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**Current Economic Relations Between China  
and  
Latin America**

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## **“A Few Words of Gratitude”**

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This paper is the result of his three months stay at the Institute of Developing Economies, Tokyo, Japan, from September 30, 2008 to December 29 2008 as a Visiting Research Fellow.

List of Major Works

- “Defending the Yuan”. 1998. Published by: Asia-Pacifico. Magazine of the Center for Studies on Asia and Oceania, Cuba. Special Issue. No.3. March 1999. ISSN – 1025-3068. (Co-author: PhD. Elda Molina)
- “China and the World Trade Organization”. *Proyección 2000*. Magazine of the “Fundación Noreste”, Topolobampo y la Cuenca del Pacífico, A.C. México. No. 10, September 2000. (Co-author: PhD. Julio Díaz Vázquez)
- “The Reform of the State Companies: A Decisive Stage for the Economic Restructuring”. *Economía y Desarrollo*. Magazine of the Havana University, Cuba No. 2 / 2001. ISSN 02552-8584.
- “Central America: A Venue for the China-Taiwan Conflict”. *Cuadernos de Nuestra*

- América. Magazine of the Center for Studies on America, Cuba. Vol. XIII, No. 26 – Vol. XIV, No. 27, July 2000- June 2001. ISSN 0864-179 (Co-author: MsC. Alfredo González Pedraza)
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  - “The Financial Reform in China”. De la Economía Internacional (Digital Magazine of the International Economics Research Center of Havana University, Cuba. 2003. ISSBN 959-7164-54-x; Economía y Desarrollo. Magazine of the Havana University, Cuba. No. 2 / 2003. ISSN 02552-8584; México y el Asia Pacífico. Magazine of the Asia-Pacific University, Mexico. No. 2, May 04. (Co-author: PhD. Elda Molina)
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## Introduction

Since the proclamation of the People's Republic of China in 1949, neither this country nor Latin America comprised themselves among the priority areas for their foreign policies, mainly due to political, geographical and cultural reasons. In the second half of the 1950's the "Cold War" policy enforced by the United States to isolate Communist countries, damaged the relationships of the Asian country with the rest of the world, while setting the guidelines for Latin America's external policy. In Latin America, the United States imposed the "Truman Doctrine" (1947) and the "Rio Treaty" (1948) aimed at consolidating their political and economic prevalence in the continent and neutralizing the communist influence. In addition, military governments were abundant in the region in the 1950's, and they were rather reluctant to set up relationships with China. Within this context, the Latin American countries accepted Taiwan's as the legitimate government of China and failed to establish diplomatic relationships with the continental authorities.

In the 1950-1958 lapse, the Chinese authorities made efforts to expand cultural and economic exchanges that could lead to the establishment of diplomatic relationships. However, in the commercial field the total amount of exchanges barely amounted to \$30 million<sup>1</sup>. The first diplomatic relations in the region were established in the 1960's after the Cuban revolution. This event prompted the beginning of a new phase (1960-1965) for the China-Latin America relationships, with bilateral trade reaching \$31 million in 1960, over \$343 million in 1965 and \$1.3 billion in the 1960-1965 lapses<sup>2</sup>. This encouraging behavior slowed down significantly in the second half of the 1960's for several causes. It was damaged by the China-USSR discrepancies, the sudden changes in Latin America's political situation (military coups in several countries) and China's "Cultural Revolution".

However, after Taiwan was removed and the People's Republic of China reinstated in the United Nations, a total of 11 Latin American countries extended it their diplomatic acknowledgment in the 1970's<sup>3</sup>. Thus, from 1970 to 1979 took place a process of normalization of the China-Latin America links, which had repercussions in the political and economic fields. More than 10 commercial agreements were signed with different countries in the region; the exchange of official commercial delegations exceeded 50 and foreign trade increased eight folds, from some \$146 million in 1970 to over \$261 million in 1979<sup>4</sup>.

The 1980's were decisive both for China and Latin America. In China, due to the process of reform and opening that took place after 1979 and in Latin America owing to the

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<sup>1</sup> [www.moftec.gov.cn](http://www.moftec.gov.cn)

<sup>2</sup> [www.moftec.gov.cn](http://www.moftec.gov.cn)

<sup>3</sup> Chile (1970), Peru (1971), Mexico, Argentina, Guyana and Jamaica (1972), Trinidad & Tobago, Venezuela and Brazil (1974), Surinam (1976) and Barbados (1977).

<sup>4</sup> [www.moftec.gov.cn](http://www.moftec.gov.cn)

important changes that began taking shape both in the economic and political fields. A new stage started for the links between both parties in these years. Initially, they were not quite significant, with ups and downs until 2004, but registered an outstanding boom after this year. This work will be devoted to analyze this particular period.

**Research Problem:**

Precisely, the rising Chinese presence in Latin America has opened the way to a wide debate on the possible opportunities and risks derived. Several questions arise, but the purpose of this work is to answer one in particular: Are China's relations with Latin America complementary or Chinese exports of manufactured goods to the region are threatening and undermining local producers, while imports from China condemn the region to an eternal role as exporter of raw materials?

**Hypothesis:**

My research departs from the hypothesis that, in the current conjuncture, there is a complementation in the relationship between both parties that allows them to enhance the potential for mutual development. For Latin America, the current presence of China in the continent is allowing an outstanding opportunity to start a path towards sustainable development, which in turn should influence the readjustment of the international economic relations in the region. For China, this relationship allows an expansion and improved balance in its international economic relations and mainly to secure the resources required for its development.

**Goals:**

The general goal of this research is to produce a balanced approach and estimate the prospects for the China-Latin America economic relations.

In order to achieve this, I have defined the following specific goals:

- 1) To explain the specific economic needs of both China and Latin America, which determine the rapprochement of both parties.
- 2) To examine the economic complementation and the possible obstacles for the China-Latin America relations.
- 3) To determine the current condition of the economic and commercial relations between China and Latin America and to forecast the future scenario.
- 4) To analyze the possible restructuring of the economic relations in Latin America considering the deepening relations with China.

**Structure:**

The report will start with a characterization of the players: who China and Latin America are after the 1980's, in order to determine the necessities and complementation

possibilities of both economies and this way demonstrate the need of links between them. This period was chosen because the 1980's were decisive both for China and Latin America.

The second chapter will be devoted to analyze the evolution in the relationship between China and Latin America after the 1980's, in two lapses. The first one starting in the 1980's until 2000, as a stage that created the conditions for the unfolding of the relationships, when links were not significant but kept at a stable level, and the second, starting in 2004, when relations peaked. In addition, China's bilateral relations with its main Latin American partners will be addressed. The purpose of this chapter is to characterize the relations, their motives, strategies and evolution, to asses them afterwards and forecast the future trends.

Based on this, the third chapter will analyze the potential, weaknesses, opportunities and threats for these links, in order to determine the prospects for the China-Latin America relations in particular and how they could influence a restructuring of the Latin American region's international relations, as well as the reinforcement of the Chinese global positioning.



## **I. Economic Situation and International Insertion of China and Latin America since the 1980's.**

### **1.1 The Chinese Economy after the Process of Reform and Opening.**

In December 1978 the Chinese Communist Party approved the proposal of the “Four Modernizations” (agriculture, industry, science and technology, and defense) and the “open doors” policy for foreign investments. This way, a process of reforms and external opening started. During this process, the development of the productive forces became the center piece of the economic policy and the foreign policy acquired a notable pragmatism. Since then, the country has been fast and outstandingly expanding its weight in the world economy and has significantly grown in several areas: GDP, trade, foreign investments and technological level of its industrial facilities.

Its domestic economy has been growing at a 9.7% annual average since 1978, and over 10% in the last five years, and the growth rate is expected to keep around this figure up to 2020. It is currently the fourth economy in the world with a US\$ 3.43 billion GDP, accounting for some 5,5% of world's GDP<sup>5</sup>, and one of the main economic engines, contributing with some 16% of total world growth.

### **1.2 The Latin American Economy since the 1980's.**

For more than 20 years the Latin American economies have been undergoing deep transformations, which took shape through the crisis of the eighties and continued developing afterwards.

The Latin American economy has been quite open and depending from external links, particularly with the United States, not only for foreign trade, but also for technology and financial flows. Its traditional growth pattern, based on the export of natural resources, has kept basically unchanged in the last three decades.

The neo-liberal policies, basically implemented to serve groups linked to the foreign sector, were based on the assumption that market liberalization is the key factor to promote savings, investments and productivity. The measures implemented comprised trade liberalization, the dismantling of unprofitable public companies, privatizing state assets, fiscal reform, liberalization of interest rates, lower requirements and expedite procedure for foreign investments, and the deregulation of many mechanisms of the financial system. For the last 40 years Latin America's GDP growth volatility has been almost double of the industrialized countries.

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<sup>5</sup> China's GDP rose 11,4% in 2007. Source: spanish.china.org.cn., Jan 25/2008.

Back to the analysis of the Latin America's overall economic situation in the first decade of the current century, a simplistic look at macroeconomic indicators since 2003, such as GDP growth and external accounts, may lead to the erroneous conclusion that the region finally moved to a recovery stage that would allow it to overcome the main problems it faced at the beginning of the current decade. The reality, however, is quite different.

The economic growth, together with the relative macroeconomic stability, led to a better performance of the external sector, increasing external inflows like, for example, investments, which in turn favored a recovery in reserves.

Despite the slowing down of the United States' economy, so far in 2008 the Latin American Region keeps a strong growth, mainly swing to the diversification of exports to other markets, particularly China. The high growth of the Chinese economy has demanded large volumes of commodities and raw materials and this has influenced their prices in the international market, which has significantly improved trade terms in most of these countries.

As a whole, it could be concluded that the encouraging macroeconomic results of the last decade have failed to led to the consolidation of a real endogenous potential for growth and sustainable development, with a positive social impact in terms of equity in income distribution; employment; access to basic goods and services; and poverty reduction.

## **II. Characterization of the Present Economic Relations between China and Latin America**

### **2.1 Evolution of the Economic Relations between China and Latin America from the 1980's to 2000s.**

Based on the evolution of China and Latin America in the 1980's, several motivations emerged from each side, owing to the particular, respective necessities, which allowed a gradual and sustained advance of the bilateral ties. With the process of economic reforms and external opening in China, the international economic relations acquired an outstanding pragmatism related to its economic development. In this context, the relationships with Latin America were re-defined.

China's main interests were focused on the economic field, but others were not excluded. First of all, Latin America means for China a stable market for imports of raw materials, energy and food and a destination for its external investments aimed at guaranteeing these imports. It also plays a role, although secondary, as an export market for Chinese manufactured goods (textiles, electronics, etc), taking into account that Latin America has approximately 548 million consumers with twice the Chinese per capita incomes. In addition, Latin America is important for China from the geopolitical point of view, since the Atlantic-Pacific link is determinant for the expansion of its trade with the rest of the world. In this sense, the relations with Panama, Chile, Brazil and Argentina are particularly relevant.

