AQ CHARTICLE

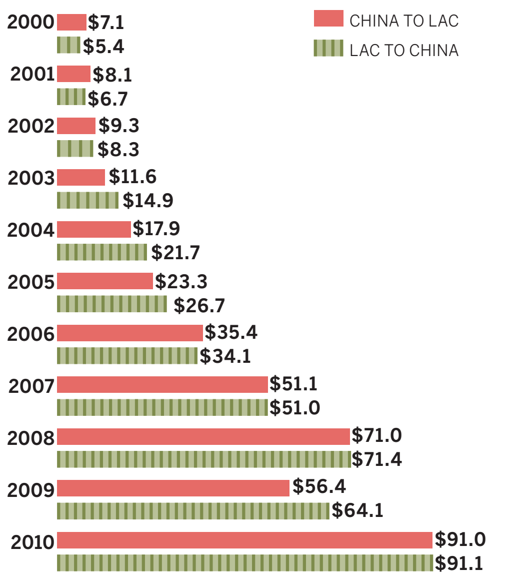
THE FAST RAMP-UP

THE ECONOMICS OF THE CHINA–LATIN AMERICA/CARIBBEAN (LAC) RELATIONSHIP BY RYAN BERGER

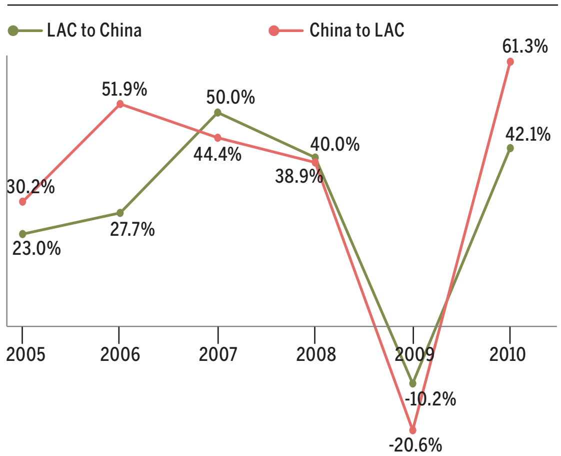
Commerce

Two-way trade from China to the LAC region has jumped in the past five years.

DOLLAR AMOUNT OF TRADE, EXCLUDING SERVICES (IN BILLIONS)[1]



PERCENT TRADE GROWTH



By the end of 2015, it is expected that China will supplant the EU as LAC's number-two trade partner.

Country

As a result of increased trade flows, China has jumped on many countries' lists as one of the leading destinations for exports and sources of imports. Below is a comparison of China's rank as a trade partner with individual LAC countries in 2000 and 2009.

