



The Importance of China for LA and the World Economy

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Alessandro Rebucci¹

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April 23, 2010

Based on “On The Transmission of Global Shocks to Latin America Before and After Chinas Emergence in the World Economy”, Cesa-Bianchi, A., M.H. Pesaran, A. Rebucci, C.E. Tamayo, T. Xu

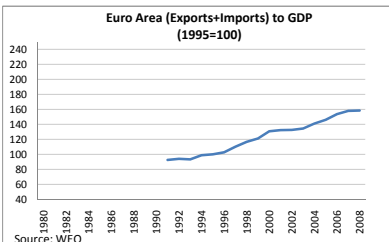
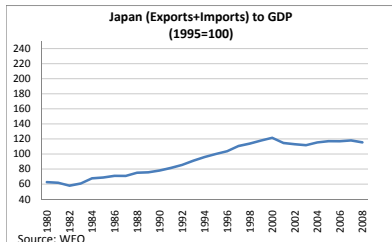
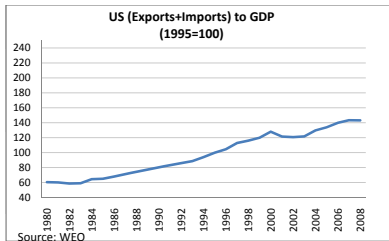
Outline

- ▶ China's importance in world total trade
 - World trade growth and country openness
 - Trade patterns
 - The weight of China's trade in GDP

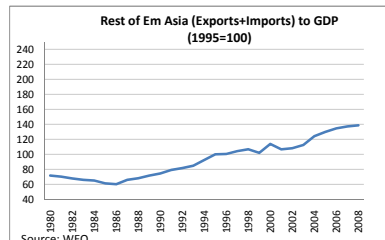
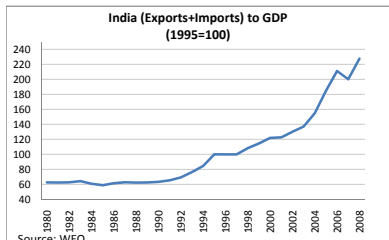
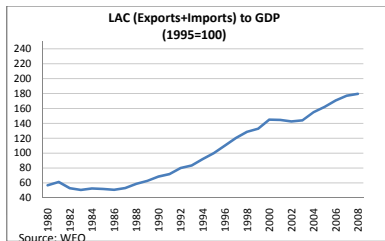
- ▶ Implications for the international transmission of the US crisis and the global recovery

- ▶ What may happen if and when China revalues its currency?

World trade has increased by about 40 percent since mid-1990s



China's and LA's trade have grown much more than world trade



LA's trade patterns have changed dramatically

Table: China's share of LA trade has more than **quadrupled**

(a) Period 1995-1997

| | LAC5 | Argentina | Brazil | Chile | Mexico | Peru |
|------------------|------|-----------|--------|-------|--------|------|
| US | 63% | 17% | 25% | 23% | 83% | 32% |
| EA | 17% | 24% | 27% | 20% | 5% | 22% |
| Japan | 6% | 3% | 7% | 13% | 3% | 7% |
| China | 2% | 3% | 3% | 3% | 1% | 5% |
| Rest of Adv. Ec. | 7% | 6% | 9% | 10% | 4% | 12% |
| Rest of Em. Asia | 5% | 4% | 6% | 8% | 2% | 5% |
| Rest of Em. Ec. | 1% | 2% | 3% | 1% | 0% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

(b) Period 2005-2007

| | LAC5 | Argentina | Brazil | Chile | Mexico | Peru |
|------------------|------|-----------|--------|-------|--------|------|
| US | 56% | 13% | 22% | 18% | 71% | 27% |
| EA | 15% | 17% | 24% | 21% | 7% | 16% |
| Japan | 5% | 2% | 4% | 9% | 4% | 6% |
| China | 9% | 11% | 10% | 13% | 6% | 13% |
| Rest of Adv. Ec. | 6% | 4% | 8% | 6% | 4% | 12% |
| Rest of Em. Asia | 7% | 5% | 7% | 7% | 5% | 4% |
| Rest of Em. Ec. | 1% | 4% | 5% | 3% | 1% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

China has affected also patterns of world trade

Table: China's share of G3 trade has more than **doubled**

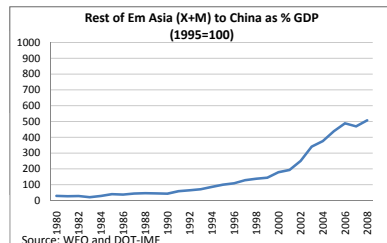
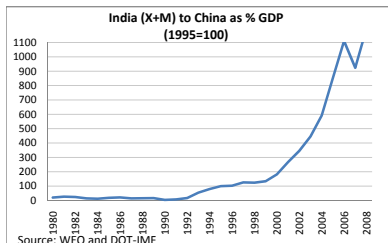
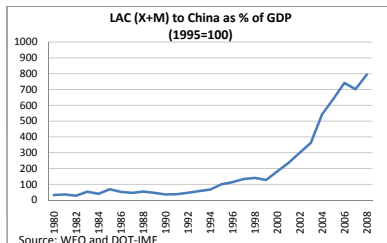
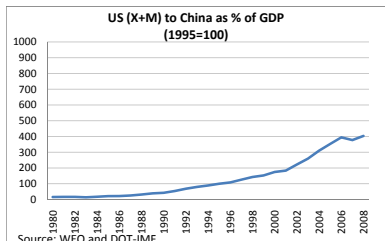
(a) Period 1995-1997

