China and Latin America and the Caribbean

Building a strategic economic and trade relationship

Osvaldo Rosales
Mikio Kuwayama

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Foreword

The economies of China and of the Latin American and Caribbean region are the current global growth poles and, over the coming years, will grow twice or three times as quickly as the industrialized economies, which will have to adjust to slower growth and higher unemployment.

The present juncture offers an opportunity to rethink global and regional partnership strategies and to put greater emphasis on South-South ties in trade, foreign direct investment (FDI) and cooperation.

In this document, the Economic Commission for Latin America and the Caribbean (ECLAC) posits that China and the Latin American and Caribbean region now enjoy a sufficiently mature relationship and are poised to make a qualitative leap towards a mutually beneficial strategic alliance.

The Latin American and Caribbean countries must redouble their efforts to diversify sales to China, embedding more value and knowledge into their exports, and to stimulate business, trade and technological ties with their Chinese counterparts. They must also promote Latin American investments in the Asia-Pacific region in order to build the region's presence in Asian value chains, focusing on China.

Trade and investment ties between China and Latin America and the Caribbean have continued to multiply. In 2010, the value of bilateral trade amounted to some US$ 200 billion and, during the last decade, the region was China's most dynamic trading partner.

Now a key trading partner for the region, China is already the largest importer of goods from Brazil and Chile, and the second largest in the case of Costa Rica, Cuba and Peru. It is also the third-largest source of goods imports for Latin America and the Caribbean, accounting for 13% of the region's imports. At the same time, the Latin American and Caribbean region has become a major destination for Chinese FDI.

This publication looks at recent developments in trade between China and the Latin American and Caribbean region with respect to countries, sectors and goods, as well as Chinese FDI in the region.

The analysis shows that while Chinese exports are composed principally of manufactured goods, Latin America and the Caribbean primarily exports raw materials.

The Asia-Pacific region has entered a second stage of economic integration in which it is seeking a greater synergy between the de facto (market-driven) and de jure (government-driven) dimensions of this process. This integration process, based on trade and investment ties, and now also bolstered by trade agreements, would put Latin America and the Caribbean at a disadvantage if those recent trade agreements diverted trade flows away from the region, taking a toll on exports. The countries of the region must without delay adopt a strategy —incorporating trade agreements— for integration with Asia-Pacific.

Despite the region's closer trade and investment ties with China, the quality of its trade integration into the global economy has not improved. The expansion of the sectors associated with natural resources has not boosted the development of new technological capacities in the region and the productivity gap with the countries that are considered to be at the forefront in that regard has widened.

The region's trade relationship with China therefore presents both opportunities and challenges. One major challenge is to prevent the growing trade with China from reproducing and entrenching a centre-periphery trade pattern in which China emerges as a new centre and the countries of the Latin American and Caribbean region as a new periphery. What is required, then, is progress towards trade relations that are more in keeping with the economic and social development patterns that this region needs.

The region must tap this historic opportunity to make the investments in infrastructure, innovation and human resources needed to convert the gains derived from natural resources into human capital and international competitiveness. Higher levels of innovation and the endogenous development of technological capabilities should be promoted as a matter of urgency.

The political dialogue between Latin America and the Caribbean, the Asia-Pacific region and China must be institutionalized. The region's countries must recognize the importance of biregional trade and investment and adopt coordinated strategies, either between individual countries or as regional groupings, to strengthen trade and investment ties with the Asia-Pacific region. There is, however, a need for a more coordinated strategy among countries or groups of countries to create a link with China to invigorate trade and investment, and foster a variety of business and technological partnerships, using the impetus of Asian growth to stimulate the diversification of exports and spur the region to close the gap in relation to innovation and competitiveness.

For years, ECLAC, through the Division of International Trade and Integration, has been monitoring and supporting activities aimed at strengthening economic relations between the two regions. ECLAC has participated in the five China-Latin America business summits that have been held and in various academic activities both in China and in Latin America and the Caribbean.

This publication, which it is my pleasure to introduce, is an updated and more detailed version of several reports that ECLAC has prepared on the trade and investment ties between the Latin American and Caribbean region and the Asia-Pacific region.

Alicia Bárcena
Executive Secretary
Economic Commission for
Latin America and the Caribbean
(ECLAC)

Chapter I

The principal characteristics and the economic and trading performance of China

A. China is the main engine of global growth

China has considerably increased its weight in the global economy in recent years. In terms of GDP measured at current prices, in 2010 the Chinese economy became the world's second-largest after the United States, having overtaken Japan, Germany, the United Kingdom and France. If GDP is measured in purchasing power parity (PPP) terms, the country also ranks as the world's second-largest economy behind the United States. The Chinese economy accounted for over 8.6% and 12.6% of world GDP in 2009, at current prices and PPP, respectively. China accounts for half the combined GDP of the four countries known as the BRICs (Brazil, the Russian Federation, India and China). The size of the Chinese economy, at over US$ 5 trillion, already exceeds the combined GDP of all the economies of Latin America and the Caribbean.

In the past 30 years, China has come close to achieving a two-digit average annual growth rate. In 2009, when the world was coping with the worst economic crisis in eight decades, the Chinese economy carried on growing at a rate of 9.1% and the country succeeded in consolidating its position as one of the leading actors in the world economy and the linchpin of the subsequent recovery. Continuing high growth in China was largely due to a huge raft of economic stimulus measures that were accompanied by a formidable expansion of credit (ECLAC, 2010a).

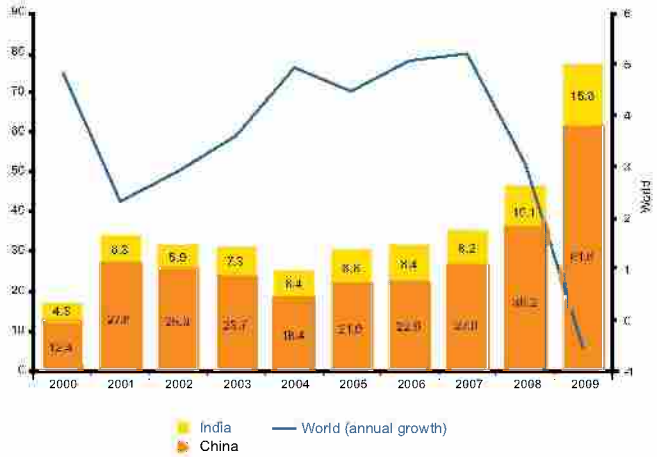
Table I.1
GLOBAL GDP RANKING OF THE WORLD'S 15 LARGEST ECONOMIES, AT CURRENT PRICES AND PURCHASING POWER PARITY, 2009
(Billions of dollars and percentages)

Global GDP ranking *(current prices)*				Global GDP ranking *(purchasing power parity)*			
1	United States	14 256	24.5	1	United States	14 256	19.7
2	Japan	5 068	8.7	2	China	9 104	12.6
3	China	4 985	8.6	3	Japan	4 138	5.7
4	Germany	3 347	5.8	4	India	3 752	5.2
5	France	2 649	4.6	5	Germany	2 984	4.1
6	United Kingdom	2 175	3.7	6	Russian Federation	2 687	3.7
7	Italy	2 113	3.6	7	United Kingdom	2 257	3.1
8	Brazil	1 572	2.7	8	France	2 172	3.0
9	Russian Federation	1 460	2.5	9	Brazil	2 020	2.8
10	Spain	1 336	2.3	10	Italy	1 922	2.6
11	Canada	1 310	2.3	11	Mexico	1 540	2.1
12	India	1 231	2.1	12	Spain	1 496	2.1
13	Mexico	925	1.6	13	Republic of Korea	1 324	1.8
14	Australia	875	1.5	14	Canada	1 280	1.8
15	Republic of Korea	833	1.4	15	Turkey	1 040	1.4
	BRICs [a]	9 248	15.9		BRICs [a]	17 564	24.2
	Latin America and the Caribbean	3 977	6.8		Latin America and the Caribbean	6 062	8.4
	European Union	16 415	28.2		European Union	14 773	20.4
	World	58 133	100.0		World	72 537	100.0

Source: Prepared by the authors on the basis of World Bank, World Development Indicators (WDI) [online] http://data.worldbank.org/indicator, September 2010.
[a] BRICs = Brazil, the Russian Federation, India and China.

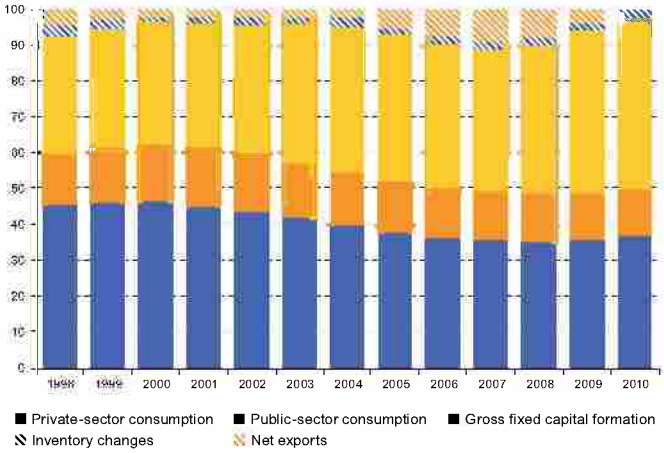
The Chinese economy is playing an essential role in sustaining global growth. With a growth rate of 10.4% for 2010 and 9.2% for 2011, China will continue to be the main driver of global growth. China by itself accounted for 28% of global GDP growth over the whole decade, measured at PPP. In 2009, China's contribution to GDP growth was close to 62% (see figure I.1). If Chinese growth had been nil, the global economy would have shrunk by 2% and not 0.6%. Annual growth over the next five years is projected at between 8% and 9%. Thus, China will create a market of great potential for exports from the economies of Latin America and the Caribbean.

Figure I.1
CHINA AND INDIA: CONTRIBUTION TO WORLD GDP GROWTH, 2000-2009
(Percentages)



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

Figure I.2
CHINA: GDP BY MAIN EXPENDITURE COMPONENTS, 1998-2010
(Percentages calculated from GDP expenditure values)



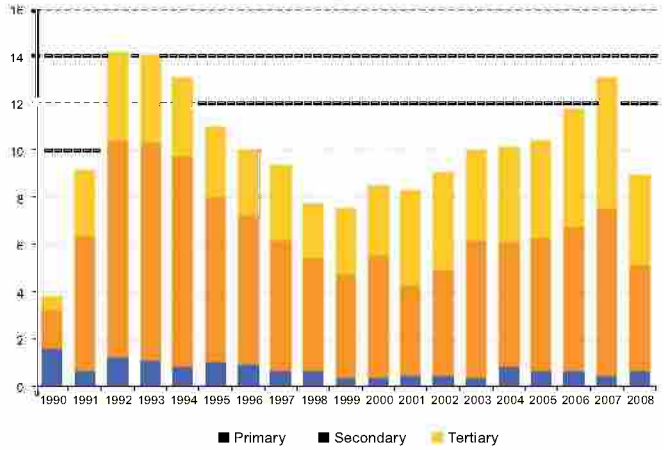
Source: Prepared by the authors on the basis of official information provided by the Chinese authorities and Economist Intelligence Unit, *Country Forecast China*, October 2010.

China has the lowest ratio of consumption to output of any of the world's 10 largest economies. Since before the crisis, the dynamism of the Chinese economy has relied primarily on investment as a driver of growth. Gross fixed capital formation accounts for some 40% of output, and in 2009 this percentage actually rose, owing to the strong emphasis

the economic stimulus package placed on infrastructure investment. The share of public-sector consumption increased to some 14% of GDP in 2010 in consequence of the economic package, while the proportion of private-sector consumption, in both urban and rural areas, held fairly steady at about 40%. This is why there is a general concern to see the Chinese economy rely more on consumption, limiting its current-account surpluses and thus contributing to a more balanced expansion of global demand. This is also one of the objectives of the economic stimulus package. The GDP share of net exports is expected to be very modest in the post-crisis era and indeed to decline, having stood at some 10% in 2008.

Over time, the service sector has become one of the twin engines of Chinese growth. Despite the predominance of the secondary sector as a driver of growth, the contribution of the tertiary sector to output growth has begun to increase steadily. In the 2002-2008 period, the service sector contributed over 40% of Chinese GDP growth, a substantial figure that compares well with the 53% accounted for by the secondary sector (see figure I.3). Furthermore, the contribution of services to output has been more stable than that of the secondary sector. Given the far-reaching globalization process China is currently going through, the importance of the sector as an engine of growth is likely to continue increasing. At the same time, its expansion should foster an economic development pattern driven more by private-sector consumption.

Figure I.3
CHINA: CONTRIBUTION OF THE THREE SECTORS TO GROWTH, AT CONSTANT PRICES, 1990-2008
(Percentage points)



Source: Prepared by the authors on the basis of information from the National Bureau of Statistics of China, *China Statistical Yearbook, 2009*, September 2009.

China has increased its per capita GDP tenfold in constant dollar terms over the last three decades. Economic growth has lifted over 500 million people out of poverty, despite the worsening of the Gini coefficient in this period (World Bank, 2009), which reflects growing inequalities between the different regions of the country.

One of the great challenges facing China is the need to change its growth structure. The most significant part of the twelfth Five-Year Plan for National Economic and Social Development (2011-2015) is that the main effort will be switched from supporting export-led sectors to fostering domestic consumer demand by raising workers' incomes so that the whole Chinese population can enjoy the benefits of globalization. This is a significant change for the country, and one that entails major challenges. Higher incomes would raise the cost of labour, which could have an impact on export-led sectors and feed through into inflationary pressures. Thus, China has ahead of it the major task of balancing inflationary threats with rising domestic demand, while also preserving the dynamism of export-led sectors.

To achieve this goal, it is necessary to improve the country's innovation capacity by providing incentives for the development of advanced manufacturing and services, without neglecting energy-saving practices and respect for the environment and the need to step up worker training. Both the eleventh and the twelfth five-year plans have given greater priority to improving infrastructure in rural areas than in urban ones, while also aiming to provide nine years' schooling for pupils living in the countryside (something that has already been achieved in the cities) and devote more resources to scientific research and development.[1]

Given China's economic size, it is helpful to analyse its production and trade structure at the regional level. The country's GDP is unevenly distributed, with most originating in the coastal provinces and municipalities. Of the 31 provinces and municipalities, the combined regional output of Guangdong, Shandong, Jiangsu and Zhejiang accounted for 36% of the country's GDP in 2008 (see table I.2). The regional output of Zhejiang province (US$ 309 billion at current prices), the fourth-largest of the country's 31 provinces and municipalities, is roughly the same as that of Argentina and the Bolivarian Republic of Venezuela. Similarly, Colombia's total GDP is roughly the same as that of Hebei and Henan provinces and Chile's GDP is 20% less than that of the municipality of Shanghai and the same as that of the municipality of Beijing. These figures also reveal the inequality of income, particularly between urban and rural areas and between the country's seaboard and its interior.

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[1] Further details of the official Chinese position on the country's development strategy can be found in State Council of the People's Republic of China, 2010.

Table I.2
CHINA: GROSS REGIONAL PRODUCT AND EXTERNAL TRADE, 2008
(Billions of dollars and percentages)

Region	Gross regional product	Total exports and imports	Exports and imports/GDP (percentages)	Exports	Exports/GDP (percentages)	Imports	Imports/GDP (percentages)
National total	4 716.0	2 563.3	54.4	1 430.7	30.3	1 132.6	24.0
Beijing	151.2	271.7	179.7	57.5	38.0	214.2	141.7
Tianjin	91.6	80.4	87.8	42.1	46.0	38.3	41.8
Hebei	233.3	38.4	16.5	24.0	10.3	14.4	6.2
Shanxi	100.0	14.4	14.4	9.3	9.3	5.1	5.1
Inner Mongolia	111.9	8.9	8.0	3.6	3.2	5.3	4.8
Liaoning	194.0	72.4	37.3	42.1	21.7	30.4	15.7
Jilin	92.6	13.3	14.4	4.8	5.2	8.6	9.2
Heilongjiang	119.8	23.1	19.3	16.8	14.0	6.3	5.3
Shanghai	197.4	322.1	163.1	169.1	85.7	152.9	77.5
Jiangsu	436.9	392.3	89.8	238.0	54.5	154.2	35.3
Zhejiang	309.7	211.1	68.2	154.3	49.8	56.8	18.4
Anhui	127.9	20.2	15.8	11.4	8.9	8.8	6.9
Fujian	156.0	84.8	54.4	57.0	36.5	27.8	17.8
Jiangxi	93.4	13.6	14.6	7.7	8.3	5.9	6.3
Shandong	447.8	158.4	35.4	93.2	20.8	65.2	14.6

Table I.2 (concluded)

Region	Gross regional product	Total exports and imports	Exports and imports/GDP (percentages)	Exports	Exports/GDP (percentages)	Imports	Imports/GDP (percentages)
Henan	265.3	17.5	6.6	10.7	4.0	6.8	2.5
Hubei	163.3	20.7	12.7	11.7	7.2	9.0	5.5
Hunan	160.8	12.5	7.8	8.4	5.2	4.1	2.6
Guangdong	514.5	685.0	133.1	405.7	78.9	279.3	54.3
Guangxi	103.4	13.2	12.8	7.3	7.1	5.9	5.7
Hainan	21.0	4.5	21.5	1.6	7.5	2.9	14.0
Chongqing	73.5	9.5	13.0	5.7	7.8	3.8	5.2
Sichuan	180.2	22.1	12.3	13.1	7.3	9.0	5.0
Guizhou	48.0	3.4	7.0	1.9	4.0	1.5	3.1
Yunnan	82.2	9.6	11.7	5.0	6.1	4.6	5.6
Tibet	5.7	0.8	13.4	0.7	12.4	0.1	1.0
Shaanxi	98.7	8.3	8.4	5.4	5.4	2.9	3.0
Gansu	45.8	6.1	13.3	1.6	3.5	4.5	9.8
Qinghai	13.9	0.7	5.0	0.4	3.0	0.3	1.9
Ningxia	15.8	1.9	11.9	1.3	7.9	0.6	3.9
Xinjiang	60.6	22.2	36.7	19.3	31.9	2.9	4.8

Source: Prepared by the authors on the basis of information from the National Bureau of Statistics of China, *China Statistical Yearbook, 2009*, September 2009.

B. The key role of China in the global financial market

China is a leading player not only in global production and trade, but in international finance too. China is playing a more and more important role in maintaining global economic balances. Its abundant supply of low-cost goods has helped to sustain high demand with low inflation in the developed countries, it is a provider of cheap savings to the United States, which has held interest rates down, and it has built up reserves by purchasing Treasury bonds, thus helping to finance the United States current-account deficit.

China is currently the United States' largest creditor, having surpassed Japan in mid-2008. It owns some US$ 2.6 trillion of international reserves, equivalent to 27% of global reserves, which now yield some US$ 50 billion of interest a year. Thus, China has far outstripped Japan, whose US$ 990 billion of international reserves put it in second place. Any hint as to what China might do with its huge reserves therefore has immediate repercussions in international financial markets.[2] Even as United States current-account deficits have trended downward in recent years, China has become the largest source of these deficits: the United States deficit in 2010 totalled US$ 470 billion, 65% of which (US$ 302 billion) was with China (see figure I.4).

China is a leading player in the international financial market, investing its voluminous savings abroad (for example, in United States securities). The Chinese State Administration of Foreign Exchange (SAFE), the body in charge of administering the country's international reserves, has actively invested in United States Treasury securities, holding a stock of US$ 884 billion at the end of September 2010, while its bond holdings in the euro zone countries were equivalent to US$ 630 billion at the end of May that year (Oakley and Anderlini, 2010).[3] Before the European financial crisis broke out, there were doubts as to whether the Chinese central bank would carry on buying United States Treasury bonds in large amounts and the United States authorities were concerned about the possible withdrawal of Chinese investors from these markets. In fact, Chinese investors tended to withdraw from European markets in the first half of 2010 and turn to those of the United States and, to a much lesser degree, Japan (ECLAC, 2010a).

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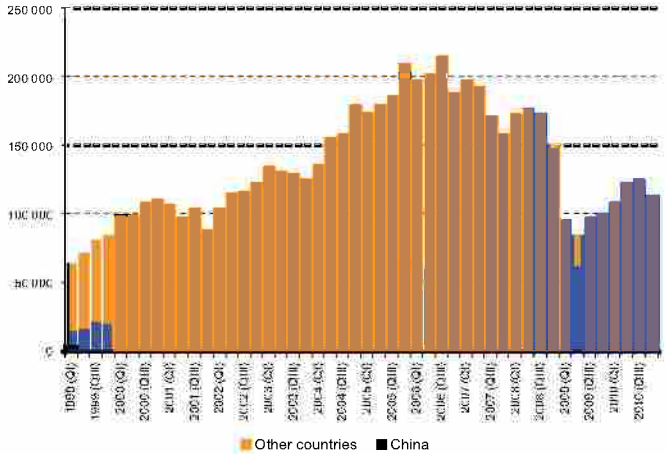
[2] Nothing reveals this better than the words used by the United States Treasury Secretary, Timothy Geithner, to sum up the purpose of his visit to China in early June 2009: "Chinese officials are giving United States efforts to prime its ailing economy a vote of confidence and understand why higher budget deficits are necessary."

[3] Chinese holdings of United States Treasury bonds have tended to decline since mid-2009, having peaked at US$ 939 billion in July of that year. China increased its holdings dramatically during the financial crisis, from US$ 618 billion in September 2008 to the above figure by July 2009.

Figure I.4
UNITED STATES CURRENT-ACCOUNT DEFICIT WITH CHINA, BY QUARTER, 1999-2010 [a]
(Millions of dollars)



Source: Prepared by the authors on the basis of information from the United States Department of Commerce.
[a] The figures for the fourth quarter of 2010 are preliminary.

Short- and long-term United States debt securities held by China (US$ 1.5 trillion) represented 15% of the total (US$ 9.7 trillion), putting the country in first place ahead of Japan (United States Treasury, 2010). The 2010 report on foreign portfolio holdings of United States securities states that, as of 30 June 2009, foreign holdings of United States securities totalled US$ 9.7 trillion, of which US$ 2.2 trillion were United States equities and US$ 6.3 trillion were United States long-term debt securities (with US$ 1.3 trillion being asset-backed securities and US$ 2.5 trillion non-asset-backed securities). In relative terms, China held a particularly large share of the debt of the United States mortgage agencies Fannie Mae and Freddie Mac, which also have an implicit guarantee from the United States Government (see table I.3).

As part of the diversification process, SAFE has bought into a number of foreign companies. In 2008, for example, it purchased minority shareholdings in large firms such as Rio Tinto, Royal Dutch Shell, BP, Barclays, Tesco and RBS. In 2009, purchases of firms abroad intensified: during the first half, 65 acquisitions were made for a total of US$ 14.7 billion, while in the second half there were 101 acquisitions totalling US$ 18.8 billion. These acquisitions were conducted mainly by State firms operating in the natural resource sector in Australia and Canada and on the African continent (such as CNPC, CNOOC, Sinopec, Chinalco and Baosteel). Furthermore, China Investment Corporation, which manages sovereign funds worth US$ 300 billion, has a mandate to invest its enormous Chinese reserves abroad.

Table I.3
UNITED STATES: VALUE OF SECURITIES, EQUITIES AND LONG-TERM DEBT, BY MAJOR INVESTING COUNTRIES OR TERRITORIES AND SECURITY TYPES, JUNE 2009 [a]
(Billions of dollars)

Country	Total long-term and short-term	Equities	Long-term Treasury debt	Long-term agency debt		Long-term corporate debt		Total short-term debt
				Asset-backed securities [b]	Other	Asset-backed securities [b]	Other	
China [c]	1 462.7	76.4	757.1	357.6	96.5	2.4	12.8	159.9
Japan	1 269.6	181.6	646.0	95.7	123.4	40.0	114.2	68.8
United Kingdom	812.8	278.5	54.4	7.4	8.3	53.1	387.7	23.3
Cayman Islands	649.8	226.9	19.1	33.3	9.2	105.8	182.7	72.8
Luxembourg	586.2	136.9	51.8	13.6	9.6	34.5	259.1	80.6
Belgium	429.2	16.6	14.7	0.7	14.1	48.8	326.6	7.8
Middle East exporting countries [d]	352.8	109.3	122.9	15.1	6.8	10.0	20.8	67.9
Ireland	348.0	59.6	17.5	18.1	15.6	45.1	76.7	115.2
Canada	339.1	241.6	15.9	1.2	2.6	7.8	57.6	12.4
Switzerland	328.2	129.7	55.5	4.8	9.6	18.5	71.2	38.9
Netherlands	232.6	127.7	13.4	15.3	2.0	15.4	46.0	12.8
Hong Kong (SAR of China)	220.5	27.3	58.8	51.3	11.7	3.9	14.8	52.7
Bermuda	199.4	38.9	18.3	24.7	14.1	20.9	55.3	27.2
Taiwan Province of China	194.3	11.2	111.6	36.6	19.7	0.4	12.1	2.7
Germany	182.1	44.5	41.7	4.4	2.6	18.8	59.8	10.3
Brazil	155.7	1.4	109.0	0.0	2.2	0.0	2.7	40.3

Table I.3 (concluded)

Country	Total long-term and short-term	Equities	Long-term Treasury debt	Long-term agency debt		Long-term corporate debt		Total short-term debt
				Asset-backed securities [b]	Other	Asset-backed securities [b]	Other	
Russian Federation	149.8	0.2	84.6	0.0	2.0	*	0.2	62.9
Singapore	145.2	72.7	31.5	2.7	1.9	5.5	19.3	11.5
France	138.8	80.5	13.8	1.0	1.5	15.5	21.0	5.5
Norway	118.9	73.3	5.3	7.9	0.8	8.6	17.0	6.0
Unidentified country	114.5	2.0	0.0	0.0	0.1	0.0	100.3	12.0
Republic of Korea	113.0	7.6	36.4	26.9	25.4	2.1	7.6	7.0
Australia	105.6	60.2	6.4	2.2	4.7	2.8	21.4	7.9
British Virgin Islands	82.5	36.0	5.7	0.9	1.0	2.3	17.8	18.7
Mexico	80.7	9.1	23.7	0.1	23.3	1.7	9.0	13.8
Rest of world	881.1	196.6	287.0	30.6	35.8	33.8	86.5	210.9
Total	9 693.2	2 246.3	2 602.2	752.3	444.5	497.8	2 000.3	1 149.8
China share of total *(percentages)*	15.1	3.4	29.1	47.5	21.7	0.5	0.6	13.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Department of the Treasury, "Preliminary report on foreign holdings of U.S. securities at end-June 2009", *Press Release*, No. tg568, February 2010.

[a] Long-term debt securities have an original maturity of more than one year.

[b] Securities issued by agencies and asset-backed securities, known as ABS, are backed mainly by mortgages. Corporate ABS are backed by a wide variety of assets, such as auto loans, credit card receivables, mortgages, commercial loans and student loans.

[c] Excludes Hong Kong Special Administrative Region of China and Macao Special Administrative Region of China, which report separately.

[d] Include Bahrain, the Islamic Republic of Iran, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

The large quantity of reserves held by the Chinese authorities has driven a number of investment initiatives in Latin America, in the areas of infrastructure and natural resources (this is analysed in more detail in chapter II). The influx of reserves is also giving the central bank an incentive to turn the yuan gradually into a new reserve currency to replace the dollar. In April 2009, for instance, Argentina and China signed a currency swap agreement for 70 billion yuan (US$ 10.2 billion) so that the Argentine Government could pay for Chinese imports in yuan. The purpose of this scheme is to ensure that trade operations continue to be settled smoothly in the event of international illiquidity. This initiative follows other examples, not just of accords signed between central banks in industrialized countries, such as those of the United States Federal Reserve with the European Central Bank, the Bank of England and the Central Bank of Japan, but also of others such as the one signed between the Central Bank of Brazil and the Central Bank of the Republic of Korea. China has entered into similar accords with a number of Asian economies such as Hong Kong Special Administrative Region of China, Indonesia, Malaysia and the Republic of Korea.

The intention is for the Chinese currency, the yuan renminbi (RMB), to have a more international role, but it is still not "internationalizing". The RMB has quickly gained a higher profile in the banking system and in trade since the implementation of a pilot programme for the settlement of cross-border trade transactions in mid-2009 (State Council of the People's Republic of China, 2010, pp. 42-44). The programme began operating in Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan with 365 firms and has expanded not only to 20 provinces and four municipalities, but also to markets in Hong Kong Special Administrative Region of China, Macao Special Administrative Region of China, the Association of Southeast Asian Nations (ASEAN) and some countries in the Middle East. Yuan-denominated cross-border trade transactions totalled US$ 7.4 billion in the second quarter of 2010, twice the figure for the first quarter of the same year. This amount is still very small when set against the country's total trade (goods exports and imports) of US$ 2.2 trillion in 2009.

There is still a long way to go before the yuan becomes an international currency, and the process will be very gradual. It is estimated that when this happens and the currency becomes fully convertible, operating with a stable financial system and reliable prudential provisions, the RMB could become an international currency in Asia and beyond, potentially accounting for between 3% and 12% of the reserves held by all the world's central banks by 2035 and surpassing the share of the Japanese

yen and the British pound sterling (Lee, 2010). For the yuan to be a fully convertible currency, the Chinese authorities would have to develop a much more effective financial system and abolish exchange-rate and capital-account controls (Lee, 2010; Dobson and Masson, 2009).

The evolution of the Chinese currency has done little to facilitate the process of adjustment in the external imbalances of the United States. Following a relaxation of the yuan exchange rate in July 2005, the currency had appreciated by some 20% as of November 2010. The "China bloc" of currencies is considered to be undervalued by some 40% against the dollar. A correction of this exchange-rate imbalance would increase the exports and reduce the imports of the United States and lower its trade deficit by between US$ 100 billion and US$ 150 billion a year (Bergsten, 2010). However, a revaluation of China's and most of the Asian countries' exchange rates would not be enough to stabilize the trade imbalance of the United States within a sustainable range.

C. Steady growth in Chinese inward and outward foreign direct investment

Despite a fall-off in flows of foreign direct investment (FDI) into China as a result of the crisis, the country remains very attractive to foreign investors. The crisis affected FDI inflows into China, which fell by 12% in 2009 from their 2008 level. However, the country continues to attract a substantial amount of FDI, equivalent to US$ 95 billion a year (see table I.4). The share of world FDI going to China has continued to rise, so that in 2009 it stood at 8.5% of the global total. China absorbs a third of FDI flows to Asia and Oceania and about 20% of flows to developing countries.

The FDI received by China from the three main sources (ASEAN, Japan and the Republic of Korea) has risen enormously, particularly since the country joined the World Trade Organization (WTO) in 2001. These three sources accounted for an average of about 14% of total FDI in 2007 and 2008, a considerable figure, given that: (i) around 4% and 6% of total FDI during the period came from North America and the European Union, respectively; (ii) the share originating from Taiwan Province of China was 2%; and (iii) 42% of the FDI entering China comes from Hong Kong Special Administrative Region of China by triangulation (see figure I.5). In fact, the ASEAN countries are a major source of FDI for China, although the bulk of the FDI flows into the country originate in Singapore (between US$ 3 billion and US$ 4 billion a year).

Table I.4
CHINA: SHARES OF GLOBAL INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT (FDI), 1995-2005, 2006, 2007, 2008 AND 2009
(Millions of dollars and percentages)

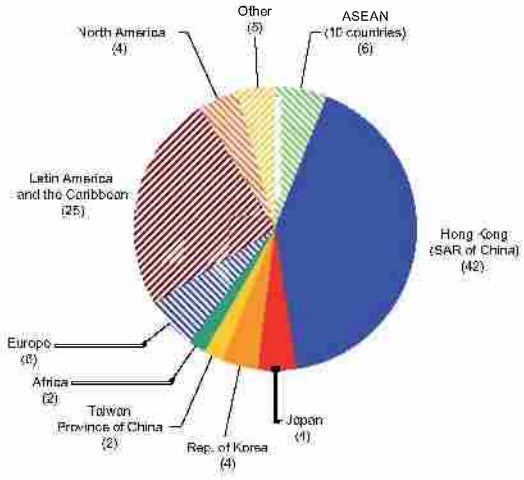
	1995-2005 *(annual average)*	2006	2007	2008	2009
			(Millions of dollars)		
Annual inflows					
China	48 833	72 715	83 521	108 312	95 000
India	4 137	20 328	25 001	40 418	34 613
Asia and Oceania	123 886	284 426	338 226	374 639	303 230
Developing economies	211 470	434 366	564 930	630 013	478 349
World	741 045	1 459 133	2 099 973	1 770 873	1 114 189
			(Percentages)		
China	6.6	5.0	4.0	6.1	8.5
India	0.6	1.4	1.2	2.3	3.1
Asia and Oceania	16.7	19.5	16.1	21.2	27.2
Developing economies	28.5	29.8	26.9	35.6	42.9
World	100.0	100.0	100.0	100.0	100.0
			(Millions of dollars)		
Annual outflows					
China	3 820	21 160	22 469	52 150	48 000
India	1 021	14 285	17 233	18 499	14 897
Asia and Oceania	54 314	154 013	225 550	204 344	176 795
Developing economies	79 351	228 691	292 147	296 286	229 159
World	717 852	1 410 574	2 267 547	1 928 799	1 100 933
			(Percentages)		
China	0.5	1.5	1.1	2.9	4.3
India	0.1	1.0	0.8	1.0	1.3
Asia and Oceania	7.6	10.6	10.7	11.5	15.9
Developing economies	11.1	15.7	13.9	16.7	20.6
World	100.0	96.7	108.0	108.9	98.8

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2010. Investing in a Low Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No.: E.10.II.D.

The second-largest source of FDI is Latin America and the Caribbean, which contributed a quarter of the total invested during 2007 and 2008 (see figure I.5). However, almost the entirety (99%) of this investment originated in the British Virgin Islands and the Cayman Islands, which are tax havens. In reality, FDI flows into China from Latin America and the Caribbean are very small. According to the Economist Intelligence Unit (EIU, 2008), the eight Latin American countries studied have accounted for less than 0.1% of the FDI going to China in recent years, with a total of between US$ 70 million and US$ 80 million a year. Argentina, Brazil, Chile

and Mexico are the Latin American countries that invest most in China. The Bolivarian Republic of Venezuela, Colombia and Peru also invest in the country, albeit more sporadically and on a smaller scale.

Figure I.5
CHINA: DISTRIBUTION OF INWARD FOREIGN DIRECT INVESTMENT (FDI), BY COUNTRY AND REGION, 2007 AND 2008
(Percentages)



Source: Prepared by the authors on the basis of information from the National Bureau of Statistics of China, *China Statistical Yearbook, 2009*, September 2009.

FDI in China is concentrated in the coastal provinces. The final destinations of FDI in China by provinces and municipalities reflect the geographical distribution of GDP: the coastal provinces and cities are the largest recipients, with the exception of Hunan province.[4] In 2009, the seven leading destinations (Hunan, Shanghai, Shandong, Liaoning, Zhejiang, Guangdong and Jiangsu) absorbed almost two thirds of inward FDI in China (see table I.5).

Having been one of the main recipients of FDI during the past two decades, China has recently started investing abroad. Although the crisis reduced China's outward FDI in 2009, it is still one of the main developing-country investors. The country's outward FDI share was 4.3% of the world total that year, a considerable jump from the 2008 figure of 2.9%. In 2009 it maintained a level close to the previous year's, at US$ 57 billion, of which

[4] Hunan province contains the Chenzhou export processing zone, which has been developing since its creation in 2005 as one of China's leading export processing zones in high-technology fields such as information technology, precision machinery and new materials.

US$ 47.8 billion was non-financial sector investment (see table I.5). This meant that China was not far behind Japan (US$ 75 billion) and Germany (US$ 63 billion) and was ahead of the Russian Federation (US$ 46 billion) and Italy (US$ 44 billion). The investment stock of Chinese non-financial firms abroad was US$ 200 billion (more than twice the 2006 figure), of which US$ 52 billion and US$ 48 billion were invested in 2008 and 2009, respectively. As of late 2009, some 12,000 Chinese firms had 13,000 subsidiaries in 177 countries. The turnover of these Chinese subsidiaries abroad was US$ 164 billion, of which US$ 51 billion was in the form of exports. These subsidiaries employed 970,000 workers, 438,000 of whom were of Chinese origin (MOFCOM, 2010).

Table I.5
CHINA: GEOGRAPHICAL DISTRIBUTION OF INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT (FDI), NON-FINANCIAL SECTOR, 2009
(Millions of dollars)

Inward FDI in China				Chinese outward FDI			
Position	Province	Amount	Percentage	Position	Province	Amount	Percentage
1	Hunan	10 163	10.8	1	Shanghai	1 209	12.6
2	Shanghai	9 875	10.4	2	Hunan	1 006	10.5
3	Shandong	9 093	9.6	3	Guangdong	923	9.6
	Qingdao	1 100	1.2		Shenzhen	414	4.3
4	Liaoning	8 808	9.3	4	Jiangsu	851	8.9
	Dalian	4 275	4.5	5	Liaoning	758	7.9
5	Zhejiang	7 821	8.3		Dalian	464	4.8
	Ningbo	2 902	3.1	6	Shandong	704	7.3
6	Guangdong	7 739	8.2		Qingdao	105	1.1
	Shenzhen	3 622	3.8	7	Zhejiang	702	7.3
7	Jiangsu	6 978	7.4		Ningbo	211	2.2
8	Jilin	3 384	3.6	8	Beijing	452	4.7
9	Shanxi	3 258	3.4	9	Fujian	366	3.8
10	Fujian	3 108	3.3		Xiamen	124	1.3
	Xiamen	1 216	1.3	10	Shanxi	333	3.5
11	Beijing	3 058	3.2	11	Jilin	298	3.1
12	Yunnan	2 700	2.9	12	Yunnan	270	2.8
13	Sichuan	2 609	2.8	13	Shanxi	225	2.3
14	Tianjin	1 880	2.0	14	Hebei	220	2.3
15	Inner Mongolia	1 853	2.0	15	Tianjin	210	2.2
16	Henan	1 783	1.9	16	Xinjiang	181	1.9

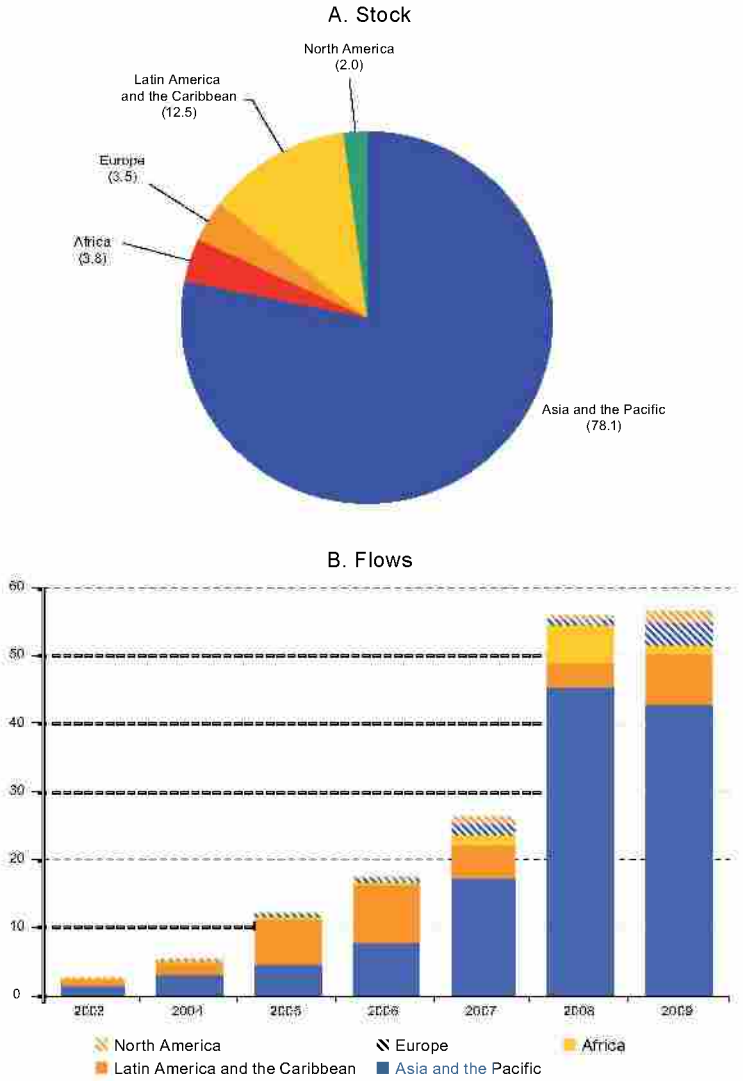
Table I.5 (concluded)

Inward FDI in China				Chinese outward FDI			
Position	Province	Amount	Percentage	Position	Province	Amount	Percentage
17	Xinjiang Production and Construction Corps	1 523	1.6	17	Inner Mongolia	155	1.6
				18	Heilongjiang	121	1.3
18	Hebei	1 515	1.6	19	Henan	121	1.3
19	Shaanxi	1 323	1.4	20	Sichuan	107	1.1
20	Heilongjiang	1 294	1.4	21	Guangxi	82	0.9
21	Hubei	1 095	1.2	22	Hainan	61	0.6
22	Hainan	745	0.8	23	Anhui	58	0.6
23	Guangxi	646	0.7	24	Chongqing	47	0.5
24	Anhui	572	0.6	25	Hubei	41	0.4
25	Chongqing	519	0.5	26	Xinjiang Production and Construction Corps	39	0.4
26	Jiangxi	404	0.4				
27	Xinjiang	400	0.4	27	Jiangxi	23	0.2
28	Gansu	164	0.2	28	Gansu	19	0.2
29	Ningxia	125	0.1	29	Ningxia	15	0.2
30	Guizhou	52	0.1	30	Guizhou	5	0.1
31	Qinghai	21	0.0	31	Qinghai	2	0.0
	Total provinces	94 508	100.0		Total provinces	9 603	100.0
					Central total	38 193	
					Total	47 795	

Source: Ministry of Commerce of China (MOFCOM) [online] http://www.mofcom.gov.cn/aarticle/tongjiziliao/dgzz/201001/20100106747638.html.

Developing countries, especially those of Asia, have been the main recipients of Chinese FDI, absorbing over two thirds of the total. At the end of 2009, the Asia and the Pacific region, including Australia, accounted for 78% of the worldwide stock of Chinese FDI. Chinese direct investment in North America and Europe has been insignificant, with shares of 2.0% and 3.5%, respectively (see figure I.6). By contrast, the importance of Africa as a destination has increased substantially in the past two years. In 2008 and 2009, China invested some US$ 5.5 billion and US$ 1.4 billion in Africa, respectively. The stock of Chinese FDI in Latin America and the Caribbean totalled US$ 31 billion in late 2009, a year when Chinese FDI in the region rose sharply to double the 2008 figure (MOFCOM, 2010).

Figure I.6
CHINA: OUTWARD FOREIGN DIRECT INVESTMENT (FDI) BY MAIN DESTINATIONS, STOCK AT END-2009 AND FLOWS DURING 2009 [a]
(Millions of dollars and percentages)



Source: Ministry of Commerce of China (MOFCOM), *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*. Beijing, 2010.

[a] Asia and the Pacific includes the countries of Oceania and therefore Australia, one of the main destinations for Chinese outward FDI.

Although Latin America and the Caribbean as a whole is an important destination for Chinese FDI, this is overly concentrated in tax havens (as chapter II analyses in greater detail). By destination, over 12% of combined Chinese outward FDI (financial and non-financial) had gone to the economies of Latin America and the Caribbean as of late 2009 (the region's stock was US$ 31 billion). However, almost 95% of this stock was concentrated in two economies: the Cayman Islands and the British Virgin Islands.

As regards the geographical distribution of the sources of Chinese outward FDI, most of it comes from the coastal provinces. The ranking of provinces as originators of outward investment mirrors that of FDI recipients in the country (see table I.5). The provinces and municipalities of Shanghai, Hunan, Guangdong, Jiangsu, Liaoning (particularly the city of Dalian), Shandong (Qingdao), Zhejiang (Ningbo), Beijing, Fujian (Xiamen) and Shanxi are the main sources of Chinese outward FDI.

D. China is the main driver of world trade

1. Trade in goods

Despite a sharp fall-off in its exports, in 2009 China became the world's largest goods exporter (US$ 1.202 trillion), just surpassing Germany (US$ 1.121 trillion).[5] China accounted for 9.6% of global exports that year. It was also the world's second-largest importer after the United States, with goods imports of US$ 1.006 trillion in 2009, representing 8% of global sales (see figure I.7).

World trade declined by 23% in value and 12% in volume in 2009, and China was not immune. During the crisis, however, the volume of Chinese imports increased. In 2009, global exports fell 23% by value to US$ 12.1 trillion, while exports of commercial services fell 13% to US$ 3.3 trillion. Chinese exports contracted by 16% and 11% in value and volume, respectively, while imports declined 11% by value but rose 2.8% by volume (China was the only one of the main destination countries for world trade in goods to register an increase in import volumes that year). Its imports from South America were one of the main causes of this increase.[6]

The reactivation of Chinese trade has been remarkable. In the first three quarters of 2010, exports grew by 34% over the same period in 2009, to US$ 1.3 trillion. Meanwhile, imports rose 42% to US$ 1 trillion. Both exports and imports in the period exceeded those of the same period in 2008, before the crisis.

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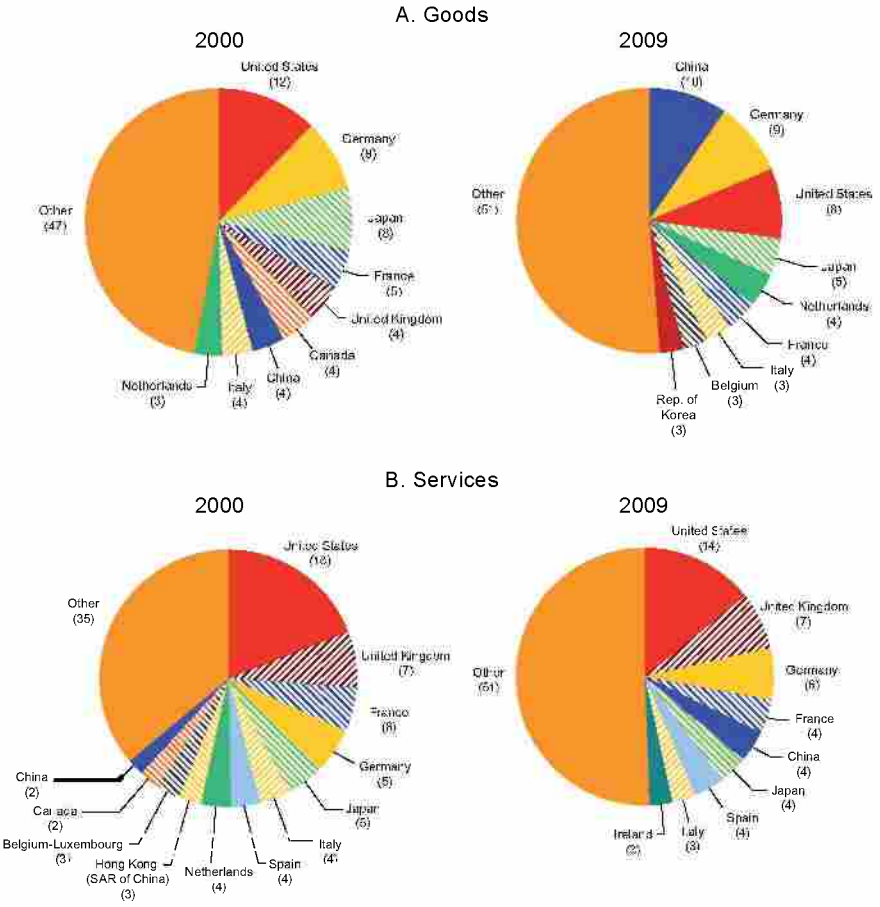
[5] In 2009, Chinese exports slumped by 16% and imports fell by 11%, yielding a trade surplus of US$ 196 billion.

[6] This important fact also explains why the economies of South America were able to cope with the crisis and quickly recover.

Figure I.7
MAIN GLOBAL EXPORTERS OF GOODS AND SERVICES
(Percentages)



Source: World Trade Organization (WTO).

Just over a third of Chinese exports go to neighbouring countries in Asia: India, Japan, the Republic of Korea, Taiwan Province of China and ASEAN countries. The United States and European Union are very important export markets for China, representing 18% and 20% in 2009, but are less important from the point of view of imports as they account for only 8% and 13%, respectively, of the Chinese total. As a group, China's neighbours in Asia and the Pacific account for much larger shares of the country's trade (see table I.6). Latin America and the Caribbean takes 5% of Chinese exports and provides 6% of its imports. Although starting from

a low base, exports from Latin America and the Caribbean have benefited most from the dynamism of the Chinese economy, as China's imports from the region grew by nearly 23% a year during the 2005-2009 period.

Table I.6
CHINA: EXTERNAL TRADE IN GOODS, BY COUNTRY OF ORIGIN AND DESTINATION, 2009
(Billions of dollars and percentages)

	Exports	Share of total	Imports	Share of total
Hong Kong (Special Administrative Region of China)	166.2	13.8	8.7	0.9
India	29.7	2.5	13.7	1.4
Japan	97.9	8.1	130.9	13.0
Republic of Korea	53.7	4.5	102.6	10.2
Taiwan Province of China	20.5	1.7	85.7	8.5
ASEAN	106.3	8.8	106.7	10.6
Indonesia	14.7	1.2	13.7	1.4
Malaysia	19.6	1.6	32.3	3.2
Philippines	8.6	0.7	11.9	1.2
Singapore	30.1	2.5	17.8	1.8
Thailand	13.3	1.1	24.9	2.5
Viet Nam	16.3	1.4	4.7	0.5
European Union	236.3	19.7	127.8	12.7
United Kingdom	31.3	2.6	7.9	0.8
Germany	49.9	4.2	55.8	5.6
France	21.5	1.8	13.0	1.3
Italy	20.2	1.7	11.0	1.1
Netherlands	36.7	3.1	5.1	0.5
Russian Federation	17.5	1.5	21.3	2.1
South Africa	7.4	0.6	8.7	0.9
Canada	17.7	1.5	12.0	1.2
United States	220.8	18.4	77.4	7.7
Australia	20.6	1.7	39.4	3.9
New Zealand	2.1	0.2	2.5	0.2
Latin America and the Caribbean (33 countries)	56.4	4.7	64.1	6.4
Total	1 201.7	100.0	1 005.6	100.0

Source: Prepared by the authors on the basis of information supplied by the China Customs Office.

China has a large trade deficit with Japan, Taiwan Province of China and the Republic of Korea because these countries are the main suppliers of capital goods and intermediate inputs for its manufacturing industry (see table I.6). China's trade balance with ASEAN is roughly in equilibrium, with exports and imports totalling US$ 106 billion. As analysed later, Chinese manufactures are subsequently exported to other trading partners, especially the United States and the European Union, with which it has very favourable trade balances in manufactures. China is thus becoming a platform for many neighbouring countries in Asia to export to the United States and European markets. Furthermore, the country has a small deficit with Latin America and the Caribbean because it imports large quantities of commodities and natural resource-based manufactures.

Most Chinese exports originate in the coastal provinces and cities. With the exception of Xinjiang, the provinces of the interior are not major exporters. Although China is the world's largest goods exporter, its exports by province and city of origin are clearly differentiated. The four largest provinces (Guangdong, Jiangsu, Zhejiang and Shandong), plus the city of Shanghai, were the source of over 75% of the country's total exports in 2007. Exports from the provinces of Guangdong and Fujian, in the southern region, accounted for 34% of total Chinese exports that same year. Jiangsu, Shanghai and Zhejiang, in the east, were also important as sources of exports (see table I.2). Given this concentration, in terms of both geographical origin and types of firm, China's trade needs to be analysed on a regional basis.

Exports from the province of Guangdong are now greater than the total exports of the Republic of Korea, a major exporting country. That province alone accounted for over 28% of total Chinese exports in 2008, shipping goods worth US$ 405 billion. Guangdong thus ranked twelfth among exporting countries, almost equalling the export total of the Republic of Korea that year (US$ 423 billion). Foreign-owned firms were responsible for most of the exports of these leading exporting provinces and cities. In Guangdong province, for example, 63% of all exports came from foreign-owned firms, which accounted in turn for almost 18% of all Chinese goods exports. Foreign-owned firms accounted for a similar share of exports in other provinces and cities such as Jiangsu, Shanghai, Zhejiang, Shandong, Fujian and Beijing.

2. Commercial services

Besides its high profile in goods trade, China plays a prominent role as a source and destination for trade in services. In 2009, the country ranked fifth in the world as an exporter and fourth as an importer, making it a promising market for the services trade of Latin America and the

Caribbean. According to World Trade Organization (WTO) estimates, China exported US$ 129 billion and imported US$ 158 billion of services in 2009, representing a global market share of 3.9% and 5.1%, respectively (see figure I.7).

China's importance as exporter and importer in each of the three main sectors of trade in services has increased enormously in the past decade, from a very low level to a substantial market share. China has an extremely high profile as an originator and destination for commercial services in the travel sector, where it now ranks third as an exporter and importer because of the growing number of inbound and outbound tourists. Its profile as an origin and destination for "other services", the most dynamic sector in the world over recent years, is also high, as it ranks fifth as an exporter and fourth as an importer (see table I.7).

China represents a promising market for Latin American trade in services. Where exports are concerned, the share accounted for by transport has begun to recover in the last few years after falling in the late 1990s, reflecting rising demand for various types of transportation to support the country's flourishing trade. The "other services" category also presents an upward trend. In the area of imports, the declining share of the transport sector has been offset by a substantial rise in the proportion of "other services" (see table I.8). To carry on expanding its goods trade with China, Latin America and the Caribbean needs to achieve a matching expansion of trade in services.

Table I.7
CHINA: SECTORAL DISTRIBUTION OF COMMERCIAL SERVICES, BY SUBSECTOR AND POSITION IN THE GLOBAL RANKING, 2009
(Billions of dollars and percentages)

	Value		China share of global total		Ranking [a]
	China	World			
	2009		2000	2009	2009
Exports					
Transport	24	700	1.1	3.4	7
Travel	40	870	3.4	4.6	3
Other services	65	1 780	1.6	3.7	5
Imports					
Transport	47	835	2.5	5.6	3
Travel	44	790	3.0	5.5	3
Other services	68	1 520	2.0	4.5	4

Source: Prepared by the authors on the basis of information from the World Trade Organization (WTO).
[a] The European Union countries are treated as a single trading partner.

Table I.8
CHINA: TRADE IN COMMERCIAL SERVICES, 1985-2008
(Millions of dollars and percentages)

Year	1985	1990	1995	2000	2001	2003	2005	2006	2007	2008
Exports										
Transport	42.6	46.2	17.5	12.1	13.9	16.9	20.7	22.8	25.7	26.2
Travel	32.0	29.7	45.6	53.3	53.4	37.2	39.4	36.9	30.6	27.9
Other services	25.3	24.1	36.8	34.6	32.7	45.8	39.9	40.3	43.6	45.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total exports	3 055	5 855	19 130	30 430	33 334	46 734	74 404	91 999	121 655	146 446
Position in the global ranking	26	26	16	14	13	9	9	8	7	6
Imports										
Transport	60.4	74.6	37.8	28.9	28.8	33.0	33.9	34.1	33.5	31.9
Travel	12.4	10.8	14.6	36.4	35.4	27.5	26.0	24.1	23.0	22.9
Other services	27.2	14.6	47.6	34.8	35.7	39.6	40.1	41.8	43.5	45.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total imports	2 524	4 352	25 223	36 031	39 267	55 306	83 796	100 833	129 254	158 004
Position in the global ranking	33	32	12	10	10	8	7	6	5	5

Source: Prepared by the authors on the basis of information from the World Trade Organization (WTO).

3. Foreign-owned firms in China's external trade

Foreign-owned firms are the main drivers of China's external trade, having rapidly displaced public-sector firms and collective partnerships. In 2008, such firms were responsible for exports worth US$ 790 billion (equivalent to 55% of total exports) and for imports worth US$ 619 billion (almost 55% of total imports) (see table I.9).

Foreign-owned firms of Asian origin are responsible for almost a quarter of China's external trade. According to detailed information for 2006, products manufactured by foreign-owned firms from 10 selected Asian countries accounted for 45% of all exports by foreign-owned firms in China and 62% of their imports. Meanwhile, foreign-owned firms of United States and European origin accounted for 24% and 18% of all exports by foreign-owned firms in China, respectively. Foreign-owned firms from Hong Kong Special Administrative Region of China held first place among firms of this type exporting from China, as it is calculated that they account for 20% of all exports by foreign-owned firms. Exports by firms of Japanese origin operating in China exceeded US$ 61 billion, and these were followed by firms from the Republic of Korea (US$ 25 billion) and Taiwan Province of China (US$ 14 billion). Firms from the five countries of ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand) were responsible for exports worth US$ 37 billion, equivalent to 6.5% of all exports by foreign-owned firms operating in China. The contribution of United States- and European-owned firms to China's exports is quite small by comparison with that of their Asian competitors.

