

**An Overview Of
China-Latin America
Economic Relations:**
Who Are
The Winners
And Losers?

By Alonso Alvarez

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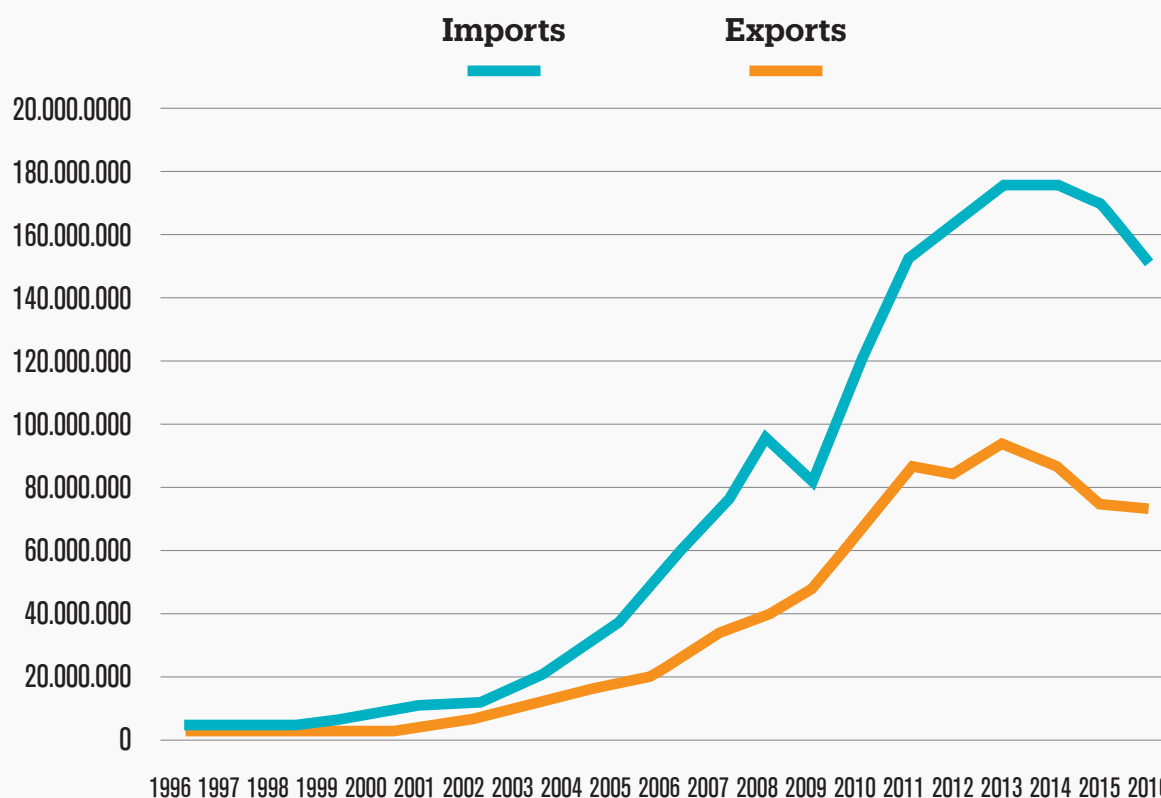
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Introduction

The effects of China's continuous economic growth and its integration to the global economy has been felt at the global, regional, and state level. This discussion paper analyses some of the positive and negative impacts that China's economic growth and global economic integration has had in Latin America in terms of trade, foreign direct investment (FDI), and in third markets. The paper argues that the "Chinese effect" has created winners and losers depending on the exports and imports of the individual countries, but that even those countries that have benefitted can face serious consequences in the long-term.

Although the trade relationship between China and Latin America might not be significant in global terms, it is significant at the regional level (see Graph 1). China's imports and exports from Latin America and the Caribbean have experienced a large increase in the last decades. In 2006, only 3.8% of the region's exports went to China, and only 5.8% of China's exports went to Latin America (Gallagher and Porzecanski, 2010). However, the total trade between the region and China increased almost twelvefold between 1999 and 2008 reaching \$150 billion USD (Jenkins, 2010). In 2016, China was among the top trading partner in terms of imports and exports for the largest Latin American economies (see Table 1).