| | US | EA | Japan | China | LAC5 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| US | - | 20% | 32% | 22% | 63% |
| EA | 15% | - | 13% | 16% | 17% |
| Japan | 15% | 8% | - | 29% | 6% |
| China | 6% | 5% | 10% | - | 2% |
| LAC5 | 14% | 5% | 3% | 3% | - |
| Rest of Adv. Ec. | 33% | 46% | 12% | 9% | 7% |
| Rest of Em. Asia | 14% | 11% | 27% | 20% | 5% |
| Rest of Em. Ec. | 2% | 6% | 3% | 2% | 1% |
| <i>Total</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> |

(b) Period 2005-2007

| | US | EA | Japan | China | LAC5 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| US | - | 18% | 22% | 22% | 56% |
| EA | 15% | - | 12% | 17% | 15% |
| Japan | 9% | 5% | - | 18% | 5% |
| China | 15% | 12% | 22% | - | 9% |
| LAC5 | 17% | 6% | 3% | 5% | - |
| Rest of Adv. Ec. | 30% | 42% | 11% | 9% | 6% |
| Rest of Em. Asia | 11% | 10% | 24% | 26% | 7% |
| Rest of Em. Ec. | 3% | 7% | 5% | 3% | 1% |
| <i>Total</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> |

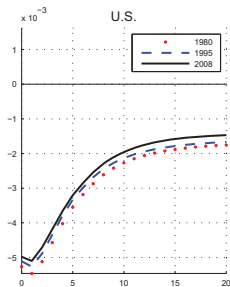
The importance of China trade has skyrocketed in the US, LA, and rest of emerging Asia



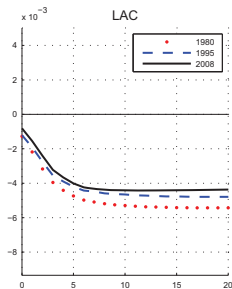
Implications for the transmission of a US GDP and a China GDP shock

- ▶ Negative, one standard deviation shock to US and China GDP
- ▶ Compare transmission with 1995 and 2008 trade weights
- ▶ Use a well known and tested Global Vector-Autoregression model (Pesaran et al., JAE)
 - A collection of small open economies
 - Aggregated and simulated using a trade weight matrix for about 30 countries
 - Data up to 2008 Q2

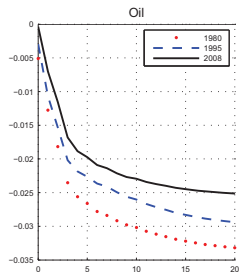
Impact of a US recession is the same as in the past



(a) No change in transmission

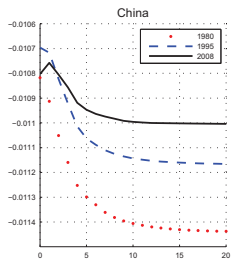


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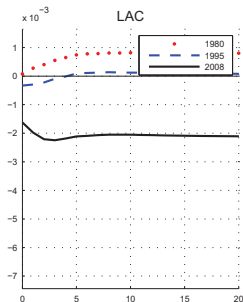


(c) Except for oil, which is less affected

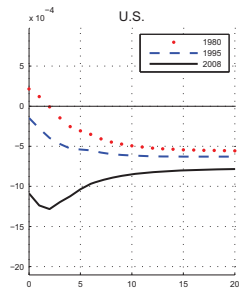
The impact of a China GDP shock is very different



(a) China less affected

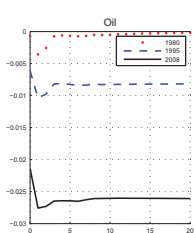


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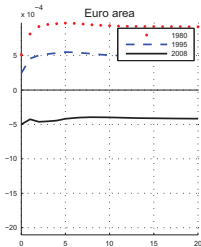


(c) US more affected

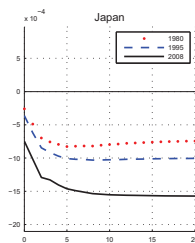
Oil, advanced and emerging economies alike are all much more affected that in the past



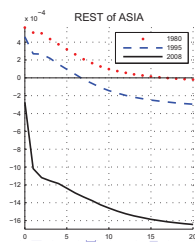
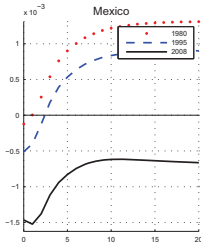
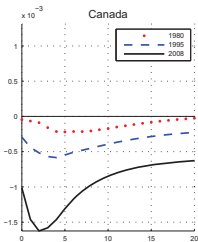
(a)



