First Forum of **China** and the Community of Latin American and Caribbean States **(CELAC)**

Exploring opportunities for cooperation on trade and investment

UNITED NATIONS

ECLAC

First Forum of China and the Community of Latin American and Caribbean States (CELAC)

Exploring opportunities for cooperation on trade and investment

UNITED NATIONS

ECLAC

Alicia Bárcena
Executive Secretary

Antonio Prado
Deputy Executive Secretary

Osvaldo Rosales
Chief, Division of International Trade and Integration

Ricardo Pérez
Chief, Publications and Web Services Division

This document was prepared under the supervision of Osvaldo Rosales, Chief of the Division of International Trade and Integration of the Economic Commission for Latin America and the Caribbean (ECLAC). The technical work was coordinated by Keiji Inoue and Sebastián Herreros, Economic Affairs Officers in the Division of International Trade and Integration. Parts of the document were drafted by José Durán Lima and Nanno Mulder, Economic Affairs Officers with the same Division, and Miguel Pérez Ludeña, Economic Affairs Officer in the Investment and Business Strategies Unit of the Division of Production, Productivity and Management. The authors are grateful to Javier Meneses, Research Assistant with the Division of International Trade and Integration, for support with statistical work.

This document is a translation of an original which did not undergo formal editing.

LC/L.3941 • January 2015 • 14-21103
Printed at United Nations • Santiago, Chile

Contents

Foreword

This document is a contribution by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) to the First Forum of China and Community of Latin American and Caribbean States (CELAC), to be held on 8 and 9 January 2015 in Beijing.

The document consists of three parts. The first part summarizes the main components of the international economic scenario for Latin America and the Caribbean. The second part provides a brief overview of trade and investment relations between the region and China. And the third part sets out conclusions and recommendations for improving the quality of economic ties between the two trading partners.

Over the past few decades, China (along with the other emerging economies of Asia) has become a key for understanding the process of and prospects for globalization. On the strength of its robust performance in terms of economic growth, international trade, foreign direct investment and technological innovation, and its role as a source of international financing, China is rapidly rearranging the global economic map. It is strengthening the links between developing economies and contributing to an unprecedented cycle of growth, trade, investment, poverty reduction and progress in the internationalization of emerging economies. Thanks to this, the income gap between these economies and the industrialized countries is narrowing.

Several decades of Chinese growth at nearly 10% a year have redefined the context of Asian value chains. These tend to be structured increasingly around China, which is the hub of “factory Asia”. The surging growth of the Chinese economy has helped to strengthen ties between the economies of Asia, stimulating intra-industry trade and cross-investments. An appropriate strategy for rapprochement with China cannot ignore this strong link with East Asia and South-East Asia.

For nearly a decade, headlong growth in China has fuelled a strong demand for commodities, which often come from Latin America and the Caribbean. Bilateral trade increased 22-fold between 2000 and 2013; in a few years China has gone from being a minor partner to become a central actor in the region's foreign trade. And China has recognized the growing importance of its ties with Latin America and the Caribbean. This is reflected in the ambitious objectives of the "1+3+6" cooperation framework for 2015-2019, which was proposed to the region by President Xi Jinping at the first Summit of Leaders of China and of countries of Latin America and the Caribbean, held in Brasilia in July 2014.

The rate of expansion of China's economy has moderated since 2012 and is expected to continue to do so over the coming years. This has driven down the prices of a number of the commodities that Latin America and the Caribbean exports to China. This has been interpreted as the end of the supercycle of high commodity prices that lasted for most of the period between 2003 and 2011. At the same time, the guidelines adopted by the Chinese authorities are aimed at rebalancing China's development model, focusing more on household consumption and relatively less on exports and investment. All of these developments pose opportunities and challenges for trade relations between Latin America and the Caribbean and China, which will continue to gain in importance in the coming years.

The keen interest shown by the Chinese authorities in strengthening ties with Latin America and the Caribbean provides the region with a historic opportunity to address the challenges of infrastructure, innovation and human resources, spur productivity and competitiveness and diversify exports. Another major challenge is to draw higher levels of Chinese FDI to the region, channeled particularly to improving infrastructure, promoting export diversification and encouraging Sino-Latin American business partnerships. It is therefore imperative to work on the region's strategic approach to China and East and South-East Asia so that it can leave behind the limitations of national efforts that have prevailed up to now.