Graph 1: **Latin America and the Caribbean Trade with China**
(in Thousands of USD)



Source: Data from the World Bank 2018

Table 1: **China's Ranking in Terms of Imports and Exports for the 10 Largest Economies of Latin America in 2016**

No.	Country	Imports	Exports
1	Brazil	2	1
2	Mexico	2	3
3	Argentina	2	3
4	Colombia	2	1
5	Chile	1	1
6	Peru	1	1
7	Ecuador	2	8
8	Uruguay	1	3
9	Costa Rica	2	23
10	Panama	1	34

Source: Data from the World Bank 2018

The trade relationship has also been asymmetrical in that it is skewed to the Chinese side. A high percentage of the goods that Latin America exports to China are unprocessed key raw materials that are used to fuel China's industrialisation boom. In the year 2000, 40.2% of the region's exports to China consisted of primary products, and 59.8% of manufactured goods (ECLA cited in Jenkins, 2012). For that same year, the region's imports from China consisted of 3.1% primary products

and 95.1% of manufactured goods (ibid). But by 2008 the composition had shifted in that Latin American exports now consisted of 71.9% primary products and 28.1% manufactured products, and imports from China consisted of 0.9% primary products and 97.8% manufactured goods (see Table 2 and 3). It can be argued that over the years the region has increased its exports of primary unprocessed goods and increased its imports of manufactured goods.

Table 2: **Composition of Latin American imports from China and the Rest of the World, 1990, 2000, 2008 (% share)**

	China			Rest of the world		
	1990	2000	2008	1990	2000	2008
Primary products	22.2	3.1	0.9	18.6	9.6	13.1
Manufactured goods	77.0	95.1	97.8	76.8	86.5	85.4
Resource-based	13.0	10.5	9.4	19.8	15.8	20.9
Low technology	28.3	35.4	20.5	9.8	14.2	10.9
Medium technology	23.1	25.1	26.3	34.2	35.3	36.5
High technology	12.6	24.2	41.6	12.9	21.3	17.1
Other	0.7	1.7	1.3	4.6	3.9	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Commission for Latin America, cited in Jenkins 2012

Furthermore, although the balance of trade varies by country – for example in 2013 Brazil had a trade surplus of \$8.72 billion USD (Barbosa, 2014) while Mexico had a \$51.3 billion USD trade deficit in 2012 (Reuters, 2013) – overall, the region has a trade deficit with China (Jenkins et al., 2008). As explained by Rhys Jenkins (2010), “the main drivers of these developments have

come from the Chinese side, and Latin America has been responding to agendas where China has been in the driving seat.” So far, China has been an exporter of very diverse manufactured goods while Latin America has been a supplier of heavily concentrated unprocessed primary goods to accommodate China's industrialisation needs.

Table 3: **Composition of Latin American and the Caribbean exports to China and the Rest of the World, 1990, 2000, 2008 (% share)**

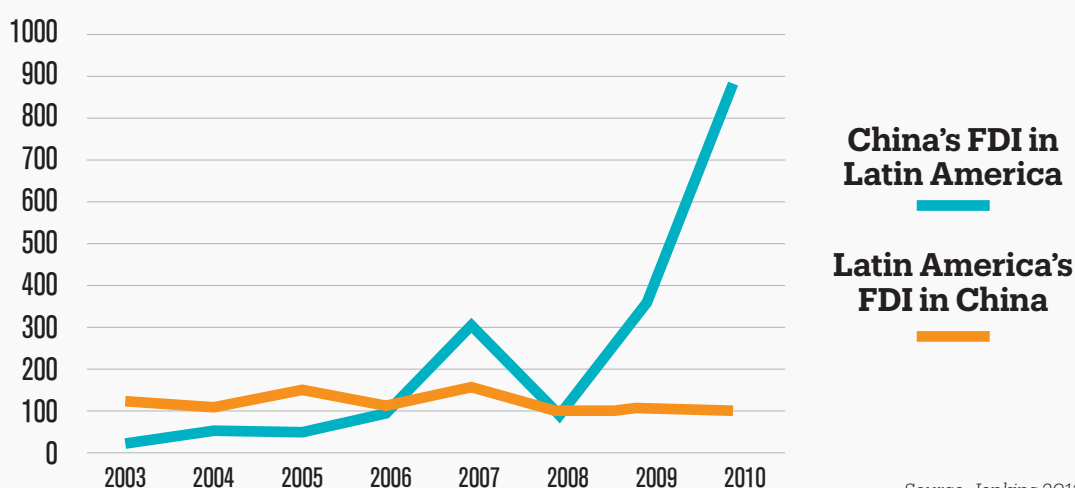
	China			Rest of the world		
	1990	2000	2008	1990	2000	2008
Primary products	40.2	58.1	71.9	49.1	27.0	38.5
Manufactured goods	59.8	41.8	28.1	49.7	71.3	58.5
Resource-based	25.1	23.3	15.8	22.0	17.2	15.1
Low technology	10.1	5.8	2.4	9.6	11.9	7.7
Medium technology	24.3	6.2	5.6	15.5	25.6	23.4
High technology	0.2	6.5	4.3	2.6	16.7	12.3
Other	0.0	0.1	0.1	1.2	1.7	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Commission for Latin America, cited in Jenkins 2012