A second geopolitical goal could be the access to the US market through Latin America. China has an often conflicting relationship with the United States due to their bilateral trade imbalance. So, continuing the penetration through third markets, in this case using Latin America's traditional regional commercial links with its Northern neighbor could become a useful alternative.

China's political motivations are wide: To secure diplomatic support for its global positioning and its conflict with Taiwan; to reinforce and balance its links in the global stage<sup>6</sup>; and to set up alliances with developing countries in order to strengthen its position in the WTO.

Relations with China have, in turn, significant economic, geopolitical and political importance for Latin America. From the economic point of view, Latin America is willing to expand and open new spaces for its products; to achieve a greater geographical diversification for its demand; to get capital and technology; and to find another prop for

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<sup>6</sup> China tries to show the world that its foreign relations are wide and lack prejudices, that they do not exclude the South and are not marked by ideological discrepancies.

**Table 1: China's Stock of Trade by Country 1991-2000.**  
(Millions of dollars)

Countries	Exports	Imports	Totals	Balance
Brazil	8 168	10 715	17 154	(2 547)
Mexico	6 199	6 060	12 259	139
Chile	4 157	4 506	8 662	(349)
Argentina	3 686	4 849	8 295	(1 163)
Panamá	6 607	33	6 639	6 574
Peru	979	3 994	4 973	(3 015)
Cuba	1 744	1 261	3 005	4 83
Uruguay	800	720	1 520	80
Ecuador	414	480	920	(38)
Colombia	611	106	717	505

Source: ECLAC. 2001.

development that would make it less dependent from the United States. The relations with China may also be an approaching step to Asia, which would allow diversifying its foreign relations, and improving its bargaining power before third parties.

In the 1980's the China-Latin America relations, both from the economic and political points of view, showed a modest, but steady pace. During the 1990's the economic links, particularly in trade, moved to a first place in the China-Latin America relations. Total trade reached \$12.6 billion in 2000, with an average annual growth rate over 20%.

However, the trade links were not homogeneous for the entire region. China gave priority to the links with the more economically relevant countries like Brazil, Mexico, Argentina, and Chile. In this stage the bilateral trade started taking off, surpassing the previously marginal levels.

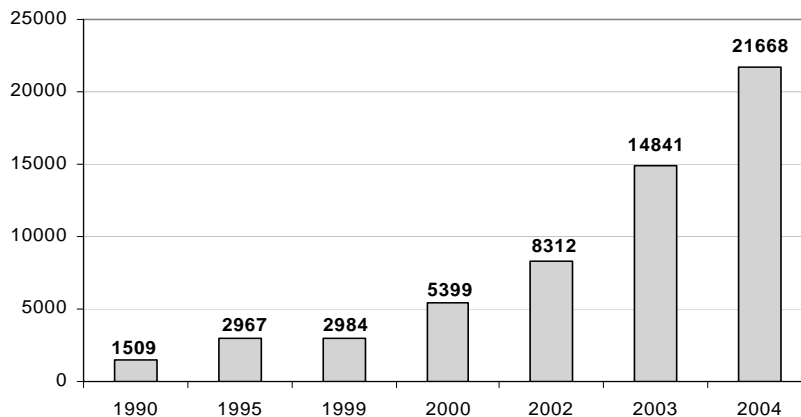
As can be concluded from the statistics, there was a wide margin for the future expansion of the trade exchanges between both parties.

#### **Decade of 2000:**

As off 2001, with China's entrance to the WTO, the conditions matured for the transition to a new phase of the bilateral relations. It should be taken into account that its admittance to this international organization favored the county's insertion in the world's economy.

At the same time, new expectations opened for Latin America in the 21<sup>st</sup> decade. The failure of the Neo-liberal model, together with the political victories of more progressive leaders in several countries favores an outstanding expansion of the region's links with China. As a result, Latin America's exports to China grew significantly in the first years of the current decade, particularly if compared to the previous one.

**Table 2: Latin American Exports to China, 1990-2004.**  
(Millions of dollars)



Source: ECLAC. 2005.

**Table 3: Trade between China and Latin America**  
(Millions of dollars)

<b>1950</b>	1,9
<b>1955</b>	7,3
<b>1960</b>	31,3
<b>1965</b>	343,1
<b>1970</b>	145,8
<b>1975</b>	475,7
<b>1980</b>	1 331
<b>1985</b>	2 572
<b>1990</b>	2 294
<b>1995</b>	6 114
<b>1998</b>	8 312
<b>1999</b>	8 260
<b>2000</b>	12 600
<b>2001</b>	14 938
<b>2002</b>	17 826
<b>2003</b>	26 806
<b>2004</b>	40 027
<b>2005</b>	50 457
<b>2006</b>	70 218
<b>2007</b>	102 611

Source: Zhonguo haiguan tongji. [www.moftec.gov.cn](http://www.moftec.gov.cn).

As can be seen in Table 3, China's importance as trade partner significantly increased for several countries between 1990 and 2004.

The economic results achieved by China and its insertion in the world economy, mainly after its entrance to the WTO, together with the maturity of its political relations with the Latin American countries, and the particular economic context in this region at the beginning of the 21st century, prompted a significant shift in the links between both parties.

After the tour carried out by President Hu Jintao to Brazil, Argentina, Chile and Cuba, related to the 12th Summit for Asia-Pacific Economic Cooperation, the relationships with the continent expanded. Several agreements on mining, agriculture, custom duties, and social development were signed, and a "strategic association" was agreed upon, projecting mid and long term relations.

In this framework the "First Forum of Economic and Commercial Cooperation China-Caribbean" (Jamaica, February 2005) was established and attended by China's Vice-President Zeng Qinghong. A total of 10 Caribbean countries were declared "tourist destinations for Chinese citizens during the event, while Jamaica and Trinidad & Tobago granted China the status of "full market economy".

During the 2001-2005 period, several Latin American presidents<sup>7</sup> visited Beijing, contributing to the bilateral ties. In additions, seven countries in the region acknowledged China as a "market economy." Concerning the strategies developed by both parties, the strategy devised by China to deal with Latin America has been quite pragmatic, premeditated and wide. It is a non-excluding, State strategy designed for the long term, which covers several areas. The economic links are by no doubt the key piece of this relationship. Since its main goal is to get raw materials, energy and food, China has deliberately tried not to flood the Latin American markets with massive exports, avoiding trade conflicts with the region (Mexico and Central America are exceptions).

Its economic strategy is centered in four key aspects: to widen the trade links; to promote the inter-enterprise cooperation; to favor the joint venture modality as a way to exploit and take advantage of the natural resources; and to reinforce the technical and scientific exchanges.

In the political field the "soft diplomacy" and "peaceful development" approaches have prevailed, which mean the relations are based in mutual respect, non-aggression, non-intervention in internal affairs, equality and reciprocal benefit and peaceful coexistence. The relations are characterized by the absence of political conditioning or impositions. Pragmatism has become apparent by the fact China has set up relations both with the ruling and opposition parties. The Chinese government currently holds links with 90 political

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<sup>7</sup> Presidents from Mexico and Chile in 2001; from Ecuador and Uruguay in 2002; from Cuba and Guyana in 2003; from Brazil, Argentina and Venezuela in 2004; from Colombia and Peru in 2005.

entities in 29 Latin American and the Caribbean countries<sup>8</sup>. They have also increased their presence and cooperation with regional bodies<sup>9</sup>.

The Chinese strategy has been developed in three levels: bilateral relations; through groups and regional and sub-regional integration mechanisms and through the links established within trans-Pacific economic cooperation bodies (Ex: APEC, FOCALAE). It should be highlighted that China relationships are concentrated in Argentina, Brazil, Chile, Cuba, Mexico, Peru, Panama, Colombia and Venezuela, since they fit into China's motivations in the region: economic dynamism, abundant natural resources; political weight capable of building consensus in the region; political coincidences, geo-strategic interests, or being previous destinations for Chinese émigrés.

As a contrast, Latin America lacks a pre-designed, coherent, long-term strategy. First of all, it is not a single country. Second, all the countries won't eventually benefit the same and some of them may even be damaged. Third, the Latin American governments can't match the strength, mobilization and convocation capacity of the Chinese government. Thus, it can be said that Latin America has so far responded passively with a scant incorporation to China's development project, and there are barely reactions instead of a long-term policy. Brazil is probably the only exception.

## **2.2 Results of the Relations' Expansion after 2004**

### **- Trade -**

It should be highlighted that China has continuously imported goods from Latin America since 1999, with an outstanding growth in a short period of time. The reduction of custom duties from 17% to 9.4%, the fastest growth of the Chinese economy and the better conditions in Latin America improved the trade balance of this region, which not only lowered its deficit, but registered a surplus in the last few years.

Although the size of trade is significant, the most outstanding feature is its fast growth pace. Bilateral trade grew at an annual average of 33.8% between 2001-2006, and 46.2% for 2006-2007<sup>10</sup>. In 2007 the bilateral trade reached a record of 102.611 millions of

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<sup>8</sup> China's Communist Party has officially set up regular links with: "Comisión Regional de la Internacional Socialista"; "Organización Demócrata Cristiana de América"; "Conferencia Permanente de Partidos Políticos de América Latina"; "Foro de Sao Paulo"; among others.

<sup>9</sup> Examples: Relationships with Grupo de Río; MERCOSUR; Comunidad Andina de Naciones; Foro de Cooperación Económica y Comercial China-Caribe. China has Observer status in the Inter American Development Bank IDB (1991) and ALADI (1993); has links with ECLAC and SELA. In 1998 the People's Bank of China entered the Caribbean Development Bank.

<sup>10</sup> Xinhua. Jan 31/2008.

dollars,<sup>11</sup> early surpassing the \$100 billion goal set for year 2010 by the Chinese government<sup>12</sup>.

Total China-Latin America trade reached \$111.5 billion from January to September 2008, 52% up from the same lapse a year before, and this meant bilateral trade in the first three quarters this year was equivalent to the total amount registered in 2007. China's exports to Latin America increased 48.9%, to \$54.5 billion in the first three quarters of the year, while imports rose 55.2%, to \$57 billion.

