

## CHINA: OPPORTUNITIES AND CHALLENGES FOR LATIN AMERICA

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**Abstract.** The present international economic context is characterized by an increasing interdependence of economies and finances and by a high degree of trade competition. The arrival of emergent economies, such as China, has generated an important impact on the economies of Latin America. The size of China's economy allows us to think about the participation of all Latin American countries, a phenomenon reflected in the increase of trade flows between both regions. The objective of this paper is to analyze Chinese policies towards the region and link them with the role of Latin America in the international economic system and the possibilities of reformulating its participation given the fading influence of traditional actors in the region, such as the United States and the European Union. We will take into account the challenges and opportunities that the involvement of this emergent economy can generate in the region.

**Key words:** China, Latin America, interdependence, trade, diversification

### INTRODUCTION

The contemporary international system is growing multipolar. Even though we agree that in politics and strategy power continues to be concentrated on one pole, we observe that in the economic sphere the increasing growth of diverse centers at a world level. This multiplication favors the dynamism of commercial and financial ties and, at the same time, it stimulates the diversification of foreign relations. Despite the benefits that this multipolar scenario could provide to states in trade and politics, we consider that competition has become the distinctive trait of inter-state relations. The growth of countries such as China and India has led to an increasing demand for scarce natural resources. If we add to this the increased population in developing countries, we can explain the modification of the international trade pattern, where commodities and raw materials

substantially amplified their value. To this we can add the fading influence of the United States (USA) and Europe in Latin America. The emergence of countries, such as China and India, presents opportunities to change the predominance of the United States and Europe into a multipolar dialogue.

Within this dynamic and competitive international scenario, national and regional positions become an even more categorical variable. This variable is important not only to face threats and take advantage of opportunities provided by the growth and international presence of new economic poles, but also as a way of giving more power to national or regional interests vis-à-vis other states.

First, we are going to analyze the role of China in the international scenario, then its relation with Latin America, and last, the strategies that the region can follow to take advantage and diminish the side effects of the presence of the Asian dragon. The size of its economy allows us to consider the participation of all Latin American countries, event that would favor cooperation. The regional dialogue would be the first step to the construction of a region that constitutes an attractive pole for China, since Latin America is not a priority area for it due to geographical and cultural distance. Despite this, the region can occupy a relevant position due to the complementary economies.

Trade competition, fed by the asymmetry in the distribution of natural resources, combined with the necessity of participating in a demanding international economic system, has favored competitive unilateralism to become the main characteristic of inter-regional relations in Latin America, according to Cesarín<sup>1</sup>. These practices have affected the construction of a regional space of dialogue and consensus, presenting it as a *sine qua non* condition if the region pretends to participate at a world level with a stronger voice.

#### CHINA IN THE INTERNATIONAL SCENARIO

It is clear that the emergence of China in the international system has shaken world geopolitics. Along with India, it has reached a power that has altered not only the world's economy but also the geopolitical relations, producing a new geography of world's wealth production. If we consider Gross Domestic Product (GDP) and Purchasing Power Parity (PPP), China is in second place in both indexes with 9.3% in the first and 13.2% in the second; the United States occupies first place<sup>2</sup>. However, if the size of the economy is compared to population,

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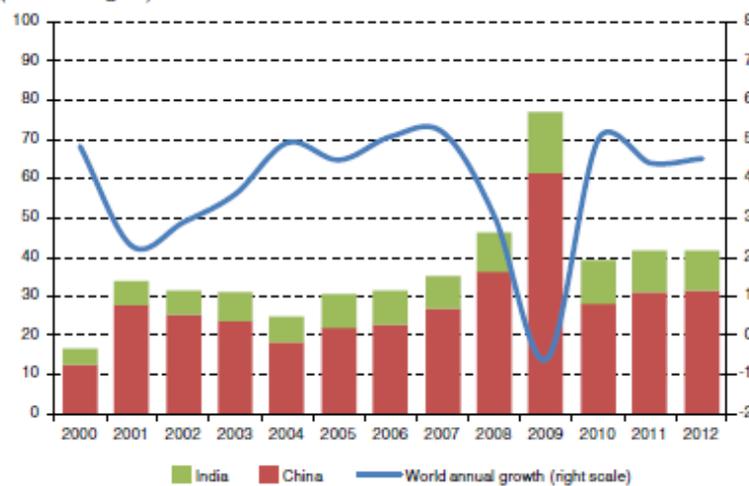
<sup>1</sup> S. Cesarín, *El factor China y los dilemas de gobernabilidad en América Latina y el Caribe*, "Res Diplomática", Segunda época, n 3, Buenos Aires, Junio, 2008, pp. 6–27.

<sup>2</sup> See: Economic Commission for Latin America and the Caribbean, *People's Republic of China and Latin America and the Caribbean. Ushering in a new era in the economic and trade relationship*, [http://www.eclac.org/comercio/publicaciones/xml/4/43664/People\\_Republic\\_of\\_China\\_and\\_Latin\\_America\\_and\\_the\\_Caribbean\\_trade.pdf](http://www.eclac.org/comercio/publicaciones/xml/4/43664/People_Republic_of_China_and_Latin_America_and_the_Caribbean_trade.pdf), 2011.

China occupies the 86<sup>th</sup> place, due to its social situation since 47% of the population lives on less than a dollar per day.

The world's reshaping is not taking place only in the economic sphere; it is also being done in the diplomatic and military ones. These are the central elements of the new Asian rhetoric. Differing with Japan, China and India have an important role in the regional and world matters. Growth rates of China and India contributed more than 40% of the world's total growth in the last two years.

**China and India: contribution to global GDP growth, 2000-2012**  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank Economic Outlook Database, April 2011.

There are two important factors that help to explain the commercial and economic expansion of countries such as India and China, their strategic vision and the leadership of their political class.

The presence of emerging Asian economies opens a window to unprecedented opportunities: the unilateral European and North American monologue is over in most Latin American countries.

The gradual linking between Asia and Latin America and between Asia and Africa are also a symbol of the changes in the world. The center and the periphery are being reshaped at a great speed. Europe, Japan and the United States are vanishing as omnipotent economic centers, allowing a more atomized world configuration<sup>3</sup>. This change is greatly stimulated by emerging economies'

<sup>3</sup> In the military arena, we agree with the view that United States remains as the unchallenged actor, with a military capacity stronger than any other state or coalition. See: R. Keohane, *Entre la vision y la realidad: variables en la política exterior latinoamericana*, in: J. Tulchin, R. Espach (eds), *América Latina en el nuevo sistema internacional*. Barcelona, Edicions Belaterra, 2004.

multinational companies. But the wave is wider; it includes the Mexican Cemex, the Indian Infosys, the Chinese Huawei or the Russian Gazprom<sup>4</sup>.

China is in the great leagues. Beijing has created an unheard-of economic interdependence: the United States imports five times what it exports, the European Union imports three times what it exports. China is an actor that combines, on one side, an open market economy trying to capture Foreign Direct Investment (FDI), technology transference and investments in infrastructure. It also carries out some political changes, but they are under strict control. It encourages action with a strong performance by the state and a very powerful diplomatic lobby, willing to generate an unbalancing power with a gravitational force in the region.

Exporting continues being the most active engine of its economy, exporting not only labour-intensive products but now shifting to capital-intensive products as well. The weight of China in world's trade surpasses, widely, India's. Since 2001 we have witnessed an increase of the export of Chinese merchandise, constituting a stressing phenomenon. Imports have also increased; China is among the leading importers and exporters of goods at a world level, widening its commercial surplus.