Table I.9
CHINA: SHARE OF FOREIGN-OWNED FIRMS IN TOTAL TRADE, BY PROVINCE, 2008
(Billions of dollars and percentages)

Region	Total trade			Trade by foreign-owned firms		
	Total	Exports	Imports	Total	Exports	Imports
	(billions of dollars)			*(percentages)*		
Country total	2 563.3	1 430.7	1 132.6	55.0	55.3	54.7
Beijing	271.7	57.5	214.2	20.9	40.1	15.8
Tianjin	80.4	42.1	38.3	71.2	68.6	74.0
Hebei	38.4	24.0	14.4	43.5	40.6	48.3
Shanxi	14.4	9.3	5.1	15.4	13.8	18.2
Inner Mongolia	8.9	3.6	5.3	16.7	25.2	11.1
Liaoning	72.4	42.1	30.4	51.2	48.2	55.4
Jilin	13.3	4.8	8.6	42.9	28.2	51.1
Heilongjiang	23.1	16.8	6.3	6.0	4.8	9.2
Shanghai	322.1	169.1	152.9	67.6	67.1	68.1
Jiangsu	392.3	238.0	154.2	77.4	73.5	83.3
Zhejiang	211.1	154.3	56.8	39.6	35.1	51.5
Anhui	20.2	11.4	8.8	34.7	28.1	43.3
Fujian	84.8	57.0	27.8	61.4	57.0	70.5
Jiangxi	13.6	7.7	5.9	65.1	48.9	86.5
Shandong	158.4	93.2	65.2	53.3	54.3	51.8
Henan	17.5	10.7	6.8	18.3	16.0	22.1
Hubei	20.7	11.7	9.0	35.5	32.3	39.7
Hunan	12.5	8.4	4.1	15.4	12.5	21.4
Guangdong	685.0	405.7	279.3	64.0	63.0	65.5
Guangxi	13.2	7.3	5.9	34.3	22.0	49.7
Hainan	4.5	1.6	2.9	53.1	41.1	59.6
Chongqing	9.5	5.7	3.8	38.3	16.8	70.8
Sichuan	22.1	13.1	9.0	37.2	27.0	52.0
Guizhou	3.4	1.9	1.5	11.1	12.5	9.2
Yunnan	9.6	5.0	4.6	6.6	8.6	4.5
Tibet	0.8	0.7	0.1	0.8	0.1	9.2
Shaanxi	8.3	5.4	2.9	25.0	20.5	33.3
Gansu	6.1	1.6	4.5	3.3	10.4	0.7
Qinghai	0.7	0.4	0.3	37.5	11.0	78.6
Ningxia	1.9	1.3	0.6	29.1	14.7	58.3
Xinjiang	22.2	19.3	2.9	1.4	1.2	2.8

Source: Prepared by the authors on the basis of information from Ministry of Commerce of China (MOFCOM), *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, Beijing, 2010.

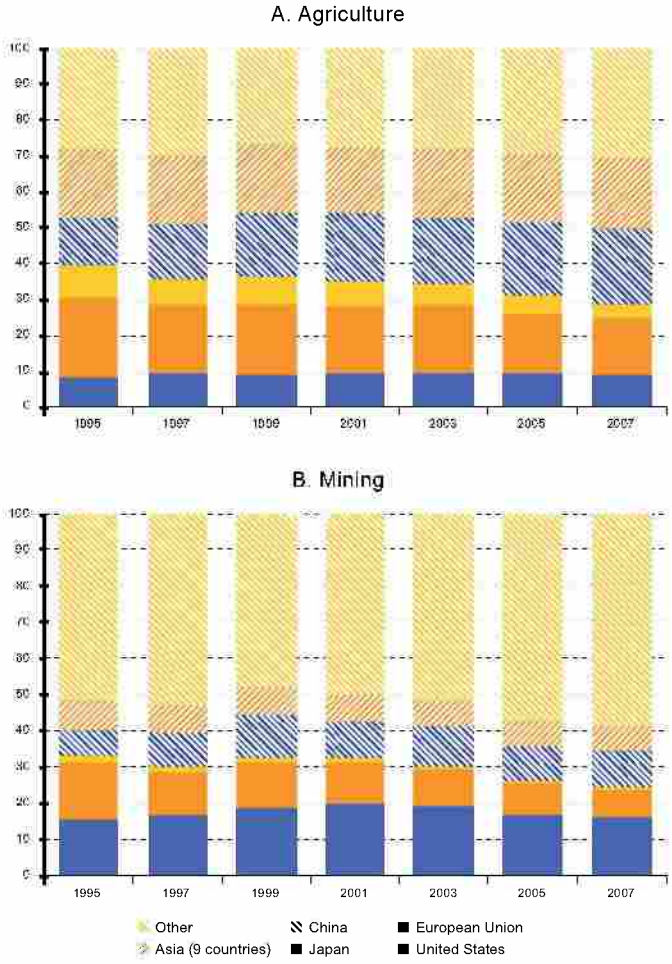
The presence of firms of Asian origin is also a determining factor in China's import orientation. Firms from the 10 selected Asian countries were responsible for imports worth US$ 291 billion in 2006, equivalent to 62% of the total imports of foreign-owned firms in China. The shares of United States and European Union firms were just 7% and 10%, respectively. The firms dominating imports of this type in China are of Japanese, Korean, Taiwanese, Malaysian, Filipino, Thai and Singaporean origin. These firms import large quantities of components and inputs from their parent companies in their home countries, reflecting the high level of intra-industry trade already referred to.

E. China is an increasingly important producer and consumer of the commodities supplied by a number of Latin American countries

China's weight as a farm producer has continued to rise and now exceeds that of the United States and European Union by a large margin, and its share of value added in the mining sector remains high. China generates some 21% of global value added in the farm sector and its share of the worldwide total has been rising substantially. It is strongly placed by comparison with the United States and European Union, whose shares are 9% and 16% of global value added in this sector, respectively. China's share as a generator of value added in mining has held steady at about 10% of the global total, exceeding that of the European Union and that of the nine Asian countries as a group (see figure I.8).[7] Thus, China remains one of the world's foremost producers of natural resources.

[7] The nine Asian countries are: India, Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand and Viet Nam. China includes Hong Kong (Special Administrative Region of China). The European Union excludes Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta and Slovenia.

Figure I.8
CHINA: SHARE OF GLOBAL AGRICULTURAL AND MINING VALUE ADDED, 1995-2007
(Percentages)



Source: Prepared by the authors on the basis of information from United States National Science Board, *Science and Engineering Indicators: 2010* [online] http://www.nsf.gov/statistics/seind10.

China is a leading producer, consumer and importer of commodities that are of great interest to Latin America and the Caribbean. China's relative importance as a producer of a number of agricultural products of interest to the region is very high, as it produces

over 30% of the world's cotton and rice and over 20% of its maize. Furthermore, China produces over 20% of the world's soybean meal and soybean oil. India also accounts for large shares when it comes to rice and cotton (see table I.10). China is at least as important a consumer as it is a producer in the cases of cotton and oil products. It also surpasses India as a consumer of seven of the eight products analysed (the one exception is sugar). In terms of imports, China buys 53% of all soybeans, 28% of soybean oil and 23% of cotton exported outside their country of origin, even though it is among the main producers of these. China was responsible for half the worldwide increase in consumption of soybean oil and a third of the increase in demand for soybeans between 2007 and 2009, while India accounted for half the increase in global consumption of rice and a quarter of the rise in consumption of wheat over the same period (ECLAC, 2008).

Chinese demand has had an even greater effect on consumption of metals and oil than it has in food markets. In 2009, China's share of global consumption of ores and metals was about 40% in the cases of lead, nickel, tin, zinc and primary steel (see table I.11). Similarly, in 2009 China accounted for 38% and 39% of world consumption of refined copper and aluminium, respectively. That same year, it consumed some 10% of crude oil. China's weight as an importer of minerals and metals is very great in the cases of copper, nickel and iron ore. The share of Chinese demand in global consumption of several metals multiplied between 2000 and 2009. In the case of refined copper, global consumption of which rose from 15.2 million tons to 18.3 million tons over the decade, Chinese consumption rose from 1.9 million tons to 7.1 million tons, equivalent to 170% of the increase in global demand. The figures for other metals are even greater. China's share of world primary steel consumption reached 35% in 2009, a large increase on the figure of 15% in 2000 (see figure I.9). Chinese demand for oil and its derivatives increased almost six times as fast as global demand in the same period. Soybean oil is a particular case among agricultural products, with Chinese imports currently accounting for over half of total world imports of this product. China has thus become a leading importer and consumer of commodities that are of great interest to Latin America and the Caribbean.

Table I.10
CHINA AND INDIA: SHARE OF GLOBAL PRODUCTION, CONSUMPTION AND IMPORTS OF AGRICULTURAL PRODUCTS, 2008-2009
(Millions of tons and percentages)

Product	World	China	India	China	India
		Production			
Wheat	683.3	112.5	78.6	16.5	11.5
Maize	797.8	165.9	19.7	20.8	2.5
Rice	448.2	134.3	99.2	30.0	22.1
Soybeans	212.0	15.5	9.1	7.3	4.3
Soybean meal	151.4	32.5	5.8	21.4	3.8
Soybean oil	35.7	7.3	1.3	20.5	3.6
Cotton	23.6	8.1	4.9	34.2	20.8
Sugar	151.1	13.6	16.0	9.0	10.6
		Consumption			
Wheat	635.8	105.0	72.5	16.5	11.4
Maize	778.7	155.0	17.0	19.9	2.2
Rice	437.5	131.0	93.2	29.9	21.3
Soybeans	220.8	51.4	8.5	23.3	3.8
Soybean meal	151.9	31.7	2.0	20.8	1.3
Soybean oil	35.9	9.5	2.3	26.4	6.4
Cotton	22.7	8.8	4.0	38.8	17.6
Sugar	161.8	14.9	23.8	9.2	14.7
		Imports			
Wheat	136.9	0.5	0.0	0.4	0.0
Maize	82.4	0.1	0.0	0.1	0.0
Rice	27.2	0.3	0.0	1.3	0.0
Soybeans	77.2	41.1	0.0	53.3	0.0
Soybean meal	51.2	0.2	0.0	0.4	0.0
Soybean oil	8.9	2.5	1.1	27.9	11.9
Cotton	30.0	7.0	0.8	23.3	2.7
Sugar	48.2	1.1	2.8	2.2	5.8

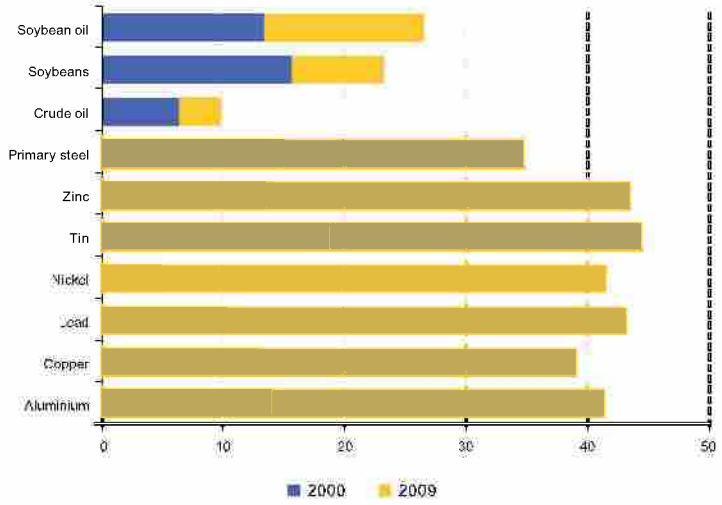
Source: Prepared by the authors on the basis of United States Department of Agriculture and of Economist Intelligence Unit (EIU), "Industrial raw materials", *World Commodity Forecasts*, January 2010 and "Food, feedstuffs and beverages", *World Commodity Forecasts*, November 2010.

Table I.11
CHINA AND INDIA: SHARE OF GLOBAL PRODUCTION, CONSUMPTION AND IMPORTS OF ORES, METALS AND OIL, 2009
(Thousands of tons and percentages)

Product	World	China	India	China	India
			Production		
Aluminium	36 891.2	12 846.0	1 478.6	34.8	4.0
Copper	18 606.7	4 109.5	721.4	22.1	3.9
Lead	8 903.7	3 707.9	137.7	41.6	1.5
Nickel	1 326.7	246.7	-	18.6	0.0
Tin	333.0	134.5	3.6	40.4	1.1
Zinc	11 465.4	4 356.7	615.5	38.0	5.4
Primary steel	1 219.7	567.8	56.6	46.6	4.6
Crude oil	82.3	3.8	0.8	4.6	1.0
			Consumption		
Aluminium	34 581.5	14 275.7	1 478.1	38.7	4.3
Copper	18 256.4	7 144.1	551.5	38.4	3.0
Lead	8 951.4	3 859.9	180.0	43.4	2.0
Nickel	1 305.6	541.3	24.5	40.8	1.9
Tin	321.5	143.0	9.0	44.5	2.8
Zinc	11 255.6	4 888.3	532.2	43.4	4.7
Primary steel [a]	1 300.7	452.9	53.6	34.8	4.1
Crude oil	83.7	8.2	3.0	9.8	3.6
			Imports		
Aluminium	17 250.3	1 739.8	257.7	10.1	1.5
Copper	7 970.0	3 185.0	15.5	40.0	0.2
Lead	1 734.5	175.6	116.3	10.1	6.7
Nickel	638.8	247.0	17.9	38.7	2.8
Tin	254.0	20.5	6.1	8.1	2.4
Zinc	3 660.1	670.2	93.6	18.3	2.6
Iron ore	933.2	444.0	0.6	47.6	0.1
Sponge iron	24.0	0.4	0.0	1.5	0.1
Crude oil [b]	44.5	3.6	2.5	8.2	5.6

Source: Energy Information Administration (EIA), *World Monthly Metal Statistics, September 2010* [online] http://www.eia.gov/, and World Steel Association (WSA), *Steel Statistical Yearbook 2009*, Brussels, 2010.
[a] Apparent steel use (equivalent to primary steel). Figures are for 2008.
[b] Millions of barrels a day. Figures are for 2008.

Figure I.9
CHINA: GLOBAL CONSUMPTION SHARE OF SELECTED AGRICULTURAL COMMODITIES, METALS AND OIL, 2000 AND 2009
(Percentages)



Source: United States Department of Agriculture, Foreign Agricultural Service, official estimates; World Bureau of Metal Statistics (WBMS), *World Metal Statistics - Monthly Bulletin*, various issues; Energy Information Administration (EIA); and Economist Intelligence Unit (EIU), "Industrial raw materials", *World Commodity Forecasts*, January 2010 and "Food, feedstuffs and beverages", *World Commodity Forecasts*, November 2010.

China has the world's largest reserves of commercially exploitable rare earths and rare metals and is the largest producer and exporter of these.[8] A rare metal is a mineral containing one or more elements of the rare earth. According to the United States Geological Survey, industrial reserves and basic reserves of rare earths in China in 2008 were 27 million tons and 89 million tons, respectively, representing 30.7% and 59.3% of the world total (ResearchInChina, 2009). Furthermore, China was responsible for 98% of global production of these minerals that year, and in 2007 it accounted for over 80% of global exports of rare earths, far more than the 5% of the United States, the second-largest exporter (JETRO, 2008). The main importing countries for these materials are Germany, Japan and the

[8] Broadly speaking, rare metals are non-metallic materials whose reserves are scarce or hard to exploit for economic or technological reasons. These metals are used as inputs in the manufacture of high-technology products. In most cases, reserves and production are distributed very unevenly across countries and regions. Typical metals include lithium, cobalt and manganese, all vital inputs in the production of small batteries; tungsten, used in the production of filaments and very hard tools; molybdenum, used as an input in the production of special steels; and indium, employed in the production of liquid crystal display (LCD) screens. The term "rare earth" refers to 17 elements, such as scandium and yttrium, used in the production of fluorescent materials and optical equipment.

United States. China's dominant position as a supplier of rare earths has turned these into strategic products in the country's foreign policy, and they now offer a solid basis for fostering the innovation and technological development upon which the Chinese authorities have embarked.

Latin America is a major producer of a number of agricultural products in which China has a particular interest. However, the Asia and the Pacific region competes directly with Latin America in some product areas. As chapter II will analyse, a number of Latin American countries are major suppliers of natural resources to China. Nonetheless, China has diversified its sources of supply considerably, so that Latin America has not succeeded in building a strong negotiating position with regard to these products. There is substantial competition with certain developed economies such as Australia, Canada, New Zealand and the United States, and with neighbouring developing countries in the agriculture, fisheries and forestry sectors, in all of which Latin America has traditionally had comparative advantages.

F. China, and to a lesser extent India, play a major role in the global manufacturing sector

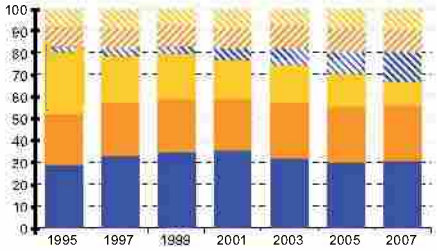
China is emerging as one of the main generators of value added in the global manufacturing sector, not only in sectors whose technology intensity is medium-low and low but also in sectors with high and medium-high technology intensity. The value added in the high-technology sector of Chinese manufacturing (communications and semiconductors, computers and office machinery, pharmaceuticals, scientific equipment and aerospace), calculated at constant 2000 prices, grew from US$ 19 billion in 1995 to US$ 167 billion in 2007. As a result, its share almost quintupled from 3% to 14% over the same period. The share of the high-technology sector in Chinese manufacturing rose from 7% to 13% over the same period. Similarly, China has experienced a substantial rise (from less than 4% in 1995 to 14% in 2007) in both the medium-high-technology sector (automotive industry and chemicals) and the medium-low-technology sector (rubbers, plastics and base metals), as well as in the low-technology sector (paper, food, and textiles and wearing apparel) (see figure I.10).

The rise in the Chinese share of global manufacturing value added in different sectors has been accompanied by a rapid rise in its exports in these sectors. For example, Chinese exports in the high-technology sector accounted for 20% of the sector's worldwide exports in 2008, quickly

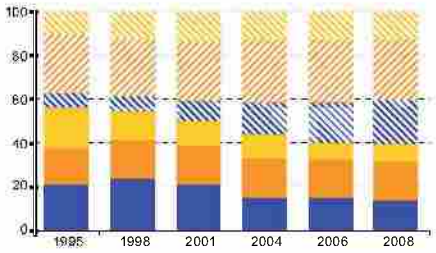
displacing those of the United States, Japan and the European Union. Chinese exports represent close to 13% of world exports in both the medium-high-technology sector and the medium-low-technology sector, and account for some 30% of global exports in the low-technology sector (United States National Science Board, 2010).

Figure I.10
CHINA: MANUFACTURING VALUE ADDED AND WORLDWIDE EXPORTS [a]
(Percentages)

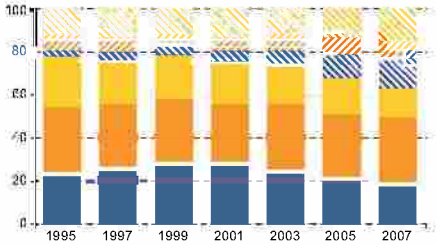
A. Manufacturing value added in the high-technology sector



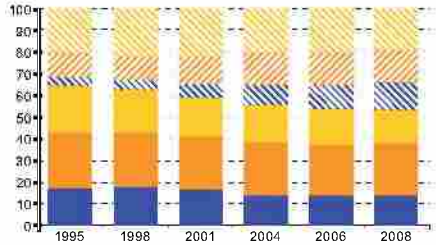
B. Exports in the high-technology sector



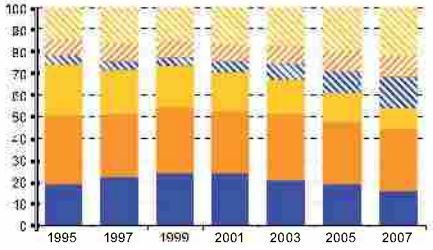
C. Manufacturing value added in the medium-high-technology sector



D. Exports in the medium-high-technology sector



E. Manufacturing value added in the medium-low-technology sector



F. Exports in the medium-low-technology sector

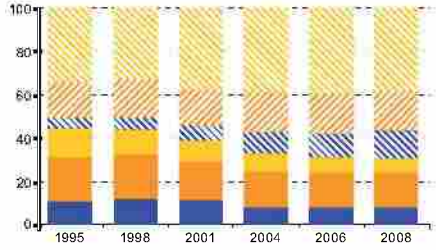
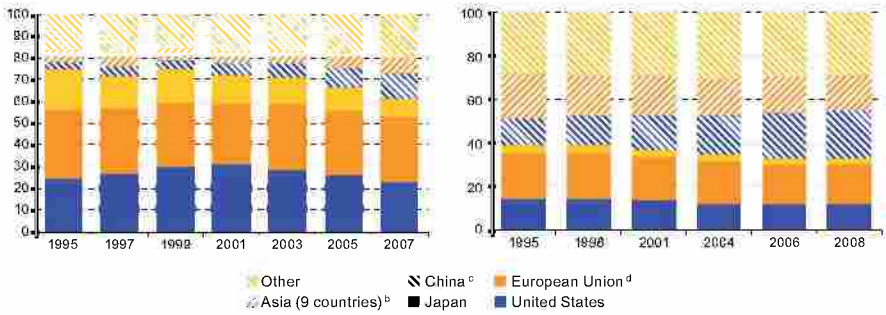


Figure I.10 (concluded)

G. Manufacturing value added in the low-technology sector

H. Exports in the low-technology sector



Source: Prepared by the authors on the basis of information from United States National Science Board, *Science and Engineering Indicators: 2010* [online] http://www.nsf.gov/statistics/seind10.

a Global exports exclude trade within the European Union and trade between China and Hong Kong Special Administrative Region of China. European Union exports exclude trade within the European Union and Chinese exports exclude those between China and Hong Kong Special Administrative Region of China, in accordance with the manufacturing sectors classification of the Organisation for Economic Co-operation and Development (OECD).

b The nine Asian countries are: India, Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand and Viet Nam.

c China includes Hong Kong Special Administrative Region of China.

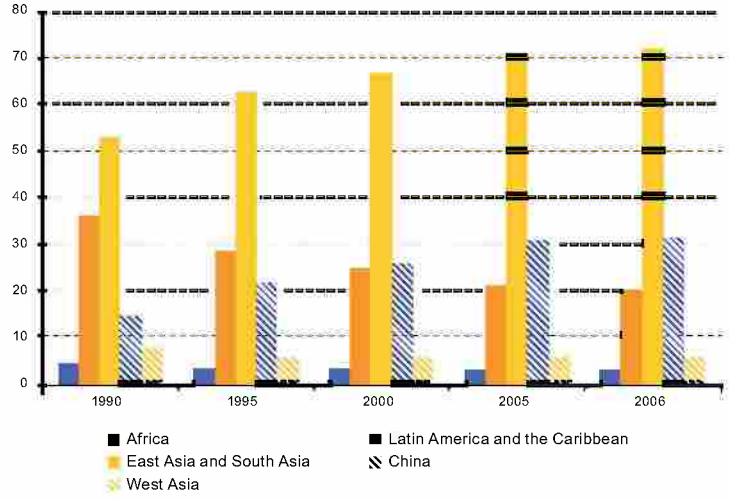
d The European Union excludes Cyprus, Luxembourg, Malta and Slovenia.

In the past two decades, China has increased its weight as a generator of value added in the manufacturing sector, not only compared with the industrialized countries, but also among developing countries. So far, China's performance in the manufacturing sector has looked very favourable when its share of the sector's value added is compared with that of the different developing regions. In the middle of the past decade, China alone accounted for 37% of the combined manufacturing sector value added of all developing countries and for almost 44% of manufacturing sector value added in East Asia and South Asia. This has made it the leader in Asia in terms not only of export performance, but also of the generation of value added in the region's manufacturing sector. Meanwhile, the Latin American share of developing-country manufacturing value added has fallen steadily from 36% in 1990 to 20% in 2006 (see figure I.11).

China and India have played a crucial role as consumers of various manufactured products that have traded very dynamically in the past decade. The Japan External Trade Organization (JETRO, 2006) states that the global car market expanded by 7 million units between 1999 and 2005, and that almost 46% of this growth was in the Chinese market, while 7.4% was in the Indian market. Very high percentages are also observed for other high-technology goods, such as sales of electronic items and access to mobile phones and portable computers. Regarding the automotive

industry, in 2009 China overtook the United States, where consumption was heavily affected by the crisis, to become its largest market. Chinese markets for other high-technology goods, such as sales of electronic items and access to mobile phones and portable computers, are also accounting for increasing shares of the global total.

Figure I.11
DEVELOPING REGIONS: SHARE OF TOTAL DEVELOPING-COUNTRY MANUFACTURING VALUE ADDED, 1990-2006
(Percentages, at constant 2000 prices)



Source: United Nations Industrial Development Organization (UNIDO), *Industrial Statistical Yearbook*, various years.

China has consolidated its dominant position in a number of industrial sectors. Measured in terms of value added, according to the International Standard Industrial Classification of All Economic Activities (ISIC), China is the world's largest producer in nine of the 16 industrial sectors analysed (see table I.12), exceeding the figures achieved by the other three countries in the BRIC grouping. For example, in textiles, wearing apparel, and leather and leather products (ISIC 17, 18, 19), China represented 37%, 29% and 39% of the value added of the sector concerned in 2007. China's share of base metals (ISIC 27), electrical machinery and apparatus (ISIC 31) and other transport equipment (ISIC 35) is very high, accounting for over 30% of world value added. In a number of manufacturing sectors, China, and to a lesser extent India, have an industrial base that is solid even by the standards of some industrialized countries, something that not only holds out numerous trade and investment opportunities to the Latin American countries, but also represents potential competition in Latin American and other markets.

Table I.12
MAIN PRODUCERS IN SELECTED MANUFACTURING SECTORS, IN ACCORDANCE WITH THE INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION OF ALL ECONOMIC ACTIVITIES (ISIC), 2007
(As percentages of world value added, at constant 2000 prices)

ISIC Rev. 3	Product description	Ranking	China	Ranking	Brazil	Ranking	India	Ranking	Russian Federation
15	Food products and beverages	2	14.3	9	2.6			14	1.7
16	Tobacco products	1	51.4	12	0.9				
17	Textiles	1	36.7			4	4.2		
18	Wearing apparel, fur	1	28.7	8	2.0				
19	Leather, leather products and footwear	1	39.1	9	2.2	10	2.0		
20	Wood products (except furniture)	2	8.9	7	3.7				
21	Paper and paper products	3	12.9	12	2.1			15	1.5
22	Publishing and printing	5	3.8						
23	Coke, refined petroleum products and nuclear fuel	2	15.7	4	6.0	10	1.8		
24	Chemicals and chemical products	2	3.5	12	1.9	7	3.5		
25	Rubber and plastics	1	18.3	9	2.2	15	1.4		
26	Non-metallic mineral products	1	16.1	9	2.5	13	2.1	12	2.2
27	Base metals	1	36.3	14	1.3	6	2.9	7	2.3
28	Fabricated metal products	4	9.4	9	2.4				
29	Machinery and equipment n.e.c.	2	15.9	10	1.6	12	1.4	11	1.5
30	Office, accounting and computing machinery	7	3.2	9	1.1	15	0.3		
31	Electrical machinery and apparatus n.e.c.	1	30.8	7	2.0	5	3.1	15	0.8
32	Radio, television and communication equipment	3	7.2	10	0.2				
33	Medical, precision and optical instruments	4	5.1	8	2.4			6	4.4
34	Motor vehicles, trailers and semi-trailers			13	1.5	12	1.6		
35	Other transport equipment	1	35.9	3	5.6	10	2.4	13	1.0
36	Furniture, manufacturing n.e.c.	2	20.7	11	1.4				

Source: United Nations Industrial Development Organization (UNIDO), *International Yearbook of Industrial Statistics 2009*, Vienna, 2009.

G. China's weight in services is also increasing

Although the engine of growth is still the secondary sector, China is becoming a major producer of services. The country has succeeded in increasing its share in the world total of each of the three most dynamic sectors in recent years: communications, financial services and business services. Measured in terms of value added (at constant 2000 prices), China has achieved the world's highest growth rate in the three market-oriented specialized knowledge-intensive services (viz., communications, financial services and business services), albeit from a very low level. In the 2000-2005 period, these three sectors together grew at an annual rate of 14%, more than treble the global rate. Average value added in the three sectors in China between 2000 and 2005 was US$ 245 billion, 4% of the world total (see table I.13). Of the three sectors, financial services accounted for the most value added (US$ 145 billion a year), while the communication services sector experienced the world's highest annual growth rate (18%). Output of services has also grown much faster in India and Malaysia than in the rest of the world. In the other two service sectors, which are more public service-oriented (health and education), China has maintained a stable share of between 3% and 4% of the global total in the first and has tended to increase its share of the second (United States National Science Board, 2010).

China's share of world value added in technology-intensive services is similar to that of Latin America and the Caribbean. China has a higher profile than Latin America in communication services and financial services, while the latter is ahead in the business services sector, mainly thanks to the large contributions of Brazil and Mexico. When other Latin American and Caribbean countries not analysed in table I.13 are included, the region's share could be similar to that of China, at around 3%. Thus, China offers opportunities in terms of greater production and trade complementarity and in biregional investments, but it could also become a powerful competitor in certain service segments in regional and third-country markets.

As mentioned earlier in connection with foreign trade, China is advancing in the most technology- and knowledge-intensive sectors within the service sector. The "other commercial services" component, which includes the subsectors growing fastest at the global level (such as communication services, construction, insurance, computer and information services, royalties and licence fees, personal, cultural and recreational services, and other business services), accounts for 46% of Chinese commercial services exports and far outweighs another two major components of the service sector: transport and travel.

Table I.13
CHINA: GROWTH IN TECHNOLOGY-INTENSIVE SERVICES, 2000-2005 AVERAGE
(Percentages and billions of dollars, at constant 2000 prices)

	All three sectors			Communication services		
	Billions of dollars	Annual growth rate	Share of sector total	Billions of dollars	Annual growth rate	Share of sector total
United States	2 490.2	3.1	40.5	374.4	5.1	38.8
European Union	1 555.1	3.3	25.3	224.3	5.4	23.3
Asia	1 328.9	5.7	21.6	206.8	9.7	21.5
China	245.2	14.0	4.0	55.4	18.3	5.7
India	61.7	9.1	1.0	12.9	22.9	1.3
Japan	808.9	2.9	13.2	92.7	3.5	9.6
Republic of Korea	81.7	7.1	1.3	16.3	12.4	1.7
Taiwan Province of China	52.7	3.6	0.9	9.1	5.5	0.9
ASEAN (5 countries)	78.5	7.0	1.3	20.4	8.9	2.1
Indonesia	15.8	8.8	0.3	3.1	8.3	0.3
Malaysia	10.2	10.6	0.2	2.9	18.5	0.3
Philippines	26.9	3.1	0.4	6.0	1.4	0.6
Singapore	8.9	7.7	0.1	2.7	5.5	0.3
Thailand	16.8	9.1	0.3	5.7	14.6	0.6
Latin America (5 countries)	219.0	2.4	3.6	37.1	5.7	3.8
Argentina	39.7	-1.7	0.6	7.2	2.5	0.8
Brazil	102.6	2.7	1.7	16.1	4.6	1.7
Chile	12.8	4.4	0.2	1.8	8.5	0.2
Costa Rica	2.5	8.6	0.0	0.9	11.8	0.1
Mexico	61.4	4.1	1.0	11.1	9.0	1.1
World	6 145.1	3.9	100.0	963.9	6.2	100.0

Table I.13 (concluded)

	Financial services			Business services		
	Billions of dollars	Annual growth rate	Share of sector total	Billions of dollars	Annual growth rate	Share of sector total
United States	801.3	2.9	38.8	1 314.6	2.7	42.2
European Union	403.8	2.9	19.6	927.1	2.9	29.7
Asia	590.7	6.2	28.6	531.4	3.6	17.0
China	144.5	12.8	7.0	45.4	12.8	1.5
India	26.0	4.4	1.3	22.9	7.9	0.7
Japan	316.6	3.5	15.3	399.6	2.3	12.8
Republic of Korea	40.1	7.9	1.9	25.3	3.2	0.8
Taiwan Province of China	35.2	3.3	1.7	8.5	2.9	0.3
ASEAN (5 countries)	28.4	6.6	1.4	29.8	6.0	1.0
Indonesia	4.4	5.8	0.2	6.7	6.9	0.2
Malaysia	5.2	9.9	0.3	7.4	8.3	0.2
Philippines	3.4	2.2	0.2	3.9	13.3	0.1
Singapore	11.1	5.0	0.5	9.8	2.0	0.3
Thailand	4.3	12.0	0.2	1.9	1.2	0.1
Latin America (5 countries)	66.2	4.5	3.2	115.7	0.2	3.7
Argentina	8.5	-8.6	0.4	24.0	-0.4	0.8
Brazil	36.7	6.3	1.8	49.8	-0.3	1.6
Chile	4.5	5.0	0.2	6.6	3.0	0.2
Costa Rica	0.8	6.6	0.0	0.8	7.4	0.0
Mexico	15.7	8.9	0.8	34.6	0.7	1.1
All other	202.4	5.7	9.8	228.1	4.4	7.3
World	2 064.3	4.2	100.0	3 116.9	2.9	100.0

Source: Prepared by the authors on the basis of information from the United States National Science Board, *Science and Engineering Indicators: 2010* [online] http://www.nsf.gov/statistics/seind10.

Of the different commercial services subsectors, construction is prominent in exports and "other business services" in exports and imports. China has become a major exporter of construction services, currently accounting for 12% of the global total and ranking third behind the European Union (54%) and Japan (16%). In absolute terms, the most important sector is "other business services", with China's exports totalling US$ 46 billion in 2008 (see table I.14). In this sector, China ranks third behind the European Union and the United States, and ahead of Japan, Singapore and India. China's importance as an importer is evident in "other business services", insurance, and payments and receipts of royalties and licence fees. China remains a major net importer in the royalties and licences sector, while running a surplus in "other business services".

Table I.14
CHINA: COMMERCIAL SERVICES AND POSITION IN THE WORLD RANKING, SELECTED SUBSECTORS, 2008
(Billions of dollars and percentages)

	Value		China share of world total [a]	Ranking [b]
	China	World [a]		
Exports				
Communications	1 570	77 695	2.0	7
Construction	10 329	86 420	12.0	3
Insurance	1 383	77 200	1.8	8
Computer and information services	6 252	186 085	3.4	5
Payments and receipts of royalties and licence fees	571	209 765	0.3	11
Other business services	46 349	889 810	5.2	3
Audiovisual and related services	418	12 540	3.3	5
Imports				
Communications	1 510	66 645	2.3	5
Construction	4 363	79 310	5.5	6
Insurance	12 743	129 465	9.8	3
Computer and information services	3 165	90 255	3.5	5
Payments and receipts of royalties and licence fees	10 320	203 730	5.1	6
Other business services	38 597	727 960	5.3	4
Audiovisual and related services	255	9 302	2.7	10

Source: Prepared by the authors on the basis of information from the World Trade Organization (WTO).
[a] The world total is the sum of the world's 15 largest exporters and importers. The share given for China is its share of this total.
[b] The European Union countries are treated as a single trading partner.

China's achievements in goods industries and trade have been paralleled by progress in services. China has succeeded in improving the efficiency of trade-related services (transport, physical infrastructure, communications, and business and professional services, including financial services), and this has been crucial to its international competitiveness. There is still progress to be made in this area, but the standard of infrastructure and logistics attained, combined with progress in innovation and technology, means that the idea that Chinese competitiveness essentially comes down to low wages has to be ruled out as simplistic.

H. China is progressing rapidly in the field of research and development

In the past 15 years, China has trebled its research and development spending as a percentage of GDP. This spending increased from the very low level of US$ 8.5 billion (at constant 2000 prices) to US$ 87 billion in 2007. Although in 2007 China still spent much less than the United States (US$ 308 billion) or Japan (US$ 125 billion), it compares very favourably with Germany (US$ 59 billion), France (US$ 36 billion) and the Republic of Korea (US$ 37 billion). As a share of GDP, China spends more (1.49% in 2007) than the Russian Federation and is quickly closing in on the United Kingdom and Canada (see table I.15).

Most research and development funding originates from and is destined for the business sector. In 2006, of US$ 70 billion in spending (at constant 2000 prices measured in purchasing power parity), the business sector financed US$ 47 billion, while the contribution of the government was just US$ 19 billion (United States National Science Board, 2010, see annex table 4-29). The Chinese pattern of spending distribution and allocation by major sectors is quite similar to that of other countries such as Germany, the United States and Japan. In the case of the Republic of Korea, the weight of the business sector as a source and recipient of research and development spending is greater.

Table I.15
SHARE OF RESEARCH AND DEVELOPMENT SPENDING, 1985-2007 [a]
(Percentages, at constant 2000 prices)

	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007
United States [b]	2.75	2.65	2.51	2.75	2.76	2.66	2.66	2.59	2.62	2.66	2.68
Japan [c]	2.58	2.81	2.71	3.04	3.12	3.17	3.20	3.17	3.32	3.40	3.44
China	n.a.	n.a.	0.57	0.90	0.95	1.07	1.13	1.23	1.33	1.42	1.49
Germany [d]	2.60	2.61	2.19	2.45	2.46	2.49	2.52	2.49	2.48	2.54	2.54
France	2.17	2.32	2.29	2.15	2.20	2.23	2.17	2.15	2.10	2.10	2.08
Republic of Korea	n.a.	n.a.	2.37	2.39	2.59	2.53	2.63	2.85	2.98	3.22	3.47
United Kingdom	2.24	2.14	1.94	1.85	1.82	1.82	1.75	1.69	1.73	1.76	1.79
Russian Federation	n.a.	2.03	0.85	1.05	1.18	1.25	1.28	1.15	1.07	1.07	1.12
Canada	1.42	1.51	1.70	1.91	2.09	2.04	2.04	2.08	2.05	1.98	1.88
Italy	1.10	1.25	0.97	1.05	1.09	1.13	1.11	1.10	1.09	1.13	n.a.

Source: Organisation for Economic Co-operation and Development (OECD), *Main Science and Technology Indicators*, Vol. 2009, Issue 1, Paris, August 2009.
Note: n.a. = not available.
[a] GDP in national currencies was converted into dollars using each country's implicit GDP deflator and the purchasing power parity (PPP) exchange rate calculated by the OECD.
[b] The United States data are based on the international standard used to calculate gross research and development spending, which differs slightly from the methodology used in the protocol of the United States National Science Board.
[c] The Japan data from 1996 onward may be inconsistent with earlier data owing to a change in methodology.
[d] The data for Germany in the 1981-1990 period are for West Germany.

The major leap made by China in research and development spending has not translated into practical, marketable inventions or innovations. By way of example, while the number of Chinese patent applications to the United States Patent and Trademark Office (USPTO) has increased enormously in recent years, the more than 4,400 dossiers submitted by Chinese applicants represented just 0.9% of total applications (456,000) in 2008. When it comes to patents actually granted, the Chinese percentage is lower (see table I.16). The main geographical origins of scientists and researchers are the United States, the European Union and Japan, which accounted for 49%, 14% and 21%, respectively, of the total granted in 2008. Although the Chinese share looks very favourable in comparison with that of India and a number of other developing Asian countries, it is far below the level attained by Taiwan Province of China and the Republic of Korea. The country thus has a long way to go before it catches up with certain newly industrialized Asian countries. China's performance in this respect is much better than that of Latin America and the Caribbean.

Table I.16
UNITED STATES: PATENTS GRANTED BY NATIONALITY OF APPLICANTS, 2000-2008 [a]
(Numbers and percentages)

Region/country/ economy	2000-2003 *(average)*		2004		2005		2006		2007		2008	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
United States	86 883	52.7	84 270	51.3	74 637	51.9	89 823	51.7	79 526	50.6	77 501	49.1
European Union	26 551	16.1	24 906	15.2	21 125	14.7	24 364	14.0	21 956	14.0	21 863	13.9
Japan	33 723	20.4	35 348	21.5	30 341	21.1	36 807	21.2	33 354	21.2	33 682	21.3
China	225	0.1	404	0.2	402	0.3	661	0.4	772	0.5	1 225	0.8
Asia (9 countries)	9 493	5.8	11 302	6.9	10 334	7.2	13 344	7.7	13 556	8.6	15 116	9.6
India	225	0.1	363	0.2	384	0.3	481	0.3	546	0.3	634	0.4
Malaysia	47	0.0	80	0.0	88	0.1	113	0.1	158	0.1	152	0.1
Singapore	338	0.2	449	0.3	346	0.2	412	0.2	393	0.2	399	0.3
Republic of Korea	3 646	2.2	4 428	2.7	4 352	3.0	5 908	3.4	6 295	4.0	7 549	4.8
Taiwan Province of China	5 192	3.1	5 938	3.6	5 118	3.6	6 361	3.7	6 128	3.9	6 339	4.0
Other (four countries)	45	0.0	44	0.0	46	0.0	69	0.0	36	0.0	43	0.0
Central Europe/Asia	266	0.2	227	0.1	198	0.1	241	0.1	259	0.2	247	0.2
Africa	130	0.1	116	0.1	106	0.1	123	0.1	102	0.1	106	0.1
Latin America and the Caribbean	347	0.2	308	0.2	245	0.2	295	0.2	255	0.2	260	0.2
Middle East	1 030	0.6	1 052	0.6	951	0.7	1 262	0.7	1 145	0.7	1 231	0.8
Other	6 323	3.8	6 357	3.9	5 467	3.8	6 852	3.9	6 357	4.0	6 541	4.1
World	164 971	100.0	164 290	100.0	143 806	100.0	173 772	100.0	157 282	100.0	157 772	100.0

Source: United States Patent and Trademark Office (USPTO), *Extended Year Set - Historic Patents by Country, State, and Year: Utiiity Patents (December 2008)* [online] http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_utlh.htm.

[a] Patents assigned to regions or countries on the basis of the residence of the first inventor.

Aware of the need to promote its endogenous research and development capacity, China is implementing a number of innovation programmes with a long-term outlook. This involves close collaboration between the business sector and academia to create and enhance the capacity to turn scientific and technical achievements into real production and commercialization opportunities. The main sectors involved are: (i) new materials and products in the iron and steel, non-ferrous metals, construction materials and chemical industries; (ii) high-technology equipment in the metallurgical industry, the petrochemical industry and other industries, high-capacity thermal equipment, new energy vehicles and medium-sized multi-purpose helicopters; (iii) consumer products incorporating high-technology fibres, textile products and high value added light industrial products; (iv) key information and communication technology (ICT) industries, such as software, integrated circuits, new flat screen components, semiconductor lighting devices and next-generation networks; and (v) national engineering centres and industrial laboratories, the creation of platforms for technology shared among the leading industries, industrial alliances and all patents, technical cooperation, and technological re-engineering and absorption of imported technology. In 2009, 146 billion yuan (about US$ 22 billion) was assigned to this project, an increase of 25.6% over the previous year. Furthermore, China is promoting the biotechnology industry in an initiative that involves biological agro-industry, bioenergies, biomanufacturing and biological protection of the environment, and is seeking to move ahead with third-generation mobile communications (State Council of the People's Republic of China, 2010).

This initiative forms part of planning for industrial revitalization that has been applied to 10 sectors since 2009: (i) iron and steel, (ii) the automotive industry, (iii) textiles, (iv) manufactures produced by original equipment makers, (v) naval construction, (vi) ICTs, (vii) light industries, (viii) petrochemicals, (ix) non-ferrous metals and (x) logistics. The implementation period for this initiative is 2009-2011. Leaving aside the logistics industry, the other nine industries represent 80% of the country's industrial value added and a third of GDP. Some sectors have problems with overcapacity, excess supply, overstretched product lines, high energy consumption and environmental pollution. This initiative has been accompanied by planning for revitalization in other sectors, such as culture and the construction of communications and transport infrastructure (highways, river transport, railways, airports, etc.) (State Council of the People's Republic of China, 2010).

I. There is great potential for energy cooperation with China

While China's high economic growth has helped improve its people's quality of life and reconfigure the global trade and investment scene, it has also had a considerable impact on environmental pollution, owing to the high energy consumption entailed by economic growth on this scale in such a populous country. China is currently the world's second-largest emitter of greenhouse gases after the United States, and is coming under continuous pressure from the international community as a result. This is being aggravated by the inefficient energy use still characteristic of industrial processes in China, which anyway are concentrated in energy-intensive sectors such as cement, smelting, iron, meat and dairy products (Department of Natural Resources of Canada, 2008), and by the use of coal as the main energy source. In fact, China consumes more coal than the United States, Japan and the European Union put together.

It is estimated that world energy demand will grow by about 30% between 2008 and 2020, with this increase being basically accounted for by the fastest-growing emerging economies, especially China and India. While energy demand in Europe, Japan and the United States will grow by 14% in this period, that of China, India and the rest of developing Asia will rise by 80%. Thus, by 2020 developing countries will consume half the world's output of oil, 55% of natural gas and 70% of coal (EIA, 2007).

China is the world's third-largest oil importer after the United States and Japan and accounted for over a third of global growth in oil demand between 2000 and 2009. The increase forecast for the 2007-2030 period represents 43% of that projected for the entire world economy during the period. While natural gas currently meets only a small part of the country's energy needs, it is estimated that imported energy still plays a more prominent role as a source of energy supply in the Chinese economy. In 2007, China became an importer of coal for the first time (Cosby, 2010). The huge volume of Chinese imports of a large number of natural resources, and the growing and indeed unprecedented needs projected for the country over the coming decades, are seen as an obstacle to the sustainable development of the Chinese economy as a whole.

Average energy consumption per unit of output in major Chinese industries is far higher than in the country's OECD competitors. The least efficient plants in China currently convert between 27% and 36% of coal energy into electricity, while the most efficient achieve 44%, representing a reduction of more than a third in global warming emissions.[9] The potential

[9] The most efficient plant in the United States achieves an efficiency level of some 40% because the country has yet to use the higher steam temperature now adopted in China. The average efficiency of coal-fired plants is still higher in the United States than in China because the latter built a great many inefficient plants in the last decade.

competitiveness gains from higher efficiency could be substantial. Coal consumption for the generation of thermal energy is some 40% greater than the OECD average, while consumption in the steel, cement and pulp and paper industries is 21.4%, 45.3% and 120% greater, respectively. These figures are averages, of course, and a number of installations are inefficient in the extreme.

The main pollutant is coal, and China depends upon this for 80% of its energy. The domestic supply of electricity and heating is based on this commodity, as coal remains the cheapest energy source in China by a large margin. China has the world's third-largest coal reserves behind the United States and Russian Federation. Energy consumption is still rising because of economic growth, but also because of global warming, which has brought marked temperature fluctuations and increased demand for cooling and heating appliances. Because strong growth in the Chinese economy is generating an expanding middle class with incomes similar to those of the OECD, demand for these appliances has resulted in a sudden leap in the demand for energy. Because coal is the cheapest energy source in China, it has allowed this rising demand to be met with the provision of inexpensive, albeit excessively polluting, energy. However, by continuing to depend so heavily on coal, which supplies 80% of electricity, China is ensuring that it will continue to emit a large amount of carbon dioxide, since even an efficient coal-fired power station emits twice as much carbon dioxide as a natural gas plant. Nonetheless, the country is rapidly closing the gap and is now using the world's most advanced designs (Bradsher, 2009).

Table I.17
CARBON INTENSITY IN DIFFERENT ECONOMIES
(Gigatons of CO_2 emissions per trillion dollars of GDP)

Country or region	Carbon intensity
United States	0.46
European Union	0.29
Japan	0.19
China	1.67
India	1.30

Source: United Nations Development Programme (UNDP), *Human Development Report, '2007/2008: Fighting climate change: Human solidarity in a divided world*, New York, UNDP, 2007.

The processing of imported raw materials and the manufacture and consumption of industrial products are highly polluting operations that consume a large amount of energy. The volume of the main products imported by China, such as oil and its derivatives, ores and metals, and plastics, has increased dramatically in recent years and, in conjunction

with the production of manufactured goods such as transport equipment and machinery, textile and rubber products, chemicals, automobiles, aircraft, electronic and computing equipment and other technology-intensive items, consumes a large amount of energy. The energy content of China's exports is estimated to have been responsible for 23% of carbon dioxide emissions (Cosby, 2010).

China's status as "workshop of the world" is one of the main causes of its lack of energy efficiency. The predominance of the processing trade in the manufacturing sector and the assembly activities of foreign-owned firms have driven up the energy intensity of the Chinese export sector. Because it is fragmented along the Asian and global value chain, industrial production not only presents the problem of low value added but is also intensive in natural resources and energy, and thus has a large environmental impact. Exports of another type based on natural resources, such as cement, aluminium, paper and cardboard, are large consumers of energy (Lixin and others, 2010).

China is taking determined steps to improve its energy efficiency, rely more on renewable energies and combat climate change. It should be recalled that China's energy efficiency improved by an impressive 50% in the 1990-2002 period, a feat without precedent anywhere else in the world. The eleventh plan set the ambitious goal of reducing the country's energy intensity by 20% during the 2005-2010 period. Other targets for the development of clean energy sources (including renewable, nuclear and hydroelectric sources) are also ambitious, with a goal of 15% of energy supplied from renewable sources by 2020. China is currently one of the world's leading sources of pollution and global warming, but at the same time it is developing far-reaching and vigorous initiatives in these areas with a view to moving towards a less carbon-intensive economy. Underpinning this is not only an appreciation of the seriousness of the problem, but also a strategic anticipation of international pressures that could become unsustainable if the country fails to show concrete commitments to changes in its pattern of energy use.

Since 2007, for example, China has emerged as the world leader in more efficient and less polluting coal-fired thermoelectric plants, leading the technology frontier and cost reduction in this area. But this is far from easy. In the case of carbon, for example, it is not a matter of simply dispensing with polluting electricity generation plants, since there is a large workforce associated with this energy source and plant closures during the transition could lead to cuts in the electricity supply and higher electricity bills (Hong, Cosbey and Savage, 2009). Most coal-fired electricity generation plants in China and the world are technologically antiquated and inefficient, burning a great deal of coal and emitting large

amounts of carbon dioxide. This is why one of the initiatives has involved the construction of efficient and less polluting coal-fired plants. Although China, as a developing country, is not obliged to reduce its emissions of polluting gases, in some areas it is taking more substantial measures than the United States. While discussions as to whether or not to build more efficient coal-fired plants are still ongoing in the United States, China has already begun to build these at a rate of one a month. This new generation of low-pollution power stations turn coal into gas before burning it, so that less coal is consumed and less carbon dioxide emitted for each unit of electricity generated.

China has become the world's largest market for power stations fuelled by high-specification coal with emissions control systems, according to a recent report by the International Energy Agency (IEA) (Bradsher, 2009). By adopting ultra supercritical technology, which uses superheated vapour to achieve the maximum efficiency, and constructing numerous identical electricity generating stations at the same time, the country has achieved dramatic cost reductions by the extensive use of scale economies. It can now cost a third less to build an ultra supercritical power plant in China than to build a less efficient coal-fired station in the United States.

As well as improving the efficiency of its coal-fired plants, China is implementing other alternative energy initiatives. In 2007, the country doubled its investment in this area to US$ 11 billion (Bradsher, 2009). It has also doubled its total wind power capacity in the past four years to 6 gigawatts, putting it on course to surpass the United States as the world's largest market for wind power equipment this year. Furthermore, China is building far more nuclear plants than the rest of the world, and these plants do not emit carbon dioxide once built (Bradsher, 2009). According to Hal Harvey, the CEO of ClimateWorks Foundation, a San Francisco group that finances projects to combat climate change: "The steps they've taken are probably as fast and as serious as anywhere in power-generation history" (Bradsher, 2009).

China has set itself the goal of quadrupling its GDP in the two decades to 2020 whilst only doubling its energy consumption (from 920 million tons of oil equivalent in 2000 to 1.83 billion tons of oil equivalent in 2020) (Bradley and Yang, 2006). In recent years, however, the income elasticity of energy has remained above 1, which means that, unless substantial adjustments occur, the trend indicates that China could require 3.67 billion tons of oil equivalent by 2020, or twice as much as was projected at the beginning of this decade. Accordingly, a greater effort is needed than is being made at present. The scales involved are obviously gigantic. For example, to reduce the energy intensity of GDP by 20% between 2006 and 2010, as the authorities have stated they intend to, it will be necessary to save energy equivalent to 600 million tons of coal.

If China is successful in reorienting its economy and reducing carbon emissions, it could become a leader in low-emission technology markets, which will not only help the environment but will also give rise to new opportunities for trade and technical progress (Abou, 2009). Although it is still too soon to analyse the effects of China's measures on its emissions, some improvements have already been seen in the climate models. The IEA report on China of November 2008 not only raised the agency's estimate for economic growth in 2009 but cut the forecast annual rise in global emissions from 3.2% to 3%, mainly in response to technological improvements in the coal sector.

China's long-term energy planning has three key aims: improving energy efficiency, developing clean coal technology and preserving forests that absorb carbon (Hongbo, 2009). The specific goal of the Chinese Government is to double the share of renewable energy sources from the current 7% to 15% by 2020. One example of this commitment is provided by the capital, Beijing, where over 200 measures to reduce polluting gases emitted by vehicles, coal-fired power stations and factories have been introduced since 1998. This commitment was to be further emphasized as a result of the 2008 Olympic Games. The Government invested over US$ 10 billion in improving the capital's environment and earmarked almost US$ 28 billion more for infrastructure, allowing the city to be endowed with modern, ecological buildings that have set an example for the rest of the country. At the time of the 2008 Olympic Games, three quarters of Beijing's 60,000 taxis and over a third of its 19,000 diesel buses were refitted or retired, and 4,000 ecological buses running on natural gas were brought in.[10]

At the same time, the World Bank is supporting solid energy efficiency programmes in China via the creation of energy service providers offering projects to renew boilers, furnaces, motorized systems, internal electricity supply systems, modernization of combustion, heating, ventilation and air-conditioning systems, recovery and reuse of steam and gas, and replacement of bulbs and cooling systems.

The Chinese authorities are in no doubt that, henceforth, the country's economic growth needs to go hand in hand with greater environmental responsibility, for if the Chinese economy carries on growing at high rates without any change to its energy use, it will overtake the United States as the world's largest emitter of greenhouse gases in three decades, and long before that it will be subject to growing international pressure, with trade retaliation more than likely. The European Union has got ahead of the United States by establishing an

[10] Producing the 3 billion plastic bags used in China each day consumes 13,000 tons of crude a year. In June 2008, the use of these bags by retailers was restricted and reusable bags were adopted.

energy and climate change cooperation agenda with China, which already includes a clean energy technology centre, a joint programme of research into carbon capture and storage (three years), and discussions on climate change, low-carbon economies, energy efficiency and international energy performance standards (Abou, 2009).

Latin America and the Caribbean need to study this energy experience, with its heavy reliance on new technologies, whether to learn about these with a view to limiting pollution, or in view of the new business opportunities they entail. The region needs to be in touch with these processes and take steps to nurture joint ventures and binational partnerships in the areas of production, investment, technology and external trade. Holding back would not only mean forfeiting opportunities in the carbon industry but also, and even more seriously, would surely threaten the region's current comparative advantages and worsen its technology deficit.

Chapter II

China's trade links with Latin America and the Caribbean: towards a strategic relationship

A. Introduction: in the past decade, Latin America and the Caribbean has been China's most dynamic trading partner

China's fastest-growing goods trading relationship over the past five years has been with the region, and this is true of both exports and imports. In fact, exports and imports between China and Latin America and the Caribbean grew twice as fast as their overall exports and imports in the 2005-2009 period (see table II.1). Thus, China's bilateral trade with the region passed the US$ 100 billion mark in 2007 and reached US$ 120 billion in 2009. The region's shares of total Chinese imports and exports have continued to increase, and now stand at 4.7% and 6.4%, respectively. This trade is growing, then, but still from a low base.

Asia, led by China, has considerably increased its share of the region's trade flows, even as the relative presence of the United States has diminished. In 2009, exports from Latin America and the Caribbean to Asia were US$ 103 billion, equivalent to 15% of the region's total exports, while the share going to the United States was 42% and the share going to the European Union was 14%. China accounts for almost half of Latin American and Caribbean trade with Asia (see table II.2).