China's Resource-Seeking Investment

Between 2000 and 2011, Latin America and the Caribbean (LAC) was the second largest recipient of Chinese overseas foreign direct investment, with 87% of the investment coming from the public sector and the remaining 13% coming from the private sector

(Dussel Peters, 2012). In 2003, China invested \$16 million USD in the region, but by 2010 FDI had jumped to \$878 million USD, which made up 1.28% of its total worldwide investment (Jenkins, 2012) (see Graph 2).

Graph 2: **Chinese FDI in Latin America, 2003-2010 (in Millions of USD)**

Source: Jenkins 2012

China's FDI is of the "resource seeking" type and therefore goes to countries that are rich in natural resources, particularly Argentina, Brazil, Mexico, Peru and Venezuela (Jenkins, 2009). Between 2000 and 2011, 99% of the Chinese FDI coming from the public sector was invested in raw material and energy sectors, compared with 8% of the investment coming from the private sector (Dussel Peters, 2012). China's

other strategy is to invest in the assembly sector to ensure better access to Latin American domestic markets (Jenkins, 2010). On the other hand, between 2002-2009 the total FDI going into China from Latin America was \$932 million USD (see Table 4) (Jenkins et al., 2008). Overall, China's FDI in the region has been increasing in the last decade and is mainly directed to the extraction and assembly sectors.

Table 4: **Latin American FDI in China, 2002 – 2009**

	Value (US\$ million)	Share of China's FDI inflows (%)	Share of Latin America's FDI outflows (%)
2002	117.87	0.22	1.66
2003	106.6	0.20	1.13
2004	144.01	0.24	0.75
2005	108.71	0.18	0.56
2006	152.94	0.24	0.35
2007	97.09	0.13	0.42
2008	106.31	0.12	0.28
2009	99	0.11	0.71
2002-2009	932.53	0.26	0.76

Source: Data from the World Bank 2018

Benefits of the “Chinese Effect”

Latin American governments increased their revenues as a result of the rising exports to China. In 2005, for example, 15.5% of the total fiscal revenue of Chile came from raw copper being exported worldwide by one of its national companies (Fernández Jilberto, 2010). Chinese FDI, although limited, is seen as a potential source for building new infrastructure in the regions. Furthermore, the imports from China are seen as a way to increase access to cheap consumer goods and to make local producers more competitive through the acquisition of low-cost machinery and parts (Jenkins, 2010).

But the biggest effect has been the increase in prices of some primary products due to China's large demand of those products. In 2007, China consumed more than 50% of the world's iron ore, 33% of aluminum and zinc and more than 25% of copper (Jenkins, 2009) and it is

the second largest consumer of energy after the U.S (Fernández Jilberto and Hogenboom, 2010). Between 2002 and 2007, the price of iron ore increased 184.7%, aluminum 95.4%, zinc 316.4%, copper 356.5%, soybean 80.6%, and for oil 185.1% (Jenkins, 2009).

Countries that are endowed with raw materials tend to be labelled as winners for two reasons: 1) increase revenues from the increase of exports to China; and 2) increase revenues from higher world prices of these goods. Most of the countries in South America, such as Argentina, Chile and Peru, fall under this category in that their exports are in big demand by China and/or because they tend to export the commodities that have experienced an increase in price (Jenkins et al., 2008; Jenkins, 2010; Fernández Jilberto and Hogenboom, 2010).

