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# Trade Interactions of China-Latin America vis-à-vis ASEAN-Latin America The Relevance of the Center-Periphery Relations?

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# The Context

- China and ASEAN are diversifying their trade interests by expanding markets beyond East Asia, to Latin America (LAC).
- Different economic structures are driving bilateral relationships between China-LAC relative to the other regional and interregional trading partnerships (Bussiere and Schnatz, 2009; Jenkins et al., 2007; Jenkins, 2010; ADB, 2012; Rosales and Kuwayama, 2012).
- LAC considers the trade structure with China to be unbalanced (Saveedra-Rivano for the case of Brazil and China relations, 2011).

- *Prima facie* case for supposing that individual ASEAN members emerge as game changers to the existing patterns of trade observed between China and LAC (Feinberg, 2013).
- China's exports to LAC are reaching a plateau, while ASEAN-LAC trade appears to be gaining momentum:
  - ASEAN as a group has emerged as the third largest market in Asia for LAC exports;
  - rising number of trade and investment agreements at the bilateral level.

# Research Agenda

- To empirically verify and compare the importance of relative factor endowments differences (similarities) in driving bilateral trade of China-LAC vis-à-vis ASEAN-LAC.
- Key questions that the paper seeks to answer are:

**Is ASEAN-LAC inter-regional engagement developing along the same line of the classic center-periphery relations as that of China-LAC?**

