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Recent economic trends in *China and their implications* for trade with Latin America *and the Caribbean*

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Among the East and Southeast Asian economies often regarded as the most successful showcases, the People's Republic of China (PRC) occupies an outstanding place. This economy has one of the fastest growing GNPs in the world, and its outward orientation in the post-Mao Zedong era has made the country a significant world trade partner, so that the question of whether or not the economy stays on its sustained growth path will affect the welfare of the world economy in its entirety, including Latin America. The deepening of the ongoing economic reforms, coupled with prudent macro policies, should insure that the PRC's economy does indeed stay on course in its sustained, yet gradual, transformation process. Despite the already eminent position that the country occupies on the present world scene and its high growth prospects, present economic ties between the PRC and Latin America are marginal: mutual trade flows and reciprocal investments remain at an extremely low level. Nonetheless, the profound economic transformations taking place in both regions, which are growing and structurally reforming, are conducive to opening up wide trade and investment opportunities. At the same time, the stop-and-go cycles which frequently occur in the Chinese economy are likely to produce important bottlenecks and shortages in industrial and agricultural production and result in large annual fluctuations in import demand. To take full advantage of these opportunities, it is important for Latin America to be aware of the implications that these reforms might have on future trade and investment possibilities.

I

Introduction

During the last two decades, East and Southeast Asia has been the most economically dynamic region in the world. Among the economies often regarded as the most successful showcases, the People's Republic of China (PRC) has occupied a leading place. Its remarkable accomplishments include, among others: i) a sustained, yet gradual, transformation from a Stalinist planned economy to a socialist market-oriented one; ii) one of the world's fastest- growing GNPs; iii) sustained industrial growth, promoted first by the large-scale State industries and later by village and township enterprises; iv) substantial productivity gains in agriculture, in order to feed a population which amounts to a quarter of the world total; and v) its emergence as one of the most important partners in the global trade system. Though the reforms in the post-Mao Zedong era have signified a decisive departure from the Stalinist centrally planned economy towards greater use of market forces, their implementation has been pragmatic, evolutionary and incremental. This contrasts with the simultaneous and all-embracing "big-bang" approach adopted by the ex-socialist countries in Eastern Europe.

Whether or not the PRC stays on its sustained economic growth path has important ramifications for the future dynamics of the world economy. It will modify not only the growth potential of neighbouring nations but also the scope of Asian regional economic integration in its entirety. The PRC's tremendously high economic prospects and the outcome of the ongoing Chinese economic reforms will also strongly influence the linkages of the Latin American economies with the Asia-Pacific nations. For these reasons, it is of the utmost importance for Latin America to keep abreast of the PRC's economic development and to examine critically the future trade possibilities and modes of cooperation. This paper seeks to contribute to this objective.

The economic record of the PRC, especially in the post-Mao Zedong era, has been most impressive. Despite stop-go cycles, annual GNP growth during 1978-1993 has averaged close to 9.5%, with a spectacular annual growth rate of around 13% for 1991-1994, in contrast to the average of approximately 6% for the previous 25- year period (1952-1977). Real per capita GNP has more than doubled, despite a population increment of 200 million persons. Though its economic size, as measured by market exchange rates, is still far below that of the major developed economies, when real purchasing power is taken into account the PRC's share in world output triples to 6%. This makes it the world's third largest economy behind the United States and Japan, and almost as large as the four NICs (Republic of Korea, Taiwan, Hong Kong and Singapore) and the four ASEAN nations (Thailand, Malaysia, Indonesia and the Philippines) put together. Should the difference in growth rates between the United States and the PRC be maintained for 20 years more, the latter will become the world's largest economy.

The PRC has been the fastest-industrializing country in the world. The industrial sector has continued to lead the economy with an annual average growth rate of 12.5% during the 1980s in real terms, and the manufacturing sector proper grew even faster, at a rate of 14.4 %. These rates surpass those registered by the Republic of Korea and are almost three times those of Japan. Already by the end of 1987 its manufacturing value-added ranked seventh in the world (UNIDO, 1991), exceeding that of Brazil and Spain. Throughout the reform years, the investment ratio (investment/GDP) has been maintained within the 35%-40% range: a remarkably high level by international standards. Equally striking is the fact that agriculture in the post-Mao era expanded by roughly 6% per year, in comparison with 2.1% in the 1952-1975 period, with the result that agricultural production of all commodities and per capita food production at the end of the 1980s were 100% and 40% higher respectively than at the beginning of the decade.

The growing income disparity between urban and rural areas notwithstanding (Perkins, 1992-1993; Nolan and Sender, 1992), sustained economic growth has brought general improvements in the standard of living. Post-Mao China has achieved a widespread decline in death rates, an increase in life expectancy and health care, a reduction in the level of absolute poverty, improved housing in both urban and rural areas, a jump in per capita consumption of basic foodstuffs in all parts of the country except the

poorest mountainous regions, and improved access to a variety of consumer durables. The Human Development Index, compiled by UNDP, which takes into consideration social welfare indicators such as life expectancy, literacy, education, purchasing power, etc., puts the PRC in 94th position among the 173 countries examined.

All these accomplishments have been brought about in an environment of comparatively low inflation (except in recent years) [1] and relatively healthy public finances. Up until recently, the government deficit consistently amounted to only a small proportion of GNP, in the neighborhood of 1% or less. Furthermore, unlike its ex-socialist counterparts in Eastern Europe, the PRC had no foreign debt of any consequence as of 1978 and resorted relatively little to foreign credit after that date. The accumulated external debt in 1993 (US$84 billion) was of relatively manageable scale, and the debt-service ratio of 11% was well below internationally accepted warning levels. The country therefore started its domestic economic reforms from a relatively strong balance-of- payments position.

Fast economic growth has been accompanied by a similarly impressive performance in the external sector. Chinese exports increased from US$9.8 billion in 1978 to US$92 billion in 1993, and China is now ranked as the world's eleventh largest exporter, with its export sales greater than those of Taiwan or the Republic of Korea. Chinese exports in that year accounted for roughly 2.3% of world exports. The PRC's US$104 billion of merchandise imports in 1993 (2.7% of world imports) –a huge jump from the preceding year's figure of US$80,1 billion– was more than for any developing country except Hong Kong, which re-exports most of its imports. In commercial services as well, the PRC exported and imported close to US$9 billion dollars respectively in 1993 (GATT, 1994b). Combined net reciprocal trade between the PRC, Hong Kong and Taiwan (the so-called "Greater China") already represented a volume of imports almost double that of a medium-sized industrial economy like the Netherlands or Canada. The "three Chinas" therefore now offer one of the most substantial and fastest-growing export markets in the world.

II

Recent economic trends and their implications for trade between China and Latin America and the Caribbean

The scope and complexity of the PRC's economic reforms since 1978 have been well documented elsewhere (Lardy, 1992; World Bank, 1992 and 1993; Lall, 1994; Bell, Khor and Kochhar, 1993). The following paragraphs provide an overview of these reforms, with the purpose of illustrating how the wide range of liberalization and decentralization efforts already implemented and/or in course have affected and will influence the overall path of the country in general and the trade possibilities with Latin America and the Caribbean.

[1] The official retail price index rose by 18.6% in 1988 and another 17.8% in 1989, while prices on the free markets rose by more than 30% in 1988, which led to considerable discontent in urban areas. In 1993, the rate of increase in the cost of living was 14.7%, while annual inflation up to September 1994 came to 27.4%: two percentage points more than in August.

1. Macroeconomic management

Each macroeconomic cycle experienced in the past has its own peculiarities, but all have had a number of common characteristics: the early phase of each reform was accompanied by an increase in aggregate demand, ratified by the increase in credit expansion; shortages and bottlenecks arose in critical sectors that led to faster inflation and to a deterioration in the balance of payments; and attempts were made to stabilize the economy through the reimposition of administrative controls and the slowing-down or even partial reversal of the reform process itself. The recent cycle since late 1991 is no exception to this. With the introduction of a 16-point stabilization programme, the government has tried to contain the overheating of the economy, with great difficulty.

Concern about the intensification of demand pressures led the authorities to implement measures consisting of: i) adjustments in interest rates on deposits and loans; ii) an austerity programme involving a reduction in government expenditure; iii) the postponement of price reforms planned for the second half of 1993; iv) a limit on the number of permitted development zones; v) the realignment of the credit expansion plan; vi) the elimination of the insurance on IOUs to farmers; and vii) the strengthening of the enforcement of capital gains taxes on real estate transactions (Bell, Khor and Kochhar, 1993, p. 69). However, the task of controlling aggregate demand has been difficult, partly because of the extensive decentralization among geographical areas: the major part of the State's revenue is now retained in the provinces, and consequently the central government's ability to undertake macroeconomic management through fiscal policy has been reduced. This has been exacerbated by the difficulty faced by the People's Bank of China in containing credit expansion, because of local political pressure on provincial branches of banks. At the same time, there is a potential conflict between central and local investment priorities, and in many cases investments in priority sectors such as energy and transportation infrastructure are less attractive to provincial and local authorities.