Table II.1
CHINA: AVERAGE ANNUAL GROWTH RATE OF TRADE WITH LEADING PARTNERS IN THE REGION, 2005-2009
(Millions of dollars and percentages)

	2005	2006	2007	2008	2009	Growth rate
			Exports			
Destination						
Latin America and the Caribbean	23 259	35 396	51 060	71 045	56 449	24.8
Asia and the Pacific	140 443	165 971	202 705	246 407	203 988	9.8
United States	163 180	203 801	233 169	252 844	221 295	7.9
European Union	145 613	189 978	245 563	293 360	236 442	12.9
Rest of world	289 458	373 789	487 563	567 038	483 473	13.7
			Imports			
Origin						
Latin America and the Caribbean	26 664	34 072	51 004	71 417	64 132	24.5
Asia and the Pacific	259 677	309 645	365 432	414 786	375 533	9.7
United States	48 741	59 314	69 548	81 586	77 755	12.4
European Union	73 972	90 641	110 967	132 646	127 769	14.6
Rest of world	250 898	297 789	359 164	432 129	360 367	9.5

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

Imports are an even greater component of the trading relationship with Asia, and China in particular, and this has led to a growing trade deficit with that region. Asia's share of imports into Latin America and the Caribbean continued to climb strongly over the past decade, rising to 25% of the total. Half of this (12%) came from China, which thus became one of Latin America's principal suppliers, easily surpassing the European Union and the Latin America region itself (see table II.2). This has led a number of countries in the region to assess the possibility of entering into free trade agreements with Asian countries. It has also created some concern about the consequences of the large volume of imports from Asia, owing to their effect on the competitiveness of industries in the region's own countries.

China could displace the European Union as the region's second-largest trading partner in the middle of the coming decade. Projections for 2020 suggest that China will play a vastly greater role as a destination for the region's exports. If the current rate of growth in demand for products from Latin America and the Caribbean in the United States, the European Union and the rest of the world continues, and demand from China grows at just half the rate seen in the decade from 2001 to 2010, the

latter will overtake the European Union in 2014 and become the second-largest market for the region's exports. In the case of imports, China is forecast to surpass the European Union in 2015 (see figure II.1). This trend could moderate if bilateral trade is energized following the partnership agreements between the European Union and Central America, the Caribbean, the Andean Community and, potentially, MERCOSUR. The growth in imports from China is expected to be strongest in the area of capital goods, particularly electronic products, parts and components, and machinery and equipment, as well as textiles and wearing apparel. Chinese products of this type already have a strong presence in the region.

Table II.2
LATIN AMERICA AND THE CARIBBEAN: TRADE BY DESTINATION AND ORIGIN, 2000, 2006-2009 [a]
(Percentages)

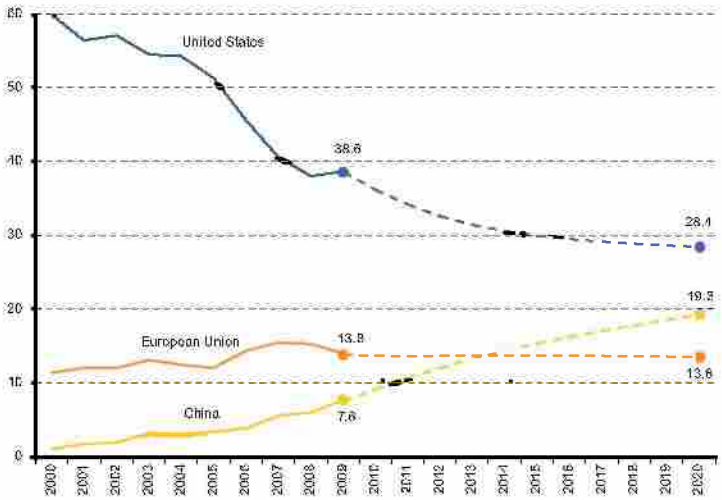
	2000	2006	2007	2008	2009	2010
			Exports			
Destination						
Latin America and the Caribbean	19.0	17.2	18.2	19.6	18.9	18.9
Asia	5.0	9.7	11.5	12.2	15.2	16.6
China	1.1	3.4	4.7	4.9	7.1	8.3
Other countries of Asia	3.9	6.4	6.8	7.2	8.1	8.3
United States	61.0	50.0	46.2	43.3	41.5	41.0
European Union	11.8	14.2	15.0	15.2	13.9	13.1
Rest of world	3.2	8.9	9.2	9.8	10.5	10.5
			Imports			
Origin						
Latin America and the Caribbean	15.1	20.5	20.5	21.2	20.7	19.7
Asia	10.9	22.0	23.1	23.3	24.7	26.9
China	1.8	8.4	9.6	10.5	11.8	13.3
Other countries of Asia	9.1	13.6	13.4	12.9	12.9	13.6
United States	55.0	34.9	32.7	31.2	31.5	30.8
European Union	12.1	14.3	14.6	14.7	15.1	14.3
Rest of world	6.9	8.2	9.1	9.6	8.0	8.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries; Statistical Office of the European Communities (EUROSTAT); United States International Trade Commission (USITC); and International Monetary Fund (IMF), Department of Trade Statistics (DOTS).

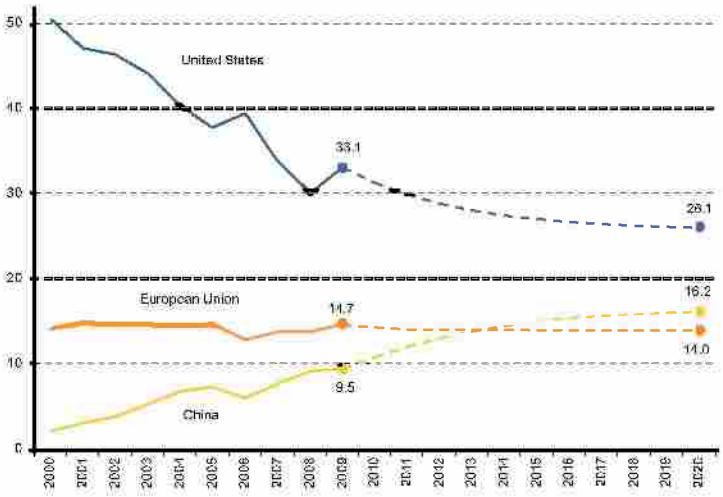
[a] The data are for Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia, Uruguay and the Caribbean. The information on the Caribbean was compiled from mirror statistics. The data for the Bolivarian Republic of Venezuela come from the DOTS database of the IMF. The December data for the country were weighted using national totals and the DOTS structure for the last three months.

Figure II.1
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): TOTAL TRANSACTION SHARE OF LEADING DESTINATIONS AND ORIGINS, 2000-2020 [a]

A. Exports



B. Imports



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 in Asia and the Pacific, China, the European Union, Latin America and the Caribbean, the United States and the rest of the world from 2000 to 2009. The rate of trade growth is expected to converge on the long-term growth rate of the economies.

It is striking that the countries of Latin America and the Caribbean should attribute so much importance (however justified) to negotiations with the European Union, whose relative importance as a trading partner for the region is gradually declining, and should be so unaware by comparison of the importance of Asia and the Pacific. There is certainly nothing that could be called a coordinated strategy between countries or groups of countries to intensify trade and investment links with that region, whose importance for trade is increasing enormously for Latin America and the Caribbean. Hitherto, efforts by Latin American countries to forge ties with Asia and the Pacific have instead been sporadic and isolated, in the form of bilateral free trade treaties.

The economic slowdown of the 2008-2009 period intensified the structural change that was occurring in the region's export pattern. The share of Asia, meaning mainly China, increased on the back of the large decline in the share of the United States. In 10 years, China virtually septupled its share of the region's trade. After two years of stagnation (1998-1999) because of the Asian crisis, trade between Latin America and the Caribbean and Asia recovered, growing steadily thereafter until the recent international financial crisis.

Despite China's growing importance in the global economy and in the region's trade flows, until recently it was a market that had gone relatively unexploited, with the exception of some commodities from South America. Latin America faces huge challenges if it wishes to strengthen its ties with China in order to increase production and investment synergies with the country. Biregional trade is still inter-industrial, with Latin America exporting mainly commodities and natural resource-based manufactures to China and importing from it almost nothing but manufactures with differing degrees of technology intensity. China's great importance in world trade and its (still) low level of trade with Latin America and the Caribbean represent challenges and, at the same time, major opportunities for the region.

B. The strong demand for commodities from the Asia and Pacific region has helped to improve the terms of trade, especially for the countries of South America

China has become a leading importer and consumer of commodities, and thus a trading partner of great interest to Latin America and the Caribbean. The high growth rate and rapid industrialization of China and, to a lesser degree, India have accounted for much of the rise in commodity prices in

recent years. As analysed in chapter I, India was responsible for half the increase in global rice consumption and a quarter of the increase in wheat consumption between 2000 and 2007, while China accounted for half the global increase in consumption of soybean oil and a third of the growth in demand for soybeans in the same period. Chinese demand has been even more apparent in the consumption of metals and petroleum than in food markets. China's share of world consumption of finished steel and refined aluminium products reached a third in 2007, a large rise on the 2000 figures of 16% and 14%, respectively. Furthermore, Chinese demand for petroleum and its derivatives rose almost six times as fast as global demand over the same period, so that it accounted for 35% of the increase in global demand for these products.

Rising Chinese demand for commodities has driven exports and improved the terms of trade, especially in the countries of South America. The greatest beneficiaries have been petroleum and mineral exporting countries (see figure II.2). Higher prices for export products have had a greater effect than higher volumes, especially in the countries of South America.[1] In the cases of Mexico and Central America (except Costa Rica), the tendency has been the opposite, with export volumes increasing more. This is a clear sign of the importance of the export pattern in this cycle and, in particular, the strength of the link with China and with Asia and the Pacific in the 2007-2008 period. The countries that went furthest in strengthening their trading ties with China as exporters of commodities were the ones that saw the greatest improvement in their terms of trade in the period. Conversely, the terms of trade of the Central American countries worsened.

Higher commodity prices drove exports during the 2000s. Breaking down the value of the region's exports during the 2000s into price and volume effects reveals the huge boost given by prices, which largely favoured commodity producers. This is the case with the oil- and mineral-producing countries, especially in South America (see figure II.3). Between 2000 and 2008, the average rate of growth in these countries' export prices was 7.6%, while volume growth was only 4.2%. The products whose prices grew at the fastest rates were crude oil, copper, iron ore, soybeans, natural gas, and meat and offal, among others.

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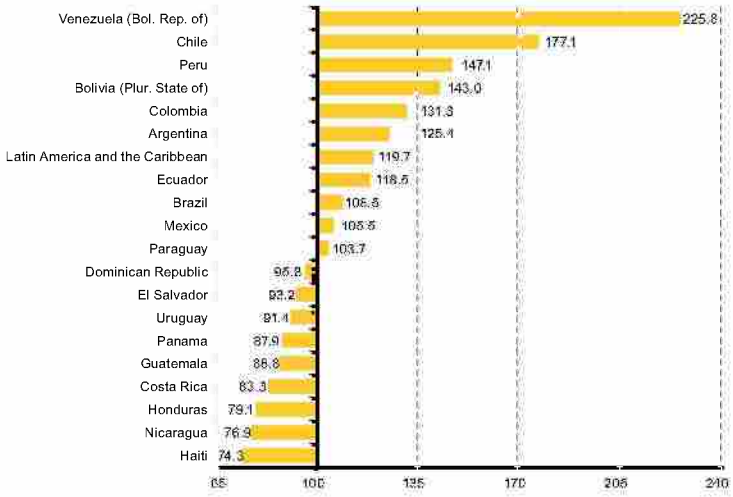
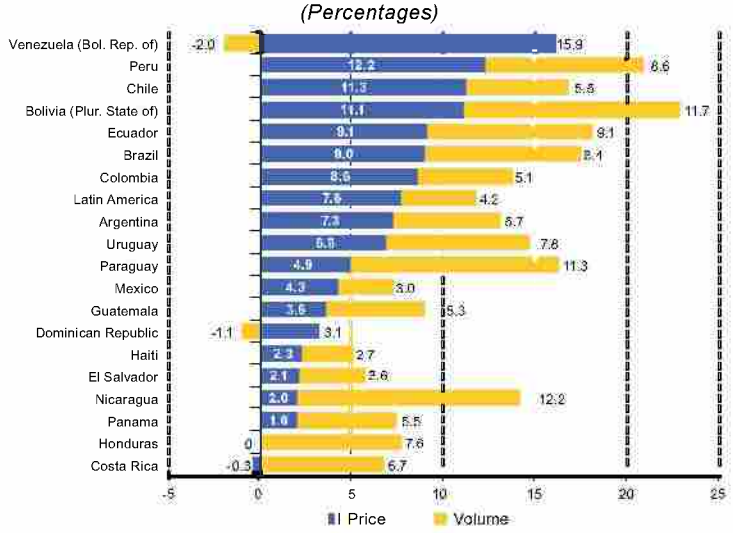
[1] The value of Latin American and Caribbean goods exports increased at an average rate of 10.8% during 2001-2010, thanks to a combination of the price effect (5.5%) and the quantity effect (5.3%). When Mexico is excluded, the corresponding figures are: growth rate in value, 13.5%, with 7.9% and 5.6% in terms of price and volume, respectively.

Figure II.2
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS f.o.b., 2007-2008
(Index 2000=100)



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

Figure II.3
LATIN AMERICA (19 COUNTRIES): PRICE AND VOLUME DECOMPOSITION OF EXPORT GROWTH RATES BY VALUE, 2000-2008
(Percentages)



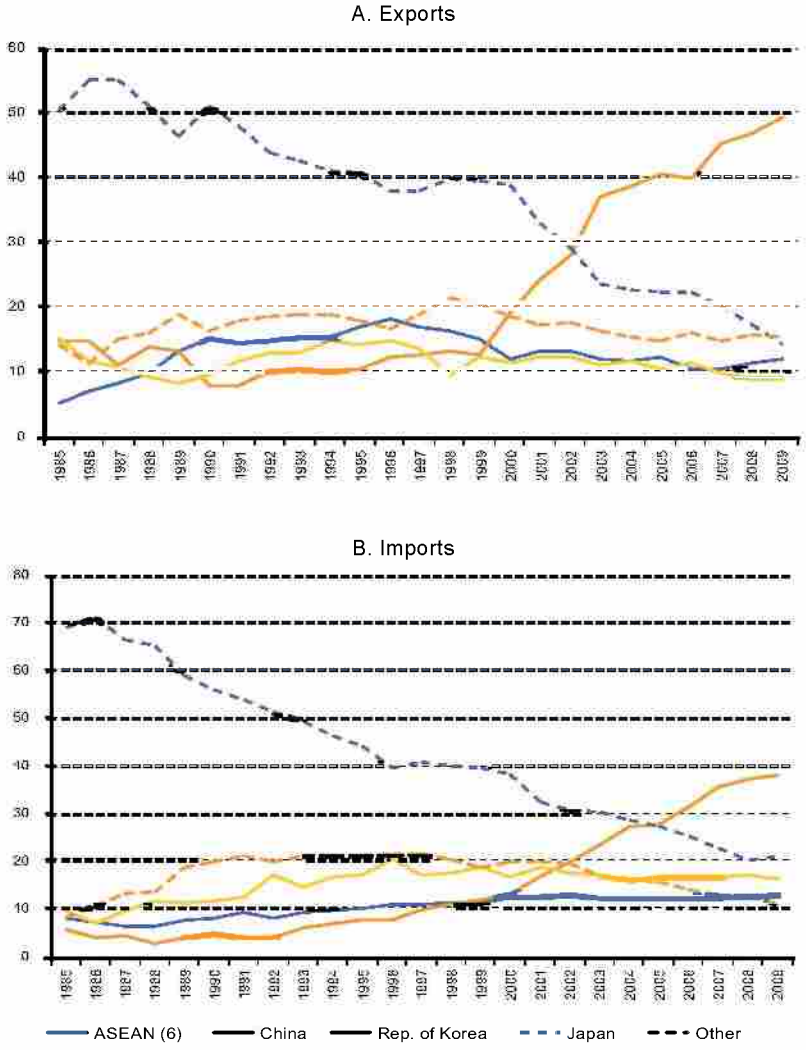
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

C. Asia and the Pacific (and China in particular) have become vital trading partners for the region, particularly where imports are concerned

China is the linchpin in the market diversification process for Latin America and the Caribbean in the Asia and the Pacific region, but dynamism in that area is not confined to China. The region has become a very important trading partner for Latin America and the Caribbean, mainly as an importer. China is playing a more and more important role in that trade dynamic, with regard to both exports and imports, having quickly displaced Japan as the region's leading trade partner in Asia and the Pacific at the beginning of the last decade, notwithstanding the slight recovery in Japanese exports in recent years. Furthermore, the countries of the Association of South-East Asian Nations (ASEAN-6) have caught up with the Republic of Korea, or even overtaken it, as a source of imports for Latin America and the Caribbean and a destination for the region's exports (see figure II.4).

Some countries in the region still have relatively weak trade links with China, despite the country's indisputable importance as a trading partner. China's importance as an export market varies considerably among the countries of Latin America and the Caribbean (see table II.3 and figure II.5A). Since the beginning of the past decade, China has become a crucial export market for Cuba, Chile, Peru, Brazil, Costa Rica and Argentina (listed in order of the share of exports taken by China). At the same time, the Chinese market has not been much exploited by Ecuador and the countries of Central America, with the exception of Costa Rica. China takes a strikingly small share of Mexico's exports: just 1.0% of the total in 2009. China has recently come to account for almost half of all exports to Asia and the Pacific for most of the region's countries. China's importance as an export destination has increased in almost all cases, the exceptions being Ecuador and some Caribbean countries.

Figure II.4
LATIN AMERICA AND THE CARIBBEAN: EXPORT AND IMPORT SHARES OF SELECTED COUNTRIES IN THE ASIA AND THE PACIFIC REGION, 1985-2009 [a]
(Percentages)



Source: United Nations, Commodity Trade Statistics Database (COMTRADE).

[a] The statistics were obtained from the Asian countries and supplemented with figures from Latin America and the Caribbean where necessary. ASEAN-6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. "Other" includes Australia, Hong Kong Special Administrative Region of China, New Zealand and other unspecified countries and territories.

Table II.3
LATIN AMERICA AND THE CARIBBEAN: EXPORTS TO MAIN DESTINATIONS, 2000 AND 2009[a b]
(Percentages of total exports)

		Asia and the Pacific		China		United States		European Union		Latin America and the Caribbean	
		2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
South America	Argentina	9.4	15.2	3.0	6.6	12.0	6.2	18.0	18.6	48.1	42.2
	Bolivia (Plurinational State of)	1.4	18.3	0.4	2.4	24.0	8.4	17.3	9.1	44.2	59.6
	Brazil	10.3	26.1	2.0	13.2	24.3	10.2	28.0	22.2	24.8	22.5
	Chile	26.1	46.1	5.0	23.2	16.5	11.3	25.2	18.0	21.9	19.1
	Colombia	2.6	6.0	0.2	2.9	50.4	39.6	13.9	14.2	28.9	24.6
	Ecuador	10.9	2.6	1.2	0.9	37.9	33.4	12.9	14.9	31.5	42.7
	Paraguay	2.0	7.1	0.7	1.1	3.9	1.6	13.6	6.0	74.5	69.6
	Peru	16.9	26.9	6.4	15.4	28.0	16.3	22.0	15.6	18.1	16.0
	Uruguay	8.3	8.5	4.0	4.3	8.3	3.3	16.3	15.0	54.2	40.0
	Venezuela (Bolivarian Republic of)	1.9	15.5	0.1	5.9	59.6	48.8	5.8	13.3	19.6	15.8
Central America	Costa Rica	5.5	17.6	0.2	8.8	52.0	33.7	22.1	17.3	19.0	27.1
	El Salvador	0.4	1.7	0.0	0.1	65.5	46.6	5.7	5.8	27.8	43.5
	Guatemala	3.6	3.2	0.1	0.4	44.0	42.5	10.9	5.5	35.6	40.1
	Honduras	1.6	3.4	0.0	1.5	79.3	40.7	4.5	22.7	6.0	29.3
	Mexico	1.4	3.7	0.2	1.0	88.2	80.7	3.5	5.1	3.6	6.4
	Nicaragua	0.8	2.5	0.0	-	57.2	29.5	16.4	13.3	23.4	50.8
	Panama	2.0	8.2	0.2	2.5	45.9	42.6	21.7	24.4	23.2	19.5
Caribbean countries	Bahamas	2.4	20.2	0.0	0.0	48.3	37.2	29.8	18.0	1.5	13.6
	Barbados	0.7	2.8	-	0.9	13.5	9.9	18.5	7.7	16.2	73.1
	Belize	0.8	5.1	-	0.1	45.0	32.1	27.8	29.4	30.6	21.0
	Cuba	9.8	27.0	4.8	24.3	-	-	38.5	21.0	10.5	20.0
	Dominican Republic	1.4	4.3	-	2.0	91.1	61.9	6.3	10.4	4.2	20.7
	Dominica	0.0	42.4	-	1.4	10.9	0.9	56.9	7.0	28.8	34.7
	Grenada	3.1	0.7	-	0.0	7.4	12.8	56.2	7.4	24.4	54.3
	Guyana	6.6	3.4	-	1.4	20.5	25.9	48.5	18.6	10.3	17.5
	Haiti	1.2	2.4	-	0.9	83.0	80.7	12.5	4.9	6.5	4.8
	Jamaica	1.0	3.0	0.0	0.4	28.4	35.1	31.8	16.3	5.1	10.4
	Saint Kitts and Nevis	3.3	0.7	-	0.3	61.3	57.9	34.2	9.2	3.8	8.2

Table II.3 (concluded)

		Asia and the Pacific		China		United States		European Union		Latin America and the Caribbean	
		2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Caribbean countries	Saint Lucia	0.1	3.6	-	0.1	16.6	19.4	68.9	24.7	8.7	50.5
	Saint Vincent and the Grenadines	0.0	2.1	-	0.0	10.6	1.5	54.6	60.7	34.0	29.9
	Suriname	6.2	1.4	-	0.8	11.8	12.3	38.3	22.6	6.3	6.5
	Trinidad and Tobago	1.4	4.7	0.1	0.7	53.9	46.8	9.0	14.8	18.0	27.9
Latin America and the Caribbean		5.3	15.4	1.1	7.1	59.7	40.9	11.6	13.6	16.0	19.2

Source: United Nations, Commodity Trade Statistics Database (COMTRADE); official information from the countries; and International Monetary Fund (IMF), Department of Trade Statistics (DOTS) (where indicated).

[a] Maquila exports have been included in the total for the Central American Common Market (CACM) countries and have been assigned to the United States.

[b] The 2000 data are from United Nations, Commodity Trade Statistics Database (COMTRADE), while those for 2009 are from national sources. The Caribbean data (other than those for the Dominican Republic) are from the International Monetary Fund (IMF), Department of Trade Statistics (DOTS).

Increase of over 10% in the share of total exports taken by the country or region.

Decrease of over 10% in the share of total exports taken by the country or region.

China's importance as a source of imports also varies greatly between the region's countries. Paraguay, Peru, Chile, Mexico, Brazil, Argentina, Cuba and Dominican Republic and a number of countries in South America are particularly dependent on trade with China, making at least 10% of their external purchases from that country (see table II.4 and figure II.5B). The countries of Central America and the Caribbean depend less on China as a source of imports, although much more than for their exports. Mexican dependence is particularly high, as the country buys almost 14% of all its imported goods and services from China, as compared to just 12% or so from the European Union. In summary, the region's trade is becoming more balanced between the exporting countries of Asia. By contrast with the 1980s and 1990s, when Japan was the region's main supplier and importer, in recent years China, Japan, the Republic of Korea and ASEAN have played a large part in the trade of Latin America and the Caribbean. Generally speaking, China is the main trading partner in terms of both exports and imports, and is very strongly represented in Latin American and Caribbean imports from Asia and the Pacific.

Table II.4
LATIN AMERICA AND THE CARIBBEAN: IMPORTS
BY MAIN ORIGINS, 2000 AND 2009[a]

		Asia and the Pacific		China		United States		European Union		Latin America and the Caribbean	
		2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
South America	Argentina	13.9	20.8	4.6	12.4	18.9	13.2	23.5	16.8	34.3	40.0
	Bolivia (Plurinational State of)	10.6	18.7	3.1	8.1	22.0	13.5	11.7	8.7	49.6	57.5
	Brazil	13.6	29.0	2.2	12.5	23.3	15.7	26.0	22.9	21.3	17.6
	Chile	16.3	27.8	5.7	14.6	19.7	18.1	17.4	16.2	35.8	30.1
	Colombia	11.8	15.9	3.0	11.3	33.2	28.7	16.7	16.1	27.1	25.2
	Ecuador	8.5	19.7	2.2	6.8	25.6	25.6	12.6	10.2	43.7	41.4
	Paraguay	19.1	38.0	11.4	30.1	7.3	4.1	12.0	5.5	56.0	48.6
	Peru	16.1	28.4	3.9	14.8	23.4	19.6	14.1	11.2	38.4	33.2
	Uruguay	7.8	16.8	3.2	11.9	9.8	8.2	18.8	10.8	51.7	56.6
	Venezuela (Bolivarian Republic of)	8.6	12.5	1.3	8.6	37.8	24.3	19.4	18.8	25.0	36.2
Central America	Costa Rica	5.5	11.6	0.2	6.1	52.0	25.8	22.1	6.3	19.0	25.9
	El Salvador	0.4	10.6	0.0	4.6	65.5	36.0	5.7	7.5	27.8	40.9
	Guatemala	3.6	11.9	0.1	6.4	44.0	36.0	10.9	7.2	35.6	34.4
	Honduras	1.6	10.8	0.0	4.8	79.3	33.6	4.5	6.1	6.0	45.6
	Mexico	9.7	31.4	1.6	13.9	71.2	48.1	8.4	11.7	2.6	4.4
	Nicaragua	0.8	17.6	0.0	-	57.2	20.1	16.4	7.4	23.4	54.1
	Panama	9.4	13.3	0.6	4.2	33.1	29.1	8.8	7.0	30.9	23.0
Caribbean countries	Bahamas	7.6	9.0	0.4	4.9	33.7	27.2	20.9	10.9	21.8	44.7
	Barbados	25.4	34.5	0.0	4.9	38.1	25.1	19.0	11.4	5.1	20.7
	Belize	3.2	7.9	0.7	5.2	57.9	37.4	15.6	9.2	17.2	37.6
	Cuba	14.6	17.7	9.2	12.9	0.1	7.1	35.3	19.7	36.5	43.6
	República Dominicana	1.4	13.9	-	10.1	91.1	42.2	6.3	10.0	4.2	29.1
	Dominica	9.5	60.3	0.6	7.9	33.1	14.1	23.0	4.7	24.7	18.4
	Granada	10.3	4.4	0.7	1.5	30.6	21.1	21.5	5.7	28.2	53.8
	Guyana	6.7	17.8	0.3	7.4	29.9	25.6	23.8	9.7	16.4	38.2
	Haiti	8.4	13.6	0.5	7.6	57.9	36.2	11.5	7.6	6.8	31.6
	Jamaica	6.9	9.5	0.4	5.0	48.5	35.0	11.4	6.9	20.4	39.9
	Saint Kitts and Nevis	3.9	3.7	-	0.7	52.8	42.0	25.4	21.4	11.7	26.7

Table II.4 (concluded)

		Asia and the Pacific		China		United States		European Union		Latin America and the Caribbean	
		2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Caribbean countries	Saint Lucia	10.0	0.7	0.0	0.2	45.4	11.6	25.7	1.3	12.5	85.7
	Saint Vincent and the Grenadines	5.6	38.8	0.7	13.1	36.5	15.2	26.5	16.4	24.7	21.2
	Suriname	4.9	18.7	0.3	8.8	40.1	28.0	30.3	25.9	16.9	23.5
	Trinidad and Tobago	6.4	12.0	0.8	4.4	40.9	29.2	16.8	8.8	21.0	22.7
Latin America and the Caribbean		10.6	25.3	2.2	11.9	50.4	30.4	14.2	14.5	15.3	21.0

Source: United Nations, Commodity Trade Statistics Database (COMTRADE); official information from the countries; and International Monetary Fund (IMF), Department of Trade Statistics (DOTS) (where indicated).

[a] The 2000 data are from COMTRADE, while those for 2009 are from official country information and DOTS. The data on theCaribbean countries (except the Dominican Republic) are from DOTS.

Increase of over 10% in the share of total imports taken by the country or region.

Decrease of over 10% in the share of total imports taken by the country or region.

Figure II.5
LATIN AMERICA AND THE CARIBBEAN: SHARE OF ALL TRANSACTIONS ACCOUNTED FOR BY SELECTED GROUPINGS AND COUNTRIES IN THE ASIA AND THE PACIFIC REGION, 2006-2008 AVERAGE [a]
(Percentages of each country's total transactions)

A. Exports

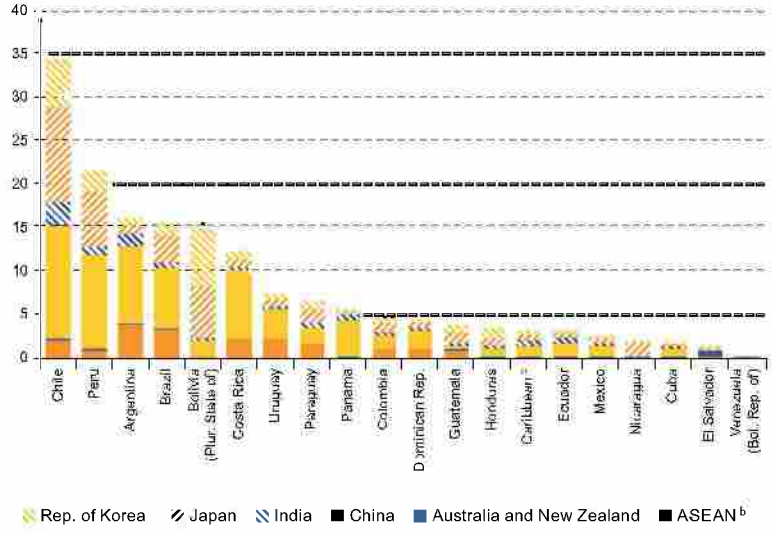
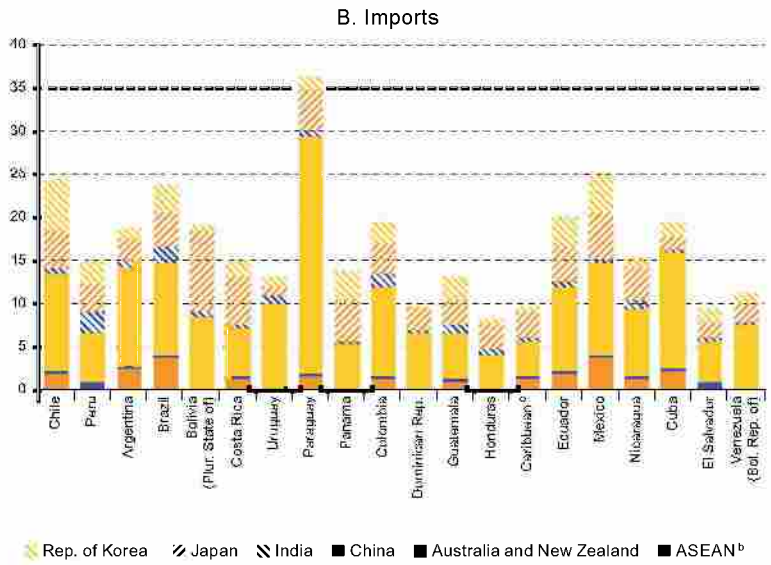


Figure II.5 (concluded)



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

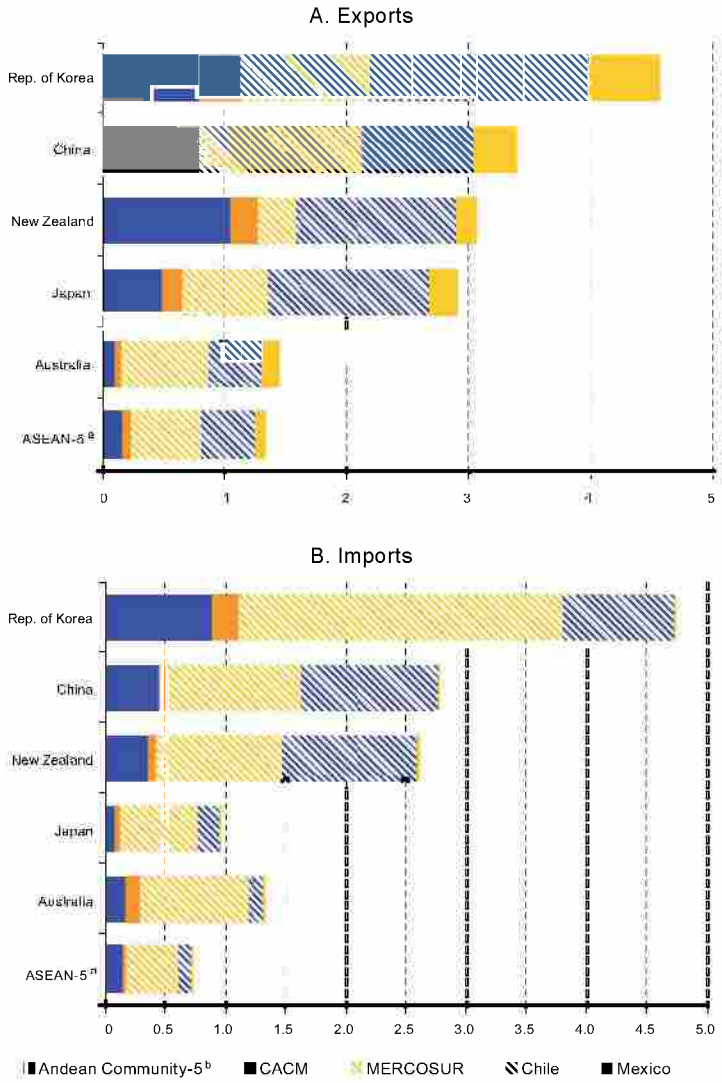
[a] In the years for which data are available in each country.

[b] Includes Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

[c] Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

Latin America and the Caribbean has not been a major trading partner for Asia and the Pacific, so the relationship between the two regions is very asymmetrical. On average, just 2.3% of total exports from Asia and the Pacific went to Latin America and the Caribbean in the 2005-2008 period, while 2.7% of its imports came from there. For all the geographical groupings on which data are available, the share of Latin America and the Caribbean in the total exports and imports of Asia and the Pacific generally does not exceed 4%, the exception being the Republic of Korea (see figure II.6). Nonetheless, there are considerable differences from one country to another. On average, the region's largest share is in the total exports of the Republic of Korea (4.6%), while in the case of imports China has the largest share (3.3%). The share of Latin America and the Caribbean in the total exports and imports of the small economies of Asia and the Pacific (such as the ASEAN countries) is very small.

Figure II.6
ASIA AND THE PACIFIC, SELECTED COUNTRIES AND GROUPINGS: EXPORT AND IMPORT SHARES OF LATIN AMERICAN AND CARIBBEAN COUNTRIES AND GROUPINGS, 2005-2008 AVERAGE
(Percentages of country totals)



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

[a] Includes Indonesia, Malaysia, Philippines, Singapore and Thailand.

[b] The Bolivarian Republic of Venezuela is included in the Andean Community for the purposes of this analysis.

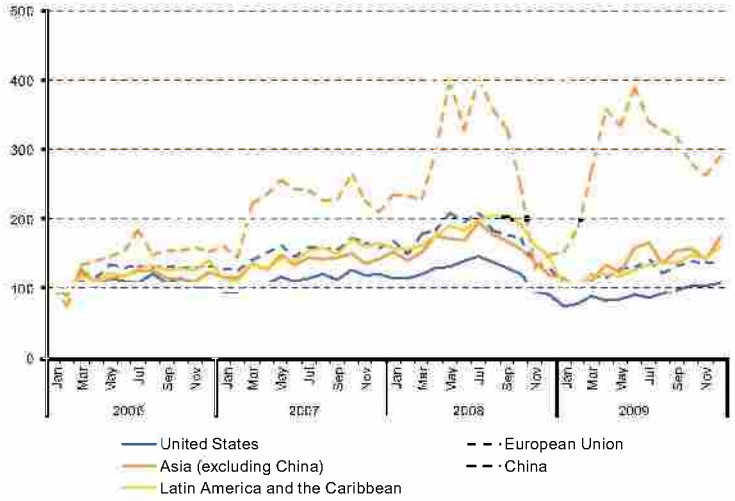
D. China helped to bolster the region's exports during the financial crisis

The crisis brought to an end a "golden age" for the Latin American economy. Growth in Latin America and the Caribbean was 4.6% in 2008, making this the sixth consecutive year of expansion in the region, but it also marked the end of a period with few precedents in the economic history of Latin America and the Caribbean. Between 2003 and 2008, the region expanded at an average annual rate of close to 5%, which meant that per capita GDP growth was in excess of 3% a year. This growth was accompanied by improving labour market and income distribution indicators in the region, and by a reduction in poverty. Another remarkable characteristic of the period is that most of the countries prioritized macroeconomic equilibria in their policymaking and accordingly ran surpluses in their external and fiscal accounts, something the very favourable external environment of recent years also contributed to.

To a large extent, the growth seen in Latin America and the Caribbean between 2003 and 2008 and the region's rapid recovery from the crisis were due to its increasing links with the Asia and the Pacific region, and China in particular. This was most particularly the case in South America, although Costa Rica in Central America is an interesting case of export diversification towards Asia and the Pacific. High Chinese demand for food, energy, metals and minerals has benefited countries exporting these, substantially improving their terms of trade and stimulating growth. At the same time, from a trade point of view, the emergence of the Latin America and Caribbean region from the international financial crisis has largely been due to the economic recovery of Asia in general and China in particular, one of the few drivers of global growth in 2009. As can be seen in figure II.7, Latin American exports to China became more dynamic and indeed recovered strongly in the post-crisis period, ahead of those to all other leading destinations.

Latin American and Caribbean output and trade have recovered more quickly than anticipated. After experiencing one of their severest contractions of the last 72 years in 2009, the region's trade flows recovered vigorously in 2010. This solid recovery has largely been based on the dynamism of domestic demand, a pick-up in investment and a robust export performance driven by demand from China and the rest of Asia and by the normalization of demand in the United States. Unflagging demand from China and the rest of Asia for a number of the commodities exported by the region has underpinned high international prices for these goods, which are such an important part of the economic performance of the Latin American and Caribbean countries. In the post-crisis period, exports from the South American countries performed best, while Mexico and the Central American countries fared less well. This is connected to the more favourable pricing of raw material exports, which represent a larger percentage of South American than of Mexican or Central American exports.

Figure II.7
LATIN AMERICA AND THE CARIBBEAN: VALUE OF GOODS EXPORTS TO LEADING DESTINATIONS, MARCH 2006 TO DECEMBER 2009
(January 2006=100)

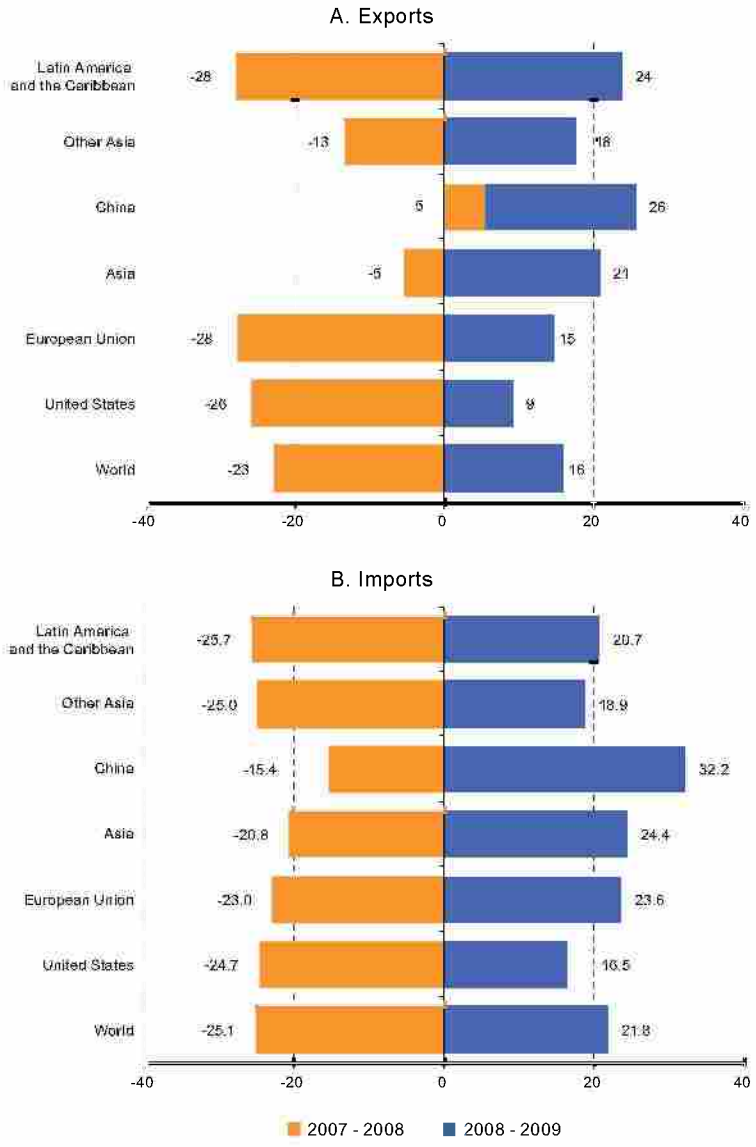


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country information.

The exports of Latin America and the Caribbean contracted during 2009, with the exception of those going to China, which continued to rise at the height of the crisis. Bilateral trade relations with China and the rest of Asia merit special attention, since these have been the flows with the most dynamic performance before, during and since the crisis. Despite the international recession, in 2009 the region's exports to China rose by 5%, while in the same year its exports to the United States and the European Union fell by 26% and 28%, respectively; those to Asia fell by just 5% (see figure II.8).

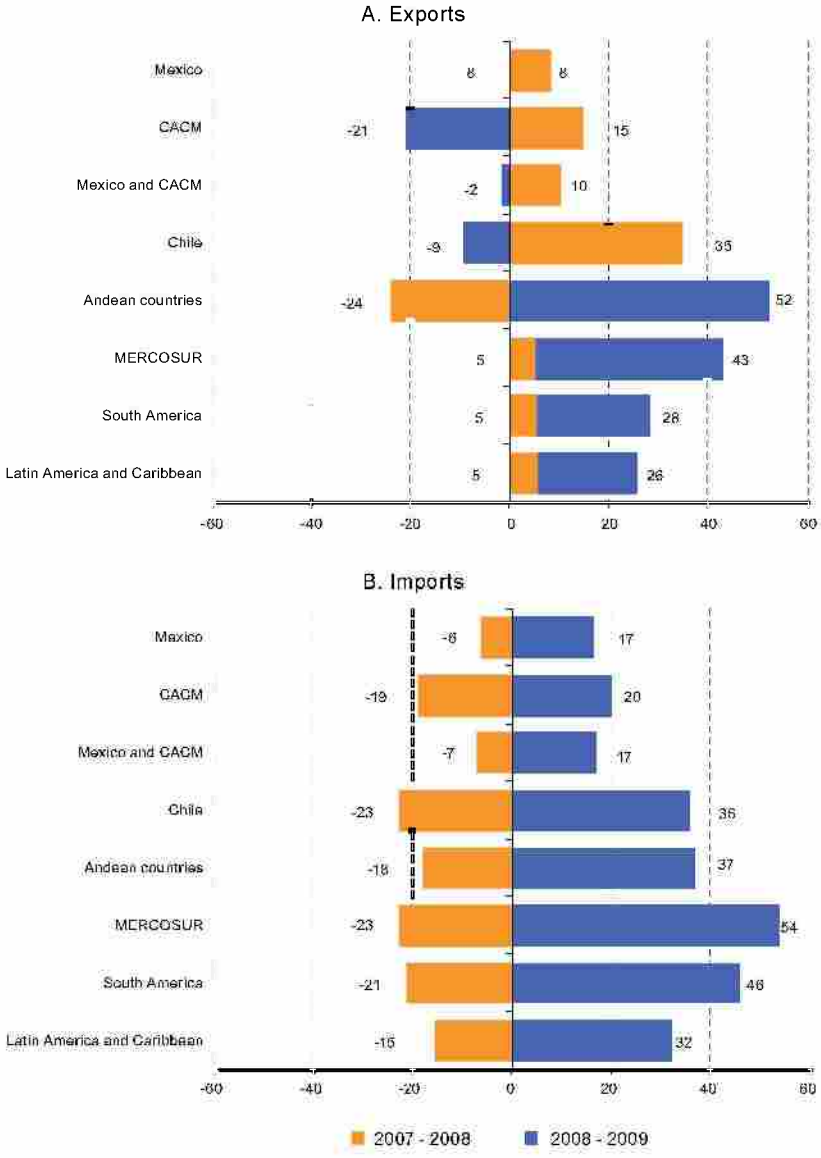
The economic dynamism of China has come to the rescue of Latin American and Caribbean exports. The countries of South America, and especially those of MERCOSUR, were actually able to increase their exports to China at the height of the crisis (see figure II.9). Chile's exports to China recovered rapidly in 2009 after falling substantially in 2008. Because their export baskets are less dependent on commodities, Mexico and Central America experienced higher export growth at the height of the crisis than South America. In the post-crisis period, all the countries in the region except Costa Rica and Honduras saw their exports to China grow quite strongly (ECLAC, 2010a). The region's imports from China fell by 15%. By country and subregion, Mexico was the least-affected market, while the countries of South America saw a considerable decline in 2009 by comparison with the previous year.

Figure II.8
LATIN AMERICA AND THE CARIBBEAN: VALUE OF GOODS EXPORTS BY MAIN ORIGINS AND DESTINATIONS, 2007 TO 2008 AND 2008 TO 2009
(Percentages)



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

Figure II.9
LATIN AMERICA AND THE CARIBBEAN: VALUE OF GOODS TRADE TO AND FROM CHINA, 2007 TO 2008 AND 2008 TO 2009
(Percentages)



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

As a region, Latin America and the Caribbean runs a trade deficit with China because of the growing negative trade balance of Mexico and Central America. Latin America and the Caribbean ran a trade deficit with China over the past decade, mainly because of the rising negative balances of Mexico and the Central American countries. By contrast, the trade of the South American economies with China has been in rough balance over the past 10 years (see figure II.10). China has become one of the main sources of imports for Mexico and Central America, but the weight of China as an export destination has not increased significantly. This asymmetry will have to be taken into account in their respective trade strategies.

At the height of the crisis, the quantity of Chinese imports of a number of products of great interest to the economies of Latin America and the Caribbean continued to rise. During the crisis, exports to China of a number of products of interest to the region, such as fruit, cereals, wood and some minerals and metals, actually rose by value.

Figure II.10
SOUTH AMERICA, CENTRAL AMERICA AND MEXICO: EXPORTS AND IMPORTS AND TRADE BALANCE WITH CHINA, 1985-2009
(Millions of dollars)

A. South America

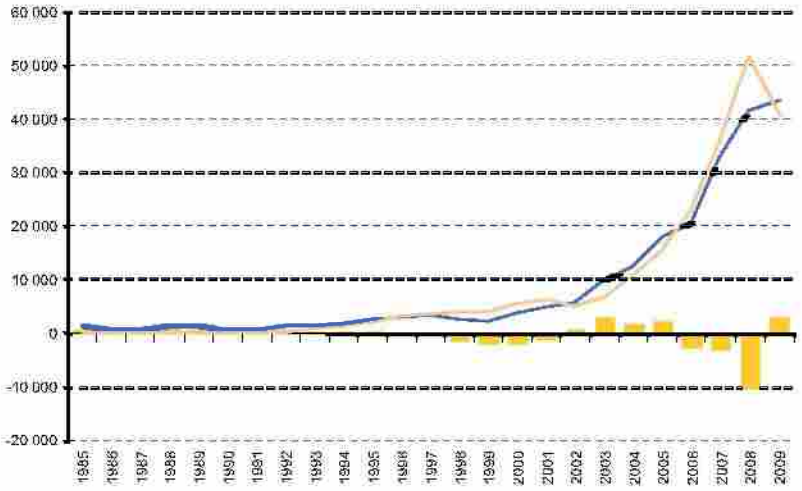
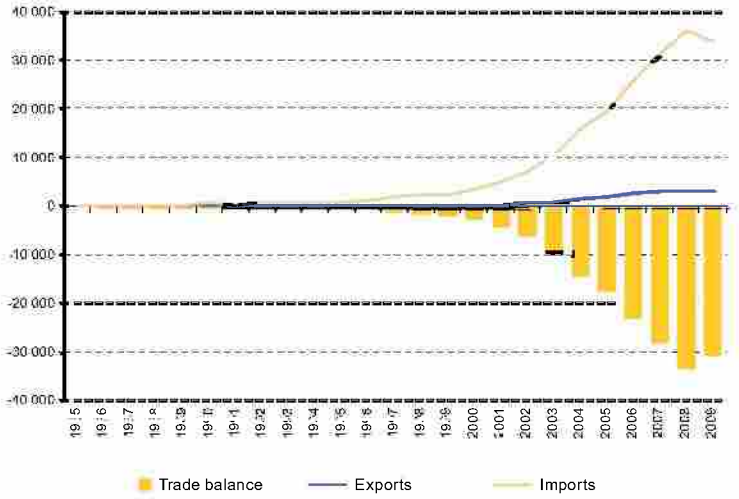


Figure II.10 (concluded)

B. Mexico and Central America



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE); official country information; and International Monetary Fund (IMF), Department of Trade Statistics (DOTS).

Table II.5
CHINA: RATES OF IMPORT GROWTH FROM JANUARY TO SEPTEMBER 2009
COMPARED TO THE SAME PERIOD THE PREVIOUS YEAR,
BY PRODUCT AND BY PRICE AND VOLUME
(Millions of dollars and percentages)

	Value	Compared to the same period in 2008	
		Quantity	Value
Fresh and dried fruit and nuts	1 247.1	36.0	42.4
Cereals and cereal powder	627.8	82.8	6.4
Soy	14 068.8	12.8	-19.4
Edible vegetable oil	4 347.1	9.7	-34.4
Average			-18.0
Iron ore	36 483.5	35.7	-26.1
Copper			
Copper and unwrought sheet copper	16 371.7	77.0	8.3
Copper scrap	3 875.6	-32.6	-22.7

Table II.5 (concluded)

	Value	Compared to the same period in 2008		
		Quantity	Value	
Steel	14 731.0	8.6	-18.3	
Billets and crude forgings	1 669.8	2689.1	350.0	
Alumina	990.4	16.6	-29.2	
Aluminium and unwrought aluminium	4 295.2	189.8	45.3	
Scrap metal	1 783.6	8.4	-12.3	
Average				-5.6
Crude oil	58 595.6	8.2	-44.4	
Refined oil	12 325.1	-8.2	-53.3	
Average				-45.9
Plastics in primary forms	25 290.3	30.6	-7.9	
ABS resin	2 482.0	3.4	-14.8	
Fertilizers	1 751.0	-24.6	-27.4	
Pesticides	277.7	3.8	19.0	
Natural rubber (including latex)	1 967.9	1.1	-41.7	
Synthetic rubber (including latex)	2 173.4	9.0	-22.0	
Polyester chips	210.9	13.9	-15.9	
Unsawn wood	2 932.3	-9.7	-27.8	
Wood	1 610.8	35.5	8.2	
Wood veneer	52.7	-45.3	-54.2	
Wood pulp	5 062.0	40.6	-7.5	
Paper and cardboard (not cut to shape)	2 268.2	-12.0	-18.2	
Synthetic textiles	519.7	3.7	-16.6	
Average				-12.3
Metal processing machine tools	4 510.1	-27.7	-21.2	
Aircraft	6 867.9	10.0	4.4	
Synthetic yarn	1 118.0	-6.4	-9.9	
Machinery and electrical products	345 925.4	--	-16.8	
High-technology products	217 393.0	--	-18.1	
Automobiles and automobile chassis	9 297.1	-16.7	-20.5	
Average				-17.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the Chinese General Administration of Customs.

E. The region's trade with China is characterized by a high concentration of origin and destination countries

Most Latin American and Caribbean trade with China is carried out by a few countries. The region's imports from China are even more concentrated than its exports. During the 2005-2008 period, five countries accounted for an average of almost 86% of all the region's exports: Brazil (33%), Chile (25%), Argentina (12%), Mexico (9%) and Peru (7%) (see table II.6). The region's imports of goods from China are even more concentrated: Mexico is the largest importer in Latin America and the Caribbean, accounting for 48% of the region's total purchases, followed by Brazil (20%), Argentina (6%) and Chile (6%). Chile and Peru's imports of Chinese products are much smaller than their exports to the country (see table II.7). The most striking characteristic of the region's imports of goods from Asia and the Pacific, and from China in particular, has been the rapid increase in the share of Mexico, which accounted for about half of total imports from China in the period, as compared to the 25% recorded in early 1990. Thus, China has become the second-largest exporter to Mexico after the United States. Where the region in general is concerned, China plays a leading role as both exporter and importer, whereas Japan is mainly an importer. However, the share of the Republic of Korea and ASEAN-5 is moderately high in some countries.

Table II.6
LATIN AMERICA AND THE CARIBBEAN: EXPORTS TO SELECTED COUNTRIES AND GROUPINGS IN ASIA AND THE PACIFIC, 2005-2008 AVERAGE [a]
(Millions of current dollars and percentages)

	Total exports by destination							
	Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [a]	World
Latin America and the Caribbean	16 707.1	30 549.4	8 198.6	8 649.6	1 979.6	4 785.7	70 870.1	724 733.5
Andean Community	2 341.3	3 613.7	1 030.5	408.8	122.9	291.0	7 808.3	138 064.9
Bolivia (Plurinational State of)	283.1	60.1	280.0	20.1	5.0	2.9	651.3	4 683.2
Colombia	355.2	479.2	140.3	168.8	23.1	40.2	1 206.7	28 299.7
Ecuador	100.5	155.8	22.1	14.0	17.1	49.9	359.3	13 727.0
Peru	1 467.5	2 725.4	553.9	159.8	76.9	167.2	5 150.6	24 960.5
Venezuela (Bolivarian Republic of)	135.0	193.2	34.3	46.1	.8	30.9	440.3	66 394.5
MERCOSUR	6 424.5	17 921.6	3 322.5	6 375.3	1 078.9	2 047.6	37 170.4	234 497.4
Argentina	463.5	4 546.7	498.9	1 901.6	224.7	830.0	8 465.5	53 113.2
Brazil	4 453.2	10 597.3	2 256.1	4 279.7	777.0	1 034.3	23 397.6	153 731.5
Paraguay	40.3	52.2	13.7	34.2	.3	16.1	156.7	2 692.2
Uruguay	1 467.5	2 725.4	553.9	159.8	76.9	167.2	5 150.6	24 960.5
Chile	5 888.4	6 437.5	3 156.2	892.4	193.6	1 399.1	17 967.3	53 405.1
CACM	178.4	628.5	143.5	214.0	26.3	27.9	1 218.6	18 845.0
Costa Rica	69.6	561.4	75.0	163.9	15.6	18.3	903.8	8 269.4
El Salvador	16.2	5.5	2.9	10.5	1.5	2.6	39.3	1 977.1
Guatemala	63.2	39.1	43.8	33.7	3.1	6.6	189.5	5 803.5
Honduras	18.7	17.0	21.2	3.3	3.6	.4	64.2	1 855.2
Nicaragua	10.8	5.4	.4	2.6	2.5	.0	21.7	939.7
Mexico	1 755.6	1 690.9	479.4	713.3	537.5	961.5	6 138.1	256 813.5
The Caribbean and other countries of Latin America	118.8	257.3	66.5	45.8	20.3	58.6	567.4	23 107.6

Table II.6 (concluded)

Latin American and Caribbean percentage of total							Each destination's percentage of total						
Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [a]	Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [a]
100	100	100	100	100	100	100	2.3	4.2	1.1	1.2	0.3	0.7	9.8
14.0	11.8	12.6	4.7	6.2	6.1	11.0	1.7	2.6	0.7	0.3	0.1	0.2	5.7
1.7	0.2	3.4	0.2	0.3	0.1	0.9	6.0	1.3	6.0	0.4	0.1	0.1	13.9
2.1	1.6	1.7	2.0	1.2	0.8	1.7	1.3	1.7	0.5	0.6	0.1	0.1	4.3
0.6	0.5	0.3	0.2	0.9	1.0	0.5	0.7	1.1	0.2	0.1	0.1	0.4	2.6
8.8	8.9	6.8	1.8	3.9	3.5	7.3	5.9	10.9	2.2	0.6	0.3	0.7	20.6
0.8	0.6	0.4	0.5	0.0	0.6	0.6	0.2	0.3	0.1	0.1	0.0	0.0	0.7
38.5	58.7	40.5	73.7	54.5	42.8	52.4	2.7	7.6	1.4	2.7	0.5	0.9	15.9
2.8	14.9	6.1	22.0	11.4	17.3	11.9	0.9	8.6	0.9	3.6	0.4	1.6	15.9
26.7	34.7	27.5	49.5	39.2	21.6	33.0	2.9	6.9	1.5	2.8	0.5	0.7	15.2
0.2	0.2	0.2	0.4	0.0	0.3	0.2	1.5	1.9	0.5	1.3	0.0	0.6	5.8
8.8	8.9	6.8	1.8	3.9	3.5	7.3	5.9	10.9	2.2	0.6	0.3	0.7	20.6
35.2	21.1	38.5	10.3	9.8	29.2	25.4	11.0	12.1	5.9	1.7	0.4	2.6	33.6
1.1	2.1	1.7	2.5	1.3	0.6	1.7	0.9	3.3	0.8	1.1	0.1	0.1	6.5
0.4	1.8	0.9	1.9	0.8	0.4	1.3	0.8	6.8	0.9	2.0	0.2	0.2	10.9
0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.8	0.3	0.1	0.5	0.1	0.1	2.0
0.4	0.1	0.5	0.4	0.2	0.1	0.3	1.1	0.7	0.8	0.6	0.1	0.1	3.3
0.1	0.1	0.3	0.0	0.2	0.0	0.1	1.0	0.9	1.1	0.2	0.2	0.0	3.5
0.1	0.0	0.0	0.0	0.1	0.0	0.0	1.1	0.6	0.0	0.3	0.3	0.0	2.3
10.5	5.5	5.8	8.2	27.2	20.1	8.7	0.7	0.7	0.2	0.3	0.2	0.4	2.4
0.7	0.8	0.8	0.5	1.0	1.2	0.8	0.5	1.1	0.3	0.2	0.1	0.3	2.5

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

[a] The Asia and the Pacific total is the sum of the preceding columns, so that it does not include exports to countries in Asia or to economies such as Taiwan Province of China or Hong Kong Special Administrative Region of China.

