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Abstract

This paper examines the economic and trade relations between China and Latin America and the Caribbean (LAC). It analizes the current role of China in the world economy and the outlook for growth in the Chinese economy and its impact on global trade. Based on this, the article presents the main data of the growing presence of China in the international trade map of LAC and the evolution of Chinese FDI in the region. The article concludes with a set of recommendations aimed at improving the quality of economic and commercial links between China and LAC. Particular emphasis is given to the LAC's exports diversification oriented to China and Chinese investment's attraction oriented to manufactures, services and infrastructure.

Keywords

Exports, China, Latin America, regional data, trade relations

Synopsis

Over the past decade, business relations between China and Latin America and the Caribbean (LAC) have been thriving. China has transformed itself from being a marginal trading partner for LAC in 2000 into a highly relevant partner, in particular for South American countries. The value of LAC exports to China has grown at an annual rate of over 33% during 2006-2011. China is now the main market for exports from Brazil, Chile and Peru and the second biggest destination for Argentina, Cuba, Uruguay and Venezuela (Bol. Rep. of). The rise of China as origin of imports is even more dramatic, as China is among the three most important source countries for imports in all LAC countries. For Panama and Paraguay, China is the main origin of imports, while for another ten countries it is the second largest import source. Overall, close to 9% of LAC exports are directed to China, while nearly 14% of the region's imports are sourced from Asia's main economy.

From the viewpoint of China, the LAC region was its most dynamic trading partner during the second half of the last decade. LAC's share in China's trade has increased gradually, rising from a very low starting point to a 6% share of total Chinese exports and a 7% share of total imports in 2011 (Rosales-Kuwayama, 2012).

Foreign direct investment (FDI) flows from China to LAC have also increased over the past decade, but remain small, while flows in the other direction are incipient. For Chinese multinationals, Latin America has become a destination of some importance. Until a few year ago, the bulk of their investments was directed towards the off-shore financial centers in the region (British Virgin Islands and Cayman Islands), but in recent years investments outside these off-shore centers have jumped. Indeed, Chinese companies have invested in a variety of countries and sectors ranging from mining in Argentina, Brazil and Peru, to car manufacturing in Brazil and Uruguay, and tourism in the Bahamas.

Booming bilateral trade with China explains a large part of the past decade's economic boom in LAC, with high growth, a reduction in poverty and even an improvement in income distribution. The closer ties also helped LAC to withstand the worst global crisis since the Great Depression in the 1930, unleashed in the United States. Nowadays, LAC's economic fortunes depend more on China than on Europe or the United States. This will probably remain so for several years to come, given the profound structural problems and growth stagnation in these latter economies.

Despite their benefits, these more intense transpacific economic relations have also become a cause for concern in LAC due to several significant imbalances. First, bilateral trade flows have expanded much faster than bilateral investment flows, suggesting a possible lack of complementarity and synergies between both types of links. Second, transpacific trade flows are marked by a growing surplus in favor of China. Third, bi-regional trade is of an inter-industry type, meaning that LAC, and South America in particular, exports mainly (processed) commodities, whereas China exports mainly manufactures. This inter-industry type of trade gives rise to few technology transfers from China to LAC, at the same time that few interregional value chains are being shaped. Moreover, the commodity export boom contributed to an appreciation of South American currencies and reduced the competitiveness of non-commodity exports. Simultaneously, the import surge of manufactures from China has intensified the competition for manufactures produced in LAC in domestic markets and abroad. Both tendencies may have contributed to the acceleration of the de-industrialization process in LAC, with negative consequences for the innovation and growth capacities of the region's economy.

China is conscious of this situation and has put forward four proposals to improve the "quality" of bilateral economic relations. Already in 2008, the Chinese government issued a policy paper on Latin America and the Caribbean, and on 26 June 2012 China's ex-Premier, Wen Jiabao, delivered an address at ECLAC headquarters on bilateral relations with LAC.[1] In particular, he proposed the building of a full partnership based on equality, mutual benefit and joint development based on four proposals.

- First, China proposes to deepen strategic cooperation by setting up a mechanism for regular dialogue between the Foreign Ministers of China and the troika of the Community of Latin American and Caribbean States (CELAC), to be expanded in due time by a similar mechanism at the level of Heads of State.
- Second, the Chinese government aims to increase trade with the region from US$234 billion in 2011 to US$400 billionin 2016. Moreover, China wants to import more manufactured and high value-added goods from the region so as to achieve more balanced and sustainable trade. The creation of a special US$10 billion credit facility was announced for joint infrastructure development projects in the region, as well as the creation of a China-Latin America and the Caribbean Cooperation Fund with a first tranche of US$5 billion to be contributed by Chinese financial institutions.
- Third, China proposes to strengthen agricultural cooperation in the context of the region's unique advantages for agricultural production and China's strong demand for agro-food imports. For this purpose, a China-Latin America and the Caribbean Agricultural Ministers' Forum could be launched, with a first meeting to be held in China in 2013. To stimulate agricultural cooperation, the Chinese government will contribute US$50 million, to finance the establishment of five to eight agricultural science and technology research and development centres in the region. Trade in agricultural products should increase to US$40 billion within five years, assisted by the bilateral exchange of 500 agricultural experts.
- Fourth, China would like to enhance "people-to-people friendship" through different initiatives, including the establishment of Chinese cultural centres in LAC and the offering of 5,000 scholarships to students from the region over the next five years. A bilateral Scientific and Technological Innovation Forum is proposed, with the goal of stronger cooperation in space and aviation, new energy, natural resources and the environment, ocean, and polar science research. Finally, a mechanism is recommended to promote tourism between China and the LAC region.

For countries in LAC, it is urgent to reach agreements on joint proposals to match the Chinese offers. Countries in the region must combine national efforts and agree on a regional agenda of priorities. This means giving preference to plurinational approaches over unilateral initiatives. The time has come for the region to pull together and work as one in responding appropriately to the many substantial initiatives that China has brought to the table. The CELAC, with its inclusive nature, should play a pivotal role in this process. One example is the CELAC troika's 9 August 2012 visit to Beijing, during which it was agreed to set up a mechanism for regular dialogue between China and CELAC at the Foreign Minister level.

The outlook for business relations between China and LAC seems optimistic, in a context where most of the industrialized world is on a low growth path for several years to come. The economies of both regions are dynamic, and their bilateral trade has a large potential to expand further. However, it is essential to increase the manufacturing and value-added contents of LAC exports to China, as well as boost foreign direct investment in both directions. The proposals put forward by China will certainly contribute to this "quality leap" in bilateral business relations, but they need to be matched by a concerted response from countries in LAC.

Moreover, the upgrading of LAC exports to China also depends crucially on the efforts of LAC countries to forge regional value chains. These chains, in turn, need a more integrated regional

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[1] Address by Premier Wen Jiabao at the Economic Commission for Latin America and the Caribbean of the United Nations, Santiago, 26 June 2012. <http://www.fmprc.gov.cn/eng/zxxx/t945728.htm>

economic space, which requires the accumulation of origin among the region's economies, the harmonization of regulatory regimes (in services and investment, among others), the building of infrastructure, and the promotion of business innovation and internationalization.

1. China in the World Economy and its impact on Latin American countries

In the last few decades, China – along with the rest of emerging Asia – has become a key factor in understanding the evolution and future of globalization. China's economic growth, international trade, foreign direct investment (FDI), technological innovation and financing capacity, are quickly changing the world economy. In doing so, China is strengthening the ties between developing economies and is taking part in an unprecedented cycle of growth, trade, investment, poverty reduction and progress in the internationalization of emerging economies. As a result, the income gap between industrialized and emerging economies is narrowing.

Several decades of growth at 10% in China have redefined the context of Asian value chains, which have become increasingly centred on China, the primary player of "Factory Asia". In this way, the accelerated growth dynamic of China's economy results in strengthened ties between Asian economies and also serves to stimulate intra-industrial growth and cross-investment. Thus, an effective strategy for developing closer relations with China must take into account the strong ties with East and Southeast Asia.

China's impetuous growth can be seen in the active demand for raw materials and natural resources, several of which can be provided by African and/or Latin American countries. In the last decade, China's trade with both regions has grown at high rates and has allowed it to evolve - in a short period of time - from a small trading partner to a primary trade partner for both continents. This trade has resulted favorably for the growth of those countries that export raw materials. However, the interindustrial nature of trade between the region and China – China exports manufactured goods while LAC exports raw materials – is particularly noteworthy. This reduces the potential for possible Sino-Latin American business alliances and hampers a more efficient insertion of LAC countries into the increasingly interindustrial production chains of Asia-Pacific. At the same time, it should be noted that Chinese authorities have signaled their willingness to engage in dialogue about these challenges and to pursue agreements that will be of mutual benefit.[2]

The conditions are in place to take advantage of this historic opportunity and take into account the challenges in infrastructure, innovation and natural resources, and to convert the gains from natural resources into various forms of human capital – both physical and institutional – that will diversify exports and increase productivity and competitiveness. Another significant and complementary challenge is to secure higher levels of Chinese FDI in the region, especially those directed at improving infrastructure, promoting export diversification and stimulating Sino-Latin American business alliances. This requires working on a regional strategy to create closer ties with China, East and Southeast Asia that will overcome the limitations inherent in the purely national efforts that have prevailed until now.

The motor of the global economy has moved to the Pacific Rim, with China's expansion fostering this trend. The real challenge for Latin America is to plan ahead, taking into account the global and regional implications of China's dynamism and the emergence of China's block expansion. In other words, China's economic expansion has solid linkages with its neighbour economies. These linkages are transforming the regional economy and changing Asia's division of labor. Through this expansion, the East Asian region is building integrated production networks of world quality; it is urgent that

[2] Address by Premier Wen Jiabao at the Economic Commission for Latin America and the Caribbean of the United Nations, Santiago, 26 June 2012. <http://www.fmprc.gov.cn/eng/zxxx/t945728.htm>

Latin America take full advantage of this process and, at the same time, be effectively inserted into these networks.

2. China and Latin America post-crisis

The recovery of the world economy from the recent crisis has been very heterogeneous across regions. Emerging economies are growing almost three times as fast as industrialized ones. Asia-Pacific, led by China, is the world's most dynamic region. For its part, Latin America has emerged from the crisis in better shape than many industrialized economies. It is worth noting, however, that the recovery has been more vigorous in South America than in Mexico and Central America.

A weak and heterogeneous recovery accentuates divergences in monetary policy within the G20, increasing financial and exchange rate volatility in countries of the Organisation for Economic Co-operation and Development (OECD). Low interest rates, coupled with higher yields in emerging economies, encourage capital inflows to the latter and result in an appreciation of their currencies. This, in turn, discourages exports (especially non-traditional ones), while at the same time fostering borrowing in foreign currency and current account deficits. This situation could bring emerging economies closer to the well-known debt crisis scenarios. Without the multilateral mechanisms to address these vulnerabilities in the international financial system, some emerging economies will inevitably end up adopting various forms of capital controls, as is already happening in Brazil, Korea, Indonesia and other developing countries.

The required adjustment in the world's most indebted economy, the United States, must include a depreciation of the dollar alongside efforts to reduce absorption and increase savings. As the US current account position improves, however, it must deteriorate somewhere else. This is why it is so important that economies with high current account surpluses, in particular China, collaborate with a more balanced recovery that facilitates the gradual appreciation of their currencies and stimulates their internal market and private consumption. Growth nearing 10% and investment exceeding 40% are not sustainable and have reduced the consumption-to-GDP ratio to 43%. Each additional step toward a gradual adjustment of China's macroeconomic model, inclusive of a larger role for domestic consumption, reduces the likelihood of bad news in the coming years (Rosales, 2012a).

China is already in a position to continue growing at high rates even with a stronger yuan, thanks to its advancements in productivity and efficiency. The historical experience shows that as economies grow stronger, their national currencies also strengthen. Moreover, this process is fully compatible with guidelines aimed at reducing internal inequalities between urban and rural areas in China and reinforces social safety nets with an emphasis on health, housing and pensions.

Thanks to the favorable external cycle from 2003 to 2008 and improvements in economic policy, Latin America did not experience a financial or exchange rate crisis despite the intensity of the 2007-2012 global economic crisis. On the contrary, the macroeconomic strengths the region had been building —fiscal and current account surpluses, increased international reserves and flexible exchange rates in most countries—allowed it to face the crisis with countercyclical fiscal and monetary programs, reducing its effects and contributing to a fast recovery.

During this favorable external cycle, Latin America grew faster than at any time in the last four decades. At the same time, however, the region was unable to reduce its productivity gap compared to industrialized economies or bridge the gap between the modern and undeveloped sections of its national economies.[3] Latin America's substantial disparities in productivity levels across sectors—

[3] This is why ECLAC speaks of the need to reduce two productivity gaps: one with the industrialized economies and a second, internal one (ECLAC (2010), Time for Equality: Closing gaps, opening trails.)

much higher than those in the OECD or in Asia—are a key explanation of the high inequality that remains an unfortunate characteristic of the region. These disparities explain the region's high under-employment and its abundance of small- and medium-size firms with low productivity levels, poorly qualified workers and inability to meet international quality standards. The success of any strategy aimed at converging with industrialized economies will necessarily be measured against indicators such as innovation, productivity, diversification of the productive and export base, a more qualified workforce, strengthened links between exports and the rest of the economy, and a less unequal income distribution.