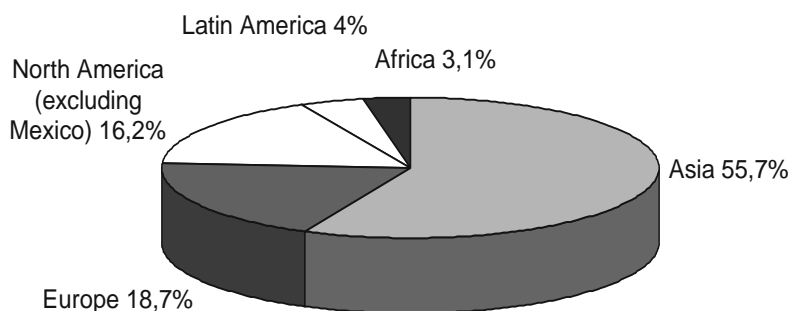
This way, China became the third trading partner for Latin America and its importance for the region significantly expanded, mainly because it has become its first supplier of several key items (soy, copper, iron ore, nickel, fish flour, leather, sugar, zinc, tin, grapes, etc)<sup>13</sup>.

However, among China's commercial partners Latin America falls behind Asia, the United States, Japan and the European Union. Only 3%<sup>14</sup> of China's total exports go to Latin America and just 4% of its total imports come from this region<sup>15</sup>. Latin America, in turn, has been purchasing around 9% of its total imports in China.

The World Bank estimates that about half of Latin America's growth owes to the high prices of commodities.

**Figure 1: China's Foreign Trade. 2006.**

(Breakdown by continents and regions)



Source: Chinese. Ministry of Trade.

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<sup>11</sup> Latin Business Chronicle. May 27/2008.

<sup>12</sup> Xinhua. Jan 31/2008.

<sup>13</sup> China imports from Latin America 80% of its fish flour requirements (from Peru and Chile); 69% of its imports of bird head, wings, feet and giblets ( from Argentina and Brazil); and 45% of its imports of grape wine (from Chile).

<sup>14</sup> ECLAC puts it at 4.2%.

<sup>15</sup> ECLAC: "Panorama de la inserción internacional de América Latina y el Caribe, 2004 – Tendencias 2005. Capítulo V: Aspectos estratégicos de la relación entre China y América Latina y el Caribe". 2006. According to Xinhua, in the January-October 2007 lapse, China exported \$41.4 billions to Latin America and imported \$40.7 billion (Xinhua, Dec 31/2007).



On the other hand, foreign trade is concentrated in 7 Latin American countries, which combined exports account for 80-95% of the region's exports to China. Brazil accounts for 40% of the total; Chile, 17%; Argentina, 15%; México, 10%; Peru, 7%; Venezuela, 3%; and Costa Rica, 3%<sup>16</sup>.

**Table 4: Latin America and the Caribbean:  
China's Rank in Each Country's Trade, 2000 and 2007.**

Country	Exports		imports	
	2000	2007	2000	2007
Argentina	6	2	4	3
Bolivia	18	10	7	6
Brazil	12	2	11	2
Chile	5	1	4	2
Ecuador	35	6	15	4
Colombia	20	17	12	4
Paraguay	17	19	5	4
Peru	4	2	13	2
Uruguay	4	5	7	4
Venezuela	37	3	18	4
Centro America.				
Costa Rica	26	2	16	5
El Salvador	43	27	21	4
Guatemala	41	18	8	3
Honduras	59	22	8	6
Mexico	25	5	6	2
Nicaragua	22	28	18	6
Panama	27	31	22	2
Caribbean				
Bahamas		13	24	10
Barbados	40	23	9	6
Belize			17	5
Cuba	5	2	12	2
Rep. Dominican	21	10	23	5
Granada		40	16	2
Guyana	17	13	9	15
Haiti	38	9	11	3
Jamaica	13	8	9	3
Saint Kitts and Nevis	8	42	28	4
Santa Lucia	19	19	8	14
San Vicente			18	5
Suriname	24	22	8	4
Trinidad and Tobago	51	34	10	6

It suggests an improvement in the China's share in the specific country's trade between 2000 and 2007.

<sup>16</sup> ECLAC: "Panorama de la inserción internacional de América Latina y el Caribe, 2004 – Tendencias 2005. Capítulo V: Aspectos estratégicos de la relación entre China y América Latina y el Caribe". 2006.

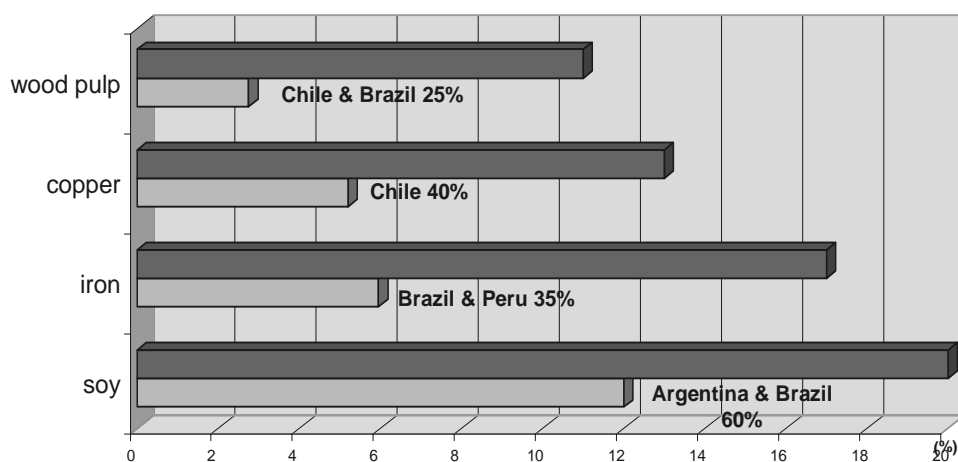
As can be seen in Table 4, in a relatively brief period (seven years), China has become a trading partner with much more weight in most Latin American and the Caribbean Countries.

For 21 countries China increased its share in their total exports and for 10 countries (including Argentina, Brazil, Chile and Mexico) ranked among their first five destinations. As a source of imports for the region, China increased its market share in almost all the 32 countries, ranking among the first five origins for 23 (in 2000 China exported to just four of them). A great share of China's total imports of some products come from specific Latin American countries.

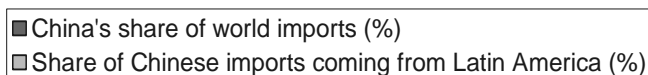
Concerning Latin America's imports, the greatest Latin American market for Chinese exports is Mexico, followed by Panama, Chile and Argentina.

The trade structure shows that while 70% of China imports from Latin America are primary products and manufactures based on natural resources, Latin America's imports from China are basically manufactured products, but excepting Mexico that basically exports computer and auto parts and Costa Rica which exports mid and high tech products.

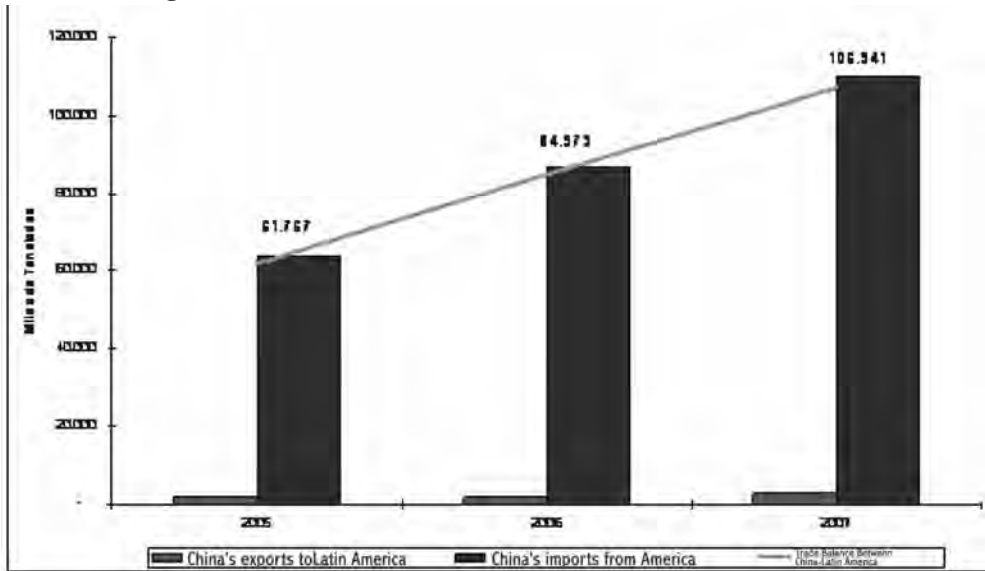
**Figure 2: Latin America's Share in China's Total Imports. 2005**



Source: ECLAC.

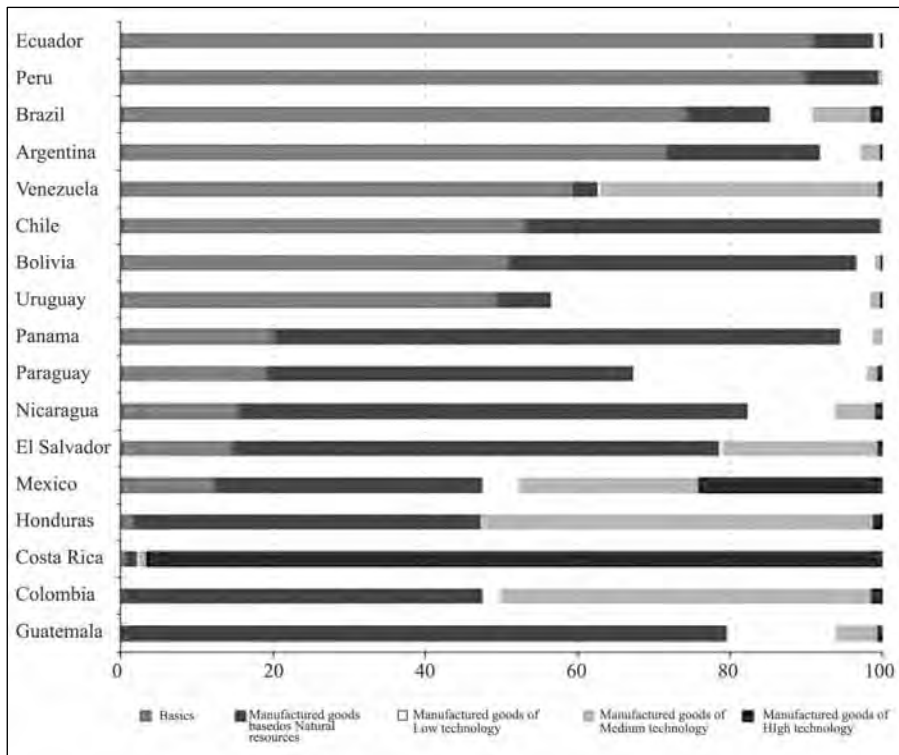


**Figure 3: China – Latin America: Trade of Raw Materials**



Source: Foreign Trade China-Latin America: Yearbook 2005-2007.