Table II.7
LATIN AMERICA AND THE CARIBBEAN: IMPORTS FROM SELECTED COUNTRIES AND GROUPINGS IN ASIA AND THE PACIFIC, 2005-2008 AVERAGE [a]
(Millions of current dollars and percentages)

	Total imports by origin							
	Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [b]	World
Latin America and the Caribbean	28 586	60 514	20 449	19 958	3 188	4 981	137 676	645 972
Andean Community	3 238	8 249	2 209	1 468	247	784	16 195	97 547
Bolivia (Plurinational State of)	298	253	23	29	5	19	626	3 424
Colombia	1 008	2 928	793	546	37	400	5 712	29 983
Ecuador	543	1 173	469	290	10	67	2 553	13 176
Peru	601	1 706	421	335	83	174	3 319	16 102
Venezuela (Bolivarian Republic of)	787	2 190	504	268	112	125	3 985	34 862
MERCOSUR	6 146	17 794	4 221	5 805	1 098	2 527	37 591	167 831
Argentina	1 017	4 212	519	1 096	195	345	7 383	41 243
Brazil	4 665	11 500	3 559	4 532	884	2 101	27 242	114 690
Paraguay	403	1 571	79	135	3	32	2 222	6 104
Uruguay	61	510	65	43	16	49	744	5 794
Chile	1 249	3 635	1 933	731	237	169	7 953	35 772
CACM	1 445	1 980	816	499	132	196	5 068	39 136
Costa Rica	668	631	229	211	15	36	1 790	12 073
El Salvador	161	266	108	62	42	20	660	6 809
Guatemala	365	706	403	141	50	86	1 751	12 026
Honduras	134	164	35	40	18	29	420	5 290
Nicaragua	117	213	41	44	8	25	447	2 938
Mexico	15 250	26 642	10 815	10 833	1 236	1 163	65 938	267 104
The Caribbean and other countries of Latin America	1 258	2 213	456	622	238	143	4 930	38 583

Table II.7 (concluded)

Percentage of the Latin American and Caribbean total							Percentage of total from each origin						
Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [a]	Japan	China	Republic of Korea	ASEAN	Australia and New Zealand	India	Asia and the Pacific [a]
100	100	100	100	100	100	100	4.4	9.4	3.2	3.1	0.5	0.8	21.3
11.3	13.6	10.8	7.4	7.7	15.7	11.8	3.3	8.5	2.3	1.5	0.3	0.8	16.6
1.0	0.4	0.1	0.1	0.2	0.4	0.5	8.7	7.4	0.7	0.8	0.1	0.5	18.3
3.5	4.8	3.9	2.7	1.2	8.0	4.1	3.4	9.8	2.6	1.8	0.1	1.3	19.0
1.9	1.9	2.3	1.5	0.3	1.3	1.9	4.1	8.9	3.6	2.2	0.1	0.5	19.4
2.1	2.8	2.1	1.7	2.6	3.5	2.4	3.7	10.6	2.6	2.1	0.5	1.1	20.6
2.8	3.6	2.5	1.3	3.5	2.5	2.9	2.3	6.3	1.4	0.8	0.3	0.4	11.4
21.5	29.4	20.6	29.1	34.4	50.7	27.3	3.7	10.6	2.5	3.5	0.7	1.5	22.4
3.6	7.0	2.5	5.5	6.1	6.9	5.4	2.5	10.2	1.3	2.7	0.5	0.8	17.9
16.3	19.0	17.4	22.7	27.7	42.2	19.8	4.1	10.0	3.1	4.0	0.8	1.8	23.8
1.4	2.6	0.4	0.7	0.1	0.6	1.6	6.6	25.7	1.3	2.2	0.1	0.5	36.4
0.2	0.8	0.3	0.2	0.5	1.0	0.5	1.0	8.8	1.1	0.7	0.3	0.8	12.8
4.4	6.0	9.5	3.7	7.4	3.4	5.8	3.5	10.2	5.4	2.0	0.7	0.5	22.2
5.1	3.3	4.0	2.5	4.1	3.9	3.7	3.7	5.1	2.1	1.3	0.3	0.5	13.0
2.3	1.0	1.1	1.1	0.5	0.7	1.3	5.5	5.2	1.9	1.7	0.1	0.3	14.8
0.6	0.4	0.5	0.3	1.3	0.4	0.5	2.4	3.9	1.6	0.9	0.6	0.3	9.7
1.3	1.2	2.0	0.7	1.6	1.7	1.3	3.0	5.9	3.3	1.2	0.4	0.7	14.6
0.5	0.3	0.2	0.2	0.6	0.6	0.3	2.5	3.1	0.7	0.8	0.3	0.5	7.9
0.4	0.4	0.2	0.2	0.2	0.5	0.3	4.0	7.3	1.4	1.5	0.3	0.9	15.2
53.3	44.0	52.9	54.3	38.8	23.4	47.9	5.7	10.0	4.0	4.1	0.5	0.4	24.7
4.4	3.7	2.2	3.1	7.5	2.9	3.6	3.3	5.7	1.2	1.6	0.6	0.4	12.8

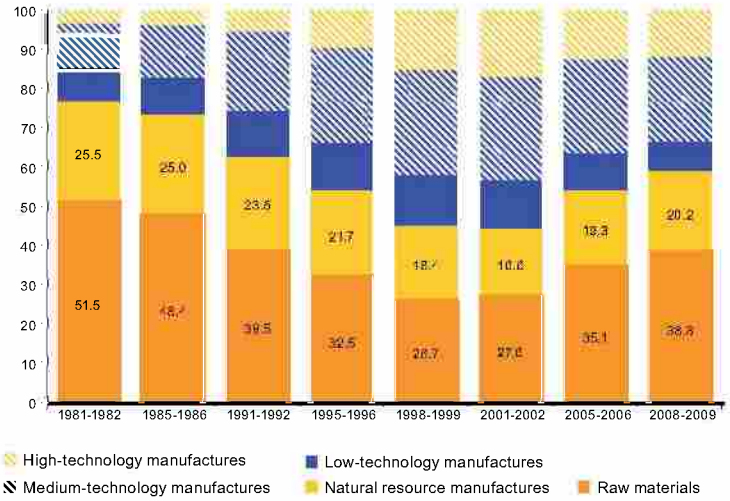
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE).

[a] The Asia and the Pacific total is the sum of the preceding columns, so that it does not include exports to other countries in Asia or to economies such as Taiwan Province of China or Hong Kong Special Administrative Region of China.

F. China as a key factor in the current process of "re-commodification" of the Latin American and Caribbean export sector

China has been a determining factor in the renewed predominance of raw materials in the region's export structure. After declining from levels of nearly 52% in the early 1980s to a low of 27% in the late 1990s, the share of raw materials in exports increased during the last decade to almost 40% of the total in the two-year period 2008-2009 (see figure II.11). While the export growth rate of South America doubled during the decade just past, that of Mexico and Central America moderated by over 50%. Natural resource exports were the region's most dynamic, especially in South America (ECLAC, 2010b).

Figure II.11
LATIN AMERICA AND THE CARIBBEAN: EVOLVING STRUCTURE OF WORLDWIDE EXPORTS, 1981-2009
(Percentages of the total by value)



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

Growth in sectors associated with natural resources, driven mainly by Chinese demand, has not done enough to create new technological capabilities in the region. Although profitability in these sectors has increased and there have even been productivity gains, the lack of active production development policies has resulted in widening productivity

gaps relative to countries deemed to be at the production frontier, especially the United States. Consequently, there is a need to move towards a trading relationship better suited to the patterns of economic and social development that Latin America and the Caribbean needs (ECLAC, 2010a).

Exports to China and the rest of Asia are characterized by a more concentrated pattern. Specifically, in the composition of exports by technology intensity those going to the main destinations in Asia, and to a lesser extent the European Union, are dominated by raw materials, which average over 55% of total exports. Next in importance come natural resource-based manufactures, with processed mineral products (copper and iron, among others) and, to a lesser extent, agro-industrial products such as food, drink and tobacco (see figure II.12). Conversely, the pattern of exports to the United States is more diversified. This is largely because of Mexico's exports. Exports within the region itself are more diversified and have a larger share of manufactures. Industrialized products represent virtually 80% of the total, with natural resource-based manufactures and those with a medium and low technology content predominating. Thus, of all extraregional destinations, it is only in exports to the United States that manufactures are as well represented as in intraregional trade (ECLAC, 2010a).

Figure II.12
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF EXPORTS TO MAIN DESTINATIONS BY TECHNOLOGY INTENSITY, 2005-2008
(Percentages of total)

A. Including Mexico

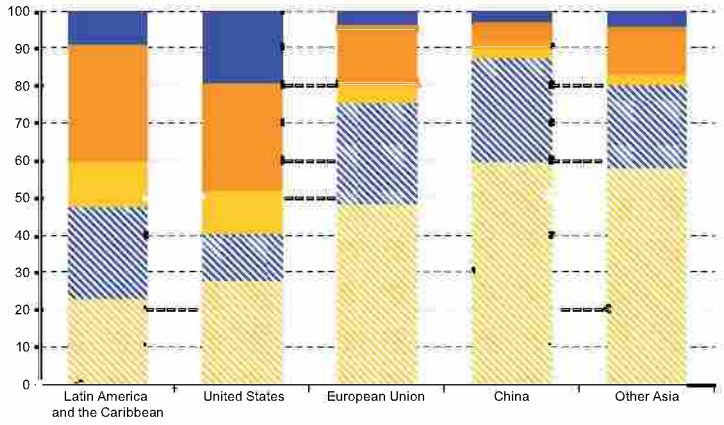
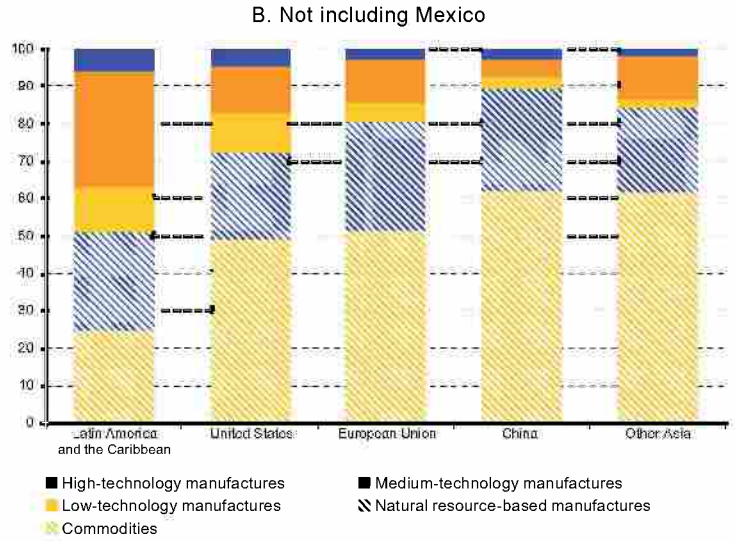


Figure II.12 (concluded)



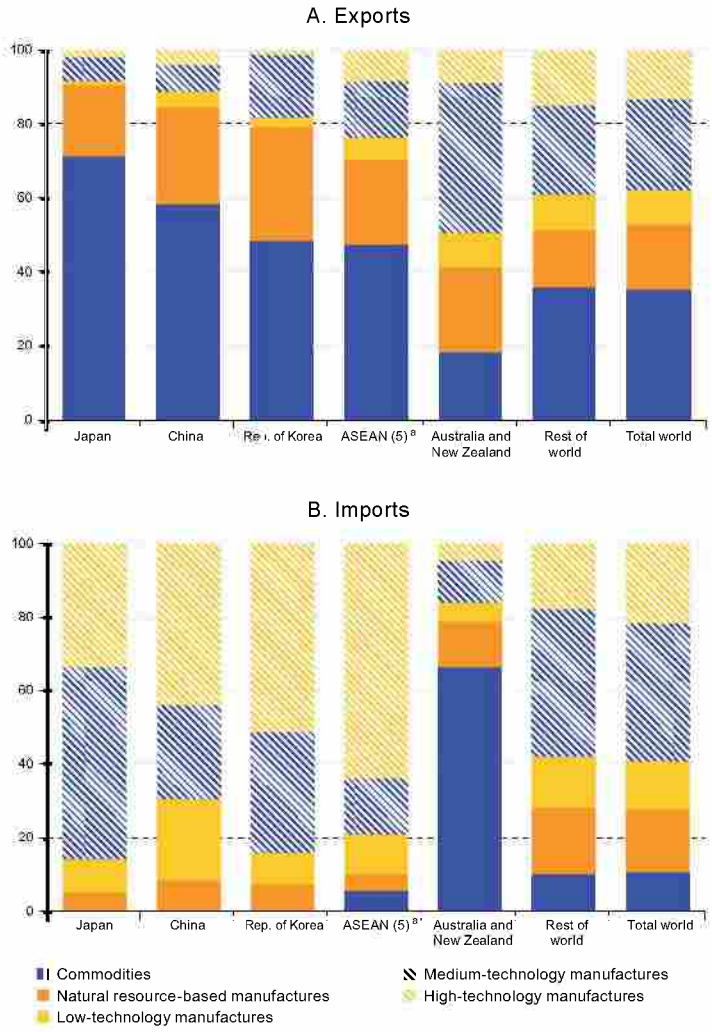
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE).

Trade between Asia and the Pacific and Latin America and the Caribbean is almost entirely inter-industrial, although there are some differences between the countries of the former region as regards the origin and destination of products. The prominence of primary products and natural resource-based manufactures in the exports of Latin America and the Caribbean to Asia and the Pacific is plain to see in the cases of Japan and, to a lesser extent, of China, the ASEAN countries and the Republic of Korea. The manufactures of Latin America and the Caribbean, including those with a medium or high technology content, account for a no less significant percentage in the import basket of ASEAN. The countries of Oceania usually exhibit a large component of medium-technology manufactures (see figure II.13). With the "re-commodification" of the region's export sector in recent years, the share of commodities has increased.

The structure of Latin American and Caribbean imports from the Asia and the Pacific region is the reverse of the region's export structure, although it does vary markedly between countries and subregions. Where Japan and, to a lesser extent, China, the Republic of Korea and ASEAN are concerned, the most important components are medium- and high-technology manufactures. The largest percentage of high-technology manufactures is seen in the ASEAN group. Conversely, the export basket of the countries of Oceania is dominated by primary products. It remains

to be seen whether the trade agreements currently in force or being negotiated in the Asia and the Pacific region, or between this and Latin America and the Caribbean, will alter these structures.

Figure II.13
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF TRADE WITH SELECTED MARKETS IN ASIA, BY TECHNOLOGY INTENSITY, 2005-2008 AVERAGE
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE).
[a] Includes Indonesia, Malaysia, Philippines, Singapore and Thailand.

China's imports from Latin America and the Caribbean are dominated by natural resources and processed products based on these. Of the 20 categories of products that China imported most of from the region by value during 2007-2009, natural resources and natural resource-based manufactures heavily predominated (see table II.8). The top five products (iron ore, soybeans, copper cathodes, crude oil and copper ore) account for two thirds of total imports from the region. Of these 20 products, integrated circuits are the only one that is purely manufactured. Table II.8 also shows the value of the worldwide trade in these products. These 20 categories between them account for some 86% of all Chinese imports from the region; table II.8 also shows the region's main supplier and the main competitor for each of the 20 products during the same period, with their respective market shares. The process of "re-commodification" referred to earlier has caused the region's export basket to become more concentrated where China is concerned, particularly in the last few years.

Latin America is now the main supplier of certain products imported by China. For example, China purchased over 55% of its total imports of copper ore from the region (with 30% coming from Chile) in 2007-2009, a period when over 57% of China's imports of oilseeds also came from the region (36% from Brazil), while over 95% of the soy oil it imported was from Latin America (73% from Argentina) (see table II.8). The region has become the main supplier of a number of primary products that are among China's top 20 imports from the region, exceptions being crude oil, other oil derivatives and integrated circuits.

Despite the high concentration of the region's exports in a limited number of products, though, China has succeeded in diversifying its sources of supply sufficiently to prevent Latin America and the Caribbean from acquiring much bargaining power with regard to these products. There is substantial competition with a number of developed economies, such as Australia, Canada, Japan, New Zealand and the United States, and with neighbouring countries in developing Asia, such as Indonesia and the Republic of Korea, in respect of mining and farm products for which Latin America and the Caribbean tends to have comparative advantages. By way of example, Chile competes with Japan as a main supplier of copper cathodes in the Chinese market. There is also growing competition with some African countries in a number of natural resource-related sectors.

This competition could also create opportunities for promising trade, production and technology partnerships, provided these are entered into with a strategic vision. For example, given that Brazil competes with Australia as a supplier of iron to the Chinese market, Chile with Japan in cathodes and Peru with the United States in lead, there may be opportunities for joint investments and strategic alliances that allow Chinese demand to be better catered to and yield mutual benefits.

Table II.8
CHINA: MAIN PRODUCTS IMPORTED FROM LATIN AMERICA AND THE CARIBBEAN, 2007-2009 AVERAGE [a]
(Millions of current dollars and percentages)

No.	SA-2002	Product	Total Chinese imports	Latin America and the Caribbean					Nearest competitor	
				Share of China's total imports from Latin America and the Caribbean	Value (millions of dollars)	Share of China's total imports of the product	Main exporter in Latin America and the Caribbean	Share of China's total imports of the product	Country	Share of China's total imports of the product
1	260111	Iron and concentrates, unagglomerated	45 018	20.2	12 717	28.2	Brazil	25.4	Australia	39.3
2	120100	Soybeans	17 359	15.8	9 972	57.4	Brazil	35.6	United States	42.3
3	740311	Cathodes and sections of cathodes	11 892	9.9	6 254	52.6	Chile	49.6	Japan	12.3
4	270900	Crude oil	99 482	9.0	5 698	5.7	Venezuela (Bolivarian Republic of)	2.3	Saudi Arabia	19.4
5	260300	Copper ores and concentrates	9 081	7.9	4 947	54.5	Chile	30.4	Australia	10.5
6	854229	Integrated circuits	125 632	4.5	2 805	2.2	Costa Rica	1.8	Republic of Korea	17.4
7	150710	Crude soy oil	2 419	3.7	2 315	95.7	Argentina	73.3	Republic of Korea	4.2
8	271019	Other petroleum derivatives	19 467	2.7	1 698	8.7	Venezuela (Bolivarian Republic of)	8.7	Republic of Korea	26.1
9	260112	Iron and concentrates, agglomerated	3 184	2.1	1 307	41.1	Brazil	33.0	Canada	17.2
10	470329	Chemical wood pulp, non-conifers	2 305	1.9	1 184	51.4	Brazil	33.3	Indonesia	28.4

Table II.8 (concluded)

No.	SA-2002	Product	Total Chinese imports	Latin America and the Caribbean					Nearest competitor	
				Share of China's total imports from Latin America and the Caribbean	Value (millions of dollars)	Share of China's total imports of the product	Main exporter in Latin America and the Caribbean	Share of China's total imports of the product	Country	Share of China's total imports of the product
11	230120	Flours, meals and pellets of fish	1 239	1.6	990	79.9	Peru	55.6	United States	8.1
12	750120	Nickel oxide sinters	909	1.0	620	68.2	Cuba	68.2	Indonesia	16.8
13	260700	Lead ores and concentrates	1 658	0.9	574	34.6	Peru	27.5	United States	18.1
14	470321	Chemical wood pulp, conifers	2 421	0.8	502	20.7	Chile	19.5	Canada	30.7
15	720260	Ferro-nickel	748	0.7	468	62.6	Colombia	52.0	New Caledonia	15.1
16	740200	Unrefined copper	1 266	0.7	413	32.6	Chile	31.9	Zambia	18.7
17	260800	Zinc ores and concentrates	1 498	0.6	402	26.9	Peru	21.4	Australia	31.8
18	240120	Tobacco	634	0.6	392	61.8	Brazil	55.0	Zimbabwe	16.0
19	720712	Semi-finished iron products	387	0.6	365	94.4	Brazil	71.0	Ukraine	83.5
20	720293	Ferro-niobium	385	0.6	361	93.7	Brazil	93.7	Canada	6.0
	Subtotal for the 20 main products		346 983	85,7	53 982	15.6				
	Other products		622 047	14,3	8 992	1.4				
	TOTAL		969 030	100.0	62 974	6.5				

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE).
[a] Excludes trade with unspecified areas.

However, specialization in primary products varies considerably and in the cases of Costa Rica, El Salvador and Mexico some high-technology manufactured products are emerging. Where China is concerned, the individual export baskets of the Latin American and Caribbean countries remain dominated by certain primary products: almost all the countries (the exceptions being Mexico and, to a lesser degree, the Bolivarian Republic of Venezuela) have five main items that account for over 80% of total exports to China (see table II.9). What this shows is that the Latin America and Caribbean region is faced with the twofold challenge of exploiting the comparative advantages its natural resource endowment gives it in the Chinese market in a more efficient and coordinated way while at the same time trying to move up any value chains that may be created around manufactured products. In view of these challenges, efforts need to be focused on capturing Asian investment in these value chains and stimulating intra-industry trade with Asia.

The predominance of primary products is particularly pronounced in the case of the main traditional products, albeit with very marked variations. With the exception of integrated circuits and aeroplanes and other aircraft, the list of the top 20 items imported by China from Latin America consists of what are essentially traditional commodities exported by the region to the rest of the world. The increasing "re-commodification" of the export basket is clear to see where China is concerned, especially in the case of products whose share of the Chinese import total increased during the last decade (especially the second half). The share of iron ore, the most important product in terms of the value imported by China in 2009, has risen steadily over the last decades to more than 20% of the import total, contrasting with its small share (just 4.5%) in 1990 (see table II.10). Conversely, the shares of copper and copper products (made of refined and unrefined copper) and the soy complex (beans and oil) in Latin American exports to China have tended to diminish over time, although these products have provided the main basis for export growth in countries like Chile and Peru (copper) and Argentina and Brazil (soy). For example, the shares of soy and soy oil peaked in 2000 and 1995, respectively. Looked at in this light, the region's exports to China are slowly diversifying.

Table II.9
LATIN AMERICA AND THE CARIBBEAN: FIVE MAIN PRODUCTS EXPORTED TO CHINA, BY COUNTRY, 2006-2008 AVERAGE [a]
(Percentages of total)

Country	Sum of 5 products	First product	Second product	Third product	Fourth product	Fifth product
Argentina	93%	Soy (55%)	Soybean oil (24%)	Crude oil (10%)	Skins (3%)	Poultry offal (2%)
Bolivia (Plurinational State of)	82%	Tin ores (27%)	Tin (19%)	Crude oil (17%)	Wood from non-conifers (12%)	Base minerals (7%)
Brazil	81%	Iron ores (44%)	Soy (23%)	Crude oil (6%)	Iron products (5%)	Chemical wood pulp (3%)
Chile	93%	Copper (50%)	Copper ores (31%)	Chemical wood pulp (6%)	Iron ores (3%)	Meat offal (2%)
Colombia	97%	Crude oil (50%)	Ferro-alloys (40%)	Non-ferrous waste and scrap (5%)	Skins (3%)	Lactams (0.5%)
Costa Rica	99%	Integrated circuits (96%)	Piezoelectric crystals (1%)	Semiconductors (1%)	Electrical resistors (0.3%)	Electrical appliances (0.2%)
Cuba	100%	Nickel mattes (71%)	Unrefined sugar (20%)	Base minerals (7%)	Crude oil (1%)	Non-ferrous waste and scrap (1%)
Ecuador	98%	Crude oil (94%)	Non-ferrous waste and scrap (3%)	Wood from non-conifers (1%)	Toiletries (0.5%)	Meat offal (0.5%)
El Salvador	96%	Condensers (54%)	Non-ferrous waste and scrap (38%)	Shirts (2%)	Textile products (1%)	Plastic waste (1%)
Guatemala	94%	Unrefined sugar (42%)	Crude oil (23%)	Zinc ores (14%)	Non-ferrous waste and scrap (8%)	Plastic waste (6%)
Honduras	92%	Zinc ores (34%)	Non-ferrous waste and scrap (33%)	Lead ores (10%)	Plastic waste (8%)	Shirts (7%)

Table II.9 (concluded)

Country	Sum of 5 products	First product	Second product	Third product	Fourth product	Fifth product
Mexico	37%	Integrated circuits (13%)	Copper ores (8%)	Office equipment parts (7%)	Condensers (5%)	Semiconductors (5%)
Nicaragua	85%	Non-ferrous waste and scrap (41%)	Plastic waste (19%)	Aquatic invertebrates (9%)	Shirts (8%)	Skins (7%)
Caribbean countries[b]	89%	Alumina (65%)	Wood from non-conifers (9%)	Non-ferrous waste and scrap (7%)	Crude minerals (4%)	Boats (4%)
Panama	78%	Boats (39%)	Skins (16%)	Meat offal (13%)	Frozen fish (6%)	Plastic waste (4%)
Paraguay	81%	Cotton (31%)	Wood from non-conifers (26%)	Skins (24%)	Plastic waste (7%)	Non-ferrous waste and scrap (5%)
Peru	83%	Copper ores (39%)	Meat offal (16%)	Crude oil (10%)	Lead ores (9%)	Iron ores (8%)
Dominican Republic	87%	Ferro-alloys (68%)	Non-ferrous waste and scrap (11%)	Electrical appliances (8%)	Office equipment parts (2%)	Electrical appliances (2%)
Uruguay	81%	Soy (46%)	Chemical wood pulp (13%)	Wool (9%)	Greasy wool (8%)	Skins (5%)
Venezuela (Bolivarian Republic of)	64%	Crude oil (51%)	Iron ores (9%)	Spiegeleisen (2%)	Crude minerals (1%)	Fibres for yarn (0.5%)

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

[a] In the years for which data are available in each country. The product classification used is revision 3 of the Standard International Trade Classification (SITC), disaggregated at the four-digit level.

[b] Includes Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

Table II.10
CHINA: 100 MAIN PRODUCTS IMPORTED FROM LATIN AMERICA AND THE CARIBBEAN, BY VALUE IN 2009
(Millions of dollars and percentages)

			Value (millions of dollars)					Share of annual total (percentages)					
			1990	1995	2000	2005	2009	1990	1995	2000	2005	2009	
Products with a share of 0.5% or over in the 2009 export total													
1	2815	Iron ore and concentrates, unagglomerated	66.7	280.2	349.2	3738.9	13 272.8	4.42	9.49	6.52	14.14	21.33	1
2	2222	Soy	0.0	25.9	1073.9	4613.5	9320.7	0.00	0.88	20.05	17.45	14.98	0
3	6821	Copper, refined and unrefined	5.0	89.1	760.5	2333.9	8595.1	0.33	3.02	14.20	8.83	13.82	0
4	3330	Crude petroleum oils		11.6	43.7	1194.1	5175.5	0.00	0.39	0.82	4.52	8.32	1
5	2871	Copper ore and concentrates	11.0	85.6	351.0	2318.4	4056.4	0.73	2.90	6.55	8.77	6.52	0
6	7764	Integrated electronic circuits	0.0	0.0	22.3	1166.2	3064.9	0.00	0.00	0.42	4.41	4.93	1
7	2517	Chemical wood pulp	14.7	62.7	256.7	724.8	2286.9	0.97	2.12	4.79	2.74	3.68	0
8	4232	Soybean oil	212.5	614.1	84.7	904.9	1800.2	14.08	20.80	1.58	3.42	2.89	1
9	2816	Iron ore agglomerates	3.8	98.9	148.5	905.0	1117.6	0.25	3.35	2.77	3.42	1.80	0
10	0814	Meat or fish meal and granules	86.2	284.2	429.2	940.5	1079.8	5.71	9.63	8.01	3.56	1.74	0
11	6716	Ferro-alloys	0.1	2.2	10.8	252.5	798.9	0.01	0.07	0.20	0.95	1.28	1
12	2874	Lead ores and concentrates			4.2	171.0	708.4	0.00	0.00	0.08	0.65	1.14	1
13	2875	Zinc ores and concentrates		4.4	0.2	14.4	660.2	0.00	0.15	0.00	0.05	1.06	1
14	6114	Other depilated bovine and equine skins	5.0	44.3	120.6	566.2	638.7	0.33	1.50	2.25	2.14	1.03	0
15	2879	Other base non-ferrous metal ores		0.5	11.0	508.7	494.1	0.00	0.02	0.21	1.92	0.79	1
16	1212	Tobacco		1.6	52.8	176.7	467.1	0.00	0.05	0.99	0.67	0.75	0
17	6725	Iron or steel products	2.8	0.1	5.5	155.4	421.7	0.18	0.00	0.10	0.59	0.68	1
18	7924	Aeroplanes and other aircraft					385.8	0.00	0.00	0.00	0.00	0.62	1
19	2872	Nickel ores and concentrates			17.1	85.3	345.0	0.00	0.00	0.32	0.32	0.55	1
20	6712	Pig iron and spiegeleisen	85.4		0.5	29.9	340.3	5.66	0.00	0.01	0.11	0.55	1

Table II.10 (continued)

			Value (millions of dollars)					Share of annual total (percentages)					
			1990	1995	2000	2005	2009	1990	1995	2000	2005	2009	
Products with a share of between 0.5% and 0.1% in the 2009 export total													
21	6713	Granules and powders of pig iron	0.0	0.0	2.8	207.3	258.1	0.00	0.00	0.05	0.78	0.41	1
22	0611	Sugar	245.7	352.0	66.8	217.9	253.2	16.28	11.92	1.25	0.82	0.41	0
23	2516	Chemical wood pulp			8.9	48.4	223.1	0.00	0.00	0.17	0.18	0.36	1
24	2877	Manganese ores and concentrates		3.1	9.0	101.9	203.5	0.00	0.11	0.17	0.39	0.33	1
25	7649	Parts and accessories suitable for televisions		0.2	4.2	66.7	200.3	0.00	0.01	0.08	0.25	0.32	1
26	5839	Polymerization products	0.1	0.6	13.1	123.6	190.3	0.01	0.02	0.25	0.47	0.31	1
27	6841	Aluminium and aluminium alloys, unwrought	26.7	33.0	3.3	0.1	188.7	1.77	1.12	0.06	0.00	0.30	1
28	2882	Other non-ferrous base metal waste and scrap		10.9	18.0	194.6	186.7	0.00	0.37	0.34	0.74	0.30	0
29	5832	Polypropylene	0.2	17.6	14.8	35.4	181.3	0.01	0.60	0.28	0.13	0.29	1
30	7721	Electrical control instruments	0.1	0.0	6.5	95.7	174.7	0.01	0.00	0.12	0.36	0.28	1
31	7810	Passenger motor vehicles	0.1	0.0	2.7	2.6	173.3	0.00	0.00	0.05	0.01	0.28	1
32	2483	Conifer wood	0.0	0.6	33.3	192.2	172.6	0.00	0.02	0.62	0.73	0.28	0
33	7763	Semiconductor devices	0.0	2.4	11.7	118.1	158.0	0.00	0.08	0.22	0.45	0.25	1
34	0114	Poultry meat	3.5	0.7	18.7	150.6	156.0	0.23	0.02	0.35	0.57	0.25	0
35	7788	Machinery and electrical equipment n.e.s.		0.3	29.7	148.1	150.4	0.00	0.01	0.55	0.56	0.24	0
36	7849	Vehicle parts and accessories	9.0	54.8	9.8	121.4	148.4	0.60	1.86	0.18	0.46	0.24	1
37	5831	Polyethylene	11.6	20.3	34.2	37.2	134.6	0.77	0.69	0.64	0.14	0.22	0
38	2731	Building or monumental stone		0.1	27.8	87.2	118.1	0.00	0.00	0.52	0.33	0.19	0
39	5121	Acyclic monohydric alcohols		4.1	0.0	106.3	116.3	0.00	0.14	0.00	0.40	0.19	1
40	4236	Sunflower oil		0.0	0.2	0.5	115.8	0.00	0.00	0.00	0.00	0.19	1
41	0575	Grapes, fresh or dried	0.0	0.7	15.7	50.4	114.0	0.00	0.02	0.29	0.19	0.18	0

Table II.10 (continued)

			Value (millions of dollars)					Share of annual total (percentages)					
			1990	1995	2000	2005	2009	1990	1995	2000	2005	2009	
42	7525	Peripheral units, including control and adapting units	0.1	0.0	3.1	25.4	113.6	0.00	0.00	0.06	0.10	0.18	1
43	2890	Precious metal ores, waste, scrap			0.0	0.0	100.0	0.00	0.00	0.00	0.00	0.16	1
44	2631	Cotton, not carded or combed	78.7	100.7	1.6	143.0	98.6	5.21	3.41	0.03	0.54	0.16	1
45	0342	Frozen fish	4.0	24.6	20.3	34.1	84.4	0.26	0.83	0.38	0.13	0.14	0
46	8720	Medical instruments		0.0	4.2	10.3	83.0	0.00	0.00	0.08	0.04	0.13	1
47	5221	Carbon	1.0	0.2	6.4	31.6	81.2	0.06	0.01	0.12	0.12	0.13	1
48	7139	Parts for internal combustion engines		0.2	19.3	60.2	73.2	0.00	0.01	0.36	0.23	0.12	0
49	0360	Crustaceans and molluscs	3.2	30.8	29.1	40.5	73.2	0.21	1.04	0.54	0.15	0.12	0
50	0585	Fruit or vegetable juices	0.1	0.6	5.3	47.8	72.2	0.01	0.02	0.10	0.18	0.12	1
51	5156	Lactams	3.5	1.8	4.0	108.1	65.9	0.23	0.06	0.08	0.41	0.11	1
52	6512	Cotton sewing thread	62.0	78.5	84.2	55.6	61.6	4.11	2.66	1.57	0.21	0.10	0
53	1121	Wine of fresh grapes	0.0		2.2	15.1	61.5	0.00	0.00	0.04	0.06	0.10	1
		Products with a share of between 0.1% and 0.05% in the 2009 export total											
54	5834	Polyvinyl chloride	0.3	4.3	16.4	8.8	57.6	0.02	0.14	0.31	0.03	0.09	0
55	2929	Materials of vegetable origin	0.3	0.3	4.1	14.5	57.4	0.02	0.01	0.08	0.05	0.09	1
56	7599	Parts and accessories for data processing machines	0.0	0.0	207.0	342.0	57.1	0.00	0.00	3.86	1.29	0.09	0
57	7523	Digital processing units			0.2	3.5	57.0	0.00	0.00	0.00	0.01	0.09	1
58	6727	Semi-finished products of iron or non-alloy steel		30.6	6.4	74.5	55.4	0.00	1.04	0.12	0.28	0.09	0
59	6746	Rolled iron or steel	16.0	0.3	32.7	251.2	52.9	1.06	0.01	0.61	0.95	0.09	0
60	2681	Greasy wool	0.9	13.7	15.2	22.7	52.4	0.06	0.46	0.28	0.09	0.08	0
61	6861	Zinc and zinc alloys, unwrought		6.9	1.6	16.7	50.0	0.00	0.24	0.03	0.06	0.08	1

Table II.10 (continued)

			Value (millions of dollars)					Share of annual total (percentages)					
			1990	1995	2000	2005	2009	1990	1995	2000	2005	2009	
62	2482	Conifer wood, sawn		0.0	5.1	33.1	48.3	0.00	0.00	0.09	0.13	0.08	0
63	0579	Fruit, fresh or dried		0.1	0.3	1.2	44.9	0.00	0.00	0.01	0.00	0.07	1
64	6831	Nickel and nickel alloys, unwrought			1.3	18.8	44.5	0.00	0.00	0.02	0.07	0.07	1
65	2331	Synthetic rubber		2.2	5.5	19.9	43.8	0.00	0.07	0.10	0.08	0.07	0
66	4111	Fats and oils of fish or marine mammals		2.5	6.3	7.2	43.7	0.00	0.08	0.12	0.03	0.07	0
67	7492	Gaskets of metal sheeting in combination		0.0	1.5	19.1	41.9	0.00	0.00	0.03	0.07	0.07	1
68	8749	Machine parts and accessories n.e.s.		0.2	0.4	13.9	40.9	0.00	0.01	0.01	0.05	0.07	1
69	5417	Medicines	1.3	0.3	2.6	20.1	40.6	0.08	0.01	0.05	0.08	0.07	1
70	2873	Aluminium ores and concentrates		4.3	29.3	324.7	39.5	0.00	0.14	0.55	1.23	0.06	0
71	5222	Other chemical elements		0.1	2.3	12.5	37.1	0.00	0.00	0.04	0.05	0.06	1
72	7731	Insulated electrical conductors		0.4	1.9	22.9	35.8	0.00	0.01	0.04	0.09	0.06	1
73	8743	Control Instruments for liquids and non-electrical devices		0.0	0.8	10.6	35.0	0.00	0.00	0.01	0.04	0.06	1
74	2671	Artificial fibres suitable for spinning	13.1	1.4	8.4	18.0	32.1	0.87	0.05	0.16	0.07	0.05	0
75	7712	Other electrical appliances	0.0	0.0	3.0	30.5	31.7	0.00	0.00	0.06	0.12	0.05	0
76	6871	Tin and tin alloys, unwrought		0.0		0.0	31.4	0.00	0.00	0.00	0.00	0.05	1
77	2876	Tin ores and concentrates			4.4	22.4	31.0	0.00	0.00	0.08	0.08	0.05	0
78	0574	Fresh apples		0.0	0.4	7.4	29.2	0.00	0.00	0.01	0.03	0.05	1
79	3413	Petroleum gases and other gaseous hydrocarbons				77.8	28.6	0.00	0.00	0.00	0.29	0.05	1
80	5232	Chlorides, chloride oxides and chloride hydroxides	0.1	6.2	20.3	22.3	28.4	0.01	0.21	0.38	0.08	0.05	0
		Products with a share of between 0.05% and 0.01% in the 2009 export total											
81	6418	Paper and cardboard		0.0	1.2	11.3	25.4	0.00	0.00	0.02	0.04	0.04	1
82	2783	Pure sodium chloride and common salt		0.1	0.0	9.2	24.0	0.00	0.00	0.00	0.03	0.04	1
83	7162	Direct current motors and generators		0.1	0.2	5.5	23.8	0.00	0.00	0.00	0.02	0.04	1

Table II.10 (concluded)

			Value (millions of dollars)					Share of annual total (percentages)					
			1990	1995	2000	2005	2009	1990	1995	2000	2005	2009	
84	5513	Essential oils	0.1	0.1	0.7	3.1	23.0	0.01	0.00	0.01	0.01	0.04	1
85	5113	Halogenated derivatives of hydrocarbons	0.1	1.6	3.8	2.6	22.6	0.01	0.05	0.07	0.01	0.04	0
86	7528	Off-line data processing equipment			0.0	20.3	22.5	0.00	0.00	0.00	0.08	0.04	1
87	7493	Shafts, cranks, bearing housings		0.1	0.1	26.4	22.2	0.00	0.00	0.00	0.10	0.04	1
88	5331	Other colouring materials	0.2	0.0	0.2	4.4	21.9	0.01	0.00	0.00	0.02	0.04	1
89	5623	Potassic mineral or chemical fertilizers			8.0	0.0	21.8	0.00	0.00	0.15	0.00	0.03	0
90	5111	Acyclic hydrocarbons			0.0	12.4	21.2	0.00	0.00	0.00	0.05	0.03	1
91	0372	Crustaceans and molluscs, prepared or preserved	0.0	0.1	0.9	5.4	20.8	0.00	0.00	0.02	0.02	0.03	1
92	6822	Copper and copper alloys	0.3	2.8	14.6	1.1	19.8	0.02	0.09	0.27	0.00	0.03	0
93	6673	Precious stones	0.4	5.0	3.9	13.0	19.8	0.03	0.17	0.07	0.05	0.03	0
94	2472	Non-coniferous sawlogs and veneer logs		3.1	2.9	9.4	19.1	0.00	0.10	0.05	0.04	0.03	0
95	5146	Oxygen-function amino-compounds	0.4	1.5	0.8	12.2	18.8	0.03	0.05	0.01	0.05	0.03	1
96	7431	Air or vacuum pumps	3.3	3.3	5.8	8.4	17.8	0.22	0.11	0.11	0.03	0.03	0
97	8841	Optical fibres and optical fibre bundles		0.6	1.2	4.2	16.7	0.00	0.02	0.02	0.02	0.03	1
98	7439	Parts for air pumps		0.0	0.0	2.3	16.2	0.00	0.00	0.00	0.01	0.03	1
99	7188	Engines and motors n.e.s.		20.9	7.2	13.6	16.1	0.00	0.71	0.13	0.05	0.03	0
100	3354	Petroleum bitumen					16.1	0.00	0.00	0.00	0.00	0.03	1
	Total		1 509.1	2 952.6	5 355.6	26 444	62 212	100.0	100.0	100.0	100.0	100.0	

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

China is importing a number of new products from the region, some of them primary products and others manufactures. The first group includes poultry meat, vegetable oils, fresh fruit (particularly grapes), frozen fish, crustaceans and molluscs, fruit and vegetable juices, wine of fresh grapes and processed wood, among others. Although these still belong to the primary goods category, they are no longer strictly commodities but present a degree of differentiation by price and quality. As family incomes continue to rise in China and the country's consumption pattern gradually converges on that of the West, Chinese demand for these products could expand very substantially in the near future. At the same time, the manufacturing basket increasingly includes parts and components associated with the machinery, electronics, automotive and information and communications technology (ICT) sectors. An increase in trade flows and investment in these high- and medium-technology sectors is particularly favourable to intra-industry trade with the countries of Asia, and China in particular.

G. China's investment in the region remains limited in scope

Although Latin America and the Caribbean is an important destination for Chinese foreign direct investment (FDI), this is confined almost exclusively to "tax havens". By destination, it is estimated that as of late 2009 some 13% of Chinese financial and non-financial outward FDI had gone to the economies of Latin America and the Caribbean, with a total stock of US$ 31 billion in the region.[2] However, over 90% of this was in two economies: the Cayman Islands and the British Virgin Islands (see table II.11).

Despite high expectations on the part of the Latin American and Caribbean countries, Chinese investment has been slow to materialize, although a substantial number of large Chinese firms have begun operating in several of the region's countries. These firms are present not only in natural resource-related sectors but in the manufacturing sector as well. According to unofficial Chinese sources (see table II.12), the country invested some US$ 24 billion in the region over the 2003-2009 period, not only in natural resource sectors but also in manufacturing and services. Although most Chinese FDI in the region has gone into natural resources, and particularly into areas related to copper, oil, iron ore and the industrial soy complex, Chinese investment has also emerged, for example, in the automotive, telecommunications and tourism sectors. These investments are estimated to have created jobs for over 50,000 people in the region.

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[2] See chapter I for further details on the geographical distribution of Chinese outward FDI.

Table II.11
LATIN AMERICA AND THE CARIBBEAN: STOCK OF CHINESE FDI IN THE REGION AS OF LATE 2009, BY COUNTRY
(Millions of dollars and percentages of regional total)

Country	Value	Share
Cayman Islands	13 577.1	44.1
British Virgin Islands	15 060.7	48.9
Brazil	360.9	1.2
Peru	284.5	0.9
Venezuela (Bolivarian Republic of)	272.0	0.9
Bermuda	175.9	0.6
Mexico	173.9	0.6
Argentina	169.1	0.5
Guyana	149.6	0.5
Ecuador	106.6	0.3
Cuba	85.3	0.3
Panama	81.1	0.3
Suriname	68.8	0.2
Chile	66.0	0.2
Bolivia (Plurinational State of)	55.7	0.2
Saint Vincent and the Grenadines	23.0	0.1
Colombia	20.5	0.1
Paraguay	11.3	0.0
Grenada	7.7	0.0
Uruguay	7.2	0.0
Jamaica	2.2	0.0
Costa Rica	2.0	0.0
Bahamas	1.6	0.0
Other	8.9	0.0
Total	30 771.4	100.0

Source: Ministry of Commerce of China, 2009, *Statistical Bulletin of China's Outward Foreign Direct Investment*.

Table II.12
LATIN AMERICA AND THE CARIBBEAN: SELECTED CHINESE INVESTMENTS, BY COUNTRY AND SECTOR, 2003-2008 AND 2009
(Millions of dollars and people employed)

Sector	Estimated investment		Estimated employment	
	2003-2008	2009	2003-2008	2009
Argentina				
Automotive industry, manufacturing, distribution				
Non-automotive transport industry, manufacturing				
Total	519	0	2 142	0
Bolivia (Plurinational State of)				
Metals, sales and marketing	0			
Total	2	0	13	0
Brazil				
Automotive industry, manufacturing, distribution				
Office equipment and machinery, manufacturing				
Business services				
Coal, oil, natural gas, extraction				
Communications, manufacturing, sales and training				
Consumer products				
Financial services				
Food and tobacco, sales, marketing				
Industrial machinery, equipment and tools, manufacturing				
Metals, extraction, manufacturing				
Non-automotive transport industry, manufacturing				
Paper, printing and packaging, manufacturing				
Transport, logistics and distribution				
Total	8 548	5 136	27 695	7 352
Chile				
Financial services				
Industrial machinery, equipment and tools, manufacturing				
Total	37	0	81	0
Colombia				
Automotive industry, manufacturing				
Communications, training				
Wood products, manufacturing				
Total	242	4	1 231	20
Costa Rica				
Coal, oil, natural gas, production				
Total	285	1 000	171	224
Cuba				
Electronic consumer products, manufacturing				
Total	0	52	0	694

Table II.12 (concluded)

Sector	Estimated investment		Estimated employment	
	2003-2008	2009	2003-2008	2009
Ecuador				
Coal, oil, natural gas, extraction, sales				
Real estate				
Total	199	0	319	0
Guyana				
Metals, manufacturing				
Total	1 000	0	3 000	0
Mexico				
Automotive industry, manufacturing				
Office equipment and machinery, manufacturing				
Communications, research and development, training				
Electronic consumer products, manufacturing				
Industrial machinery, equipment and tools, sales, marketing				
Metals, extraction, manufacturing				
Paper, printing and packaging, manufacturing				
Total	1 079	48	5 842	175
Panama				
Business services				
Total	0	3	0	20
Peru				
Industrial machinery, equipment and tools, recycling				
Metals, extraction, sales, marketing				
Total	4 555	279	6 391	304
Uruguay				
Automotive industry, manufacturing				
Total	100	0	550	0
Venezuela (Bolivarian Republic of)				
Office equipment and machinery, manufacturing				
Coal, oil, natural gas, extraction				
Communications, ICTs, Internet infrastructure, manufacturing				
Financial services				
Metals, extraction				
Total	715	31	1 241	44
Grand total 2003-2009	17 281	6 552	48 676	8 833

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *fDi Markets* and *Financial Times*.

The three main motivations driving Chinese FDI in Latin America in recent decades have been access to natural resources, expansion into foreign markets (market-seeking) and improvements in productive and administrative efficiency (efficiency-seeking). In the manufacturing sector, Chinese industries, including the textile, paper, automotive, electronics and information and communication technology industries, have chosen Mexico and the member countries of MERCOSUR to establish their first production bases in Latin America. Entry into Argentina, Brazil, Mexico and Uruguay is regarded as a first step towards breaking into and expanding in the dynamic markets tied together by trade agreements such as the North American Free Trade Agreement (NAFTA) and MERCOSUR. Furthermore, Mexico can provide access not only to the United States but also to the countries of Central America and the Caribbean. Producing in MERCOSUR can also open the door to other Latin American countries.

Chinese FDI in Latin American natural resource sectors tends to acquire a systemic character that encompasses every link in the value chain, as can be appreciated in the case of Argentina. In search of a stable supply of grains, meats and meat derivatives from Argentina, China has signed an agreement with the country to begin importing beef, and it also plans to invest directly in farm production there. China has a stake in the Belgrano Cargas company with a railway line to transport grain to port. Collaboration initiatives between the two countries have also been undertaken at the provincial level. The provinces of Shaanxi and Tierra del Fuego recently signed bilateral agreements to promote trade, tourism and cultural exchanges between the two jurisdictions. Projects of different types are in progress, a prominent example being the establishment of a urea-producing plant in the northern part of Tierra del Fuego that could serve as a model for future projects with these characteristics in Argentina. Similarly, in October 2010 Heilongjiang province and Río Norte province signed an agreement to expand the agricultural frontier thanks to the installation of irrigation systems supplied by China (*La Tercera*, 2010, Periodismovecinal.com).

Latin America has increasingly attracted Chinese FDI in the automotive, electronics and telecommunications sectors. Automotive firms from China are setting up production bases in Latin America with a view to reducing production costs and breaking into new markets, as they cope with strong competition from foreign companies in their home markets and the continuing appreciation of the yuan. Three contributory factors exist in the electronics sector: (i) domestic demand has been weak and profits have diminished because of competition within the country, so that Chinese electronics firms are seeking out new markets in Latin America, where a large middle class is emerging; (ii) most antidumping cases brought against Chinese products in the region relate to white

goods, and the establishment of a production base in the region may help Chinese firms to mitigate these trade conflicts; and (iii) Chinese firms do not currently have the capacity to establish production bases in developed countries, so that Latin America and the Caribbean and Africa have come to be important destinations for FDI from China.

Market-seeking FDI has essentially been channelled into the region's largest economies, such as Brazil and Mexico. Chile has also been a major recipient of investment of this type. In the goods sector, the automotive, food and beverages and chemical industries have been the main recipients, while service sector investment has gone mainly into finance, telecommunications, retail, electricity and natural gas distribution. This kind of investment can promote new local economic activity and increase local content by creating and enhancing productive linkages, strengthening local business development and improving local services and the systemic competitiveness of the country. The drawbacks with this type of FDI are that it often does not promote internationally competitive goods and services and that it tends to crowd out local firms.

Chinese FDI in the region has not been oriented towards efficiency-seeking with a view to exporting to third markets (particularly the United States) in the electronics, automotive and wearing apparel sectors. If pay levels continue to rise in China, this type of FDI could become a very important offshore platform for exporting to the United States, European and even Latin American markets. Efficiency-seeking inward FDI tends to increase exports of manufactures, turn the export platform into a manufacturing centre and foment international competitiveness, the transfer and assimilation of foreign technology, human resource training, the creation and enhancement of productive linkages, and local business development. Nonetheless, this type of FDI also has a number of drawbacks, such as the low value added "trap", concentration on static local comparative advantages rather than dynamic ones, high dependence on imported components, a lack of industrial clusters, the risk of local firms being crowded out, falling wage levels, problems with employment standards and particularly with the environment, and increased incentives for transnational enterprises. These shortcomings can be seen in many FDI projects in Latin America, whatever their origin.

The great bulk of Latin American and Caribbean investment in China also comes from tax havens. Although Latin America and the Caribbean is the second-largest source of FDI in China, almost all this investment comes from three countries: the British Virgin Islands (80%), the Cayman Islands (14%) and Barbados (5%). FDI originating from leading countries such as Brazil, Argentina, Chile, Mexico and Peru was minimal during the 2007-2008 period (see table II.13).

Table II.13
LATIN AMERICA AND THE CARIBBEAN: FDI IN CHINA, 2007-2008 AVERAGE, BY COUNTRY OF ORIGIN
(Millions of dollars and percentages)

Country	Amount	Share
British Virgin Islands	16 253.1	79.24
Cayman Islands	2 857.9	13.93
Barbados	982.4	4.79
Bahamas	243.2	1.19
Belize	43.6	0.21
Brazil	35.2	0.17
Panama	30.6	0.15
St. Kitts and Nevis	14.7	0.07
Argentina	11.9	0.06
Chile	5.9	0.03
Mexico	4.8	0.02
Peru	4.0	0.02
Saint Vincent and the Grenadines	4.1	0.02
Venezuela (Bolivarian Republic of)	2.2	0.01
Honduras	1.9	0.01
Paraguay	1.4	0.01
Grenada	1.3	0.01
Bolivia (Plurinational State of)	1.1	0.01
Dominican Republic	0.9	0.00
Ecuador	0.7	0.00
Dominica	0.6	0.00
Guatemala	0.6	0.00
Antigua and Barbuda	0.5	0.00
Cuba	0.3	0.00
Jamaica	0.1	0.00
Suriname	0.1	0.00
Dominica	0.1	0.00
Colombia	0.1	0.00
Uruguay	0.1	0.00
Other	7.2	0.04
Latin America and the Caribbean	20 510.7	100.00

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2009.

Lately, however, substantial Latin American investments have gone into different sectors in China. By way of example, Brazilian investment in China during the 2002-2007 period was US$ 175 million. The largest Brazilian investments have gone into the aircraft manufacturing, electrical, information technology, agro-industry and footwear sectors,[3] while a notable Argentine investment was made in the iron and steel sector by Techint group (ECLAC, 2011). Arcor, a Mexican manufacturer of sweets, biscuits, chocolates, ice cream and miscellaneous food products, has set up a complex distribution network in China, covering 50 cities. Mexican investments include one made by Bimbo, the country's largest food company, and Maseca group, which in 2006 opened a plant in Shanghai with an investment of some US$ 100 million. Although still very incipient, then, new Latin American investment is beginning to be seen in China.

Where China's economic cooperation efforts around the world are concerned, Latin America and the Caribbean does not feature as one of the main recipients. The region received an average of just under US$ 3 billion during the 2007-2008 period, which represented only 7% of the worldwide total of US$ 57 billion. The Asia region accounted for half of this, while 30% went to Africa. Of the three main categories of cooperation, the most important has been project implementation (the others are labour services and consultancy services of different kinds) (see table II.14). With the exception of Ecuador, the main recipients of Chinese cooperation in Latin America and the Caribbean have been the region's largest economies, namely the Bolivarian Republic of Venezuela, Brazil and Mexico. By category, very little of the cooperation provided by China has taken the form of labour provision services, of which Africa has been the main beneficiary. Chinese humanitarian assistance in the region has included infrastructure repairs in Costa Rica, hospitals in Cuba, financial support for the Red Cross in the Plurinational State of Bolivia, help for earthquake

[3] Examples include: (i) Embraer, which set up Harbin Embraer Aircraft Industry in 2002 together with a Chinese State-owned firm, Aviation Industry Corporation (AVIC II) to make small and medium-sized aircraft, with a 51% equity holding; (ii) Motores Weg, Brazil's leading manufacturer of electric motors, which set up a production unit in Jiangsu province in 2005, called Weg Electric Motor Manufacturing Co.; and (iii) Compresores Embraco, a manufacturer of compressors which set up Beijing Embraco Snowflake Compressor Company Ltd., a joint venture with Snowflake group of China, to manufacture closed refrigeration compressors; it now has a number of production units operating in Beijing and environs. Other examples include Politec (information technologies), which went into partnership with Neusoft; Bertin group, in the agro-industrial sector, which set up a leather processing unit in Guangdong province in 2007; the five plants operated by Strada Shoe, a footwear manufacturer; and Aeromot, a manufacturer of small planes, which set up a joint venture with Guizhou Aviation Industries Corporation in 2006 (Baumann 2009b).

victims in Peru, and assistance for flood victims in Uruguay. In 2008, China became a member country of the Inter-American Development Bank (IDB) and committed US$ 350 million of financing for public- and private-sector infrastructure projects.