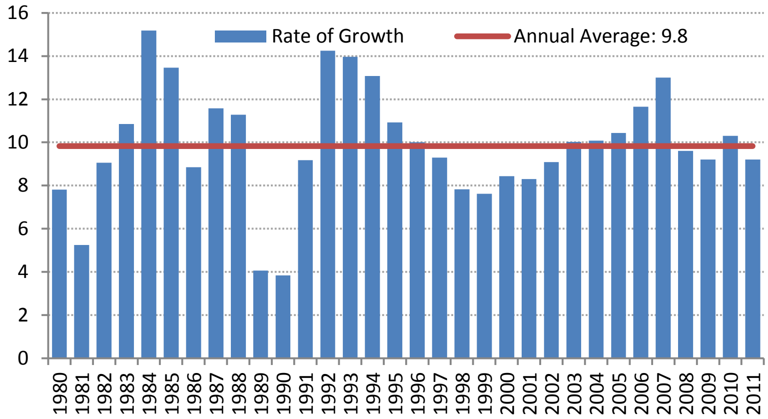
The financial crisis has reinforced China's, and more generally Asia's, position as the main source of growth for Latin American exports. Asia-Pacific has already displaced the European Union (EU) as the second most important export market for the region. Toward the middle of the current decade (2010-2019), China will displace the EU as Latin America's second most important trade partner, both for exports and imports. There is no doubt that, in the coming years, these links will continue to develop. Over the next decades, Latin America's growth prospects could depend more on its economic relationship with Asia than with the United States or Europe.

Midterm perspectives look promising for China and Latin America and explain to a significant degree the world's new geography of growth. This not only reflects the larger presence of emerging economies in the main variables of the world economy, but also the stronger links between emerging and developing economies through increased South-South trade and investment. Developing countries must act proactively to anticipate this new scenario and adjust their policies and strategies to take advantage of it.

3. China's Economic Growth and Perspectives

China continues to be the most dynamic growth pole in the world economy and the main impulse of global growth, with a 9.2% growth rate in 2011 (see Figure 1). It is worth noting that the goal for growth set by Chinese authorities for the 2011-2015 period is 7% per annum – a slowdown from recent trends.

Figure 1
China: Annual GDP Growth Rate, 1980-2011
(Percentages)

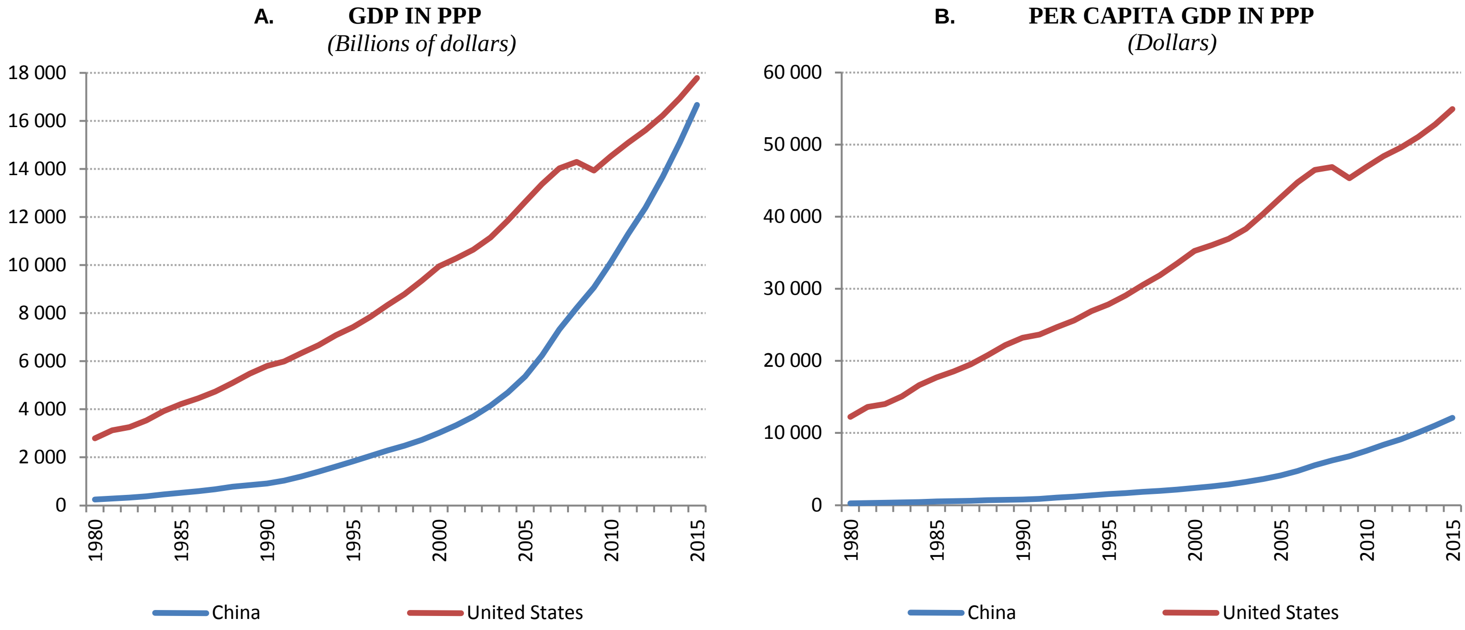


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the National Bureau of Statistics of China.

The most recent projections show that the Chinese economy will grow 8.2% in 2012 (International Monetary Fund, 2012) or, alternatively, 8.6% (Economic and Social Commission for Asia-Pacific, May 2012). Similarly, it is projected that, during the period from 2013 to 2017, there will be annual growth in the range of 8.5% to 8.8%. With this level of growth, China will continue to be the fastest-growing economy among the main world economies.

The three decades of economic reform in China, initiated in 1979, represent the most intense industrialization and urbanization process that humanity has known. When these reforms were initiated, Chinese GDP only reached 9% of the United States' GDP and the PPP per inhabitant was only 2% of that of the United States. The IMF projects that in 2017, Chinese GDP will exceed that of the United States by 3% and that its GDP per inhabitant will equal one-fourth of that of the United States (see Figure 2). This elevation of China to the position of the world's largest economy will result in a substantive break in the international debate with respect to globalization and governance.

Figure 2
China and United States: Different Measurements of National Output, 1980-2017 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, April 2011.
[a] Values after 2011 are projections.

China represents more than 20% of the world's population, with a continuously growing middle class. Estimated at 157 million inhabitants, the Chinese middle class is already larger than that of the United States and is projected to reach 500 million by 2020, becoming the main global market. China has already surpassed the United States as the most important market for cellular phones, automobiles and personal computers.

The increase in income per capita foreseen for the next several decades will help strengthen the scope and purchasing power of the Chinese middle class, thus transforming it into a key market for food products, high quality products, tourism, pharmaceutical products, retail and luxury products, among other goods and services. Based on this, it is fundamental that Latin America and the Caribbean place an emphasis on diversifying their exports toward the dynamic market of the emerging Chinese middle class.

China's exceptional contribution to the global recovery has been in the making for a number of years. China has been growing at an annual average growth rate of 9.7% in last 25 years. In terms of PPP, China's contribution to the world GDP growth in the last several years has been around 27%.

From 4% of total exports of goods in 2000, China came to account for more than 10% in 2011, ranking as the first world exporter (see Figure 3). It also ranks second in the world in imports, which expanded by 22% in 2010 and by 10% in 2011[4] (see Figure 4). China continues to be the most preferred destination for FDI. The country's materialized FDI in 2011 reached US$ 116 billion, up by nearly 10% from the previous year.[5] The number of newly approved foreign-funded enterprises in China reached 27,712, up by 1.1% from the previous year.

Figure 3
World's Leading Goods Exporters
(Percentages)

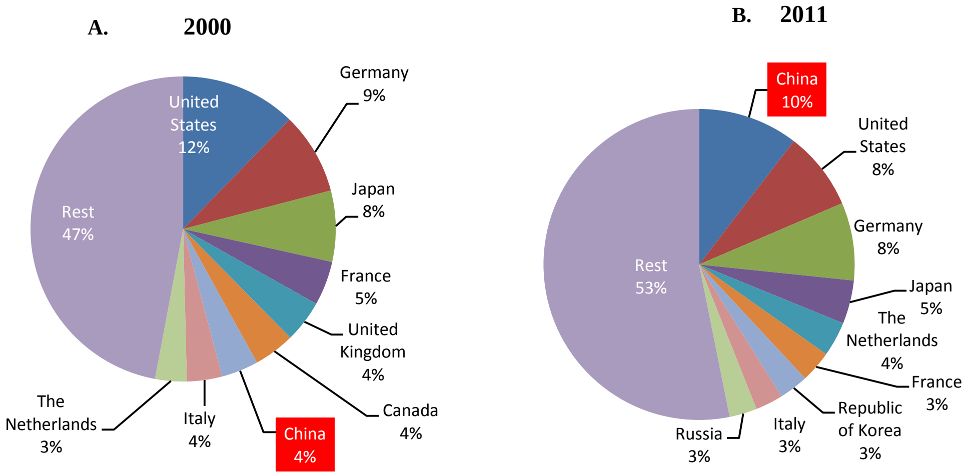
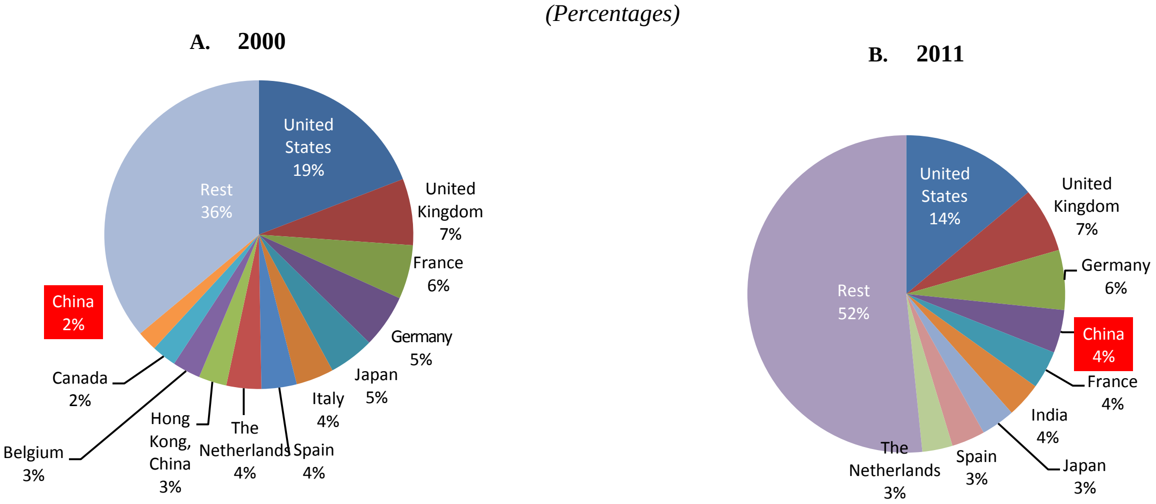


Figure 4
World's Leading Services Exporters
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO).

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4 WTO (2012), International Trade Statistics 2012.

5 Ministry of Commerce of China (MOFCOM) (2010), Statistical Bulletin of China's Outward Foreign Direct Investment, Beijing.

Box 1. Avoiding "middle income trap" in China

The Chinese 12th Five-Year Plan (2011-2015) seeks to refocus the current Chinese economic model from investments and low-cost exports toward a model that is more reliant on internal consumption and is more sustainable, promotes social cohesion and emphasizes innovation. A rebalancing toward greater domestic consumption is necessary not only to compensate for the expected weakness that is foreseen in the demand of industrialized nations, but also to improve distribution indicators which show a deterioration of labor income and an a concentration of income. In this way, increases in minimum salaries and other measures designed to stimulate middle- and low-income household consumption, particularly in the rural areas of the country, will be accompanied by greater public expenditure in social housing and social security in an effort to reduce differences in income and quality of life between urban and rural populations. To develop the internal areas of the country, Chongquing and Chengdu will become pillars of industrial and economic power in order to promote internal migration. Another ambitious goal is to provide universal health care and extend coverage to an additional 200 million people.

Another emphasis of the Plan is to prioritize more sustainable growth and promote productive restructuring with a greater emphasis on technological innovation and quality of products to improve environmental protection and reduce the energy intensity and carbon emissions per product unit. In essence, the accelerated Chinese industrialization has relied on polluting and low-efficiency energy, – which is changing slowly. A fundamental part of the Five-Year Plan is to reduce energy consumption per product unit and invest more in non-conventional renewable energy. The possibility that China will continue to grow at elevated rates in the next few decades and surpass the "middle income" trap. This assumes that, along with better income distribution, it will substantially modify its energy patterns. It is no longer possible to pursue significant increases in industrial production with elevated and inefficient utilization of water, energy and natural resources that are harmful to the environment. For this reason, sustainable energy, internal consumption and redistribution of income are the key to growth in China. The 2010-2011 figures are not particularly hopeful and, as such, a redoubling of efforts is required to fulfill the Five-Year Plan.

It should also be noted that China plays a crucial role in maintaining the global economic equilibrium. Its abundant and cheap financial resources contributed to maintain the high aggregate demand and low inflation of the US during the expansive cycle 2003-2007. It supplied inexpensive savings to the US, contributing to low interest rates. China has large foreign exchange reserves, buying US Treasury Bills and financing current account deficits of the US.

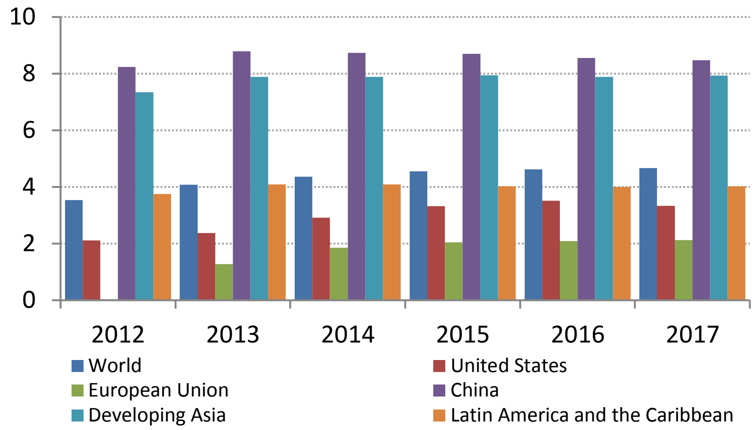
China is already the first producer of renewable energies and will soon become the primary exporter of related technologies and services. If it manages to move forward with a sustainable and more socially inclusive growth model, it will pave a path for the rest of the world. As such, in examining the challenges of Chinese economic growth, there also exists a debate with respect to the limitations of our own growth models as environmental damage, income concentration and social exclusion continue to affect our societies.