In the PRC, like any other economy, effective and coherent macroeconomic management is a prerequisite for the dynamic expansion of trade with the rest of the world. The stop-and-go economic reforms common up to now militate against the creation of stable trade flows, especially with such a region as Latin America and the Caribbean, which still plays a "residual" role in overall PRC trade. At the same time, in order to take full advantage of trade opportunities in the short term the trading partners must carefully assess macroeconomic performance so as to anticipate bottlenecks and supply shortages which arise due to the cyclical overheating and cooling of the economy. Given the increasing freedom of the provincial, municipal and local governments with regard to investment decisions, there should be wider recognition by trading partners of the importance of the PRC's local authorities, with a view to anticipating trade opportunities and negotiating effectively.

2. Agriculture

It was in agriculture that the PRC's economic reforms in the late 1970s and early 1980s first began to fundamentally change the Soviet-type system of production and move towards a market economy. While the formal ownership of land has changed little, and land remains almost exclusively under some form of public ownership, the overhaul of the sector involved the freeing of rural markets for most agricultural products, except grain and a few other key commodities, and the abolition of the agricultural communes as the unit of production and their replacement with what were basically family farms. [2] At the same time, attractive opportunities became available for farmers to invest in non-agricultural activities, especially in the rapidly growing rural industries. These reforms, based on individual economic incentives, laid the foundation for sustained growth of agricultural output and generated the surplus of rural savings needed to finance the continuing industrialization process.

The PRC is relatively poor in agricultural resources. The limited amount of arable land and the large number of farms (225 million), which support 67% of the total population, mean that average farm size is extremely small. [3] In addition, although still higher than that prior to 1978, the growth rate of agricultural output during 1985-88 declined in relation to the 1979-1984 period. The amount of agricultural land has been diminishing by 400 000 hectares annually –arable land and land under permanent crops has declined from 100.9 million hectares in 1982 to 96.6 million in 1991– and although grain output reached a record level of 456 million tons in 1993, the production trend has been stagnant. [4] Yields per hectare in the PRC for numerous crops are already high by world standards, so that further grain output growth is unlikely to be rapid. Consequently, the share of agriculture in GNP has declined by more than ten percentage points over the years, reaching 27% in 1990.

[2] Under the "household responsibility system", the right to use collectively-owned land was contracted to farm households, initially for a period of five years which was subsequently, in 1984, extended to 15 years for annual crops and 50 years for tree crops. Land use rights were made legally transferable in 1988.

[3] The average of 0.4 hectares per farm is modest in comparison with other Asian countries (Japan: 1.4, Taiwan: 1.1 and India: 1.7), not to mention the United States (193 hectares), Australia (3 700) and New Zealand (216).

[4] One study (Lin, 1992) shows that the productivity gain in agricultural production in recent years has not been enough to offset the absolute decline in the area sown: of the productivity growth experienced during 1978-1984, 97% was attributable to the changes in farming institutions from the production team system to the household responsibility system. Only the remaining 3% was contributed by changes in cropping patterns and intensity.

The reasons for this deterioration include: i) the rapid once-and-for-all productivity gains achieved in the earlier period as a result of the dismantling of the commune system; ii) increasing fragmentation of land holdings; iii) the outflow of the labour force from the crop-farming sector; iv) a smaller improvement in the relative prices of agricultural products than in the preceding period; v) increasing income opportunities in non-agricultural activities for farmers, who may have preferred to invest in township and village enterprises; vi) farmers' heavier investments in such areas as housing, rather than in land and irrigation, resulting in a shortage of water resources and degradation of land; and vii) bottlenecks in transport, processing, storage facilities and marketing systems (Lin, 1992; Bell, Khor and Kachhar, 1993, p. 58). The solutions to these constraints can only be found in the long term. In turn, the diminishing acreage of farm land, the saturation of productivity, the underdeveloped transport systems[5] and other production bottlenecks –the solutions of which are also of a medium- and long-term nature– will offer interesting trade opportunities.

One of the PRC's most urgent tasks involves the distribution of the fruits of economic growth to its impoverished rural areas, especially in the country's interior regions. The disparity in incomes between urban and rural residents has been widening steadily since 1984, when the comparable ratio was 1.6 times, instead of the present 2.5 times (*The Nikkei Weekly*, 1994b). The farmers' dissatisfaction, which has resulted in periodic riots in some areas, relates not only to the low absolute level of incomes, eroded by the rising inflation, but also to rising tax burdens and a decline in government purchase prices of agricultural products.

Despite the government's recognition of the plight of the rural population and some fiscal measures to lessen their burdens, it is unlikely that the gap in wealth will narrow in the near future. From the viewpoint of Latin America, trade possibilities will certainly be widened when a large segment of the underprivileged population begins to participate more actively in the economic development process.

[5] The inadequate transport infrastructure is most acute in the railroad system. At present, almost half of the railroad capacity is occupied for the transport of coal, and the problem will be intensified if the planned increase in coal production becomes a reality. Reportedly about 6% of grain production is lost each year in shipping between production areas and consumers, due to the inadequate distribution and marketing system and the limited transport capacity (World Bank, 1993).

3. Industrialization

The industrialization drive, based earlier on the efforts of State-owned enterprises (SOEs), has gradually extended to cover collective and town and village enterprises (TVEs), which are now the most dynamic sector of the PRC's economy. Massive industrial undertakings have been fostered through more than 8 million registered enterprises, among which 99 000 are large- and medium-sized State-owned enterprises, either controlled by central ministries or run by provincial governments.[6] State-owned units were estimated to have employed 18% of the labour force in 1992 (*Journal of Commerce*, 1994, p. 18c). In general, large-scale investments in key SOEs are approved and financed by the central government, while smaller ones involving medium-sized and small SOEs are made by provincial and local authorities.

Collective enterprises and TVEs operate relatively freely on the basis of market forces and enjoy greater managerial and financial autonomy than their State counterparts. Their main sources of finance are bank loans and retained earnings. Since 1979 the activities of TVEs have expanded continuously, and in 1989 these enterprises numbered 18.7 million, giving employment to 93.6 million workers (half of the current total manufacturing labour force and roughly 23% of the total rural labour force). Their output surpassed the value of total agricultural output by 22% (UNIDO, 1992, p. 108). The collective sector as a whole and the TVEs accounted for 40% and 26% respectively of the gross value of industrial output (GVIO) in 1992. They provide an important source of non-agricultural income and taxation (during 1984-1989 they accounted for 50% of the increase in State revenue). Despite their general inward orientation, the TVEs account for more than 20% of the country's total exports, thus constituting one of the most important export sectors. In this sense, a challenge to the authorities is to extend this type of development to other areas of the country. Other enterprises outside the plan are private firms, including foreign-funded entities, which were responsible for 14% of GVIO in 1992.

[6] From the viewpoint of ownership, collectives are regarded as "publicly owned", because in principle their ownership is shared by the community. Moreover, "their operations are closely monitored and often controlled by local government entrepreneurs who exhibit characteristics of both de facto owners and senior managers of township corporations" (cited in Jefferson and Rawski, 1994, p. 5).

It should be borne in mind that there is no straightforward, simple dichotomy between a State-owned heavy industrial sector and small-scale collective light industries. The share of the State is still high in many industrial segments, especially in power and energy, timber, tobacco, machinery, textiles, food processing, chemicals and metallurgy. In fact, in many of the industries producing exportable goods, such as textiles, electronics and metal products and machinery, the State share is still significant. In parallel, the most important sector for the collective enterprises has been machinery, followed by textiles and chemicals. This "dual" structure for many industrial segments, and the diversified machinery sector in particular, has been the driving force for the PRC's rapid and sustained industrialization.

Chinese industry, especially of the State sector, still suffers from a series of problems. In general, the SOEs continue to be characterized by inefficiency, substandard quality, low profitability (half of the SOEs operate in the red), inappropriate investment decisions and the lack of competition. These problems have led to a structural imbalance between downstream and upstream production capacity, high-cost and low-quality intermediate and capital goods, and shortages of certain essential raw materials. In spite of the recent implementation of measures to make these companies responsible for their own management, it is unlikely that the ongoing reforms will provide immediate solutions to these problems, and as long as they persist, the Latin American countries can expect large import demands from the PRC, though widely fluctuating from year to year, depending on the stop-and-go cycles. Meanwhile, the SOE restructuring process is also conducive to the establishment of various types of joint ventures with foreign interests. Since the majority of the 50 000 foreign affiliates in the PRC are joint ventures between foreign investors and SOEs, the potential impact of foreign investment on public enterprise reform can be significant.