China's foreign dependence proved to be dangerous after the 2008 crisis, since FDI, a key element in its development, slowed down. The main areas of its investments are mining (in Latin America and Africa), oil and petrochemical companies (in Iran, Angola, Nigeria, Sudan). It has also bought and/or rented land for agricultural purposes. Taking these events into account, the Asian region occupies the first place as a strategic partner, then Africa and last Latin America.

The Chinese political elite is worried because it needs to guarantee the country's energy supply. The access to conventional and alternative sources is crucial to the sustainability of its development strategy and depending on a few import suppliers makes the country more vulnerable to external cuts and crisis.

China has traditionally relied on bilateral strategies to pursue its national interests, but with the multiplication of international institutions and multilateral regional agreements, Chinese political leaders have seen the need to consider new foreign policy strategies. Multilateralism is an emerging feature in Chinese foreign policy; it is most used for less sensitive issues, such as commercial agreements. China has negotiated deals and agreements with more than 15 states and regions<sup>5</sup>; the China ASEAN Free Trade Agreement is an example of this. For more sensitive issues, such as sovereignty, Beijing still remains suspicious of multilateral institutions and agreements.

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<sup>4</sup> See: J. Santiso, *¿Realismo mágico? China e India en América Latina y África*. "Revista Economía Exterior" n° 38, 2006, pp. 59–69.

<sup>5</sup> China FTA Network (2012). Available: <http://fta.mofcom.gov.cn/english/index.shtml>

## CHINA'S ASSERTIVE APPROACH TO LATIN AMERICA

People's Republic of China's (PRC) foreign policy showed a strong ideological trait between 1949 and 1978; today it reflects pragmatism, an element that characterizes the economic and political decisions of Beijing. With the arrival of Deng Xiaoping, China started to abandon the ideological element as a condition of its foreign ties and began a process of international opening through the policy of "Open Doors". This process occurred at the same time as the period of internal modernization; since the end of the Cold War, its foreign policy has been directed at keeping a stable regional and international environment, so it can concentrate in its internal economic development.

Multipolarism is a characteristic of its policy. This is due to its conviction that the world is heading toward a multipolar scenario, with multiple cultural, religious, ethnic, economic and political differences, so – for Beijing's policy makers – it is hard to believe that only one country can guide it by itself. This reshaping of power distribution started at the end of the Cold War and will lead to the establishment of a multipolar system in which the PRC, through its "Peaceful Rise," will have a place among the great powers<sup>6</sup>.

In its international policy, China grants importance to South-South relations. Until the end of the 80's, China prioritized relations with western powers so as to ease its participation in the international system, while ties with states of the southern hemisphere were relegated and, sometimes, ended in unstable or interrupted relations. However, the 1989 Tiananmen's crisis reversed the progress achieved in the process of its international integration. Western countries openly condemned the repression. The strong sanctions imposed on China, along with the disappearance of the soviet bloc and the Eastern European countries, sank China into isolation<sup>7</sup>. From this moment on, the government recognized the need to revive the ties with developing countries, countries that kept silent after the events. This position is kept in current Chinese foreign policy. China recognizes itself as a member of the developing world and shows its intention to cooperate with the development of such countries and, unlike western powers, to facilitate assistance without any type of conditions<sup>8</sup>. The absence of conditions of any nature is a consequence of its respect for the principle of non-intervention in the internal affairs of a country, except the non-recognition of Taiwan as a legitimate government of China. This political objective leads China to ask its counterparts to renounce to their diplomatic relations with Taiwan.

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<sup>6</sup> J.Y.S. Cheng, *China's ASEAN policy in the 1990s: pushing for regional multipolarity*, "Contemporary Southeast Asia", 21 (2), August 1999, p. 178.

<sup>7</sup> *Ibidem*, p. 117.

<sup>8</sup> People's Republic of China Ministry of Foreign Relations. China's Stand on South-South Cooperation, <http://www.fmprc.gov.cn/eng/wjdt/wjzc/t24880.htm>, 2003.

Latin America is part of this foreign policy design, but not a key one. The region is part of the Chinese Peaceful Rise strategy, mainly as a supplier of raw materials, basic products and energy. China needs these resources to sustain its growth and the modernization of its economy, elements that will allow a different participation in the international economic system. This rise has been driven, according to the Chinese government, by capital, technology and resources acquired by non violent means. In this way, China wants to differentiate itself from the imperialist practices used by western powers during the nineteenth century. This doctrine, called since 2004 Peaceful Development Doctrine, emphasizes the importance of soft power. Due to the intrinsic nature of this type of power, China needs to exercise an active diplomacy that allows its display. The main area of this diplomatic exercise is South East Asia<sup>9</sup>. China approaches this region mainly through multilateralism as a mean of quieting down the perception of threat that its fast economic growth can provoke in those countries, and to favor the creation of ties that allow Beijing to build a solid area of influence and support in international forums. However, it reserves the use of bilateral practices for strategic issues that it considers more sensitive. An example would be its refusal to solve the problem of the South China Sea islands through multilateral negotiations.

In Latin America, in contrast, its approach is more varied although it is in the framework of soft power. We can observe that the way of approaching South America can be included in the South-South cooperation doctrine. The support that the PRC has provided to the countries of the region in the G20 meetings is an example of this position at an international level. The resources used to affirm a presence in the region have been: 1) its participation in the hemispheric institutions, e.g. observer status in the Organization of American States (OAS) and Group of Rio, its participation in the Inter American Development Bank (IDB), the presence of Chinese troops in Haiti, 2) the encouragement of inter-regionalism with Latin America and the Caribbean, e.g. Forum for East Asia, Latin America Cooperation (FEALAC), 3) participation in the sub regional cooperation and integration groups, e.g. MERCOSUR and Andean Community, and 4) bilateral agreements<sup>10</sup>.

It can be noticed that in all matters of political nature, the Chinese government adopts multilateral policies, while in the topics that affect areas that it considers strategic in its relation with Latin America, e.g., natural and energy resources – it adopts a bilateral approach. At the same time, the characteristics of regional integration, mainly the lack of institutionalized commercial structures and scarce economic interdependence, have prevented an approach by China to the region as a whole. We observe, then, that there are two variables that condition the design of the PRC's foreign policy towards Latin America, one of inter-

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<sup>9</sup> See: Suisheng Zhao, *The making of China's periphery policy*, in: Suicheng Zhao (ed.), *Chinese foreign policy. Pragmatism and strategic behavior*, London, M.E. Sharpe, 2004, pp. 256–275.

<sup>10</sup> S. Cesarín, *op. cit.*, p. 13.

nal origin – the sensitivity of strategic topics – and the other of regional origin – the lack of institutions and a weak commercial integration.

One of the main objectives of Chinese foreign policy in the post-Tiananmen period has been to achieve the status of market economy due to the benefits that this provides to the national economies. The countries of the region that have recognized China as a market economy are: Guyana, Venezuela, Chile, Brazil, Argentina and Peru<sup>11</sup>.