4. China and the global shift in economic dynamism[6]

The contribution of industrialized nations to the World's growth fell by more than half in 2000 to more than one-quarter in 2007. Despite a partial recovery in 2010, the United States, Japan and the European Union, in particular, are facing low growth over the next several years. In this context, it is projected that in 2016, the industrialized economies will represent only one-quarter of total world growth. In other words, their contribution will be reduced by half in 15 years.

On the contrary, developing countries account for a large fraction of world economic growth. The contribution of Developing Asia, led by China, is notable and is expected to reach 55% of world economic growth by 2016 (see Figure 5).

Figure 5
World, Countries and Selected Groups: Projected GDP Growth, 2012-2017
(Percentages)



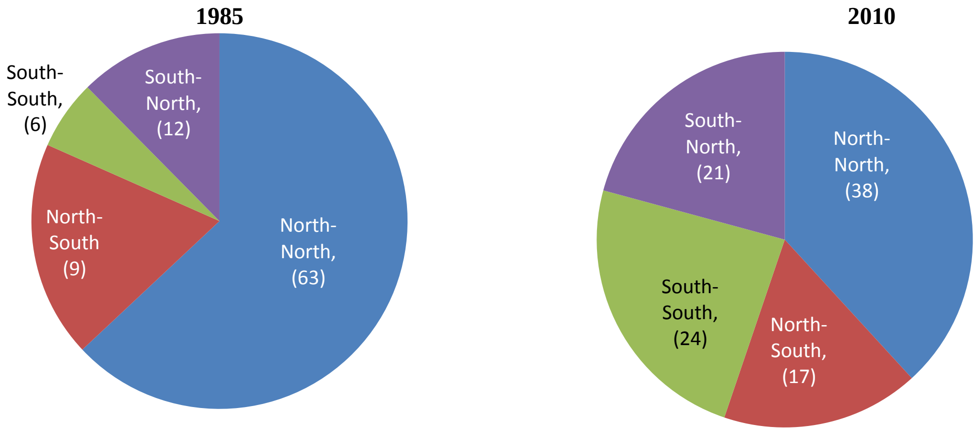
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2012.

The great economic dynamism exhibited by developing countries in relation to industrialized nations in the last decades has caused a recomposition of international trade flows. Since the mid-1980s, the weight of exports from developing nations has substantially increased. In fact, currently, exports between developing nations exceed those destined for developed nations. In this reconfiguration, the strong dynamism of Asian trade – both intraregional as well as with other developing regions – iskey.

Correlated with the aforementioned is the strong decline in the weight of trade between developed nations in international trade -- more than 60% in 1985 to less than 40% in 2010 (see Figure 6).

6 Figures of this and next sections are based on Rosales-Kuwayama, 2012: ECLAC, 2001 and ECLAC, 2012.

Figure 6
Developed Countries (North) and Developing Countries (South): Distribution of Global Exports
(Percentages)

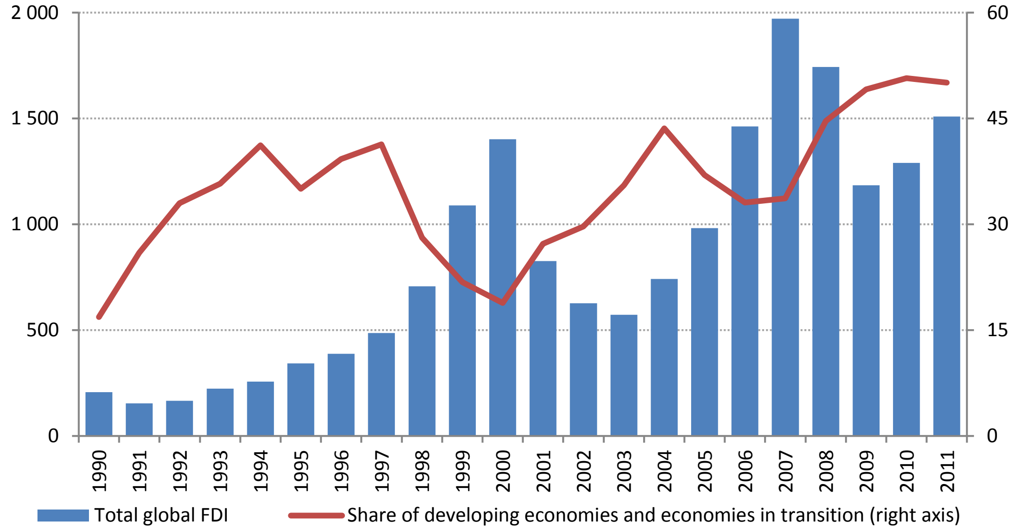


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

Extrapolating rates of growth for the next several years as exhibited by different categories of trade flows in the last decade indicates that, around the year 2017, trade between developing nations will exceed the amount of trade between developed nations.

In 2010, for the first time, developing nations and economies in transition received half of total world flows of Foreign Direct Investment. In 2010 and 2011, developing countries and transition economies received 51% and 50% of total world flows of FDI, respectively (see Figure 7). The two main developing regions that were recipients of FDI were Asia and Oceania – led by China and Hong Kong (SAR) – and Latin America and the Caribbean, where Brazil is the main recipient.

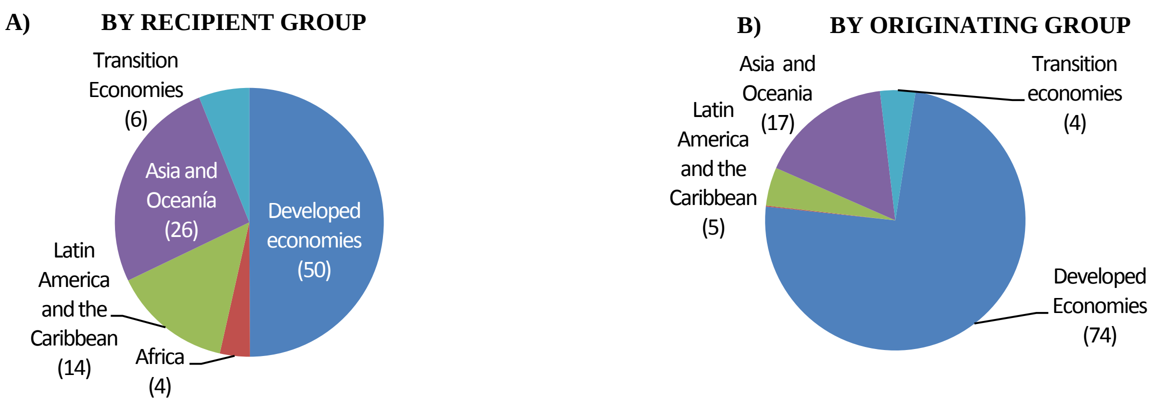
Figure 7
Global Inflows of Foreign Direct Investment (FDI) and Share of Developing Economies and Economies in Transition 1990-2011a
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference for Trade and Development (UNCTAD), using the UNCTADSTAT database.
[a] The 2011 figures are preliminary estimates.

The importance of developing countries and transition economies as foreign investors has also been strongly on the rise. Although in 2000 they were the origin of 11% of world flows of FDI, their share in 2011 was 26% – the second highest ever reached since 2010 (31%) (see Figure 8).

Figure 8
Distribution of Foreign Direct Investment (FDI) Flows, 2011 A
(Percentages)

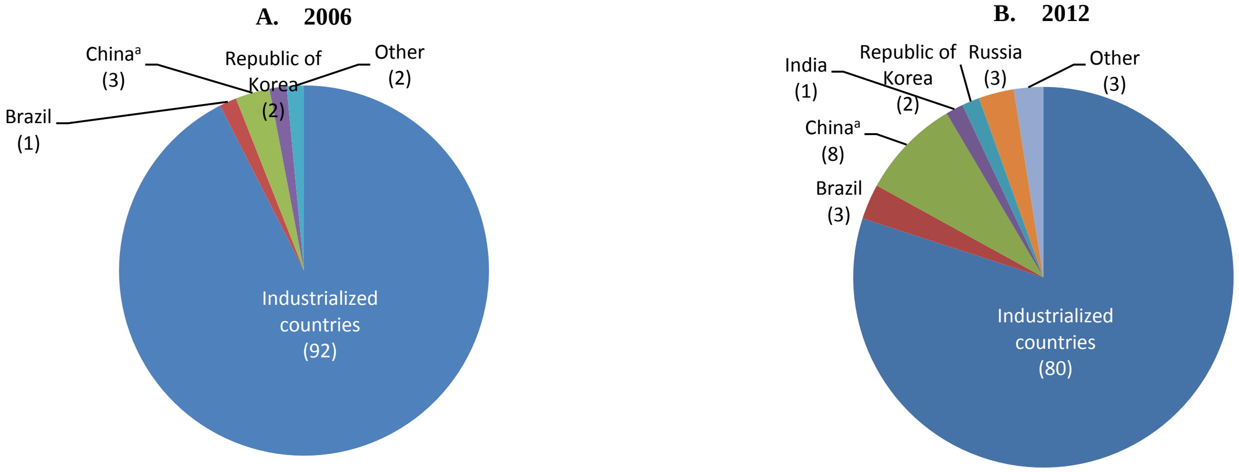


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference for Trade and Development (UNCTAD), *Global Investment Trends Monitor,* Nº 8, January 2012 and Nº 9, April 2012.

[a] Latin America and the Caribbean includes the financial centres of the Caribbean.

Companies in emerging countries have been increasing their presence in the rankings of the World's largest businesses, as evident in the annual Forbes Global 2000 ranking, which ranks the largest 2,000 publicly traded companies. This ranking combines four indicators: sales, profit, assets and stock value. In an analysis of the 200 top businesses included in the ranking, it can be seen that between 2006 and 2012, companies from emerging economies have increased their share significantly. In essence, in 2006, only 14 of the largest 200 companies (7%) had their headquarters in emerging countries, whereas by 2012, 40 companies (20%) were based in emerging countries (see Figure 9). Similarly, while in the 2006 ranking only one out of the 50 largest companies was based in an emerging country (Samsung, based in the Republic of Korea, was ranked 49), in 2012 there were 12 such companies based in emerging countries. This figure includes three companies ranked in the top ten: Industrial and Commercial Bank of China (ICBC), PetroChina, and Petrobras from Brazil.

Figure 9
Distribution of the 200 Largest Companies on the Forbes Global 2000 List, by Country of Origin
(Percentages)

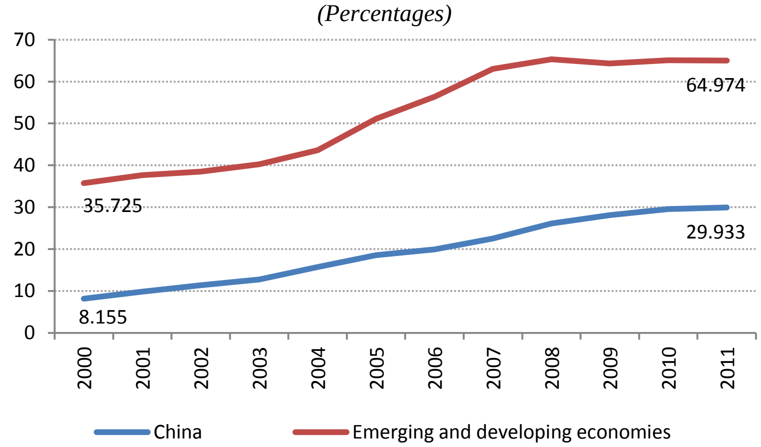


Source: Forbes, [online] http://www.forbes.com/global2000/list/#p_1_s_a0_All%20industries_All%20countries_All%20states_y http://www.forbes.com/ lists/2006/ 18/06f2000_The-Forbes-2000_Rank.html.
[a] China includes companies based in Hong Kong, (Special Administrative Region of China).

The majority of companies appearing in the rankings and based in emerging countries are in the energy and banking sectors, although some are also in the mining, telecommunications, automobiles and electronics sectors, among others. In terms of home country, most companies are from BRIC countries (Brazil, Russia, India and China). Chinese companies stand out and represent 8% of the 200 largest companies in the 2012 ranking.

Emerging and developing economies hold two-thirds of official international reserves, with emerging economies nearly doubling their share over the course of the last decade. China is notable in that it nearly quadrupled its share in just one decade. In 2011, it held 30% of the world's total -- nearly half of the combined holdings of emerging and developing economies (see Figure 10). This is due to the significant trade and current account surpluses that China has registered over the course of the decade.

Figure 10
Participation of China and the Emerging and Developing Economies in the Global Stock of Official International Reserves 2000-2011
(Percentages)

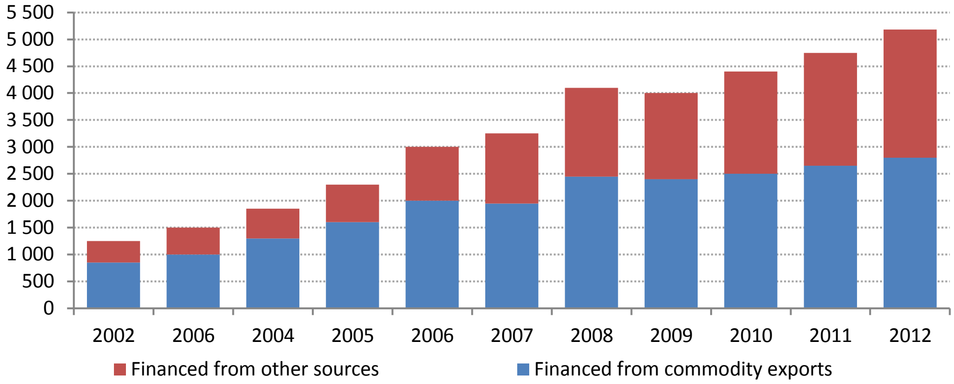


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) International Financial Statistics.

Other developing and emerging economies - such as those of the Middle East and Northern Africa - have also significantly increased their share in holdings of global reserves due to the trade surpluses generated by petroleum exports. The increase in holdings of developing countries places them in a less vulnerable position than previously in the event of an exchange or balance of payments crisis.