**Figure 4: Composition of the Chinese Export Basket, According to the Technological Intensity, 2006 (% of each country's exports to China).**



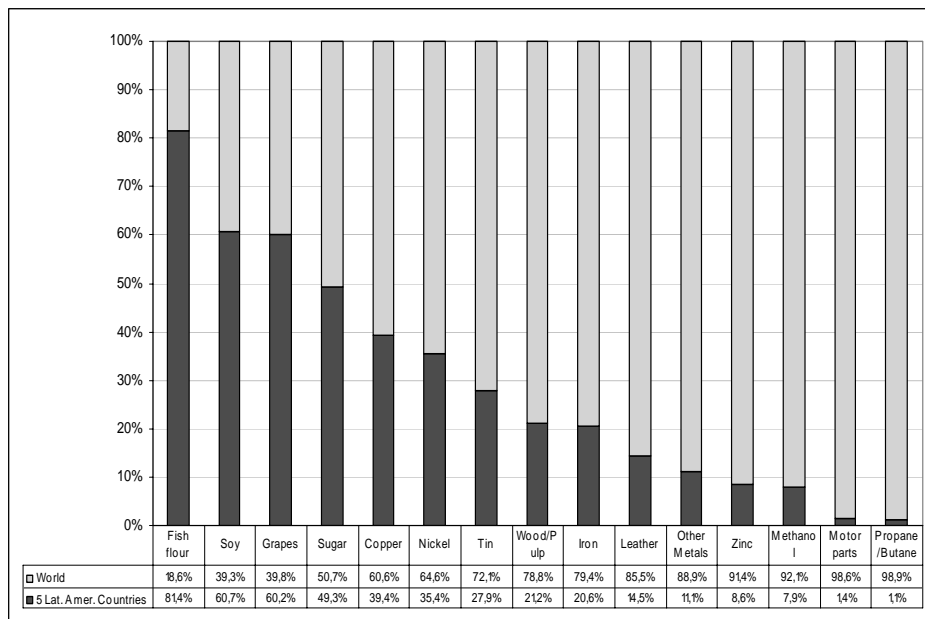
**Table 5: Composition of the Chinese export basket, according to the technological intensity, 2006 (% of each country's exports to China). Latin America and The Caribbean: Three main export products to China, by country, 2004-2006.**

Country	
Argentina	Soy beans 6,2%; soy oil 23,4%; petroleum 13,3%.
Bolivia	Tin 32,2%; wood 14,2%, other non-ferrous metals 12,6%.
Brazil	Soy beans 27,8%; iron 20,1%; petroleum 7,7%.
Chile	Refined copper 42,1%; copper 35,2%, chemical wood paste 6,6%.
Colombia	Other iron alloys 53,0%; other non-ferrous remainder 36,8%; other bovine and equine leather 2,8%.
Costa Rica	Microchips 76,9%; parts of data processing machines 11,3%; telecom equipment 4,5%.
Ecuador	Petroleum 89,6%; other non-ferrous remainder 4,5%, bananas 1,0%
Salvador	Other non-ferrous remainder 54,8%; metal remainders 10,6%; plastic remainders 6,6%.
Guatemala	Sugar products 78,1%; sport shoes 2,6%; sport shoes n.s.d. 2,4%
Honduras	Electrical equipment, circuit breakers 2,4%; zinc 22,7%; sugar products 18,3%.
Mexico	Parts for data processing machines 20,8%; other non-ferrous residuals 12,3%; vehicle parts 5,9%.
Nicaragua	Sugar products 47,3%; other sugar products 31,1%; other bovine and equine leather 6,9%.
Panama	Other non-ferrous remainder 45,3%; flours non-suitable for human consumption 22,7%; other ferrous reminders 10,5%.
Paraguay	Cotton 65,6%; other bovine and equine leather 16,0%; wood 8,2%.
Peru	Copper 33,7%; flours non-suitable for human consumption 26,5%; lead 9,5%.
Uruguay	Wool, animal hair, carding products 26,0%; other bovine and equine leather 21,9%, greasy wool 13,5%.
Venezuela	Iron products 38,7%; petroleum 24,5%; other non-ferrous remainders 16,2%.
The Caribbean	Aluminum 61,3; sugar products 28,5%; other non-ferrous remainders 3,9%.

Source: ECLAC. United Nations. COMTRADE.

Figure 5 confirms that Latin American exports to China are all but based in the extraction and intensive use of natural resources, which are exported with none or barely processing. This means the China-Latin America trade relations have an inter-industrial nature, where Latin America exports commodities and basically imports manufactured goods of varying technological intensity, a condition that could hamper bilateral trade and investment links.

**Figure 5: Main Latin-American's Exports to China by Product (%)**



Source: Made by author from ECLAC. 2005.

In the current decade Latin America's exports of goods increased at an 11% annual average rate. This growth resulted from both higher prices (up 5.1%) and larger quantities (up 6%). The price effect has been more relevant for exporters of mining, metal, oil and oil derivative products, mainly in Chile and the Andean countries. However, South American countries have benefited more from the high prices of commodities than Mexico and Central American nations. As exporters of mineral products and oil derivatives, five countries in the region – Venezuela, Chile, Peru, Bolivia and Colombia – benefited from China's growing and sustained demand on these products.

Another aspect to be taken into account in the qualitative assessing of the exchange is that the export basket of the Latin American countries is concentrated in a relatively small spectrum of items. As far as Argentina is concerned, for example, three products (soy beans, soy oil and oil) account for more than 84% of its total exports to China. Chile is in a similar situation, with three products (refined copper, copper concentrate and wood pulp) account for 85% of its total exports to the Asian country<sup>17</sup>. As a whole, the combination of a growing trade with China and the rise in export prices has allowed an increase in export incomes for Latin America that have in turn significantly contributed to its recent economic growth.

<sup>17</sup> Rosales, Osvaldo y Mikió Kuwayama: "América Latina al encuentro de China e India: perspectivas y desafíos en comercio e inversiones". Revista de la CEPAL. December 1/ 2007.

It should be taken into account that China's trade interests in South America are quite different to the ones it has in Central America and Mexico. South America has accumulated trade surpluses, while Mexico and Central America register current deficits. The impact of the quota removal concerning the Agreement on Textiles and Garment, on January 1, 2005, on Mexican and Central American exports has been noticeable. Since then, the growth rate of China's share in US imports has outstandingly increased.

Another Chinese step has been the negotiation of free trade agreements with countries in the region. Only one has been signed so far, with Chile, but negotiations are going on with Peru and Costa Rica.

### **- Finances -**

While China has granted some credits to Latin America, direct foreign investments have played the most relevant role in the bilateral financial relations. Although Chinese investments in the region are not quite significant in relative terms yet, their stocks have registered an outstanding rise, from \$8.2 billion in 1999, to \$70 billion in 2007. According to forecasts they will reach an average of some \$10 billion through 2015<sup>18</sup>. In 2007 China's investments reached \$22 billion, well below the \$350 billion invested by US companies. Chinese direct investments reached \$24.9 billion in the first eight months of 2008.

The first Chinese interest when investing in the region is to guarantee its timely access to natural resources. This is why the main investments are concentrated in mining and infrastructure construction. The following key projects can be mentioned: iron processing in Peru; oil and gas in Venezuela; and rice and biotechnology endeavors in Cuba.

Latin America's foreign investment in China has also increased. According to the Chinese Ministry of Trade, by the end of 2005 the Latin American countries had financed 17,956 projects in China for a total of US\$ 56.9 billion<sup>19</sup>.

Also recently China got its full membership in the Inter-American Development Bank (IDB). As a result the IDB, which is one of the main lenders for Latin American and the Caribbean countries, will improve its capitalization. China will contribute \$350 million to reinforce its key programs.

### **- Cooperation -**

The relationship between China and Latin America has significantly intensified since 1990 as far as cooperation is concerned. China has implemented cooperation agreements with several Latin American countries (16) in areas like infrastructure, agriculture, medicine, humanitarian aid, culture and social development. It has also signed agreements for mutual promotion and protection of investments with 11 countries of the region; and established

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<sup>18</sup> Xinhua. Dic 31/2007.

<sup>19</sup> [http://www.gov.cn/misc/2006-10/06/content\\_405906.htm](http://www.gov.cn/misc/2006-10/06/content_405906.htm).

**Table 6: China's Formal Cooperation with Latin America and the Caribbean, 1970-2004.**

	Reciprocal visits				aid programs				science and technology exchanges				important agreements				
	1970-1979	1980-1989	1990-1999	2000-2004	1970-1979	1980-1989	1990-1999	2000-2004	1970-1979	1980-1989	1990-1999	2000-2004	1970-1979	1980-1989	1990-1999	2000-2004	
Antigua And Bermuda.																	
Argentina		3	4	7		1	3			1	1	3		2	3	3	
Bahamas		5	18	13			1	2			1				4	3	
Bolivia		6	14	19			2	1		1	1	3		5	9	5	
Brazil			4	13	7					10	3	1	3	11	5	8	
Chile	2	2	15	10								3	4	5	8	6	
Colombia			12	17	33		1				3			8	5	1	
Cuba			2	23	22						1	2	2		4	10	7
Dominica					4												1
Ecuador			7	11	18						2	2	2	1	3	6	4
Guyana	3	4	8	10				1	2	2	3	2	2	4	4	6	8
Jamaica	2	2	13	9	2		5	4				1	2		5	6	1
Mexico	2	2	8	5			1		1			3		4	3	13	7
Trinidad And Tobago	4	5	8	5			1	1			1	1	1	1		3	3
Peru																	
Saint Lucia				3	7							3	5			5	5
Uruguay			1	10	8		1				1	2	1		6	5	5
Venezuela	2	4	20	47				1	1		3	4	5	1	6	6	15

Source: Ministry of Foreign Relations of the P.R. China

inter-governmental protocols for joint cooperation commissions with 12 countries. There are around 100 ongoing projects, most of them in agriculture, space and atomic technology.

The opening of two direct regular flights and the declaration of 19 Latin American countries as tourist destination for Chinese citizens so far, are evidences of tourism expansion.

### **Relationships with Regional Organizations:**

China's renewed interest in developing its links with Latin American countries has led to initiatives to widen the relationships with Latin American multilateral organizations and institutions. Since 1990 it has carried out 13 annual gatherings of Chancellors with the "Rio Group". In addition, in 2000 it set up a mechanism for consultations and cooperation with the Andean Community of Nations (Venezuela, Colombia, Peru, Ecuador and Bolivia).

Since 1991 China takes part as an observer in the annual gatherings of the Interamerican Development Bank and since 1993 holds the same status in the Latin

American Integration Association and the UN's Economic Commission for Latin America and the Caribbean. It also holds frequent contacts with the Latin American Economic System.