**Latin America and the Caribbean: International trade, by partner, 2006-2010**  
(Billions of dollars and growth rates)

	2006	2007	2008	2009	2010	Annualized growth rate, 2006-2010	
Exports	World	671.1	758.2	879.0	679.2	863.2	6.5
	United States	335.4	350.2	380.7	281.8	354.1	1.4
	European Union	95.2	113.4	133.2	94.7	112.7	4.3
	Asia-Pacific	65.4	87.0	106.9	103.0	143.4	21.7
	China	22.6	35.5	43.4	48.2	71.8	33.5
	Others Asia	42.8	51.5	63.5	54.8	71.6	13.7
	Latin America and the Caribbean	115.4	138.1	172.2	128.2	162.9	9.0
	Rest of the world	59.7	69.5	86.0	71.5	90.2	10.9
	Imports	World	583.6	698.2	853.0	638.7	832.1
United States		203.9	228.3	265.9	201.3	256.5	5.9
European Union		83.5	102.2	125.6	96.2	118.8	9.2
Asia-Pacific		128.6	161.2	199.0	157.6	223.9	14.9
China		49.1	67.4	89.2	75.5	111.1	22.7
Others Asia		79.5	93.8	109.8	82.2	112.8	9.1
Latin America and the Caribbean		119.9	143.3	180.9	132.5	164.1	8.2
Rest of the world		47.8	63.3	81.6	51.1	68.8	9.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The region's commercial exchanges with China have been growing, with the main partners being Brazil, Chile, Mexico and Argentina<sup>12</sup>. Aiming to increase the level of commercial exchanges, different strategies have been developed

<sup>11</sup> Embassy of the People's Republic of China in India, *Venezuela recognizes China's full market economy status*, 24 December 2004, <http://www.chinaembassy.org.in/eng/jjmy/t176359.htm>.

Economic Commission for Latin America and the Caribbean. *People's Republic of China and Latin America and the Caribbean. Ushering in a new era in the economic and trade relationship*, [http://www.eclac.org/comercio/publicaciones/xml/4/43664/People\\_Republic\\_of\\_China\\_and\\_Latin\\_America\\_and\\_the\\_Caribbean\\_trade.pdf](http://www.eclac.org/comercio/publicaciones/xml/4/43664/People_Republic_of_China_and_Latin_America_and_the_Caribbean_trade.pdf) (2011).

<sup>12</sup> In 2010 the exports of these four countries to China accounted for the following values in millions of US dollars: Brazil, 38,099; Chile, 17935; Mexico, 6,875, and Argentina, 6,804. The imports from China in 2012 were as follow: Brazil, 24,460; Mexico, 17,872; Chile, 8,024; and Argentina, 6,115. Data from: United Nations Commodity trade statistics database, <http://comtrade.un.org/db/default.aspx> (March 2011).

from Latin American countries as well as from China. From a bilateral perspective, the main commercial agreements signed by Latin American countries with the PRC are a Free Trade Agreement with Chile in 2005, with Peru in 2009<sup>13</sup> and with Costa Rica in 2011<sup>14</sup>. Venezuela also stands out due to the number of bilateral agreements and treaties signed since 2006. These covered a wide range of topics: politics, energy, technology, agriculture, infrastructure, culture, finances, communications, education, mining and tourism<sup>15</sup>.

Regarding trade flows, China has won an important place while, the USA and the European Union, are losing relative presence. In the period 2006–2010, the growth rate of exports to China increased at a rate five times greater than total exports. In 2010 exports to China represented 8% of the total exports, while the participation of the USA was 41% and that of the European Union of 13%. China's important role in trade can also be observed in imports, since the region presents an increasing commercial deficit, especially due to Mexico and Central America deficits with China.

However, considering the increase in absolute terms, the differences can be observed in the interior of the region regarding the trade flow of each country, which indicates that the existing asymmetries could deepen if the practice of bilateral cooperation policies with China continues.

If we focus on the composition of trade between China and Latin America it is clear there are differences between what the region exports and what it imports.

Latin America concentrates on raw materials and natural resources and imports several types of products from China, such as computers, electronic devices, air conditioners, radios, DVD, etc. It also buys transportation, mechanical and plastic goods.

China has also had a tendency to export goods of low and middle technological level to areas where they can be competitive. Even though these products have an important participation in the country's exports, the participation of industrial and high technology goods has increased, slowly abandoning the areas that offer traditional comparative advantages such as textiles and cloth.

China buys mainly minerals such as copper and iron, grains such as soy and oil seeds and, to a smaller extent, oil and machinery.

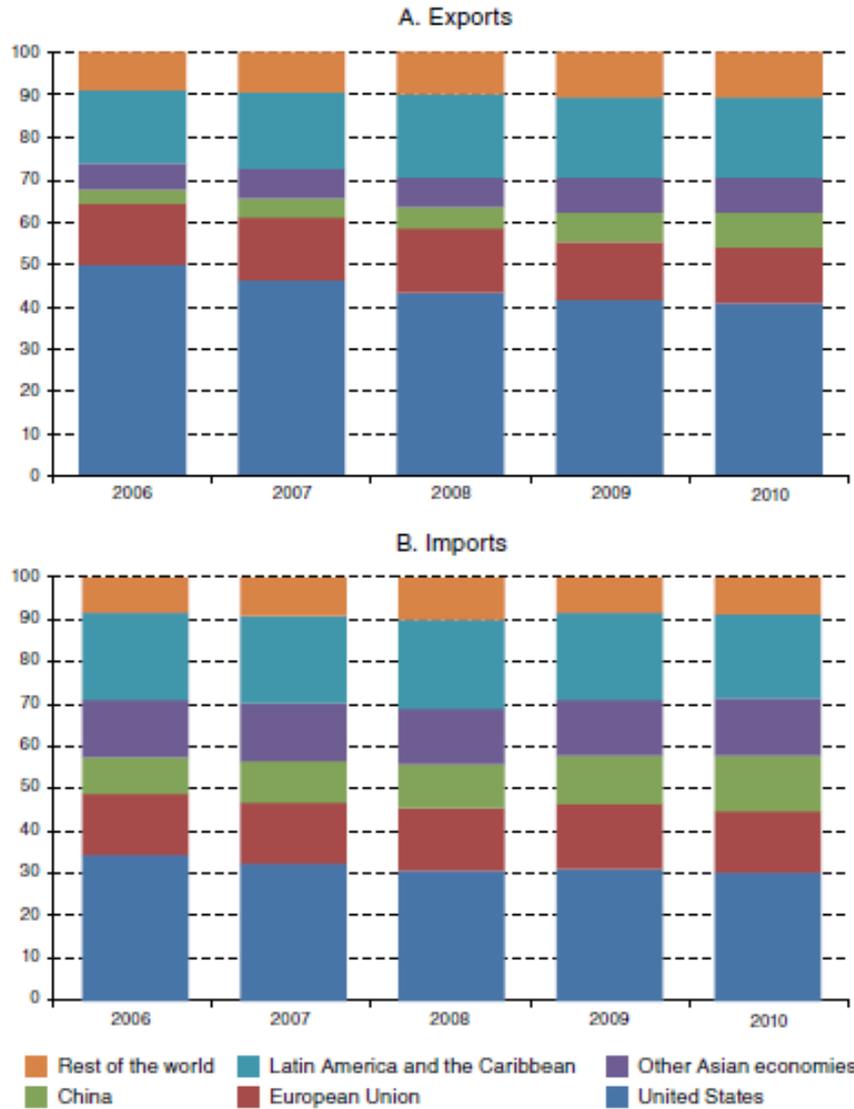
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<sup>13</sup> "China Daily", *Peru FTA inked in China in quick time*, <http://www.asianewsnet.net/news.php?sec=2&id=5473>, (April 29, 2009).

<sup>14</sup> See: Economic Commission for Latin America and the Caribbean. *Latin America and the Caribbean in the World Economy. The region in the decade of the emerging economies* (October 2011).

