

Abstract

There is substantial evidence of positive aggregate effects for Latin American and Caribbean (LAC) economies associated with China's and India's growing presence in world markets. Nevertheless, the evidence summarized here also indicates that certain industries in some countries, particularly in Mexico and to a lesser extent in Central America and the Caribbean, have been negatively affected by Chinese and Indian competition in third markets. Also, LAC imports from China and India have been associated with modest unemployment and adjustment costs in manufacturing industries. Even though there is significant heterogeneity of such effects across sub-regions, China and India's growth is creating new production possibilities for LAC economies, in particular for sectors that rely on natural resources and scientific knowledge, which not only benefit from the growing internal markets of the two Asian economies and their effect on commodity prices, but also from complementarities in third markets through production networks, cheaper inputs and capital, and innovation spillovers. In sum, China and India's growth has not been a zero-sum game for LAC, but the potential benefits are not being fully realized. It is crucial that LAC countries take full advantage of the growing presence of China and India in world markets by adopting offensive strategies that facilitate both the participation of LAC firms in global production networks and their commercial presence in the two Asian economies' markets. Governments should avoid protectionist temptations and focus on facilitating the adjustment of affected sectors, as well as the emerging structural shift towards more natural-resource and scientific-knowledge-intensive sectors by adopting adequate education, innovation (both patentable and non patentable), natural resource management, and rural development policies.