Since 1997 China started contacts with the "South Market" (MERCOSUR - Brazil, Argentina, Uruguay, Paraguay and Chile) and after three rounds of negotiations presented a proposal for a Free Trade Agreement, which is being considered by both parties' officials. In addition, in 1998 the People's Bank of China formally entered the Caribbean Development Bank.

In 2000, an agreement was reached for future systematic political exchanges with the chancelleries of the Caribbean countries with which China had diplomatic relations. In 2004 the China-Caribbean Economic and Commercial Cooperation Forum was set up, and in February 2005 took place the first gathering where prospects for investments, tourism, finance, transportation and agricultural dealings were analyzed.

In the political field, China exchanges visits and delegations with the Latin American Parliament (PARLATINO) and has an observer status in the Amazonian Parliament and the Association of Caribbean States (AEC). China currently has links with 90 political entities in 29 Latin American countries, including both ruling and opposition parties. At the same time the People's Republic of China officially strengthened links with the "Regional Commission of the Socialist International", the "America's Democrat-Christian Organization", the "Permanent Conference of Political Parties of Latin America" (COPPPAL), and also takes part in the "Sao Paulo's Forum".

### **2.3 China's Bilateral Relations with Some Latin American Countries.**

The implications of China's links with Latin America are not homogeneous, and thus a country by country study is required. To this end, the most representative ones have been selected.

#### **2.3.1 Argentina**

Argentina, together with Brazil, Chile, Venezuela and Bolivia, seems to have the best perspectives and the greatest economic opportunities in the relationship with China, because both countries' economies complement each other. The commercial relations started to grow quickly since 2004, when the former President Nestor Kirchner visited the Asian giant and President Hu Jintao visited Buenos Aires. In 2007 bilateral trade reached \$9.9 billion, 73% higher than a year before<sup>20</sup>.

Argentina is currently the fourth Latin American seller of goods to China and China is the first Asian client for Argentina. Three quarters of Argentina's exports to China come

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<sup>20</sup> Patagonia Argentina (CRD). July 21/2008.



from the agro-food industry. Their main export goods are soy, soy oil, leather, wool, and iron tubes without seams, which several Chinese industries use as inputs<sup>21</sup>. Soy exports are the most dynamic, and exports to China have grown much faster than exports to the rest of the world. On the other hand, China imports 23% of the soy products from Argentina<sup>22</sup>. Argentina's total exports to China have suddenly increased from some \$140 million in 1992 to \$3.5 billion in 2006 and \$6.3 billion in 2007. Soy accounts for most of them. Before year 2020 oleaginous grain sales are expected to reach 400 million tons (35% more than in 2006), valued at some \$100 million. In this scenario, China may become the greatest consumer of Argentinean products.

Argentina imports from China mainly machinery and transportation equipment (more than 40% of its total imports), chemical products (18%) and textiles and shoes (11%)<sup>23</sup>. Among the main products imported the following can be mentioned: computers, organic and inorganic compounds (mainly herbicides for agriculture), toys and radios.

Cooperation between both countries has expanded to the areas of civil aviation, public healthcare, culture, investments and agriculture. China invests outstanding resources in the following Argentinean fields: mining, chemistry, fishing, fertilizers, electronics, communications and energy.

Particularly relevant are Chinese investments in communications (for example, \$710 million have been disbursed to develop satellite telecoms and informatics technologies); in space technology (\$260 million for two satellites in five years); hydrocarbons (\$ 5 billion to explore maritime areas far from shores and the recovery of mature oil wells); and infrastructure (\$8 billion to modernize and expand urban and interurban passenger railway services, as well as \$6 billion for the construction of 300, 000 popular dwellings).

From the Argentinean side a total of \$25 million have been invested in a leather tanning plant in Guangdong and 10 companies in the "Special Economic Zone" of this region to produce software in Spanish. At the same time, Argentina enjoys the condition of "government tourist destination" granted by China, and expects to earn millions out of that.

As a whole, it could be said that the relationship with China has been positive for Argentina, due to the expansion of exports and the high prices of its main export items, together with inflow of fresh capitals. However, there are also constraints and challenges. China has three key impacts for the Argentinean trade: provides new export opportunities; widens import possibilities; and means a threat of greater competition in third markets.

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<sup>21</sup> Kenny, Alejandro: China's presence in Latin America: a view on security from the Southern Cone. *Military Review*, Sept-Oct, 2006.

<sup>22</sup> Sepulveda G, Isidro. RELATIONS BETWEEN CHINA AND LATIN AMERICA: Is the relationship beneficial for Latin America? UCLA, Department of History. March of 2008.

<sup>23</sup> BID and David Rockefeller Center for Latin American Studies Harvard University: El impacto de China. Oportunidades y retos para América Latina y el Caribe. Julio 2007.

### *New Export Opportunities:*

Although Argentinean exports to China are not insignificant for a wide range of products, mainly agricultural ones, there is still great room for their expansion, taking into account that both countries have an important degree of specialization, one as an exporter and the other one as an importer, in those products. Among them there are agricultural sectors like oleaginous seeds, meats, fish, and others like fuels, plastics, iron and steel, leather and wool.

In addition, there are other products which represent opportunities not yet mutually tapped due to a high degree of protection or for a lack of demand, like cereals, greases and oils, tobacco and milk products.

### *Opportunities to Expand Imports:*

Based on the same logic, there are opportunities to widen the Argentine imports from China in some products. The complementary sectors where trade takes place currently but could be expanded are basically manufactured goods like: machinery; chemical and metallic products; cars and car parts; shoes and plastics. Among those where there is no current trade, but it could be developed, the following could be mentioned: fertilizers, steel products, among others.

### *Competition in Third Markets:*

China's growing presence in the world economy could also mean an important threat for Argentinean exports to third markets. The products that could face a greater competition are those where Argentina has not an apparent competitive advantage, like: fruit and vegetable preparations, meats, products from animal origin, fish, crustaceans, and non agricultural sectors like electric machinery, iron and steel articles, shoes, rubber and plastics. However, this group of products barely accounts for 2% of the Argentinean exports<sup>24</sup>.

The Argentinean exports could also be displaced after the signature of a free trade agreement between China and Mercosur, due to the erosion of the custom preferences that Argentina will endure in the Brazilian market. The greatest threat is identified in 4% of the Argentinean exports to Brazil, comprising rice, herbicides, insecticides and some machinery<sup>25</sup>.

In this sense, Argentina has taken defensive measures to prevent the negative impact derived from the relationship with China, including antidumping measures implemented mainly in the sectors of machinery and transportation equipment and metals.

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<sup>24</sup> Inter-American Development Bank and David Rockefeller Center for Latin American Studies Harvard University: "El impacto de China. Oportunidades y retos para América Latina y el Caribe". Julio 2007.

<sup>25</sup> Centro de Estudios Internacionales. Argentina. 2003.

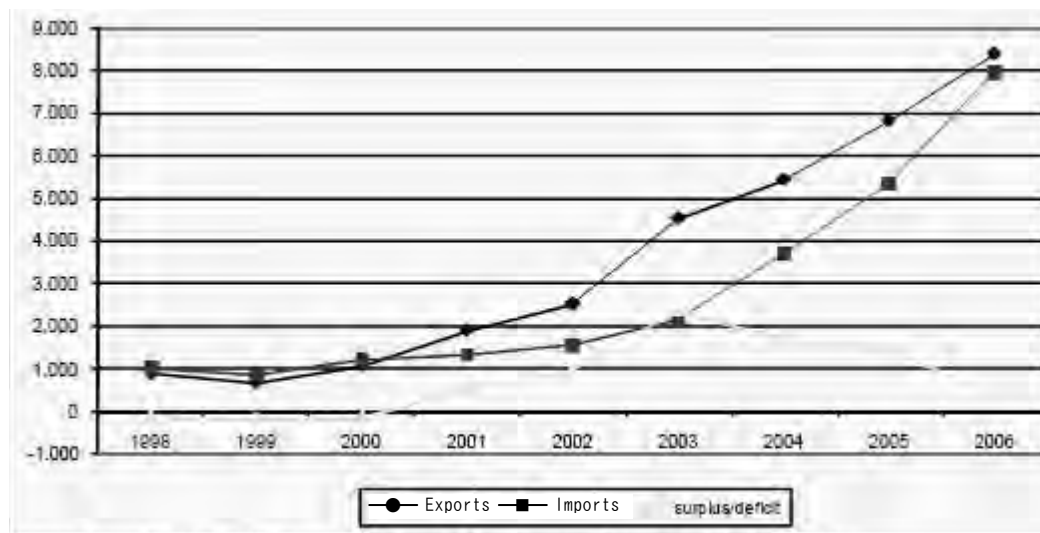
### 2.3.2 Brazil

Brazil-China bilateral trade considerably increased since 2000, rising ten fold by 2006. Brazilian exports to China have tripled, reaching 7% of its total exports and making China the second export destination after the United States. During the same period, the proportion of imports coming from China has more than doubled, reaching 4.5% of its total imports. In 2007 the bilateral exchange reached \$29.7 billion<sup>26</sup>.

China is currently Brazil's second trading partner after the United States and before Argentina. However, Brazil intends to increase three times its exports to the Asian country, to some \$30 billion, by 2010, and make it its first trading partner<sup>27</sup>. Precisely, in July 2008 Brazil launched the program "China Agenda", which goal is to impel the bilateral trade and increase Chinese investment inflows.

Brazilian exports to China are concentrated in commodities like soy, soy oil, iron mineral and iron grains, and wood pulp, which together account for about two thirds of its total exports to that country. The most dynamic export sector is soy. The Brazilian share in China's soy imports has significantly increased since the end of the nineties and now accounts for 45% of China's total purchases abroad. Brazil has also been increasing its share in the Chinese market for iron mineral and iron grains, accounting for 28% of the Chinese

**Figure 6: Brazil's Exports to, Imports from, and Trade Balance with China 1998 - 2006**



Source: Secex/MDIC (Trade Secretary/Ministry of Development, Industry and Trade, Brazil).

<sup>26</sup> Xulio Ríos, July 2, 2008.

<sup>27</sup> Xinhua, July 11, 2008.

imports<sup>28</sup>. Brazil forecasts that fresh opportunities will arise for the export of several traditional agricultural products like cattle and pork meat, orange juice, transportation equipment and software.

Brazilian imports from China are concentrated in a few products including coal and coke, organic chemical products, electric machinery, equipment and parts. Coal and coke imports from China have been increasing its market share in Brazil, displacing Australia. Those of electric machinery, equipment and parts have also increased at the expense of the United States and Japan. However, the degree of protection faced by imports from China in the Brazilian market (MERCOSUR) is relatively high, but with a low range of variation. The products most affected in relative terms were those with low technological content like textiles and steel products, while in absolute terms the greatest losses were registered in the products with a mid technological content, like radios, vessels, iron and steel products, air conditioning equipment, excavator machines and sewing machines.

