, can be summarized as follows:

- China emerges as the region's main competitor vis-à-vis products manufactured in Latin America and third markets, reducing the relevance of producers in other regions—most notably the United States and European Union—as the region's competitors;
- China and India—and by extension, Asia—have become the major markets for commodity producers in the region, reducing the importance of the United States and the European Union in these sectors as well.
- the political viability of trade agreements has increased on two fronts: on the one hand, between South American countries possessing a diversified industrial base (Brazil and Argentina) and, on the other, between the United States and the European Union; this has occurred because there is less resistance coming from the South American industrial sector and because the ambitions of agribusiness have diminished vis-à-vis access to US and European markets—again, now seen as less relevant;
- Latin American countries for whom the region represents an important export market—especially for manufactured goods—now have renewed incentive to “push” an agenda for integration, geared not only toward the establishment of a preferential trading area, but also toward thematic areas significant from the perspective of “putting geographic proximity to good use” as a competitive factor.

Another question might be asked concerning the intensity with which these impacts will be felt in Latin America: namely, which variables are correlated with the intensity of the impacts that will be felt in the region in the coming years?

Just as the impacts on Latin America resulting from the emergence of China in the previous decade are closely linked to the growth rate of China's economy and to the Chinese model of development, it seems accurate to say that future impacts will depend on the way in which these key variables develop.

The baseline scenario for discussing these questions is that of inertia, in which the driving forces that "push" the Chinese economy continue to operate, albeit in a context of increasing restrictions and domestic and external constraints. Indeed, this seems to be the hallmark of the scenarios China will grapple with in the future, compared with those that have prevailed in recent decades: namely, China will have less leeway both at home and abroad for putting its economic policies into practice.

In this regard, the scenario of inertia has been initially strengthened by the country's response model vis-à-vis the economic crisis of 2008/2009. In the new context whose contours are already beginning to take shape, domestic and external pressures will cause Chinese leaders to opt for a reorientation of China's growth model, gradually adapting it to the new environment—more restrictive than the one that prevailed in the previous decade.

A scenario of controlled adjustments will emerge and allow the leadership of the PCC to make a gradual transition between development models, increasing domestic consumption as a share of GDP, encouraging the development of national companies oriented toward both the domestic market and exports (as opposed to policies for attracting FDI, geared exclusively toward exportation), and making production chains "denser" in the domestic realm, chains that are currently linked only to the external market.

In this scenario, China will maintain high growth rates and sustain high import levels of raw materials and natural-resource-intensive products. Its exports will tend to grow less, which will reduce trade tensions with other countries and diminish the competition faced by exports of Latin American manufactured goods in both third markets and domestic ones.

In a variation on this scenario, however, the Chinese transition to an economic model more focused on its domestic market will not occur without significantly impacting the country's rate of growth. Stockpiling of raw materials, combined with excess capacity generated by the investment levels that have been its basis for growth, will lead to a reduction in the Chinese demand for commodities, with significant impacts on the trajectory of international prices and on the exports of Latin American countries.