4. The external sector

The break from the "self-reliant" approach of the pre-reform period to the philosophy of welcoming all possible sources of advantage, irrespective of their political coloration, has given rise to a wide range of reforms, including: i) the decentralization of the decision-making process and the end of the monopolization of trade by a few trade corporations; ii) the rapid reduction of exports and imports subject to mandatory planning; iii) increasing use of international prices for the determination of the domestic prices of imports; iv) the elimination of all direct budgetary export subsidies; v) a step-by-step reduction of tariff and non-tariff barriers (examined separately later in this article); and vi) the elimination of rigid exchange controls and the depreciation of the local currency. These have been accompanied by ambitious plans to attract foreign investment.

a) *External trade*

Up to the Deng reforms in the late 1970s, Chinese trade policy had placed primary stress on the role of imports rather than exports. Imports were seen as a residual contributor to domestic development, a means to secure deficit materials, capital goods, foodstuffs and technological information. Exports were viewed as a means of financing such imports, and the volume of purchases abroad was tied to the supply of goods suitable for export (Prybyla, 1978). In general, the authorities' attempts to strike a balance in the trade account, the continued emphasis on self-reliance and tapping internal resources for development, the avoidance of excessive foreign economic involvement, and the hesitant attitude to medium- and long-term foreign credits put a brake on the expansion of the PRC's foreign trade.

The "open-door" policy in the post-Mao era has been implemented gradually but with a clear trend towards the decentralization of authority on trade matters. The initial steps involved the partial break-up of the monopoly control of foreign trade by the State trading corporations. Prior to 1978, the PRC's foreign trade was handled by 12 State-owned foreign trade corporations (FTCs) organized by product lines, each having a monopoly in its area. Annual volumes of exports and imports were established and controlled in the context of a central planning system for trade, administered by the predecessors of today's Ministry of Foreign Trade and Economic Cooperation (MOFTEC). As a result of the deregulation, branch offices of FTCs became more independent, and provinces were allowed to create their own FTCs to serve specific trade needs, while sectoral ministries also established their own FTCs to engage in trade in their products. By the end of 1993 the num-

ber of trading companies which had obtained trade rights stood at 5 000 and that of production enterprises surpassed 2 000. In addition, there are 50 000 enterprises which have received foreign investments and which can engage in foreign trade with relative independence.

As a consequence of decentralization, the trade plan came to consist of two parts: the command plan, which established mandatory levels for exports and imports of key commodities, and the guidance plan which assigned targets in respect of certain products to local governments and FTCs, which enjoy considerable flexibility in fulfilling those targets. Over the years, the number of products subject to either command or guidance planning has been going down markedly.[7] Similarly, the pricing of tradeables has changed significantly: in comparison with the era of mandatory planning, when the tradeable goods sector was effectively isolated from the rest of the world, imports and exports have come to reflect international prices to a greater extent.

Another key feature of the pre-reform era was the maintenance of a highly overvalued exchange rate, combined with a rigid system of exchange control. Exports which were unprofitable in local-currency terms were offset by the financial profits accruing to the FTCs on their import side on the domestic market. This led to a situation where, in practice, the effective exchange rate varied on a product-by-product basis. The continued devaluation during the 1980s –from around 1.6 renminbi per US dollar in the late 1970s to 4.8 in 1990 and 8.5 in 1994– substantially reduced the bias against exports. As from 1 January 1994, China has unified its dual-track exchange regime and allowed the yuan to trade in a managed float system (GATT, 1994a, p. 9), in a long-expected step towards a convertible currency. The new foreign exchange system abolished the surrender and retention requirements.[8] This reform led to an immediate devaluation and reduced the differentials between the "swap" rates and the official rate.

b) *Foreign investment*

Attracting foreign direct investment (FDI) has been one of the main pillars of the open-door policy. The first step to attract FDI and expand exports was the establishment of four (three in Guangdong and the other in Fujian) Special Economic Zones (SEZs) in 1980-1981. The thrust of the policy was to integrate the country into the international division of labour through the promotion of industrial production in geographically defined areas, with restricted access to foreign capital and technology. With preferential treatment as regards taxation, import licensing, and tariffs, these zones were to serve as experimental "laboratories" for the economic reforms which were just beginning. This was followed by the opening of 14 coastal cities in 1984 and later the establishment of Hainan Island as an SEZ in 1988 and the opening of Pudong New Area (in Shanghai) in 1990. In early 1992 this preferential treatment was extended to 23 major cities in inland provinces, including 18 provincial capitals and 5 cities along the Yangtze River valley. In addition, 6 "development zones" were set up in the same region. These special areas have emerged as the most dynamic growth centres in the economy.

FDI in China has been rising at a phenomenal rate: in cumulative terms, up to the end of 1993, contracts worth US$217 billion (174 000 projects) had been authorized, out of which US$57 billion had actually been invested. By nationality of investors, Hong Kong and Macao have been by far the most important, followed by Taiwan, the United States and Japan. The main FDI flows have been concentrated in the processing and assembling of industrial products in the Southeastern coastal regions. Recently, however, there have been significant flows into high-technology and capital-intensive industries, as well as services and infrastructure, in other geographical locations. FDI in agriculture still remains relatively small.

[7] In the pre-reform period, for example, the export plan specified the quantities of 3 000 individual commodities that were to be procured by the State for export. Similarly, at the beginning of the 1980s import planning covered more than 90% of total imports (Lardy, 1992), but by 1991 the number of exports and imports subject to mandatory planning had fallen to 30% and 20% of their respective totals.

[8] Under the earlier system, in the case of general commodities, exporters (with the exception of foreign-funded enterprises, which were permitted to retain 100% of export earnings, if located in SEZs) had to surrender all foreign exchange earnings to the State and received retention quotas for 80% of such earnings. These quotas were, in turn, shared between the FTC, the supplying enterprise and the local government (for details, see Panagariya, 1991).

Among the significant contributions that FDI makes to the overall economy, [9] the most remarkable is in the trade sector: the share of foreign affiliates' exports in total PRC exports is close to 30%. It should be noted, however, that given the predominance of processing and assembly operations which require a high proportion of imported materials, the national value-added in export-related activities is very low. Consequently, the government now encourages those types of FDI which are conducive to higher value-added, local competition, and enhancement of technology and management skills.

III

Sino-Latin American trade in a world context

1. Global trade of the PRC

Chinese official data show that at the beginning of the 1990s, the PRC's imports were roughly divided between the developed and developing countries (see table 1). Until 1992 imports coming from the developed economies increased in absolute values but went down in relative terms, while those from the developing countries, especially the NICs (i.e., Taiwan, South Korea, Singapore and Hong Kong) increased tremendously. Among the developed countries, the relative importance of Japan as a source of imports steadily declined in the late 1980s but registered a marked recovery at the beginning of the following decade. In nominal value terms, up to 1992 the PRC's imports from the developed countries expanded much more slowly than its exports to them. In 1993, imports from the developed world picked up markedly, slightly reversing the previous downward trend.

TABLE 1

People's Republic of China: Imports, by Major Regions
(Millions of $US)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
World	*26 185*	*39 795*	*43 164*	*43 216*	*55 268*	*59 140*	*53 345*	*63 791*	*80 585*	*103 959*
Developed economies	18 138	27 934	28 915	26 343	30 394	31 715	26 420	31 338	38 013	54 839
Developing economies	5 961	9 045	11 531	14 141	20 739	23 268	23 151	29 132	37 170	40 651
United States	3 871	4 739	4 674	4 810	6 649	7 839	6 571	8 002	8 901	10 687
European Union	3 335	5 793	7 769	7 237	8 064	9 120	8 019	8 359	9 805	14 410
Japan	8 194	14 236	12 494	10 074	11 035	10 532	7 587	10 031	13 682	23 289
Newly industrialized countries [a]	3 007	4 746	6 890	9 573	14 360	16 230	17 931	23 142	30 259	31 384
ASEAN countries [b]	678	832	924	1 438	2 024	2 122	2 105	2 762	2 969	3 367
Latin America and the Caribbean	1 012	1 821	1 629	1 241	2 187	2 416	1 509	1 558	1 899	1 930
Africa	250	220	181	101	171	300	305	303	312	606
Middle East	237	184	267	379	733	750	515	811	1 029	1 958
Economies in transition	1 894	2 649	3 769	3 264	4 137	4 322	3 511	2 739	831	1 288

Source: United Nations, International Commodity Trade Data Base (COMTRADE).
[a] Include Hong Kong, Taiwan, South Korea and Singapore.
[b] Include Malaysia, Indonesia, Thailand, Philippines and Brunei.

[9] FDI accounted for 8% of total gross domestic investment and 6% of total industrial output in 1992. Foreign affiliates generated 6 million jobs (Zhan, 1993).

The high share of the developing countries is heavily influenced by trading partners' re-exports through Hong Kong to the PRC, the rapidly expanding imports from Taiwan through Hong Kong, and intermediate goods and components imported by Hong Kong firms involved in processing and assembly operations in neighbouring Guangdong Province. Other developing country groups, including Latin America and the Caribbean, do not occupy a major place in the import basket of the PRC. Thus, although the value of imports from Latin America and the Caribbean in 1993 was far greater than the figure for Africa, it was not substantially different from that of the Middle East. Nor have imports from the ex-socialist countries regained the peak reached towards the end of the 1980s.