Concerning the Chinese direct investment in Brazil, they have basically targeted the manufacture of telecom equipment, electric home appliances and steel industry, together with transportation infrastructure: railroad projects, ports, highways, works that benefit and make Brazilian products' exports cheaper. China is also particularly interested in energy, and consequently one of its most relevant investments is the one the Chinese company Sinopec Group is carrying out together with the Brazilian state oil company Petrobras to build a gas pipeline for the internal transportation of natural gas.

However, Brazilian investments in China surpass that of China in Brazil, although the first ones could be considered limited if compared with the total amount of Brazilian investments abroad. According to the Chinese Ministry of Trade, the Latin American power has invested \$250 million in China, while the latter has invested \$150 million in Brazil<sup>29</sup>. The Brazilian investments are mainly concentrated in the automobile sector, the manufacture of compressors, turbines and generators. The most outstanding Brazilian investment in China is probably the project for the joint manufacture of short-route commercial airliners.

Concerning cooperation, both countries closely work in the aero-space and bio-energy areas. They have already launched two research satellites and plan to launch two more in 2008<sup>30</sup>. Both countries also plan to work in other strategic areas like ethanol, iron mineral, steel, some agro-industries, software, medicines, civil engineering, aeronautics and electronics.

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<sup>28</sup> Sepulveda G, Isidro. "Relations between China and Latin America: Is the relationship beneficial for Latin America?" UCLA, Department of History. March of 2008.

<sup>29</sup> Xinhua. July 11, 2008.

<sup>30</sup> Kenny, Alejandro: "China's presence in Latin America: a view on security from the Southern Cone". Military Review, Sept-Oct, 2006.

On the other hand, China granted Brazil the condition of “Governmental tourist destination”, and Brazil expects to attract a great share of the 20 million Chinese nationals traveling abroad. In turn, Brazil acknowledged China as a “market economy”.

In general terms it could be said that although the bilateral commercial exchange has had a positive outcome for Brazil, the Chinese competition has damaged some Brazilian exports to third markets, particularly the United States. According to one estimate, Brazil export losses due to Chinese competition account for 4% of total Brazilian exports between 1990 and 2001<sup>31</sup>.

Concerning foreign investments, there is almost no coincidence in the source of external funds or the destination sectors in Brazil and China, so there is a low probability that Brazil had been damaged by the diversion of world investments to China.

As a summary, both countries have benefited from their bilateral relations, which are expected to further expand in the future. Brazil has been one of the Latin American countries that have benefited the most from its relations with China, because their economies are among the most complementary and Brazil has developed mechanisms to favor the bilateral relations while implementing at the same time measures to protect itself from the negative impact derived from these relations.

### **2.3.3 Chile**

China's importance for the Chilean foreign trade has considerably increased in the last 15 years. China became Chile's third trading partner after the United States and Argentina, and its most important export market.

Chilean sales to China moved from 0.4% of its total exports in 1990 to more than 9% in 2003. During the same period, imports from China moved from 0.8% to more than 7% of its total imports. After Hu Jintao's visit in 2004 bilateral trade expanded and several strategic agreements were signed. This way, Chilean exports to China tripled since the beginning of year 2000, and today they account for 15% of Chile's total exports. At the same time, imports from China make up 10% of Chile's total imports. Around 85% of Chile's total exports to China are concentrated in a narrow range of sectors, like minerals, fruits, fish, fish flour, organic and inorganic chemical products and beverages.

Chilean copper accounts for 20% of China's total imports of this mineral. By 2010 these levels are expected to further expand. Both countries signed an agreement guaranteeing China's access to Chile's copper for the next 20 years<sup>32</sup>. Wines and grapes are another

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<sup>31</sup> Mesquita Moreira, M. “Fear of China: Is There a Future for Manufacturing in Latin America?”. Departamento de Integración y Programas Regionales, Banco Interamericano de Desarrollo, Washington, D.C. 2004.

<sup>32</sup> Kenny, Alejandro: “China's presence in Latin America: a view on security from the Southern Cone”. *Military Review*, Sept-Oct, 2006.

outstanding Chilean export item, since China imports 45% of its total requirement from this origin<sup>33</sup>.

Chilean imports from China are also concentrated in a few industries. Sectors like leather, garment, shoes and toys together account for 45% of the total, while machinery accounts for another 25%.

China's investment flows to Chile have been low. Most of these investments were initially aimed at forestry and services, and later some agreements were signed in mining to expand copper exports.

It should be highlighted that Chile was the first Latin American country to sign a free trade agreement with China (in 2005). For Chile it brings two main advantages: 1) Will facilitate its entrance to the Chinese market; and 2) Will provide facilities for Chile's entrance to Asian productive chains where Latin America is currently absent. Chile's trade relationship with China gained pace after the implementation of the free trade agreement. In 2007 the direct bilateral trade reached \$14.8 billion, up 76.3% compared to 2006. Chile registered a \$4.8 billion surplus with China in 2007 due to the higher prices for copper and commodities. In the first semester of 2008 copper exports prevailed within Chile's exports to China, accounting for 81.4% of total goods exports.

Although the main Chilean exports to China must pay extremely low custom duties, Chile still faces in China relatively high custom duties over the agricultural products it profitably sells to other markets. The non-custom restrictions (like phito-sanitary standards) and the problems with product classification (particularly for organic and inorganic chemical products) also prevent Chile from selling a greater diversity of products in the Chinese markets.

For China, the main advantages were: 1) The skills acquired negotiating a free trade agreement with a trained partner, 2) favorable agreements concerning origin rules to access other markets in countries having free trade agreements with China, and 3) benefits and investment opportunities, particularly in the mining industry. Thus, Chile is another Latin American country which as a whole has benefited from the relations with China and hasn't been particularly hurt by China's rising weight in world trade and investments.

Although a first approach could lead to conclude that Chinese and Chilean exports are similar and compete for exports to third markets, particularly to the United States, a breakdown of products shows it is wrong. Both countries do have a high share of US imports of fish, vegetable and fruit preparations, organic and inorganic chemical products and wood articles. However, the specific products usually are not the same. Both Chile and China export fish filets to the United States (accounting for 25% and 16% of US total imports respectively), but Chile exports salmon and lubina, while China is specialized in codfish and

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<sup>33</sup> Sepulveda G, Isidro. "Relations between China and Latin America: Is the relationship beneficial for Latin America?" UCLA, Department of History. March of 2008.

flounder. Both countries have a great participation in the organic and inorganic chemical imports of the United States. However, a closer look shows that Chile's export structure is quite different from China's. Chile exports to the United States mainly fluorine, chlorine, and salt, while China exports radioactive chemical products, cement and feldspar.

The direct competition in the sector of fruit and vegetable preparations is more evident. Although apple juice exports are economically less important for both countries than those of fish, the penetration of the product in the US market, and thus the competition, is greater. In the sector of wood and wood articles, and in paper products, something similar happens.

Concerning foreign investments, there are no evidences that the Chinese participation in world flows had diverted flows that otherwise would have gone to Chile. It could be thought that, on the contrary, greater export opportunities to China (like those of copper) could attract investments to Chile. As a matter of facts, recent flows have been mostly aimed at this sector but, although China has obviously been the world's copper market engine in the last few years, it can not be determined how much flows to Chile are related to China's growth prospects. There are also possibilities for new and greater investment opportunities for Chilean companies in China and vice versa.

Finally, Chile has enforced policies aimed at containing the threats posed by China, while taking advantage of the opportunities it opens. To face the risks of China's opening and penetration in the world markets, Chile has reserved itself the right to carry out investigations and eventually apply three alternatives: antidumping measures, compensatory rights, and safeguards. Also, since 1994 Chile subscribed a bilateral investment protection agreement with China.

An example of the Chilean export initiatives was its stance concerning China's entrance to the WTO. During that process, Chile presented a petition to China concerning the custom duties for a range of products, although China's final proposal was lower than the Chilean request due to China's negotiation with other WTO members.

#### **2.3.4 Mexico**

China's transformation during the last 20 years has not only opened a huge market with a wide range of opportunities for exports, but also has created a powerful competitor for the countries with similar comparative advantages. This is the case for Mexico.

Like most Latin American countries, Mexico has significantly increased the relations with China in the last few years, not only in trade, but also in investment and cooperation<sup>34</sup>. Of course, trade is the most outstanding issue. It has expanded in both ways but keeps quite

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<sup>34</sup> Mexico has signed seven agreements with China, including a veterinary agreement for exports of pork meat, a technical cooperation agreement on social assistance and welfare, a reciprocal agreement to promote and protect foreign investments, among others. Experts estimate that Chinese investments in Mexico City will reach \$1 billion in the next 10 years.

asymmetrical. Mexico's exports to China have increased in the last few years, but its share in Mexico's total exports is barely 0.3%, while the Asian country ranks second among Mexican suppliers. This way, the amount of imports from China surpasses Mexico's exports 16 times<sup>35</sup>. As a result, Mexico's trade balance with China has been increasingly in red. In 2007 the trade deficit was over \$14 billion<sup>36</sup> and from January to April 2008 was 28.8% higher than that registered during the same period a year before<sup>37</sup>. Bilateral trade increased from some \$3 billion in 2000 to \$31.7 billion in 2007, but there is an imbalance favoring China.

A more detailed analysis of the Mexican exports and imports to China points to the challenge faced by this Latin American country. Around 75% of imports from China are concentrated in electric equipment, electric home appliances and machinery, while 5% is made of textiles and garment. These imports, usually at low prices, harm Mexican producers. Chinese electronics have invaded the Mexican market. According to Banco de Mexico (Banxico) and Mexico's Ministry of Economy (Secretaría de Economía) in 2007 the country spent \$27.9 billion in Chinese imports, 1,000% up if compared to the \$2.6 billion purchased in 2000. Concerning garment imports, although China's legal imports are important, they are not the main source of competition for Mexican manufacturers, because the Mexican Ministry of Economy estimates that 58% of the internal market for these articles is supplied through illegal channels (counterfeit, stolen goods, fiscal evasion).

Mexico has also been hurt by the displacement effect of China exports in third markets, particularly the United States, where Mexico accounts for 40% of the Latin American exports, most of which compete with similar Chinese products. Some researches addressing China and other countries' comparative advantages in their first 50 products show that in the 1992-1998 period the rivalry between China and Mexico has relatively low if compared to other competitors. However, the competition between these two countries in third markets, particularly in the United States, has changed a lot since China's entrance to the WTO in 2001. Only from 2001 to 2003 China's share in United States' total imports increased 35%, while Mexico's share decreased almost 5%. As a consequence, in 2002 China had already displaced Mexico as the main exporter to the United States<sup>38</sup>.