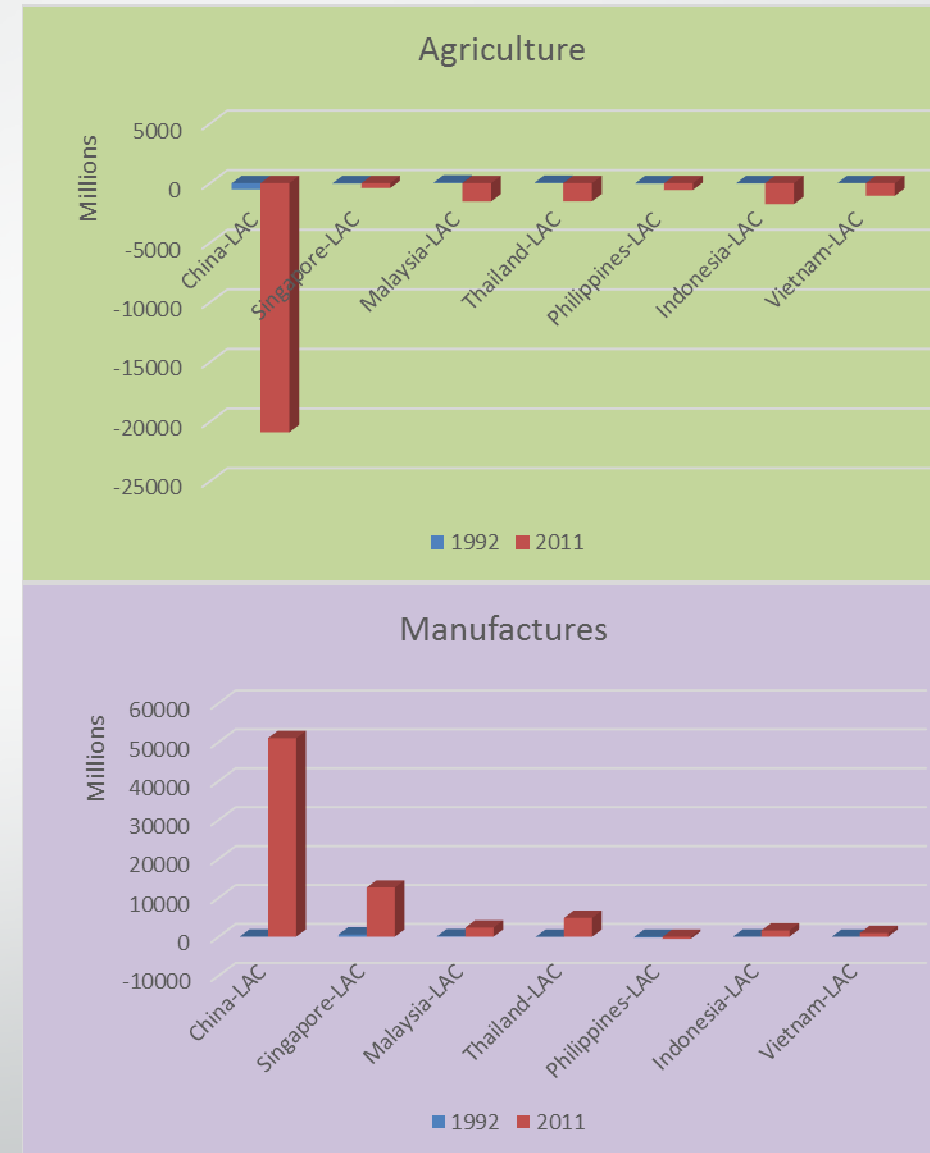
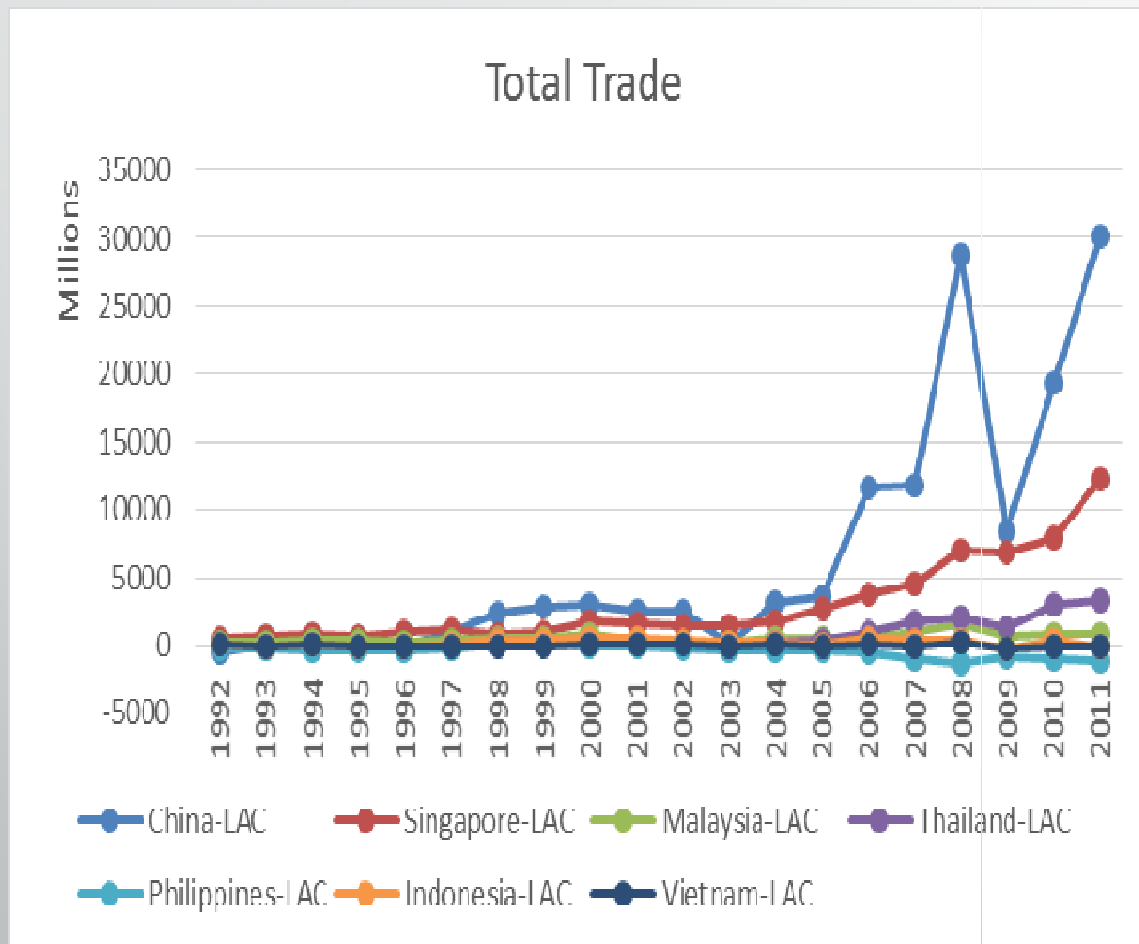
**Are there possibilities for forging ASEAN-LAC trade dynamics based on lessons contrary to the China-LAC experience?**