Table II.14
CHINA: DISTRIBUTION OF ECONOMIC COOPERATION, BY MAIN CATEGORIES AND BY COUNTRY OR REGION, 2007-2008 AVERAGE
(Millions of dollars and percentages)

Region or country	Total (millions of dollars)	Share of world total (%)	Project commitments	Labour services	Consulting services
Asia	28 192.1	49.9	24 627.8	3 248.2	320.3
Africa	16 396.8	29.0	16 062.6	230.4	103.8
Europe	3 956.3	7.0	3 442.6	494.8	18.8
Latin America and the Caribbean	2 985.6	5.3	2 936.7	36.8	12.2
Argentina	125.9	0.2	125.0	0.8	-
Bolivia (Plurinational State of)	2.6	0.0	2.5	-	0.1
Brazil	856.2	1.5	850.1	0.9	5.1
Chile	38.9	0.1	37.9	1.0	-
Colombia	90.5	0.2	90.1	-	0.4
Costa Rica	0.0	0.0	-	0.0	-
Cuba	64.6	0.1	64.5	0.1	0.0
Dominican Republic	0.5	0.0	0.5	-	-
Ecuador	129.4	0.2	129.3	0.0	-
Guatemala	0.2	0.0	0.2	-	-
Honduras	0.2	0.0	-	0.2	-
Jamaica	63.9	0.1	63.0	0.8	0.1
Mexico	484.8	0.9	478.3	6.5	0.0
Nicaragua	3.8	0.0	-	3.8	-
Panama	42.1	0.1	27.7	14.3	0.0
Peru	85.3	0.2	80.5	0.3	4.6
Trinidad and Tobago	124.9	0.2	121.5	3.4	0.1
Uruguay	1.1	0.0	1.1	-	-
Venezuela (Bolivarian Republic of)	724.5	1.3	722.2	0.9	1.4
Other LAC	146.2	0.3	142.1	3.7	0.4
North America	862.9	1.5	786.8	68.1	8.0
Oceania and Pacific islands	766.8	1.4	743.3	18.0	5.4
Other	28.8	0.1	27.4	1.2	0.2
Interior of the country	3 314.4	5.9	-	3 314.4	-
World total	56 507.9	100.0	48 627.1	7 412.0	468.8

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2009.

H. Conclusions and recommendations

For the Latin American region, and the countries of South America in particular, recovery from the financial crisis has largely depended on the economic recovery of Asia in general and China in particular. Chinese demand has come to the rescue of Latin American exports. Economies that are exporters of natural resources, such as those of South America, have been relatively unaffected by the crisis, as the high growth rate of China has kept international demand for these products high. In Mexico and Central America, by contrast, competition with manufactures from China and other Asian economies in the United States market has been starker, and this could precipitate structural changes in certain industries, especially maquila.

The leading role of China in the global economy suggests that the Latin American and Caribbean countries ought to be looking for a strategic alliance with this trading partner and trying to use this relationship as a pivot to improve their positioning in the global economy. Given the risks that still loom over the world economy, and the way its geography is changing as its centre of gravity increasingly shifts towards the Asia and the Pacific region, particularly China, the countries of Latin America and the Caribbean ought to redouble their efforts to identify possible complementarities with China and take advantage of them. The immediate first step is to diversify their exports, if possible by forging biregional business partnerships.

To promote trade and investment flows with China, the following limitations ought to be dealt with: (i) trade flows are highly concentrated by country and by the composition of the products commercialized; (ii) these flows are almost exclusively inter-industrial in nature, as China's exports to the region consist mainly of manufactured goods while exports the other way are mainly of raw materials (this makes it harder for the region's countries to position themselves more effectively in the China-centred supply chains of Asia and the Pacific, which are increasingly intra-industrial in character); and (iii) partly because of the two regions' different production and trade specializations, there is little FDI between them.

Growth in sectors associated with natural resources and in the unskilled labour-intensive manufacturing sector has not done enough to create new technological capabilities in the countries of Latin America and the Caribbean. The trade relationship between the region and China thus presents both opportunities and challenges. A particular challenge is to ensure that the burgeoning trade between Latin America and China does not reproduce and reinforce a centre-periphery trade pattern between

the countries of the South, with China emerging as a new centre and the countries of the region as a new periphery. Consequently, there is a need to move towards a trading relationship that stimulates not growth alone, but growth that is reflected in greater progress with innovation, export diversification and employment quality.

The economies of South America have benefited greatly from their trade links with China, as reflected in improving terms of trade, rising international reserves and higher growth rates. The downside to this process is a marked tendency towards "re-commodification" of the export pattern, something that is detrimental to export diversification and the incorporation of more knowledge and technology content in exports. Thus, the favourable effect of the "China factor" upon the external accounts needs to be capitalized upon in these economies in order to finance a major process of investment in infrastructure, logistics, connectivity and human resources training.

It follows from this that the Latin American and Caribbean countries should adopt a twofold approach, aiming to capitalize in a more efficient and coordinated way on the comparative advantages their natural resources represent while at the same time intensifying their efforts to spur industrial development by improving international competitiveness in manufacturing sectors through further initiatives to help Latin American firms establish themselves in Asian supply and value chains in these sectors. In both cases, it is important to foster links between biregional trade and FDI together with domestic support services, as these are key components of international competitiveness.

Innovation and competitiveness are still the fundamental challenges for the Latin American countries. Looking beyond the current situation, the aftermath of the crisis needs to be approached with a forward-looking attitude that emphasizes the underlying issues on which progress with productive transformation and equity depends. A coordinated approach to China with a view to learning from its experiences would make a decisive contribution to the attainment of this crucial goal; and in this task, the role of China could be very important.

The process of halting the "re-commodification" of the export structure may justify a degree of protection for manufacturing industry, particularly in those of the region's economies where the industrial fabric is denser. The challenge is to achieve the right mix of protection policies —subject to the provisions of agreements entered into at the World Trade Organization (WTO) and regional or bilateral trade agreements— and policies to spur productive development with a view to achieving sustainable competitiveness that is less dependent on protection mechanisms. Similarly, care is needed to ensure that the latter do not

affect decisions about exporting or participation in global or regional value chains. Trade alliances with Chinese firms in third countries are also an avenue worth exploring.

China, one of the main hubs of global growth, holds out many opportunities for Latin American countries in fields such as mining, energy, agriculture, infrastructure, and science and technology. If the comparative advantages deriving from natural resources are to be better exploited, there is a need to establish a greater presence in the different segments of the value chain associated with the natural resource concerned (for example, logistics, commercialization, quality and branding) by applying advances in new technologies, such as environmental technology and biotechnology, to agro-industrial, mining, forestry and fisheries production, among other areas. Furthermore, given the huge size of Chinese markets, it will only be possible to take full advantage of these opportunities if there is a concerted effort to create partnerships among the countries of Latin America and the Caribbean.

To strengthen their trading links and their production complementarity with China, Latin American firms should seek to position themselves within Asian production and export chains by establishing trade and investment partnerships that transcend free trade agreements. Although these agreements are important, they are not enough to generate the scale and critical mass needed to stimulate trade and technology partnerships between the two regions, or to overcome the marked asymmetry between large volumes of trade and low levels of investment in both directions.

The list of products the region exports to China is diversifying and now includes a number of new items, such as fisheries products and pork, together with high-technology manufactures such as electronic microcircuits, telecommunications equipment and data processing machines. The presence of these manufactures shows that Latin America and the Caribbean is starting to integrate, albeit not systematically, into the wide-ranging networks of the supply chains that exist around China in the Asia and the Pacific region. Some biregional intra-industrial trade flows are also intensifying, although they are still incipient. The challenge is to persevere in these export diversification and intra-industrial trade efforts.

The region's export basket competes with that of other countries and regions to supply primary products to China. Despite the heavy concentration of Latin American and Caribbean exports in a few products, the Asian countries have succeeded in diversifying their natural resource supply sources, so that the Latin American and Caribbean countries do not have a great deal of bargaining power where these products are concerned. There is substantial competition with a number of developing

economies and with neighbouring developing countries in Asia and the Pacific in the areas of mining, agriculture, fisheries and forestry products. Analysing this competition to identify opportunities for complementarity that might provide a basis for strategic alliances with competing partners could drive improvements in the scale and quality of exports to China.

Some recent experience shows that it is possible to add value and incorporate knowledge into commodity exports. Although this may be more difficult than in manufacturing sectors, it is also possible to integrate primary products into the production and commercialization chains of Asia and the Pacific. For this, there needs to be a systematic approach encompassing the production process, trade logistics, sea and air transportation, and marketing and distribution in the final consumption market. If this strategy is based on alliances with investors from Asia and the Pacific, the starting point of natural-resource exports will turn into a complex of activities encompassing goods, services, investment and finance.

This could be done by creating strategic partnerships designed to increase value added right along the production and commercialization chain, along with mutually beneficial technological partnerships. This would help to strengthen the ties between trade and investment and production and technology linkages, which would provide an incentive for firms in the region to join supply chains with more highly processed inputs and more technology and know-how by creating more highly developed products based on the natural resources already exported to China.

Identifying infrastructure and energy projects where Chinese investment may be most necessary to speed up implementation would not only strengthen the trade and investment facilitation link with China, but would also generate externalities for the Latin American regional integration process itself. The development of large, unified markets with common standards and greater legal guarantees is also part of the region's competitiveness challenge.

Chapter III

Divergent trends in de facto integration in and between Asia-Pacific and Latin America and the Caribbean

A. Introduction: the lack of intra-industry trade limits trade and investment flows between the two regions

China, Japan, the Republic of Korea and the members of the Association of South-East Asian Nations (ASEAN) constitute one of the most important centres of intra-industry trade in the world. The efforts of ASEAN to consolidate its position at the hub of Asian regional integration processes —both de facto (in the productive base) and de jure (through trade agreements)— provide clear signposts for mapping out possible scenarios for the Latin American and Caribbean region's relationship with China.

In terms of purchasing power parity (PPP), the Asia-Pacific economies are bigger than the United States and the European Union, and their weight in output and world growth continues to grow. The Association of South-East Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3) had a GDP of US$ 12.3 trillion in 2009, or 21% of world output, and accounted for a little over 30% of total world population. In 2010, China became the world's second largest economy, surpassing Japan (in both current prices and PPP). In PPP terms, the GDP of ASEAN+3 greatly exceeds that of the United States and the European Union. The combined GDP of ASEAN+6 (ASEAN+3 plus Australia, India and New Zealand) accounts for 26% of world GDP in current prices and 31% in PPP terms.

A strong recovery is forecast for growth and foreign trade in the ASEAN countries starting in 2010. In 2009, the ASEAN members represented almost 2.5% of world GDP in current prices and 4.4% in PPP terms, while the Latin American and Caribbean shares were 6.8% and el 8.4%, respectively. However, goods exports from ASEAN nations were US$ 810 billion in 2009, which exceeds the region's total of US$ 689 billion. ASEAN is a very important trade bloc, with 6.5% of total world exports, versus 5.7% for Latin America and the Caribbean. According to the Asian Development Bank (ADB, 2010a), output did not fall in 2009 in the ASEAN-5 countries (made up of Indonesia, Malaysia, the Philippines, Thailand and Viet Nam), and their growth rate recovered to almost 7.6% in 2010. The ASEAN region has a population of approximately 590 million, which is similar to the Latin American and Caribbean population. It thus represents a very interesting potential market for the region. The ASEAN member countries are much more trade-oriented, as shown by the magnitude of GDP and the level of per capita income (see table III.1).

ASEAN is playing a leading role in the Asia-Pacific regional integration process. Although it is relatively small in economic terms, at only about half the size of Latin America and the Caribbean, the association is moving forward with its own integration process as it takes steps toward the creation of the ASEAN Economic Community. Another initiative under consideration is the creation of an East Asian free-trade area within ASEAN+3, as well as the geographically more extensive Comprehensive Economic Partnership for East Asia (CEPEA), covering ASEAN+6. Thus, ASEAN is developing several economic integration mechanisms with other countries in the Asia-Pacific region, such as Australia, China, India, Japan, New Zealand and the Republic of Korea, both individually and jointly. These elements complement the group's expansion efforts, aimed at guaranteeing its space in the world economy.

Intra-Asian trade has an increasingly intraindustrial in nature. As many authors note (ADB, 2007; Kawai and Wignaraja, 2007; World Bank, 2007; Ando and Kimura, 2005), trade relations among the Asia-Pacific economies have featured an upsurge in intra-industry trade, based on the increasingly complementary production and trade components of the different countries' manufacturing sectors. This type of trade has expanded significantly as the specific advantages of production and marketing chains have been exploited more effectively. The process has transformed the Asia-Pacific region into "Factory Asia" for the rest of the world, with China at the hub. Intra-industry trade has generated an ever-wider complementary group in which development is disseminated in concentric circles, thanks to regional intra-industry trade and intraregional foreign direct investment (FDI).

Table III.1
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS PLUS CHINA, JAPAN AND THE REPUBLIC OF KOREA (ASEAN+3): SELECTED ECONOMIC INDICATORS, 2009
(Billions of dollars and percentages)

	Population *(millions of inhabitants)*	GDP *(millions of current dollars)*	Per capita GDP *(millions of current dollars)*	Total exports *(millions of current dollars)*	Total imports *(millions of current dollars)*	Trade balance with the world *(millions of current dollars)*	Share in world exports *(percentages)*
ASEAN	591.2	1 479 792	2.5	809 667	746 787	62 880	6.5
Brunei darussalam	0.4	10 546	26.3	8 068	2498.73	5 569	0.1
Cambodia	13.9	10 804	0.8	4 984	3896.28	1 088	0.0
Indonesia	231.5	539 377	2.3	116 510	96 829	19 681	0.9
Lao Peoples's Democratic Republic	6.4	5 598	0.9	1 538	2 823	-1 284	0.0
Malaysia	27.8	191 463	6.9	157 195	123 575	33 620	1.3
Myanmar	60.0	27 553	0.5	5 560	6 819	-1 260	0.0
Philippines	92.2	160 991	1.7	38 436	45 878	-7 442	0.3
Singapore	4.8	177 132	37.3	269 832	245 785	24 048	2.2
Thailand	67.0	263 889	3.9	152 497	133 770	18 728	1.2
Viet Nam	87.2	92 439	1.1	55 046	84913.4	-29 867	0.4
China	1 334.7	4 908 982	3.7	1 201 647	1 005 555	196 092	9.6
Republic of Korea	48.8	832 512	17.1	363 531	323 082	40 449	2.9
Japan	127.6	5 068 059	39.7	580 719	551 985	28 734	4.7
ASEAN+3	2 102.2	12 289 345	5.8	2 955 563	2 627 409	328 155	23.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World economic outlook*, October 2010; the United Nations Commodity Trade Database (COMTRADE); International Monetary Fund (IMF), Direction of Trade Statistics database (DOTS) and World Trade Organization (WTO).

One of the factors limiting trade and investment flows between Asia-Pacific and Latin America and the Caribbean is the lack of intra-industry trade between the two regions. Although the level of intra-industry trade is high within each region, it is still quite scarce between the two. The fact that intra-industry trade flows currently represent a relatively small share of biregional trade not only reveals the great potential for future cooperation in trade and investment, but also points to enormous challenges. The Latin American and Caribbean region must redouble its efforts to enter value and supply chains in Asia.

This process of de facto (market-led) integration in Asia-Pacific is now being supported by de jure (government-led) integration, whereby strong production and trade relations are being complemented by various types of free trade agreements that aim to consolidate those links. In view of these trends, the Latin American and Caribbean region should strengthen its trade links to make its production more complementary with that of Asia-Pacific. It should also establish trade and investment partnerships, as well as trade agreements, which create new access to these markets and facilitate entry into Asian production and export chains.

B. Asia's dynamic intra-industry trade is mainly based on the growing integration of Asian firms in value chains

In the past decades, Asia-Pacific has undergone notable technological advances and fragmentation of the production chain, which generated a marked increase in Asian intraregional trade. Intra-Asian trade in the ASEAN+3 countries plus Hong Kong Special Administrative Region of China and Taiwan Province of China grew from 40% in the early 1990s to 50% in 2009 (see table III.2). This is higher than the level of intraregional trade achieved by the North American Free Trade Agreement (NAFTA) and is rapidly approaching the level in the European Union. Trade among the ASEAN members has risen, and in 2009 it exceeded the rates recorded by the Southern Common Market (MERCOSUR) (15%), the Andean Community (9%) and the Central American Common Market (CACM) (22%). This increase in intra-Asian trade has been driven, in part, by the strong growth of intra-firm and intra-industry trade, thanks to the construction of a complex network of vertically integrated supply chains by transnational corporations, in which China plays a fundamental role as both origin and destination.

Table III.2
ASIA-PACIFIC AND LATIN AMERICA: INTRAREGIONAL TRADE [a]
(Percentages of total trade of each region)

	1980	1985	1990	1995	2000	2005	2008	2009
ASEAN+6	33.2	31.1	31.1	38.1	36.5	38.9	39.3	40.2
ASEAN+3+Hong Kong (SAR of China) and Taiwan Province of China	36.1	35.0	40.1	49.2	47.5	50.7	48.5	50.1
ASEAN+3	29.0	26.5	27.2	35.2	33.6	35.0	34.4	35.1
ASEAN	17.3	18.7	18.8	24.7	22.9	25.1	25.3	24.5
Latin America	17.4	11.1	14.6	20.0	16.3	16.8	19.6	18.3
Andean Community	4.0	2.6	4.2	12.4	9.3	8.5	9.6	9.4
Southern Common Market (MERCOSUR)	11.6	5.5	8.9	20.6	21.1	13.0	15.1	15.2
Central American Common Market (CACM)	25.4	15.5	16.0	21.4	20.6	23.3	23.8	22.1
Pro memoria								
European Union	60.2	58.6	66.7	66.2	65.6	66.0	65.4	65.0
North American Free Trade Agreement (NAFTA) [b]	33.6	44.3	41.5	46.2	55.8	55.9	49.9	48.3

Source: The United Nations Commodity Trade Database (COMTRADE) and International Monetary Fund (IMF), Direction of Trade Statistics.

[a] ASEAN, as an origin, does not include the Lao People's Democratic Republic or Myanmar. Data for 1980 do not include Cambodia, Slovakia, Slovenia, Latvia, Lithuania, the Czech Republic, Taiwan Province of China or Viet Nam. Data for 1985 do not include Slovakia, Slovenia, Latvia, Lithuania, the Czech Republic or Taiwan Province of China. Data for 1990 do not include Slovakia, Slovenia, Latvia, Lithuania or the Czech Republic. Data for the Andean Community include Venezuela (Bolivarian Republic of), in order to maintain the continuity of the historical series. Trade data for China do not include Taiwan Province of China, Brunei Darussalam, Cambodia or Viet Nam when the source is the IMF Direction of Trade Statistics (DOTS) database.

[b] Canada-Mexico-United States.

In terms of exports, the low level of intra-Asian trade reflects trends in China. With the exception of Cambodia, the ASEAN members rely strongly on the ASEAN+3 markets as export destinations, accounting for almost 50% of the total exported by each country. India and Australia have become important markets for some of the ASEAN countries (namely, Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and Viet Nam); for example, Australia accounted for almost 8% of Viet Nam's total exports in 2006-2009 (see table III.3). ASEAN+3 as a whole, however, registers a relatively low level of internal trade, which reflects the low share of the Asia-Pacific region in Chinese trade: the region received just 21% of China's exports. The share of intra-Asian trade is much higher for Japan and especially the Republic of Korea. China is an important export destination for the Republic of Korea, Japan, Australia and the Philippines.

Table III.3
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): RELATIVE IMPORTANCE OF INTRA-ASIAN TRADE, AVERAGE FOR 2006-2009 [a]
(Percentages)

	ASEAN	China	Republic of Korea	Japan	ASEAN+3	India	Australia	New Zealand	ASEAN+6 [b]
Exports									
Brunei Darussalam	24.8	2.3	15.1	30.6	72.8	4.9	12.2	3.0	92.9
Cambodia	7.2	0.3	0.2	0.7	8.4	0.1	0.2	0.0	8.8
Philippines	15.7	10.1	4.1	15.7	45.7	0.4	1.0	0.1	47.2
Indonesia	19.8	8.8	6.9	19.6	55.1	4.9	2.9	0.3	63.2
Malaysia	25.8	9.4	3.8	9.7	48.7	3.4	3.4	0.4	55.9
Singapore	31.3	9.6	3.7	4.9	49.5	3.3	3.9	0.5	57.3
Thailand	21.6	9.6	2.0	11.5	44.6	1.8	4.3	0.4	51.2
Viet Nam	16.5	7.8	2.6	13.1	39.9	0.5	7.8	0.1	48.3
China	8.0		4.7	8.5	21.2	2.1	1.5	0.2	25.0
Republic of Korea	10.9	22.2		6.9	40.0	2.0	1.3	0.2	43.5
Japan	12.8	16.0	7.8		36.6	0.9	2.1	0.3	39.8
India	10.2	6.0	2.0	2.1	20.2		0.8	0.2	21.2
Australia	10.6	15.8	8.0	20.5	54.9	6.2		4.8	65.8
New Zealand	10.1	6.4	3.4	8.7	28.6	1.2	22.3		52.1
Imports									
Brunei Darussalam	47.9	7.9	1.6	12.8	70.2	0.5	2.0	0.5	73.2
Cambodia	38.4	21.1	5.2	2.6	67.3	2.0	0.4	0.1	69.7
Philippines	23.4	7.7	6.0	12.7	49.8	1.0	1.5	0.6	52.8
Indonesia	30.9	12.3	4.9	10.2	58.4	2.2	3.7	0.6	64.9
Malaysia	24.8	12.9	4.9	12.8	55.4	1.6	2.1	0.4	59.4
Singapore	24.5	11.1	5.2	8.1	48.9	2.3	1.5	0.2	52.9
Thailand	19.0	11.6	3.9	19.6	54.1	1.4	2.8	0.3	58.5
Viet Nam	25.5	19.2	8.8	10.2	63.6	2.3	1.9	0.3	68.1
China	10.9	8.7	10.5	13.7	43.7	1.5	3.1	0.2	48.6
Republic of Korea	9.7	17.0		15.3	42.1	1.3	4.0	0.3	47.7
Japan	14.0	20.4	4.2		38.6	0.7	5.6	0.4	45.3
India	9.0	10.5	2.7	2.6	24.8		3.7	0.1	28.6
Australia	20.2	15.9	3.3	9.1	48.4	0.8		3.3	52.5
New Zealand	14.0	13.4	2.9	8.5	39.0	0.7	19.3		59.0

Source: The United Nations Commodity Trade Database (COMTRADE) and International Monetary Fund (IMF), Direction of Trade Statistics.

[a] Data for Brunei Darussalam are for 2006; for Cambodia, 2008. Data for Viet Nam do not include 2009.

[b] Association of South-East Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3), plus Australia, India and New Zealand.

China depends much more strongly on the ASEAN+3 as a source of imports, with double the share of exports. The ASEAN members, the Republic of Korea and Japan together account for 44% of total imports into China (including re-imports). Another important source of imports into China is Australia, more than India (see table III.3). Generally, the share of intra-Asian is larger for Asia-Pacific imports than exports. Thus, with China at the centre, the Asia-Pacific region has become one of the main hubs of intraregional trade at the world level.

Asia is increasingly oriented toward manufacturing-based exports. Manufacturing exports represented over 90% of Asia's total exports in 2006 and 2007, up from 78% in the early 1980s. One of the key sectors behind this structural change is machinery and transport equipment (as defined by the Standard International Trade Classification, or SITC, section 7), especially information and communications technology (ICT) and electronics products. Asia's share of global machinery and transport equipment exports reached 42% in 2006 and 2007, compared with a low share of 15% in 1994 and 1995. The emerging Asian economies generated more than 80% of the increase in that period. At the end of the 2006-2007 period, over 58% of world ICT exports originated in Asia, and China accounted for 23% of the total (Athukorala, 2010). Consequently, network trade has intensified, with China becoming a centre of global assembly work.

Medium- and high-technology products account for a substantial and growing share of trade within the Asia-Pacific region, at over 56% of total exports in 2008, despite the fact that primary products, natural-resource-based manufactures and low-technology manufactures also hold significant shares of total Asia-Pacific exports (11%, 17% and 13%, respectively). The shares of medium- and high-technology products in total imports from the region to the United States, the European Union and even Latin America and the Caribbean are invariably high, at approximately 60% of total imports. The case of Japan is particularly noteworthy, where primary products account for one fourth of imports from the region (see table III.4).

However, this view of the region as a world export platform for medium- and high-technology manufactures hides wide cross-country variation. On the one hand, Australia, Brunei Darussalam, Indonesia, New Zealand and Viet Nam largely export primary products and natural-resource-based manufactures. On the other, countries like China, Japan, Malaysia, the Philippines, the Republic of Korea, Singapore and, to a lesser extent, Thailand have established Asia-Pacific's position as a world manufacturing base (see table III.5). The low-technology products sector, including textiles and clothing, continues to be an important segment of manufacturing exports for several countries in the region.

Table III.4
LATIN AMERICA AND THE CARIBBEAN AND ASIA-PACIFIC: TRADE BY REGION, PRODUCT AND TECHNOLOGICAL CONTENT, 2008
(Percentages)

	Latin America and the Caribbean [a]								
	Export matrix by sector and region								
Destination market	Latin America and the Caribbean	United States	European Union	China	Republic of Korea	Japan	Rest of Asia-Pacific [b]	Rest of world	World
Primary products	4.9	12.4	6.9	2.9	0.6	1.5	1.2	6.7	37.1
Natural-resource-based manufactures	4.6	4.9	3.6	1.3	0.3	0.3	0.6	4.3	20.0
Low-technology manufactures	2.3	4.0	0.6	0.1	0.0	0.0	0.2	0.3	7.5
Medium-technology manufactures	5.9	11.0	2.0	0.2	0.2	0.2	0.5	1.3	21.3
High-technology manufactures	1.5	7.8	0.7	0.2	0.0	0.0	0.2	0.5	11.0
Other transactions	0.1	0.7	0.2	0.0	0.0	0.0	0.0	2.0	3.0
Total	19.4	40.8	13.9	4.6	1.1	2.1	2.7	15.3	100.0
	Asia-Pacific [c]								
	Export matrix by sector and region								
Destination market	Latin America and the Caribbean	United States	European Union	China	Republic of Korea	Japan	Rest of Asia-Pacific [b]	Rest of world	World
Primary products	0.1	0.4	0.7	1.1	0.7	1.7	1.6	1.4	7.8
Natural-resource-based manufactures	0.5	1.2	1.6	1.7	0.7	1.1	4.9	2.7	14.5
Low-technology manufactures	0.7	3.7	3.7	1.1	0.7	1.3	3.3	3.4	17.9
Medium-technology manufactures	1.8	4.3	4.3	3.0	1.2	1.3	6.6	6.4	28.9
High-technology manufactures	0.9	4.3	4.9	4.7	1.1	1.5	7.8	2.4	27.5
Other transactions	0.2	0.3	0.5	0.4	0.1	0.1	1.1	0.6	3.5
Total	4.2	14.2	15.8	11.9	4.5	6.9	25.4	17.1	100.0

Table III.4 (concluded)

Latin America and the Caribbean [a]								
Export distribution by region and sector								
Latin America and the Caribbean	United States	European Union	China	Republic of Korea	Japan	Rest of Asia-Pacific [b]	Rest of world	World
25.4	30.3	49.5	62.4	52.8	71.8	45.5	44.2	37.1
23.7	12.1	25.7	27.7	29.0	16.6	21.2	28.4	20.0
12.0	9.8	4.2	1.9	1.0	1.2	5.8	1.9	7.5
30.3	27.0	14.5	4.7	15.0	8.1	18.5	8.7	21.3
7.8	19.2	4.9	3.3	2.1	2.2	8.9	3.5	11.0
0.8	1.7	1.2	0.1	0.0	0.1	0.1	13.3	3.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Asia-Pacific [c]								
Export distribution by region and sector								
Latin America and the Caribbean	United States	European Union	China	Republic of Korea	Japan	Rest of Asia-Pacific [b]	Rest of world	World
2.9	2.9	4.2	9.3	15.7	25.2	6.4	8.2	7.8
12.0	8.2	10.4	13.9	16.0	15.6	19.5	16.1	14.5
16.6	25.9	23.5	9.0	15.6	18.7	13.1	20.1	17.9
42.8	30.3	27.5	25.2	25.7	18.1	26.0	37.7	28.9
20.9	30.6	30.9	39.2	24.3	21.1	30.5	14.2	27.5
4.8	2.2	3.4	3.5	2.6	1.3	4.5	3.8	3.5
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The United Nations Commodity Trade Database (COMTRADE).

[a] Does not include Cuba or Haiti. Data for Antigua and Barbuda and Honduras are for 2007.

[b] Includes Australia, Cambodia, Brunei Darussalam, Hong Kong Special Administrative Region of China, India, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Viet Nam.

[c] Includes Australia, Cambodia, China, Hong Kong Special Administrative Region of China, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, the Republic of Korea, Singapore, Thailand and Viet Nam.

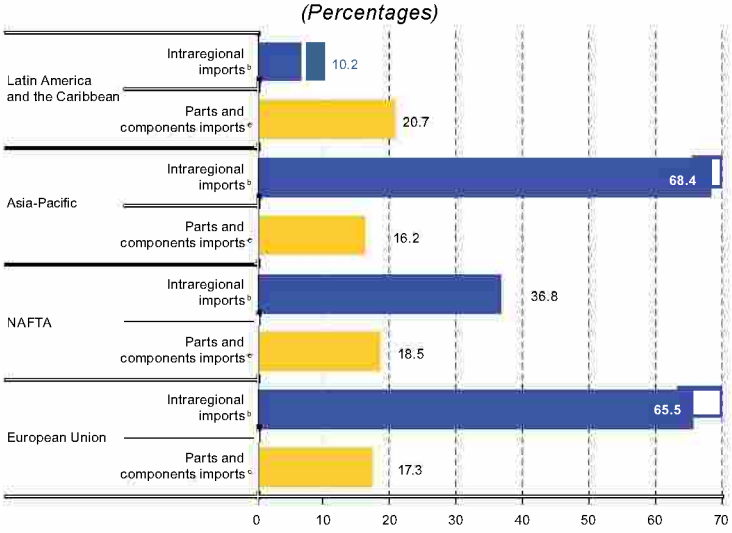
Table III.5
ASEAN+6: DISTRIBUTION OF TOTAL WORLD EXPORTS BY TECHNOLOGICAL INTENSITY, AROUND 2008-2009 [a]
(Millions of dollars and percentages)

	Total world exports	Primary products	Natural-resource-based manufactures	Manufacturing exports	Low-technology manufactures	Medium-technology manufactures	High-technologay manufactures	Other transactions
Australia (2009)	153 767	62.2	11.7	20 453	2.1	6.7	4.5	12.8
Brunei Darussalam (2006)	7 636	96.4	0.2	250	1.9	0.9	0.5	0.2
Cambodia (2008)	4 358	3.7	0.7	3 248	72.0	2.4	0.1	21.1
China (2009)	1 201 647	2.5	8.8	1 059 761	30.1	23.5	34.5	0.5
Philippines (2009)	38 436	5.8	12.4	31 177	7.1	13.0	61.0	0.7
India (2009)	176 765	11.8	32.4	90 244	25.3	16.6	9.1	4.7
Indonesia (2009)	116 510	39.7	26.5	38 423	13.6	13.5	5.9	0.9
Japan (2009)	580 719	0.5	11.6	469 431	8.0	51.7	21.1	7.1
Malaysia (2009)	157 195	14.1	19.5	102 684	10.1	16.4	38.8	1.0
New Zealand (2009)	24 933	43.4	31.8	4 940	6.1	9.4	4.3	5.0
Taiwan, Province of China (2009)	203 494	1.0	12.5	171 858	15.5	26.7	42.2	2.0
Republic of Korea (2009)	363 531	0.7	14.1	305 907	9.7	42.9	31.6	1.1
Singapore (2009)	269 832	0.9	22.5	184 296	5.5	19.4	43.4	8.3
Thailand (2009)	152 497	10.8	20.6	97 137	13.5	27.7	22.6	4.9
Viet Nam (2008)	62 685	39.6	7.3	32 439	35.7	9.4	6.6	1.3

Source: The United Nations Commodity Trade Database (COMTRADE).
[a] The Association of South-East Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3) plus Australia, India and New Zealand. The last year for which data are available is in parentheses.

Trade between Asia-Pacific and Latin America and the Caribbean is mainly inter-industry, which limits the potential for future biregional trade and investment. In 2008, almost half of all exports from Asia-Pacific went to countries in the same region, while other markets, like the United States, the European Union and Latin America and the Caribbean, were secondary export destinations (see table III.4). Within the region, China is the biggest exporter, surpassing Japan and the Republic of Korea together. The rest of Asia-Pacific —namely, the ASEAN countries plus India, Australia, New Zealand and Hong Kong Special Administrative Region of China— together accounted for 25.4% of total exports by countries in the region in 2008. The trade patterns among Asia-Pacific countries feature an increasingly strong performance for medium- and high-technology products, which represent over half of the total. Until countries in Latin America and the Caribbean make headway in this type of product, the possibilities for stronger trade links are limited.

Figure III.1
INTRAREGIONAL IMPORTS OF PARTS AND COMPONENTS AND THE SHARE OF THESE PRODUCTS IN THE TOTAL IMPORTS OF EACH REGION, 2008 [a]
(Percentages)



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

[a] The classification of parts and components is based on Athukorala (2010) and comprises 525 product categories at the six-digit tariff lines of the Harmonized Commodity Description and Coding System (HS). The analysis does not include Taiwan Province of China, due to a lack of statistics. The data for Honduras are for 2007. The data for China do not include re-imports.

[b] In percentages of intraregional trade.

[c] In percentages of total imports.

With China at the hub, the Asia-Pacific region has become the "world factory" of manufacturing parts and components, and the Latin American and Caribbean region must find ways to integrate into these supply chain networks. In the last decade, Asia's manufacturing-related sectors, which supply various types of parts and components, have recorded high and growing rates of intra-industry trade. Currently, about 68% of total imports of parts and components in Asia-Pacific comes from other Asian countries, and this, in turn, represents 16% of total combined imports in the region. This is slightly higher than the share recorded by the European Union (27 countries). Intra-industry trade in these sectors has been much less robust in the NAFTA countries, where intraregional trade accounts for not quite 37% of total imported parts and components. Intraregional imports of parts and components have been relatively lower in Latin America and the Caribbean (equivalent to 10% of the country's total imports in this segment, despite constituting over 20% of total imports).

The main centres for trade in parts and components in Asia-Pacific are the ASEAN countries, China, Japan and, to a lesser extent, the Republic of Korea. ASEAN+6 imports of these products totalled US$ 330 billion in 2008. The ASEAN countries, China and Japan exported almost US$ 100 billion each, equivalent to 30% of the 16 countries' total imports that year. The Republic of Korea exported almost half the level of ASEAN, China and Japan, at over US$ 40 billion. The major trade axes are intraregional trade within ASEAN, trade between China and Japan and trade between China and the ASEAN bloc (see table III.6). The weight of India, Australia and New Zealand is still quite small, at less than 1% of the total imports of the 16 countries. East Asia and South-East Asia thus share the role of "Factory Asia." To attract more investment to the region, the countries of Latin America and the Caribbean must promote supply chain networks in these sectors.

Table III.6
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): INTRAREGIONAL PARTS AND COMPONENTS TRADE MATRIX, 2008 [a]
(Billions of dollars and percentages)

Origin / Destination	ASEAN	China	Japan	Republic of Korea	India	Australia/ New Zealand	ASEAN+6 [b]
	(Billions of dollars)						
ASEAN	40.8	32.4	32.3	8.0	1.6	1.0	113.4
China	29.4	-	46.0	23.2	0.4	0.4	98.5
Japan	17.5	35.5	-	6.0	0.3	0.1	59.0
Republic of Korea	3.4	15.9	13.3	-	0.2	0.4	32.7
India	2.9	8.5	2.1	2.7	-	0.1	16.1
Australia	3.3	5.6	2.2	1.0	0.2	0.5	12.2
New Zealand	0.3	0.7	0.3	0.1	0.0	0.6	1.4
ASEAN+6 [b]	97.7	98.6	96.2	40.9	2.7	3.1	333.4
Origin / Destination	ASEAN	China	Japan	Republic of Korea	India	Australia/ New Zealand	ASEAN+6 [b]
	(Percentages of total ASEAN+6 parts and components imports)						
ASEAN	12.2	9.7	9.7	2.4	0.5	0.3	34.0
China	8.8		13.8	7.0	0.1	0.1	29.6
Japan	5.3	10.7		1.8	0.1	0.0	17.7
Republic of Korea	1.0	4.8	4.0		0.1	0.1	9.8
India	0.9	2.5	0.6	0.8		0.0	4.8
Australia	1.0	1.7	0.7	0.3	0.1	0.1	3.6
New Zealand	0.1	0.2	0.1	0.0	0.0	0.2	0.4
ASEAN+6 [b]	29.3	29.6	28.9	12.3	0.8	0.9	100.0

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

[a] The classification of parts and components is based on Athukorala (2010) and comprises 525 product categories at the six-digit tariff lines of the Harmonized Commodity Description and Coding System (HS).

[b] Association of South-East Asian Nations plus China, Japan, the Republic of Korea (ASEAN+3), plus Australia, India and New Zealand.

One example is the computer components sector, in which China has become the ASEAN countries' main trade partner. Between 2004 and 2008, ASEAN exports to China in this sector increased 93%, from US$ 7.7 billion to US$ 14.9 billion, while world exports of these products grew from 13% to 27% in the same period. Similarly, ASEAN imports from China grew 51%, to a share of 40% of total imports; this exceeded

the combined imports from the United States (19%), the European Union (9%) and Japan (5%) in 2008 (see figure III.2). This change in the trade pattern took place when the sector was hit by a strong recession at the world level (USITC, 2010). During that period, assembly operations were steadily relocated from the main ASEAN countries to the east coast of China. In the automotive parts and components sector, China has a much smaller share of the ASEAN markets, while Japan remains strong with 44% as a destination for extraregional exports and 57% as an origin for extraregional imports in 2008. Last year, intraregional exports in the automotive parts and components sector were US$ 1.9 billion, while extraregional exports equalled 7.4% of the total; that is, exports to other ASEAN members represented one fourth of total exports to extraregional markets (USITC, 2010).[1]

The Asia-Pacific supply chain networks have expanded and deepened in a wide range of industrial sectors, including manufactures and natural-resource-based products. A detailed analysis of the intraregional trade structure in this region shows that the 20 main products exported worldwide in 2008 (which correspond to four categories, namely, electrical machinery, apparatus and appliances; petroleum and derivatives; office machines and automatic data-processing machines; and telecommunications and sound reproduction equipment) are among the most important export products at the intraregional level (see table III.7).[2] These sectors have been especially dynamic in China, but the growth of these exports in all the East and South-East Asia groups has far exceeded the growth of world trade in these products. The top 20 products also include some natural-resource-based manufactures other than petroleum and derivatives, such as iron and steel, artificial resins and plastic materials, chemical products, non-ferrous metals, and non-metal mineral manufactures, among others.

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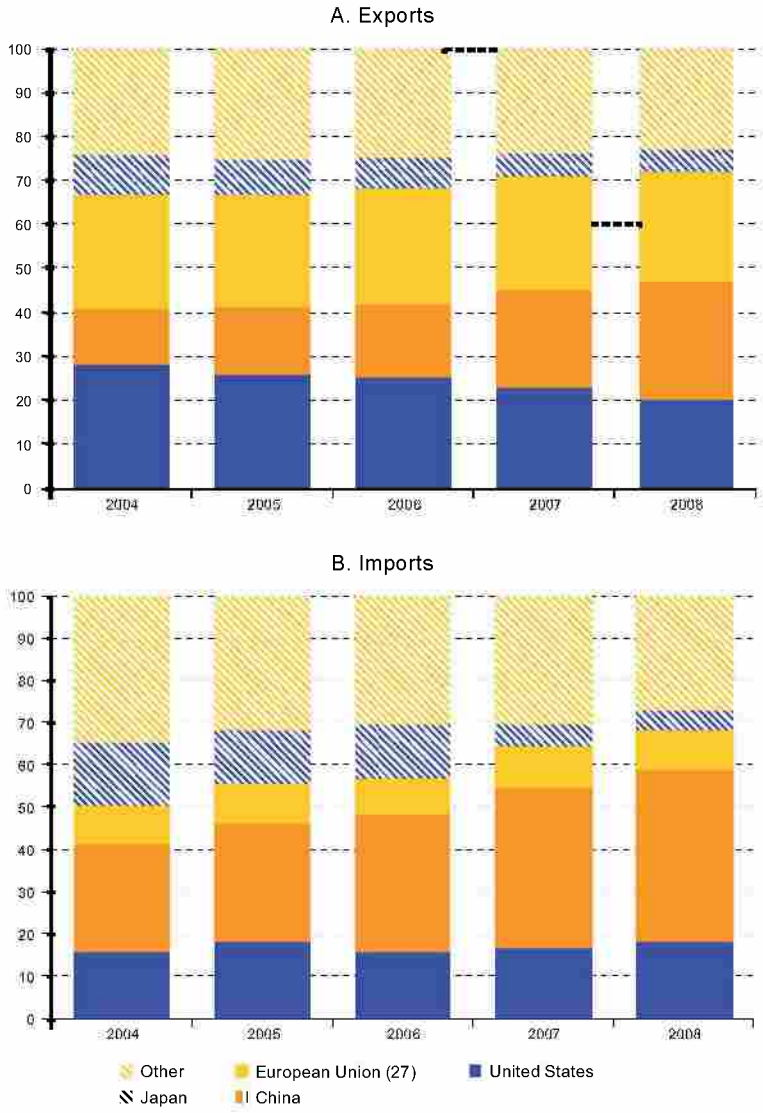
[1] Several Latin American countries are world exporters of automotive parts and components. For example, Mexico was the largest exporter of these products in 2006, surpassing China. That same year, Brazil was the third-largest exporter of these products, and Argentina was the eleventh-largest (Van Biesebroeck and Sturgeon, 2010).

[2] For example, almost 70% of total electrical machinery exports went to the Asia-Pacific region. This sector represented almost 18% of total intraregional trade in 2008.

Figure III.2
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): COMPUTER COMPONENT TRADE BY MAIN DESTINATION AND SOURCE MARKETS, 2004-2008
(Percentages of world total, by value)



Source: Authors' elaboration, on the basis of International Trade Commission (USITC), "ASEAN: regional trends in economic integration, export competitiveness, and inbound investment for selected industries," *Investigation*, Nº 332-511, USITC Publication 4176, tables 3.1 and 3.2, August 2010.

Table III.7
ASIA-PACIFIC: INTRAREGIONAL TRADE [a]
(Millions of dollars and percentages)

Position	Product description	Value of intraregional exports in Asia-Pacific *(millions of dollars)*			Share of intraregional exports in Asia-Pacific in total regional exports *(percentages)*			Share in total intraregional trade *(percentages)*		
		1990	2000	2008	1990	2000	2008	1990	2000	2008
1	Electrical machinery, apparatus and appliances	32 502	187 814	431 222	47.5	60.8	70.1	9.8	21.3	18.2
2	Petroleum, petroleum products and related materials	26 289	45 143	198 769	79.6	82.0	75.0	7.9	5.1	8.4
3	Office machines and automatic data-processing machines	10 789	80 269	169 573	21.5	41.9	47.9	3.3	9.1	7.2
4	Telecommunications and sound reproduction equipment	18 311	48 162	168 762	30.1	39.5	47.9	5.5	5.5	7.1
5	Iron and steel	12 868	25 998	106 541	62.8	69.4	60.0	3.9	2.9	4.5
6	Miscellaneous manufactured articles, n.e.c.	12 930	30 379	74 805	33.3	35.1	39.7	3.9	3.4	3.2
7	Professional, scientific, and monitoring instruments and devices, n.e.c.	2 967	14 985	74 024	34.9	51.7	61.4	0.9	1.7	3.1
8	Road vehicles (including hovercraft)	16 425	25 126	73 367	21.0	20.2	23.5	5.0	2.8	3.1
9	Artificial resins, plastic materials and cellulose	7 319	27 389	69 726	72.2	78.6	73.2	2.2	3.1	2.9
10	General industrial machinery and equipment	10 871	24 018	68 815	47.5	49.0	45.4	3.3	2.7	2.9

Table III.7 (concluded)

Position	Product description	Value of intraregional exports in Asia-Pacific *(millions of dollars)*			Share of intraregional exports in Asia-Pacific in total regional exports *(percentages)*			Share in total intraregional trade *(percentages)*		
		1990	2000	2008	1990	2000	2008	1990	2000	2008
11	Specialized machinery for specific industries	12 578	27 027	65 860	55.4	60.7	53.2	3.8	3.1	2.8
12	Non-ferrous metals	7 498	19 124	62 686	76.0	79.5	78.1	2.3	2.2	2.6
13	Organic chemical products	5 581	18 271	61 701	56.5	62.2	63.0	1.7	2.1	2.6
14	Textile yarn, fabrics and made-up articles	23 941	45 872	61 120	60.2	60.3	48.0	7.2	5.2	2.6
15	Metalliferous ores and metal scrap	4 700	7 409	55 212	50.4	61.2	82.9	1.4	0.8	2.3
16	Charcoal, coke and briquettes	4 087	6 851	47 570	70.2	72.4	75.3	1.2	0.8	2.0
17	Clothing and accessories	13 096	32 636	47 033	27.0	34.9	24.4	3.9	3.7	2.0
18	Metal manufactures, n.e.c.	5 730	13 140	40 501	37.8	38.9	38.4	1.7	1.5	1.7
19	Power-generating machinery and equipment	5 442	14 179	38 604	40.0	45.8	48.0	1.6	1.6	1.6
20	Non-metallic mineral manufactures, n.e.c.	6 578	12 855	34 742	49.8	46.9	47.3	2.0	1.5	1.5
	Other	89 287	174 776	415 755	49.3	51.1	47.7	26.9	19.8	17.6
	Total	331 780	883 424	2 368 396	43.5	50.1	52.4	100.0	100.0	100.0

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

[a] Includes Taiwan Province of China; does not include Hong Kong Special Administrative Region of China, in accordance with the International Standard Industrial Classification, revision 2 (ISIC, Rev. 2) (two-digit level).

C. Trade in Latin America and the Caribbean also has a significant intra-industry component

Despite the image of the Latin American and Caribbean region as a primary products and natural-resourced-based manufactures exporter, its export structure is fairly diversified at the regional level (Durán and Lo Turco, 2010). Countries like Argentina, Brazil, Colombia, Costa Rica and Mexico and, to a lesser extent, El Salvador and Guatemala have a significant share of manufacturing exports, especially low- and medium-technology products. Consequently, there is considerable intra-industry trade among the members of MERCOSUR, the Andean Community and CACM.

Manufactures, especially medium- and high-technology products, also represent a substantial share of intraregional trade in Latin America and the Caribbean, although to a much lower degree than in Asia-Pacific. These manufactures account for more than half of total exports in Latin America and the Caribbean. The combined share of medium- and high technology manufactures is 38% of total intraregional trade (see table III.4). The regional export basket to the United States and, to a lesser extent, the European Union also contains manufactures, especially medium-technology products. In contrast, trade with Asia-Pacific is generally inter-industry. Latin America and the Caribbean mainly exports primary products to that region, which in turn exports relatively high technology manufactures to Latin America and the Caribbean.[3]

Asia-Pacific intraregional trade is relatively similar to that of Latin America and the Caribbean in terms of product composition. Road vehicles, petroleum, iron and steel and various machinery products are among the top 20 product classes (see table III.8). In 2008, these 20 products represented over 74% of total intraregional trade in Latin America and the Caribbean. This overlapping of the main intraregional trade products in Asia-Pacific and in Latin America and the Caribbean could point to the existence of biregional trade opportunities in these areas.

In the case of Latin America and the Caribbean, however, natural-resource-based products have a greater weight in total intraregional trade. The region records a significant volume of exports in petroleum products, natural gas, cereals, paper and paper products, chemical products, essential oils, yarns and fabrics, and medicinal and pharmaceutical products. Half of these products are exported within the region. The share of machinery products is generally low, while medicinal and pharmaceutical products —another high-technology category— is fairly high at 72%. The intraregional trade of textiles and clothing is also significant (see table III.8).

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[3] For more detail on trade between Latin America and the Caribbean and Asia-Pacific, see chapter II.

Table III.8
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE
(Millions of dollars and percentages)

Position	Product description	Value of intraregional exports in Latin America and the Caribbean *(millions of dollars)*			Share of intraregional exports in Latin America and the Caribbean in total regional exports *(percentages)*			Share in total intraregional trade *(percentages)*		
		1990	2000	2008	1990	2000	2008	1990	2000	2008
1	Petroleum, petroleum products and related materials	3 144	10 662	24 922	10.2	18.4	13.3	16.0	18.0	14.6
2	Road vehicles (including hovercraft)	851	5 601	19 703	17.1	15.9	30.5	4.3	9.5	11.5
3	Iron and steel	877	1 872	7 812	14.6	23.8	29.3	4.5	3.2	4.6
4	Cereals and prepared cereals	865	2 336	6 403	46.6	61.2	44.6	4.4	4.0	3.7
5	Non-ferrous metals	547	1 781	6 089	6.6	15.9	15.6	2.8	3.0	3.6
6	Natural and manufactured gas	293	807	6 027	57.5	64.0	54.8	1.5	1.4	3.5
7	Telecommunications and sound reproduction equipment	98	1 011	5 273	18.9	4.8	11.1	0.5	1.7	3.1
8	Artificial resins, plastic materials and cellulose	480	1 931	4 926	38.4	58.0	56.8	2.4	3.3	2.9
9	Electrical machinery, apparatus and appliances	391	1 512	4 617	28.1	5.3	12.4	2.0	2.6	2.7
10	Metalliferous ores and metal scrap	551	916	4 558	8.7	9.0	8.6	2.8	1.5	2.7
11	Specialized machinery for specific industries	301	700	4 111	29.0	26.0	39.4	1.5	1.2	2.4

Table III.8 (concluded)

Position	Product description	Value of intraregional exports in Latin America and the Caribbean *(millions of dollars)*			Share of intraregional exports in Latin America and the Caribbean in total regional exports *(percentages)*			Share in total intraregional trade *(percentages)*		
		1990	2000	2008	1990	2000	2008	1990	2000	2008
12	Paper, cardboard, pulp and related articles	374	1 798	3 938	29.7	56.8	61.4	1.9	3.0	2.3
13	General industrial machinery and equipment	417	1 203	3 520	28.0	17.1	20.5	2.1	2.0	2.1
14	Miscellaneous manufactured articles, n.e.c.	411	1 459	3 440	31.7	21.8	26.7	2.1	2.5	2.0
15	Essential oils and perfumes; toilet and cleaning preparations	170	1 153	3 357	49.9	62.7	65.7	0.9	2.0	2.0
16	Textile yarn, fabrics and made-up articles	446	1 552	3 352	22.5	32.4	53.2	2.3	2.6	2.0
17	Medicinal and pharmaceutical products	207	1 677	3 322	57.9	76.4	71.5	1.0	2.8	1.9
18	Metal manufactures, n.e.c.	381	1 194	3 282	33.8	21.8	30.9	1.9	2.0	1.9
19	Meat and meat preparations	391	660	3 160	17.7	17.7	15.1	2.0	1.1	1.8
20	Organic chemical products	475	994	3 052	26.4	27.2	28.7	2.4	1.7	1.8
	Other	6 038	16 280	44 043	13.1	13.1	16.7	30.7	27.5	25.8
	Total	19 698	59 096	170 915	16.0	17.0	19.9	100.0	100.0	100.0

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

In contrast to forecasts, the growing productive integration of Asia with China does not necessarily eliminate opportunities for other Asian countries to deepen their productive and trade specialization. Rather, it creates opportunities for those countries to integrate into regional and global value chains and, at the same time, to increase their exports of parts and components all along the more fragmented chains. They can thus export unfinished products indirectly to extraregional markets, in particular the industrialized economies, through "Factory Asia" with China at the hub.

D. Intra-industry trade between the two regions is limited, but growing

Latin America conducts substantial intra-industry trade with the United States and the European Union, but the level remains low with Asia-Pacific. A brief analysis of the trend for intra-industry trade from 1990 to 2008 in Asia-Pacific and Latin America, both within each region and with other regions of the world, reveals substantial changes, particularly in Asia-Pacific. This conclusion is based on calculations of the Grubel-Lloyd index (GLI)[4], which indicates the following (see table III.9):

(i) The intra-industry trade coefficient has increased in both regions over the years: from 0.13 to 0.29 in Latin America and from 0.22 to 0.37 in Asia-Pacific;

(ii) the biggest increases were recorded in Asia-Pacific;

(iii) although they have grown, the intra-industry trade coefficients for biregional trade remain very low, at under 0.05 and 0.06; and

(iv) the intra-industry trade coefficients of both regions with the European Union and, especially, the United States have increased substantially.

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[4] In this case, the GLI is calculated based on bilateral trade flows in order to analyse whether there are import and export flows of the same products between two countries. Formally, the trade index is defined as follows:

$$IGL_t = 1 - \frac{\sum_i |X_{it} - M_{it}|}{\sum_i (X_{it} - M_{it})}$$

where *Xit* and *Mit* are exports and imports of product *i* in year *t*. The numerator of the second term, which reflects the sum of the trade balances by product, provides an indicator of the value of trade that is not offset by an opposite flow of goods in the same industry. After dividing that sum by total trade and deducing the resulting ratio from the unit, the index varies from 0 to 1. The higher the value of the index, the larger the share of intra-industry trade in total trade. To capture larger increases and differentiate the degree of depth in intra-industry relations, three levels are defined:

i) level 1: Igl > 0,33 (with intra-industry trade);
ii) level 2: 0,10 < Igl < 0,33 (with potential intra-industry trade), and
iii) level 3: Igl < 0,10 (inter-industry trade ratio).

Table III.9
LATIN AMERICA AND ASIA-PACIFIC: INTRA-INDUSTRY TRADE, 1990, 1995, 2000 AND 2008
(Grubel-Lloyd index)

Region/country	Latin America and Asia-Pacific		Latin America and Asia-Pacific with other regions and countries	
	Latin America	Asia-Pacific	European Union (27 countries)	United States
1990				
Latin America	0.13	0.03	0.08	0.23
Asia-Pacific	0.04	0.22	0.19	0.30
1995				
Latin America	0.22	0.04	0.10	0.37
Asia-Pacific	0.04	0.30	0.26	0.37
2000				
Latin America	0.27	0.06	0.12	0.44
Asia-Pacific	0.07	0.36	0.27	0.39
2008				
Latin America	0.29	0.05	0.20	0.36
Asia-Pacific	0.06	0.37	0.27	0.21

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

Of the four regional groupings considered (Latin America, Asia-Pacific, the United States and the European Union), intra-industry trade within Asia-Pacific has the highest GLI, whereas intra-industry trade between Asia-Pacific and Latin America and the Caribbean is the lowest. The GLI of China, Japan, Malaysia, the Philippines, the Republic of Korea, Singapore and Thailand with their main Asian trade partners is high. The GLIs are also high within ASEAN and between ASEAN members and each of the three main Asian trade partners (namely, China, Japan and the Republic of Korea) (see table III.10). In 2009, after the international financial crisis, the coefficient fell relative to 2000, which had a strong effect on the intra-industry trade networks in Asia. Despite this reduction, the high GLI levels support the findings in the existing literature regarding the role that China and other emerging Asian countries are starting to play in the integration of the Asian region (Wakasugi, 2007; IMF, 2007; Ando, 2006; Kinoshita, 2004; Fukao, Ishido and Ito, 2003; Durking and Kryegier, 2000). One of the factors behind this dynamic is the fragmentation of production processes beyond national borders, driven by different forms of business associations (such as FDI and joint-venture firms) and intra-firm trade.

Table III.10
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS PLUS CHINA, JAPAN AND THE REPUBLIC OF KOREA (ASEAN+3): INTRA-INDUSTRY TRADE INDEX, 2000 AND 2009 [a]
(Grubel-Lloyd index)

	Cambodia		Philippines		Indonesia		Lao People's Democratic Republic		Malaysia		Myanmar		Thailand		Viet Nam		China		Republic of Korea		Japan	
	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Philippines	0.10	0.01			0.15	0.19	0.00	0.00	0.53	0.47	0.05	0.01	0.44	0.24	0.06	0.12	0.27	0.46	0.40	0.40	0.50	0.39
Indonesia	0.02	0.02	0.16	0.16			0.00	0.12	0.35	0.41	0.01	0.03	0.34	0.34	0.14	0.26	0.20	0.16	0.18	0.15	0.12	0.19
Malaysia	0.03	0.05	0.51	0.44	0.45	0.36	0.00	0.02			0.03	0.01	0.55	0.46	0.10	0.17	0.37	0.42	0.38	0.25	0.32	0.31
Singapore	0.02	0.29	0.45	0.38	0.24	0.42	0.00	0.00	0.70	0.78	0.04	0.03	0.49	0.53	0.06	0.13	0.52	0.50	0.60	0.71	0.42	0.55
Thailand	0.01	0.02	0.45	0.38	0.38	0.34	0.02	0.10	0.54	0.46	0.03	0.01			0.07	0.17	0.40	0.40	0.39	0.37	0.38	0.38
China	0.00	0.02	0.34	0.31	0.21	0.21	0.02	0.01	0.30	0.32	0.04	0.02	0.35	0.35	0.07	0.18			0.33	0.38	0.32	0.35
Republic of Korea	0.02	0.03	0.42	0.45	0.16	0.15	0.00	0.00	0.48	0.29	0.02	0.00	0.42	0.33	0.11	0.15	0.42	0.49			0.42	0.45
Japan	0.01	0.01	0.47	0.38	0.17	0.17	0.00	0.02	0.37	0.29	0.02	0.02	0.36	0.37	0.16	0.31	0.30	0.34	0.44	0.47		

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).
[a] The index is calculated based on the exports and imports recorded by each country, which can vary between the same partners. The calculations were made using the Standard International Trade Classification, Revision 3, at three digits. Light gray boxes indicate potential intra-industry trade; dark gray boxes, existing intra-industry trade.