Emerging economies, led by China, have the largest share of assets managed by Sovereign Wealth Funds (SWF). Between 2002 and the end of 2011, assets managed by SWFs grew from USD$1B to nearly USD$5B while the number of SWFs increased more than in the last four previous decades (see Figure 11). This growth originated mainly in the petroleum exporting-countries of Africa and the Middle East as well as countries in Asia with a trade surplus. The two subregions represent 55% of total FSI and three-quarters of managed funds.

Figure 11
Sovereign Wealth Funds: Assets Managed [a]
(Billions of dollars)



Sources: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Sovereign Wealth Fund Institute and City UK estimates. [a] The 2012 figures are projections.

The funds financed by exports of basic products – mainly petroleum – represented 56% of all SWF assets at the end of 2011. The rest of the funds were financed principally by foreign currency, surplus in fiscal accounts, reserves of state pension funds and resources from privatization of state-owned enterprises.

China is by far the main actor in terms of SIF and represents 29% of total assets (see Table 1). It has four large funds: SAFE Investment Company, China Investment Cooperation, Hong Kong Monetary Authority Investment Portfolio and National Social Security Fund, all created between 1993 and 2007.

Table 1
Countries and Regions of Origin of Sovereign Wealth Funds, 2011
(Billions of dollars and percentages)

Country	Amount	Percentage	Region	Amount	Percentage
China	1 411	29	Asia	1 927	40
United Arab Emirates	783	16	Middle East	1 682	35
Norway	560	12	Europe	802	17
Saudi Arabia	478	10	America	138	3
Singapore	405	8	Africa	130	3
Kuwait	296	6	Other	120	2
Russian Federation	114	2	**Total**	**4 800**	**100**
Other	753	16			
Total	**4 800**	**100**			

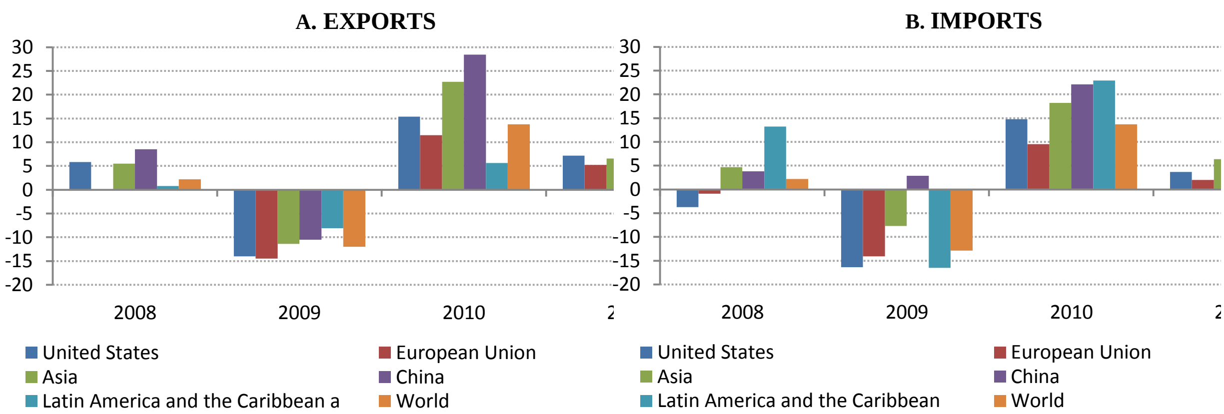
Sources: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Sovereign Wealth Fund Institute and City UK estimates.

SWFs have become key financial players. Specifically, SWFs that are not financed by exports of basic products are a key source of international liquidity. A notable case is that of US Treasury bonds, in which China and Japan each hold one-fifth of the total.

5. China's impact on global trade

In 2010, China led the recovery of world trade with exports and imports – as measured in volume – which grew at 28% and 22%, respectively. In 2011, in an environment of instability and low growth in the United States and the European Union, the expansion of foreign trade decelerated significantly. Even so, Chinese exports and imports grew 9% and 10%, respectively – exceeding the 6% growth rate of world trade (see Figure 12).

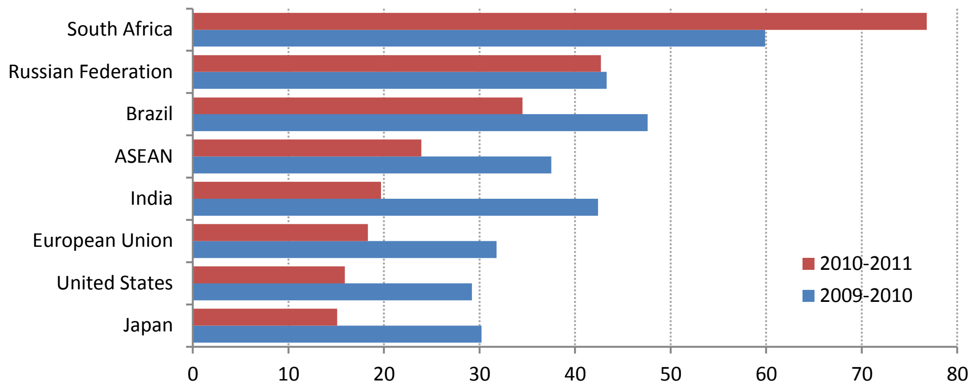
Figure 12
Selected Countries and Regions: Goods Trade by Volume, 2008-2011
(Percentage growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization, *World Trade 2010, Prospects for 2011*. Press/628 (April 7, 2011) and *World Trade 2011, Prospects for 2012*. Press/658 (April 12, 2012) [a] Excludes Mexico as it is considered part of North America by the WTO.
Note: Latin America and the Caribbean excludes Mexico, which the World Trade Organization (WTO) treats as part of North America.

Despite the fact that the United States, the European Union and Japan continue to be China's main trade partners, it is the trade flows with emerging economies that have been the most dynamic (see Figure 13). This further highlights the increasing importance of South-South trade in the world economy.

Figure 13
China: Growth in the value of trade with Selected Countries and Groupings, 2009-2010 and 2010-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization, *Trade Policy Review. Report by the Secretariat. China*, 2012.

China's principal trading partners are its neighbors in Asia and the Pacific, especially Japan, the Republic of Korea and the nations belonging to the Association of Southeast Asian Nations (ASEAN). These countries supply 56% of China's imports and buy 45% of its total exports. Manufactures represent the bulk (95%) of these trade flows. China runs a deficit in its trade with these nations (especially the Republic of Korea and Japan) because they are its main suppliers of capital goods and of intermediate inputs for its manufacturing industries. It then exports these products to its other trading partners, especially the United States and the European Union, with which it consistently runs its largest surpluses for trade in low and high-technology manufactures and, to a lesser extent, for mid-range technologies.

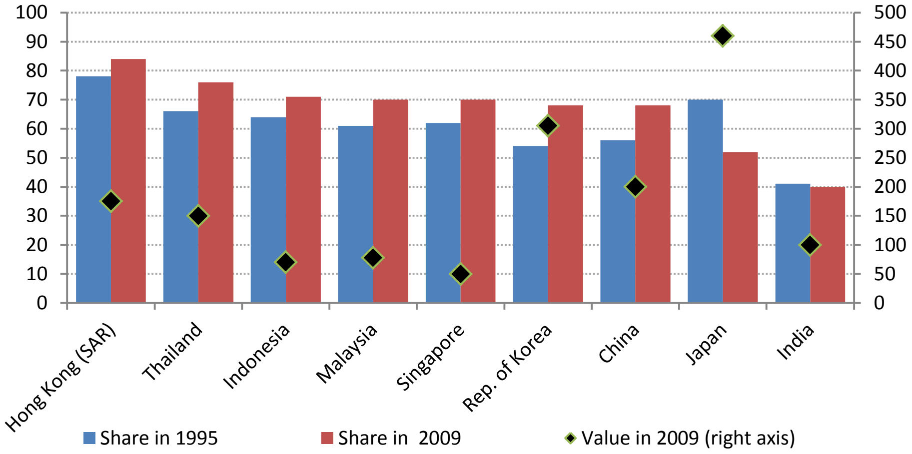
In contrast, the composition of China's trade with other developing countries, primarily of Latin America, Africa and the Middle East, complements these flows, as it is concentrated in commodities and natural- resource-based manufactures.

a) Production and value chains

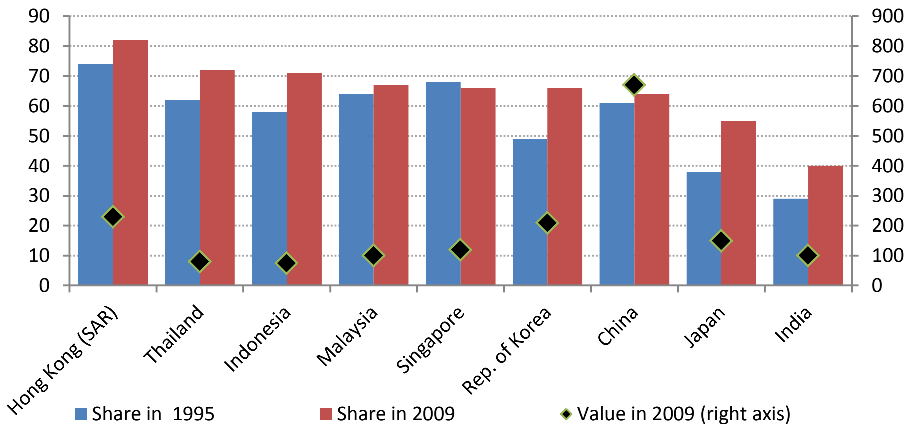
China is the center of "Factory Asia". It assembles parts and pieces imported from other economies in the region and then exports final products. In the last two decades, Asian supply chains developed quickly. The production processes are highly fragmented, with each country specializing in a production phase in which it has a comparative advantage. The importance of regional chains is illustrated in Figure 14, which shows the high percentage of intermediate goods (pieces and parts) in intraregional exports and imports from several of the region's main economies.

Figure 14
Selected Asian Economies: Intraregional Trade in Parts and Components as a Proportion of Total intraregional Trade, 1995 and 2009
(Billions of dollars and percentages)

A) EXPORTS



B) IMPORTS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/Institute of Developing Economies of the Japan External Trade Organization (IDE-JETRO), *Trade Patterns and Global Value Chains in East Asia: from Trade in Goods to Trade in Tasks*, Geneva, June 2011, p. 87.

The network of interconnected suppliers in Asia has grown rapidly over time as its configuration changed. In 1985, there were only four participants: Japan at the center, surrounded by Indonesia, Singapore and Malaysia. Around 1990, Japan expanded its supply chain to other countries such as Korea, Thailand and the Chinese Province of Taiwan. In the beginning of the 2000s, China transformed itself into the second largest Asian supply chain. This was due, in part, to its accession to the World Trade Organization in 2001 and its strong production ties to Korea and the Chinese Province of Taiwan.

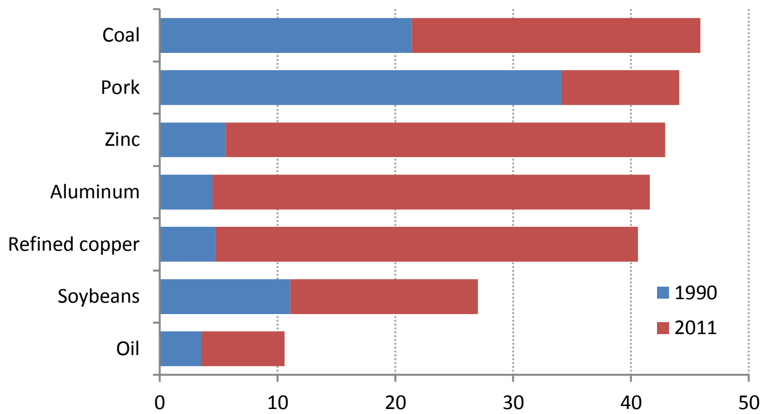
Since 2005, China has been at the center of the Asian production chain, displacing Japan. Today, China is the main regional market for intermediate goods, which it uses to produce final goods for export to the United States and the European Union. According to a 2010 study, the average imported content of Chinese exports in 2008 was 37%, and nearly 56% in the case of products originating in areas where exports are processed.[7]

b) The demand side of Chinese expansion

China's strong economic growth has had a major impact on the rest of the world, since it has become a large consumer of raw materials, minerals, energy and, to some extent, foodstuffs and industrial products. China is the world's top consumer of coal, tin, zinc, copper and cereals and is one of the leading consumers of fertilizers; iron and steel; bananas; oilseeds and oils; plastics; electronic equipment; optical, photographic and medical equipment; and nuclear reactors and machinery.

In the last two decades, China has substantially increased its share of world consumption of basic products. For example, in the cases of zinc, copper and aluminum, China's share of world consumption was less than 10% in 1990, whereas it currently exceeds 40%. Consumption of coal and pork – products in which China already accounted for a significant share of world consumption – has also expanded over the last two decades and currently exceeds 40% (see Figure 15).

Figure 15
China: Share of Global Consumption of Selected Products, 1990 and 2011 or Latest Year Available
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), Statistical Databases (FAOSTAT), World Bureau of Metal Statistics, World Steel Association and Energy Department of the United States.

Although China has continuously increased its agricultural productivity in the last several years and is the primary producer of rice, cotton, wheat and potatoes, it continues to have an overall deficit in its agricultural sector. In 2010, agricultural exports reached USD$36M while imports were UD$67M. It should be noted that China has a large import potential even in those products which it produces because it is not entirely self-sufficient. In 2011, China was the primary world consumer of wheat, soybeans, rice and meat, and the second-largest consumer of corn.

China accounts for at least 20% of world consumption of 8 out of 16 selected products that are of major interest to Latin America. In addition, it represents much of the net world demand for 8 of these products and is one of the three top world consumers of 15 of them. This has brought pressure to bear on international markets and has triggered steep increases in the prices of many of these products.