# Trade Dynamics: China-LAC vs. ASEAN-LAC

## Shares of Each Other's Exports (%), 1992 & 2011

		Share in Reporter's Global Exports			Share in Partner's Global Exports		
		Agriculture	Manufactures	Total	Agriculture	Manufactures	Total
China-LAC	1992	0.95	1.25	1.21	1.90	0.81	1.06
	2011	3.33	<b>6.32</b>	<b>6.23</b>	<b>10.82</b>	7.58	<b>8.22</b>
Singapore-LAC	1992	0.42	1.52	1.46	0.15	0.90	0.73
	2011	0.62	4.18	4.10	0.36	3.24	2.68
Malaysia-LAC	1992	1.81	1.12	1.20	0.28	0.46	0.42
	2011	1.46	2.24	2.12	1.64	0.81	0.97
Thailand-LAC	1992	0.89	1.34	1.22	0.32	0.50	0.46
	2011	0.68	3.74	3.26	1.34	1.37	1.36
Philippines-LAC	1992	0.49	0.92	0.87	0.08	0.16	0.14
	2011	0.64	1.02	0.98	0.43	0.23	0.27
Indonesia-LAC	1992	0.40	0.83	0.78	0.11	0.34	0.28
	2011	1.80	1.88	1.86	1.98	0.77	1.01
Vietnam-LAC	2000	0.12	0.81	0.63	0.06	0.04	0.04
	2011	2.01	2.24	2.19	1.23	0.41	0.57