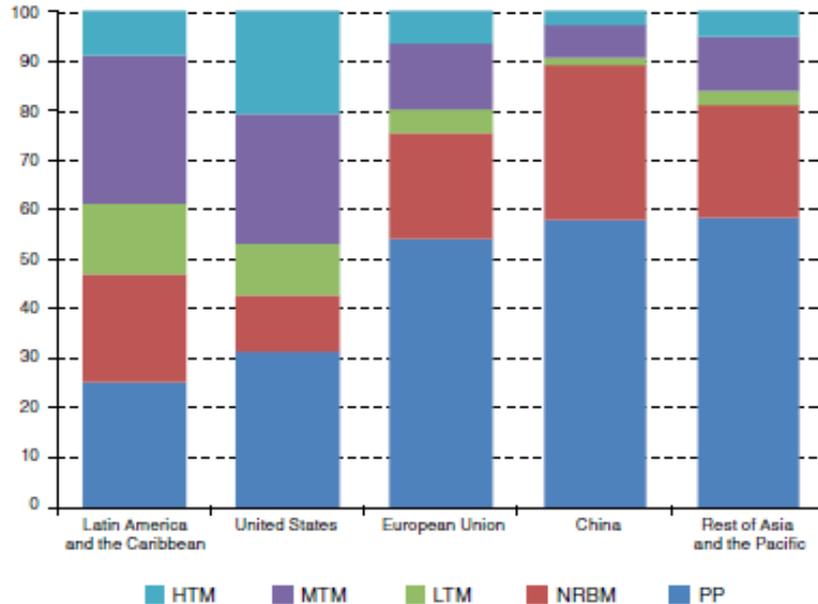
<sup>15</sup> Presidential General Press Direction (Venezuela), *Firmados 28 nuevos acuerdos entre Venezuela y China*, [http://www.minci.gob.ve/noticias-prensa-presidencial/28/10030/firmados\\_28\\_nuevos.html](http://www.minci.gob.ve/noticias-prensa-presidencial/28/10030/firmados_28_nuevos.html) (August 25, 2006).

**Latin America and the Caribbean: trading partners' share in goods trade**  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from each country's central bank and statistics institute.

**Latin America and the Caribbean: structure of exports to main markets by technology intensity, 2009**  
(Percentages of the total)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

**Note:**

Data for Antigua and Barbuda, Cuba, and Haiti are not available.

The categories of products are PP: primary products, NRBM: natural-resource-based manufactures, LTM: low-technology manufactures, MTM: medium-technology manufactures, HTM: high-technology manufactures.

Other Asia-Pacific countries include: the countries of ASEAN, Australia, Japan, New Zealand and Republic of Korea.

Data for Bolivarian Republic of Venezuela, Belize, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Suriname refer to 2008.

This reaffirms the fact that the region represents, to China, a supply area of raw materials and natural resources.

Even though Latin America specialization differs substantially from that of the ASEAN countries, this last region has become the main direct competitor to Latin American and Caribbean countries not only in primary products but also in manufactures of low technological intensity. The ASEAN countries have succeeded in transforming their export basket towards the needs of the Chinese market, in a very pronounced way. This means that the high technology sector represents almost half of their exports to China, in contrast with Latin America, where exports are concentrated in primary products and manufactures based on natural resources.

**Latin America and the Caribbean: top five exports to China, 2007-2009**  
*(Percentages)*

Country	Top 5	First	Second	Third	Fourth	Fifth
Argentina	92.0	Soya beans, 53.1	Soya oil, 26.5	Crude petroleum, 7.5	Other bovines, 2.5	Poultry meat and offal, 2.3
Bolivia (Plurinational State of)	75.9	Tin and tin alloys, 23.9	Tin concentrate, 22.0	Crude petroleum, 12.6	Non-coniferous wood, 10.0	Precious metal ores, 7.1
Brazil	82.2	Iron concentrate, 44.9	Soya beans, 24.2	Crude petroleum, 5.9	Iron ore agglomerates, 4.1	Chemical wood pulp, 3.0
Chile	92.3	Copper, 55.4	Copper concentrate, 24.2	Chemical wood pulp, 6.7	Iron concentrate, 3.5	Flours, meals and pellets, unfit for human consumption, 2.4
Colombia	97.6	Crude petroleum, 53.8	Other ferro-alloys, 36.5	Non-ferrous base metal waste and scrap, 4.0	Bovine or equine hides and skins, 2.4	Propylene polymers, 0.8
Costa Rica	98.4	Electronic micro assemblies, 96.3	Semiconductor devices, 0.9	Piezoelectric crystals, 0.6	Electronic devices, 0.3	Electrical apparatus for switching or protecting electrical circuits, 0.2
Cuba	99.7	Nickel mattes, 71.6	Sugar, 18.6	Other common metals, 7.3	Crude petroleum, 1.8	Other non-ferrous waste and scrap, 0.3
Dominican Republic	89.5	Other ferro-alloys, 51.2	Copper concentrate, 16.4	Other non-ferrous waste and scrap, 10.8	Other electronic devices, 6.4	Pump parts, 4.5
Ecuador	98.4	Crude petroleum, 94.7	Other non-ferrous waste and scrap, 1.5	Non-coniferous wood, 1.3	Flours, meals and pellets, unfit for human consumption, 0.5	Other waste, parings and scrap, of plastics, 0.36
El Salvador	96.1	Electrical capacitors, 53.6	Other non-ferrous waste and scrap, 35.7	T-shirts, 3.9	Other waste, parings and scrap, of plastics, 2.0	Textile fabrics, 0.8
Guatemala	94.8	Sugar, 59.1	Zinc concentrate, 13.5	Other waste, parings and scrap, of plastics, 10.3	Other non-ferrous waste and scrap, 10.2	Waste and scrap of polymers, 1.6
Honduras	92.7	Zinc concentrate, 35.6	Lead concentrate, 26.6	Other non-ferrous waste and scrap, 19.5	T-shirts, 5.9	Other waste, parings and scrap, of plastics, 4.9
Mexico	37.0	Electronic micro assemblies, 14.0	Copper concentrate, 10.0	Parts of telecommunication equipment, 4.7	Semiconductor devices, 4.2	Office machine parts, 4.0
Nicaragua	82.4	Other non-ferrous waste and scrap, 34.4	Other waste, parings and scrap, of plastics, 20.9	T-shirts, 12.7	Canned seafood, 8.7	Waste and scrap of polymers, 5.5
Panama	83.9	Ships and boats, 44.8	Bovine or equine hides and skins, 16.5	Flours, not for human consumption, 13.1	Frozen fish, 4.8	Non-coniferous wood, 4.5
Paraguay	86.2	Other bovine hides, 31.6	Non-coniferous wood, 28.5	Other waste, parings and scrap, of plastics, 9.9	Other non-ferrous waste and scrap, 9.4	Sesame seeds, 6.7
Peru	80.8	Copper concentrate, 38.6	Flours, not for human consumption, 15.7	Lead concentrate, 10.3	Iron concentrate, 8.7	Zinc concentrate, 7.3
Uruguay	84.3	Soya beans, 45.1	Chemical wood pulp, 23.1	Carded wool, 7.5	Greasy wool, 5.7	Other bovine hides, 2.8
Venezuela (Bolivarian Republic of)	98.2	Crude petroleum, 78.3	Iron concentrate, 13.5	Sponge iron products, 4.9	Artificial fibers, 0.8	Other non-ferrous waste and scrap, 0.5
CARICOM	69.0	Monohydric alcohols, 18.1	Alumina, 16.9	Non-coniferous wood, 13.1	Other non-ferrous waste and scrap, 12.1	Liquefied natural gas, 8.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

Note: The analysis was conducted at the four-digit level of the Standard International Trade Classification (Revision 3). The names of products have been adapted to fit available space.