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[7] Degain. C. y A. Maurer (2010), Globalization and trade flows: what you see is not what you get!, WTO Working Papers, ERSD-2010-12.

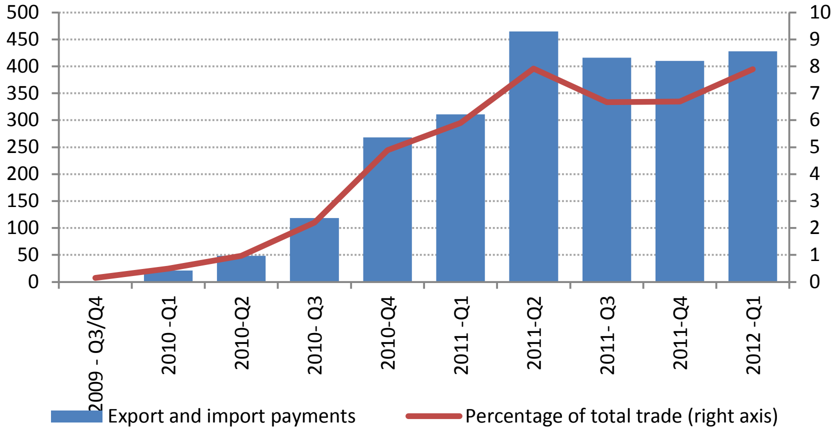
While the dynamism of Chinese consumption presents significant export opportunities for Latin America and the Caribbean and has been a defining factor in the renewed importance of raw materials in the regional export structure, there are concerns regarding this trend, characterized by ECLAC in 2009 as the export reprimarization of Latin America and the Caribbean.[8]

Box 2. The internationalization of the Renminbi

The internationalization of Chinese currency, the renminbi, is progressing and covers a growing percentage of the country's trade, particularly with respect to imports. In July 2009, China introduced a pilot program to promote the use of the renminbi (RMB) in international trade payments. Initially, this pilot program was operating in five cities and was used with Hong Kong (SAR), Macao (SAR) and ASEAN countries. In 2010, it was expanded to twenty cities and provinces, to be used with all countries in the world and to cover 90% of exports. In August 2011, it was expanded to cover all of China. In July 2012, an agreement between China and Japan entered into force which allows companies in both countries to conduct exchange operations in renminbi and yen.

These measures have allowed for an increase in the share of trade payments made in RMB. In fact, between the first quarter of 2010 and the first quarter of 2012, said share increased from less than 1% to 8% (see Figure 16). Until mid-2011, the aforementioned program was used mostly for imports where there was an expectation that the currency would appreciate. Recently, these expectations have been more moderate and, along with the expansion of the program nationally, more exporters have begun to use the program.

Figure 16
China: Export and Import Payments in Renminbi
(Billions of renminbi and percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of People's Bank of China, *China Monetary Policy Report, Quarter One*, 2012.

A private bank (HSBC) anticipates that in 2016, one-third of Chinese trade will be conducted in national currency. Another indication of greater use of the RMB is that 4% of total letters of credit issued worldwide are in RMB, after the US dollar (84%) and the Euro (7%), according to the international payment system SWIFT.

The use of the RMB in commercial transactions has several advantages. First, for exporters and importers it eliminates the risk of currency fluctuations which will reduce hedging and lower the cost of the commercialized product or service. This is particularly important for small and medium enterprises (SMEs). Secondly, the payment process with all the countries (except with the United States) could become faster and cheaper given that it would only require one currency exchange instead of two.

[8] ECLAC (2009), "Latin America and the Caribbean in the World Economy", Chapter 2

6. The increasing presence of China on Latin America's trade map

In just one decade China has become a key trading partner for Latin America and the Caribbean. China has gained an important share in the region's trade flows at the same time that the United States and the European Union are losing their relative presence in the region. Between 2006 and 2011, the rate of growth of regional exports to China increased three times that of total exports. Similarly, the region's imports from China grew at twice the rate of total regional imports (see Table 2). In 2011, China was a destination for 9% of total regional exports and the origin of 14% of imports, having matched the European Union's share as origin of imports and on track to surpass it (see Table 3). Between 2005-2011, the rate of growth of Chinese exports to Latin America and the Caribbean, as well imports from the region, significantly exceeded that of China's total exports and imports. Latin America and the Caribbean's share in 2011 reached 6% of total Chinese exports and 7% of its imports (see Figure 17).

Table 2

Latin America and the Caribbean: Trade with Selected Partners, 2006-2011

(Billions of dollars and growth rates)

		2006	2007	2008	2009	2010	2011	Annualized growth rate 2006-2011
Exports	World	670.7	758.1	879.0	679.2	865.1	1061.9	9.6
	United States	335.4	350.2	380.7	281.8	354.4	420.1	4.6
	European Union	93.0	110.3	128.4	92.2	110.4	138.2	8.2
	Asia	65.4	87.0	106.9	103.0	144.1	183.4	22.9
	China	22.2	34.8	42.8	47.6	71.8	94.0	33.5
	Other Asian economies	43.2	52.2	64.1	55.4	72.3	89.4	15.6
	Latin America and the Caribbean [a]	115.4	138.2	172.4	128.0	163.4	196.0	11.2
	Rest of world	61.5	72.5	90.6	74.2	92.8	124.3	15.1
Imports	World	583.3	697.9	852.7	638.5	837.0	1011.2	11.6
	United States	203.3	227.4	264.6	200.2	255.4	304.0	8.4
	European Union	82.3	100.1	122.7	94.2	117.1	137.5	10.8
	Asia	128.7	161.3	199.3	157.8	224.3	270.3	16.0
	China	49.1	67.4	89.2	75.5	111.6	139.7	23.3
	Other Asian economies	79.6	93.9	110.1	82.4	112.6	130.6	10.4
	Latin America and the Caribbean [a]	119.6	143.0	180.3	132.1	164.7	205.1	11.4
	Rest of world	49.4	66.2	85.8	54.2	75.6	94.4	13.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official national statistics.

[a] The sum of intrarregional exports reported by Latin American and Caribbean countries does not coincide with intrarregional imports. The difference in 2011 was 4.5% (USD$205B in intrarregional imports versus USD$196B in intrarregional exports).

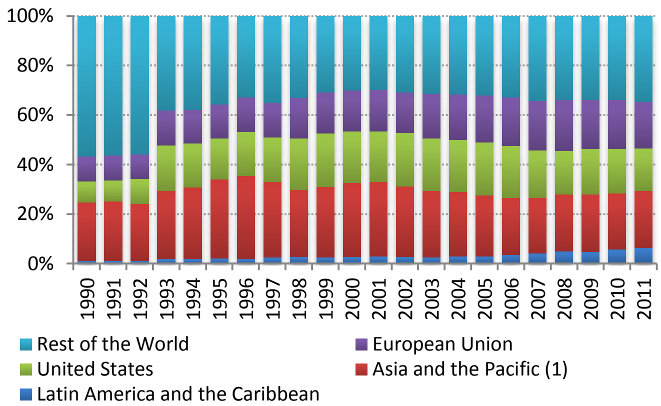
Table 3
Latin America and the Caribbean:
Selected Partners' Shares of Trade in Goods, 2000 and 2011 (%)

		2000	2011
Exports	United States	59.7	39.6
	European Union	11.6	13.0
	China	1.1	8.9
	Other Asian economies	4.2	8.4
	Latin America and the Caribbean	16.0	18.5
	Rest of world	7.4	11.7
Imports	United States	50.4	30.1
	European Union	14.2	13.6
	China	1.8	13.8
	Other Asian economies	8.8	12.9
	Latin America and the Caribbean	15.3	20.3
	Rest of world	9.5	9.3

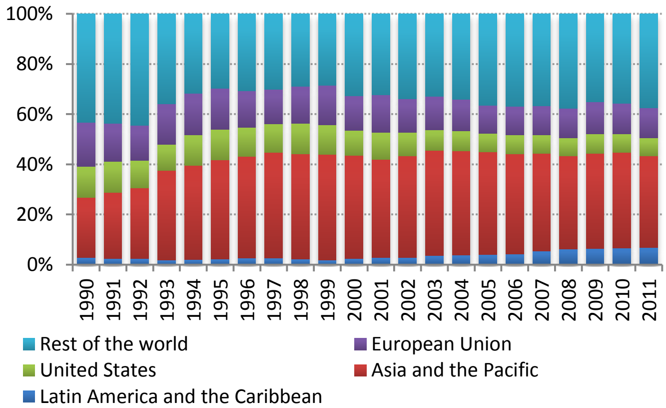
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official national statistics.

Figure 17
China: Selected Partners' Trade Shares, 1990-2011
(Percentages)

A. EXPORTS



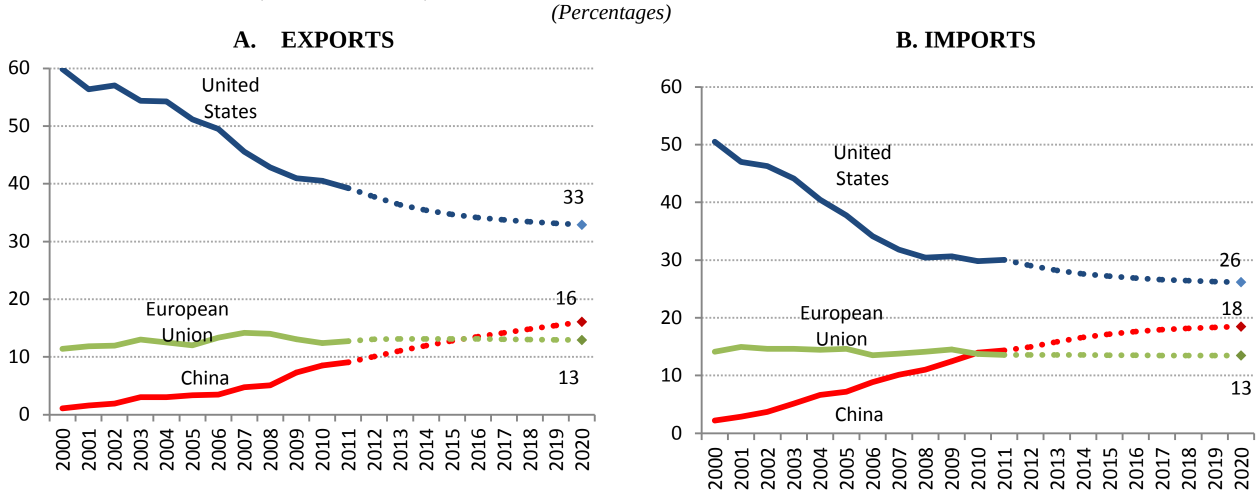
B. IMPORTS



Source: ECLAC, on the basis of United Nations Commodity Trade Statistics Database (COMTRADE). **Note:** Asia and the Pacific includes Australia, Japan, New Zealand, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

Projections to 2020 suggest that China will continue to increase its relative weight as a trade partner for Latin America. Even if one assumes that the United States, the EU and the rest of the world will keep pace with the demand for Latin American products they had in the last decade (which will likely not be the case), and China halves its rate of demand growth for these products (Chinese demand will likely experience a smaller decrease), China will surpass the European Union as the second primary market for the region's exports by 2016 (see Figure 18).

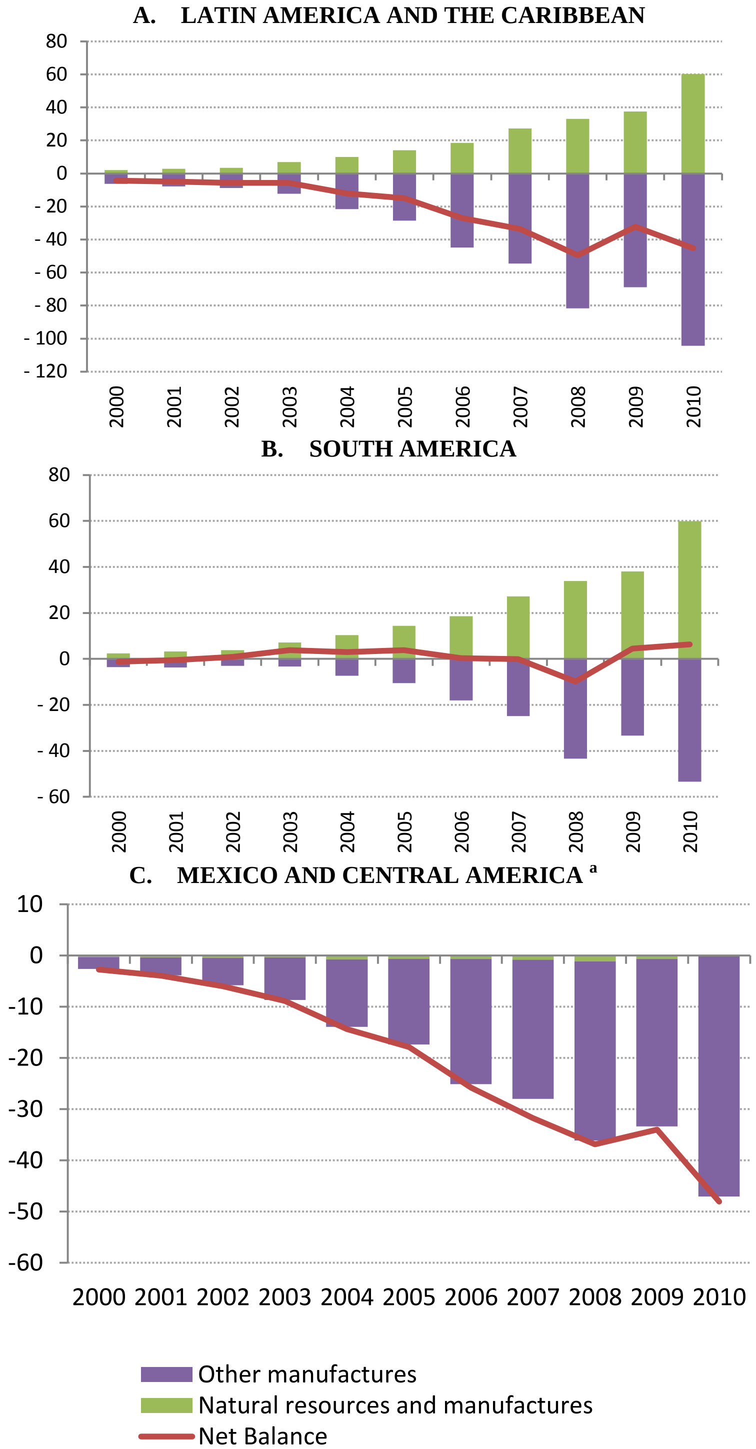
Figure 18
Latin America (16 Countries)[a]: Selected Partners' Share of Trade in Goods. 2000-2020 a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and national sources.
[a] The 16 countries are: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. Estimates and projections based on GDP growth rates from 2000 to 2009 in Asia and the Pacific, China, the European Union, Latin America and the Caribbean, the United States and the rest of the world. The rate of trade growth is expected to converge on countries' economic growth rates in the long run.