PRC statistics indicate that its imports from Latin America and the Caribbean recovered somewhat in 1993 to US$1.93 billion, but they were nevertheless far below those registered in 1989 (US$2.42 billion) (table 2), accounting for 1.9% of total PRC imports, in comparison with 4.1% four years before. Imports from the region are characterized by large annual

TABLE 2

Chinese People's Republic: Imports from Latin America and the Caribbean
(Thousands of US$)

	1989	1990	1991	1992	1993	Growth rate 1989-1993
World	*59 140 128*	*53 345 133*	*63 790 634*	*80 585 333*	*103 958 979*	*15.1*
Argentina	567 097	318 336	303 858	200 121	219 910	-21.1
Bolivia	0	N.A.	0	N.A.	3	
Brazil	939 975	525 983	345 736	519 322	863 085	-2.1
Chile	179 242	34 292	106 990	409 642	281 660	12.0
Colombia	3 565	3 542	2 446	23 046	776	-31.7
Ecuador	2 667	2 478	1 097	3 515	3 260	5.1
Mexico	148 839	100 399	148 697	113 985	124 823	-4.3
Paraguay	25 329	22 084	19 819	25 397	2 205	-45.7
Peru	181 755	85 423	294 405	310 075	249 107	8.2
Uruguay	110 602	65 774	118 132	93 290	66 639	-11.9
Venezuela	20 205	28 395	6 172	8 945	30 233	10.6
ALADI	*2 179 276*	*1 186 706*	*1 347 352*	*1 707 338*	*1 841 701*	*-4.1*
Costa Rica	291	15	3 630	1 301	1 432	48.9
El Salvador	141	8	235	301	308	21.6
Guatemala	300	N.A.	232	55	237	-5.7
Honduras	34	N.A.	285	29	200	55.7
Nicaragua	4 860	12 531	N.A.	215	230	-53.4
CACM	*5 626*	*12 554*	*4 382*	*1 901*	*2 407*	*-19.1*
Barbados	N.A.	N.A.	15	0	0	
Cuba	229 043	306 214	201 654	182 842	73 642	-24.7
Dominican Republic	N.A.	N.A.	N.A.	6	N.A.	
Grenada	39	N.A.	1	7	4	-43.4
Haiti	0	N.A.	N.A.	N.A.	5	
Jamaica	21	0	33	0	536	124.8
Guyana	N.A.	1	N.A.	N.A.	5	
Panama	223	N.A.	463	3 082	10 465	161.7
Suriname	0	N.A.	N.A.	485	233	
Trinidad and Tobago	N.A.	3 423	4 282	2 772	522	
Antigua and Barbuda	2 211	139	258	235	126	-51.1
Bahamas	N.A.	16	N.A.	N.A.	17	
Dominica	N.A.	N.A.	0	35	30	
St. Kitts and Nevis	N.A.	N.A.	N.A.	N.A.	N.A.	
St. Lucia	N.A.	N.A.	0	3	N.A.	
St. Vincent and the Grenadines	N.A.	N.A.	N.A.	N.A.	N.A.	
Belize	14	9	N.A.	N.A.	N.A.	
Caribbean etc.	*231 551*	*309 802*	*206 706*	*189 467*	*85 585*	*-22.0*
Latin America and the Caribbean total	*2 416 453*	*1 509 062*	*1 558 440*	*1 898 706*	*1 929 693*	*-5.5*

Source: United Nations, International Commodity Trade Data Base (COMTRADE)..

TABLE 3

People's Republic of China: Exports, by major regions
(Millions of US$)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
World	*24 871*	*25 632*	*31 061*	*39 437*	*47 516*	*52 538*	*62 091*	*71 843*	*84 940*	*91 744*
Developed economies	10 388	10 710	12 267	14 571	17 285	19 017	21 266	24 880	30 002	48 053
Developing countries	12 975	12 931	16 331	19 556	24 750	29 191	35 463	42 688	50 031	38 399
USA	2 304	2 192	2 627	3 020	3 358	4 405	5 175	6 148	8 599	16 973
European Union	2 238	2 139	4 012	3 900	4 741	4 878	5 674	6 759	7 627	11 712
Japan	5 118	5 695	4 747	6 394	7 902	8 395	9 011	10 218	11 679	15 777
NICS [a]	7 836	8 647	11 032	15 114	19 860	24 159	30 184	36 907	42 643	28 624
ASEAN countries [b]	758	691	662	994	1 260	1 305	1 732	2 014	2 232	2 438
Latin America and the Caribbean	546	585	451	482	383	529	772	787	1 064	1 763
Africa	375	271	444	315	404	390	395	478	843	1 066
Middle East	2 244	1 596	2 028	907	1 132	1 122	1 183	1 400	1 799	2 417
Economies in transition	1 512	2 164	2 864	3 071	3 455	3 805	3 540	2 620	1 084	1 538

Source: United Nations, International Commodity Trade Data Base (COMTRADE).
[a] Include Hong Kong, Taiwan, South Korea and Singapore.
[b] Include Malaysia, Indonesia, Thailand, Philippines and Brunei.

fluctuations at the regional and national levels. In terms of country of origin, Brazil has been the largest supplier, albeit with wide year-to-year fluctuations. This country's share in the PRC's total imports in 1993 was less than 1%. Besides Brazil, Argentina, Chile, Peru and Mexico have been customary sources of the PRC's imports. Imports from Central America and the Caribbean have been extremely low or non-existent, while imports from Cuba have been declining drastically. The relatively insignificant and declining share of the region in the PRC's imports means that these countries have failed to take advantage of the rapidly growing market. The unstable levels of the PRC's imports from the region also suggest that there is a lack of close, established trade and investment links which would be conducive to a more stable trade flow from one year to another.

On the export side, official PRC data show that the developing countries taken together increased their relative importance over the years, while the developed countries lost part of their share, at least up to 1992 (see table 3). In contrast to the impressive surge of exports to the NICs, other developing regions, including Latin America and the Caribbean, have been marginal, and in most cases, declining markets for the PRC's exports, in relative terms. The ex-socialist countries have suffered a drastic decline in their share to a position similar to that of Latin America and the Caribbean, which has accounted for 1% to 2% of total PRC exports. Brazil has ceased to be a leading importer, even at the regional level. At this level, none of the countries has a dominant trade relation, but exports to Chile, Argentina, Mexico and Panama have increased substantially in recent years (see table 4). In comparison with the PRC's imports from the region, the year-to-year fluctuations are smaller, and there is a clear upward trend. Based on these official figures, the PRC has had a favourable or at least balanced trade position with each developing country grouping, except Latin America and the Caribbean.

2. The influence of re-exports through Hong Kong on the revised compilation of trade data

The trade figures reported by the PRC differ enormously from those given by its trade partners, owing basically to re-exports through Hong Kong. For instance, according to the Chinese trade data, the PRC's exports FOB to the United States in 1993 came to over US$17.0 billion, whereas the CIF import value reported by the United States was US$33.7 billion. This marked discrepancy between the two series cannot be explained by freight and insurance costs. Therefore, the type of data source used greatly changes not only the absolute amounts of trade for each partner but also their relative shares as origins/destinations and the resulting trade balances. [10]

[10] This is why the United States maintains that its trade deficit with the PRC reached US$18 billion in 1992 (equivalent to 18% of its total deficit in that year) and $25 billion in 1993 (roughly 15%).

TABLE 4

People's Republic of China: Exports to Latin America and the Caribbean
(Thousands of US$)

	1989	1990	1991	1992	1993	Growth rate 1989-1993
World	*52 538 091*	*62 091 411*	*71 842 535*	*84 940 062*	*91 744 005*	*15.0*
Argentina	8 902	11 955	51 631	124 146	247 687	129.7
Bolivia	4 829	6 013	4 462	5 343	4 069	-4.2
Brazil	84 462	106 684	68 034	64 756	192 171	22.8
Chile	61 165	67 135	94 202	128 152	204 132	35.2
Colombia	3 475	2 678	5 034	13 312	24 373	62.7
Ecuador	8 208	8 192	14 047	17 481	41 809	50.2
Mexico	42 617	110 570	86 245	157 742	155 693	38.3
Paraguay	4 455	9 549	16 724	11 320	28 899	59.6
Peru	21 657	23 519	31 313	35 467	61 558	29.8
Uruguay	2 908	5 395	10 510	17 902	31 876	82.0
Venezuela	4 531	12 579	32 745	59 544	65 300	94.8
ALADI [a]	247 209	364 269	414 947	635 165	1 057 567	43.8
Costa Rica	2 236	4 443	2 731	4 866	9 100	42.0
El Salvador	2 178	3 193	5 060	9 097	22 280	78.8
Guatemala	3 629	4 906	10 879	17 298	24 997	62.0
Honduras	3 725	6 020	4 533	10 249	21 143	54.4
Nicaragua	420	790	779	1 018	1 700	41.8
CACM [b]	12 188	19 352	23 982	42 528	79 220	59.7
Barbados	503	1 054	1 599	1 120	1 113	22.0
Cuba	212 252	271 939	224 402	200 232	177 044	-4.4
Dominican Republic	6 241	5 295	9 506	20 175	36 745	55.8
Grenada	29	377	82	82	88	32.0
Haiti	324	1 691	1 454	128	588	16.1
Jamaica	4 691	3 857	5 062	8 472	12 713	28.3
Guyana	222	664	2 666	4 915	4 869	116.4
Panama	38 836	95 447	87 332	132 004	350 140	73.3
Suriname	2 061	1 678	2 155	2 856	4 216	19.6
Trinidad and Tobago	1 883	2 565	4 031	3 899	8 676	46.5
Antigua and Barbuda	85	391	50	585	2 069	122.1
Bahamas	346	477	4 775	1 605	1 574	46.0
Dominica	1 579	1 785	3 927	7 134	20 856	90.6
St. Kitts and Nevis	15	30	65	42	37	25.3
St. Lucia	132	66	60	129	145	2.4
St.Vincent and the Grenadines	67	90	44	59	55	-4.8
Belize	659	1 372	1 211	2 458	4 979	65.8
Caribbean etc.	*269 925*	*388 778*	*348 421*	*385 895*	*625 907*	*23.4*
Latin America and the Caribbean, Total	*529 322*	*772 399*	*787 350*	*1 063 588*	*1 762 694*	*35.1*

Source: United Nations, International Commodity Trade Data Base (COMTRADE).
[a] Latin American Integration Association.
[b] Central American Common Market.