**CHINA AND INDIA: SHARE OF ASEAN<sup>a</sup> AND LATIN AMERICA AND THE CARIBBEAN IN TOTAL IMPORTS AND EXPORTS, BY TECHNOLOGY INTENSITY, AVERAGE 2006-2009**  
*(Percentages)*

		China		India	
		Imports	Exports	Imports	Exports
Primary products	ASEAN <sup>a</sup>	6.8	12.7	7.4	11.8
	Latin America and the Caribbean	17.0	1.8	5.9	0.5
Natural-resource-based manufactures	ASEAN <sup>a</sup>	13.3	11.3	15.3	12.8
	Latin America and the Caribbean	9.2	6.0	2.8	3.7
Low-technology manufactures	ASEAN <sup>a</sup>	6.3	5.7	7.9	3.1
	Latin America and the Caribbean	1.8	4.3	0.9	2.9
Medium-technology manufactures	ASEAN <sup>a</sup>	6.0	9.6	7.9	12.4
	Latin America and the Caribbean	1.1	5.8	1.7	4.5
High-technology manufactures	ASEAN <sup>a</sup>	17.0	7.9	11.1	10.6
	Latin America and the Caribbean	1.3	3.4	0.6	5.4
Other	ASEAN	4.2	6.9	2.6	17.2
	Latin America and the Caribbean	0.1	1.7	0.3	0.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> Association of Southeast Asian Nations.

However, the commercial interest of China in Latin America varies depending on whether we talk about South America on one side or Mexico and Central America on the other.

Regarding its interests in South America several factors intervene: first, due to its constant and fast growth, China needs to guarantee access to raw materials, food and energy products. Second, it searches for a market favorable for its exports and to limit the accusations regarding commercial practices such as dumping. Several countries of the region have China as their main export market. South America accumulates an increasing surplus to date, but one that is concentrated on primary products and manufactures based on natural resources while the deficit in technological manufactures has increased.

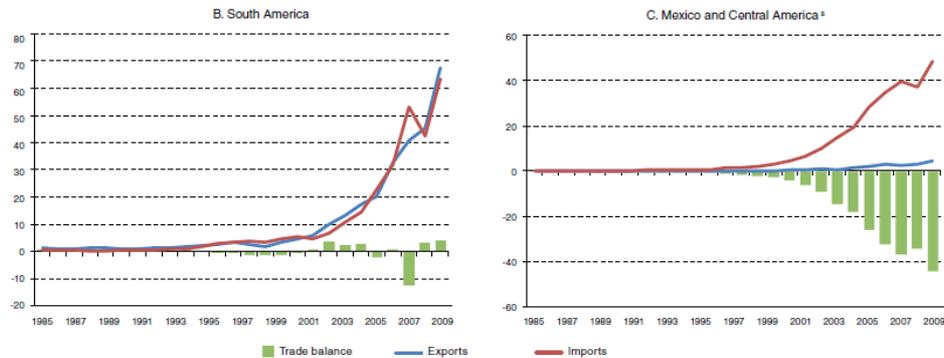
It is important to point out that at a bilateral level, China interacts actively with Brazil in the international System (UN). Let's remember that both are part of the BRIC countries. It keeps a stable political relationship with Argentina while it has consolidated an intense commercial relationship with Chile due to the multiple negotiations and meetings that the transpacific net has offered. It also has intense political relations with Venezuela. As we described before, it has signed an interesting variety of agreements and treaties. Other states such as Peru, Colombia and Uruguay have deployed resources that allow them to coordinate their economic processes with the Chinese economic boom.

However, if we consider the cases of Mexico and Central America, the situation is different: we can observe an asymmetry in the exchanges, mainly in the balance of trade and not in the composition of the exchanges since the exports are not as concentrated in few primary products like the case of South America. The asymmetry is based on the products that China imports from Mexico and Central America, i.e. electronic manufactures. In these countries, where the production of household appliances (assembly) occurs, the import of parts and electronic components has increased.

This allows us to see that there is a competition between Mexico and China in certain areas like electronic manufactures. The balance, so far, has not been favorable to the Latin American country, because it competes directly with the Chinese production and besides, the quota of Mexican products in the Chinese market is still low. But the competition is also in the domestic Mexican market since it has been flooded by Chinese products unbalancing, negatively affecting the balance of its trade. Imports of TV sets, film cameras, transmission equipment, computers and toys stand out-, all products that Mexico also produces. As a consequence Mexico, as well as Central America, accumulates an increasing trade deficit with China.

### Exports, imports and trade balance with China, 1985-2009

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE), official country data and International Monetary Fund (IMF), Direction of Trade Statistics.

\* Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Analyzing bilateral relations, we can infer that those between China and Mexico are not simple. Mexico was the last country with which China negotiated its admission to the World Trade Organization. This happened because several Mexican economic sectors perceived China as a real threat that had displaced local production in the market of its main partner, the USA. China also has reduced the exit of investments in the maquilas. Even though each of them exports products of high technology to the USA, the main competition is in the manufactures of low or medium technological intensity, like textiles and cloths, where Mexico and Central America have lost an important share of that market. The same phenomenon happens with electronic and computing sectors. This competition is based on the low Chinese costs of production and its gradual improvement in the quality of the products. Mexico cannot compete with China's labor costs; however, it has a clear comparative advantage: the proximity with American customers, a key advantage in many industrial sectors in which the costs of storage and the need for prompt delivery are strategic. For Mexico, the future challenge is how to use this advantage; it has to improve its infrastructure, roads and train networks, ports and airports.

Chinese investments in the region have also increased. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Chinese transnational companies have invested more than US\$ 15 million in the region in 2010, becoming the third largest investor in Latin America and the Caribbean, with 9% of total investments, after the USA with 17% and the Netherlands with 13%. More than 90% of Chinese investment has been directed to the extraction of natural resources, mainly oil and, in a smaller proportion, mining. The case of the Chinese oil company, Sinopec, stands out. It made a major investment when it acquired 40% of the operation of Brazil's Repsol-YPF in the amount of US\$ 7,111 million. The oil companies CNOOC and Sinochem have

also announced important acquisitions in Brazil and Argentina<sup>16</sup>. In the mining sector, companies like Chinalco and Minmetals in Peru and Wuhan in Brazil stands out. In telecommunications, we find the companies Huawei and ZTE, and in the automotive industry BYD, Chery and Geely. In terms of the country of destination, Chinese FDI arrives mainly to Brazil, Argentina and Peru. For some small economies, such as Ecuador and Guyana, China can be a significant source of investment. In Mexico and Central America, Chinese investments are almost irrelevant, with the exception of Costa Rica.