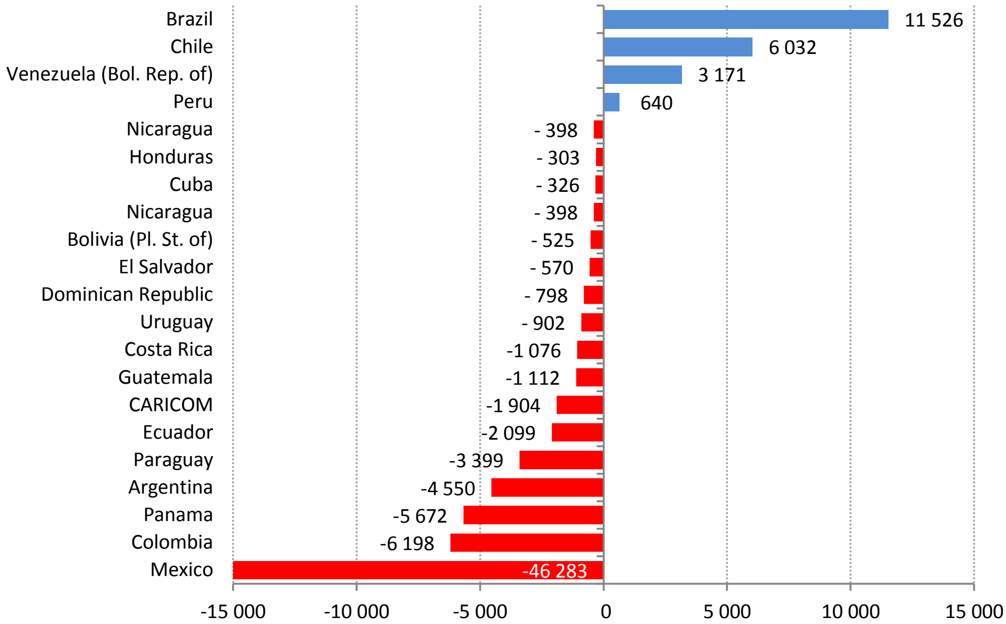
In the last decade, Latin America and the Caribbean has registered a growing trade deficit with China. However, there are different patterns across the subregions (see Figure 19). In essence, the region's trade deficit with China is explained fundamentally by the growing negative balances of Mexico and Central America with China. In contrast, South America as a whole has had a fairly even trade balance in the last ten years. Brazil, Chile, Peru and Venezuela (Bol. Rep. of) registered surpluses in their trade balance with China largely due to the sales of a reduced number of primary products (see Figure 20).

Figure 19
Latin America and the Caribbean: Exports, Imports and Trade Balance with China
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Figure 20
Countries of Latin America and the Caribbean: Trade Balance With China, 2011
(Millions of dollars)



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

The trade balance also differs by type of merchandise, with Latin America and the Caribbean showing a growing trade surplus with China in raw materials and natural resource-based manufactures, generated largely in in South America. At the same time, there is a growing deficit in other manufactures. This asymmetry concerns the region and should be addressed when defining national and subregional trade strategies.

Given the strong demand for commodities from Latin America, China represents a very important trade partner for several countries in the region: China accounted for 22.8% of Chilean exports in 2011, 17.3% of Brazilian exports, and7.4% of Argentinean exports, . On the import side, China has become the second largest source of Mexican imports.

Mexico's trade deficit with China is by far the highest of any country in the region. For example, in 2011, Mexican exports to China were only 2% whereas Chinese imports were 15%. It should be noted that Mexico's trade deficit with China is equivalent to the the region's total trade deficit with China. In other words, if Mexico is excluded, the region has a nearly even trade balance with China.

In this regard, it should be reminded that South American trade and economic relations with China are quite different from those of Mexico and Central American countries. The latter countries compete directly with China in major third markets, especially the United States, in textiles and electronic products.

By subregion, the trade balance with China in 2011 was as follows:

South America:	USD$	3.697B	(surplus)
Mexico and Central America (including Panama):	USD$	-8.733B	(deficit)
Caribbean:	USD$	-3.686B	(deficit)

Between 2000 and 2011, China climbed in rank as an export destination for all the countries listed in Table 4, with the exception of Panama and Paraguay. In 2011, China was the first export destination for Brazil, Chile and Peru; second for Argentina, Cuba, Uruguay and Venezuela (Bol. Rep. of); and third for Mexico.

Table 4
Countries of Latin America: China's Rank As Trade Partner, 2000 and 2011 [a]

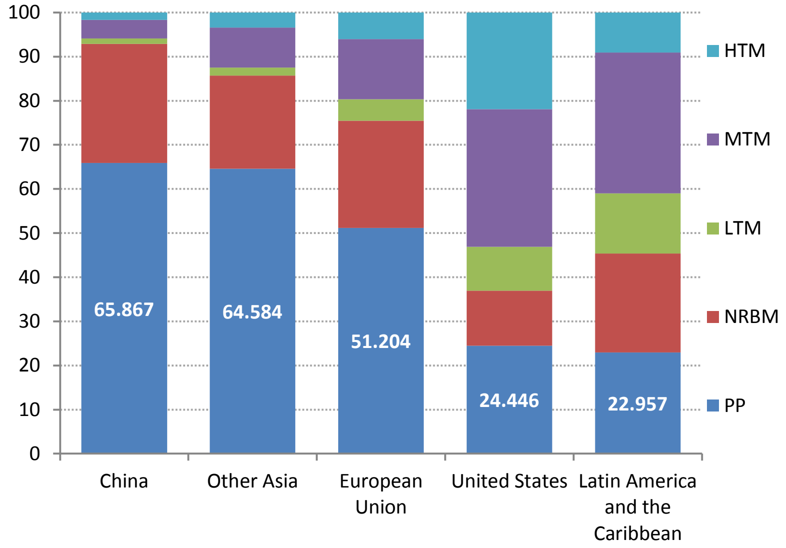
	Exports		Imports	
	2000	2011	2000	2011
Argentina	6	2	4	2
Bolivia (Pl. St. of)	18	8	7	3
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	36	4	9	2
Costa Rica [b]	30	13	15	2
Cuba [c]	6	2	3	2
Ecuador	18	16	10	2
El Salvador	49	44	23	4
Guatemala	43	28	19	3
Honduras [d]	54	11	21	5
Mexico	19	3	7	2
Nicaragua	35	20	20	3
Panama	31	31	25	1
Paraguay	15	23	3	1
Peru	4	1	9	2
Uruguay [e]	4	2	7	3
Venezuela (Bol. Rep. of) [f]	35	2	18	2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), except for the Bolivarian Republic of Venezuela, Cuba, El Salvador, Guatemala, Honduras and Uruguay.
[a] The European Union countries were considered individually.
[b] China was the second largest destination market for Costa Rican exports in 2009.
[c] The data are from the National Bureau of Statistics (ONE) and are for 2010.
[d] The data are from the Central American Trade Statistics System (SEC) of the Secretariat for Central American Economic Integration (SIECA).
[e] The data are from Uruguay XXI.
[f] The export data are from the International Monetary Fund (IMF) Direction of Trade Statistics (DOTS) database.

As an origin of imports, the climb in rank is even more notable. China went up in ranking for all 17 countries that were evaluated. In 2011, China was among the three main suppliers for all Latin American countries with the exception of El Salvador and Honduras, for which it was the fourth and fifth largest provider.

Analyzing the composition of exports based on technological contents from Latin America and the Caribbean to its main export destinations, it can be seen that exports to China are mostly primary products, representing an average of two-thirds of total exports to China. Following in importance are natural resource-based manufactures such as processed minerals and, to a lesser extent, agroindustrial products (of low and high-technology contents) which represent only 7% of total exports from the region to China (see Figure 21). However, the region's basket of exports to China is changing to include a growing number of mid-level or high-technology manufactures, which could represent an avenue to the incorporation of higher-value-added products in the future. Both China and the Latin American and Caribbean countries would benefit from cooperation to position the region's firms in Chinese value chains. Of course, FDI flows would have to increase substantially in both directions in order for this to happen.

Figure 21
Latin America and the Caribbean:
Structure of Exports to Main Destinations by Technology Contents, 2010
(Percentages of total)



Source: ECLAC based on the United Nations Commodity Trade Statistics Database (COMTRADE) and ECLAC, External Trade Data Bank for Latin America and the Caribbean (BADECEL).
Note: Does not include Cuba, Grenada, Haiti, Saint Kitts and Nevis or St. Lucia.
Categories are PP: Primary Products, NRBM: Natural resource-based manufactures, LTM: Low-technology manufactures, MTM: Medium-technology Manufactures, HTM: High-technology manufactures.
Other Asia includes Japan, the Republic of Korea and the members of the Association of Southeast Asian Nations (ASEAN).

Latin American exporters are actively competing in Chinese markets with exporters from other regions, and particularly with those from the economies of the Association of Southeast Asian Nations (ASEAN). It is therefore in the Latin American and Caribbean countries' interest to strengthen linkages with businesses in Asia, building partnerships and promoting different modalities of cooperation, in order to maintain the buoyancy of their exports of raw materials and semi-processed goods to the Chinese and Asian markets. This will require, in turn, deeper knowledge of those markets.

Technological innovation is increasingly important in China, which defined as its goals to become an industrial power by 2010 and a high-tech power by 2020. The challenge for LAC is not to compete with China, but rather detect the complementarities and maximize the benefits of China's expansion.

Taking full advantage of the opportunities offered by China and Asia-Pacific requires that Latin American companies integrate more comprehensively into Asian value chains. Such an approach would promote more diversified trade with greater intra-industrial components and more reciprocal investments. The outcome will be more attractive if some of these tasks are addressed in alliance with Asia-Pacific businesses, investors, universities and technology centres.

China has used a variety of strategies —sometimes in combination— to seek closer economic relations with Latin American countries: different sorts of trade agreements, direct investment, especially in infrastructure and energy, joint ventures with State enterprises, and special agreements on science and technology.

Box 3. Political diplomacy of Sino-Latin American economic relations

Official visits by Chinese officials to Latin America and the Caribbean over the last decade show a convergence of interests and an agenda of mutual benefit. Along with these visits, the network of contacts grows and diversifies.
In 2004, Chinese government representatives embarked on a particularly busy itinerary of South American visits. President Hu Jintao conducted State visits to Argentina, Brazil and Chile, as well as Cuba, and Chinese Ministers and Deputy Ministers accompanied high-level business delegations to practically every South American country. During all of these tours, important commitments were made to strengthen economic and trade relations. The Presidents of Argentina, Brazil, Chile, Colombia, Peru and Venezuela (Bol. Rep. of) have also recently paid visits to Beijing, and many more ministerial and business visits have been paid by these and other countries to China in the last several years.

Table 5
China and Latin America and the Caribbean: Visits By High-Level Authorities, 2001 to June 2012

Year	Chinese Authority	China to Latin America	Latin America to China
2001	Jiang Zemin	Chile, Argentina, Uruguay, Brazil, Venezuela (Bol. Rep. Of), Cuba	Peru, Chile, Mexico, Venezuela (Bol. Rep. of)
2002	Jiang Zemin	Mexico (Not an official visit) [a]	Ecuador, Uruguay
2003	Jiang Zemin		Ecuador, Cuba, Guyana
2004	Hu Jintao	Chile, Brazil, Argentina, Cuba	Argentina, Brazil, Venezuela (Bol. Rep. of), Suriname
2005	Hu Jintao	Mexico	Peru, Colombia
2006	Hu Jintao		Venezuela (Bol. Rep. of), Bolivia (Pl. St. of)
2007	Hu Jintao		Costa Rica
2008	Hu Jintao	Peru, Costa Rica, Cuba	Peru, Chile, Mexico, Brazil, Venezuela (Bol. Rep. of)
2009	Hu Jintao		Chile, Brazil, Venezuela (Bol. Rep. of), Uruguay
2010	Hu Jintao	Brazil, Venezuela (Bol. Rep. of), Chile [b]	Argentina, Chile
2011	Vice-President Xi Jinping	Cuba, Uruguay and Chile	Brazil
2012	Prime Minister Wen Jiabao	Brazil, Argentina, Chile	Colombia

Source: Official site of the Government of China [online] http://english.gov.cn.
[a] President Jiang visited Mexico in 2002 to attend the APEC meeting.
[b] The visits to the Bolivarian Republic of Venezuela and Chile were cancelled because of the earthquake in the region of Qinghai (China).

These visits have resulted in almost a hundred public agreements and commitments, which demonstrate the growing economic relations between China and Latin America and of their mutual interest in moving forward towards a strategic relationship.
With respect to trade, the Chinese Council for the Promotion of International Trade has organized five China-Latin America Business Summits, which have grown in attendance each time. The first Summit took place in Santiago in 2007, followed by Harbin Heilongjian (2008), Bogota (2009), Chengdu (2010) and Lima (2011). The sixth summit took place in Hangzhou in October 2012.
In November 2008, the government of China published a White Book with respect to relations between China and Latin America, which covers a wide range of issues on the bilateral agenda, such as the economy, trade, culture, defense, tourism, sports and cooperation.
In November 2010, the Chinese People’s Institute of Foreign Affairs convoked the first Forum of Exchanges between Chinese and Latin American and Caribbean think tanks.