The Negative Side of the “Chinese Effect”

Primatisation and hollowing out of the industrial sector

The region's largest exporters to China are heavily concentrated in unprocessed primary products from a narrow range of sectors. In 1995, the region's exports to China were composed of 35% primary products and 65% manufactured goods, but by 2006 the opposite was true in that 62.5% of exports consisted of primary products and 37.5% of manufactured goods (ECLA cited in Jenkins, 2009). In 2007, Argentina's soybean and soybean crude oil made up 83.3% of its exports to China (López and Ramos, 2009); Brazilian's exports consisted of 42.9% soybeans and 37.2% of iron ores and concentrates (Saslavsky and Rozemberg, 2009); and Chilean's exports consisted of 81.9% copper ores and anodes (Barton, 2009). This can be problematic in that the region could be showing symptoms of the Dutch Disease.

As the countries increase specialisation in unprocessed primary products, the manufactured sector tends to shrink. The large export boom tends to appreciate the local currency, which makes the manufactured goods more expensive and less competitive in the world market. Furthermore, to take advantage of China's economic boom, Latin American countries have chosen to specialise in primary products. In Argentina, between 1996 and 1998, soybean flour and pellets, which are value-added products, made up

a significant amount of exports to China, but in the last decade these products have been replaced with unprocessed soybean (López and Ramos, 2009). In the case of Brazil, between 2000 and 2010, the exports of primary products to China doubled from 22.8% to 44.6% while its exports of manufactured goods shrank from 59.0% to 49.4% (Jenkins and De Freitas Barbosa, 2012). The specialisation in primary products and loss of market share, particularly in manufactured goods, contribute to the hollowing out of the manufacturing sector.

The region's primatisation/specialisation in primary products can have three negative consequences in the region: 1) the region is becoming dependent on the production of primary products which are less dynamic than the manufactured products; 2) harder to add value and increase technological capabilities; and 3) higher chances of experiencing economic shocks due to the economy relying more and more on highly concentrated primary products from a narrow range of sectors, which are more susceptible to volatile world prices (Mesquita Moreira cited in Jenkins et al., 2008). In other words, the region could be succumbing to the Dutch Disease: specialising in unprocessed primary products at the expense of the manufacturing sector.

Increase in third market competition

With the accession of China to the World Trade Organization (WTO) in 2001 and the elimination of the textile and garments quotas in 2005, Latin American countries face more competition from Chinese products in third markets (Jenkins 2009, 2010). Since 2001, the exports to the U.S. from 18 Latin American countries were 9% lower than they would have been had China's exports not increased in that market (Jenkins, 2010). In addition, from 2001 to 2009 China increased its shares in third markets from 10% to 20%

in the U.S., from 8% to 16% in the E.U. in that same period, and from 2.6% in 2000 to 12.5% in 2009 in Latin America (Jenkins and De Freitas Barbosa, 2012). The countries that export manufactured goods and yarn-textile-garments are affected more than those who export primary products. Between 1996 and 2006 the countries that were most affected were the Dominican Republic, El Salvador, Mexico and Guatemala, which lost over 10% of their market share (See Table 5) (Jenkins-2009).

Table 5: **Loss of Exports to the US to China as % of country's total exports to the US**