**China: FDI in selected Latin American and Caribbean economies**  
(Millions of dollars)

Country	Confirmed investments		Announced investments
	1990-2009	2010	Starting in 2011
Argentina	143	5 550	3 530
Brazil	255	9 563	9 870
Colombia	1 677	3	...
Costa Rica	13	5	700
Ecuador	1 619	41	...
Guyana	1 000	...	...
Mexico	127	5	...
Peru	2 262	84	8 640
Venezuela (Bolivarian Republic of)	240	...	...
<b>Total</b>	<b>7 336</b>	<b>15 251</b>	<b>22 740</b>

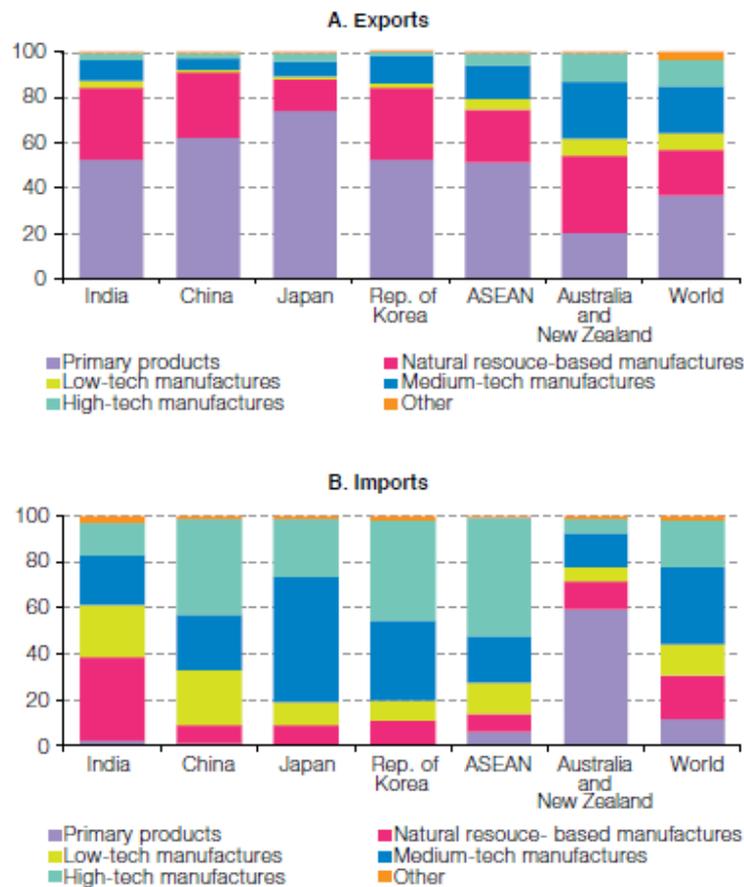
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Thomson Reuters, iDi Markets and interviews with firms.

From Buenos Aires to Caracas, the closer dialogue with China coincides with a more strident silence between the USA and some of its South American neighbors. The agreements signed by China allow us to recognize the strategic interest that the region has and the intention of both parts to favor mutual development through international trade and cooperation. Nevertheless, these ties have to be put into perspective. These relations are part of a strategy of a general external expansion by the emergent Chinese multinational companies. The investment interest of China may concentrate not only in raw materials, but also in infrastructure, something very important for Latin America. Here lies its interest in regional projects between Brazil and Peru, Argentina and Chile or even between Venezuela and Colombia. However, it is unlikely that these investments take the form of direct investment like the ones of the Europeans or Americans. Some of them may be conditional credits with low interest for specific projects. In this way, it will move away from a type of investment that generates efficien-

<sup>16</sup> See: Economic Commission for Latin America and the Caribbean, *People's Republic of China and Latin America and the Caribbean. Ushering in a new era in the economic and trade relationship*, op. cit.

cy and local employment like the ones provided by companies such as the European or American ones.

**LATIN AMERICA AND THE CARIBBEAN: TRADE STRUCTURE WITH SELECTED MARKETS IN ASIA-PACIFIC, BY TECHNOLOGICAL INTENSITY, ANNUAL AVERAGE, 2008-2010<sup>a, b</sup>**  
(Percentages of total)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

<sup>a</sup> Data are not available for the Bolivarian Republic of Venezuela from 2007; for Antigua and Barbuda and Honduras from 2008; or for Saint Kitts and Nevis and Saint Lucia from 2009.

<sup>b</sup> Oil statistics for the Bolivarian Republic of Venezuela were estimated by COMTRADE and may not include data for every country.

So China enters the region in an uneven way. The differences in the balance of trade between the Latin American countries and China, the imbalance of FDI flows and the formation of joint ventures, reveal – in the short term – a deepening of the

existing asymmetries in the region. This process is fed by the persistent bilateral practices that, at the same time, discourage the advance of regional integration.

The impact of China can be seen in almost all countries of the region. The voracious Chinese economy has contributed to the prosperity that the region has experienced in the last years. For the first time in recent history, Latin America has three support points in the world: the USA was the commercial support in the eighties; European FDI was the financial support of the nineties and China presents itself in the 2000 as the main protagonist.

To face the threats of fragmentation, competition and an uneven distribution of benefits that result from these external challenges, it is necessary to coordinate national policies through the construction of consensus around the decisions and actions as well as regional definitions and interpretations. This can allow the region to become an attraction pole and face the main internal challenge resulting from the changes in the international economic structure through diversification of production and partners and the provision of a secure legal environment.

#### EVOLUTION OF THE REGIONAL TRADE

In 2009, and in the context of the international crisis, regional trade fell sharply, but in 2010 the process reversed and there was a rise in the commercial flow between both regions. According to ECLAC, the exports of Latin America and the Caribbean to Asia grew 39% during the three first trimesters of 2010, compared to the same period of 2009. Total volume reached US\$ 104,104 million, exceeding the levels previous to the crisis. The growth in exports to China was much more dynamic than the growth in the total exports, which grew 28%, equivalent to US\$ 626,065 million. On the other hand, imports from Asia grew at a rate of 45% to US\$ 161,267 million, compared with a growth of 32% of total imports. These results are influenced by the even more dynamic trade with China, a country whose imports and exports to the region grew nearly a 50% between January and September of 2009 and of 2010. In this last period, China's sales reached US\$ 53,916 million while the imports were US\$ 78,997 million; at the same time, regional exports to the USA grew a 29% to US\$ 259,078 million and imports reached US\$ 186,292 million.

The Asia-Pacific and Latin America regions are, respectively, first and second in economic growth in the world. To ECLAC, there is a favorable atmosphere to strengthen the economic ties between both groups, especially if we take into account the dynamism of both in the crisis context. As we mentioned before, Latin America can offer Asia more products and not only raw materials. Besides its economic recovery, it has increased its attraction as a market because of its young and urban population. We can also add that several important Latin American multinational companies have developed significant compe-

tences in the value chain linked to natural resources, opening a space to make alliances with Asian companies.

This prompt recovery makes evident the high elasticity that international trade has shown, especially regarding South-South trade and basic products. By June 2010, the region accumulated 16 uninterrupted months of balance of trade surplus, reaching in the first semester of 2010, US\$ 22,000 million.

During the last decade, the share of the industrialized economies in exports from Latin America has been reduced from 76 to 61%, while exports to the developing economies have increased from 24 to 39%. This tendency is even greater if we exclude Mexico, a country that sells 80% of its exports to the USA; so in this scenario, developing economies are already the destination of more than a half of the region's exports. But this phenomenon is not equal across the region. It is more important for the members of MERCOSUR – for which the emergent economies represent, on average, two thirds of their total exports, than it is for the Central American, Andean and Caribbean countries and Mexico. This indicates that there are two distinctive patterns of exports: on one side, Mexico, Central America, with the exception of Costa Rica, the Caribbean, with the exception of Cuba, and some Andean countries remain connected to the USA market. On the other, South American resource exporting economies have orientated their sales to China and the rest of Asia. Along with the growing weight of the emergent countries, other tendencies that will influence the world's economy are the organization of the production in value chains, the intensity of technological change and the need to move forward towards patterns of production less intensive in carbon. These three elements allow us to outline an international environment in which competitiveness depends more on the countries' capacity to absorb new techno-economic paradigms, incorporating higher levels of knowledge in goods, services and production. This new international perspective demands great efforts by the countries of the region in terms of generation and absorption of technology as well as the training of human resources<sup>17</sup>.