The sector of manufactured goods (textiles, garment, electronic equipment, shoes and leather), which account for 80% of Mexico's total exports, has been particularly hurt. Following the end of the "Multi-Fiber Agreement" in 2005, which led to the liberalization of the textiles market, China's market share has been increasing to around 60% of Mexico's textiles and garment market in 2007. These sectors have been affected not only by the

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<sup>35</sup> *La Jornada*. Junio 28, 2008.

<sup>36</sup> Notimex. Julio 13, 2008.

<sup>37</sup> *El Financiero*. July 4, 2008.

<sup>38</sup> Sepulveda G, Isidro: "Relations between China and Latin America: Is the relationship beneficial for Latin America?" UCLA, Department of History. March of 2008.



displacement due to the massive direct exports of Chinese products at extremely low prices, but also because there has been a significant migration of companies, mainly in the electronics sector, to China<sup>39</sup>.

More than 500 companies moved from the so-called “maquila” ring, located in the United States’ border, most of them to China, due to the salary differences: \$1.50/hour to \$0.50/hour. As a result, thousands of workers lost their jobs.

Mexico hasn’t kept inactive concerning these challenges, and answered with a comprehensive program aimed at eliminating the systemic problems that reduce the country’s competitiveness both in the internal and international markets. The program includes defensive and offensive measures. Among the defensive steps could be cited the possibility to use antidumping, compensatory and safeguard measures. The main defensive measures are aimed at increasing Mexican economy’s competitiveness. In 2002 Mexico created the Presidential Council for Competitiveness, which has designed structural strategies (including macroeconomic strengthening, human capital development, and technology development promotion), together with strategies aimed at specific sectors (fibers, textiles and garment).

Two key conclusions could be advanced: First, that although the Chinese presence means a threat for the country, there is still untapped possibilities for both countries. For example, the Chinese market offers Mexico enormous opportunities for exports, and Mexico could benefit from Chinese investments which have hardly been fully exploited. For example, China is one of the main purchasers of electric and mechanical products in the world, and Mexico and other countries with some industrial development in the region could satisfy these necessities. On the other hand, Mexico has several ports in the Pacific coast that China could use to take advantage of their proximity to the United States.

The second, which is derived from the first, is that the key for Mexico is not to arrive to the conclusion that it is losing the US market, but to define how can a strategic relation be established with China in order to jointly penetrate that market. The strategy would be to identify the sectors where that is possible and then the way to do it. Several Mexican businessmen have suggested to invest in China with Chinese partners, to invest in Mexico with these same partners and then to face together the US market using the advantages of the FTAA.

### **2.3.5 Cuba**

Cuba is not an important economy within Latin America. Thus, the relations with China are based more on political goals, since both countries share a common ideology. Bilateral relations began in 1960, when Commander Ernesto Che Guevara visited Beijing

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<sup>39</sup> China is intensively developing outsourcing, i.e. the transference to its territory of important segments of the productive chains (like data processing and call centers, computer programming, engineering design, accounting and finances, medical diagnosis and even distant surgeries).

and signed the first Agreement for Economic and Technological Cooperation. The Chinese Minister of Economic Relations and Foreign Trade visited Cuba in 1987 and negotiated the creation of the Intergovernmental Commission for Economic and Commercial Relations.

Bilateral links further strengthened after Chinese President's visit in 2004, during his Latin American tour. A total of 16 agreements were signed in different sectors of common interests, particularly in education, biotechnology, modernization of the meteorological services, mining and telecom. Political, social, union and cultural contacts also gained momentum.

Concerning the commercial relations in the last few years, bilateral trade has expanded and diversified. In 2006 bilateral trade with China doubled, to \$1.8 billion<sup>40</sup> and in 2007 increased 27%, to \$2.3 billion<sup>41</sup>, consolidating the Asian giant as Cuba's second trading partner<sup>42</sup>, and the first destination of Cuban exports<sup>43</sup>. Nickel and sugar account for most of the island's sales, which also include tobacco, a rat killer named Biorat, Interferon, vaccines, hi-tech medical equipment and seafood<sup>44</sup>. Cuban Minister of Foreign Affairs stated that Cuba would supply the Asian giant more than 10,000 tons of nickel in 2007<sup>45</sup>, more than twice the yearly amount agreed in 2004 during China's president visit to Havana<sup>46</sup>. In March 2007 both countries renewed the agreement under which Cuba exports 400,000 tons of raw sugar annually to China<sup>47</sup>. China, in turn, supplies Cuba a wide range of goods including transportation vehicles, electric home appliances, computer, telecom, oil drilling and renewable energy equipment.

Concerning foreign investments, there are 7 joint economic associations incorporated in Cuba and 5 in China, in sectors like oil risk exploration; production and marketing of rice; shoe manufacturing; tourism; pharmaceuticals; biotech, and hi-tech medical equipment, among the most important.

During the 19<sup>th</sup> Joint Intergovernmental Commission in March 2007, both parties agreed an expansion of the joint ventures in biotech, particularly those aimed at producing interferon and monoclonal antibodies, and to set up another for the production and marketing of neuro-engineering products. Investments in tourism would also be prioritized<sup>48</sup>,

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<sup>40</sup> AP, 03/13/07.

<sup>41</sup> \$2,278 million. EFE, 02/22/08.

<sup>42</sup> *Juventud Rebelde*, 11/06/07.

<sup>43</sup> Statements by Raúl Torres, Director of the Asia Division at the Cuban Ministry for Foreign Investments and Economic Cooperation, EPS, 09/30/07.

<sup>44</sup> EPS, 04/30/07.

<sup>45</sup> Xinhua, 04/17/07.

<sup>46</sup> *Granma*, 12/25/04.

<sup>47</sup> Reuters, 03/27/07.

<sup>48</sup> *Juventud Rebelde*, 03/28/07.

since the Chinese tourism to Cuba has been increasing and arrivals surpassed 10,000 by the end of 2006<sup>49</sup>.

Chinese financing and donations are quite important for Cuba. During the final session of the 19<sup>th</sup> Intergovernmental Commission on economic and trade relations the Chinese government granted the Island a \$6.2 million credit for development programs<sup>50</sup>. A \$2 million loan was granted to expand a plant built with Chinese cooperation in Matanzas province for a bio-pesticide against the larvae of the *Aedes Aegyptis* mosquito, that has been operating for two years<sup>51</sup>.

The Chinese government also pledged to continue financing exports of energy, transportation, telecommunications and other equipment to Cuba and to expand imports of Cuban goods and services<sup>52</sup>. China also donated \$300,000 for continuing a program involving Chinese technical assistance for the development of Cuba's aquiculture industry<sup>53</sup>.

Financing coming from Venezuela and China under concessionary terms has helped reducing the average interest rate Cuba paid on borrowings<sup>54</sup>. China has made donations and provided credits under preferential conditions, particularly for the health sector. The most recent development in that area was China's financing for the improvement and expansion of the country's blood banks, a project that started in 2007<sup>55</sup>.

There are also outstanding cooperation links between both countries. Joint China-Cuba projects comprise sectors like education, public health, agriculture and hydraulic works<sup>56</sup>.

Particularly relevant are those in education. In October 2007 Cuba and China signed several agreements, including the opening of a Confucius Institute office in Cuba to teach Chinese language. Also in October 2007, 207 Chinese students graduated from a Spanish program in Cuba, and more scholarships will be offered under an agreement signed in 2004, which has been extended until 2011<sup>57</sup>. Under this program, some 1,000 young Chinese people will study Spanish, medicine and nursing<sup>58</sup>. A number of Cuban young people are currently studying Chinese language in China<sup>59</sup>.

Cuba can and has in fact played a role as a facilitator of Chinese links with Latin

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<sup>49</sup> AP, 03/17/07.

<sup>50</sup> *Granma Internacional*, 04/01/07.

<sup>51</sup> *Granma Internacional*, 04/01/07.

<sup>52</sup> Reuters, 03/27/07.

<sup>53</sup> *Granma Internacional*, 04/01/07.

<sup>54</sup> The Economist Intelligence Unit, *Country Report: Cuba*, Nov, 2007, pp. 27.

<sup>55</sup> *Granma Internacional*, 04/01/07.

<sup>56</sup> Statements by Raúl Torres, Director of the Asia Division at the Cuban Ministry for Foreign Investments and Economic Cooperation, EPS, 09/30/07.

<sup>57</sup> EFE, 10/17/07.

<sup>58</sup> Reuters, 10/17/07.

<sup>59</sup> AFP, 03/12/07.

America and particularly the Caribbean. This role could expand in the future, considering Cuba's experience and contacts in the area and the high level of communication and mutual understanding achieved with the Asian giant on bilateral, regional and multilateral matters.

As a whole, developing economic, commercial and other kind of links with China will allow a diversification of the Caribbean countries' relations and at the same time will partially counteract the United State's influence in this area.

### **III. Assessment and Prospects of the China – Latin America Economic Relations.**

#### **3.1 Challenges and Opportunities**

So far, the China – Latin America economic relations have undoubtedly benefited the first, while for Latin America a more careful and differentiated balance must be done in order to make objective conclusions.

The key is to acknowledge that China is a rising world power while Latin America, a region that is searching for a viable development alternative must take as much as advantage as possible of the opportunities, and know how to face the threat derived from these relations.

#### **Opportunities:**

As a whole, the economies of China and most Latin American countries complement each other both in the commercial and the financial fields. If taking Latin America as a region it could be said that both players are benefiting from mutual relations. Some share of the economic dynamism that both are currently enjoying could be attributed to the commercial relations with the other counterparty. China is benefiting from the natural resources it is importing from Latin America, which is also a destination for its exports. Latin America, in turn, is getting incomes from its exports to China.

Latin America's incomes have increased not only due to the rising volume of Chinese imports, but also thanks to the rise in prices for raw materials in world markets resulting from the growing Chinese demand.

The fact both parties are showing a positive macroeconomic performance in the last few years means, at the same time, an opportunity to benefit from the bilateral relations. If the Chinese economy growth its income and demand also growth, and that could favor Latin American exports and eventually Chinese tourism bound to the region. In turn, if Latin America shows a better economic performance, it would be in better condition to make its market more attractive, including foreign capital and tourists.

On the other hand, excepting some specific products, most imports coming from China do not match Latin America's supply, and thus do not damage local producers. The Chinese products are similar to those coming from the United States and Europe, but are cheaper, benefiting low-income people. For this reason, Chinese products are helping to contain inflation, and are contributing to cheaper prices for the goods in the region.

The higher export prices and lower import prices have improved Latin America's trade terms, and that, in turn, has favored savings, fiscal accounts and trade surpluses that have helped to finance the region's deficits with the rest of the world.