Hong Kong's re-exports from all origins, including the PRC, have increased tremendously over the years, reaching US$89 billion and US$106 billion in 1992 and 1993: much more than the respective figures of US$30 billion and US$29 billion for domestic exports. Thus, the size of re-exports is increasing in absolute and relative terms. It is also known that the relative importance of the PRC as the origin of Hong Kong's re-exports has been increasing rapidly (Ho and Kueh, 1993, table 4, p. 340). The great importance of re-exports means that the PRC's trade flows by destination and origin must be substantially modified, not only for the country's three main trading partners (the United States, the European Com-

TABLE 5

Hong Kong: Matrix of re-exports, by major trading partners, 1992
(Millions of US$) [a]

Origin \ Destination	China	Japan	Taiwan	USA	Germany	Korea	Other	Total
China	2 590	3 654	1 115	17 949	3 936	846	21 679	51 769
	9.5%	76.0%	33.2%	94.3%	92.7%	48.5%	76.9%	58.5%
	5.0%	7.1%	2.2%	34.7%	7.6%	1.6%	41.9%	100.0%
Japan	7 128	192	449	333	115	244	2 436	10 897
	26.2%	4.0%	13.4%	1.8%	2.7%	14.0%	8.6%	12.3%
	65.4%	1.8%	4.1%	3.1%	1.1%	2.2%	22.4%	100.0%
Taiwan	6 282	13	154	64	26	13	410	6 974
	23.1%	0.3%	4.6%	0.3%	0.6%	0.7%	1.5%	7.9%
	90.1%	0.2%	2.2%	0.9%	0.4%	0.2%	5.9%	100.0%
USA	2 333	179	526	244	13	128	718	4 115
	8.6%	3.7%	15.6%	1.3%	0.3%	7.4%	2.5%	4.6%
	56.7%	4.4%	12.8%	5.9%	0.3%	3.1%	17.4%	100.0%
Germany	782	26	103	13	13	77	167	1 167
	2.9%	0.5%	3.1%	0.1%	0.3%	4.4%	0.6%	1.3%
	67.0%	2.2%	8.8%	1.1%	1.1%	6.6%	14.3%	100.0%
Korea	1 833	64	64	64	26	38	397	2 487
	6.7%	1.3%	1.9%	0.3%	0.6%	2.2%	1.4%	2.8%
	73.7%	2.6%	2.6%	2.6%	1.0%	1.5%	16.0%	100.0%
Other	6 231	679	949	372	115	410	2 385	11 154
	22.9%	14.1%	28.2%	2.0%	2.7%	23.5%	8.5%	12.6%
	55.9%	6.1%	8.5%	3.3%	1.0%	3.7%	21.4%	100.0%
Total	*27 192*	*4 808*	*3 359*	*19 038*	*4 244*	*1 744*	*28 192*	*88 564*
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	30.7%	5.4%	3.8%	21.5%	4.8%	2.0%	31.8%	100.0%

Source: Calculations based on data from Tokyo Ginko Geppo (Monthly Bulletin of Bank of Tokyo), December 1993.
[a] Trade values in Hong Kong dollars were converted with the exchange rate of 7.8 HK dollars to the US dollar.

munity and Japan) but for other partners too. Although their origin is not known, there were more than US$2.6 billion of re-exports to Latin America and the Caribbean in 1993.

Table 5 shows a matrix of Hong Kong's re-exports in 1992 by major origins and destinations. As becomes clear, the PRC is much more important as the origin of Hong Kong's re-exports than as their destination, which means that the shares of its main partners in the PRC's exports are much more seriously underestimated than in the case of imports. However, inasmuch as more than 30% of Hong Kong's re-exports are directed to the PRC, the import values are still prone to misinterpretation.

Based on the figures in table 5, an attempt has been made to estimate the PRC's exports and their geographical composition, readjusted for re-exports through Hong Kong. Table 6 summarizes the results obtained. These estimates approximate quite well to the CIF im port values reported by the major trade partners in 1992. Such an adjustment leads to an increase in the joint share of the three developed countries (the United States, Japan and Germany), which rises enormously from 27% when unadjusted to roughly 57% of the PRC's exports when adjusted. The United States, in particular, which resorts extensively to re-exports, absorbs close to 30% of the PRC's exports after the adjustment. This has important implications for Latin America and the Caribbean because the region's dependence on the United States market is as high as that of the PRC, and its product specialization in that market is somewhat similar (i.e., labour-intensive goods).

TABLE 6

People's Republic of China: Geographical distribution of trade in 1992, with and without re-exports through Hong Kong

	Re-exports though H.K. from the PRC (billions of US$)	Direct exports from the PRC (billions of US$)	Combined direct exports and re-exports (billions of US$)	Percentage share without re-exports	Percentage share with re-exports
Destination					
USA	17.95	8.60	25.55	10.1	30.1
Japan	3.65	11.68	15.33	13.8	18.0
Germany	3.94	2.44	6.38	2.9	7.5
Taiwan	1.12	-	1.12	-	1.3
South Korea	1.10	2.44	3.54	2.9	4.2
Others	21.68	59.78	33.02	70.4	38.9
Total	*51.77*	*84.94*	*84.94*	*100.0*	*100.0*
	Imports through Hong Kong	**Direct imports by the PRC**	**Combined imports**	**Percentage share without imports through Hong Kong**	**Percentage share with imports through Hong Kong**
Origin					
USA	2.33	8.90	11.23	11.0	13.9
Japan	7.13	13.68	20.81	17.0	25.8
Germany	0.78	4.01	4.79	5.0	5.9
Taiwan	6.28	-	6.28	-	7.8
South Korea	1.83	2.62	4.45	3.3	5.5
Others	6.23	51.38	33.03	63.4	41.0
Total	*27.19*	*80.59*	*80.59*	*100.0*	*100.0*

Source: Calculated on the basis of the data presented in table 5 and data from COMTRADE.

The PRC's trade with the region is also underestimated, since a substantial portion of Hong Kong's re-exports have the PRC as their origin/destination. Unfortunately, the data on re-exports through Hong Kong do not provide a separate entry for Latin America and the Caribbean. In the case of exports, in 1992 Hong Kong's re-exports to the region came to US$2.61 billion, and in that same year, roughly 77% of total re-exports destined to "other" countries (i.e., other than the United States, Japan, Germany, Taiwan and Korea) originated from the PRC (see table 5). Assuming that the same proportion of the US$2.61 billion came from the PRC, China's combined exports to the region in 1992 could have amounted to US$3.07 billion (direct PRC exports of US$1.06 billion, plus US$2.01 billion of re-exports through Hong Kong). Similarly, by discounting Hong Kong's true imports from the region, by employing the coefficient of "other" countries as a proxy (in 1992, 55.9% of Hong Kong's re-exports originating from "other" countries had the PRC as their final destination), and by applying the same percentage to Hong Kong's total imports from the region of US$833 million, Latin American exports to the PRC could rise by an additional US$337 million. This "guesstimate" increases the PRC's combined imports in 1992 from the region (i.e., those coming directly and the re-exports through Hong Kong) by roughly 17%, from US$1 930 to US$2 267 million.

The foregoing observations on re-exports through Hong Kong are only for the year 1992, but the sizeable underestimation, especially of the PRC's exports to the region, sheds doubt on the claim by Chinese officials that the country has had a persistent trade deficit with Latin America and the Caribbean. Should the situation of 1992 hold true for other years, the opposite will be the case: the PRC has in fact enjoyed a substantial trade surplus with the region. At all events, it would be desirable to analyse the bilateral trade flows on the basis of better-quality trade data on a time-series basis.

3. Trade by products

The PRC's export basket has been further diversified. According to official PRC sources, the already high proportion of manufactured products in total exports in 1984 (48%) continued to grow and in 1993 their share reached 81%. This high coefficient reflects the relatively high level of industrialization in general on the one hand, and the export product-mix in which the PRC has specialized, on the other. The traditional export item, petroleum, has seen its weight reduced drastically over the years. Though the PRC still exports a variety of food and agricultural raw materials, their overall share has declined appreciably. The major export items now fall in the categories of clothing, footwear, toys, travel goods, furniture, some subsegments of the electrical and electronics industry, and machinery.