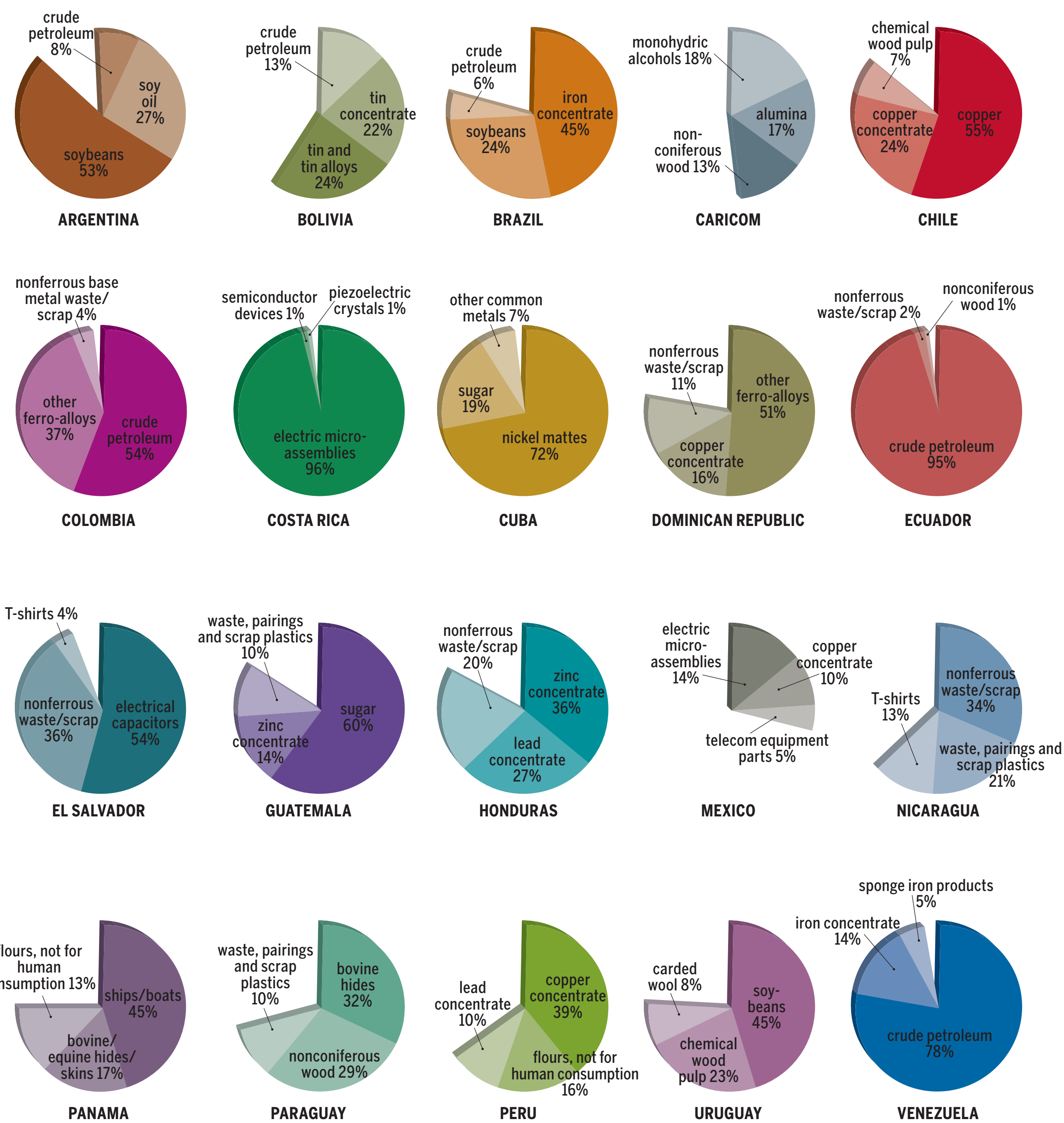
	EXPORTS TO CHINA 2000		EXPORTS TO CHINA 2009	IMPORTS FROM CHINA 2000		IMPORTS FROM CHINA 2009
ARGENTINA	6	↑	4	4	↑	3
BOLIVIA	18	↑	11	7	↑	4
BRAZIL	12	↑	1	11	↑	2
CHILE	5	↑	1	4	↑	2
COLOMBIA	36	↑	6	9	↑	2
COSTA RICA	30	↑	2	15	↑	3
ECUADOR	18	↑	16	10	↑	3
EL SALVADOR	49	↑	36	23	↑	4
GUATEMALA	43	↑	25	19	↑	3
HONDURAS	54	↑	11	21	↑	6
MEXICO	19	↑	7	7	↑	2
NICARAGUA	35	↑	27	20	↑	4
PANAMA	31	↓	36	25	↑	2
PARAGUAY	15	→	15	3	↑	1
PERU	4	↑	2	9	↑	2
URUGUAY	4	→	4	7	↑	3
VENEZUELA	35	↑	2	18	↑	3

We hear it a lot: China is now Brazil's top trade partner; it's on pace to surpass the EU as Latin America and the Caribbean's second biggest trade partner; trade flows are in China's favor as a consumer of primary products and exporter of finished products. Some are sounding alarm bells; others insist this is simply globalization. Here are some of the raw numbers.