For its part, individual countries of Latin America have approached Asia-Pacific but most lack coherent midterm plans. Although valuable, these approaches have yet to respond to the demands and possibilities offered by the enormous Asian market.

Latin America and the Caribbean has an opportunity to take advantage of its increasing linkages with China and put innovation and competitiveness at the centre of its national development agendas. An additional step would be the inclusion of these issues in the regional and sub-regional agendas for integration and cooperation. China and Asia-Pacific offer ample opportunities for LAC to sign export, investment and cooperation agreements in areas such as mining, energy, agriculture, infrastructure, science and technology. In each of these fields, the region is prepared for specialized technical dialogue.

Taking full advantage of these opportunities on a relevant scale will only be possible through a concerted effort by regional associations to promote mutually beneficial investment and trade opportunities with convergent, transparent and stable policies that aim to establish long-term commitments between both regions.

7. China's Trade Policy and Trade Negotiations

China has been an active participant in range of multilateral trade fora, opening its market considerably, as well as engaging bilaterally to grow its network of Free Trade Agreements.

Participation in the WTO

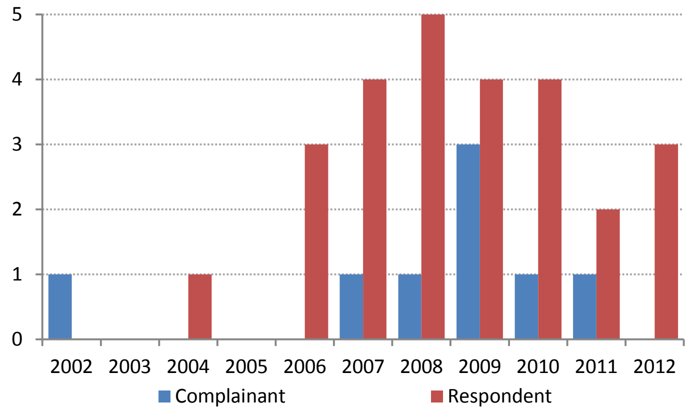
China's accession to WTO and its commitment to adjust rules and policies have various implications for the region, which can be divided into three categories: i) Access to the Chinese market for the region's exports; ii) Competition between these economies in third markets (particularly the United States); and iii) Competition from Chinese products in the domestic markets of the region's countries. As a result, certain disciplines and China's increasing compliance with its commitments have taken on greater importance for the region, as has China's stance in the current WTO negotiations, both as a single country and as member of groups with shared proposals and agendas (G20).

The persistent lack of transparency is still one of the main hurdles to the full realization of the potential advantages of China's accession to the WTO and to promote fairer competition for its enormous market. Many State firms continue to apply tariff quotas, especially in the agricultural sector, where intellectual property rights are still not fully enforced. China also continues to deploy sanitary and phytosanitary measures as non-tariff barriers to agricultural goods. The areas giving most cause for concern are copyrights, intellectual property, non-tariff measures and access to services markets.

It should be noted, however, that an examination of the complaints taken to the Dispute Settlement Body (DSB) indicates that, thus far at least, China is not considered to be in breach of its WTO commitments. On the contrary, China is making use of the DSB to defend itself from trade measures invoked against its products.

Since China became a WTO member eleven years ago, it has been involved in 132 disputes: 11 as a complainant, 29 as a respondent and 92 as a third-party (see Figure 22). In the first few years, China was a more passive member of the Dispute Settlement System and was a complainant in one dispute and a respondent in another. Since 2006, China has been a much more active member of the DSB both as a complainant and a respondent. Specifically, during this period, it has been a complainant in 10 disputes, all of which have involved the United States or the European Union. Most of these disputes related to the use of trade defense mechanisms, particularly antidumping measures, against Chinese exports (see Table 6).

Figure 22
China's participation in the WTO dispute settlement mechanism, 2002-2012
(Number of cases)



Source: World Trade Organization (WTO). Dispute settlement**:** the disputes [online] http://wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm [retrieved on 31 May 2012].

Table 6
Disputes Initiated by China at the World Trade Organization, 2002-2011

Respondent	Year initiated	Subject of the dispute	Agreeements Involved[a]	Stage reached
United States	2002	Definitive Safeguard Measures on Imports of Certain Steel Products	Safeguards, GATT	Appellate Body
United States	2007	Preliminary Anti-Dumping and Countervailing Duty Determinations on Coated Free Sheet Paper from China	SCM, Protocol of Accession, Anti-Dumping Agreement, GATT	Consultation phase
United States	2008	Definitive Anti-Dumping and Countervailing Duties on Certain Products from China	SCM, Protocol of Accession, Anti-Dumping Agreement, GATT	Appellate Body
United States	2009	Certain Measures Affecting Imports of Poultry from China	SPS, Agriculture, GATT	Panel
European Union	2009	Definitive Anti-Dumping Measures on Certain Iron or Steel Fasteners from China	Protocol of Accession, Anti-Dumping Agreement, GATT	Appellate Body
United States	2009	Measures Affecting Imports of Certain Passenger Vehicle and Light Truck Tires from China	Protocol of Accession, GATT	Appellate Body
European Union	2010	Anti-Dumping Measures on Certain Footwear from China	Protocol of Accession, Anti-Dumping Agreement, GATT	Panel
United States	2011	Anti-Dumping Measures on Shrimp and Diamond Sawblades from China	Anti-Dumping Agreement, GATT	Consultation phase

Source: World Trade Organization (WTO). Dispute settlement: the disputes [online] http://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm and Economic Commission for Latin America and the Caribbean (ECLAC), Integrated Database of Trade Disputes for Latin America and the Caribbean (IADTD) [online] http://badicc.cepal.org.
[a] Abbreviations: GATT: 1994 General Agreement on Tariffs and Trade; SPS: Agreement on the Application of Sanitary and Phytosanitary Measures; SCM: Agreement on Subsidies and Countervailing Measures.

Seeking to avert the use of arbitrary procedures and the application of measures corresponding to non-market (transition) economies in future antidumping cases, China has engaged in active diplomacy in a wide variety of forums, including negotiations on bilateral free trade agreements, to ensure recognition of market-economy status earlier than 2016, when the status will be granted automatically. A case in point is Australia, which granted China market economy status prior to embarking on free trade negotiations and stated that antidumping complaints henceforth will be based on costs incurred in China rather than on third-country costs or prices. In addition, all 10 ASEAN countries granted China market-economy status before the China-ASEAN free trade agreement was signed at the end of 2004, on the understanding that this was an essential requirement for the trade pact's conclusion. As of 2012, over 80 countries have granted China market-economy status, including Argentina, Brazil, and Chile from the region. However, the United States, the European Union and Japan – China's main trading partners – have not done so.

WTO rules allow member countries to approach the issue of market-economy status in a variety ways. For example, the United States authorities usually reject the price and cost information supplied by China and use information derived from substitute markets. The European Union uses a more hybrid approach for cases involving China and other countries whose economies are classified as being in transition or otherwise not subject to market-economy treatment. Imports from China may thus be considered, in a very limited number of cases, as coming from a market economy, providing that market conditions can be demonstrated to prevail in the industry concerned.

In this regard, China's removal from the list of countries having non-market economies is not as a serious constraint on the use of trade defense mechanisms against sharp increases in imports from China, since WTO instruments are still be available. In any case, continuing to treat China in an apparently discriminatory manner clearly interferes with bilateral relations rather than contributing to the development of strategic, mutually beneficial ties.

Free Trade Agreements

China is also actively expanding its network of trade agreements and is negotiating with countries or groups of countries in Oceania, the Middle East, Europe, Africa and Latin America (see Table 7). Concurrently, China is also strengthening its ties in Asia and is participating in a wide range of initiatives which include, among others, projects known as ASEAN+3 and ASEAN+6.

Table 7
China's Trade Agreements, June 2012

In force	Under negotiation	Announced or Under consideration
• Asia-Pacific Trade Agreement [a]	• Australia	• ASEAN+3 [b]
• ASEAN	• Gulf Cooperation Council	• ASEAN+6 [c]
• Costa Rica	• Iceland	• India
• Chile	• Norway	• Japan - Republic of Korea
• New Zealand	• Switzerland	• Colombia
• Pakistan	• South African Customs Unions (SACU)	
• Peru	• Republic of Korea	
• Taiwan Province of China		
• Singapore		
• Hong Kong, SAR		
• Macao, SAR		

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *Trade Policy Review. Report by the Secretariat. China*, 2012.
[a] Bangladesh, China, India, Lao People's Demoncratic Republic, Republic of Korea and Sri Lanka.
[b] China, Japan, the Republic of Korea and the 10 ASEAN members.
[c] The ASEAN+3 participants plus Australia, India and New Zealand.

In May 2012, there were three significant events in the economic relations between the three major economies of East Asia (China, Japan and the Republic of Korea). First, the Prime Ministers of China and Japan along with the President of the Republic of Korea announced that negotiations for a trilateral FTA would begin before the end of 2012. Secondly, China, Japan and the Republic of Korea signed a Trilateral Investment Agreement for the promotion, facilitation and protection of investments.

Lastly, the first round of negotiations for an FTA between China and the Republic of Korea took place.

In Latin America and the Caribbean, China is also looking to expand its network of trade agreements, which already includes agreements with three countries in the region: Chile (in force since 2006), Peru (in force since 2010) and Costa Rica (in force since 2011). All three agreements are Free Trade Agreements (FTA), which eliminate more than 90% of tariffs on goods. The FTAs also cover other issues such as trade in services and investment (see Table 8). In addition to these agreements, a bi-national group was created in May 2012 to conduct a feasibility study for a free trade agreement between China and Colombia.

Table 8
China's Free Trade Agreements with Chile, Peru and Costa Rica: Areas Covered

Area	Chile	Costa Rica	Peru
Tariff removal	Yes	Yes	Yes
Customs procedures	Yes	Yes	Yes
Rules of origin	Yes	Yes	Yes
Trade defense	Yes	Yes	Yes
Sanitary and phytosanitary measures	Yes	Yes	Yes
Technical barriers to trade	Yes	Yes	Yes
Trade in services	Yes	Yes	Yes
Temporary entry for business persons	No	Yes	Yes
Investment	No [a]	Yes	Yes
Intellectual property	Yes [b]	Yes	Yes
Government Procurement	No	No	No
Competition policy	No	No	No
Dispute settlement	Yes	Yes	Yes
Transparency	Yes	Yes	Yes
Cooperation	Yes	Yes	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization of American States (OAS) Foreign Trade Information System (SICE) [online] http://www.sice.oas.org.
[a] Chile and China are currently negotiating an investment chapter: [b] Geographical denominations only.

The three FTAs between China and Latin America countries contain broad cooperation provisions. These chapters contemplate cooperation on economic issues, education, culture, SMEs, research, investments and protection of intellectual property, among others. In addition, some of the agreements include cooperation in fishery, tourism and traditional medicine (in the case of the Peru-China FTA), management of natural disasters and private dispute resolution (in the case of Costa Rica-China FTA) (see Table 9).

Table 9
China's Free Trade Agreements with China, Costa Rica and Peru: Areas of Cooperation

	Chile	Costa Rica	Peru
COMMON AREAS			
Economic cooperation	Yes	Yes	Yes
Research, science and technology	Yes	Yes [a]	Yes
SMEs	Yes	Yes	Yes
Culture	Yes	Yes	Yes
Education	Yes	Yes	Yes
Environment	Yes	Yes	Yes [b]
Investment	Yes	Yes [c]	Yes
Information technology	Yes	Yes	Yes
Intellectual property	Yes	Yes	Yes
Competition	Yes	Yes	Yes
ADDITIONAL AREAS			
Mining and industry	Yes	No	Yes
Agriculture	No	Yes	Yes
Labour and social security	Yes	No	Yes
Traditional medicine	No	No	Yes
Fishing	No	No	Yes
Tourism	No	No	Yes
Natural disaster management	No	Yes	No
Private dispute settlement	No	Yes	No

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization of American States (OAS), Foreign Trade Information System (SICE) [online] http://www.sice.oas.org/agreements_s.asp.
Note: Some areas are not covered by specific articles but are dealt with in the cooperation and other chapters.
[a] Promotion of Innovation, Science and Technology
[b] Cooperation on Forestry and Environmental Protection.
[c] Not only does investment have its own chapter, but the agreement also reaffirms the commitments made under the October 2007 Agreement on Investment Promotion and Protection between the People's Republic of China and the Government of the Republic of Costa Rica.

Cooperation between China and these Latin American countries has resulted in high level visits, signature of cooperation agreements, collaboration between academic institutions, and the establishment of cultural centres, among other things.

In June 2011, Chile and China signed 9 cooperation agreements that encompass, among other things, agriculture, telecommunications, technology and investments. Additionally, in mining, Codelco (National Copper Corporation of Chile) and Minmentals of China entered into a strategic memorandum of cooperation. In February 2012, The National Institute of Intellectual Property of Chile (INAPI) and the Chinese Office of Intellectual Property (SIPO) signed a cooperation agreement for the promotion, protection and management of industrial property rights.