The product composition of exports does not differ markedly among the PRC's trade partners. This suggests that the country has been exporting more and more along the lines of its natural comparative advantage: low-wage labour. This applies also to the PRC's exports to Latin America and the Caribbean, even after taking into consideration Hong Kong's re-exports.[11] The marked increase in the country's share of world exports of these product groups (Lall, 1994, pp. 158-166) means that the PRC has been displacing some of its Asian neighbours. As the costs of labour have grown in these countries, and as their export basket consists increasingly of more capital-intensive goods, the PRC has been successful in conquering important niches in world manufactured exports. At the same time, the PRC's comparative advantage in capital- and technology-intensive products, though increasing, remains relatively limited. Thus, there is still a long way to go before the country establishes a clear advantage in the large spectrum of machinery and electronics sectors, because the export-push of these exports is still based on the expansion of assembly operations.

On the import side, too, the share of manufactures has been extremely high, accounting for 84% of total imports in 1993. This high coefficient is attributable to the sustained industrialization process which is under way and in particular the increasing requirements for industrial materials and inputs for assembly operations. Among the principal imported manufactures, the most important are iron and steel products, telecommunications equipment, machine tools, textile materials for further processing, chemical fertilizers, passenger cars and parts, and aircraft. In contrast, the share of food and agricultural products has been declining. This is surprising for a densely populated country like the PRC, which might be expected to need voluminous food imports. Except petroleum, of which the PRC is now a net importer, the only primary commodity import is copper. Despite an increase in absolute values, the relative importance of ores and metals has declined. Thus, primary commodities, in which Latin America's comparative advantage lies, have seen their share reduced over the years, in contrast with the impressive growth in manufactures. Despite the overall upward trend for other product groups, there are wide year-to-year fluctuations, reflecting annual domestic production deficiencies and shortfalls, rather than a response to sustained increases in income and/or changes in consumer habits.

The product-mix of the PRC's imports from Latin America and the Caribbean is quite limited. In the import basket of the PRC in 1993, for instance, a mere 10 products, at the three digit SITC level, accounted for 77% of the total, while the top 20 products accounted for over 91% (table 7). Iron and steel in primary forms, copper and iron ore represented more than 40% of the total. Other categories of relative importance included other ferrous and non-ferrous metals, farm and fishery products, agricultural raw materials and petroleum derivatives. To be sure, for these top 20 priority products, Latin America is not necessarily the principal supplier region for the PRC, except for certain countries in specific products (e.g., Brazil in certain segments of iron and steel products and Chile in copper). That is to say, in those product groups which account for most of Latin America's exports there is strong competition from suppliers outside the region. Consequently, the countries in the region can conquer bigger market shares –even in

[11] The majority of products re-exported through Hong Kong to Latin America and the Caribbean consist basically of three groups of manufactures: textiles and clothing, office and telecommunications equipment (including television sets, radios, etc.), and other consumer goods which include other labour-intensive export items produced in assembly-type operations. Given the strong position of the PRC in these product groups, it can be safely inferred that a substantial portion, if not the majority, of these re-exports had the PRC as their origin.

TABLE 7

People's Republic of China: Composition of imports from Latin America and the Caribbean (top 20 products), 1993
(Thousands of US$ and percentage shares)

Product			Value	Percentage of total imports from Latin America and the Caribbean	Cumulative percentages	Total Chinese world imports
1	672	Iron and steel, primary forms	366 627	19.0	19.0	3 481 362
2	682	Copper, exc. cementation copper	242 916	12.6	31.6	1 211 555
3	281	Iron ore and concentrates	213 903	11.1	42.7	926 981
4	081	Feeding stuff for animals	175 544	9.1	51.8	308 164
5	673	Iron and steel shapes, etc.	151 115	7.8	59.6	4 543 983
6	674	Iron and steel univ. plate, sheet	87 860	4.6	64.2	3 315 300
7	679	Iron and steel tubes, pipes, etc.	70 118	3.6	67.8	998 455
8	061	Sugar and honey	64 565	3.3	71.1	114 528
9	651	Textile yarn	58 547	3.0	74.2	1 719 224
10	611	Leather	43 468	2.3	76.4	1 465 010
11	334	Petroleum products, refined	40 577	2.1	78.5	3 023 361
12	421	Fixed vegetable oils, soft	31 879	1.7	80.2	117 439
13	684	Aluminium	31 220	1.6	81.8	492 531
14	333	Crude petroleum	29 649	1.5	83.3	2 323 412
15	251	Pulp and waste paper	29 479	1.5	84.9	294 053
16	583	Polymerization products, etc.	26 064	1.4	86.2	3 607 249
17	287	Base metal ores and concentrates, n.e.s.	23 182	1.2	87.4	453 216
18	671	Pig iron etc.	23 125	1.2	88.6	165 059
19	036	Shellfish, fresh or frozen	22 820	1.2	89.8	115 353
20	034	Fish, fresh, chilled or frozen	18 156	0.9	90.7	212 419
		All other products	178 704	9.3	100.0	
		Total, all products	1 929 518	100.0		103 958 979

Source: United Nations, International Commodity Trade Data Base (COMTRADE).

products where they have a comparative advantage–only if they are ready to improve their productivity and marketing.

4. Trade protection

a) Tariff and non-tariff measures

In the past, tariffs were regarded as one of the major sources of government revenue, having little effect on trade decisions. Later, during the reform process, tariff rates began to play a more important role in influencing the volume and product composition of imports. Over the years, import duties fluctuated, and after registering a substantial increase in recent years, China's weighted average tariff in 1992 was back to its pre-1987 level (Lall, 1994, pp. 48-57). With the aim of facilitating the country's re-entry into GATT, the most substantial reductions have been made since 1993, and the simple average and weighted average tariffs (measured against actual import volume for 1992) are now 36.4% and 21.9%, respectively[12] (GATT, 1994a, p. 7). The role of tariffs as a source of government revenue has further diminished as a result of the large number of duty exemptions and concessions granted (e.g., to foreign affiliates) (Lall, 1994, pp. 58-60).

Detailed analysis on the nature and degree of the PRC's tariff and non-tariff measures is provided elsewhere (ECLAC, 1995). The ECLAC study examines the protection levels effective in 1992 on more than 5 700 tariff headings grouped under 96 two-digit Harmonized Schedule (HS) codes. The 1992 data are particularly worthy of examination because,

[12] As from 1 January 1993, the PRC readjusted the tariff rates on 3 371 tariff lines, representing 53% of dutiable items, with an average reduction of 7.3% Later, on 1 January 1994, import tariffs on 2 898 products were further reduced by 8.8%.

once its re-entry into GATT is achieved, the PRC will assume the corresponding obligation to reduce its tariff rates by roughly 50% of the values effective in 1992.

The study suggests that the PRC has applied generally quite high import tariffs and that there has been marked dispersion among and within the tariff lines. The simple average of all the tariff rates considered here was 44.5%. These rates ranked the PRC as one of the most highly protected countries in the world, with rates even higher than those of the developing Contracting Parties of GATT, which range between 12% and 15%. In addition, the PRC's tariff structure was one of the most dispersed among large developing countries (Lall, 1994, p. 56). The high and dispersed structure reflected, broadly speaking, the desire on the one hand to protect important domestic sectors such as capital and intermediate goods, and, on the other, to penalize the consumption of non-essential and luxury items.

At more disaggregated levels, foodstuffs and agricultural raw materials tended to have relatively low rates, with some important exceptions where the interests of national producers predominated or products were considered to be luxury items. The application of non-tariff measures (NTMs) to these products was less frequent. There was a clear case of tariff escalation, in accordance with the level of processing. Rates for minerals were low in general and not dispersed, but, as in agricultural products, tended to escalate (ECLAC, 1995).

Tariffs on industrial imports were structured in such a way that intermediate and capital goods were subject mostly to rates of 20%-30%, while rates on most finished consumer goods were over 60%. For iron and steel, an import item of increasing importance, the rates were generally low, with the simple average being close to 14%, but a majority of these products were affected by NTMs. Most products derived from iron and steel had much higher tariff rates, but faced less frequent application of NTMs. With regard to machinery, items for industrial use, such as engines, generators, furnaces, pumps, cranes, lifts, etc., had rates of less than 30%, whereas the rate for household goods such as air conditioners, refrigerators, audio equipment, videos, etc., was 100%. These luxury items also faced NTMs. Other types of machinery were in an intermediate position. The widest dispersion of tariff rates within the sector was found in the case of vehicles.

The NTMs used consisted of a variety of instruments ranging from the mandatory import plan, imports through designated national foreign trade corporations (the so-called canalization), import quotas and licensing. The extent to which each of these is applied is difficult to assess with precision, because they frequently overlap. Also, their implementation is exercised by both central and local governments, thereby creating multiple stages of import approval from different authorities (for details, see Lall, 1994, pp. 63 -67). In 1994, the PRC Government abolished mandatory plans for imports (GATT, 1994a, p. 7) and reduced the use of canalization. This is significant because its use covered not only commodities subject to plans but also products such as iron and steel, textile yarns, sugar and cigarettes. In addition, controls were relaxed on other goods whose importation had been restricted to certain FTCs.