Trade between countries in Latin America also has a strong intra-industry component. The countries with a high GLI are Argentina, Brazil, Colombia and Mexico. In Brazil and Mexico, the high level of intra-industry trade is centred on bilateral trade with the United States. In particular, Mexico's high GLI is determined by the United States, which is the destination for nearly 80% of its exports. Only Mexico exceeds the threshold for the first level of the GLI, defined as over 0.33 for total trade (see table III.11). In the case of bilateral intraregional trade, three countries display high levels of intra-industry trade (Argentina, Brazil and Colombia), nine are at the second level, and the remaining five are dominated by inter-industry trade. In terms of trade with the European Union, only four countries are at the second level.

Table III.11
LATIN AMERICA (SELECTED COUNTRIES): INTRA-INDUSTRY TRADE WITH MAIN TRADE PARTNERS, 2008 [a]
(Grubel-Lloyd index)

Country	Latin America	Asia	United States	European Union	Total
Argentina	0.41	0.03	0.28	0.14	0.27
Bolivia (Plurinational State of)	0.10	0.00	0.07	0.02	0.08
Brazil	0.36	0.08	0.36	0.30	0.28
Chile	0.17	0.02	0.11	0.05	0.09
Colombia	0.43	0.02	0.17	0.07	0.23
Costa Rica	0.32	0.08	0.26	0.23	0.25
Ecuador	0.20	0.00	0.02	0.03	0.09
El Salvador	0.28	0.02	0.13	0.03	0.18
Guatemala	0.27	0.02	0.06	0.05	0.1
Honduras	0.15	0.01	0.09	0.02	0.1
Mexico	0.28	0.07	0.49	0.18	0.38
Nicaragua	0.04	0.00	0.06	0.01	0.04
Panama	0.08	0.00	0.03	0.02	0.04
Paraguay	0.17	0.00	0.03	0.03	0.11
Peru	0.08	0.01	0.12	0.02	0.06
Uruguay	0.32	0.02	0.07	0.05	0.22
Venezuela (Bolivarian Republic of)	0.05	0.00	0.02	0.03	0.03
Latin America	0.29	0.05	0.36	0.20	0.27

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

[a] According to data from the Standard International Trade Classification, Revision 2 (SITC, Rev. 2) at three digits.

There are several axes of intra-industry trade in Latin America. The strongest intra-industry relations involve bilateral trade between El Salvador and Guatemala, on the one hand, and Costa Rica and Guatemala, on the other. These already ranked as intra-industry relations (with a GLI over 0.33) in 2000, and data for 2009 show a substantial increase (nearly 0.50 in both cases). The bilateral relation with the highest GLI in 2009 was between Argentina and Brazil, at 0.51; it also recorded the strongest growth in the period. Other bilateral relations that ranked as intra-industry in 2009 are between El Salvador and Costa Rica, Mexico and Brazil, and Ecuador and Colombia. A second group of countries has the potential for intra-industry relations as of 2009 (a GLI between 0.10 and 0.32); this group includes Mexico and Argentina, Colombia and Peru, and Argentina and Uruguay. The indices between Brazil and Uruguay, Colombia and Costa Rica, and Ecuador and Costa Rica are also noteworthy, albeit to a lesser extent (see table III.12).

The lack of intra-industry trade between the two regions is one of the main reasons for the scarce biregional investment and trade flows. While intra-industry trade is substantial within the regions, it continues to be scarce between the two regions. In 2009, the GLIs for biregional cross-country trade were fairly low (see table III.13). In Asia-Pacific, biregional intra-industry trade is almost non-existent in most cases, with an index of less than 0.10. Current intra-industry trade flows represent a relatively small share of biregional trade. This implies that there are not only abundant possibilities for the future, but also big challenges for biregional cooperation in the area of trade and investment.

Nevertheless, it is possible to identify some bilateral flows that point to the existence of intra-industry trade, although this is a nascent trend (see table III.13). In general, Mexico has a higher GLI for trade with Asia-Pacific than do the other Latin American economies. Argentina, Brazil, Costa Rica and other Central American countries are beginning to show some degree of intra-industry trade, albeit inconsistently, with all the Asian trade partners. In Asia-Pacific, Singapore and Australia are adopting this type of trade with Latin America. In sum, the regions have made significant progress from totally inter-industry trade toward a trade structure that is somewhat more oriented toward intra-industry trade.

In addition, the products that promote intra-industry trade between the regions generally have a medium to high technological content, including electrical equipment, parts and accessories, micro-circuits, automatic data-processing machines, measuring, monitoring and testing instruments, and pharmaceutical products. The Asia-Pacific countries have made big strides in these areas at the world level. Medium-technology products include various plastic products, road vehicles with their parts and motors, and various other products that fall under the category of general machinery. Low-technology products include yarns, textiles and iron and steel products (ECLAC, 2008a).

Table III.12
LATIN AMERICA (SELECTED COUNTRIES): INTRA-INDUSTRY TRADE RELATIONS, 2000-2009
(Grubel-Lloyd index)

	BOL		BRA		CHL		COL		CRI		ECU		SLV	
	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Argentina	0.03	0.05	0.41	0.51	0.16	0.16	0.14	0.08	0.02	0.03	0.03	0.02	0.00	0.03
Bolivia (Plurinational State of)			0.04	0.01	0.10	0.06	0.01	0.01	0.00	0.01	0.05	0.05	0.00	0.01
Brazil	0.01	0.01			0.12	0.11	0.16	0.16	0.05	0.03	0.05	0.04	0.01	0.01
Chile	0.08	0.07	0.12	0.11			0.17	0.10	0.06	0.08	0.13	0.10	0.05	0.04
Colombia	0.01	0.01	0.18	0.14	0.16	0.18			0.10	0.10	0.31	0.30	0.02	0.07
Costa Rica	0.04	0.05	0.06	0.16	0.08	0.17	0.14	0.17			0.10	0.16	0.44	0.41
Ecuador	0.04	0.02	0.05	0.04	0.11	0.12	0.32	0.30	0.11	0.18			0.01	0.00
El Salvador	0.00	0.02	0.00	0.02	0.04	0.03	0.03	0.03	0.43	0.40	0.01	0.00		
Guatemala	0.00	0.01	0.01	0.03	0.04	0.02	0.05	0.04	0.44	0.43	0.00	0.01	0.50	0.46
Honduras	0.00	0.00	0.00	0.01	0.00	0.03	0.01	0.02	0.16	0.22	0.00	0.00	0.30	0.29
Mexico	0.05	0.03	0.29	0.44	0.27	0.14	0.31	0.17	0.14	0.09	0.10	0.05	0.08	0.11
Nicaragua	0.00	0.00	0.00	0.00	0.00	0.09	0.02	0.00	0.17	0.19	0.00	0.00	0.09	0.08
Panama	0.00	0.01	0.00	0.00	0.01	0.08	0.07	0.02	0.24	0.12	0.00	0.01	0.17	0.03
Paraguay	0.02	0.08	0.11	0.15	0.04	0.04	0.02	0.10	0.01	0.03	0.26	0.01	0.05	0.01
Peru	0.13	0.06	0.05	0.05	0.27	0.26	0.12	0.27	0.06	0.05	0.10	0.11	0.02	0.03
Uruguay	0.01	0.01	0.25	0.20	0.26	0.22	0.03	0.20	0.03	0.02	0.00	0.01	0.02	0.00

Table III.12 (concluded)

GTM		HND		MEX		NIC		PAN		PRY		PER		URY		VEN	
2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
0.02	0.01	0.00	0.01	0.20	0.24	0.00	0.00	0.08	0.00	0.05	0.08	0.05	0.06	0.41	0.27	0.06	0.02
0.04	0.02	0.03	0.00	0.03	0.02	0.00	0.00	0.06	0.04	0.04	0.09	0.18	0.08	0.01	0.01	0.02	0.00
0.01	0.01	0.01	0.01	0.30	0.45	0.00	0.00	0.09	0.05	0.08	0.12	0.05	0.04	0.27	0.20	0.05	0.05
0.06	0.02	0.00	0.02	0.23	0.15	0.00	0.10	0.11	0.16	0.02	0.03	0.25	0.23	0.27	0.25	0.06	0.04
0.05	0.04	0.01	0.04	0.28	0.17	0.01	0.01	0.11	0.18	0.01	0.03	0.12	0.28	0.04	0.19	0.28	0.07
0.45	0.49	0.34	0.21	0.13	0.19	0.13	0.18	0.39	0.37	0.00	0.52	0.05	0.11	0.16	0.15	0.06	0.14
0.03	0.01	0.00	0.00	0.06	0.02	0.00	0.00	0.04	0.01	0.12	0.01	0.10	0.11	0.00	0.01	0.17	0.06
0.46	0.49	0.32	0.44	0.07	0.10	0.10	0.08	0.21	0.19	0.29	0.00	0.03	0.03	0.00	0.01	0.00	0.01
		0.28	0.25	0.12	0.14	0.07	0.11	0.31	0.22	0.01	0.04	0.01	0.02	0.01	0.00	0.01	0.01
0.27	0.28			0.02	0.03	0.18	0.21	0.03	0.08	0.00	0.00	0.01	0.01	0.00	0.00	0.02	0.01
0.13	0.12	0.08	0.10			0.01	0.07	0.08	0.21	0.02	0.02	0.12	0.08	0.04	0.09	0.11	0.05
0.08	0.11	0.12	0.16	0.01	0.02			0.02	0.17	0.00	0.01	0.07	0.00	0.00	0.00	0.00	0.00
0.15	0.01	0.10	0.13	0.01	0.01	0.05	0.14			0.00	0.00	0.02	0.04	0.00	0.00	0.00	0.02
0.01	0.03	0.00	0.01	0.01	0.02	0.00	0.00	0.04	0.06			0.02	0.01	0.07	0.03	0.01	0.00
0.02	0.02	0.00	0.00	0.10	0.07	0.05	0.01	0.68	0.03	0.01	0.00			0.03	0.03	0.03	0.05
0.00	0.01	0.00	0.05	0.03	0.05	0.00	0.00	0.01	0.06	0.06	0.22	0.02	0.03			0.00	0.00

GLI > 0.33

0.10 < GLI < 0.33

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

Table III.13
LATIN AMERICA AND ASIA-PACIFIC (SELECTED COUNTRIES):
INTRA-INDUSTRY TRADE RELATIONS, 2000-2009
(Grubel-Lloyd index)

	AUS		BRN		KHM		CHN		PHL		IND		IDN	
	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Argentina	0.08	0.08	0.00	0.00	0.00	0.00	0.01	0.02	0.02	0.01	0.01	0.04	0.01	0.01
Bolivia (Plurinational State of)	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.01	0.00
Brazil	0.07	0.07	0.00	0.00	0.00	0.00	0.06	0.04	0.03	0.03	0.11	0.11	0.06	0.06
Chile	0.04	0.05	0.00	0.00	0.00	0.00	0.01	0.02	0.04	0.03	0.00	0.01	0.01	0.01
Colombia	0.03	0.05	0.00	0.00	0.00	0.00	0.01	0.02	0.01	0.03	0.01	0.00	0.02	0.02
Costa Rica	0.03	0.09	0.00	0.00	0.00	0.00	0.03	0.06	0.00	0.03	0.01	0.03	0.02	0.01
Ecuador	0.01	0.01	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.01	0.00	0.00	0.00	0.00
El Salvador	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.04	0.00	0.00	0.00	0.00
Guatemala	0.01	0.01	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.01	0.02	0.00
Honduras	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.01
Mexico	0.10	0.23	0.01	0.00	0.00	0.00	0.10	0.05	0.02	0.03	0.14	0.10	0.03	0.07
Nicaragua	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Panama	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Paraguay	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Peru	0.01	0.02	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.01	0.00	0.02	0.00	0.01
Uruguay	0.07	0.04	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.02	0.05	0.03	0.00	0.09
Venezuela (Bolivarian Republic of)	0.05	0.00	0.00	0.17	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.06	0.00	0.00

Table III.13 (concluded)

JPN		LAO		MYS		MMR		NZL		KOR		SGP		THA		VNM	
2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
0.02	0.03	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.04	0.03	0.02	0.01	0.06	0.01	0.03	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.00
0.09	0.06	0.00	0.00	0.05	0.02	0.00	0.00	0.17	0.15	0.03	0.04	0.11	0.17	0.04	0.04	0.04	0.05
0.01	0.00	0.00	0.00	0.01	0.02	0.00	0.00	0.01	0.06	0.00	0.01	0.00	0.01	0.01	0.02	0.00	0.01
0.00	0.01	0.00	0.00	0.02	0.01	0.00	0.00	0.00	0.05	0.00	0.02	0.01	0.02	0.03	0.02	0.00	0.01
0.04	0.09	0.00	0.00	0.01	0.04	0.00	0.00	0.01	0.01	0.05	0.03	0.01	0.16	0.01	0.01	0.00	0.01
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.05	0.05	0.00	0.00	0.00	0.93	0.01
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.11	0.12	0.00	0.00	0.06	0.03	0.00	0.00	0.02	0.06	0.09	0.03	0.42	0.36	0.07	0.05	0.01	0.04
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.00	0.00	0.00	0.11
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.01	0.00	0.00	0.50	0.00	0.02	0.00	0.00	0.00	0.03	0.01	0.05	0.01	0.00	0.00	0.00	0.00	0.01
0.00	0.01	0.00	0.00	0.00	0.02	0.00	0.00	0.01	0.01	0.00	0.03	0.00	0.01	0.00	0.00	0.00	0.01
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.01	0.00	0.00	0.00

GLI > 0.33

0.10 < GLI < 0.33

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

Note: In the case of El Salvador and Viet Nam, trade between the two countries involves a single product; in the case of Peru and the Lao People's Democratic Republic, there are five products. The intra-industry relation is strong in the case of the one product traded by El Salvador and Viet Nam (shoes), but there is no deeper relation. In the case of Peru and the Lao People's Democratic Republic, trade centres on clothing, and here again this product class carries more weight, by volume, than the other four exports, for which there is no intraregional trade.

Everything seems to indicate that in the past several years, Latin American firms have begun to participate in diverse Asian value and supply chains. The appearance of intra-industry trade between the regions, with the participation of an increasing number of countries and sectors, suggests that there are interesting opportunities and possibilities for expanding this trade in the future. Biregional intra-industry trade could be promoted in some manufacturing sectors. Nevertheless, to take advantage of these opportunities, business contacts need to be strengthened through FDI and other types of association and through free trade agreements in both regions.

E. China has become an export platform to developed countries for its Asian neighbours

An important characteristic of intra-Asian trade and FDI dynamics, which are at the core of the world economy, is the spectacular eruption of China as a key player. China has a trade deficit with the ASEAN countries, the Republic of Korea and Japan because these countries are the main suppliers of capital goods and intermediate inputs for its manufacturing industry. Chinese manufactures are later exported to other trade partners, mainly the United States and the European Union, with which it has a more favourable trade balance in low- and high-technology manufactures. China is thus becoming an export platform to markets in the United States and Europe for many of its Asian neighbours. While Latin America continues to provide China with primary products and natural-resource-based manufactures, the level of these exports to China is much lower than the region's competitors. Latin America competes with the ASEAN countries, the United States, Australia, India and New Zealand in primary products and with Japan and the Republic of Korea in natural-resource-based manufactures.

Japan's main trade partners are its Asian neighbours, in particular China, and a large share of Japanese machinery imports come from Asia. In 2009, Asia-Pacific countries, including India, Australia and New Zealand, supplied 51% of Japan's imports and absorbed an even greater percentage of its exports (57%). China and the ASEAN countries, in particular, supplied over 22% and 14% of total imports, respectively. Japan's ASEAN imports exceeded imports from the United States (11%) and the European Union (11%) considered separately. Electrical machinery and other manufactured products for general use make up a large percentage of the goods that Japan imports from its Asian neighbours. This is the case not only in its imports from China and the recently industrialized Asian economies —Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China— but also in its trade with the ASEAN members (JETRO, 2010 and various years).

Table III.14
CHINA: COMPOSITION OF THE INTERNATIONAL TRADE DEFICIT AND SURPLUS BY PRODUCT TECHNOLOGY CONTENT, 2007-2009 [a]
(Millions of dollars)

Trade partner	Exports	Imports	Balance	Primary products	Manufactures			
					Natural-resource-based	Low-technology	Medium-technology	High-technology
Latin America and the Caribbean	59 518	62 184	(2 666)	(16 424)	(1 418)	3 460	5 241	3 736
Asia-Pacific	322 810	407 776	(84 966)	(8 057)	(4 018)	13 374	(8 682)	(21 488)
Association of South-East Asian Nations (ASEAN)	105 110	110 742	(5 631)	(6 263)	(1 060)	4 512	5 153	(7 854)
Australia and New Zealand	22 549	36 194	(13 645)	(8 786)	(319)	2 323	1 458	1 723
Republic of Korea	61 348	106 147	(44 799)	1 337	(2 067)	1 944	(4 888)	(10 659)
India	28 434	16 197	12 238	(5 685)	717	979	2 742	3 228
Japan	105 369	138 496	(33 127)	2 554	(1 608)	5 940	(11 690)	(6 203)
United States	235 769	76 296	159 473	(3 607)	2 248	22 157	7 379	20 837
European Union	258 455	123 794	134 661	1 389	844	16 992	(2 118)	22 055

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).
[a] Total exports and imports include the category "Other," not included in the table.

China is Japan's main supplier of different types of machinery. A large share of the products that Japan imports from its Asian neighbours is made up of electrical machinery and other manufactures for general use. This can be seen not only in the country's imports from China and the recently industrialized Asian economies, but also in its trade with the ASEAN-4 members. The United States has a strong presence in the food and transport equipment sectors; the European Union is prominent in industrial chemical products, transport equipment and a range of durable consumer goods. The only sector in which the Latin American and Caribbean region has a strong presence in Japan's imports is crude materials (see table III.15). China depends largely on Japan as a supplier of high-technology parts and components, and Japan has been able to take full advantage of China's international trade expansion in recent years.

China's main trade partners are also its Asian neighbours. Japan and China thus form an anchor of intra-industry trade in the region. Asian countries account for a large share of China's total trade (see chapter 1).[5] As discussed above, the Grubel-Lloyd indices for China with the Republic of Korea and Singapore increased considerably through the mid-1990s. In the current decade, China has expanded its intra-industry trade with Japan, Malaysia and Thailand and, to a lesser extent, with Indonesia and Viet Nam. Foreign capital firms, especially those based out of Asia, are the main drivers of China's foreign trade: Asian foreign capital firms were responsible for almost a quarter of the country's foreign trade.[6] These companies import large amounts of components and inputs from their headquarters in their countries of origin, which reflects the high degree of intra-industry trade.

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[5] Exports destined for Asia-Pacific represented 43% of the country's total exports in 2009, with the exception of Hong Kong (SAR of China), which was 28%. This greatly exceeds the level of exports to the European Union (20%) and the United States (18%). Japan (8%), ASEAN (9%) and the Republic of Korea (6%) are among the top ten export destinations. In terms of imports, in 2009 Asia-Pacific countries were the biggest source of China's foreign purchases, with 48% of total imports, versus 13% for the European Union and 8% for the United States.

[6] The contribution of foreign capital firms from the United States and Europe to China's exports is fairly low in comparison with their Asian competitors. At the same time, the presence of Asian firms is a determining factor in China's import orientation: firms from ten selected Asian countries imported US$ 291 billion in 2006, equivalent to 62% of total imports of foreign-owned firms in China. This far exceeds the share of firms from the United States and the European Union, at just 7% and 10%, respectively.

Table III.15
JAPAN: IMPORTS BY REGION AND SECTOR, AVERAGE FOR 2007-2009
(Millions of dollars and percentages)

	United States	European Union (27)	East Asia [a]	Recently industrialized Asian countries	Association of South-East Asian Nations (ASEAN-4)	China	Eastern Europe	Latin America and the Caribbean	Middle East	Africa	Other	World	Average value 2007-2009
Food and products for direct consumption	27.2	10.0	27.5	4.6	9.7	13.2	2.2	9.2	0.2	1.8	21.9	100.0	54 897
Industrial supplies	5.2	6.9	24.0	5.1	11.8	7.1	3.1	4.7	36.2	3.8	16.0	100.0	340 413
Crude materials	7.4	4.3	26.7	3.6	19.3	3.9	1.9	26.2	0.5	2.6	30.4	100.0	40 755
Mineral fuels	0.6	0.2	14.9	2.0	11.6	1.4	3.3	0.2	62.0	3.2	15.5	100.0	196 258
Industrial chemical products	19.6	34.5	30.5	10.8	5.7	14.0	0.3	3.9	1.9	0.3	9.1	100.0	48 191
Metals	5.1	7.5	32.9	15.2	4.6	13.2	11.2	7.7	1.3	18.5	15.7	100.0	27 547
Textiles	4.0	10.7	76.5	12.0	10.4	54.1	0.1	0.4	0.4	0.2	7.6	100.0	5 197
Capital goods	19.3	12.9	62.8	17.6	12.1	33.1	0.0	1.3	0.3	0.1	3.3	100.0	147 273
Non-electrical machinery	18.0	15.6	62.2	11.5	9.9	40.8	0.0	1.0	0.2	0.1	3.0	100.0	53 477
Electrical equipment	15.2	8.2	71.5	24.5	14.6	32.3	0.0	1.2	0.4	0.0	3.5	100.0	69 294
Transport equipment	42.8	20.8	30.3	6.4	10.9	12.9	0.0	2.2	0.0	0.3	3.7	100.0	12 739

Table III.15 (concluded)

	United States	European Union (27)	East Asia [a]	Recently industrialized Asian countries	Association of South-East Asian Nations (ASEAN-4)	China	Eastern Europe	Latin America and the Caribbean	Middle East	Africa	Other	World	Average value 2007-2009
Perishable consumer goods	6.1	15.6	71.9	1.5	3.4	67.0	0.0	0.3	0.0	0.3	5.8	100.0	41 154
Textile products	0.7	5.9	86.9	1.2	3.3	82.3	0.0	0.2	0.0	0.3	5.9	100.0	26 117
Non-perishable consumer goods	6.2	20.1	65.4	8.0	10.2	47.3	0.0	1.0	0.1	1.3	5.7	100.0	43 602
Household equipment	3.9	24.7	67.6	8.7	5.9	53.0	0.0	0.4	0.1	0.0	3.2	100.0	1 515
Domestic electrical equipment	1.4	3.4	94.0	3.1	25.2	65.7	0.0	0.2	0.1	0.0	0.8	100.0	7 222
Passenger vehicles	6.6	80.0	1.2	0.5	0.5	0.3	0.0	2.9	0.0	8.7	0.5	100.0	6 327
Motorcycles and bicycles	12.9	9.6	76.3	18.8	5.2	52.3	0.0	0.1	0.0	0.0	1.1	100.0	1 764
Toys and musical instruments	5.4	4.4	88.0	4.0	4.9	79.1	0.0	0.1	0.0	0.0	2.0	100.0	7 030
Other	17.9	9.4	62.8	28.9	17.3	16.6	1.4	1.6	0.4	0.6	5.9	100.0	15 800
Total	10.7	10.1	40.0	8.5	11.2	20.3	1.9	3.7	19.3	2.3	12.0	100.0	643 141

Over 20%
Over 10% but less than 20%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the Japan External Trade Organization (JETRO) [online] http://www.jetro.go.jp/en/reports/statistics.

[a] Includes China, four recently industrialized Asian economies (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) and ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand).

Trade with the Asia-Pacific region represents more than half of the Republic of Korea's total trade and exceeds its trade with the European Union and the United States. China's share in the Republic of Korea's trade has increased briskly, receiving 24% of the country's exports in 2009 and sourcing 17% of its imports. Korean exports to China are concentrated in medium- and high-technology manufactures, which represented 32% and 42%, respectively, of shipments to China in 2009, while imports feature a large share of low-technology manufactures. In 2009, the ASEAN countries as a group were more important than Japan as a destination for Korean exports.

The main trade partners of the ASEAN countries are China, Japan and the Republic of Korea (ASEAN+3), which provide around a third of the FDI inflows to the ASEAN group. Asia-Pacific, including the Republic of Korea, Australia, India and New Zealand, represented 57% of total trade for ASEAN as a whole in 2009. China ranks first as a supplier and third as a destination for trade with the ASEAN countries. ASEAN intraregional trade constitutes the most important trade axis for the group.[7] The share of trade within ASEAN, for both exports and imports, was 25% of the total in 2009, which is higher than the intraregional trade recorded under the different integration schemes in Latin America and the Caribbean. The ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) have succeeded in increasing their Grubel-Lloyd indices with China and Japan, because their intra-industry trade represents a significant share of reciprocal manufacturing exports (ECLAC, 2008a).

The regional trade network centred in China developed outside the realm of regional trade agreements. The so-called "Factory Asia" grew out of the unilateral trade liberalization of parts and components, in conjunction with FDI flows and a favourable investment climate, which are the key elements of intraregional trade in Asia-Pacific. This assumed a significant change in the Asian development model before China emerged as an economic power. An important factor in the fragmentation of manufacturing processes in the region was Japan's loss of comparative advantages in manufacturing production, which led Japanese firms to break down production processes and subcontract out the more labour-intensive phases in neighbouring East Asian countries. The process of hollowing out the Japanese economy was repeated in Taiwan Province of China, Hong Kong Special Administrative Region of China, the Republic of Korea and Singapore, which boosted the creation of "Factory Asia."

[7] Total trade between ASEAN members in 2009 —with imports and exports together totalling US$ 376 billion— was more than double the volume of trade with the region's other most important trade partners, including China (US$ 178 billion), the European Union (25 countries) (US$ 171 billion), Japan (US$ 161 billion) and the United States (US$ 150 billion).

Finally, China's entry into the international economic sphere further eroded the industrial comparative advantages of higher-income countries in East Asia and increased the attractiveness of offshore production. Rising wages in China are now leading Asian countries to invest in other areas both within and outside Asia.

F. Intraregional foreign direct investment: key for intraregional and intra-industry trade

The ASEAN+3 countries have become an increasingly important source of world FDI. A decade ago, only 5% of total world FDI originated in the ASEAN+3 countries, and two thirds of that came from Japan. Since then, this group of countries has increased its share in world FDI flows to 12% (see figure III.3), thanks to an active internationalization process by companies in China, the Republic of Korea and Singapore. Currently, 40% of these capital flows come from Japanese firms. ASEAN+3 investment became relatively more significant after the recent financial crisis. In relative terms, the recent financial crisis had a stronger effect on the United States and Europe than the Asian countries, in their role as foreign investors. Thus, in the two-year period 2008-2009, the ASEAN+3 economies' contribution to total world flows rose to 16% (see figure III.4).

Figure III.3
TOTAL WORLD FOREIGN DIRECT INVESTMENT FLOWS ORIGIN, 1990-1999 AND 2000-2009
(Percentages)

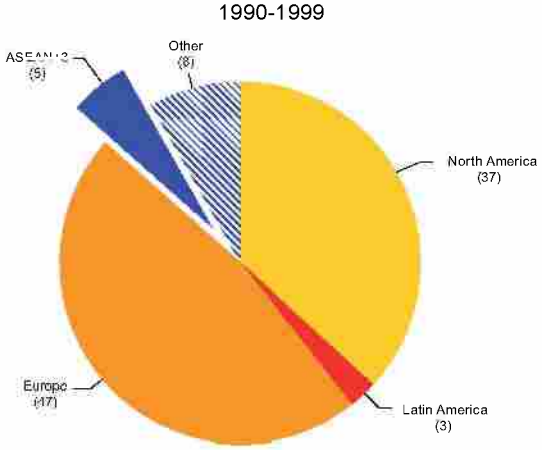
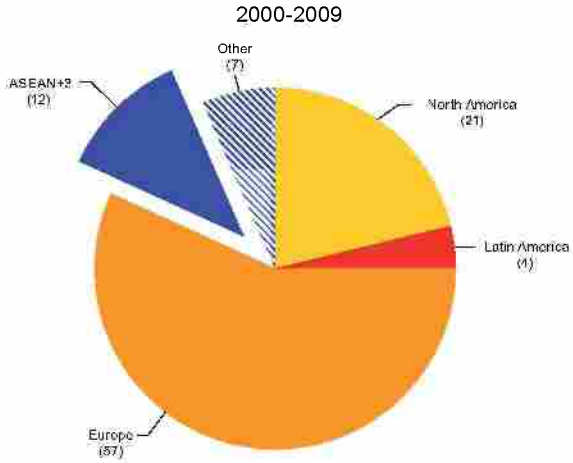
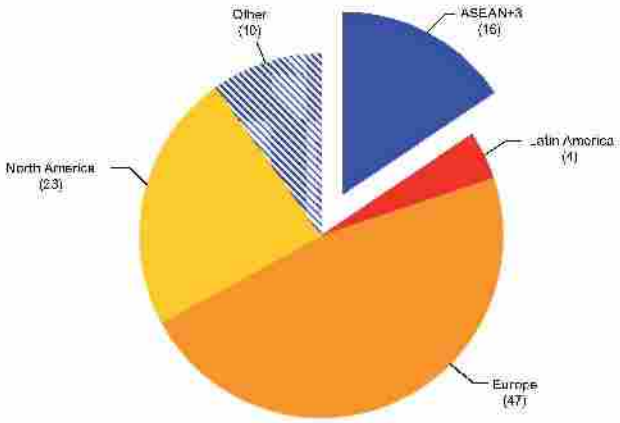


Figure III.3 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Conference on Trade and Development (UNCTAD).

Figure III.4
TOTAL WORLD FOREIGN DIRECT INVESTMENT FLOWS ORIGIN, 2008-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Conference on Trade and Development (UNCTAD).

FDI inflows to China from its three main sources (ASEAN, Japan and the Republic of Korea) increased sharply.[8] The ASEAN countries thus represent an important source of FDI for China, although the largest share of these investment flows is from Singapore (between US$ 3 billion

[8] As indicated in chapter I, these three sources represented around 14% del total FDI, on average, in 2007 and 2008.

and US$ 4 billion a year). At the same time, the developing countries, especially in Asia, have been the main destination for FDI outflows from China, absorbing more than two thirds of the total. Asia-Pacific, including Australia, accounted for 78% of China's world FDI stock at year-end 2009.

Japan's FDI stock abroad at year-end 2009 was equivalent to 20% of the stock held by the United States, four times that of China and five times that of the Republic of Korea. By destination, 70% of Japanese FDI abroad went to developed countries (basically the United States and Western Europe), while half of Korean FDI went to emerging countries. In the case of China, two thirds went to Hong Kong Special Administrative Region of China; when this region is excluded, Chinese FDI is more oriented towards the emerging economies of Asia and Latin America and the Caribbean than towards the more advanced economies (see table III.16).

Table III.16
CHINA, UNITED STATES, JAPAN AND THE REPUBLIC OF KOREA: OVERSEAS FOREIGN DIRECT INVESTMENT (FDI) STOCK BY DESTINATION, DECEMBER 2009 [a]
(Millions of dollars and percentages)

	Overseas FDI				Share				
	Japan	United States	China	Republic of Korea	Japan	United States	China (excluding Hong Kong SAR of China)		Republic of Korea
Total	740 364	3 508 142	183 971	142 986	100	100	100	100	100
Asia	175 645	399 169	128 007	63 739	7.4	11.4	69.6	17.9	44.6
China	55 045	49 403	-	29 913	-	1.4	-	-	20.9
Japan	-	103 643	510	3 178	-	3.0	0.3	0.7	2.2
Recently industrialized Asia economies	58 607	173 808	120 030	12 790	7.9	5.0	65.2	6.1	8.9
Hong Kong (SAR of China)	13 048	50 459	115 845	9 316	1.8	1.4	63.0	-	6.5
Association of South-East Asian Nation (ASEAN 4)	48 441	45 506	1 428	7 525	6.5	1.3	0.8	2.1	5.3
Viet Nam	3 353	-	522	5 730	0.5	-	0.3	0.8	4.0
India	8 982	18 610	222	1 839	1.2	0.5	0.1	0.3	1.3
North America	240 246	259 792	3 659	34 539	32.4	7.4	2.0	5.4	24.2
United States	230 948	-	2 390	30 110	31.2	-	1.3	3.5	21.1
Latin America and the Caribbean	99 056	678 956	32 242	10 827	13.4	19.4	17.5	47.3	7.6

Table III.16 (concluded)

	Overseas FDI				Share				
	Japan	United States	China	Republic of Korea	Japan	United States	China (excluding Hong Kong SAR of China)		Republic of Korea
Brazil	31 337	56 692	217	1 182	2.9	1.6	0.1	0.3	0.8
Oceania	36 173	112 186	3 816	3 437	4.9	3.2	2.1	5.6	2.4
Western Europe	174 939	1 925 781	2 882	18 119	23.6	54.9	1.6	4.2	12.7
Eastern Europe	4 112	50 443	4 217	8 074	0.6	1.4	2.3	6.2	5.6
Russian Federation	954	21 328	1 838	1 470	0.1	0.6	1.0	2.7	1.0
Middle East	4 453	46 839	1 476	2 576	0.6	1.3	0.8	2.2	1.8
Africa	5 734	34 979	7 672	1 675	0.8	1.0	4.2	11.3	1.2
South Africa	1 730	5 922	3 049	169	0.2	0.2	1.7	4.5	0.1
Developed countries or regions	509 968	2 575 210	130 897	72 062	68.9	73.4	71.2	22.1	50.4

Source: Japan External Trade Organization (JETRO), "Figure III.12," *2010 JETRO Global Trade and Investment Report. A Global Strategy for Japanese Companies to Open New Frontiers in Overseas Markets*, Tokyo, 2010.

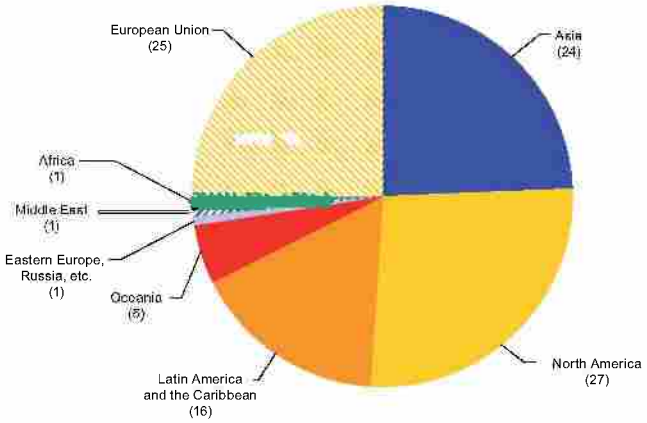
[a] The geographic classification by country and region is from the Ministry of Finance of Japan and the Central Bank of Japan, "Balance of Payments" [online] http://www.mof.go.jp/english/international_policy/reference/balance_of_payments/index.htm. Data for Japan, the United States and China are based on the balance of payments. Data for the Republic of Korea are cumulative investments by investors starting in 1960. Data for Japan are originally published in yen, and converted to United States dollars at the end of each quarter, using the interbank exchange rate of the Central Bank of Japan. In this table, developed countries or regions include Japan, the recently industrialized Asian countries, North America, Oceania and Western Europe.

In more recent decades, Asia-Pacific's weight as a destination for Japanese FDI has increased. In the last decade (2000-2009), Asia-Pacific, including Oceania, absorbed 30% of Japanese FDI abroad, pushing North America (27%) and the European Union (25%) into second and third place (see figure III.5). Currently, Japan continues to be the primary foreign investor in the ASEAN+3 economies (see figure III.6).

Almost 60% of the foreign affiliates of Japanese firms are located in Asia and only 5% in Latin America and the Caribbean; the majority are in the manufacturing sector. According to a study carried out by the Japanese Ministry of Economy, Trade and Industry (METI, 2007), there were around 16,000 Japanese affiliates operating overseas in 2006. Approximately 58% of these affiliates were located in Asia (20% in China), around 13% had operations in the three recently industrialized countries (Taiwan Province of China, Republic of Korea and Singapore), and 17% were in the ASEAN-4. About 800 Japanese affiliates (5% of the world total) were

operating in Latin America and the Caribbean, primarily in Argentina, Brazil and Mexico. Broken down by industry, around 50% of the affiliates were involved in the manufacturing sector. The top three sectors were chemical products, communications equipment and transport equipment, followed by general machinery and electrical machinery. In these cases, the production bases were mainly located in Asia. In Latin America and the Caribbean, about 570 Japanese affiliates were in the non-manufacturing sector, primarily in activities tied to transport and retail trade, while 250 were in the manufacturing sector (with about 70 of these in transport equipment production) (ECLAC, 2008d). Relatively few affiliates were associated with natural-resource-based sectors. The surprising presence of Japan in Asia's machinery sector reflects the flourishing and complex supply chain network in that region.[9]

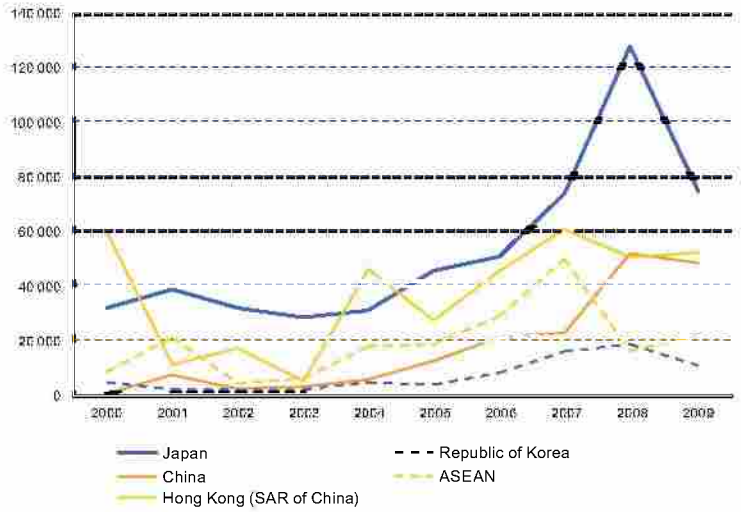
Figure III.5
JAPAN: DISTRIBUTION OF FOREIGN DIRECT INVESMENT (FDI) ABROAD BY BALANCE OF PAYMENTS, 2000-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the Japan External Trade Organization (JETRO) [online] http://www.jetro.go.jp/en/reports/statistics.

[9] The performance of Japanese affiliates in Asia is particularly noteworthy in terms of the number of firms, sales, benefits and number of employees. At the same time, Japanese FDI in Latin America and the Caribbean has an exceptionally high rate of return, although it represents a small percentage of the world total in terms of number of firms, employees and sales (ECLAC, 2008b). Almost 12% of the total profits of Japanese foreign affiliates originated in Latin America and the Caribbean in the 2007 fiscal year. China has not necessarily been the centre of profits and sales for the Japanese multi-national corporations: it only contributed 9.2% of total sales of Japanese foreign affiliates and 12.6% of net benefits in that fiscal year (JETRO 2010, p. 95).

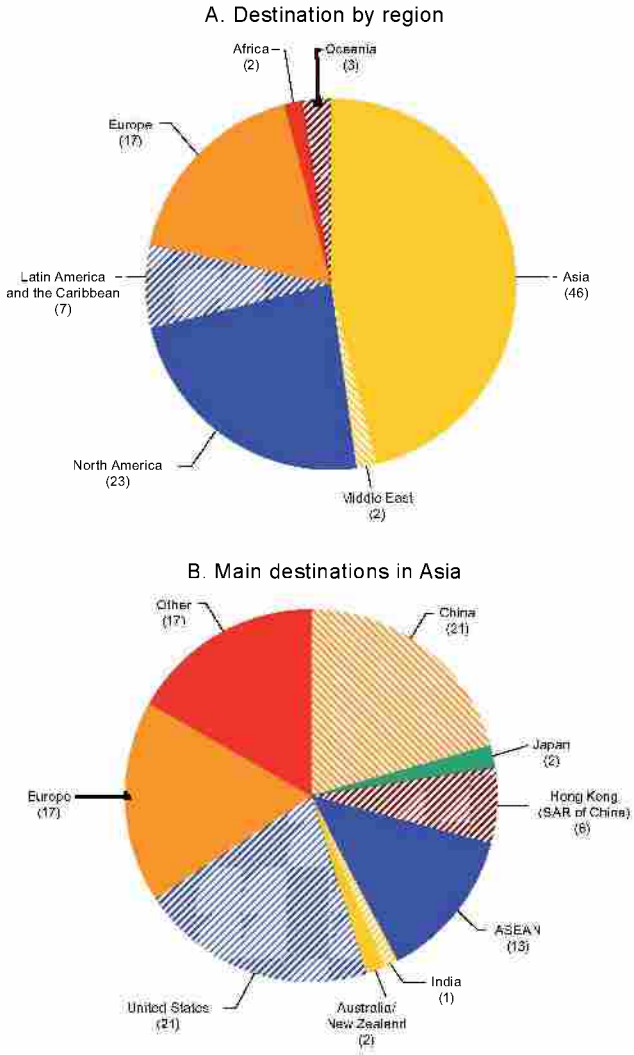
Figure III.6
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS PLUS CHINA, JAPAN AND THE REPUBLIC OF KOREA (ASEAN+3): DIRECT INVESTMENT ABROAD BY COUNTRY OF ORIGIN, 2000-2009
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the Japan External Trade Organization (JETRO) [online] http://www.jetro.go.jp/en/reports/statistics.

The Republic of Korea's foreign direct investment has largely been directed towards its Asian neighbours, especially China, although the ASEAN countries have recently been seeing more investment. Asia's share of the FDI coming from the Republic of Korea totalled 69% in terms of projects undertaken and 46% in terms of the stock of FDI as of December 2009, with a world stock of US$ 146 billion (see figure III.7). These figures far exceed the share of the United States or Europe. In addition to China, the biggest beneficiaries of Korean FDI in Asia are the ASEAN countries, including several developing countries such as Viet Nam and Indonesia. The manufacturing sector, which accounted for 40% of the total stock, has been the driving force of Korean FDI, whose main objectives are to support overseas production facilities and to secure markets (Yoon, 2007). In the 1990s, the primary motivation for large Korean firms to invest in China was to take advantage of the huge Chinese market and save in labour costs, which were starting to rise in the Republic of Korea. Given the current level of idle capacity in the Korean industrial sector, it appears that, as occurred in Japan, the rise of FDI flows to China could be generating an industrial vacuum in the country of origin.

Figure III.7
REPUBLIC OF KOREA: FOREIGN DIRECT INVESTMENT, 1980-DECEMBER 2009 [a]
(Millions of dollars and percentages)

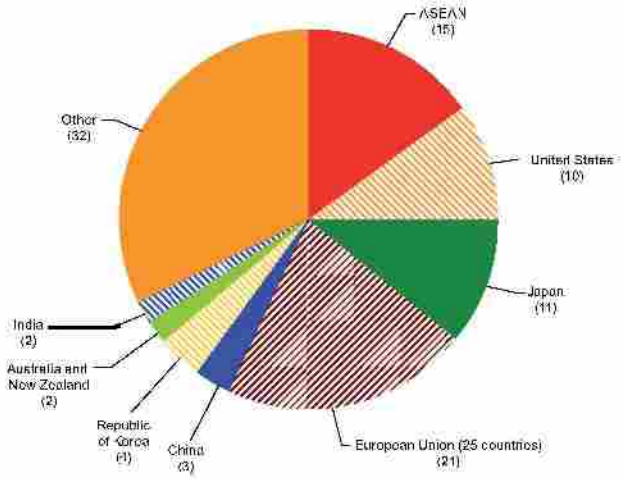


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Export-Import Bank of Korea [online] http://www.koreaexim.go.kr.
[a] Data for 1980 are cumulative from 1968 to 1980.

The second most important source of FDI for ASEAN countries (in terms of flows) is other countries in the group. FDI inflows to ASEAN countries in 2007-2009 totalled US$ 163 billion, of which 21% came from

the European Union, 11% from Japan, 15% from other ASEAN countries and 10% from the United States. Other important sources included the Republic of Korea (4% of total investments in the period), China (3%), India (2%) and Australia and New Zealand (2%, considered jointly). That is, the ASEAN+6 as a whole was the biggest source of FDI for the ASEAN group in this three-year period (see figure III.8). China's role as an investor has been relatively limited, although it has increased in recent years.

Figure III.8
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): MAIN SOURCES OF FDI FLOWS BY REGION AND COUNTRY, 2007-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the ASEAN Secretariat [online] http://www.aseansec.org/18144.htm.

Intraregional sources thus provide 15% of total FDI in ASEAN, and Indonesia, Malaysia, Thailand and Singapore are the main destinations of these funds, based on the average net value of FDI inflows in 2007-2009. Singapore is the top destination for FDI from extraregional sources, absorbing 36% of extraregional inflows to group members, followed by Thailand, Viet Nam, Indonesia and Malaysia. In particular, Viet Nam has received an increasing share of the FDI inflows to ASEAN countries. With the exception of Viet Nam, the new members have had relatively little involvement in this area, while the five original members —Indonesia, Malaysia, the Philippines, Singapore and Thailand— have been the main sources and destinations.

Table III.17
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): FOREIGN DIRECT INVESTMENT (FDI) FLOWS RECEIVED BY COUNTRIES IN THE GROUP, AVERAGE FOR 2007-2009
(Millions of dollars and percentages)

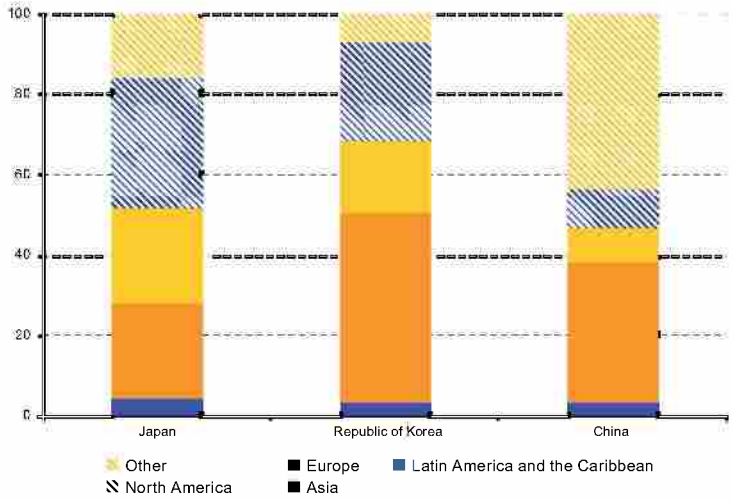
Country	2007-2009 (annual average)					
	Intraregional FDI (A)	Extraregional FDI (B)	Total net income (A)+(B)	Intraregional FDI	Extraregional FDI	Total net income
	(Millions of dollars)			*(Percentages of the total)*		
Brunei Darussalam	21	204	225	0.0	0.4	0.4
Cambodia	228	510	738	0.4	0.9	1.4
Indonesia	1 962	5 079	7 041	3.6	9.3	12.9
Lao People's Democratic Republic	68	221	290	0.1	0.4	0.5
Malaysia	1 706	4 040	5 746	3.1	7.4	10.5
Myanmar	72	684	756	0.1	1.3	1.4
Philippines	55	2 081	2 136	0.1	3.8	3.9
Singapore	1 360	19 622	20 982	2.5	36.0	38.5
Thailand	1 492	7 127	8 619	2.7	13.1	15.8
Viet Nam	1 227	6 746	7 973	2.3	12.4	14.6
Total	8 191	46 315	54 506	15.0	85.0	100.0
ASEAN (5) [a]	6 575	37 949	44 524	12.1	69.6	81.7
BCLMV [b]	1 616	8 366	9 982	3.0	15.3	18.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the ASEAN Secretariat [online] http://www.aseansec.org/18144.htm.
[a] Philippines, Indonesia, Malaysia, Singapore and Thailand.
[b] Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam.

The Latin American and Caribbean region received just 4% of the FDI from Japan, the Republic of Korea and China. In contrast, the region absorbed around 8% of world FDI —that is, Asia's investment trend in Latin America and the Caribbean is much lower than the rest of the world (see figure III.9). Historically, the United States has been the most important source of FDI in Latin America and the Caribbean. Spain began to play a very prominent role in the 1990s, becoming the top FDI source for several Latin American countries. In the current decade, Spain's weight in the FDI inflows to the region fell from 23% in 1997-2001 to 10% in 2002-2006. The Asia-Pacific region has made negligible investments, providing just 2.8% of total FDI in Latin America and the Caribbean in 1997-2001 and

3.5% in 2002-2006, with an estimated sum of US$ 8.9 billion in each period. Intraregional FDI has risen sharply in Latin America and the Caribbean: the intraregional share of total FDI inflows to the region doubled between the two periods, from 5% to 10%. This reflects the emergence of a number of Latin American corporations, the so-called trans-Latins. Japanese FDI has also increased sharply in the last two years, driven by investment in natural resources. It is hoped that Chinese investors will show the same enthusiasm, although the official data from the countries do not necessarily confirm this trend.

Figure III.9
CHINA, JAPAN AND THE REPUBLIC OF KOREA: TOTAL FDI, 2009
(Percentages)



Source: Own elaboration. on the basis of official information from the countries.

G. The inter-industry trade model translates into an imbalance in the maritime transport system

The inter-industry nature of trade between Asia-Pacific and Latin America and the Caribbean causes freight imbalances. The merchandise that Latin America and the Caribbean imports from Asia-Pacific is predominately manufactures, most of which are unitized (that is, stored in containers). These goods are transported by shipping companies that provide regular services and whose ships are designed exclusively for container transport. In contrast, Latin American exports to Asia-Pacific are mostly

made up of commodities that require bulk ocean shipping, which is contracted through a rental service (called a time charter). In several Latin American countries, exports to Asia-Pacific are primarily goods classified as inedible crude materials or food and live animals. Copper, soybean, edible oils and coffee are the top four commodities exported to the ASEAN+3 countries; they account for over 80% of total volume, and they are mostly transported in bulk carriers, with the exception of coffee. This trade pattern translates into a clear imbalance between the number of containers exported by the Asia-Pacific region and the number exported in the opposite direction (see table III.18).

Table III.18
LATIN AMERICA (SELECTED COUNTRIES) AND ASIA-PACIFIC: INTERREGIONAL CONTAINER TRADE, 2007
(Twenty-foot equivalent units and percentages)

	Central America	Colombia	Chile	Mexico	Ecuador	Peru
Exports (A)	18 281	12 470	304 842	131 456	8 125	43 063
Imports (B)	260 088	142 194	213 797	619 099	56 671	133 698
Balance	-241 807	-129 724	91 045	-487 643	-48 546	-90 635
(A)/(B)	7%	9%	143%	21%	14%	32%

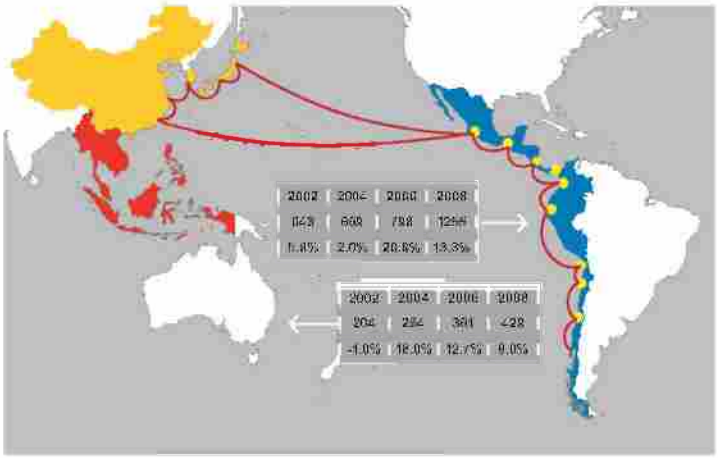
Source: *United Nations Conference on Trade and Development (UNCTAD), Review of Maritime Transport 2008 (UNCTAD/RMT/2008)*, Geneva, 2008. United Nations publication, Sales N°: E.08.II.D.26.

The trade imbalance raises the cost of the region's exports and imports. This imbalance increases the number of ports of call that each ship must make, due to the low volume of container shipments in the region. It also increases the possibility that these ships will have to return to Asia-Pacific with idle capacity, with the resulting inefficiency and higher costs that this implies. Container exports from Asia-Pacific to the region are growing faster than exports in the opposite direction, which suggests that the imbalance will not disappear without changes in the Latin American and Caribbean export model (see figure III.10). This aspect of trade in the countries of the region has a strong impact on the price that regional exporters must pay for ocean transport services, which reduces their competitiveness.

Facilitating trade would improve port efficiency in Latin America and the Caribbean, which would heighten competitiveness. A recent study (World Bank/ECLAC/IDB, 2010) indicates that shipping delays due to customs inefficiencies in the region increase transport costs between 4% and 12% of the export value, which is more than the tariffs in many

destination markets. The effect on total shipping costs is clear. According to the same study, if the physical distance to the destination is increased by 100%, the shipping cost will increase between 8.5% and 18.7%. Even further, shortening the dispatch time by four days would reduce logistical costs up to 16%. Although the countries in the region cannot do much about ocean freight costs or the freight imbalance —variables that determine high shipping costs and, therefore, trade competitiveness— they could move forward in implementing trade facilitation measures, which also play a fundamental role in the systemic competitiveness of exports.

Figure III.10
ASIA-PACIFIC AND LATIN AMERICA: SHIPPING ROUTES AND TRADE
(Millions of twenty-foot equivalent units and annual growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Global Insight, 2009; Sociedad Portuaria Regional de Buenaventura; Economic Commission for Latin America and the Caribbean (ECLAC), Maritime profile of Latin America and the Caribbean [online] http://www.cepal.cl/perfil/default.asp.

H. Conclusions and recommendations

Intra-industry and intra-firm trade has been the driving force behind intra-Asian trade, thanks to the construction of a complex vertical supply chain network by transnational firms, with China playing a key role as both origin and destination. A decisive factor in the Asia-Pacific region in recent decades is the realization of technological advances and the fragmentation of production, which generated a marked increase in intraregional Asian trade. The share of intra-Asian trade among the ASEAN+3 countries plus Hong Kong Special Administrative Region of

China and Taiwan Province of China has grown from 40% in the early 1990s to 50% in 2009. This is higher than the level of intraregional trade achieved by NAFTA and is quickly approaching the level recorded by the European Union. Trade within ASEAN (10) has expanded, and in 2009 it exceeded the level observed in MERCOSUR, the Andean Community and the CACM.

With China at the hub, Asia-Pacific has become the "world factory" for machinery and transport equipment, and the Latin American and Caribbean region must enter these supply chain networks. The Asia-Pacific supply chain networks have been expanded and deepened in a wide range of industrial sectors, including electrical machinery, apparatus and appliances, office machines and automatic data-processing machines, road vehicles and precision machinery. For example, almost 70% of parts and components exports are shipped to other countries in the Asia-Pacific region. In contrast, the intraregional trade of parts and components is much lower in Latin America and the Caribbean, accounting for just 10% of total parts and components exports. To attract more investment, Latin American and Caribbean countries must promote supply chain networks in these sectors. That represents a big challenge for the subregional integration schemes.

The Latin American and Caribbean region shows a relatively high level of intra-industry trade with the United States and the European Union, but not with Asia-Pacific. Despite some increases, the GLI coefficients for Asia-Pacific and Latin America and the Caribbean in 1990-2008 (which reflect intra-industry trade both within each region and with other regions of the world) remain very low (less than 0.06 and 0.07) —much lower than the GLI coefficients of either region with the European Union and, in particular, the United States. From the perspective of the region's links to Asia-Pacific, in most cases, intra-industry trade is almost non-existent.

Nevertheless, it is possible to identify some bilateral flows that point to the existence of intra-industry trade, although this is a nascent trend. This implies that the regions have made significant progress from totally inter-industry trade towards a trade structure that is somewhat more oriented towards intra-industry trade. The appearance of intra-industry trade between the regions, with the participation of an increasing number of countries and sectors, suggests that there are interesting opportunities and possibilities for expanding this trade in the future. Biregional intra-industry trade could be promoted in some manufacturing sectors. To take advantage of these opportunities, business contacts need to be strengthened through FDI and other types of association and through free trade agreements in both regions.

It is necessary to launch efforts to incorporate Latin America and the Caribbean into the de facto regional production integration process underway in Asia, which is increasingly evident in some productive sectors in the region. Greater intra-industry trade between the two regions would provide Latin America and the Caribbean with new access channels to the Asian markets, while also fostering the incorporation of new technologies, raising workers' skill level and improving business management techniques, thanks to production quality requirements, technical assistance and the exchange of experience and best practices.

China has become an export platform to developed countries for its Asian neighbours. An important characteristic of intra-Asian trade and FDI dynamics, which are at the core of the world economy, is the spectacular eruption of China as a key player. China has a trade deficit with the ASEAN countries, the Republic of Korea and Japan because these countries are the main suppliers of capital goods and intermediate inputs for its manufacturing industry. Chinese manufactures are later exported to other trade partners, mainly the United States and the European Union, with which it has a more favourable trade balance in low- and high-technology manufactures. The ASEAN countries have a lot of influence as suppliers and compete closely with other centres, such as Japan, the Republic of Korea and Taiwan Province of China. The deficit would be much greater if the inputs that China imports from Hong Kong Special Administrative Region of China were taken into account. China is a net exporter of different types of manufactures to India; it also has a trade deficit with South America because it imports large quantities of primary products and natural-resource-based manufactures.