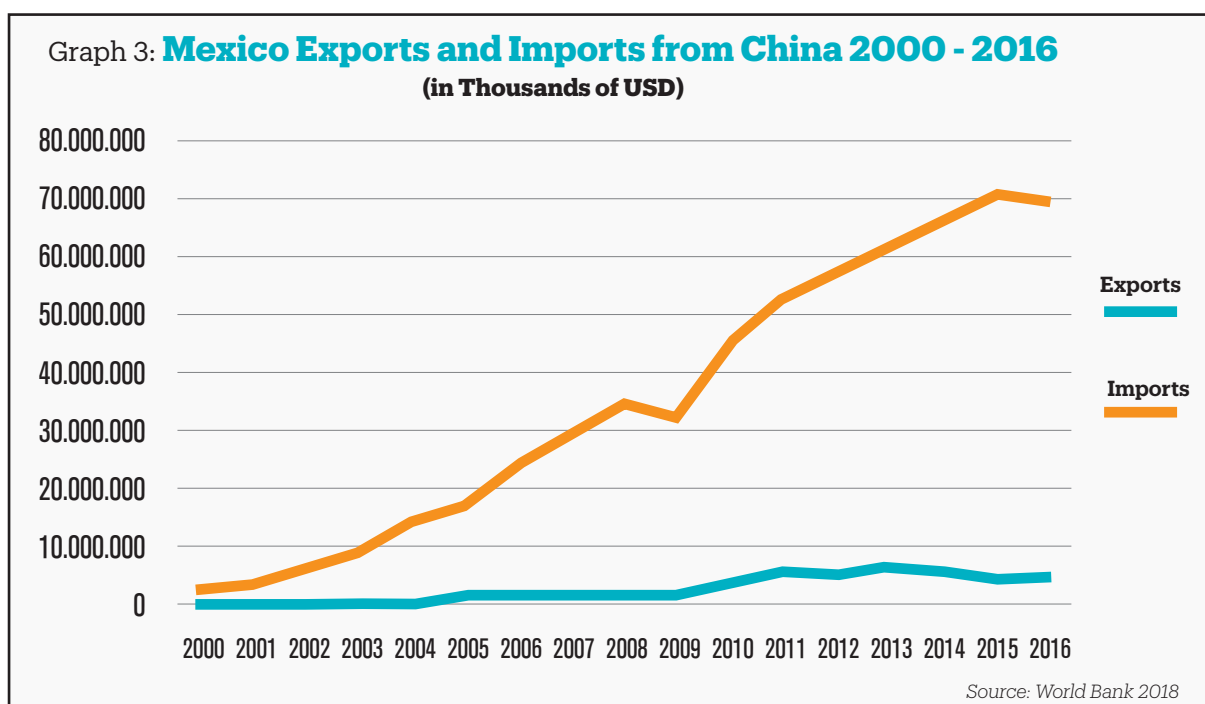
	1996-2001	2001-2006	2004-2006
Argentina	-1.8%	-5.1%	-1.6%
Bolivia	-10.4%	1.6%	-1.3%
Brazil	-4.1%	-7.7%	-3.3%
Chile	-1.3%	-3.0%	-1.3%
Colombia	-0.5%	-2.3%	-1.7%
Costa Rica	-1.3%	-7.8%	-1.6%
Dominican Republic	-2.4%	-13.0%	-6.1%
Ecuador	-1.0%	-1.1%	0.0%
El Salvador	6.5%	-12.3%	-10.5%
Guatemala	6.2%	-10.5%	-8.7%
Honduras	3.8%	-7.7%	-6.0%
Mexico	-1.1%	-11.4%	-4.5%
Nicaragua	6.4%	2.3%	-0.8%
Panama	-2.4%	-2.4%	-1.1%
Paraguay	-6.9%	-5.7%	-5.5%
Peru	2.0%	-0.5%	-1.4%
Uruguay	-5.8%	-9.3%	-1.6%
Venezuela	0.0%	-0.7%	-0.5%
Latin America	-1.0%	-9.3%	-3.8%

Source: Jenkins 2009

The Mexican case

Mexico's trade deficit with China has continued to widen in the last years (see Graph 3). As the second largest economy of Latin America with preferable access to the vast US market due to the North America

Free Trade Agreement, China has targeted Mexico's domestic market.



In 2002, China replaced Mexico as the second largest exporter to the U.S. market, which is significant since 80% of Mexican exports go to the U.S. market (World Bank, 2018). Of the top twenty Mexican exports to the U.S., China competes on twelve of them (Hogenboom, 2010). For example, between 2001 and 2006, U.S. imports of personal computers from Mexico fell from 14% to 7%, while Chinese exports

tripled from 14% to 45% (Dussel Peters, 2009). Mexico also experienced FDI loss, with one-third of its transnational corporations going to China (ECLAC 2004 cited in Hogenboom, 2010). To make matters worse, the Mexican government has turned a blind eye on these problems and has failed to produce an adequate policy to address the trade imbalance with China (Dussel Peters, 2014).

Conclusion

In the last decade, the economic relationship between China and Latin America has deepened as China has turned to Latin America to secure the raw materials needed to fuel its industrialisation boom. Countries that are endowed with raw materials and agricultural products, such as those of South America, have benefitted from increase in revenues from the exports, price increase of primary products and from some amounts of FDI. On the other hand, countries that export manufactured goods and labour-intensive goods, such as Mexico and Central America, have been harmed due to their products competing with Chinese products in third markets.

However, even countries that have benefitted from the "Chinese effect" should worry since the benefits could be short-lived. In the long term, as the region continues to specialise in unprocessed primary products and the manufacturing sector shrinks, the region could succumb to the Dutch Disease. When China's economic boom ends and the price of commodities begin to decrease, as has been the case in the last years, what will the region's economies do?

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