Despite the abolition of the mandatory import plans, import quotas are still applied to a wide range of products in accordance with the State industrial policy and the sectoral development programmes. As of May 1994, 114 categories of products, at the four-digit HS level, were subject to import quotas. The principal sectors affected are agriculture, certain segments of industrial inputs, automobiles, textiles, machinery, electrical and electronic products, and consumer durables. In addition, although they are not subject to import quotas, some subsectors of machinery and electronic products which are still at the "infant" stage of production are subject to open tendering. The goods affected amount to 71 product categories, also at the four-digit HS. The number of broad categories subject to licensing in 1994 remained at 53 (Luo, 1994). Reportedly, the award of licenses can be discretional: their distribution may be linked to FTC performance. Likewise, import licensing seems to have been used by provincial and municipal authorities in accordance with the priorities established by local plans. Although the real effects of these quantitative measures cannot be precisely ascertained, their impact on imports can be grave, not only because of their restrictive effects but also because of the complexity involved in administering them, given the wide range of products covered.

As in the case of imports, the PRC has deployed a wide range of export controls. Although in principle all mandatory export planning was abolished in 1991, there still remain other forms of control. "Except for 16 categories of products that have a close bearing on

the national economy and people's livelihood and for which export is managed by a few corporations, State control over the export of all other commodities has been lifted" (GATT, 1994a, p. 6). This is a big improvement in comparison with 1992, when about 15% of total exports were still marketed through designated FTCs. Before 1992, export licensing –the most important remaining control– covered 15% of the country's exports, affecting principally agricultural goods such as grain, tea, pork, beef, mutton, poultry and others (GATT, 1994a, p. 6). Export licensing is still applied in the case of such commodities as tungsten, of which the PRC is the main world producer. In 1993, a total of 138 categories of products were subject to export licenses (GATT, 1994a, p. 6). With the deepening of trade reforms, the number of products subject to export licenses should drop even further.

b) *Effects of the Uruguay Round*

In 1986, 36 years after its withdrawal in 1950, the PRC (which had been one of the founding members of GATT) began to seek re-entry to that organization (replaced by the World Trade Organization in January 1995). [13] Its re-entry would facilitate its international recognition and formal integration in the world economy as well as the consolidation of the market reforms under way. From China's standpoint, there are also several immediate tangible benefits. First, joining GATT would secure for it almost automatically the benefits of Most Favoured Nation (MFN) treatment from more than 120 Contracting Parties. Under the multilateral system, joining GATT eliminates the possibility for the United States to deprive China of its MFN privileges: a perennial source of trade conflict between the two countries up to now. [14] Re-accession to GATT would also make it easier for the PRC to receive further preferential treatment under the Generalized System of Preferences (GSP). Furthermore, GATT membership would mean that the PRC could resort to the dispute settlement mechanisms and procedures when necessary and avoid, as much as possible, discriminatory anti-dumping charges imposed by third parties. The PRC should be one of the biggest gainers from the Uruguay Round, because its export basket will enjoy a marked reduction in tariffs and NTMs (in the case of textiles, for example).

On the other hand, some of the other contracting parties are concerned about China's re-entry into GATT because of, *inter alia*: i) the absence of regulatory transparency; ii) its non-universal trade regime (a dual system consisting first of a liberal, export-oriented production regime with foreign investment in the Special Economic Zones and coastal cities, but also of a considerably more restrictive trade system applicable to the rest of the country); iii) rules and obligations imposed by local and regional authorities, and differential treatment of minority autonomous regions of China and other areas of poverty; iv) uncertainty over the import barriers used, including quotas, licenses, and other restrictions and controls (standards and certification requirements); v) the role of the State trading entities; and vi) China's status as a developing country. Regarding the latter point, some members oppose this status, arguing that as China is the world's sixth largest market (counting the European Union as a group), it should not enjoy such a privilege. If its developing country status were admitted, the PRC would enjoy a longer time-span to comply with the requirements of the WTO, and in some areas it would have fewer commitments in terms of cutting domestic subsidies or providing market access, and greater leeway to provide domestic support for rural development and some classes of export subsidies, with similar concessions in regard of services.

Taking into consideration China's level of economic development and the possible adverse impacts it might suffer, some maintain that the world community should adopt a practical and realistic approach to the PRC's entry into the global trade body. Others, in contrast, argue that the PRC's rising importance in world trade makes it difficult for its negotiators to plead for a wide range of special exceptions. These observations taken together may mean that the rest of GATT members should be prepared to negotiate a transitional period, for instance up to about the year 2000, in order for the PRC to fully comply with the

[13] China was a founding member of GATT but has been treated as a non-contracting party since 1950, when the Chiang Kai-shek regime in Taiwan gave notice of the withdrawal of China from GATT. For details of the issues related to the PRC's re-entry into GATT, see Cai, 1992.

[14] The United States, invoking its 1974 Trade Act, gives MFN treatment to China on an ad hoc basis, and this is reviewed annually. It is estimated that complete deprivation of MFN privileges by the United States would result in annual export losses for the PRC in the range of US$7.0 and US$15.2 billion, while United States consumers would also lose annually close to US$14 billion in higher prices (Lall, 1994, pp. 155-158). Also, given its close ties with the PRC, the withdrawal of China's MFN status would cost Hong Kong up to 70 000 jobs and up to three percentage points of annual GDP growth (Ho and Kueh, 1993, p. 347).

trade body's rules. During this period, the country could reduce the level of tariff protection, remove most NTMs, align its technical standards with international norms, and make its currency fully convertible. In turn, the fulfillment of the adjustments needed in order to comply with the new WTO requirements would open up enticing trade and investment opportunities for the rest of the world, including the countries of Latin America and the Caribbean.

5. Trade possibilities by product groups [15]

a) *Manufactures*

Given the heavy weight of labour-intensive manufactures in the PRC's total exports and the notable inroads made by some Latin American countries in these product groups, competition in some areas will be intensifying in domestic markets and OECD countries. The fact that close to 30% of their total exports are destined to the United States means that Latin America and the Caribbean will face strong competition from the PRC in this market. Most susceptible are textiles and clothing, footwear, electrical and non-electrical machinery, travel goods, metal manufactures, etc. Although the North American Free Trade Agreement (NAFTA) and its possible extension to other countries might reduce somewhat the comparative advantage of the PRC in the United States, [16] China will continue to be a formidable competitor in the highly labour-intensive imports of that country. Competition from the PRC will be particularly strong for the countries of Central America and the Caribbean, whose basic trade orientation is the maquila-type export of textiles and clothing or electrical equipment to the United States. It is also possible that there may be "investment diversion" from the region towards the PRC, induced by the attractively low wage levels and the enormous potential that the local market holds.

In other industrial segments, however, this may not necessarily be the case. Latin American exports have increasingly incorporated industrial products: today, such goods account for more than two-thirds of total regional exports, and roughly half of them consist of manufactured goods. An important share of industrial products is accounted for by semi-manufactures, based on agricultural or mineral resources. Among manufactures, the most important are those of new capital-intensive industries (e.g., automobiles) as well as those of traditional or basic-input industries (chemicals, iron and steel) (ECLAC, 1994). While Latin America will be competing directly with other Asian countries in these product groups, the PRC offers one of the most dynamic markets in industrial products for Latin American producers and exporters.

b) *Minerals and metals*

The PRC is a very significant, but not necessarily the leading, producer of a number of items. In the case of such metals as aluminium, copper, lead and zinc, the country's share in world production does not exceed 10%. A relatively high share is reported for tin and mercury and a particularly high level of participation for antimony. In the case of iron ore and crude steel –a product group which looms high in the import basket of the PRC from Latin America– although China's production has been increasing in recent years, its share is not overwhelmingly high.

The country has not necessarily been the main importer of metals that are interest to Latin America and the Caribbean, and in some of them (e.g., tin and zinc) it has been a substantial world exporter. However, the PRC's share in world metal consumption shows a clear upward trend, and its self-sufficiency has declined over the years. Furthermore, compared with the developed market economy countries (DMECs), China's per capita consumption of major metals is extremely low and much lower than that of Brazil, Argentina, Mexico, Korea and Taiwan, though higher than that of India. These observations point to the conclusion that the country is at a development stage, where the input of metals per unit of GDP is likely to expand for some years to come. Any reductions in per capita requirements thanks to miniaturization, saving and substitution should be offset by increasing requirements for materials owing to rapid economic growth (especially of the industrial sector), population increase, the need for infrastructural works and growing consumerism.

[15] For a more detailed discussion, see ECLAC (1995).

[16] Estimates of trade diversion affecting the PRC in the United States due to NAFTA amount to as much as US$40 million. Although quite small in relation to the PRC's overall trade, this figure exceeds the combined overall loss of US$28 million in terms of displaced exports estimated for the major South American exporters as a result of NAFTA (Lall, 1994, p. 53). The principal explanation is that the PRC directly competes with Mexico in many highly labour-intensive sectors like textiles, clothing, footwear, sporting goods, etc, that are subject to strict non-tariff measures in the United States.