# Trade Balances with LAC (in million USD), 1992-2011

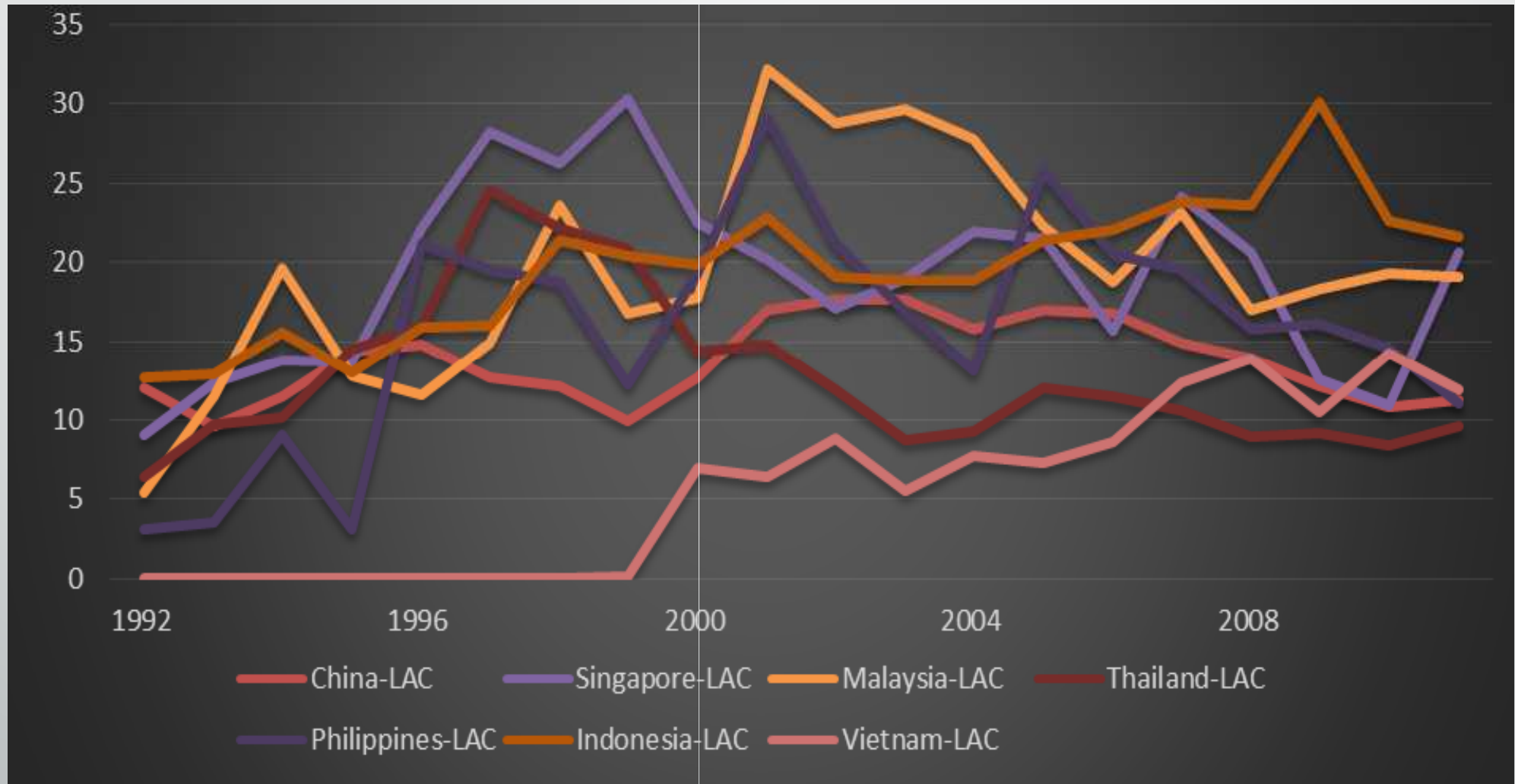


## Market Concentration with LAC (%), 2011

	China		Singapore		Malaysia		Thailand		Philippines		Indonesia		Vietnam	
LAC	X	M	X	M	X	M	X	M	X	M	X	M	X	M
Brazil	26.91	50.24	8.66	71.38	27.54	50.05	33.50	52.91	32.88	36.98	46.88	44.56	28.68	36.5
Mexico	20.27	6.76	15.31	15.14	43.22	3.84	18.88	9.30	10.70	3.03	17.79	3.28	28.29	2.9
Colombia	4.94	2.26	0.59	7.21	2.88	0.44	5.41	1.09	2.31	0.50	3.77	0.78	4.79	0.5
Argentina	7.19	7.07	1.01	1.59	6.50	30.72	10.59	15.29	14.61	39.07	9.58	40.00	7.14	32.5
Peru	3.93	7.89	0.23	0.20	2.86	0.20	4.52	7.70	3.44	7.04	0.53	1.60	3.66	3.5
Venezuela	5.51	0.54	0.91	0.05	1.43	0.00	2.38	0.02	1.32	0.02	3.43	0.00	1.31	0.0
Chile	9.14	21.09	0.45	2.09	3.05	6.50	7.65	9.56	5.72	9.66	5.78	8.20	6.60	15.5
Ecuador	1.88	0.22	0.87	0.07	0.61	0.03	3.96	0.98	0.79	0.30	2.44	0.12	3.08	0.0
Guatemala	1.06	0.03	0.06	0.15	0.74	0.61	1.34	0.27	0.48	0.03	0.58	0.12	0.78	0.7
Cuba	0.88	1.03	0.42	0.00	0.14	0.00	0.06	0.00	0.24	0.00	0.41	0.00	0.00	0.0
Haiti	0.26	0.01	0.03	0.00	2.55	0.03	0.34	0.00	0.10	0.00	0.59	0.00	0.00	0.0
Bolivia	0.33	0.38	0.02	0.00	0.08	0.10	0.36	0.06	0.08	0.00	0.15	0.01	0.00	0.0
Dominican Republic	0.82	0.37	0.06	0.18	0.62	0.09	2.78	0.28	0.52	0.77	0.65	0.08	1.26	1.2
Honduras	0.36	0.17	0.10	0.00	0.43	0.00	0.90	0.00	0.50	0.00	0.65	0.00	0.32	0.0
Paraguay	1.05	0.03	0.03	0.01	0.22	1.34	0.88	0.65	0.10	0.03	0.53	0.80	0.65	3.0
El Salvador	0.38	0.00	0.02	0.00	0.36	0.06	0.59	0.20	0.16	0.00	0.31	0.05	0.00	0.2
Nicaragua	0.36	0.02	0.02	0.00	0.15	0.02	0.44	0.04	0.06	0.00	0.20	0.00	0.55	0.0
Costa Rica	0.75	0.24	0.15	1.01	1.53	5.78	1.15	0.15	7.15	1.12	0.65	0.04	0.68	1.0
Panama	12.30	0.05	70.77	0.39	3.95	0.08	3.09	0.18	15.80	0.05	3.87	0.03	10.91	0.0
Uruguay	1.69	1.60	0.30	0.50	1.15	0.10	1.17	1.32	3.05	1.39	1.21	0.34	1.31	17.0