Products

The terms of trade differ. Raw materials account for nearly 60 percent of LAC exports to China, followed by natural-resource-based manufactures, processed mineral products and agro-industrial products. Nonetheless, these percentages vary by country. For instance, Costa Rica, El Salvador and Mexico export substantial percentages of high-tech manufactures to China.

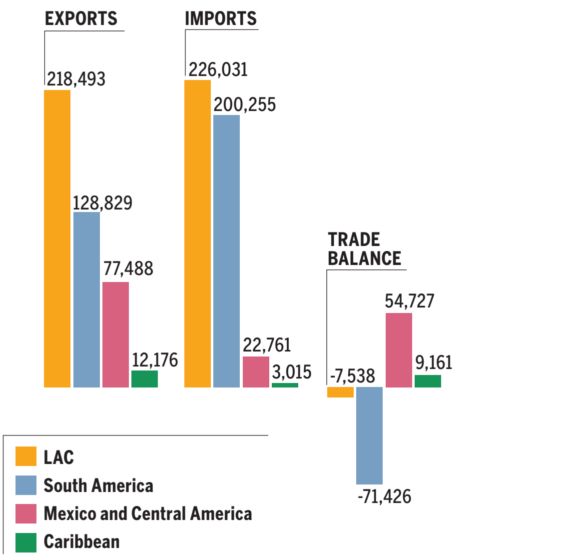
LAC TOP THREE EXPORTS TO CHINA BY PRODUCT TYPE, 2007–2009 (IN PERCENTAGES)



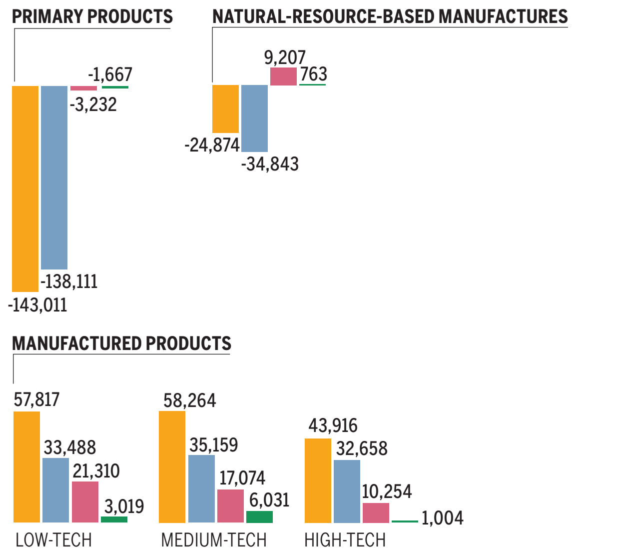
Products

While Latin America and Caribbean countries export mostly primary products to China, they mostly import higher-end manufacturing or tech goods from China. Those products compete with local industries and producers in domestic markets and internationally. Will the competition over these goods choke off the ability of Latin American and Caribbean countries to move up the value chain to more manufactured, higher-end goods that are key to development?

CHINA–LAC TRADE BALANCE, 2008–2010
(IN US$ MILLIONS)



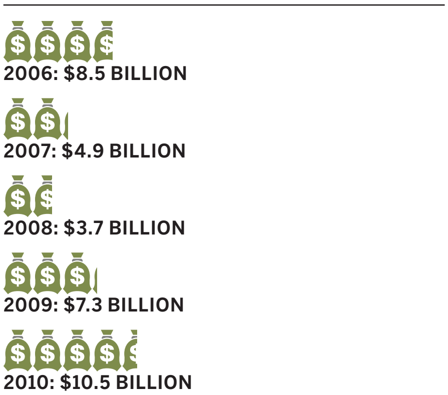
CHINA–LAC TRADE BALANCE BY SECTOR, 2008–2010
(IN US$ MILLIONS)