#### LATIN AMERICA'S CHALLENGES

Latin America in its relation with China, tries to respond to two main regional interests: first, the need for strengthening not only its domestic economies but also its national and regional institutions, and second, to find alternative – markets to the USA and the European Union. Considering the first condition, we believe that diversification of products and markets will allow strengthening the economies, to act more freely and not to depend on few partners that con-

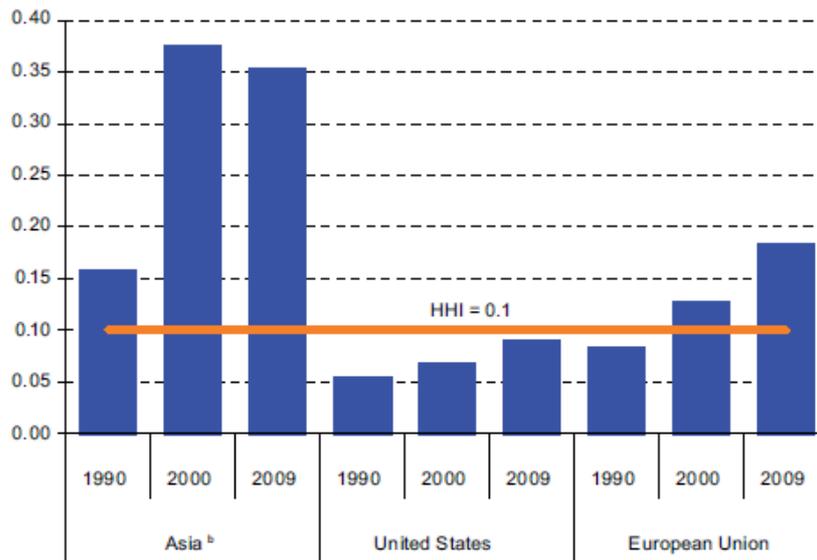
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<sup>17</sup> Economic Commission for Latin America and the Caribbean, *People's Republic of China and Latin America and the Caribbean. Ushering in a new era in the economic and trade relationship*, op. cit.

strain the region's trade position. The second condition will provide the countries with the capacity of offering a needed legal framework to attract international partners and foreign capital. To achieve both interests, the region needs to become attractive for emerging economies. In the long term, the strengthening of the relations with emerging economies will allow Latin America to attain a better international position.

**LATIN AMERICA AND THE CARIBBEAN: HERFINDAHL-HIRSCHMAN INDEX<sup>a</sup> OF EXPORTS TO ASIA, THE UNITED STATES AND THE EUROPEAN UNION, 1990 AND 2009**

*(Calculated on the basis of the Standard International Trade Classification, Rev. 2, at the 3-digit level)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

<sup>a</sup> The Herfindahl-Hirschman index (HHI) measures the concentration of exports from one country to another. If it is lower than 0.10 exports are regarded as diversified. If it is between 0.10 and 0.18 they are considered to be moderately concentrated and if it is above 0.18 they are considered to be highly concentrated. The data are based on mirror statistics to ensure comparability, as a result of which they may not coincide with national data reported by countries of Latin America and the Caribbean.

<sup>b</sup> Asia includes China, India, Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Singapore and Thailand.

If we analyze the Herfindahl-Hirschman Index (HHI)<sup>18</sup> of the levels of concentration and diversification of regional exports, we can see that there has been greater diversification, between the early nineties and the end of the 2000 decade.

But these numbers hide heterogeneity among countries. In both periods, Brazil, Argentina and Mexico are the most diversified countries. On the other hand, there are countries like Venezuela, Ecuador, Bolivia, Chile and Panama, and, to a lesser extent, Paraguay and Peru, that were more dependent on the exports of raw materials<sup>19</sup>. All these countries, with the exception of Panama and Paraguay, have increased their levels of concentration. Central America, the Caribbean countries, Colombia, and Uruguay are in an intermediate position.

If we consider the destination of the exports, the region keeps showing a concentrated pattern. Mexico, most of Central American and Caribbean countries and, to a smaller degree, Ecuador, Colombia and Venezuela have the USA as their main export market. MERCOSUR members, Chile, Peru and Costa Rica, on the other hand, have experienced an increase in the level of participation of Asia in their total exports during the last decade, reducing the degree of market concentration.

We highlighted the need to diversify economic production. Latin America depends greatly of the demand of raw materials, natural resources and basic manufactures, products whose prices are sensitive since they are strongly affected by the ups and downs of supply and demand. The prosperity experienced in the region can lead to the strengthening of the structural underdevelopment<sup>20</sup>, if there are not national and regional policies of development that allow for the diversification of production towards new markets like China and India. China has become the main trade partner of most of the countries of the region, displacing the USA and the European Union.

This generates a concern regarding the imports from China since they are based on cheap manufactures that are replacing, as we mentioned before, national production in countries like Mexico or Central America.

FDI has constituted another tool for development so it is important that states attract foreign capital. Regional companies are already investing in South America and we have seen that China has also specific plans and projects regarding the region. The investments will, undoubtedly, open a window of opportunities for Latin America, but to be able to transform the “Chinese tale” into something attainable, the region needs some imagination.

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<sup>18</sup> The Herfindahl-Hirschman index measures the level of concentration of the exportations of one country towards another. If its value is lower than 0,10, exportations are considered to be diversified. If it is between 0,10 and 0,18 it is considered that are moderately concentrated. If it is higher than 0,18, it is considered that are highly concentrated.

<sup>19</sup> Economic Commission for Latin America and the Caribbean, *People's Republic of China and Latin America and the Caribbean. Ushering in a new era in the economic and trade relationship*, *op. cit.*

<sup>20</sup> S. Cesarín, *op. cit.*

But one issue that we had pointed out, especially regarding China, is the lack of legal security; there is no extra territorial protection for investments so there is some reticence to invest, especially if we take into account the fact that most of these investments are in sensitive sectors such as energy and services. That is why we emphasize the need to develop efficient and competitive states that, at the same time, are institutionally prepared to protect their industry and to position their products<sup>21</sup>.

Among the main obstacles that the harmonization of regional policies face is the diversity of political-ideological orientation of the countries, which act to the detriment of the establishment and consolidation of regional institutions and policies<sup>22</sup>. This variable contributes to the generation of different models of integration in the region that make difficult the construction of any consensus about macro regional cooperation policies. A second obstacle that prevents cooperation and contributes to the deterioration of the existing regional institutions has been the fragility of the integration policies of the states. Governments privilege the demands of their electorates – a consequence of the growing mobilization and politicization of the society – without taking into account the consequences that this behavior can have on the regional integration<sup>23</sup>. We can add to these conditions the exercise of a nationalism in natural resources that increases regional tensions, a consequence of the structural asymmetries in the distribution of those resources. This characteristic conditions the international participation of the Latin American countries, being more favorable to some of them.