There is a growing concern in Latin America about being excluded from the benefits of the Asian dynamism, which could lead to the formation of an informal trade bloc (de facto) in Asia-Pacific, now supported by a formal integration (de jure). In this area, development is diffused in concentric circles, thanks to regional intra-industry trade and intraregional FDI. Given these trends, the countries of Latin America and the Caribbean should strengthen their trade links to make their production more complementary with that of Asia-Pacific and establish trade and investment partnerships, as well as trade agreements, which create new access to these markets and facilitate entry into Asian production and export chains.

The low level of intra-industry trade is both a cause and effect of the low level of biregional FDI. The low level of Asian FDI in Latin America and the Caribbean in the last two decades is related to intra-industry business activity in East Asia and to the fact that the countries of the region have not participated in the trade-FDI integration process. The latter process is

a useful step for moving production outside national borders and creating bidirectional or even triangular trade flows between the participating countries. Industrialization in Latin America in the 1980s and 1990s fostered a very different relationship between trade and investment: Latin American firms continue to pursue an international strategy based on the respective advantages of their countries of origin, such as the abundance of natural resources, knowledge of the development and processing of those resources, and their ability to sell processed resources or industrial commodities in the international market. In the service area, large firms in the region have expanded their business on an international scale in two or more countries in sectors such as energy, communications, transport and financial services. Asian investors have rarely participated in the privatization process in these sectors.

Moreover, FDI aimed at identifying markets in Latin America and the Caribbean has been too inwardly oriented and has not contributed enough to creating local manufacturing capacity and international competitiveness. One of the main reasons for the low level of trade and investment between the two regions is the lack of FDI oriented towards improving efficiency, which is the most common type of FDI in Asia-Pacific. In addition, wherever this type of FDI is found in Latin America and the Caribbean, it displays the typical deficiencies of a tendency towards specialization, the low-value-added trap and the absence of industrial agglomerations. Consequently, to promote trade and investment relationships with Asia-Pacific, the Latin American and Caribbean region must nurture this type of FDI and address the problems that are usually raised for the national economies (ECLAC, 2008d).

Without delay, the countries of the region must take advantage of Asia-Pacific's current dynamism, particularly in China, and mutually strengthen trade and investment links, as well as productive and technological linkages, innovation, competitiveness and cooperation in various aspects of trade facilitation, including a better maritime transport system between the two regions. This raises an interesting challenge, namely, identifying the infrastructure, energy and research and development projects in which Asian investment is most needed, in order to accelerate their implementation. This would not only strengthen the region's links with China and with Asia-Pacific, thereby facilitating trade and investment, but also generate externalities that would favour the regional integration process.

Chapter IV

Strategic aspects of trade relations between China and Latin America and the Caribbean

A. Introduction

The Asia-Pacific region has become not only "factory Asia" for the entire world, but also a battleground for preferential trade agreements. As discussed in chapter III on Asian integration, until recently integration in the region was driven by burgeoning intraregional trade spurred by growing complementarities between manufacturing production and trade in the countries. Intra-industry trade surged and the countries tapped the advantages of production and trade chains. But governments in the Asia-Pacific region are increasingly aware that greater market-driven economic integration will not happen without measures to promote and support it, including harmonization of policies, standards and rules of trade and foreign direct investment (FDI). Free trade agreements (FTAs) may therefore be viewed as part and parcel of a policy of support for broadening production networks and value chains based mainly on intra-industry or intra-company trade. Yet the current wave of trade accords proposed and under negotiation and the countries' varying economic and political interests within the Asia-Pacific region and beyond have given rise to two phenomena: a proliferation of agreements (what is known as the "spaghetti bowl") and a domino effect, which are both generating serious convergence and coordination issues.

Asia-Pacific is engaged in a second wave of economic integration and is seeking greater synergies between de facto and de jure integration. Other regions are keen to lock into these promising processes and defend their own interests in Asia-Pacific. But Latin America could stand to lose out from the current process of trade- and investment-driven economic integration in Asia-Pacific which is now being leveraged by trade accords. The countries in the region must therefore adopt a positioning strategy in Asia-Pacific that includes agreements between the two regions.

The number of trade agreements in Asia-Pacific is soaring. At the end of 2009, 25 trade agreements were in effect in the region comprising the 10 member countries of the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea (ASEAN+3), as well as Australia, India and New Zealand (ASEAN+6). Trade among parties to those agreements represents 54% of all trade by ASEAN+6 countries, which is significantly more than the figure of 35% in 2005. The liberalization of goods trade in the region would be fully completed by an FTA between the three largest economies, China, Japan and the Republic of Korea, whose combined trade represents 33% of regional trade in Asia-Pacific (JETRO, 2010).

The existing web of FTAs will make it difficult to set up a free trade area encompassing the entire Asia-Pacific region. The Comprehensive Economic Partnership for East Asia (CEPEA) proposal, which would include all the countries of ASEAN+6, will be harder to bring to fruition than a free trade area in East Asia in the framework of ASEAN+3 (EAFTA). But it would be even more difficult to achieve the Free Trade Area of the Asia-Pacific (FTAAP) proposed within the Asia-Pacific Economic Cooperation (APEC) forum. The first step towards the formation of a free trade area such as these would therefore be to consolidate the many FTAs already existing or under negotiation and, possibly, to conclude a more transregional accord such as FTAAP or establish an Asia-Europe free trade area.[1] ASEAN would certainly play a prominent part as the centre and major driver of any process, while China, Japan and the Republic of Korea would have to coordinate their

[1] The CEPEA proposal includes the 10 member countries of ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam) plus China, Japan, Republic of Korea, Australia, India and New Zealand; the EAFTA proposal includes the 10 member countries of ASEAN plus China, Japan and Republic of Korea; the FTAAP proposal includes the 21 countries or territories belonging to APEC: Australia, Brunei Darussalam, Canada, Chile, China, Chinese Taipei, Hong Kong Special Administrative Region of China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Republic of Korea, Russian Federation, Singapore, Thailand, United States and Viet Nam; and the proposed Asia-Europe free trade area would comprise the 10 member countries of ASEAN plus the member countries of the European Union.

trade and investment policies. India, on the other hand, which until recently maintained a fairly protectionist stance, will have to continue implementing structural and regulatory reforms encompassing not only tariff and non-tariff issues, but also matters beyond market access (those known as "WTO-plus" issues).

B. The "noodle bowl" of free trade agreements in Asia-Pacific

Preferential and free trade agreements, both bilateral and regional in scope, have proliferated in Asia-Pacific in the past decade. This phenomenon has come to be known as the "noodle bowl", in an Asian cultural twist to the previously coined term "spaghetti bowl". Although Asia was not the first region to see trade agreements proliferate, this was where the pattern peaked in the second half of the 1990s (Menon, 2006a). Data from the Asia Regional Integration Center of the Asian Development Bank show that in August 2010, 61 trade agreements had been signed in Asia, of which 47 were in effect. This pattern seems likely to continue in the next few years: another 79 agreements have been proposed or are already under negotiation. Asia-Pacific has more agreements per country (an average of 3.8) than the Americas (2.9 on average) (Kawai and Wignaraja, 2010a). FTAs signed by Asian countries tend to be bilateral rather than plurilateral: bilateral accords represent 77% of the total concluded.

The largest economies, China, Japan and the Republic of Korea, together with the ASEAN members, have been prolific instigators of FTAs and this grouping has come to form a regional axis for trade accords in Asia-Pacific. A hallmark of these new regionalist trends in Asia-Pacific is that, in a departure from their traditional reluctance to sign preferential trade agreements or form part of trade blocs, large economies such as China, Japan, Taiwan Province of China and the Republic of Korea have signed bilateral or plurilateral accords with other economies in the region and beyond. The country with the largest number of FTAs signed up to August 2010 was Singapore (20), followed by China (12), India (11), Japan (11), Thailand (11) and Malaysia (10). The ASEAN Free Trade Area (AFTA) has been very important in the region as a catalyst of this process and has become a focal point for the emergence of a new category of accords between trade blocs, such as ASEAN+3, ASEAN+6, ASEAN and the European Union, and ASEAN, Australia and New Zealand.

Singapore stands out in terms of both the number of FTAs it has signed and their geographical coverage. With its strategic geographical location, open trade policy and world-class infrastructure and logistics,

Singapore is seeking broader access to new markets, especially for services and investments. The country has become a regional hub for financial services, transport, telecommunications and education. Singapore has, generally speaking, gone beyond the stipulations of the General Agreement on Trade in Services (GATS) in its commitments on services and is thus considered to both profess and practice the concept of open regionalism, and to act as a unifying element of the multilateral system (Zhai, 2006; Menon, 2006b). It is one of the AFTA founding countries and has entered into bilateral agreements not only with Asian countries, including China, India, Japan and the Republic of Korea, but also with several on the American continent (Chile, Costa Rica, Panama, Peru and the United States), with the European Free Trade Association (EFTA) and, in the Middle East, with Jordan. Recently, Singapore also began FTA negotiations with Colombia.

China and India have also been active in signing FTAs. China has entered into FTAs separately on goods and services with ASEAN member countries and is finalizing negotiations with the grouping on investments. China also has comprehensive economic partnership agreements with Hong Kong Special Administrative Region of China and with Macao Special Administrative Region of China, has signed FTAs with Chile and Pakistan and is party to the Asia-Pacific Trade Agreement.[2] It also signed an FTA with Singapore and New Zealand in 2008 and an Economic Cooperation Framework Agreement (ECFA) with Taiwan Province of China in 2010. India is a party to the Asia-Pacific Trade Agreement and has an FTA with Singapore and neighbouring South Asian countries and a partial agreement with the Southern Common Market (MERCOSUR).

Japan and the Republic of Korea also represent important links in the network of FTAs in Asia-Pacific. Japan has rapidly established a complex network of bilateral economic cooperation agreements with 11 countries —Brunei Darussalam, Chile, India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Switzerland, Thailand and Viet Nam— and has an accord with ASEAN (ASEAN+1). It is also negotiating an economic cooperation agreement with Australia and is scheduled to reopen negotiations with the Republic of Korea which, in turn, has finalized negotiations on an FTA with the United States and signed another with the European Union in October 2010. The Republic of Korea has agreements in place with the countries of the Asia-Pacific Trade Agreement, ASEAN

[2] Signed in 1975 and originally known as the Bangkok Agreement, this agreement was renamed in November 2005. It was the first preferential trade agreement between developing countries in the Asia-Pacific region.

and Singapore within Asia, as well as FTAs with Chile and the member countries of EFTA, and its agreements have a much broader geographical coverage than those of Japan. Japan has an FTA in effect with India as of August 2011, and India and the Republic of Korea have had an agreement in force since January 2010. Both Japan and the Republic of Korea are negotiating FTAs with Australia, but the Korean negotiations are moving more quickly. Japan has an economic partnership agreement with Mexico, with which the Republic of Korea continues to negotiate for an FTA. Given the similarity of the two countries' trade specializations, Japanese business sees the Republic of Korea's progress in negotiating FTAs as a threat (JETRO, 2010).

1. Trade under preferential agreements is increasing rapidly in Asia-Pacific

With so many FTAs now operational in Asia, the proportion of trade covered by some type of preference has increased substantially. The coverage rate (the percentage of a country's or region's total trade conducted with trade partners with which trade agreements are in force) is 14.4% for the Republic of Korea, 16.% for Japan, 34.4% for the United States and 68.4% for Canada. China's coverage rate remains quite low in comparison with these countries, at just 11.2% in 2009 (see table IV.1), reflecting the general orientation of the Chinese economy as a platform for neighbouring countries' exports to developed-country markets, such as the United States and Europe (see chapter III).

Almost half of Asia-Pacific trade flows are covered by some kind of trade preference and this proportion will be even higher when the negotiations under way are concluded. Much of the trade of several Pacific Rim countries (the countries of North America, Latin American APEC countries, India, Pakistan and Sri Lanka) already enjoys tariff preferences. In August 2009, tariff preferences applied to 49% of total exports through the network of FTAs in place in the Pacific Rim, with most of this trade (65%) revolving around the ASEAN countries. The growing interests of China, Japan and the Republic of Korea (ASEAN+3), and Australia, India and New Zealand (ASEAN+6), together with those of Canada, the United States and some Latin American countries (Chile, Mexico and Peru) are reflected in the proposal to establish a broad agreement in the framework of APEC (FTAAP). This could take the coverage rate to 85% in the ASEAN area and to 57% in FTAAP; for ASEAN+3 and ASEAN+6, coverage could rise to 49% and 50%, respectively (see figure IV.1).

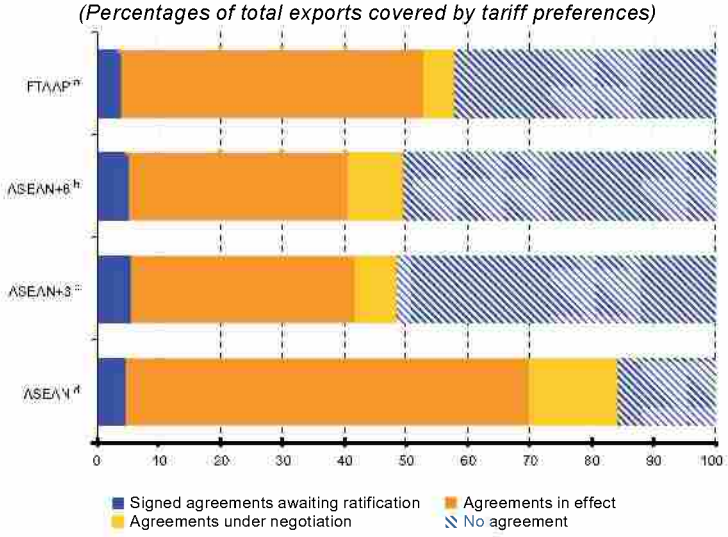
Table IV.1
PROPORTION OF TRADE CONDUCTED UNDER TRADE AGREEMENTS, BY COUNTRY OR MAJOR REGION, 2009
(Percentages)

	FTA coverage		
	Exports + imports	Exports	Imports
Japan	16.5	16.3	16.6
United States	34.4	40.1	30.5
Canada	68.4	77.7	59.2
Mexico	81.5	93.0	70.2
Chile	90.0	88.6	91.9
Peru	57.6	51.8	64.6
European Union (total)	73.8	75.6	72.0
European Union (extraregional agreements)	25.0	27.3	22.9
Republic of Korea	14.4	14.6	14.2
China	11.2	10.1	12.6
Singapore	65.9	66.3	65.4
Thailand	55.8	52.2	59.8
Indonesia	63.9	63.4	64.6
Malaysia	60.2	59.5	61.1
Philippines	51.5	45.2	57.2
Australia	28.0	20.1	35.7
New Zealand	45.0	43.2	46.8

Source: Japan External Trade Organization (JETRO), *2010 JETRO Global Trade and Investment Report. A Global Strategy for Japanese Companies to Open New Frontiers in Overseas Markets*, Figure II.5, Tokyo, 2010.

Note: The coverage rate refers to the percentage of a country's or region's trade conducted with trading partners with which an FTA is in place, in relation to the country's or region's total trade. The total figure for China does not include Hong Kong Special Administrative Region of China (7.9%) or Macao Special Administrative Region of China (0.1%). When both are included, the figure is 19.2%. Data on FTAs between ASEAN and India and between ASEAN and Australia and New Zealand include countries in which the respective FTAs have not yet gone into effect. The total figure for the European Union includes the value of intraregional trade.

Figure IV.1
PACIFIC RIM: PREFERENTIAL TRADE AGREEMENTS, AUGUST 2009
(Percentages of total exports covered by tariff preferences)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE) and agreements in effect, signed or under negotiation between the countries of the Pacific Rim (including India. Pakistan and Sri Lanka).

[a] Free Trade Area of the Asia-Pacific (initiative currently under study).
[b] ASEAN+3 plus Australia, India and New Zealand.
[c] Association of Southeast Asian Nations plus China, Japan and Republic of Korea.
[d] Association of Southeast Asian Nations.

2. Several regional integration initiatives exist in Asia-Pacific

ASEAN is moving towards the formation of an Economic Community. ASEAN has made gradual headway with implementing its Charter, which came into effect in December 2008 and includes a series of instruments for building the ASEAN Economic Community. The Economic Community is one of three pillars of a broader ASEAN Community —the others are political security and a sociocultural pillar— due to be completed by 2015.

The economic pillar of the ASEAN Community is being built through AFTA. The ASEAN Economic Community is intended to establish a single market and production base, with free circulation of goods, services, investments, capital and skilled workers. If this initiative is to be successful, it may also need a single currency and common financial institutions (Rajan, 2005; Ferguson, 2004). As a first step towards forming the Economic Community, AFTA was established in January 1992

to work towards the elimination of tariff and non-tariff barriers between member countries, with the overall objective of integrating the ASEAN economies and creating a single market of more than 570 million people by implementing the Agreement on the Common Effective Preferential Tariff (CEPT).

The tariff reduction programme has made very satisfactory progress. By 1 January 2010, tariffs had been eliminated for 99% of goods items, except for the four less developed countries (Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam), where total tariff elimination is planned for 2015. By then, tariffs should have been eliminated on almost all goods from those four countries for trade within ASEAN. AFTA has made substantial progress with the liberalization of services trade as well, and an extensive list of duty-free services was expected towards the end of 2010. ASEAN is also negotiating a comprehensive investment agreement, although there is no certain date for conclusion of the negotiations.

Although it is difficult to forecast timescales and architecture of regional integration in Asia, the main variants under discussion are the following:

- ASEAN+1: This model represents the negotiation of an FTA by ASEAN, separately, with the six largest Asia-Pacific economies: Australia, China, India, Japan, New Zealand and the Republic of Korea. Five such agreements are already in place, treating Australia and New Zealand as a single signatory (see greater details of the advances in each process in tables IV.2 and IV.3);
- ASEAN+3: Once ASEAN concludes negotiations with each of the three largest markets (China, Japan and the Republic of Korea), the ground will be prepared to set up a free trade area encompassing them all, structured around ASEAN. Unless headway is made in the free trade negotiations between the main actors, however, this initiative is viewed as fairly difficult to bring to fruition. Japan prefers this architecture to ASEAN+6; and
- ASEAN+6: This is the most ambitious formula, encompassing not only ASEAN, Japan, China and the Republic of Korea, but also Australia, India and New Zealand. It seems a distant prospect for the moment, because it would require very complex negotiations, especially with India. Nevertheless, some progress has been made down that road with China's negotiation of an FTA with Australia and New Zealand, and with the negotiations under way between those two countries, Japan and the Republic of Korea. China's preference is for this alternative.

Table IV.2
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): PROGRESS WITH THE ASEAN FREE TRADE AGREEMENT (AFTA) AND ASEAN+1

Free trade agreement		Date of entry into effect	State of play, tariff reduction schedule and other provisions
AFTA		1993	• Average tariffs applied between original ASEAN member countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) decreased from 12.8% in 1993, when the FTA came into effect, to 0.9% in 2009. • From January 2010 on, original ASEAN member countries eliminated tariffs on 99% of items. • Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam are scheduled to eliminate tariffs on almost all items in 2015.
ASEAN	China	2004	• Agreement notified to the World Trade Organization (WTO) under Enabling Clause. • In January 2004, the "Early Harvest" programme came into effect for agricultural and fishery products (SA 01-08). • In July 2005, tariff reduction began for non-agricultural/ fisheries and other agricultural/fisheries products. • The negotiations included differential treatment for the less developed countries. For Cambodia, Lao People's Democratic Republic and Myanmar tariff reduction will last until 2018, while for the other countries the process (for non-excluded products) will be concluded in 2012. • As of 2010 China and ASEAN members eliminated tariffs on 90% of items. • Cambodia, Myanmar, Lao People's Democratic Republic and Viet Nam are scheduled to eliminate tariffs on most items from 2015. • China has bilateral FTAs with Thailand and Singapore. • After the agreement on goods, another was signed on services and investments.
	Republic of Korea	2007	• Two tracks for tariff reduction. For products on the normal track, tariffs will be eliminated over four years between ASEAN originating countries (the 10 members minus Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam) and the Republic of Korea, over 10 years for Viet Nam and over 12 years for Cambodia, Lao People's Democratic Republic and Myanmar. The special track, which also includes a subcategory of "highly sensitive" products, involves only partial tariff reduction. As a result, at the end of this transition period tariffs will remain on 5%-10% of items. • From 2010, Republic of Korea and the original ASEAN members eliminated tariffs on 90% of items. • From 2016, Viet Nam is scheduled to eliminate tariffs on nearly all items. • Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam are slated to eliminate tariffs on nearly all items from 2018. • In May 2009 the agreement on services came into effect and in June that year the agreement on investments was signed.

Table IV.2 (concluded)

Free trade agreement		Date of entry into effect	State of play, tariff reduction schedule and other provisions
ASEAN	Japan	2008	• WTO was notified under Article XXIV of the General Agreement on Tariffs and Trade (GATT) and Article V of the General Agreement on Trade in Services (GATS). • Most of the baskets defined in the countries' schedules include linear tariff reduction over 3-10 years. Each country identifies between 5 and 10 baskets. The products covered in the negotiations with Cambodia, Lao People's Democratic Republic and Myanmar will be fully tariff-free in 2026, after a 16-year transition period. • Some products will see only partial tariff reduction and others are excluded from the negotiations altogether. • The FTA includes a flexibility provision in the form of extended cumulation of origin through a convergence agreement between Japan and all ASEAN members. • ASEAN and Japan have an FTA for Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Thailand, Singapore and Viet Nam. • Japan has separate bilateral FTAs with Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam. • The provision of professional services is included for Indonesia and the Philippines, especially for the health sector.
	Australia and New Zealand	2010	• The agreement establishing the free trade area between ASEAN, Australia and New Zealand (AANZFTA) came into force in January 2010 for Australia, Brunei Darussalam, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand and Viet Nam. • With the entry into force of this agreement, Australia and New Zealand eliminated tariffs on almost 90% of items. • The original ASEAN members will eliminate tariffs on around 90% of items beginning in 2013. After 2020, Cambodia, Lao People's Democratic Republic, Malaysia and Myanmar will eliminate tariffs on around 90% of items.
	India	2010	• In effect as of January 2010 for India, Malaysia, Singapore, Thailand and Viet Nam. • India and the original ASEAN member States (excluding the Philippines) will eliminate tariffs on normal track items by the end of 2013 and on special track items by the end of 2016. India and the Philippines will eliminate normal track tariffs by the end of 2018 and those on special sensitive items by the end of 2021.

Source: Japan External Trade Organization (JETRO), *2010 JETRO Global Trade and Investment Report. A Global Strategy for Japanese Companies to Open New Frontiers in Overseas Markets*, Figure II.5, Tokyo, 2010; Yue Siow Chia, "Trade and investment policies and regional economic integration in East Asia", *ADBI Working Paper Series*, No. 210, Tokyo, Asian Development Bank Institute, April 2010 and Economic Commission for Latin America and the Caribbean (ECLAC) , "El Arco del Pacífico Latinoamericano: Construyendo caminos de complementación e integración con Asia" (LC/R.2166), Santiago, Chile, October 2010.

Table IV.3
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): TARIFF SUBHEADINGS FREE OF DUTY, 2010
(Percentages)

Country extending duty-free preference	Beneficiary country												
	China	Republic of Korea	Japan	Brunei Darussalam	Cambodia	Philippines	Indonesia	Lao People's Democratic Republic	Malaysia	Myanmar	Singapore	Thailand	Viet Nam
China				89	88	89	89	88	89	89	89	89	89
Japan				88	88	88	88	88	88	88	88	88	88
Brunei Darussalam	93	99	79		96	96	96	96	96	96	96	96	96
Cambodia	4	0	4	6		6	6	6	6	6	6	6	6
Philippines	82	95	65	96	96		96	96	96	96	96	96	96
Indonesia	84	91	38	96	96	96		96	96	96	96	96	96
Lao People's Democratic Republic	5	0	0	71	71	71	71		71	71	71	71	71
Malaysia	85	90	69	96	96	96	96	96		96	96	96	96
Myanmar	2	0	3	5	5	5	5	5	5		5	5	5
Republic of Korea				91	91	91	91	91	91	91	91	91	91
Singapore	100	100	100	97	97	97	97	97	97	97		97	97
Thailand	84	...	45	97	97	97	97	97	97	97	97		97
Viet Nam	36	0	28	55	55	55	55	55	55	55	55	55	

Source: Inter-American Development Bank, on the basis of data from the Integration and Trade Sector (INTrade-BID).

To this range of alternatives under discussion in Asia-Pacific must be added another two significant initiatives:

(i) The Free Trade Area of the Asia-Pacific (FTAAP), established within the framework of APEC, encompasses 21 economies, including three in Latin America (Chile, Mexico and Peru). It is a non-binding forum for dialogue and cooperation, with no institutional structure or mandate for formal trade negotiations. APEC will continue to promote political dialogue with a view to trans-Pacific integration and to broker the adoption of commitments to facilitate trade and investment flows, but FTAAP will probably not become an institutional forum for formal trade negotiations; and

(ii) Another alternative for trans-Pacific negotiations is through the Trans-Pacific Strategic Economic Partnership Agreement (Brunei Darussalam, Chile, New Zealand and Singapore), with whose signatories Australia, Malaysia, Peru, the United States and Viet Nam have expressed interest in entering negotiations with a view to enlarging the Agreement into platform for integration. However, given that, at least thus far, this initiative is limited to the APEC members, it is probably not the best suited instrument for fostering joint convergence between the Latin American and Caribbean region and Asia-Pacific.

With respect to ASEAN+3 and ASEAN+6, in 2009 the governments began talks on rules of origin, tariff classification, customs procedures and economic cooperation. The administrations are now aiming to harmonize the many systems of standards coexisting in the different FTAs in place within the Asia-Pacific region. For example, the criteria applicable on rules of origin in the different FTAs in Asia include: (i) regional value content (RVC); (ii) changes in tariff classification; (iii) equivalence, which may be based on either of the two previous criteria, and (iv) dual criteria, under which both must be satisfied (see point 7 under section B for greater detail).

Substantial progress on ASEAN+3 and ASEAN+6 is not possible without an FTA encompassing the three main actors (China, Japan and the Republic of Korea), be it a trilateral agreement or three bilateral FTAs (see table IV.4). Indeed, China is interested in forming an FTA with Japan and the Republic of Korea. The creation of a free trade area in East Asia could hold major benefits for China, although perhaps not as great as those accruing from the establishment of a system of agreements centred on China. An East Asian FTA would bring China greater intraregional trade and investment and would foster its integration into the regional production network by eliminating tariff barriers and reducing transaction costs (Chia and Soesastro, 2006).

Table IV.4
ASIA-PACIFIC: BILATERAL AND PLURILATERAL FREE TRADE AGREEMENTS
BY COUNTRY AND STAGE OF NEGOTIATION, FEBRUARY 2011

	ASEAN	Japan	China	Republic of Korea	India	Australia	New Zealand
ASEAN	In force	In force	In force	In force	In force	In force	
Japan	In force		Feasibility study	Under negotiation	In force	Under negotiation	Feasibility study
China	In force	Feasibility study		Feasibility study	In force	Under negotiation	In force
Republic of Korea	In force	Under negotiation	Feasibility study		In force	Under negotiation	Under negotiation
India	In force	In force	Feasibility study	In force		Feasibility study	Feasibility study
Australia	In force	Under negotiation	Under negotiation	Under negotiation	Feasibility study		In force
New Zealand		Feasibility study	In force	Under negotiation	Feasibility study	In force	

Source: prepared by the authors on the basis of official data from the countries.

Note: Australia and New Zealand have a joint agreement with ASEAN. Japan and the Republic of Korea began official talks in December 2003, but suspended them in November 2004. A new feasibility study on an FTA between China, Japan and the Republic of Korea was announced in May 2010. The reopening of consultations on an FTA between Japan and the Republic of Korea is expected to be announced in the near future.

But Japan and the Republic of Korea have reservations about an FTA with China. Japan's administration is concerned by China's growing competitiveness in manufacturing and in some agricultural products. Japan is unwilling to recognize China as a market economy, preferring to continue to apply safeguard measures against growing imports from China in its markets. Japan also asks that China make clearer progress in implementing the commitments of accession to WTO, especially in the areas of interest to Japanese firms, i.e. protection of intellectual property and food safety rules. From the perspective of the Japanese authorities, the first step towards an economic partnership agreement with China would be an agreement on investments. The Republic of Korea is also concerned over its economy's heavy reliance on China and lack of an integrated trade and investment strategy vis-à-vis China, as well as China's growing competitiveness in the agricultural sector. Although Japan and the Republic of Korea have both expressed an interest in reopening talks on an FTA, Japan has reservations in relation to agriculture, and Republic of Korea views as problematic its growing trade deficit with Japan, especially in the parts and components industry (Dent 2010, Kawai and Wignaraja 2010a).

Any agreement involving one of the three largest Asian economies (China, Japan and Republic of Korea) would produce a shift in the relative competitiveness of firms exporting to the signatory countries. As Asia's manufacturing sectors began to feel the competitiveness shifts resulting from such an agreement, firms in countries not party to the agreement would put pressure on their respective governments to join the FTA race. United States and European firms would do likewise and the domino effect would multiply.

The transition from ASEAN+3 to ASEAN+6 would be more problematic, since it would require greater efforts towards consolidation and convergence of coverage in terms of merchandise trade issues, services, lists of exceptions, rules of origin, technical barriers, standards, mutual recognition of service providers, investments and WTO-plus provisions. Even if the structure of ASEAN+3 were used as a base, it would be difficult to get Australia, India and New Zealand to align with it: it would not be in the interests of these three countries, which have recently joined the talks, to assume the commitments already negotiated. It would also take longer to build a shared political vision of the need to deepen integration in the region by means of a trade accord.

In light of these considerations, in the event that a free trade area such as that proposed in the framework of APEC does emerge, China's administration would not abandon the negotiations under way or the prospect of future agreements. China's preference would be to maintain those agreements which offer it some flexibility in preferential and

differential treatment. Even more importantly, it would not suit China to allow areas of bilateral conflict with the United States —such as the growing United States trade deficit, China's rigid exchange-rate regime, the new measures the United States has applied to imports from China and the prohibition on FDI in strategic sectors of the United States economy— to be addressed in such a broad regional forum covered by a free trade area. In other words, it would run against China's interests to allow the United States to "corner" or "contain" it on these sensitive bilateral issues (Bin, 2006). China is more likely to continue concluding a range of different types of trade agreement in order to retain as much economic and political leverage as possible (Kwei, 2006).

Be this as it may, a free trade area in East Asia would have advantages for ASEAN, especially in terms of economies of scale and scope, and would offer members an incentive to reform and restructure their economies to tackle the challenges of globalization. This should help to remove trade and investment barriers and pave the way for freer movement of capital and labour, which would have a direct impact on regional production networks and supply chains. Rules of origin and other technical requirements would also have to be harmonized and standardized, and this would contribute to simplifying the existing web of agreements which pushes up costs and discourages FDI (Menon, 2006b). Furthermore, as the situation stands, the economies' diversity and varying levels of development could be damaging for countries or sectors which are unable to match the efficiency of the other members, and this could lead to governments refusing to free certain sectors without safeguards or guarantees of assistance.

ASEAN+3 could be a keystone for building an open multilateral trade system. The report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia (2009) concluded that ASEAN+3 would have to meet a number of basic requirements, including: (i) provision of high-quality access to goods and services markets and world-standard investment agreements; specific, comprehensive trade and investment facilitation measures; economic cooperation with less developed countries; and a simple, non-restrictive regime for rules of origin; (ii) incorporation of the 13 countries with ASEAN+1 as a frame of reference; (iii) consolidation of existing FTAs (AFTA, AFTA-China, ASEAN-China, ASEAN-Japan and ASEAN-Republic of Korea), using them as a starting point instead of negotiating tariff reduction programmes from square one; and (iv) greater harmonization of rules and provisions on services and investment (ASEAN+1 already has agreements in both areas with China, Japan and Republic of Korea). The Study Group considers that negotiations should begin in some areas in 2012 (Chia, 2010).

One of the many challenges is to build mutual trust among the Asian countries. They need to develop the conviction of sharing a common destiny as well as improving their international position. The proposed East Asia free trade area must be a complement to multilateralism, not a substitute for it. Accordingly, it must establish broader concessions that those of the WTO agreements and keep exclusions and limitations to a minimum.

There are two new traits in the recent wave of FTAs: the trans-Pacific scope of the latest accords and the participation of the main economies of North-East Asia (China, Japan and the Republic of Korea), the United States and the European Union in de jure integration involving not only trade, but also monetary and financial measures (ADB, 2010b, Rana, 2006; Lamberte, 2005). The proliferation of bilateral preferential agreements also appears to be a response to the need for faster progress on market opening, since neither the negotiations in the framework of WTO nor those in APEC have produced sufficient progress to meet the needs of the Asian region's economies. The Asian economies also have to guard against competitiveness losses arising from the consolidation of regional agreements in other parts of the world. Lastly, the many trade agreements in the region reflect the intensification of Asian intraregional trade and production links and —especially— the strengthening of supply and value chains, which now need greater integration and formal regional forums in step with this growing interdependence (Chia, 2010, Kawai and Wignaraja, 2010a).

3. The strategic positions of the main actors

The domino effect seen in Asia-Pacific is the outcome of a geopolitical and economic chess game at the global level. Given the great many trade agreements signed by the European Union around the world and the growing influence of China and resulting rivalry with Japan for leadership in the region, the United States feels the need to strengthen its presence in different parts of the world, including Asia-Pacific.

Japan is seeking to become established as a leader of economic integration in Asia-Pacific. Japan's formerly multilateralist stance began to shift towards bilateral and plurilateral trade agreements within the Asian region and beyond in 2002, when former Prime Minister Junichiro Koizumi proposed the comprehensive economic partnership agreement between Japan and ASEAN. This sea-change came in response to China's growing economic prominence in Asia, as Japan sought to contain China's influence on the direction of regional integration centred on ASEAN, which is a key subregion for Japan, not only as a supplier of natural resources and manufactures (especially parts and components), but also as a major industrial platform for Japanese transnational firms. In other words, ASEAN is crucial from the point of view of Japan's

international competitiveness, owing to the increasing ties between trade and investment. Japan has invested massively in the ASEAN economies and has lent considerable economic assistance there. Accordingly Japan feels threatened by China's growing presence in the subregion and has responded by proposing a regionwide FTA.

Japan views South-East Asia as still hampered by substantial trade and investment barriers, a poor all-round framework for business and a weak supply infrastructure and industry. Japan therefore seeks to increase cross-border logistical efficiency and promote support industries in the ASEAN area. The economic partnership agreement Japan has negotiated with ASEAN is seen as a good model for moving ahead with legal integration, since it is comprehensive enough to encompass liberalization and facilitation of trade and investment; rules on investment, competition, certification and protection of intellectual property; and economic alliances and cooperation (Dent, 2010).

The FTA between the United States and the Republic of Korea is encouraging Japan to resume its own suspended negotiations on an agreement with the Republic of Korea and to move towards an accord in the framework of the Trans-Pacific Strategic Economic Partnership Agreement. Substantive progress towards materializing these trans-Pacific initiatives among major actors would shift the balance of economic and trade power not only between China and Japan in the sphere of Asia-Pacific, but also between China and the United States, and would significantly alter the outlook for integration in Asia-Pacific. A decision by Japan to join negotiations in the framework of the Trans-Pacific Strategic Economic Partnership Agreement would heavily reduce the possibilities of a trade agreement among the three largest Asian economies.

The United States is resuming its efforts to develop trade with Asia-Pacific. Until recently, the United States pursued a strategy of bilateral accords in the manner of ASEAN+1, concluding a number of separate bilateral FTAs with Indonesia, Malaysia, Philippines and Thailand as part of the "ASEAN initiative", whose negotiations have come a standstill for the moment. Yet the United States is showing an increasing interest in restarting talks on FTAs with the Asia-Pacific countries either bilaterally or with several partners, as in the case of the Trans-Pacific Strategic Economic Partnership Agreement. The United States has agreements in force with Australia, Canada, Chile, Mexico, Peru and Singapore, as well as the FTA with the Republic of Korea and with five Central American countries and the Dominican Republic (CAFTA-DR) and with Colombia and Panama. It has also proposed agreements with Brunei Darussalam, Pakistan, Taiwan Province of China and Sri Lanka, among others. As well, the Framework Agreement on Trade and Investment signed in August 2006 with the ASEAN member countries is viewed as the forerunner to an FTA.

From the standpoint of the United States, FTAs with the countries of Asia-Pacific serve to promote its trade and policy interests both tactically and strategically, as well as to support democratic institutions and economic reforms in the signatory countries, strengthen security in the area, establish a benchmark for negotiations with other countries on deep integration encompassing non-transboundary trade issues and expedite regionwide trade liberalization through alliances with political leaders in the area (Dent, 2010; Feinberg, 2006).

For the United States, the importance of FTAs lies not so much in promoting merchandise exports as in expanding services and investments, protecting intellectual property and pushing forward labour and environmental issues. The agreements the United States has signed are broader in scope and coverage than those of the European Union, which makes them more difficult to expand. And since the trade agreements emerging in various parts of the world include behind-border issues, the United States sees bilateral agreements as an effective instrument for safeguarding its trade interests. A recent landmark in this connection was the signature of an FTA with the Republic of Korea, the world's tenth largest economy with per capita income of US$ 17,000 in current dollars. The Republic of Korea is a key trading partner for the United States and the agreement is therefore considered the most important after the North American Free Trade Agreement (NAFTA). Its chapters not only cover tariff reduction for merchandise, but also include issues related to services, investment, sanitary and phytosanitary measures, countervailing measures, technical barriers to trade, intellectual property and dispute settlement mechanisms.

The new open regionalism in Asia needs closer ties between the European Union and Asia-Pacific. The European Union is increasingly keen to sign FTAs with Asia. Late in 2006, the European Commission officially requested its member States for a mandate to negotiate bilateral FTAs with India, the Republic of Korea and ASEAN. The mandate was given in April 2007, with the instruction that the agreements should be broad spectrum and include liberalization of goods, services and investments. These endeavours are aligned with the new slant of European Union trade policy, which is aimed at forging bilateral FTAs to secure new markets. The rationale the European Commission offers for the agreement signed with Republic of Korea and the agreement the bloc is preparing to negotiate with ASEAN and India is that these markets have major potential but high levels of protection (Plummer, 2010).

Asia-Pacific has become a very important trade and investment partner for the European Union. The European Union has risen considerably in importance as a trading partner for Asia, notwithstanding

the steady rise in intraregional Asian trade in the past few decades. Asia's weight in European trade is also increasing. As with intra-Asian trade, a large proportion of Asia's trade with the European Union consists of parts and components. And on the investment front, the European Union has been the foremost investor in Asia, with over 100 billion euros (€) in FDI between 1995 and 2006, more than Japan and the United States together (Plummer, 2010).

The European Union has also engaged in more active trade diplomacy with China following the sharp increase in its bilateral trade deficit. In 2009, China was the European Union's second largest trading partner: the European Union exported over € 82 billion in merchandise to China that year, 4% up on 2008; and between September 2009 and August 2010 those exports were 40% up on the year-earlier period. The European Union posted a merchandise trade deficit of € 133 billion in 2009 and is now seeking to position its exports better in China's various markets. Conversely the European Union registered a € 4.7 billion surplus in its services trade with China in 2008, rising to € 5.3 billion in 2009. With a view to correcting its trade imbalances with China and dealing with outstanding issues between the two parties, the European Union began in mid-2006 to adopt a more active policy stance in its relations with China. The deliberations have taken place in the framework of the High-Level Economic and Trade Dialogue between the European Union and China, set up in 2007 under the auspices of WTO, where the European Union has traditionally conducted its trade diplomacy with China. The main areas of mutual concern are strategies for trade, investment and cooperation, trade disequilibria, market access, intellectual property rights, the environment, high technology and energy and the related trade possibilities (European Union, 2010).

The European Union could pay a high price for its reluctance to participate in trade negotiations with Asia-Pacific. Steering clear of the frenzy of FTA negotiation with Asia-Pacific could result in significant trade diversion for the European Union, given the intensity of de jure integration within Asia and the United States' growing interest in setting up a network of FTA agreements in the region. The sectors that are of most interest to the European countries, such as automobiles and aeronautics, could see substantial trade and investment diversion not only in the markets of China, Japan and the Republic of Korea, but also in some ASEAN members (Malaysia, Singapore and Thailand). Furthermore, the multiple and complex systems of rules of origin in Asia could encourage European firms to invest directly in that region and thus avoid the possibility of investment diversion (Plummer, 2010).

Malaysia and Singapore are negotiating bilateral FTAs with the European Union. In December 2009, the European Union gave the green light to free trade negotiations with 10 ASEAN members, starting in March and October 2010 with Singapore and Malaysia, respectively. From the point of view of the two Asian countries, a bilateral FTA with the European Union would help not only to promote trade in goods and services and investments, but also to improve cooperation on trade facilitation, reduction of technical barriers and sustainable development. These FTAs would also foster economic integration in Asia, paving the way for an accord between the European Union and ASEAN. The trade relationship between European Union and Malaysia is fairly uneven: they are each other's fourth and twenty-second largest trading partners, respectively.

4. The rising number of extraregional free trade agreements in Asia

Many of the FTAs signed by China, India and Singapore have been with countries outside Asia-Pacific, including several in Latin America. And if agreements still under negotiation are included, the pattern becomes even more pronounced. This reflects not only these countries' preference for conducting open trade relations with the rest of the world, but also the fact that, except for Singapore, most of their trade is conducted with partners outside their own region.

The list of trans-Pacific accords is becoming rapidly longer. Examples include the agreement between Chile and China (China's first trade accord with a Western country), those signed by Chile with Japan and India, and Panama's agreements with Singapore and with Taiwan Province of China. The first broad-spectrum accord Japan has signed thus far, the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership, came into force in April 2005. Other initiatives have been carried forward by Pacific Rim countries in Asia and Latin America: the FTA between Chile and the Republic of Korea (the first trans-Pacific FTA); the Trans-Pacific Strategic Economic Partnership Agreement between Brunei Darussalam, Chile, New Zealand and Singapore; and an FTA between Peru and Thailand, on which negotiation was concluded in 2005 but which has yet to come into effect. Chile has signed an FTA with Malaysia and has concluded negotiations with Viet Nam. Costa Rica signed bilateral FTAs with Singapore and China in 2010 (see table IV.5). These initiatives all reflect efforts by the Latin American countries to conduct their relations with Asia-Pacific with a long-term view, but they do not yet amount to a strategic approach to that region.

Table IV.5
TRANS-PACIFIC FREE TRADE AGREEMENTS, JANUARY 2011

Agreements in force	Date of entry into effect
Taiwan Province of China-Panama	01/01/2004
Republic of Korea-Chile	01/04/2004
Japan-Mexico	01/04/2005
Trans-Pacific Strategic Economic Partnership Agreement (P4)	28/05/2006
Singapore-Panama	24/07/2006
China-Chile	01/10/2006
India-Chile	17/08/2006
Japan-Chile	03/09/2007
Nicaragua-Taiwan Province of China	01/01/2008
Honduras-Taiwan Province of China	01/03/2008
Australia-Chile	06/03/2009
India-MERCOSUR	01/06/2009
Singapore-Peru	01/08/2009
China-Peru	01/03/2010
Malaysia-Chile	15/11/2010
Republic of Korea-Peru	21/03/2011
China-Costa Rica	01/07/2011
Agreements signed but not yet in vigour	**Date of signature**
Singapore-Costa Rica	06/04/2010
Thailand-Peru, Protocol	19/11/2005
Japan-Peru	31/05/2011
Under negotiation	
Thailand-Chile	
Viet Nam-Chile	
Singapore-Colombia	
Republic of Korea-Mexico	Negotiations suspended
Republic of Korea-Colombia	
Singapore-Mexico	
Proposed agreements	
Republic of Korea-MERCOSUR	
Republic of Korea-Panama	
Indonesia-Chile	

Source: prepared by the authors on the basis of information from the Organization of American States (OAS), Foreign Trade Information System [online] http://www.sice.oas.org, and official sources in the countries.

5. Most free trade agreements are fairly narrow in scope

Generally speaking, the trade agreements in place in Asia are fairly narrow in scope. Although they contain commitments on behind-borders issues, they tend to be confined to tariff reduction on goods trade and to exclude a large number of sensitive products. As well, the coverage and depth of commitments on behind-borders issues appear to be limited. Most FTAs in Asia contain only inadequate coverage of the agricultural sector.[3] Greater coverage would be obtained, for example, with an FTA that encompassed at least 85% of tariff items in the sector and excluded no more than 150 items (Kawai and Wignaraja, 2010a). The agreements in place and under negotiation are also very varied as to timelines for tariff reduction, lists of exceptions, systems of rules of origin and modalities of implementation. In addition, many of the trade accords signed by Asian countries do not adequately address the Singapore issues (competition policy, investment, trade facilitation and government procurement) since they do not include WTO-plus issues (Baldwin, 2006; Evenett, Venables and Winters, 2004; Dent, 2006).

Both Japan's and Singapore's FTAs tend to be more comprehensive than those signed by other Asian countries. China and India have traditionally been more cautious in the scope and coverage of their FTAs, focusing on liberalization of goods and services. More recently, however, both countries have tried to include some of what they consider to be WTO-plus issues, as in the FTAs between China and New Zealand and between India and Singapore. Generally speaking, Asia-Pacific FTAs signed between industrialized and developing countries have a more "WTO-plus" format, for example, the FTAs between ASEAN and Japan, between the United States, Singapore and Republic of Korea, and between China and New Zealand. Republic of Korea and Singapore have tended to negotiate fuller and more comprehensive FTAs, as exemplified by the Trans-Pacific Strategic Economic Partnership Agreement, the FTA between China and Singapore and the FTA between Republic of Korea and Chile. Some FTAs take a gradual approach in which WTO-plus issues are scheduled for inclusion at a later date, for example, services and investment are to be incorporated at a future date into the FTA between China and Chile, the ASEAN-Republic of Korea FTA and the ASEAN-China FTA (Kawai and Wignaraja, 2010a; Wignaraja and Lazaro, 2010). Nevertheless, there is scope for including more WTO-plus-type provisions, particularly the four Singapore issues (investment, competition policy, transparency in government procurement and trade facilitation). Proper treatment of the

[3] For example the FTA between Chile and the Republic of Korea is considered to be comprehensive with respect to agriculture, since the Republic of Korea's list excludes only 21 agricultural products. AFTA is also comprehensive on agriculture since it excludes only 20 agricultural products (Kawai and Wignaraja, 2010a).

first three categories of issues is vital for the Asian economies to continue deepening their de facto integration, which has become a global showcase (Kawai and Wignaraja, 2010a; Chia, 2010).

The FTAs in force in Asia show differing coverage and commitments on trade in services. As a rule, most of the FTAs signed with developed countries are more comprehensive; they establish commitments on a larger number of service areas, adhere more closely to the basic principles of GATS —such as market access (elimination of quotas), national treatment, the most-favoured nation (MFN) clause, domestic standards, transparency and mutual recognition— and assume commitments that go beyond GATS (GATS-plus). For example, in the agreement establishing a free trade area between ASEAN, Australia and New Zealand (AANZFTA), six ASEAN members broadened their liberalization commitments in the telecoms sector, while four countries (Indonesia, Malaysia, Philippines and Singapore) included some commitments on financial services. Developing Asian countries' FTAs generally have narrower commitments, mainly because: (i) liberalization is still focused mainly on goods; (ii) liberalization of services trade is still incipient, even at the multilateral level; (iii) there is a lack of capacity to handle the complexity of services trade in the international negotiations; and (iv) data on market access for services is insufficient (Wignaraja and Lazaro, 2010).

ASEAN+1's five agreements on goods with China, Japan, India, Republic of Korea and Australia/New Zealand are in force, but much remains to be achieved in terms of convergence and harmonization. As well as the rapid implementation of the free trade area (AFTA) and the five agreements of ASEAN+1, much headway still has to be made on more ambitious projects. Convergence and harmonization between agreements as regards coverage of issues and provisions has been slow. The main problem is the lack of a common template, especially for matters relating to rules of origin, standards and lists of exemptions, which tend instead to reflect the sensitive areas and bargaining power of each signatory country. This is causing an acute convergence problem and magnifies the noodle bowl effect. In some cases negotiations concern a single undertaking, while in others, issues are negotiated sequentially, i.e. negotiations and implementation take place in stages: first goods, then services and investment.

Multiple structures coexist in Asia-Pacific, with different memberships and often overlapping goals. There is still no shared political vision in the region on a possible regional FTA. Any such agreement would also have to include measures and provisions to narrow the economic and social gaps between and within the Asian subregions. It would be immensely difficult to reach a consensus on the main features of a high-

quality FTA and the pace of implementation while also addressing issues of special and differential treatment. A major impediment to a broad-scope regional FTA is the lack of an FTA between the region's three largest economies. Much of Asia's intraregional trade is conducted between China, Japan and the Republic of Korea, yet the trade of the other Asia-Pacific countries continues to be conducted in general outside the region, especially with the United States and the European Union. Despite the high degree of intraregional trade in parts and components within Asia, the main markets for trade in final products are still outside the region.

6. Little use is being made of the FTAs within Asia

Increasing use is being made of the preferences provided in FTAs in Asia-Pacific, but from a very low initial level, according to a set of studies conducted by ADB and researchers in several Asian countries. Of a sample of 841 Asian firms, some 28% make use of the preferences extended under FTAs, rising to 53% when those expressing interest in doing so in the future are included. Firms in Japan and especially in China make the most use of FTAs (Zhang, 2010); almost half of Chinese firms already access preferential treatment, contrasting with the much lower utilization rate —defined as the ratio between the value of exports conducted under FTAs and the total value of exports— shown by firms in the Republic of Korea (Cheong and Cho 2009), Philippines and Singapore. Most of the firms interviewed, especially those in China, Japan and the Republic of Korea, expressed an interest in using FTA preferences in the future (Kawai and Wignaraja, 2010a). In general, however, these percentages are low in comparison with those of countries on the American continent, including Canada, Chile, Dominican Republic, Mexico and Peru (JETRO, 2010).

Firms from China make extensive use of preferential treatment, especially in the framework of the country's FTA with ASEAN. In the case of China specifically, of a sample of 232 firms surveyed, this agreement showed the highest utilization rate; of 102 firms which reported using preferential treatment in general, 67 (66%) used the treatment extended under the ASEAN-China FTA and 50 more expressed an interest in doing so in the future. The FTAs between China and Hong Kong Special Administrative Region of China and between China and Chile also show relatively high utilization rates. In the latter case, 33 of 102 firms reported making use of the FTA, while 28 expressed an interest in doing so in the future (Zhang, 2010). The importance of the China-ASEAN FTA reflects the growing weight of ASEAN as a trading partner for Chinese firms.

However, some ASEAN countries continue to make very little use of preferences extended under the FTA between ASEAN and China. According to data for Malaysia and Thailand, which keep detailed records

of preference uptake, the utilization rate of the ASEAN-China FTA remains quite low, although it has risen in the past few years. In 2009, Malaysia and Thailand exported US$ 6.4 billion to China using the preferences extended under the agreement. This figure represented only 18.1% of the two countries' combined exports to China, although it was a considerable jump with respect to the 7.9% recorded in 2008. The figures for the FTAs between Malaysia and Japan and between Japan and Thailand were higher (21.3%). Malaysia and Thailand continue to make relatively little use of AFTA in their trade with other ASEAN members, with a utilization rate of 20.4%. Much higher ratios are seen in trade by Indonesia, Philippines and Viet Nam (JETRO, 2010).

There are a number of reasons for the low utilization rate. The greatest obstacle is the lack of information on FTAs, followed by the small margins of preference, the delay and administrative costs associated with making use of rules of origin provisions and the fact that exemptions can be obtained by other means: through special preferences for export processing zones and tariff reduction extended under the Information Technology Agreement, of which many Asian countries are signatories (JETRO, 2010; Kawai and Wignaraja, 2010b; Chia, 2010; Hiratsuka and others, 2007; Manchin and Pelkmans-Balaoing, 2007).

Utilization rates also vary considerably by company size: most of the firms making use of these preferences are large concerns. Using preferences generates huge overhead costs: among other things, companies need to spend money on gaining knowledge of the provisions offered by the respective accord, adapting their business plans to complex tariff systems and obtaining rules of origin certificates. Large firms can usually devote greater financial and human resources to increasing their utilization of preferential schemes than SMEs can (Kawai and Wignaraja, 2010a; Chia, 2010). Much remains to be done in this area to enable firms of all sizes to tap the tariff preferences extended under FTAs.

7. Much of this problem is caused by the complex rules of origin system

A less complex and restrictive scheme of rules of origin in Asia would do much to increase the uptake of FTA benefits. A comparative analysis of the four FTAs centred on ASEAN (AFTA and the FTAs between ASEAN and the Republic of Korea, ASEAN and China, and ASEAN and Japan), shows that:

(i) AFTA has a relatively straightforward application system and has made the existing system simpler and more liberal, by expanding or easing standards;

(ii) The FTAs in Asia are more or less consistent with AFTA rules, which as a basic principle require a minimum RVC of 40%. Of the three FTAs, the agreement between ASEAN and Republic of Korea is the simplest and least restrictive;

(iii) Automobiles and textiles and clothing are among the most sensitive sectors for the signatory countries. Moreover, various rules are applied across countries and across specific commodity classifications;

(iv) Tariff classification change is being used increasingly as an alternative rule for certain products;

(v) Japan is beginning to adopt a simpler and less restrictive system, allowing alternative rules in most cases in its FTA with ASEAN; the ASEAN-China agreement is considered simpler than the ASEAN-Japan agreement, which requires 40% regional value added in most cases. The lack of alternative methodologies could be considered restraining, however; and

(vi) In general, there is a trend towards a less restrictive scheme of rules in Asia (see table IV.6) (Medalla and Barboa, 2009). Be that as it may, however, Asia-Pacific still has multiple systems of rules, which worsens the administrative noodle bowl issue.

Table IV.6
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): FREE TRADE AGREEMENTS, BY AGREEMENT AND TYPE OF REQUIREMENT
(Number of tariff lines)

	Free Trade Area of the Association of Southeast Asian Nations (AFTA)	Agreement between ASEAN and Republic of Korea	Agreement between ASEAN and China	Agreement between ASEAN and Japan
Wholly obtained merchandise	169	465	8	3
Change in tariff chapter		61	1	1 344
Change in tariff heading		2		434
Change in tariff subheading				
Regional value content (RVC) (>40%)		36		
Regional value content (RVC) (40%)	146	22	4 659	219
Regional value content (RVC) (<40%)		2		

Table IV.6 (concluded)

	Free Trade Area of the Association of Southeast Asian Nations (AFTA)	Agreement between ASEAN and Republic of Korea	Agreement between ASEAN and China	Agreement between ASEAN and Japan
Change in tariff chapter plus RVC (40%)		2		1
Change in tariff heading plus RVC		4		
Change in tariff chapter or RVC (40%)	564	487	7	126
Change in tariff heading or RVC (>40%)		4		
Change in tariff heading or RVC (40%)	2 583	4 078	122	3 056
Change in tariff subheading or RVC (40%)	689	61		33
RVC (40%) or textile rules			427	
Change in tariff chapter or RVC (40%) or textile rules	300			
Change in tariff heading or RVC (40%) or textile rules	327			
Total with alternative rules	4 463	4 630	556	3 215
Data unavailable	446			
Total	5 224	5 224	5 224	5 224

Source: M. Medalla, Erlinda and Jenny Balboa, "ASEAN rules of origin: lessons and recommendations for best practice", *ERIA Discussion Paper Series*, Nº 17, 2009.

The criterion of value added (the simplest) was adopted in AFTA and in the ASEAN-China FTA, which requires a minimum regional value added for all manufacturing sectors. This is a difficult criterion for AFTA members to meet, however, especially Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam, owing to the high proportion of inputs imported from non-ASEAN members. It is, moreover, harder for low-wage economies to meet the value added criterion than for high-wage economies, because labour makes a smaller contribution to value added in the first group of countries. The administrative costs of complying with the value added criterion can also be high —for obtaining certificates of origin and invoicing, among others, especially for SMEs. This criterion

is also sensitive to exchange-rate variations. In view of these issues, ASEAN has shifted the basis of its system of origin from value added to change in tariff classification (CTC). Although CTC is easier to implement, especially for SMEs, a question arises over which level of disaggregation of the Harmonized System (HS) should be used for the "substantial transformation" criteria to be satisfied. ASEAN is also further refining its cumulation rule and developing a "partial" cumulation approach in which goods of partial origin (i.e. which do not satisfy the 40% content threshold), can accumulate 20% as part of regional value added (Medalla and Barboa, 2009; Chia, 2010).

