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Dragons and Elephants in Latin America

by Javier Santiso, Chief Economist and Deputy Director of the OECD Development Centre

- China's growing influence on Africa and Latin America has overshadowed the rise of another emerging market giant in the East: India.
- India's emerging presence is emblamatic of the rapid redesigning of the global economic map.
- As Europe, Japan and the United States see their positions as omnipotent economic centres decline, new opportunities and risks arise for developing countries.

The 1990s had its technology drive; in this decade the thrust is coming from Asia. The Chinese economic effect is palpable throughout the world. Its impact reaches every corner of the planet, including Africa, where it is displacing centuries-old European influence. In most of Latin America, China is turning into a trade angel[1] landing in what is looking less and less like the United States' backyard.

Latin America is one of the most complementary regions for the Asian dragon because of its specialisation in raw materials. The value of Venezuelan crude oil shipments to China topped $3 billion in 2005. At the end of August 2006, the Chinese government signed a $11 billion deal with Venezuela to increase oil production and improve transport infrastructure. While the United States remains the biggest importer of Venezuelan crude – getting 12 per cent of its needs from Caracas in 2006 – growing Sino-Latin solidarity between Beijing and Caracas has not gone unnoticed.

Likewise, Latin America is becoming a region of great interest for Chinese investors. These tighter relationships centre on an overseas expansion strategy that has been adopted by China's emerging multinational companies. Of the 100 largest emerging market multinationals seeking out international expansion, almost half (44) are from China, according to a Boston Consulting Group study. In 2005, China's outbound foreign direct investment reached $7 billion, a 26 per cent increase over 2004. Of this amount, 16 per cent went to Latin America, making the region the number two destination for Chinese investment abroad after Asia itself, which received 60 per cent.

The breadth of the Chinese dragon's wingspan, nonetheless, could be overshadowing the weighty march of the Indian elephant. In 2006, Indian steel giant Mittal Steel took control of European peer Arcelor for €27 billion to become the world's biggest steel maker. While this spectacular transaction represents one of the major aggressive takeovers of an OECD leader by an emerging multinational, it also has Latin American ramifications. Arcelor's operations in Brazil will become the third-largest source of steel in volume terms for the newly minted multinational Mittal.

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1. For China's and India's impact on Africa, see Goldstein, A., N. Pinaud, H. Reisen and X. Chen (2006), *The Rise of China and India: What's In It for Africa*, OECD Development Centre Studies, Paris; and for China's impact on Latin America see Blázquez-Lidoy, J., J. Rodríguez and J. Santiso (2006), "Angel or Devil? Chinese Trade Impact on Latin American Emerging Markets", *OECD Development Centre Working Paper No 252,* June 2006.

In a much more direct way, one of the most important foreign investments to date by an Indian company also took place in mid-2006, in Latin America. Jinal Steel and Power's €2 billion investment in Bolivia is emblematic of the growing appetite of Indian groups for overseas investment. As with Chinese companies, the Indian interest in Latin America centres on raw materials.

The expanding links between Asia and Latin America are indicative of the economic transformation going on worldwide. The map is being redesigned at great speed, with Europe, Japan and the United States experiencing a decline in their international economic roles, leaving space for a more balanced configuration. This reshaping is being driven, in large part, by emerging markets, as shown by the close co-operation between large firms like the Brazilian iron-ore mining company CVRD and China's Baosteel or Chilean copper extraction firm Codelco and China's Minmetals.

To Latin America, these large Asian economies present a challenge. For the region's raw-materials producers, there is good news in the short-term but they run the risk of losing enthusiasm for diversification beyond extraction-based industries. As in Africa, some countries could soon find themselves backed into a dead-end street on the road to development, shipping goods abroad with little value-added and being left out of increasingly global industrial production chains. Worse yet, mines and oil wells do not generate mass employment.

For Latin American countries such as Mexico that have managed to diversify their economies, the Asian thrust functions as an alarm bell. Mexico, can stand up to the Chinese challenge owing to its proximity to the United States, a country that absorbs more than 85 per cent of Mexican exports. While it cannot compete with China on labour costs, Mexico is next to the world's hungriest consumer market and it can specialise in just-in-time delivery keeping warehouse costs low for US retailers. Mexico's task is to be able to use this locational advantage better, perhaps by improving infrastructure, including highways, railways, ports and airports.

All Latin American countries need to take the Asian giants into account. China and India could be angels today and demons tomorrow, or vice versa.

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OECD Development Centre
2, rue André-Pascal,
75775 Paris Cedex 16, France
Tel.: +33-(0)1 45.24.82.00
Fax: +33-(0)1 44 30 61 49

E-mail: dev.contact@oecd.org