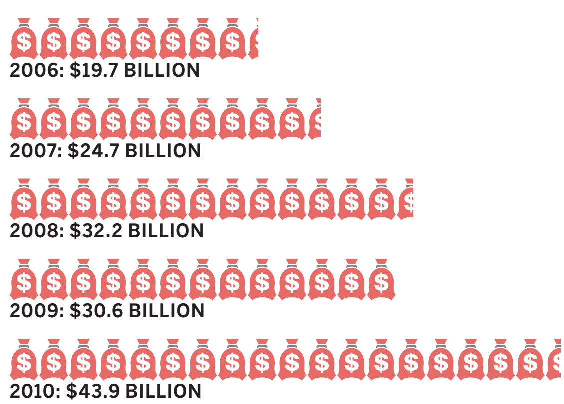
Foreign Direct Investment

Chinese outward FDI has displayed a consistent upward trajectory globally in the past five years. Latin America has received a greater absolute amount of those investments, though not as much in relative terms. For example, although Chinese FDI flows to Latin America increased by 97.3 percent in 2009 from the year before and another 43.8 percent in 2010, Chinese FDI flows to LAC in 2010 represented only 15 percent of the country's FDI globally.

CHINA'S OUTWARD FDI FLOWS–LAC



CHINA'S OUTWARD FDI STOCK–LAC



As a result of this activity, in 2010 China became the third-largest foreign investor in Latin America, after the U.S. and the Netherlands.

Where Does It All Go?

Many of the largest overseas acquisitions ever undertaken by Chinese state-owned enterprises (SOE) occurred in 2010. Of the 22 most expensive overseas SOE acquisitions, four were in Latin America, four were in Canada—all in the oil sector—and one was in the U.S. (Lenovo purchased IBM's personal computing division in 2005.)

#3 (2010, BRAZIL):

Sinopec acquired a 40% stake of Repsol YPF Brasil S.A. (oil) for $7.1 billion

#9 (2010, ARGENTINA):

China National Offshore Oil Corporation acquired a 50% stake of Bridas Corporation (oil) for $3.1 billion

#19 (2010, BRAZIL):

State Grid acquired Expansión Transmissão Itumbiara (electricity) for $1.7 billion

#21 (2006, ECUADOR):

Sinopec acquired the Ecuadorian assets of EnCana Corporation (oil) for $1.4 billion

The UN Economic Commission for Latin America and the Caribbean (ECLAC) cautions that country destination of FDI is difficult to determine from official Chinese data, since the bulk of FDI tends to be channeled through third countries. In the Western Hemisphere those third countries were two tax-friendly territories: the Cayman Islands and the British Virgin Islands. According to data from China's Ministry of Commerce (MOFCOM), over five years, 94.5 percent of Chinese outward FDI stock directed to LAC ended up in these two countries combined, and then on to other countries. In terms of the final destinations of Chinese FDI, ECLAC estimates that 90 percent of Chinese investments in LAC went to natural-resource companies (oil, gas, mining); other key sectors were telecommunications and automobiles.

Complaints

But it's not all sweetness and light. Concerns about unfair trade practices have increased, in some cases leading to anti-dumping cases and complaints before the World Trade Organization (WTO) lodged by LAC countries.

In the WTO, Latin American and Caribbean countries have brought four unfair trade cases against China (out of a total of 23 against China). These are:

1. **Granting of Refunds, Reductions and Exemptions from Taxes and Other Payments, brought by Mexico** (settled in 2008)
2. **Grants, Loans and Other Incentives, brought by Mexico** (in consultations)
3. **Grants, Loans and Other Incentives, brought by Guatemala** (in consultations)
4. **Export of Raw Materials, brought by Mexico** (on appeal)

[1]We would like especially to thank Mariano Alvarez and Osvaldo Rosales from ECLAC for their assistance. Sources: "The People's Republic of China and Latin America and the Caribbean: Towards a strategic relationship" (ECLAC, April 2010); "2010 Statistical Bulletin of China's Outward Foreign Direct Investment" (MOFCOM, April 2011); "Foreign Direct Investment in Latin America and the Caribbean, 2010" (ECLAC, May 2011); and "People's Republic of China and Latin America and the Caribbean: Ushering in a new era in the economic and trade relationship" (ECLAC, June 2011).