Intra-Asian agreements employ similar definitions for rules of origin to those in Latin American agreements. Their requirements are worded similarly and are based mainly on CTC and RVC criteria. The main features of rules of origin schemes in Latin America include the following (ECLAC, 2010b) (see table IV.7):

- Rules of origin based on "wholly obtained merchandise" criteria are not extensively used, inasmuch as they are not required in any of the agreements analysed, except for the agreement between Peru and Thailand, in which it is applied to 3% of the rules negotiated;
- The CTC criterion, defined variously as changes in tariff chapters, headings and subheadings, is the main system employed in the agreements between Peru and Thailand, Mexico and Japan, Chile and the Republic of Korea, and Chile and Japan, as well as in the Trans-Pacific Strategic Economic Partnership Agreement. These agreements also include exceptions to the changes stipulated;
- RVC requirements are used extensively in the China's FTAs with ASEAN and with Chile, and in combination with CTC in the FTA between the Republic of Korea and ASEAN;
- Specifications as to productive process or inputs are little used: of the six agreements which cite such specifications, only five apply them to at least 7% of rules and the other (the agreement between ASEAN and the Republic of Korea) uses it for less than 15%; and
- The ASEAN-Japan FTA mainly uses versatile formulations of CTC and, in some cases, RVC. RVC is used sometimes as a sole requirement to determine product origin, and sometimes in combination with CTC.

Table IV.7
ASIA AND LATIN AMERICA (SELECTED COUNTRIES): CRITERIA FOR DEFINING PRODUCT ORIGIN IN TRADE AGREEMENTS
(Number of tariff headings and percentages)

Criteria used for defining rules of origin		Peru-Thailand		Mexico-Japan		Chile-Republic of Korea		Chile-China		Chile-Japan		Trans-Pacific Strategic Economic Partnership Agreement		ASEAN-China		ASEAN-Republic of Korea	
		Percentages	Quantity	Percentages	Quantity	Percentages	Quantity	Percentages	Quantity	Percentages	Quantity	Percentages	Quantity	Percentages	Quantity	Percentages	Quantity
Wholly obtained merchandise		3.3	131	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in tariff classification	Change in tariff chapter	22.3	886	46.79	2 455	35.21	1 800	11.16	583	34.37	1 797	24,67	1 289	-	-	10.5	551
	Change in tariff heading	46.4	1 842	42.02	2 205	60.19	3 077	0.88	46	49.37	2 581	54,54	2 849	-	-	3.2	168
	Change in tariff subheading	27.3	1 083	10.69	561	4.01	205	-	-	14.56	761	20,79	1 086	-	-	1.1	60
	Other tariff changes	0.1	4	1.81	95	0.04	2	-	-	-	-	-	-	-	-	-	-
Subtotal		96.1	3 815	99.5	5 222	99.4	5 082	12.0	629	98.3	5 139	100	5 224	-	-	14.9	779
Exception to tariff change		10.41	413	31.12	1 633	22.26	1 138	-	-	19.19	1 003	6.11	319	-	-	1.49	78
Value content requirement		1.1	43	3.98	209	9.43	482	87.96	4 595	0.48	25	16.37	855	100	5 224	76.5	4 000
Specified process or input		2.7	107	5.96	313	5.77	295	-	-	6.92	362	5.57	291	-	-	14.7	765
Total tariff lines		100	3 968	100	5 247	100	5 112	100	5 224	100	5 228	100	5 224	100	5 224	100	5 227

Source: Inter-American Development Bank (IDB), on the basis of information from the Integration and Trade Sector (INTrade-BID).

Note: The percentage shown refers to each rule criterion as a proportion of all positions reported. Since one rule may have more than one criterion, the sum of the shares may be greater than 100%.

The existence of multiple rules of origin schemes in Asia is an impediment to greater use of FTAs. Generally speaking, the rules of origin contained in FTAs signed by developing countries in the region (South-South FTAs) tend to raise greater barriers to the use of the respective agreements than the rules established in agreements with industrialized countries (North-South FTAs). Rules of origin schemes in North-South FTAs tend to be better designed and administered (Wignaraja and Lazaro, 2010). In a survey of 688 firms, 20% (138 firms) reported that the multiplicity of rules of origin in the Asian region significantly increased their business costs, while the majority surveyed said that rules of origin were not a problem. But this overall response masks large variations from one country to another. A large proportion (38%) of firms from Singapore had negative perceptions of the multiple rules of origin in Asia, compared with only 6% of Chinese firms. Firms from Japan, Philippines, Thailand and the Republic of Korea lay between the two extremes. By company size, the largest firms tended to take a more negative view of the multiple rules of origin than SMEs, probably because large firms work with several markets and must therefore adjust their business plans to the various preferences extended under different FTAs (Kawai and Wignaraja, 2010b). SMEs work with more limited markets of origin and destination and tend to use fewer imported inputs.

C. China's agreements as an integral part of trade diplomacy and strategic alliances

1. China's trade strategy

Starting in 2001, China began to take more rapid measures to lay down its network of trade agreements with the signature of the first agreement with other signatories of the Bangkok Agreement, which signalled that its trade policy would henceforth combine the multilateral pillar with regional and bilateral agreements. China then signed an FTA with ASEAN in 2004, which was notified to WTO under the Enabling Clause. This agreement began with a three-year early harvest scheme centred mainly on the agricultural sector. First the parties negotiated and implemented an agreement on goods, followed by progress on services and investments. Significantly, ASEAN as a group recognized China as a market economy.

China has negotiated several trade agreements in the past few years. First, special agreements were concluded with Hong Kong Special Administrative Region of China and Macao Special Administrative Region of China, then an FTA was negotiated with Chile and an early harvest

agreement was concluded with Pakistan. China also began to reduce its tariffs on trade from ASEAN countries. China has now signed or is negotiating FTAs with at least 31 countries (MOFCOM, 2010). At the end of September 2009, China had signed 113 bilateral investment protection agreements and 94 agreements on elimination of double taxation, including 12 with Latin American countries and 7 with Caribbean nations. China has the following FTAs in force, under negotiation or at the proposal stage:

(i) China: free trade agreements implemented or signed:

- Free trade area encompassing China and the Association of Southeast Asian Nations (ASEAN)
- Free trade agreement between China and Pakistan
- Free trade agreement between China and Chile
- Free trade agreement between China and New Zealand
- Free trade agreement between China and Singapore
- Free trade agreement between China and Peru
- Closer Economic Partnership Arrangement between China and Hong Kong Special Administrative Region of China
- Closer Economic Partnership Arrangement between China and Macao Special Administrative Region of China
- Free trade agreement between China and Costa Rica
- Economic Framework Cooperation Agreement between China and Taiwan Province of China

(ii) Trade agreements under negotiation

- Free trade agreement between China and the Gulf Cooperation Council
- Free trade agreement between China and Australia
- Free trade agreement between China and Iceland
- Free trade agreement between China and Norway
- Free trade agreement between China and the South African Customs Union

(iii) Proposed agreements under study

- Free trade agreement between China and India
- Free trade agreement between China and the Republic of Korea

- Free trade agreement between China, Japan and the Republic of Korea
- Free trade agreement between China and Switzerland

Several features set China's agreements apart from those signed by other Asian and non-Asian countries (Bin, 2006). First of all, China takes a fairly pragmatic approach, adapting to the varying interests of its trading partners. China has no single model for all its agreements; its coverage of different trade issues and depth of commitments varies from one to another. Second, implementation takes place in stages starting, for example, with the early-harvest scheme and, later, incorporating other disciplines such as services, investments and trade facilitation measures, as in the agreements with ASEAN (Kwei, 2006) and with Chile. Lastly, several of China's agreements exclude sensitive products and sectors, such as the protection of intellectual property, sectoral liberalization, and labour and environmental issues.

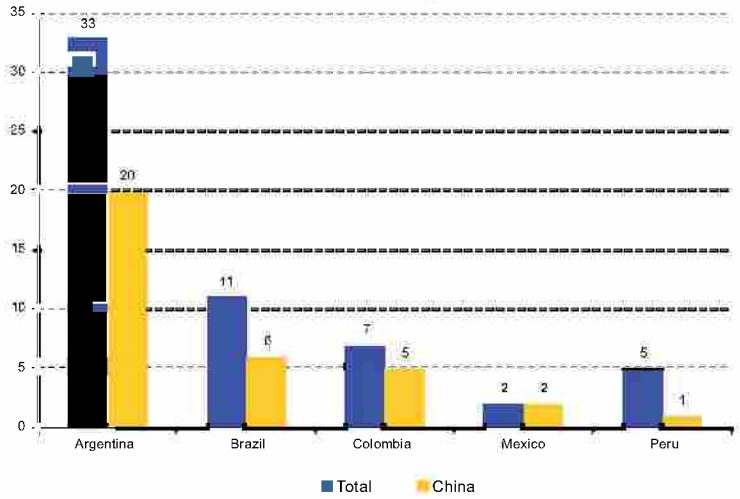
China treats these agreements as instruments of trade diplomacy, such as the "one country, two systems" model applied in the cases of Hong Kong Special Administrative Region of China, Macao Special Administrative Region of China and Taiwan Province of China. In this last case, the two economies signed the Economic Framework Cooperation Agreement in June 2010, consisting mainly in tariff reduction on certain goods in an early-harvest format. The agreement between ASEAN and China is viewed as an instrument of diplomacy aimed at mitigating the mounting competition between the ASEAN countries and China in trade and investment. Other agreements, such as those signed with Chile, India, Pakistan, Peru and South Africa, are seen as diplomatic efforts to start or consolidate strategic partnerships and guarantee supplies of natural resources. Another important objective is to gain recognition of market economy status on the part of trading partners (ECLAC, 2005).

China has made active efforts to secure recognition of market economy status from its main trading partners (including the European Union, Japan and the United States) before the 2016 deadline established in the framework of WTO, to avoid future antidumping cases being treated according to the ad hoc and often discriminatory methodology applied to non-market economies. By March 2009, 79 countries had recognized China as a market economy, including 10 from the Latin American and Caribbean region —among them Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Costa Rica, Jamaica, Peru, and Trinidad and Tobago. The Government of China is lobbying in several forums for the review of its non-market economy status and, in this connection, has concluded a series of bilateral FTAs in which it is explicitly recognized as a market economy. Australia and New Zealand also recognize China as a market economy.

Recognition by the 10 members of ASEAN was crucial for facilitating the conclusion of an FTA with these countries late in 2004.

Nevertheless, at the end of 2008, imports from China were undergoing numerous antidumping investigations in the Latin American and Caribbean region. Since the outbreak of the recent global economic crisis, Chinese imports have been a frequent target for antidumping investigations throughout the world and Latin America and the Caribbean has been no exception. In the recent period, in fact, over half of new investigations begun in most countries and almost 60% of those begun in Latin America and the Caribbean have involved China, with 58 cases between the fourth quarter of 2008 and the fourth quarter of 2009. The greatest numbers of antidumping investigations against China in this period have been brought by countries which have recognized China as a market economy: 20 of a total of 33 investigations in the case of Argentina, and 6 of 11 investigations in the case of Brazil. In Mexico, which does not extend market economy treatment to China, both cases brought referred to dumping (see figure IV.2). The main sectors involved have been iron and steel products, textiles, footwear, domestic appliances and tyres; and the great majority of cases have been initiated by Argentina and Brazil.

Figure IV.2
LATIN AMERICA (SELECTED COUNTRIES): ANTIDUMPING INVESTIGATIONS INITIATED, TOTAL AND THOSE INVOLVING PRODUCTS FROM CHINA, FOURTH QUARTER 2008-FOURTH QUARTER 2009
(Number of investigations)



Source: Prepared by the authors on the basis of information from the World Trade Organization (WTO).

2. Implications of Asia's free trade agreements for Latin America and the Caribbean

The formation of a free trade area in Asia encompassing ASEAN, China, Japan and the Republic of Korea (and which could come to include India as a trading partner) poses a challenge for Latin America and the Caribbean, inasmuch as integration in Asia tends towards the intraregional, with a larger share of intraregional exports in the scheme of tariff preferences. As discussed in chapter II, imports from the Latin American and Caribbean region consist mainly of primary goods and natural resources, while those from ASEAN correspond more to high-tech sectors, such as information and communications technologies (ICTs), whose tariffs have come down considerably in recent years.

Latin American exporters compete heavily in the Chinese market with suppliers from ASEAN. Little competition might be assumed to exist in Asian markets between the exports of the Latin American and Caribbean region and ASEAN, given the differences in the two regions' export structure. Yet today China relies more on the Latin American and Caribbean countries for primary products than on ASEAN (see table IV.8), while ASEAN accounts for a much larger share than Latin America in China's imports of natural-resource-based manufactures. Around 17% of China's high-tech manufacturing imports come from ASEAN and 8% of China's exports of high-tech goods, along with over 11% of its natural-resource-based manufactures, go to ASEAN. These fairly high percentages indicate that China and ASEAN have a trade network not only within but also between industries and that a large proportion of raw materials and natural-resource-based manufactures are from sectors in which the Latin American and Caribbean region faces stiff competition with Asian countries.

Table IV.8
CHINA AND INDIA: COMPOSITION OF TRADE WITH THE ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN) AND LATIN AMERICA AND THE CARIBBEAN, AVERAGE FOR 2006-2009
(Percentage share in trade flows for each group of products)

		China		India	
		Imports	Exports	Imports	Exports
Primary products	ASEAN	6.8	12.7	7.4	11.8
	Latin America and the Caribbean	17.0	1.8	5.9	0.5
Natural-resource-based manufactures	ASEAN	13.3	11.3	15.3	12.8
	Latin America and the Caribbean	9.2	6.0	2.8	3.7

Table IV.8 (concluded)

		China		India	
		Imports	Exports	Imports	Exports
Low-tech manufactures	ASEAN	6.3	5.7	7.9	3.1
	Latin America and the Caribbean	1.8	4.3	0.9	2.9
Medium-tech manufactures	ASEAN	6.0	9.6	7.9	12.4
	Latin America and the Caribbean	1.1	5.8	1.7	4.5
High-tech manufactures	ASEAN	17.0	7.9	11.1	10.6
	Latin America and the Caribbean	1.3	3.4	0.6	5.4
Other	ASEAN	4.2	6.9	2.6	17.2
	Latin America and the Caribbean	0.1	1.7	0.3	0.8

Source: Prepared by the authors on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

As trade barriers between the Asian countries continue to be lowered, Latin America and the Caribbean could see more of its trade diverted. Latin America and the Caribbean would lessen the disadvantage vis-à-vis ASEAN in Chinese markets if the countries of the region were to sign FTAs with ASEAN members. If effective tariffs remain high, the Latin American and Caribbean countries will face the toughest competition in primary products and natural-resource-based manufactures, where ASEAN maintains competitive advantages (see table IV.9).

The Asian countries continue to apply high tariffs in sectors that are of export interest for Latin America and the Caribbean, especially in agriculture. ASEAN, China, Japan and the Republic of Korea (ASEAN+3) still apply high tariffs to agricultural products, textiles and clothing and some categories of machinery (see table IV.9). Accordingly, these countries would benefit —and the Latin American and Caribbean countries would lose out— from a reduction in tariffs in the framework of ASEAN+3, the agreements between ASEAN and each of the three other countries, or even the FTAs between China and ASEAN and ASEAN and India.

Table IV.9
ASIA (SELECTED COUNTRIES): AVERAGE MOST FAVOURED NATION TARIFFS BY PRODUCT GROUP, 2008
(Percentages)

	All products	Animal products	Dairy products	Fruit, vegetables and plants	Coffee and tea	Cereals and cereal preparations	Vegetable oils and fats	Sugar and confectionary	Beverages and tobacco	Cotton	Other agricultural products	Fish and fisheries products	Minerals and metals	Petroleum	Chemical products	Wood, paper, etc.	Textiles	Clothing	Leather, footwear, etc.	Non-electrical machinery	Electrical machinery	Transport equipment	Other manufactures
Japan	5.4	13.9	169.3	12.7	15.6	72.0	12.3	24.5	14.4	0.0	5.7	5.5	1.0	0.6	2.2	0.8	5.5	9.2	12.9	0.0	0.2	0.0	1.2
China	9.6	14.7	12.0	14.8	14.7	23.9	10.6	27.4	22.9	22.0	11.5	10.7	7.5	4.5	6.6	4.4	9.6	16.0	13.4	7.8	8.0	11.5	11.9
Republic of Korea	12.2	22.1	67.5	58.0	53.9	133.7	40.3	17.8	31.7	0.0	16.5	15.8	4.6	4.6	5.9	2.2	9.1	12.6	7.9	6.0	6.2	5.5	6.7
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indonesia a	6.9	4.4	5.5	5.9	8.3	6.1	4.0	11.0	51.8	4.0	4.3	5.8	6.6	0.5	5.3	5.0	9.3	14.4	9.0	2.3	5.8	11.6	6.9
Malaysia	8.8	3.8	4.8	4.9	8.8	5.0	1.8	2.8	164.5	0.0	0.7	1.8	11.4	0.8	3.3	10.3	10.6	15.9	14.0	3.6	6.5	12.1	5.3
Philippines	6.3	20.8	3.9	9.8	14.9	10.8	5.6	15.2	8.2	2.6	3.4	8.1	4.9	2.9	3.8	6.6	9.1	14.9	6.6	2.3	4.0	9.0	4.9
Thailand [a]	10.5	30.5	22.6	31.5	30.8	21.1	19.3	32.0	44.6	0.0	10.4	13.5	6.2	5.4	3.3	6.9	8.3	30.4	12.1	4.4	7.9	21.0	10.6
Viet Nam [a]	16.8	20.1	21.9	30.6	37.9	27.4	13.4	17.7	66.6	6.0	7.8	30.9	10.2	17.5	5.2	17.2	30.4	49.3	19.0	5.4	12.8	22.2	15.2

Source: World Trade Organization (WTO), *World Tariff Profiles 2009*, Geneva, 2009.
[a] Data refer to 2007.

Over 10% but under 20%
Over 20% but under 50%
Over 50%

The countries with the highest average MFN tariffs are Viet Nam, Republic of Korea and Thailand. The most protected sector is agriculture, particularly dairy products, cereals and cereal preparations, and beverages and tobacco, although fruit and vegetables, coffee and tea, vegetables fats and oils and sugar and confectionary also show quite high levels of protection. This, combined with the tariff advantages enjoyed by competitors such as Australia, New Zealand and other Asian countries thanks to preferential trade agreements either in place or under negotiation, makes it difficult for Latin American and Caribbean producers to expand their agro-industrial exports to Asia.

Although some Latin American countries are among the foremost suppliers of primary products, competition between countries is intensifying and Latin America could see substantial trade diversion unless the countries actively pursue bilateral or subregional trade agreements. They should also strengthen links with businesses in Asia by forging alliances and promoting different sorts of business cooperation, in order to bolster exports of primary and semi-processed goods to the Chinese and Asian markets, which will require efforts to deepen knowledge of these markets. Such an approach would have a positive impact on Latin America and the Caribbean through FDI flows and trade creation in sectors which export to China.

3. China's and Latin America's free trade agreements: similar in scope but with subtle differences

Chile was the first Western country with which China signed a partial scope agreement, mainly concerning goods. One key to the success of the negotiations between the two countries was the positive outcomes of Chile's agreements with the European Union, the Republic of Korea and the United States, which aroused the interest of the Chinese authorities and coincided with their wish to make headway in trade talks with their ASEAN neighbours. From China's point of view, a closer knowledge of Chile's negotiating experience was seen as useful for refining its own trade negotiations, first with its Asian partners and later with the rest of the world. And the two countries had historical ties, with diplomatic relations since 1970 and trade links developed during the 1990s. Chile was the first Latin American country to establish diplomatic relations with China, the first to conclude bilateral negotiations for China's accession to WTO and the first to recognize China as a market economy.

For Chile, the FTA with China not only represented a significant step in its international strategy, but also brought major trade benefits. The China FTA is very important for Chile, inasmuch as China has become its largest export market. Chilean consumers have also reaped the benefits of broader access to a large variety of consumer goods from China at more competitive prices. The faster growth spurred by the FTA should promote

job creation, as well. Three years after the FTA between Chile and China entered into force, bilateral trade has benefited amply (DIRECON, 2010).[4]

The agreement between Peru and China is viewed as a natural development, given China's importance for Peru's export sector and substantial Chinese emigration to Peru, which has had a strong influence on the Peruvian culture. China is now Peru's second largest export market after the United States and its largest source of imports (see chapter II). The FTA between the two countries is China's first broad scope agreement with a developing country which includes simultaneous provisions on goods, services and investment.

The FTA between China and Costa Rica was also a natural step following the establishment of diplomatic relations between the two countries in June 2007. Since that date, the Government of Costa Rica has recognized the People's Republic of China as the sole legitimate government representing the whole of China and Taiwan Province of China as an inalienable part of Chinese territory.[5] After six rounds of talks over a period of 13 months, China and Costa Rica signed an FTA in April 2010, China's third such agreement with a Latin American country after those with Chile in 2006 and Peru in 2010. At that time, Costa Rica had just signed its first FTA with an Asian country: Singapore. In the past few years, China has become Costa Rica's largest export market, while Costa Rica is China's ninth largest trading partner in Latin America. Costa Rica runs a trade surplus with China, chiefly owing to its exports of electronic components. The country hopes the FTA will diversify its exports to China, especially in the agricultural sector, which will now have preferential access to the huge Chinese market, and aspires to attract more Chinese investment in Costa Rica.

The FTA between China and Chile established the framework for the negotiations on China's next two agreements with countries in the region: Peru and Costa Rica. The China-Chile agreement not only frees trade in goods, but also regulates the related disciplines, with 14 chapters on trade, institutional and cooperation issues in areas as wide-ranging as science and technology, social security, education, investment promotion, culture, SMEs, intellectual property and the environment. The agreement also has eight annexes covering tariff elimination lists, geographical indications, product-specific rules of origin and certificates of origin, among others. It also provides for a dispute settlement mechanism. The agreements with Peru and Costa Rica included three additional areas (services, temporary entry of business persons and investment) from the start of the negotiations (see table IV.10).

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[4] During the first year of tariff reduction, Chile's exports to China doubled and its imports from China jumped 40%. Although exports fell off somewhat in the second and third year owing to the global crisis, China has become Chile's main trading partner, representing over 20% of its total exports, i.e. more than twice its trade with China before the FTA.

[5] This is a landmark for China, because precisely half of the 24 States which still recognize the Government of Taiwan are in Latin America and the Caribbean and seven of these are Spanish-speaking.

Table IV.10
CHINA: FREE TRADE AGREEMENTS WITH CHILE, PERU AND COSTA RICA, BY CHAPTER

China-Chile	China-Peru	China-Costa Rica
Preamble	Preamble	Preamble
Chapter 1: Initial provisions	Chapter 1: Initial provisions	Chapter 1: Initial provisions
Chapter 2: General definitions		Chapter 2: Definitions of general application
Chapter 3: National treatment and market access for goods	Chapter 2: National treatment and market access for goods Annex 1: Exceptions to national treatment and import and export restrictions Annex 2: Tariff elimination Schedule of China Schedule of Peru Annex 3: Price band system	Chapter 3: National treatment and market access for merchandise trade Annex 1: Exceptions to national treatment and import and export restrictions Annex 2: Tariff elimination List of China List of Costa Rica General notes on the schedule of Costa Rica
Chapter 4: Rules of origin Chapter 5: Procedures related to rules of origin	Chapter 3: Rules of origin and related operational procedures Annex 4: Product-specific rules of origin Annex 5: Certificate and declaration of origin	Chapter 4: Rules of origin and related operational procedures Annex 3: Product-specific rules of origin Annex 4: Certificate of origin
	Chapter 4: Customs procedures and trade facilitation	Chapter 5: Customs procedures
Chapter 6: Trade remedies	Chapter 5: Trade remedies	Chapter 8: Trade remedies
Chapter 7: Sanitary and phytosanitary measures	Chapter 6: Sanitary and phytosanitary measures	Chapter 6: Sanitary and phytosanitary measures Annex 5: Contact points for sanitary and phytosanitary matters
Chapter 8: Technical barriers to trade	Chapter 7: Technical barriers to trade	Chapter 7: Technical barriers to trade Annex 6: Contact points for technical barriers to trade
	Chapter 8: Trade in services Annex 6: List of specific commitments List of China List of Peru	Chapter 9: Investment, trade in services and temporary entry of business persons Annex 7: Schedules of specific commitments Section 1: Schedules of China Section 2: Schedules of Costa Rica Annex 8: Working group on temporary entry of business persons

Table IV.10 (concluded)

China-Chile	China-Peru	China-Costa Rica
	Chapter 9: Temporary entry for business persons Annex 7: Commitments for temporary entry for business persons	
	Chapter 10: Investment Annex 8: Public debt Annex 9: Expropriation	
	Chapter 11: Intellectual property rights Annex 10: Geographical indications	Chapter 10: Intellectual property Annex 9: Geographical indications as referred to in Article 116.1 (geographical indications of China) Annex 10: Geographical indications as referred to in Article 116.2 (geographical indications of Costa Rica)
Chapter 13: Cooperation	Chapter 12: Cooperation	Chapter 11: Cooperation, promotion and enhancement of trade relations
Chapter 9: Transparency	Chapter 13: Transparency	Chapter 12: Transparency
Chapter 11: Administration of the agreement	Chapter 14: Administration of the agreement Annex 11: Free Trade Commission	Chapter 13: Administration of the agreement Annex 11: Free Trade Commission Annex 12: Implementation of modifications approved by the Free Trade Commission Annex 13: Free Trade Agreement Coordinators
Chapter 10: Dispute settlement	Chapter 15: Dispute settlement Annex 12: Model rules of procedure	Chapter 14: Dispute settlement
Chapter 12: Exceptions	Chapter 16: Exceptions	Chapter 15: Exceptions
Chapter 14: Final provisions	Chapter 17: Final provisions	Chapter 16: Final provisions

Source: Prepared by the authors on the basis of information from the Organization of American States (OAS), Foreign Trade Information System [online] http://www.sice.oas.org.

Similarly to China's agreements with other Asian countries, the FTA between China and Chile gradually incorporates other areas of interest, such as trade in services and investment. In September 2006, shortly before the agreement came into effect, the President of Chile announced the start of talks on a second phase of the FTA with China with a view to broadening and deepening the accord in the areas of services and investment. In March 2008, after six rounds of negotiations, the countries concluded the technical negotiations to bring trade in services into the existing FTA. In April 2008 they signed the Supplementary Agreement on Trade in Services of the Free Trade Agreement between the Government of the People's Republic of China and the Government of the Republic of Chile, which came into effect in August 2010.[6] Chile is now negotiating an investment chapter in the framework of the third phase of the FTA with China.

The three Latin American countries have secured similar tariff reductions. Peru secured immediate tariff elimination for 83.52% of its exports, slightly less than the 92.01% and 99.64% achieved by Chile and Costa Rica, respectively. In addition, 1.02% of Peru's exports were excluded from tariff reduction (basket D), compared with 0.73% and 0.01% for Chile and Costa Rica, respectively (see table IV.11). Peru excluded 592 sensitive products from tariff reduction, which was equivalent to 8.05% of tariff headings and 10% of the value of its imports from China. Peru has thus negotiated a larger number of exclusions than Chile, whose FTA with China excludes only 2.97% of its imports from that country.

The list of immediate tariff reductions includes some products which are of great interest to Latin America and the Caribbean in terms of exports. The FTA between China and Chile established tariff-free entry to China for the two main tariff items exported to China by the region, integrated circuits and microassemblies (HS category 854221) and computer parts (category 847330). Duty-free access was also secured immediately for lead ores and concentrates (category 260700), zinc ores and concentrates (category 260800) and copper waste and scrap (category 7404) and in one year for aluminum waste and scrap (category 7602). But sugar (category 1701), another major export product for the region, was excluded.

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[6] On 20 September 2007 Chile and China signed an environmental cooperation agreement based on Article 108 of the FTA.

Table IV.11
CHINA: TARIFF REDUCTION SCHEDULES ESTABLISHED IN FREE TRADE AGREEMENTS WITH CHILE, PERU AND COSTA RICA
(Percentages of total exports to China)

Category of tariff reduction		Chile [a]	Peru [b]	Costa Rica
A	Immediate	92.01	83.52	99.64
	1 year	0.02		
B	5 years	0.35	0.37	0.10
C	10 years	6.89	1.34	0.19
D	Exclusions	0.73	1.02	0.01
	15 years			0.05
E - L [c]	17 years		13.75	
Total		100	100	100

Source: Ministry of Foreign Trade and Tourism (MINCETUR) of Peru; Office of International Economic Affairs (DIRECON), Ministry of Foreign Affairs of Chile; and Ministry of Foreign Trade of Costa Rica (COMEX).
[a] Refers to exports for 2004.
[b] Refers to exports for 2007.
[c] For Peru, 12.86% of exports correspond to fishmeal, on which tariff reduction will conclude on 1 January 2015.

On the other hand, while Peru removed tariffs immediately on 63% of its imports from China, Chile and Costa Rica did so on a smaller percentage (50% and 57%, respectively) (see table IV.12). Peru gave China preferential access either immediately or within five years for 75% of tariff headings, including telephones, mobile phones, computers, electronic devices, laminated steel products and urea. Longer-term tariff reductions apply to categories such as beef and yogurt (15 years), rice (17 years with a grace period of 4 years) and milk and cheese (17 years with a grace period of 10 years).

All three Latin American countries have some highly sensitive products excluded from the agreement. In the cases of Chile and Peru, these include agricultural products in price bands, such as flour, wheat and sugar, some segments of textiles and clothing, iron and steel products and domestic appliances. For example, Peru has some textile and footwear products in the 10-year tariff reduction list as sensitive products. Most of the items on the list of exclusions (D) and 16-year reductions (E) correspond to the textile and clothing sector (see table IV.13). In the case of leather and footwear, sensitive products have been excluded and tariff reduction offered over a 16-year period (see table IV.14). These products represent 93.5% of tariff headings and 100% of imports in that sector. They are products of great export interest for several Latin American countries and many countries of the region face stiff competition from China in local and other markets.

Table IV.12
CHINA: TARIFF REDUCTION SCHEDULES ESTABLISHED IN FREE TRADE AGREEMENTS WITH CHILE, PERU AND COSTA RICA
(Percentages of China's imports from each country)

Tariff reduction period by tariff category		Chile [a]	Peru [b]	Costa Rica
A	Immediate	49.57	62.71	56.60
B	5 years	20.55	12.94	4.00
C	10 years	26.91	14.35	25.10
D	Exclusions	2.97	8.05	9.90
E	16 years		1.18	
G [c]	12 years		0.07	
H [c]	15 years		0.30	2.80
J-1, J-2, J-3 [d]	17 years		0.39	
Import quotas				1.60
Total		100.00	100.00	100.00

Source: Ministry of Foreign Trade and Tourism (MINCETUR) of Peru; Office of International Economic Affairs (DIRECON), Ministry of Foreign Affairs of Chile; and Ministry of Foreign Trade of Costa Rica (COMEX).
[a] Refers to imports in 2004.
[b] Refers to imports in 2007.
[c] Agricultural products.
[d] Agricultural products with grace periods of 4, 8 and 10 years, respectively, during which tariffs will not be reduced.

Table IV.13
COMPOSITION OF CHINA'S OFFER TO PERU IN TEXTILES AND CLOTHING, BY TARIFF REDUCTION PERIOD
(Number of tariff headings, millions of dollars and percentages)

Tariff reduction period by tariff category	Number of tariff headings	Percentage share in the sector	Chinese imports from Peru	Percentage share in the sector
A. Immediate	72	7.4	22	7.6
B. 5 years	85	8.7	7	2.5
C. 10 years	211	21.0	32	10.9
D. Exclusions	537	21.5	186	63.2
E. 16 years	67	55.2	47	15.8
Total	972	100.0	295	100.0

Source: Carlos Kuriyama, "Resultados de la negociación del TLC entre Peru y China", Lima, Ministry of Foreign Trade and Tourism (MINCETUR), 2010, unpublished.

Table IV.14
COMPOSITION OF CHINA'S OFFER TO PERU IN LEATHER AND FOOTWEAR, BY TARIFF REDUCTION PERIOD
(Number of tariff headings, millions of dollars and percentages)

Tariff reduction period by tariff category	Number of tariff headings	Percentage share in the sector	Chinese imports from Peru	Percentage share in the sector
B. 5 years	2	6.5	0	0.0
D. Exclusions	25	80.6	30	53.9
E. 16 years	4	12.9	25	46.1
Total	31	100.0	55	100.0

Source: Carlos Kuriyama, "Resultados de la negociación del TLC entre Peru y China", Lima, Ministry of Foreign Trade and Tourism (MINCETUR), 2010, unpublished.

The FTA between China and Peru has a clause benefiting trade in goods produced in free zones. The agreement on special regimes allows Peru to maintain its temporary import and export regimes; in addition, merchandise manufactured in free zones may qualify for preferential access. For example, China has 15 free zones from which imports into Peru may continue to enjoy tax benefits until 2012, a practice which runs contrary to the WTO Agreement on Subsidies and Countervailing Measures. There is no provision of this sort in China's FTAs with Chile (Torres, 2010) and Costa Rica.

With regard to rules of origin, the FTAs follow the general criteria of the multilateral system. In the Chile-China FTA, the definitions in the chapter on rules of origin for originating or non-originating goods establish an RVC of no less than 40% (the figure commonly applied in the FTA between China and ASEAN), exceptions, a cumulation regime and de minimis levels. Although this accord and China's FTAs with Peru and Costa Rica stipulate an RVC of at least 40%, most of the product-specific rules of origin citing RVC set a minimum of 50%.[7]

[7] Packaging materials and containers in which goods are packaged for retail sale are taken into account only when the rule of origin is defined by RVC. The agreement also allows cumulation of origin, i.e. raw materials and inputs originating in one party may be considered part of the production of a good manufactured in another country. The de minimis level applicable to non-originating materials which do not meet tariff classification change requirements was set at 8% in China's FTAs with both Peru and Costa Rica. All three FTAs establish that sets or assortments shall be regarded as originating provided that the value of the non-originating goods does not exceed 15% of the total value of the set or assortment. With regard to transit and storage in a non-party country, goods may still be considered directly consigned if they are stored for less than three months in a third country (the same period for the FTAs between China and Peru and between China and Costa Rica). This is a key point for several Latin American countries, since there is no direct shipment between most ports in the region and China (IICA, 2009).

The clauses on bilateral safeguards in China's three FTAs with other Latin American countries are quite similar. These clauses may be invoked in the case of threat of harm or serious harm from an import which has increased as a result of the tariff reduction or elimination agreed in the FTA. In this case, tariff reduction may be suspended or the rate raised to the MFN applicable at the time when the measure is taken or upon entry into force of the FTA. Chile may apply safeguards for up to one year, Peru up to two, with the possibility of extension for a further year. Costa Rica may apply safeguards for one year initially, but may extend them for a further three years.

The customs cooperation agreement which Peru negotiated in parallel with the FTA is probably the most comprehensive arrangement China has entered into with another country. In the case of China and Chile, the customs agreement was negotiated in the framework of the FTA, which produced a lengthy delay in concluding the talks. In fact, the negotiations for a customs cooperation agreement between China and Chile began much earlier, in December 2005, in the context of the FTA, and were concluded on 13 November 2009. Under this agreement the parties must share official information that may be of use in combating illegal customs practices in trade between the two countries, such as undervaluation, triangulation and undercounting.

Unlike the agreement between Chile and China, the FTA negotiations between Peru and China included services from the outset. The two countries adopted a positive list approach, in which each could include the services sectors in which it wished to undertake commitments. This is in contrast with Peru's FTAs both with the United States and with Chile, but similar to the Supplementary Agreement on Trade in Services of the Free Trade Agreement signed in 2008 by Chile and China, which also adopted a positive list approach. The lists of specific commitments on services in the FTA between China and Costa Rica, which form part of the chapter on investment, trade in services and temporary entry of business persons, are also drawn up on a positive list basis. In addition, the three agreements on services include the four modes of services supply included in GATS.

China's list of specific commitments includes some services sectors that hold potential for Latin America and the Caribbean. China and Chile undertook commitments in their FTA beyond the WTO provisions, since China included 10 sectors (16 subsectors which were broader than or not included in the WTO list) and Chile offered 15 sectors.[8] The

[8] China included 23 industries and subindustries including services relating to computers, management and consultancy, real estate, mining, environment, sports and air transport. Chile included 37 industries and subindustries in services areas relating to law, construction and design, engineering, computers, research, real estate, marketing,

sectors that could potentially benefit are professional and information technology services, mining and construction services, distribution, and environmental services (DIRECON, 2009). Financial services, air transport and maritime shipping are not included in the Supplementary Agreement. One of China's specific commitments to Peru in excess of those offered to Chile and those included under WTO is the elimination of barriers in the tourist services market. Chile and Peru committed in their agreement to conduct negotiations on professional services (acceptable standards for licences and certification of service providers) (Kuriyama, 2010). Another innovation in China's three agreements with Latin American countries is the chapter on temporary entry of business persons.

The three FTAs establish a dispute settlement mechanism for conflicts arising in trade relations between the parties. China's three FTAs with Latin American countries are markedly similar in terms of scope of application, choice of forum, consultations, good offices, conciliation and mediation, establishment and composition of panels, suspension and termination of proceedings, report issuance and so forth. The agreements with Peru and Costa Rica also establish a broad scheme for settlement of investor-State disputes. Investment dispute provisions are particularly important because almost any complaint lodged by a Chinese investor against the State of Peru in international tribunals would necessarily be a complaint brought by the Chinese State itself, since most Chinese firms making direct investments abroad are still State-owned.

The FTA between China and Chile has no specific chapter on intellectual property, although chapter III on national treatment and market access for goods contains two articles which refer to the subject (Article 10, on geographical indications, and Article 11, which makes reference to the protection of trademark or copyright goods) in conformity with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and domestic legislation. Under Article 10, China included Shaoxing wine and Anxi Tie Guanyin tea on its list of geographical indications and Chile included Chilean pisco. The FTAs with Peru and Costa Rica cover geographical indications and trademarks in specific chapters. Peru's list of protected denominations of origin in the respective annex includes Cusco giant white corn, Peruvian pisco, Chulucanas pottery and Ica pallar bean. In the FTA between China and Costa Rica, the respective article refers to two annexes containing the specific geographical indications in each country; China's list has 23 names and Costa Rica's, 10. The denominations of origin specified by Costa Rica include Costa Rican coffee, coffee from Tarrazú and Orosi, wood from Guanacaste, and Costa Rican banana.

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management and consultancy, mining, manufacture, leasing, education, environment, tourism, sports and air transport (IICA, 2009).

All three FTAs also contain a chapter on cooperation. The FTA between China and Chile refers to economic cooperation activities in such spheres as research, science and technology, education, culture, mining and industry, intellectual property, labour issues, environment issues and SMEs. China's FTAs with Peru and Costa Rica have similar provisions. Chile included fewer areas of cooperation than the other two countries, but with broader coverage. In research, science and technology, for example, the intension is to focus on sectors of shared and complementary interests, with an emphasis on ICTs. Activities will be promoted in postgraduate studies, research visits and the formation of public-private partnerships. With respect to SMEs, the two countries have expressed an interest in collaborating on the development of production chains, business clusters, technology transfer and new export SMEs. Through their Memorandum of Understanding on Labor and Social Security Cooperation and their Environmental Cooperation Agreement, Chile and China envisage several areas for cooperation on issues which Chile has already negotiated in its FTAs with the United States, Canada and the countries of the Trans-Pacific Strategic Economic Partnership Agreement.[9]

4. Trade relations between China and Latin America and the Caribbean are mature and poised for a leap in quality

The Asia-Pacific region offers great potential for trade and investment agreements in the areas of mining, energy, agriculture, infrastructure, science and technology. It will require a concerned regional effort to take full advantage of these opportunities on a worthwhile scale, however. It will take, in fact, coordination by the Latin American and Caribbean region to present convergent, transparent and stable policies in order to secure long-term commitments between the two regions. The region's existing integration mechanisms must be strengthened to provide a regional counterpart for bi-regional dialogue with China and Asia-Pacific and explore broader mutually beneficial initiatives than could be achieved through isolated national efforts.

This is the time to map out a strategic link with China. China has formulated a foreign policy towards Latin America and the Caribbean, set forth in an official document which recognizes the potential of the region for comprehensive cooperation encompassing political and economic relations,

[9] The main areas for cooperation are: (i) labour policies and social dialogue, including decent work, labour legislation and labour inspection; (ii) improvement of labour conditions and training; and (iii) globalization and its impact on employment, the working environment, labour relations and regulations, and social security.

as well as social, cultural, legal and security matters.[10] In the economic sphere specifically, the paper discusses the possibility of joint progress in a number of areas including trade, investment, finance, agriculture, industry, infrastructure, natural resources and energy, and tourism.

Some Latin American countries are also making plans and taking actions to develop long-term strategic relations with China. These initiatives include Brazil's "China agenda", Chile's policy plan on China, Mexico's working group on China, the friendly partnership of common development forged between Jamaica and China, and a mechanism for policy consultations among the foreign ministries of the 21 countries in the region which maintain diplomatic relations with China (SELA, 2010), all of which see this link as a key external factor in their economic growth.

In relation to business, discussions have taken place between the two regions on ways to strengthen strategic relations in the future. Since 2007, the China-Latin America Business Summit has convened on four occasions: in Santiago (Chile), Harbin (China), Bogota (Colombia) and Chengdu (China). From its first meeting in November 2007 in Santiago, the Business Summit has become a mechanism for regular high-level cooperation between Chinese and Latin American authorities, in close collaboration with several binational chambers of commerce from both continents.

China and Latin America have also sought new modes of cooperation in the financial sphere in order to cushion the direct impact of the financial crisis. In 2009, the two parties instituted new kinds of financial cooperation that combined China's ample foreign reserves with Latin America's heavy demand for capital, including foreign-exchange swaps and loans in exchange for oil and for project financing. Landmarks included a swap of 70 billion yuan (US$ 10.2 billion) between Argentina and China in 2009, which enabled the Government of Argentina to pay for Chinese imports in yuan. This scheme was intended to expedite the settlement of trade transactions in the event of an international liquidity squeeze. China has set up similar arrangements with several Asian economies, including Indonesia, Malaysia and the Republic of Korea.

These new forms of financial cooperation have boosted Chinese investments in Latin America and helped to integrate and deepen bilateral trade relations based on native advantages. In November 2009, the China Development Bank and the Brazilian State-owned oil company, Petrobras,

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[10] The document mentions several guiding principles: mutual respect for territorial integrity and sovereignty, non-aggression, non-interference in each other's internal affairs, equality and reciprocal benefit and peaceful coexistence. See "China's Policy Paper on Latin America and the Caribbean" [online] http://english.gov.cn/official/2008-11/05/content_1140347.htm.

signed financing contracts for some US$ 10 billion in exchange for oil. China and Bolivarian Republic of Venezuela have joint development funds which have risen from US$ 6 billion to US$ 12 billion and the two countries have signed a loans-for-oil agreement; China also has a similar agreement with Ecuador worth US$ 1 billion. China has become the forty-eighth member of the Inter-American Development Bank (IDB) and recently attended the Bank's annual meeting for the first time as an official member and participant in economic and financial cooperation in the Latin American region. IDB has, in effect, become a new platform for cooperation between China and Latin America.

China attends to bilateral affairs with embassies in the capital cities of each of the 21 Latin American and Caribbean countries with which it maintains diplomatic relations. It also has six general consulates in Rio de Janeiro and Sao Paulo (Brazil), Santa Cruz (Plurinational State of Bolivia), Barranquilla (Colombia), Guayaquil (Ecuador) and Tijuana (Mexico). The Latin American and Caribbean region has various representations established in China, Hong Kong Special Administrative Region of China and Taiwan Province of China: of the 21 countries mentioned, only 15 have an embassy in Beijing. Each State in the region pursues its own bilateral policies with China, occasionally through links with another Latin American or Caribbean country. Mexico and many South American countries have at least one chamber of commerce, industry or business specializing in business with China, and virtually all of the governments in the region have set up institutions and instruments along the lines of bilateral inter-governmental commissions to develop cooperation with China (SELA, 2010).

Yet efforts to build closer ties with the Asia-Pacific region have, for the most part, been sporadic and isolated. In the past few years, Chile, Mexico, Peru and several Central American countries have forged trans-Pacific trade agreements. These initiatives bear witness to the determination of some Latin American countries to establish long-term relations with Asia-Pacific. But as yet there is no coordinated strategy between countries or groups of countries to strengthen trade and investment and productive and technological linkages through public-private partnerships with Asia-Pacific. The first effort in that direction was the creation of the Forum of the Latin American Pacific Rim in 2007.

Almost four years after it was created, the Forum of the Latin American Pacific Rim has made substantial progress in some areas, including recent advances in defining methods and modalities for negotiating an agreement on cumulation of origin, and the vigorous efforts of other working groups set up to develop a common agenda. The time appears to have come to give the initiative fresh impetus and

strengthen its identity as a group of countries pursuing an agenda of trade liberalization and investment facilitation, in order to secure a more advantageous position in the international economy (ECLAC, 2010b).

China has shown great interest in strengthening its links with Panama. Among other matters, the Panama Canal is extremely important for China's trade with Atlantic ports, particularly in Argentina, Brazil, Bolivarian Republic of Venezuela, and the east coast of the United States.

China, too, needs closer ties with Latin America. With its burgeoning growth and industrial development of former rural areas, China has a growing need for infrastructure and energy which, together with its rising demand for food, represents a powerful motive for strengthening ties with Latin America's natural-resource exporters. China also needs to secure market entry for its exports on advantageous terms and recognition as a market economy: both aims which the President of China negotiated successfully in his visits to the region. And, lastly, China also wishes to amass a battery of trade agreements with Latin America that will secure preferential access for Chinese products and avert competitiveness losses arising from the region's bilateral agreements with the United States and — in view of the European Union's free trade negotiations with MERCOSUR and the Andean Community— with Europe.

Naturally, the strategy of deepening and diversifying economic ties has a major political component. China is aware of its growing weight in the global economy and, just as the United States and the European Union are seeking to secure a strong presence in Asia, China wishes to build such a presence in Latin America. Although the rapprochement is not with South America alone, for a variety of historical reasons, China's relations with Central America and the Caribbean have been less fluid. But this is changing fast. Early in 2005, the Caribbean and Chinese foreign ministries held an important high-level meeting in the Caribbean and China became a full member of the Caribbean Development Bank (CARIBANK).[11]

D. Conclusions and recommendations

Unlike the pattern in Latin America and the Caribbean, in Asia-Pacific a de facto type of integration has traditionally prevailed, revolving around massive intraregional trade flows. These flows have been driven by growing productive and investment complementarities between the countries' manufacturing sectors. Asian integration has benefited from trade and investment facilities, the promotion of public-private partnerships for business development and the availability of low-cost labour. In the past few

[11] For further details on the closening ties between China and the Caribbean, see SELA (2010).

years, the Asia-Pacific region has moved towards a more advanced stage of integration, necessarily involving greater institutional structure. ASEAN has positioned itself as the axis for this process with a series of free trade initiatives with other Asian countries. With the web of FTAs now existing in Asia-Pacific, almost half of intra-Asian trade is conducted under some sort of preferential arrangement. For a number of reasons (especially to secure broader market access), Australia, China, India, Japan, the Republic of Korea and Singapore, among other Asia-Pacific economies, have signed FTAs and forged strategic partnerships with Latin America, as well.

De jure economic integration in Asia-Pacific has not been a single process; rather it has advanced along several paths and at different speeds. The impacts for the Latin American and Caribbean region of the proliferation of trade agreements in Asia-Pacific are hard to forecast and will depend, to a large extent, on the different trade liberalization constellations in the Asia-Pacific countries, ranging from the Free Trade Area of the Asia-Pacific proposed within the APEC forum, ASEAN+3 and ASEAN+6, to possible combinations involving Asian countries and Oceania and trans-Pacific arrangements, including the broadening of the Trans-Pacific Strategic Economic Partnership Agreement, some of whose members are Latin American. Estimates tend to confirm the assumption that the economic impacts of a regional-scope FTA in Asia would increase proportionally with the area of coverage. So an FTA in East and South-East Asia would bring its members more benefits than an FTA between China, Japan and the Republic of Korea. Whether a trans-Pacific initiative such as the Free Trade Area of the Asia-Pacific or a broadened version of the Trans-Pacific Strategic Economic Partnership Agreement can bear fruit also depends on the trade strategies adopted by the three main actors in Asia, especially China, and the strategy of the United States towards Asia-Pacific.

The possible formation of an Asian trade bloc raises issues for Latin America and the Caribbean, as for other regions, inasmuch as it could intensify inward-looking tendencies in Asia. This is another reason to promote dialogue and to identify a shared agenda which can boost regional integration processes on both sides of the Pacific Rim and strengthen trans-Pacific linkages. Latin American governments must, as a matter of urgency, examine the possible routes open and take the respective decisions rapidly, efficiently and in a coordinated manner.

The FTAs in place or under negotiation in Asia-Pacific vary in thematic coverage and breadth. Although they encompass behind-borders commitments, they are confined mainly to tariff reduction on goods and exclude a large number of sensitive products. Most FTAs in Asia contain inadequate coverage of the agricultural sector and vary greatly as to the timing of tariff reduction, lists of exemptions, rules of origin regimes

and implementation modalities. Many trade agreements signed by Asian countries also fail to sufficiently address the Singapore issues, since they lack WTO-plus coverage. So rules and disciplines need to be harmonized and converged before a broader free trade area can be created in Asia-Pacific. A leap forward in this direction would raise FTA utilization rates among Asian firms, which have thus far been relatively low compared to those of other regions.

A strategy for dialogue must take into account the great heterogeneity that exists within the Asian region, even within ASEAN. Given the heterogeneity within Asia and the Latin American and Caribbean region's varying importance as a trading partner for the different countries, it will be necessary to generate differentiated opportunities for dialogue and action, at least for the four main actors: China, Japan, Republic of Korea and ASEAN, without losing sight of the need to maintain a perspective on the region as a whole.

The Latin American countries are also very heterogeneous and their connections with Asian economies vary in strength. Much flexibility will therefore need to be exercised in initiating contacts and negotiations, perhaps not necessarily including all the Asia-Pacific countries, but some individually. This is the case for China in particular.

China has emerged from the crisis with a stronger productive, technological and financial base and with stronger links with Asia-Pacific. Its robust growth in the midst of a very complex international situation and its strengthened links with the other Asian economies are key to understanding the post-crisis scenario. In this connection, the entry into force on 1 January 2010 of the ASEAN-China free trade area is highly significant. This area holds a combined population of 1.9 billion and trade worth US$ 45 billion. By eliminating tariffs on the bulk of trade between China and the 10 ASEAN economies, this agreement may hurt several of Latin America's exports to China which compete with ASEAN products but do not enjoy the same tariff advantages.

In order to improve economic ties with China, progress must be made on overcoming two major limitations:

- Trade flows between the Latin American and Caribbean region and China today are almost exclusively inter-industrial. In other words, China sells manufactured goods to Latin America and the Caribbean, which sells mainly raw materials to China. This precludes a higher trade density, leaves less space for joint investments and hinders more effective integration of Latin American and Caribbean countries into Asia-Pacific production chains, which are increasingly intra-industrial; and

- The marked difference in productive and trade specialization conspires against greater reciprocal FDI and against productive, technological and trade partnerships. Progress in diversifying trade with China would also pave the way for stronger partnerships, reciprocal investments and more innovation- and technology-intensive trade.

The Latin American and Caribbean countries must take stock of the productive integration under way in Asia, centred on China, and try to join the value chains forming there. To this end, they must promote Chinese investment in Latin America and the Caribbean and vice versa, and foster partnerships between Latin American and Caribbean and Chinese businesses, emulating the Asian experience in productive integration around regional and subregional value chains.

It is also possible to reduce the sharp asymmetry between growing trade flows and limited reciprocal investment. The main task here is for governments to craft a coordinated package of investment initiatives that is attractive to banks, firms and the Government of China. Chinese investment in infrastructure and energy projects would not only strengthen economic relations between the region and China, but would also generate positive externalities for Latin American regional integration. The infrastructure projects planned in the framework of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Mesoamerica Project are natural candidates in this regard.

Some issues remain in access to Asian markets. In Asia-Pacific high MFN tariffs apply to agricultural products and some natural-resource-based manufactures, precisely those areas in which Latin America and the Caribbean has the greatest export interests and comparative advantages. The challenge for the region is therefore to position those exports which are subject to the highest levels of protection in Asian production and distribution chains. This means integrating more effectively into the China-centred productive and business networks growing up in Asia-Pacific. The recent trend towards the consolidation of trade relations through trans-Pacific agreements should facilitate this, although substantial progress is needed at the same time in export diversification and regional integration. Indeed, regional integration is not only fully compatible with more aggressive incursion into Asian markets; it is also necessary for that incursion to be successful.

Efforts to tighten ties with Asia-Pacific and with China in particular have been fairly sporadic and isolated, with the exception of the Forum of the Latin American Pacific Rim. This Forum has made progress in defining methods and modalities for negotiating an agreement on cumulation of origin and, through its working groups, in developing a common agenda

in other areas. The time appears to have come to give the initiative fresh impetus and strengthen its identity as a group of countries pursuing an agenda of trade liberalization and investment facilitation not only among the 11 member countries but looking towards Asia-Pacific as well. In particular, a more formal institutional structure will need to be developed if the Forum is to develop closer relations with Asia.

The members of the Forum of the Latin American Pacific Rim could be in a position to produce a strategy on developing closer relations with China quite soon. To this end, the Latin American countries would need to hold some technical meetings and a summit of Heads of State in order to prepare a programme of trade and investment initiatives for strengthening the region's economic and trade relations with Asia-Pacific. The Forum of the Latin American Pacific Rim could thus become a representative interlocutor with Asia, starting with technical and political meetings with Asian countries, especially the ASEAN members. A more ambitious idea would be to promote trade and investment between the Pacific Rim countries by simplifying and harmonizing the rules of origin included in most of the FTAs between members, complemented with greater flexibility in cumulation of origin between the different agreements or even by negotiating a free trade area between the Pacific Rim and China. In such a venture, Chile, Costa Rica and Peru, the three Latin American countries having signed FTAs with China, should play a key role in coordinating positions and joint work in the different areas.

Relations between China and Latin America and the Caribbean are ripe for a quality leap. The first decade of the new century witnessed a surge in trade relations between China and Latin America and the Caribbean. In just a few years, China has become a prominent and significant partner in the countries' trade and international positioning strategies. Relations are mature enough to take new steps towards a strategic and mutually beneficial link. The Latin American and Caribbean countries must redouble their efforts to diversify exports to China, embed value and knowledge into their products, promote business, trade and technology alliances with Chinese counterparts and encourage Latin American investment in China and in Asia-Pacific in order to boost the region's presence in Asian value chains structured around China.

It is the right time to define, in a concerted manner, the priorities in the region's relations with Asia and to propose a strategic, mutually beneficial partnership. What seems to be most urgent is for governments in the region to frame a regional agenda on trade, investment, infrastructure, logistics, tourism and technology exchanges to form a basis for a strategic approach to China. This way, China's robust economic growth could help to induce a strong, steady —and more sustainable— pattern of innovation-

based growth in the region that would have positive social impacts. China could use its substantial international reserves to back the investments suggested above and leverage its presence in regional multilateral banks to promote projects for upgrading the production, technological and export capacities of SMEs in Latin America and the Caribbean. It could also promote a more active programme of visits between universities and technology centres and more intensive dialogue between business organizations. This would help to explore and foster agendas of mutual interests and to anticipate and avert trade disputes through dialogue and the pursuit of shared benefits.

Latin America and the Caribbean could respond quickly with a document setting out guidelines for a strategic approach to China. China has formulated a foreign policy towards Latin America and the Caribbean, set forth in a policy paper which recognizes the potential of the region for comprehensive cooperation encompassing political and economic relations, including trade, investment, finance, agriculture, industry, infrastructure, natural resources and energy, and tourism, as well as social, cultural, legal and security matters. The regional coordination needed to define a first response to China's Policy Paper on Latin America and the Caribbean and set up the necessary technical working groups would lay the groundwork for preparing a summit of Heads of State of China and Latin America in the next few years. Such a meeting could produce a shared agenda of trade and investment projects that would attract Chinese investment to Latin America and the Caribbean and diversify the region's trade with China. This should be accomplished, of course, without losing sight of the central objective: first, to strengthen links between the countries on both the Pacific and Atlantic shores of the region itself and then, second, to strengthen ties between the whole region and Asia-Pacific.

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China and Latin America and the Caribbean

Building a strategic economic and trade relationship

Osvaldo Rosales
Mikio Kuwayama

The economies of China and of Latin America and the Caribbean –which will grow at double or triple the rate of the industrialized economies in the coming years– are becoming the contemporary poles of global growth, since the industrialized economies will be forced to adjust over the next few years to a context of slacker growth and higher unemployment.

The present juncture in the international economy invites us to rethink global and regional partnership-building strategies and to afford a greater importance to South-South ties in trade, foreign direct investment (FDI) and cooperation.

This book examines recent developments in trade between China and Latin America and the Caribbean in terms of countries, sectors and products, as well as Chinese foreign direct investment (FDI) in the region. ECLAC argues that relations between China and the Latin American and Caribbean region are mature enough to sustain a leap in quality and to move towards developing strategic ties that can benefit both.

This scenario raises both opportunities and challenges, including the need to forge trade relations more in keeping with the patterns of economic and social development which Latin America and the Caribbean is striving to achieve.

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