## Aggregate Grubel-Lloyd Indices (%), 1992-2011





# Methodology

$$\ln X_{it} = \alpha_i + \delta_{it} + \gamma_{1i} \mathbf{RLFAC}_{it} + \varepsilon_{it}$$

where  $RLFAC$  = relative factor endowment differences defined as

$$RLFAC_{ij} = |\ln(K_{jt}/L_{jt}) - \ln(K_{it}/L_{it})|$$

- Empirical strategy: panel cointegration; panel DOLS; panel causality.
- Empirical estimations constitute a three-dimensional balanced panel 1,600 observations for two-way export flows - China-LAC and selected ASEAN countries with LAC – spanning the period 1992-2011
- Broad product groups refer to agriculture (HS01-HS24) and industrial (HS25-HS97) sectors.
- Data source: UNCOMTRADE and World Bank Development Indicators and Global Development Finance.

# Key Findings

- Long run relationships prevail between exports and relative factor endowment differences for China-LAC and individual ASEAN countries with LAC.
- Comparative advantages based on relative factor endowment **differences** are significant for driving China-LAC exchanges (Devadasan, 2013) - two economies are moving apart in their trade specialization patterns.
- **Similarities** in factor endowments are instead found to be important for exports in manufactures in the case of Philippines-LAC, Indonesia-LAC and to a lesser extent for Thailand-LAC - concur with previous findings on specific IIT trading relationships between ASEAN and the LAC (Jin, 2005; Mikic and Jakobson, 2010; Roldan and Perez, 2011; Feinberg, 2013).

## Key Findings

- Unidirectional causality from exports to differences in factor endowments consistently prevails for China-LAC trade - concurs with *a priori* expectations that China's engagement with LAC through trade is causing some transformation in the region (Lederman et al., 2009).
- Differences in factor endowments are driving Indonesia-LAC and Vietnam-LAC exchanges. ***Bi-directional causal*** relationships observed between exports and differences in factor endowment for partnerships of Malaysia, Singapore and Philippines with LAC.

# Main Message

- Specific bilateral exchanges of ASEAN-LAC can plausibly be a game changer to the existing trade specialization of China-LAC exchanges given evidence of complementary elements for specific ASEAN-LAC trade integration to develop along the IIT type of flows in manufactures.
- ASEAN-LAC cannot be placed squarely in the category of manufactures primary resources exchange – not developing along the lines of centre periphery notion.
- Directional flow - endowments to comparative advantage to trade – all works in the reverse order for specific ASEAN-LAC partnerships – option for both parties to not just develop their resources but also target specific tradable sectors to impact domestic endowments.

# Moving forward.....

- National patterns of specialization cannot provide answers to how ASEAN and LAC can forge the necessary networks.
- Need for an in-depth analysis of the presence of multinational corporations (MNCs) that have a global reach in both regions through supply chains.
- Micro perspective study of identifying viable and potential networks at the firm level for specific industrial sectors in ASEAN-LAC interregional relationship.



**Thank You**