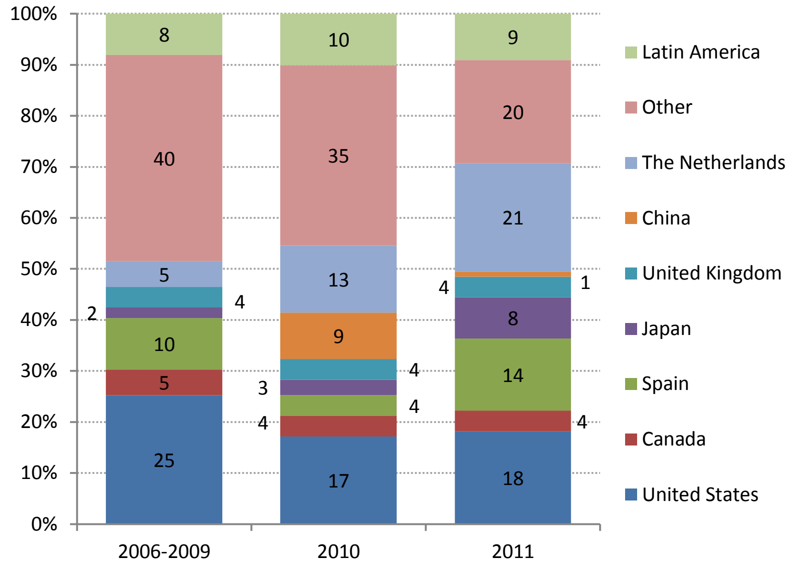
In May 2011, China and Peru signed a Covenant of Economic and Technical Cooperation. In October 2011, the Strategic Alliance of Universities in Peru and the Educational Association of China for International Exchange (CEAIE) signed a Memorandum of Understanding for Cooperation in Higher Education which envisions research exchanges between universities in various fields.

In June 2012, China and Costa Rica signed a Memorandum of Understanding between the Costa Rican State Petroleum Refinery (RECOPE), the Chinese Bank for Development (CBD) and the China National Petroleum Corporation International (CNPCI) to seek financing for a joint refinery.

8. Direct Chinese investment in Latin America and the Caribbean

In recent years, China has stepped up its investments in Latin America. According to China's Ministry of Commerce, of the US$ 68.8 billion of Chinese outward FDI flows in 2010, LAC received a 15% share (US$ 10.5 billion), making China the third main investor in Latin America and the Caribbean with a 9% share, after the United States (17%) and the Netherlands (13%) (see Figure 23).[9] The Stock of Chinese FDI in LAC reached nearly US$44 billion in 2010 (see Table 10). However, 92% of investment was concentrated in financial centers in the Caribbean and, more specifically, in the Cayman Islands and the British Virgin Islands.[10]

Figure 23
Latin America and the Caribbean: Foreign Direct Investment by Origin, 2006-2011 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) , *Foreign Direct Investment in Latin America and the Caribbean 2010* (LC/G.2494-P), Santiago, Chile, 2011. United Nations publication, Sales No. E.11.II.G.4 and *Foreign Direct Investment in Latin America and the Caribbean 2011* (LC/G.2538-P), Santiago, Chile, 2012. United Nations publication, Sales No. E.12.II.G.4.
[a] The chart covers 80% of total FDI in Latin America and the Caribbean

9 In contrast to the strong influx of Chinese investments in 2010, China represented only a small fraction (1%) of FDI in the region in 2011.

10 Ministry of Commerce of China (MOFCOM) (2010), Statistical Bulletin of China's Outward Foreign Direct Investment, Beijing.

Table 10
Latin America and the Caribbean: Classification of Chinese FDI Destinations, 2009-2010
(Millions of dollars and percentages of total revenues)

Country/region	Stock of Chinese FDI, end-December 2009	Chinese FDI flows in 2010	Stock of Chinese FDI at end-2010	Percentages FDI stock in the region, end-2010
Total worldwide outward FDI	245 750.0	68 811.0	317 210.0	
Latin America and the Caribbean	30 595.5	10 538.3	43 875.6	100.0
British Virgin Islands	15 060.7	6 119.8	23 242.8	53.0
Cayman Islands	13 577.1	3 496.1	17 256.3	39.3
Brazil	360.9	487.5	923.7	2.1
Peru	284.5	139.0	654.5	1.5
Venezuela (Bol. Rep. of)	272.0	94.4	416.5	0.9
Panama	81.1	26.1	236.6	0.5
Argentina	169.1	27.2	219.0	0.5
Guyana	149.6	28.4	183.2	0.4
Mexico	173.9	26.7	152.9	0.3
Ecuador	106.6	22.1	129.6	0.3
Chile	66.0	33.7	109.6	0.2
Rest of region	294.1	37.3	351.2	0.8

Source: Economic Commission for Latin American and the Caribbean (ECLAC), on the basis of Ministry of Commerce of the People's Republic of China (MOFCOM), *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, Beijing.

In 2010, more than 90% of Chinese non-financial sector investment in the region was directed at the extraction of natural resources primarily in the hydrocarbon sector and, to a lesser extent, mining. There have been investments in the following sectors: i) Oil and gas: Argentina, Brazil, Colombia, Peru, and Venezuela (Bol. Rep. of): ii) Infrastructure in energy: Colombia and Venezuela (Bol. Rep. of); iii) Infrastructure in roads, ports and railways: Argentina and Brazil; iv) Mining: Brazil, Chile and Peru; v) Science and technology: Brazil. Sinopec made a major investment by acquiring 40% of Repsol-YPF's operation in Brazil for USD$7.111B. The petroleum companies, CNOOC and Sinochem also announced significant acquisitions in Brazil and Argentina, respectively. In mining, Chinalco and Minmental (Peru) and Wuhan (Brazil); In telecommunications, Huawei and ZTE stand out, as do BYD, Chery and Geely in the automotive sector.

Excluding the financial sector, the largest Chinese investments were made in Brazil, Peru and Venezuela (Bol. Rep. of); all countries that have strong trade relationships with China. For some smaller economies, China can be a significant source of investments as it has been for Ecuador and Guyana. In Mexico and Central America, Chinese investment is scarce, with the exception of Costa Rica.

Despite recent increases, FDI flows between China and LAC remain small, especially when compared with rapidly growing trade flows. This situation is unlikely to change the structure of bilateral trade, as the currently dominant interindustrial trade leaves limited space for joint ventures and strategic alliances that promote innovation and competitiveness. It is worth recalling that no region has managed sustained development without diversification of the production and export base and gradual incorporation of manufactures and services to strengthen links between exports and the rest of the economy.

9. Conclusions and Recommendations

China has become, and will continue to be, a main player in the accelerated process of change in the geography of the world economy in which we are immersed. It is expected that in 2017, its GDP, as measured by Purchasing Power Parity, will exceed that of the United States to make it the first economy in the world. This historic figure coincides with a drastic restrengthening of trade ties between China and emerging and developing economies. Assuming the dynamism of the world economy over the next few decades will be strongly linked to China and the Asian economies in general, the challenge will be to harness the dynamic of trade and South-South investments in order to modify the traditional pattern of insertion of developing economies in the division of international labor.

The elevated growth that is expected for China during the next 10 to 15 years, even taking into account moderation as reflected in 12th Five-Year Plan, opens the possibility of prolonging the favorable cycle of terms of trade that has benefited the economies of Latin American and the Caribbean since 2003, particularly South America. This will allow the region to rely on additional resources that will be of great help, especially if they are well used, to close the gaps in innovation and competitiveness that exist in the region.

This is an opportune moment to improve the quality of the relationship with China and with the Asia-Pacific region in general. China is increasingly involved in foreign investment, even if the amounts are still comparatively small. In this respect, the Translatins (transnational Latin American companies) have an international learning curve that is more advanced than many Chinese companies, particularly in banking, financial and business services, telecommunications, retailing, energy, mining and agricultural food products. As such, in those areas where Translatins have advantages, it is necessary to define innovative policies to gain access to the vast resources of sovereign Chinese funds from banks and companies. This can be done in areas that are ripe to stimulate Sino-Latin American business alliances and where joint initiatives can be explored in the early framework of the internationalization of the renminbi.

The notable surplus of China's savings could also help finance initiatives in infrastructure, energy, transportation and logistics in Latin America and the Caribbean. This interest should increase given the low growth rates foreseen for the industrialized economies over the next five years. The region's challenge is to identify projects, evaluate them and create a portfolio where Chinese investment will be more useful to accelerate projects. The infrastructure projects identified by the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Mesoamerica Project seem to be obvious candidates in this regard.

If the countries of the region can make progress in innovation, competitiveness, internationalization of businesses and a greater presence in global supply chains or regional value chains, they would improve both the quality of employment and salaries. As these measures are complemented with policies that include Small and Medium Enterprises (SMEs), it will be possible to simultaneously address challenges of growth, quality and international insertion. On the contrary, if the region does not take advantage of this moment, the export reprimarization process could be accentuated and establish renewed central-peripheral ties between China and Latin America and the Caribbean.

For the region to become a relevant economic and trade partner for China, it is imperative that the region unites national efforts and defines a regional agenda of priorities. This implies giving greater importance to plurinational efforts and less emphasis to unilateral initiatives. For this, it is necessary to promote technical and private sector business meetings as well as high-level political meetings that should lead to a Summit of the Heads of State of China and Latin America and the Caribbean, in the same way that China holds summits with Europe, Asia, Africa and the Arab region.

A working agenda on trade and investment between Latin America and the Caribbean could include, among other things, the following issues:

- The establishment of a working group that examines trade and investment statistics between both regions to overcome the significant differences that currently exist between the data of China and those of Latin America and the Caribbean.
- The regular exchange of information on basic economic indicators, legislation, bi-regional trade and investment tendencies and opportunities and conditions of market access in the respective markets (technical standards, sanitary and phytosanitary measures, non-tariff trade barriers, trade defense mechanisms).
- The regular exchange of information regarding the respective foreign investment regimens as well as opportunities that exist for Chinese investment in Latin America and the Caribbean and vice-versa.
- The organization of regular meetings and dialogues with respect to integration initiatives and trade negotiations currently taking place in Latin America and the Caribbean and Asia-Pacific, as well as the impact of these upon the bioregional economic and trade relationships.
- Creation of a forum to identify and remove possible obstacles to trade and identify opportunities to diversify trade. A forum should also be established to prevent or resolve possible conflicts by way of negotiations and with a long-term view and that will be mutually beneficial. This is of particular significance given the concern stemming from the strong competition that Chinese manufactures present for industrial sectors of the region (Rosales, 2012b).
- The main challenge for the region is how to tie the domestic agenda of innovation and competitiveness with the renewed economic ties with China and the Asia-Pacific region in general. For example, in order to avoid an excessive reprimarization of exports, it is necessary to incorporate more innovation and knowledge. This requires productive development policies that will promote advances in productivity, innovation, infrastructure, transport, logistics and human resource quality. For each of these issues, there is sufficient room to construct a regional agenda of cooperation with China that is of mutual benefit.
- In doing so, regional cooperation and integration will be of great help. Joint regional and subregional initiatives in innovation, competitiveness, infrastructure and climate change will complement national public policy contributions. As countries in the region actively utilize these spaces, this will generate attractive opportunities for trade and investment with China and with the Asia-Pacific region as a whole.
- A step forward is the creation of the Observatory of Latin America and Asia-Pacific relations -- impulsed by the Latin American Integration Association (LAIA), CAF-Latin American Development Bank and ECLAC -- and launched on May 31, 2012. This Observatory will allow for deeper knowledge with respect to economic relations between both regions and will rely on a permanent mechanism to allow countries in the region to obtain necessary information to adopt adequate policies and strategies.
- To conclude, it is worth noting that the Chinese debate, academic in nature, illustrates the “middle income trap” that seeks to avoid the difficulties of Latin American development in pursuing growth, competitiveness and progress in equality. With this, the most recent data shows that in the first decade of this century, the region reached important goals in growth and income distribution, although there was much less gained in innovation and competitiveness. However, the space to exchange experiences in public policies could be broader and mutually enriching. Multiple regional experiences in social expenditures, conditioned transfers, countercyclical macroeconomic management, prudent financial supervision, fiscal reform and public-private coordination could be shared and disseminated in China and serve to stimulate the debate about economic and social

reform in favor of development that is sustainable and with greater social cohesion. This is another area of cooperation that must be developed.

This is the right moment to define, in a concerted manner, regional priorities regarding relations with China by proposing a mutually beneficial strategic association. China has already formulated a foreign policy toward Latin America with the publication, in November 2008, of its Policy Paper on Latin America and the Caribbean (the "White Paper"). This document recognizes our region's potential in moving toward integral cooperation in political and economic relations, in addition to social, cultural, judicial and security issues. Latin America should soon take the next step and reply with a document establishing its own guidelines for a strategic approach to China and Asia-Pacific.

Given the interest expressed by the Chinese government in deepening economic and trade relations with Latin America, the conditions are auspicious to intensify such links. Regional coordination to define a first concerted reaction to the "White Paper," in the form of roundtables to hold an initial technical dialogue, would set the stage for the realization of a China-Latin America presidential summit. Such a meeting could develop a shared agenda to include investment and trade projects with mutual benefits for infrastructure, energy, connectivity, trade facilitation, tourism, education, science and technology-oriented businesses.

In turn, cooperation could facilitate progress on such issues as energy efficiency, renewable energy, ultra clean technologies and climate change, areas in which China is taking significant steps and where joint ventures could be established between companies, universities and technology centers in China and Latin America.

China could make profitable use of its huge international reserves by investing in infrastructure, logistics, connectivity and tourism projects in Latin America. This, of course, requires that Latin America be able to agree to a portfolio of projects and adequately present them to Chinese companies and banks. In October 2010, the IV China-Latin America Business Summit organized by the China Council for the Promotion of International Trade (CCPIT) in Chengdu, Sichuan created a permanent institutional mechanism for dialogue between the CCPIT, the bi-national chambers of commerce, and trade and investment promotion agencies in Latin America. This may be the first step toward greater regional coordination in this area.

Another avenue to explore is support from Chinese banks, either directly or through special funds at the Inter-American Development Bank (IDB) or the CAF – Latin American Development Bank. These funds could be used for export diversification and greater participation by SMEs in export flows to offset the marked tendency toward "primarization" in Latin America's exports to China. Certainly, neither China nor Latin America is interested in a modern version of the center-periphery relationship that so damaged our region's development prospects.

Latin America's lag in competitiveness, innovation and productivity represents a permanent obstacle to the strategy of productive transformation with equity. A coordinated approach to China and the Asia-Pacific region that draws on lessons learned from history and seeks dynamic partnerships would contribute decisively to achieving this crucial objective. As developing regions and equal partners, China and Latin America should seek to deepen their ties based on mutual benefits. Any differences that arise should be dealt with through dialogue, consultation and negotiation.

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