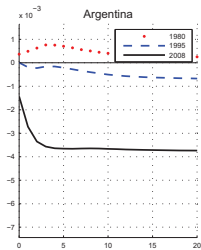
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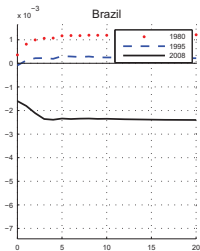
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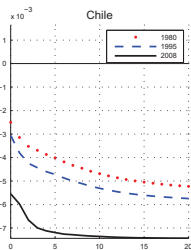
LA now loads on China



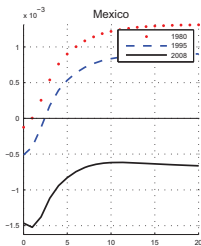
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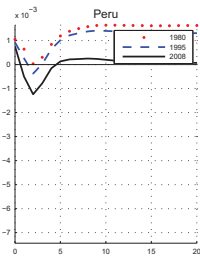
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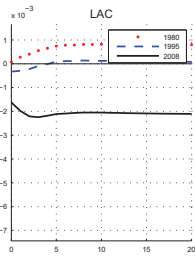
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(d)



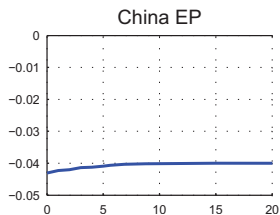
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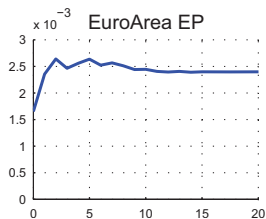
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What if China revalues?

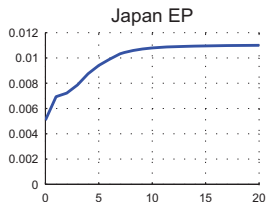
Figure: G3 currencies would depreciate and oil would fall



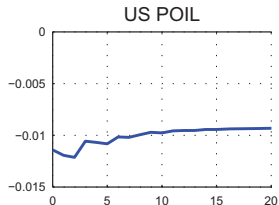
(a)



(b)



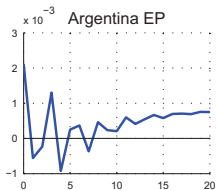
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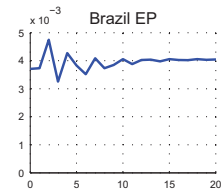
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What if China revalues?

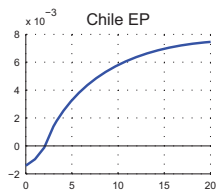
Figure: LA currencies would depreciate as expected



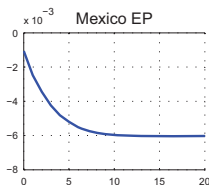
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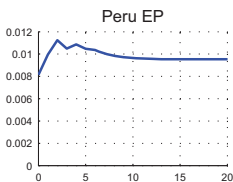
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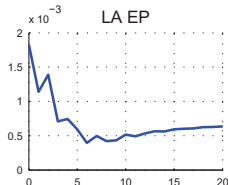
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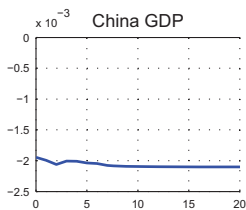
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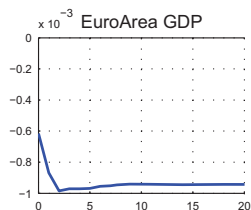
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What if China revalues?

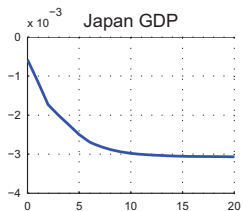
Figure: Growth would slow in China, as well as in the rest of the world



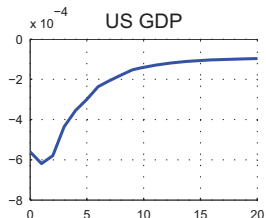
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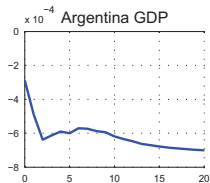
(c)



(d)

What if China revalues?

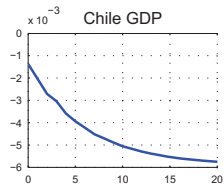
Figure: LA would follow suit



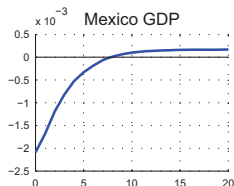
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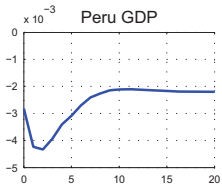
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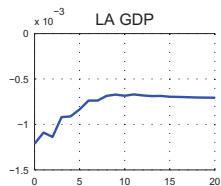
(c)



(d)



(e)



(f)

To conclude

- ▶ China is very important for LA and the world economy
- ▶ LA's performance during the crisis and recovery may also owe to “good luck”
- ▶ A China's revaluation may not play out as a textbook example
- ▶ LA and the world economy load on a more risky global factor



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