Chinese investments could also bring opportunities for Latin America. Although Chinese investments have been mostly aimed at creating or improving the conditions for raw material exploitation and facilitating trade exchanges, they have also modernized the infrastructure in particular sectors like mining, agriculture and transportation, and that could allow the emergence of new competitive capabilities.

From the political point of view, the rapprochement with China means a diversification of Latin America's external relations, that reduces Latin American countries' dependency from third parties, increases its negotiation power, and facilitate a greater autonomy to their external policies.

However, a closer approach highlights the differences between both players. While there is no doubt that the relations with Latin America are beneficial for China, the same can not be said for Latin America. In this region not every country has been evenly favored, and some have even been damaged to some extent. In sum, the opportunities arising from the China-Latin America relations are concentrated in the countries whose exports have benefited from the high demand and prices, which have in turn favored their growth. Thus, the leading South American economies (Brazil, Chile and Argentina) are the absolute winners in the relationship with China, based mainly on their exports of food and strategic raw materials.

### **Threats:**

The presence of Chinese products in the world market, abundant and cheap, represents a threat for almost every country, which sees them as strong competitors both in their export markets and their internal markets. This is also the case for Latin America as a whole, where some countries have been more damaged than others. The expansion of China's demand for primary products, together with the increase in its supply of manufactured goods, has damaged the economies of the countries which are net importers of oil and exporters of textiles and garment. This is the case of Mexico and most of Central America and the Caribbean.

For example, after the removal of the quotas established by the Agreement on Textiles and Garment, the impact on Mexico and Latin America's exports has been noticeable. Since then, the growth rate of China's share in US imports outstandingly expanded: In 2005 their volume expanded 54% and their value increased 44% compared to 2004. By the end of 2005 China increased its market share in the US from 17% to 25% and from 25% to 33% respectively compared to the previous year in the same terms.

These countries have also competed with China in the US market for manufactured products (intermediate, light manufactured goods, like textiles and toys), and have lost their market shares and experienced an impairment of their trade terms. In addition, the internal markets of these countries have also been hit, since China's comparative and competitive

advantages (cheaper labor, transportation, etc) are causing a competitive loss, which is in turn leading to capital outflows and higher unemployment.

So far, the most evident threat has been identified, but this is not the only one the region is facing. Latin American exporters of primary goods (mostly South American) which face a hard competition from exporters of other regions, particularly the countries belonging to the Association of South East Asian Nations (ASEAN) in the Chinese market, could also be hit.

The share of the ASEAN countries in the Chinese imports of manufactured goods made of natural resources doubles that of the Latin American Integration Association (ALADI). About 20% of the hi-tech manufactured goods imported by China comes from the ASEAN countries, while 8% of China's exports of hi-tech goods and more than 11% of its exports based on natural resources go to these same nations. These relatively high percentages suggest the existence of an inter-industrial trade network between China and ASEAN, which doesn't exist with Latin America<sup>60</sup>.

In other words, for Latin America these jeans that despite the relevant presence of some Latin American Countries among the main suppliers of primary goods and manufactures based in natural resources, it is probable that the competition between the Asian and Latin American countries will intensify, since several Asian countries are important suppliers of the same goods. Thus, if active policies are not implemented, such as bilateral or sub-regional trade agreements, Latin America could be affected by trade diversion.

Another threat for the region is the possible reinforcement of a pattern of exports of low value-added products, which traditionally volatile prices have shown a downward trend, while from the regional point of view there is also a possibility that some trade would be diverted to China, damaging Latin American countries themselves.

There are other, more arguable, potential dangers. For example, some analysts have stated that China's growth is taking place at the expense of Latin America, because a diversion of investments and other financial flows to China is taking place from other regions of the world. It is true that the private financing uses to go alter the highest yields and China can provide that better than Latin America. China, in fact, holds an A2 "investment degree" from the risk classification agencies, while most of the Latin American countries, even Brazil, are ranked below that condition. Investors, of course, usually privilege low-risk destinations.

Chinese attraction is not only based on the legal and tax incentives it offers to potential investors, which as a matter of facts are very similar in almost every country, but also on the profit opportunities perceived by investors, which may vary even depending on

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<sup>60</sup> Rosales, Osvaldo y Mikio Kuwayama: "América Latina al encuentro de China e India: Perspectivas y desafíos en comercio e inversiones". Revista de la CEPAL, No. 93. Dec. 2007.

the own effect of foreign investments on the patterns of comparative and competitive advantages. This has led to actual “disinvestment”, i.e. to the transfer of factories or parts of them from Mexico, the Philippines, Thailand, Malaysia, the United States and Japan, to China.

However, a closer analysis of foreign investment trends to undeveloped countries since the end of the previous decade shows that funds raised by China can hardly be blamed for a lower affluence of foreign investments to Latin America in the last few years, because other countries like those of Eastern Europe, for example, have attracted higher inflows than the Asian giant.

There are other internal factors (for example political or related to national identity) that may also contribute to explain the behavior of foreign investors in China. According to some estimates one third of the foreign investment flows to China come from émigrés motivated by extra-economical considerations and wouldn't be willing to invest in a country different than its own, while another third is just Chinese capital that is being invested through Hong Kong in order to take advantage of the tax incentives enjoyed by foreign investors. On the other hand, China is starting to become a source for outstanding investment outflows to other countries, and Latin America is one of the benefited.

Finally, some analysts think the relations with China may lead to a new geographical dependence in the future, repeating the scheme it already undergone with Europe and later with the United States. So far, the threat that is perceived for the future development of China's relations with Latin America is in the political field, namely in the United State's disapproval of the Chinese presence in the continent.

### **3.2 Prospects**

The prospects for the relations between China and Latin America will be determined by the particular dynamics of both parties and the development of the bilateral relations. Concerning China, the high growth pace is expected to prevail for a long term, and that would favor the bilateral links with Latin America. China's growth, of course, is subject to a number of variables that won't be analyzed in this paper. The relations with Latin America in the future will also depend on strategic and political factors that will define China's external relations. What can be concluded so far is that the relationships with the region are still in an initial stage and have a wide room for development.

From the Latin American side, several factors will also determine the future, but probably the most important fact is that the region is currently in a period of change and search for new paths that favors the relations with China. It is important to take into account the trend towards left-wing governments in the continent, which creates a favorable environment for a greater presence of the Asian giant.



Besides, it must be considered that while the US and EU images suffer an outstanding erosion in the region, China is mostly perceived positively both by governments and large citizen groups, and is viewed as a relevant player for the next years. Although the United States continues to be the external power with the greatest presence in Latin America, including trade, military cooperation, and the size of its diplomatic missions, its image has been eroding. The US direct investment in the continent decreased from 30% to 20% between 1998 and 2007. The US still keeps leading trade with the region, with bilateral trade at some \$560 billion, but China is increasing its share at a fast pace.

The links with China have already started to change the external economic relations of the region, a fact that could be setting the foundations for an ulterior modification of some geopolitical axis that now seem immutable. As much as China consolidates itself as a global power, the relations could reinforce and lead to a lower presence of other external actors in the area. Nevertheless, China is behaving cautiously, trying to avoid any move that could be deemed as defying, not only for the countries of the region, but mainly for Washington.

There is no doubt that for Latin America the relations with China open an excellent opportunity for its development, but in order to fully take advantage of this opportunity the region must carry out a transformation of the policies that were implemented in the past and must define a comprehensive strategy to deal with China. First of all, efforts should be routed to take advantage of the funds derived from the sale of primary products to generate productive chains and technological innovations that would allow increasing the good's added value and widening market access. Latin America should also better take advantage of the opportunities on fresh investments China is providing, to increase the power of its advantages in resources and markets.

One path could go through the establishment of trade and technology alliances, a way that would allow it not only to benefit from the acquisition of international quality standards, but also find modalities of trade complementation that would help avoid possible protectionist pressures from industrialized countries. The best would be to incorporate Latin American companies to regional chains, that would in turn allow a greater processing of the products based on natural resources (raising their added value) and their improved marketing.

As a summary, the relations between China and Latin America will have an upward trend in different areas due to the benefits derived for each party. However, Latin America is exposed to outstanding challenges that will require it to constantly readjust its strategy with the Asian country.

## Conclusions

- The Chinese economy is enjoying a great economic dynamism after the process of reforms and opening started in 1978, which brought as a consequence a deep and accelerated international insertion.
- Latin America has evolved through deep crisis in the eighties and nineties that showed the exhaustion of the neo-liberal model. The region is making serious attempts at overcoming previous conditions and the result is a new phase of recovery that is particularly apparent in its external sector.
- The China-Latin America relations have been developing based on the mutual interests in different areas, although economic ones prevail, mainly through trade and investment. These links have gained pace since the beginning of the current century.
- China has shown an integral and deep strategy that is fully coherent with its national interests; while Latin America's strategic approach is lacking and rather passive.
- China – Latin America links provide opportunities for both and pose important challenges for the latter. The Latin American region is hardly homogeneous, and thus the impact of the relationship with China should be analyzed through a differentiated approach. Trading with China represents an opportunity for countries rich in food and raw materials, but is a threat for countries and particular sectors where China currently has comparative advantages.
- So far, China exports manufactured goods to Latin America and imports mostly raw materials. If this structure remains unchanged, Latin American countries would consolidate their traditionally disadvantageous position as exporters of low value-added products.
- Trade and investments between Latin America and the Asia-Pacific are still weak and poorly diversified despite some expansion in the last few years, but according to most analysts have a great potential for expansion in the long run.
- China offers unprecedented opportunities to the Latin American and the Caribbean region from the productive and export perspective, both for commodities, manufactured products and services.

- China offers the region a new kind of economic relationship without political conditioning. Latin America could reduce its dependence and enhance its negotiation capacity with the United States and Europe.
- The prospects of the China-Latin America relations point to an increase in mutual links. Despite the existence of obstacles and threats, the opportunities seem to prevail and provide momentum for the bilateral relations.
- In order to face the challenges posed by the relationship with China, the Latin American countries will have to correct their strategy for these relations and over all will have to set up alliances and long-term contracts with China that eventually allow them to increase the degree of processing of the products based on natural resources and incorporate new technology.
- If the relations with China are to have a more positive widespread impact, Latin America must deeply transform key aspects of its economic structure and the bilateral relations that would allow it to take advantage of the opportunities while avoiding the threats.
- The hypothesis advanced for this research proved only partially true. It is true that the relations with Latin America allow China to widen and balance its international economic relations and to guarantee the resources it requires for its economic development. However, such an assertion can't be so categorical as far as Latin America is concerned. So far the Chinese presence is propitiating an important development opportunity only for some countries, but for it to have a more lasting and generalized positive impact, Latin America must carry out deep transformations in key areas of its economic structure and its bilateral relations, that allow it to take advantage of the opportunities and avoid the threats implicit in these links.

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