

Evaluating Latin America's Commodity Dependence on China

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Abstract

During the last decade, China's growing economic importance has been considered a blessing for South America, given their still relatively high dependence on the US and commodity exports. However, this positive sentiment is starting to change. Concerns are being raised about potential adverse effects of Chinese demand for raw materials and "excessive" imports of cheap manufactured goods as substitutes of domestic production. In other words, there is a growing fear about extreme export concentration and, in turn, de-industrialization.

We explore to what extent South America has become "Sinodependent" and the implications of such dependency. To that end, we create a dependency index and then assess the implications of high Chinese GDP growth rates on South American performance over the last decade. We focus on four countries (Brazil, Argentina, Chile and Peru) and four commodities (iron ore, soy, copper, and ores of non-ferrous metals).

We find that each of the countries analyzed has become more exposed to Chinese demand for the commodities in question. In fact, in the past ten years, exposure to Chinese demand measured by our weighted dependency index has risen. This is much more the case for some specific countries and products such as Argentinean soy, Brazilian iron ore and soy, and Chilean copper exports. Despite this increased exposure, we find that Chinese demand has added less than 1 percentage point to GDP growth rates in these four economies in the last years. Although this contribution may be considered below expectations, there are secondary effects from the production and export of these commodities not fully captured by the statistics. For any given commodity, there are likely to be spin-off effects in that for any given country, one or two commodities may function as an important engine driving the domestic economy. In turn, any downturn in demand, especially if tied directly to China, would have negative implications beyond the marginal effect on GDP growth that we have calculated here.

The combination of hopes and anxieties tied to South America's decade-long boom in economic relations with China is likely to persist. The honeymoon period of South America-China economic relations may or may not be over, but what is clear is that commodities will continue to underpin the relationship for better or for worse.

Keywords: Commodity exports, Latin America, China, Dependence.

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