Taking into account traditional relations we can observe a clear division in Latin America between the North and the South. This difference can be measured by the level of opportunities and attraction that the USA gives to the products, services and inhabitants of the region. Because of this, Mexico and Central American and Caribbean countries direct their policies towards the USA and Canada. These countries, at the same time, possess more internal economic and political influence in the USA as a consequence of the migratory flows. After the 2001 terrorist attacks, a sense of vulnerability regarding its economy and security emerged in the USA that favored the construction of a North America community under the leadership of the USA<sup>24</sup>.

In the case of South America's relations with the USA and the European Union, currently, the region is not considered as a priority. According to Tokatlian and Russell, "today the specific weight of Latin America in most world

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<sup>21</sup> R. Roett, *América Latina y el surgimiento de China en un contexto global*, in: R. Lagos (compilador), *América Latina: ¿Integración o Fragmentación?*, Edhasa, Buenos Aires 2008, p. 286.

<sup>22</sup> M.R. Soares de Lima, *Liderazgo regional en América del Sur: ¿tiene Brasil un papel a jugar?*, in: R. Lagos (compilador), *América Latina*, op. cit., p. 90.

<sup>23</sup> *Ibidem*, p. 105.

<sup>24</sup> W. Grabendorff, *La relación América Latina-Unión Europea: entre las percepciones erróneas y las buenas intenciones*, in: R. Lagos (compilador), *América Latina*, op. cit., pp. 240–241.

issues is less than at the end of Second World War”<sup>25</sup>. For the EU, Latin America is losing priority due to the internal challenges created by the enlargement of its membership, the difficulty that this process generates, the economic-financial crisis and the increasing economic challenge that the Asian countries, especially China, presents<sup>26</sup>. This phenomenon can be also seen from the American perspective, in which Latin America is not and will be not a priority given the absence of conflicts that directly threaten its political security. This lack of strategic interest in the region by the USA is complemented with a growing resistance to American preferences that goes back to the end of the nineties. As a consequence, the USA finds major difficulties to impose its economic and security agenda in the region<sup>27</sup>.

In South America, the marginalization of the region in the foreign policy of the USA is greater. But this does not mean that, in terms of bilateral relations, there is no active foreign policy, especially with countries that present important strategic issues. This affects negatively a vision of South America as a region because the USA implements a foreign policy based on a perspective that coordinates countries and topics<sup>28</sup>.

The relative privileged position given to North America, plus the marginalization of the continent in the European agenda, generates in South America the need to find an alternative that supports its international participation beginning from a better relative position in a highly competitive world. In this context, the concept of a South America community of Nations, currently UNASUR (for its acronym in Spanish) emerged in 2004. It is the result of the close relation with the emerging powers, and of the need to deepen and extend the ties with these emerging economies since they can become a real alternative to the USA.

## CONCLUSION

In times of globalization, the presence and participation in the international system is a key element for the nation’s economic growth and development. However, to reach this objective, Latin American countries should act as a cohesive political group. This implies the need to overcome internal differences generated by the prosecution of national interests without taking into account the consequences that these s can generate on the rest of the region. Governments seem to be more interested in the regional influence of their own countries than in the

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<sup>25</sup> R. Russell, J.G. Tokatlian, *Resistencia y cooperación: opciones estratégicas de América Latina frente a Estados Unidos*, in: R. Lagos (compilador), *América Latina, op. cit.*, p. 215.

<sup>26</sup> W. Grabendorff, *op. cit.*, p. 240.

<sup>27</sup> *Ibidem*, p. 217.

<sup>28</sup> R. Russell, J.G. Tokatlian, *op. cit.*, p. 214–215.

elaboration and implementation of rules that benefit the region as a whole, a needed factor to the success of any integration process.

As we have seen, it is likely that Latin American countries will benefit in certain areas and in some others find strong competition from countries like India and China, due to the results of their modernization processes that include reforms and liberalization in the commercial sector.

The configuration of the external economic relations of China and its projection to Latin America shows its increasing interactions and dependencies with the developing world. China's participation in the international system allows us to observe the effort made to strengthen political and economic ties at a bilateral, sub-regional level and with regional organizations of cooperation so as to guarantee access to natural resources and raw materials, while reducing other actors' political and economic maneuvers. So we can expect that the relations between the region and China are based on long term cooperation.

The need for raw materials has put China among the world's leading importers. Given China's strong demand and high international commodity prices, it would be recommended that the region not only increase its exports to take advantage of its comparative advantages in trade, but that it also invest to diversify the composition of exports. To reach this, Latin America must be a part of global value chains; it will achieve it, if it directs its production towards the complementing and specializing with the emerging markets instead of searching for direct competition in sectors where the Asian countries have production and quality advantages. This is the case of Mexico and Central America, regarding some manufacturing sectors that have been displaced due to the presence of Chinese products in the USA's market. If this is not achieved, the threat would come, as we have seen in some cases with competitive unilateralism, from the Latin American countries themselves.

Another strategy that the region could use to attract China is the existing regional processes. But one of the problems is the lack of a culture of inter-regional cooperation.<sup>29</sup> Regional common interests have not been achieved due to the existence of an exaggerated concept of sovereignty that does not allow making concessions to the neighbors. This provincialism creates a lot of regional confrontations between Latin American countries, undermining the international role of the region. So there is a lack of a shared concept of a Latin American foreign policy towards its counterparts that considers the costs and benefits of such relations. To reach a considerable regional weight among other actors of the international system, it is necessary to create internal alliances that facilitate the bloc's regional performance. Besides, if this tendency continues, it is foreseeable that China as well as India will go on giving more participation to other regions, such as ASEAN. This would question the present situation of Latin

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<sup>29</sup> W. Grabendorff, *op. cit.*, pp. 239–268.

America as one of the main areas of provision of raw materials and other potential products and that could leave the region in a secondary place.

If the region wants to keep and expand its presence in these economies, another aspect to be improved is its infrastructure, e.g. port logistics, as well as lowering transportation costs. This may be achieved by the invisible hand of the Chinese investments.

The preliminary balance regarding the region's performance in exports (2000–2010) shows that, in a context of increasing challenges in innovation and competitiveness, the region has not achieved meaningful advances in the amount of trade's participation in the world economy. On the one hand, South American countries have shown a greater exporting dynamism at an aggregate level that, however, is strongly linked to exogenous factors such as renewed international demand for raw materials and consequent price increases. On the other, Mexico and Central America have a greater presence of manufactures in their exports and, as a consequence, have shown less dynamism at an aggregate level mainly due to the intense competition of Chinese products in the USA, products that are non-qualified labor intensive. Despite the fact that profitability rate has increased in sectors linked to natural resources, the absence of active policies to promote production has caused asymmetries between North and South America. The commercial relations between the region and China offer opportunities as well as challenges. Among the latter, it is important to avoid that the increasing trade reproduces and reinforces a trade pattern of center-periphery, where countries like China would appear as a new center and Latin American countries as a new periphery. Consequently, it is necessary to move forward towards a commercial relationship in accordance with the patterns of economic and social development that Latin America requires. Higher levels of internal innovation and development regarding technological capacities are needed, not only in the areas linked to natural resources but also in manufactures and services.

Considering what has been presented above, the presence of extra regional actors such as China shows the urgency of creating areas that allow Latin American countries to deal with the challenges and to approach the opportunities that these countries generate, taking into account the differences between South America and Mexico and Central America. Regional consensus is a key factor to avoid the deepening of regional asymmetries and fragmentation and to achieve the strengthening of the region as an attraction pole. Revaluating the region at an international level – geostrategic and economically – could lead to a better position in negotiations, in agenda-setting and in defining policies, especially in the presence of important emergent actors.