Such trade expansion possibilities can be illustrated by taking the case of steel: a product of which the PRC is the second largest producer after Japan, surpassing the former Soviet Union and the United States. However, even the industrial slow-down in 1990 did not bring a balance between supply and demand, and there continued to be an acute shortage of steel even for basic industries such as energy and transportation. Although it is the largest iron ore mining country and the fourth iron ore importer, the PRC will be facing a significant supply gap in the future in this product group (UNIDO, 1991, p. 99). With regard to copper, projections point to an annual consumption increase of 5%, which means that within ten years the consumption of refined copper could increase by some 550 000 tons annually (*Estrategia*, 4 January 1994), and because of the limited possibilities for the expansion of its own output, its imports are expected to increase. The same can be said about energy resources. If the PRC's per capita consumption of energy resources reaches that of Korea within 20 years, this would mean a five-fold increase in its energy demand. This increase is bigger than the total energy consumption of the United States today, but even so the per capita energy consumption of the PRC would still be less than one-third that of the United States today. Likewise, as it becomes more dependent of imported oil, the PRC will become one of the major buyers on the international crude market (*The Nikkei Weekly*, 27 September 1993). In order to assure future supplies, the Chinese are interested in establishing joint ventures in Latin America with such countries as Peru, Ecuador and Venezuela.

c) *Agricultural and forestry products*

The PRC is one of the main producers, consumers and traders of a number of agricultural products. Its share in world production is markedly high for rice, cotton, wheat, pork and poultry, and coarse grains, and has been increasing over the years for all these products except rice. As might be expected, its share in world consumption is even higher and has also been increasing, especially in the post-Mao period. Its position as a net exporter of such products as rice, beef, mutton, pork and poultry and dairy products has gone down substantially in recent years, and the PRC is a primary net importer of products which are of major importance to Latin America and the Caribbean.

The PRC's per capita consumption of such products as rice and wheat is already higher than that of its Asian neighbours of similar diet and living habits, but it is substantially less in the case of other products such as meat, sugar, dairy items, eggs, cotton and, to a lesser extent, coarse grains and wool. It is estimated that by the year 2000 the national consumption of meat, poultry, eggs and fish will have doubled, and that the projected grain output will be far below demand (UNIDO, 1991, p. 90). Similarly, its self-sufficiency in cotton and wool is likely to decline if textile and clothing exports continue to grow. Several studies (e.g., Carter and Zhong, 1991) project a grain supply shortage for the latter half of the 1990s, equivalent to 20% of its future needs, unless there is major technological development or there are significant price reforms which would finally alter the traditional policy of taxing farmers and subsidizing consumers. Some authors (e.g., Lin, 1992) argue that crop patterns and resource allocation in each region and in the nation as a whole would be greatly improved if 5% of the grain requirements were to be imported. Likewise, as the world's third-largest paper consumer (*The Nikkei Weekly*, 1994a), with pulp imports already equivalent to 90% of total demand, import demand for this group of products is likely to increase rapidly.

6. Investment and other financial flows

As a reflection of both the causes and the effects of the low levels of current trade, mutual investment flows have been quite limited. It is estimated that the accumulated Chinese investment in Latin America and the Caribbean comes to US$300 million (Luo, 1994), with 80 mixed or wholly-owned companies said to be operating in the region (CONECPLAN, 1993). The best known of these is the purchase of Hierroperú of Peru by a Chinese company for US$120 million. Another Chinese company, Sapet Department (a division of the huge China National Petroleum Corporation), has embarked on its first oil extraction venture in northern Peru, regarded by experts as the first step in an ambitious plan to supply equipment for the petroleum industry in Latin America. Other major projects include the iron ore mining and fishery sectors in Peru, iron ore production, wood processing, bicycle assembly in Brazil, tractor assembly in Venezuela, fish meal and apparel production in Chile, deep-sea fishing in Argentina, zinc mining in Bolivia, and fresh-water shrimp culture and apparel production in Ecuador. Currently, studies

are being undertaken to explore the investment possibilities for iron ore mining projects in Brazil and copper mining in Chile.

The PRC investors involved in Latin America and the Caribbean are from the public sector (Luo, 1994). In the future, the Chinese might be interested in direct investment projects, apart from the privatization and debt-equity conversion arrangements which have been a major incentive for attracting investment flows to Latin America and the Caribbean in recent years. Although large investment projects in sectors other than natural resources will be unlikely, there will be continued interest on the part of the PRC in such areas as iron ore or copper mining, wood processing, assembly of machinery and electrical and electronic products, and textiles and apparel.

Latin American investments in the PRC are even smaller in number and size. The most notable are the Chilean investment in the fabrication of copper tubes, Cuba's interests in medical equipment and, as a joint-venture, the recent opening of a Brazilian barbecue restaurant, all of them in Beijing. Another interesting joint-venture is a leather factory for which an Argentine firm supplies the raw material, with the final products being exported to the United States (Luo, 1994).

Despite its very small present scale, Latin American foreign investment in the PRC should increase. Some of the sectors earmarked for joint-ventures in the PRC are those in which Latin American entrepreneurs can participate with a relatively small initial capital. As a matter of fact, the Chinese have expressed interest in receiving Latin American investments in food processing industries (CONECPLAN, 1993). Given the present level of technological capability of the PRC and the countries of the region, substantial technology transfers can be envisaged. This type of cooperation could involve the participation of private and State-owned enterprises of various sizes.

In order to facilitate investment, the PRC has signed reciprocal agreements for the promotion and protection of investments with Bolivia, Chile, Argentina, Uruguay, Peru, Ecuador and Jamaica. The eventual signing of agreements with other countries at the earliest possible date, including such major regional players as Brazil and Mexico, will undoubtedly enhance the investment environment for both regions. Despite the recent steps to expand trade credit by signing reciprocal credit agreements with several Latin American banks and establishing local branches (Luo, 1994), there will be greater needs for trade finance, involving more institutions and countries in both regions.

7. Areas for Sino-Latin American economic cooperation

The key to economic cooperation is mutual understanding and deepening of diplomatic relations. In this respect, the PRC has already established diplomatic relations with 17 countries in Latin America and the Caribbean and created a Ministry of Foreign Trade and Economic Cooperation (MOFTEC) office in almost all of those embassies. Besides these official channels, the PRC sends a significant number of trade missions to the region and participates in international trade fairs. These initiatives have served to create direct contacts among the trade agents of both parties. In contrast, similar trade promotion undertakings on the part of Latin America and the Caribbean have been relatively scarce, and general knowledge of the PRC by entrepreneurs of the region has been limited. More active participation by Latin American agents in those fairs will surely enhance trade and marketing possibilities. Another form of trade promotion, on a more permanent basis, is by establishing representative offices in the PRC. A permanent presence in the consumer market provides potential exporters with up-to-date information on its special features and idiosyncracies.

With regard to diplomatic relations, there are 29 nations in the world which recognize Taiwan as a nation rather than a province. Among them, all seven Central American countries, along with Haiti, the Dominican Republic and several other smaller island countries, recognize Taiwan as the true representative of China. In recent years, these countries have officially supported the entry of Taiwan into the United Nations. At the same time, Taiwanese commercial and investment interests in Central America, as well as technical assistance directed to the sub-region, have intensified substantially. Reflecting the importance that it attaches to the sub-region, Taiwan is also a contributing member of the Central American Bank for Economic Integration. The rising profile of Taiwan makes it an increasingly complex matter for Latin America and the Caribbean to establish consistent diplomatic relations with each China. Meanwhile, however, the non-existence of diplomatic relations does not prevent those countries from seeking stronger economic ties with the PRC.

The possibilities for broadening trade and other links between Latin America and the PRC can be pursued not only by bilateral means but also through multilateral mechanisms. The latter include the Pacific Basin Economic Council (PBEC), the Pacific Economic Cooperation Conference (PECC), and the Asia-Pacific Economic Cooperation forum (APEC). The PRC is a member of all of these. The PBEC groups the business communities of 18 countries, including Chile, Colombia, Mexico, Peru and Russia. The PECC is made up of private sector interests, academics, and representatives of governments, including those of Chile, Colombia, Mexico and Peru. The APEC is a formal ministerial-level forum for consultation and cooperation in economic matters, of which Mexico and Chile are full members. It is crucial that Mexico and Chile in the APEC, and some other Latin American countries who are members of the abovementioned organizations, should act as interlocutors for Latin American interests.

It is unlikely that closer and stronger economic relations can be built up unless there are clear commitments by governments. In order to facilitate trade flows in a more consistent manner, it would be desirable to expand trade finance and to strengthen the institutional framework for this objective. Similarly, both regions should seek to provide a more stable investment climate, by signing reciprocal agreements on investment promotion and protection. Also, when possible, the countries of Latin America and the Caribbean should promote technical cooperation projects or other sectoral agreements with the PRC (e.g., on quality control and health and phytosanitary inspection), which would lead to trade and investment possibilities. From a similar angle, it is strategically important for the countries of the region to support the PRC's aspirations to play a more prominent role in trade and economic cooperation between the two areas. This could be achieved, for example, by actively supporting the official requests made by the PRC in September 1993 for full membership of the Inter-American Development Bank and the Caribbean Development Bank.

(Original: English)

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