For several years, ECLAC has been actively involved in initiatives undertaken at different levels to strengthen economic relations between Latin America and the Caribbean and Asia and the Pacific, with particular emphasis on China. It has participated in a number of China-Latin America business summits and in both forums for exchanges between Chinese and Latin American think-tanks, among other meetings. ECLAC has also had the privilege of receiving, at its headquarters, visits by the then Vice President of China Xi Jinping, in June 2011, and the then Premier Wen Jiabao, in June 2012. On both occasions, the Chinese leaders presented proposals aimed at strengthening cooperation between China and Latin America and the Caribbean. This document is thus part of an ongoing institutional effort to promote such links.

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

I. A challenging international scenario

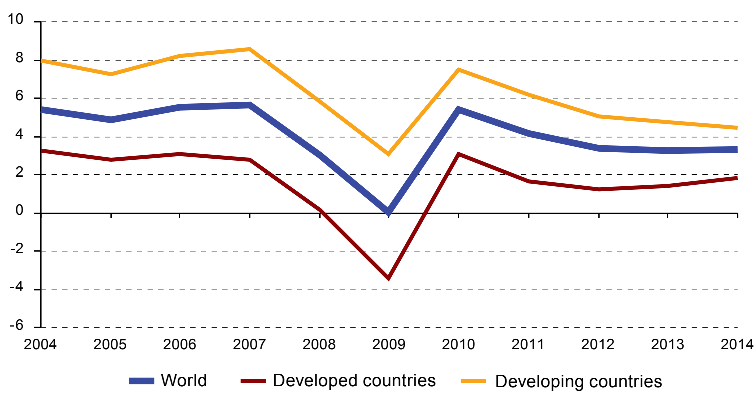
A. Slow and uneven recovery in the industrialized economies

The world economy has not managed to resume growth at the pace seen before the global crisis of 2008-2009. Between 2004 and 2007, world output expanded by an average of 5.4% a year but then slowed to 3.5% a year during 2011-2014. This cooldown is mainly due to weak performance on the part of the developed countries, where the rate of growth post-crisis has been half the pre-crisis rate (1.5% versus 3.0%) (see figure I.1). Over the past two years, growth has picked up slightly in the developed countries. This improvement is mainly due to the better-than-expected performance of the United States economy and the recovery (albeit weaker than expected) posted by the economies of Germany, Spain, the United Kingdom and other European countries. Even so, the larger developed economies still have structural weaknesses that are keeping them from growing faster.

The United States economy is the most dynamic among the developed countries but faces a number of challenges. Since mid-2009 the United States GDP has been expanding, unemployment has fallen, the housing market has been recovering, the fiscal-deficit-to-GDP ratio has been brought down and the stock market has hit record highs. But growth this year will be modest, in the area of 2%. Although the recession officially ended in June 2009, the economy still shows signs of weakness. The pace of recovery has been the slowest in the post-war period: barely 11% between mid-2009 and mid-2014 (see figure I.2).

Labour productivity (output per hour worked) grew 6.5% in the first 20 quarters following the end of the most recent crisis, compared with an average 13.4% in previous recoveries of similar duration. Furthermore, the number of jobs has risen only 6.2%, compared with increases of 12.5% in previous recoveries. And job quality has declined, as the percentage of workers with employer-sponsored health insurance fell from 60% in 2007 to 54% in 2013. The percentage of private-sector workers participating in retirement plans has fallen, too, from 42% in 2007 to 39% in 2013. As economic security provided by the labour market declines, private savings must increase in order to finance the gap. This eats into disposable income for consumption.[1] Although the unemployment rate decreased from 10% in 2010 to 6.1% in 2014, the main reason seems to be a declining labour force participation rate, which has dropped 4 percentage points (from 67% to 63%). In short, the United States economy is creating few jobs, the duration of unemployment is increasing and real wages remain stagnant.

Figure I.1
World and regions: GDP growth, 2004-2014 [a]
(Percentages)

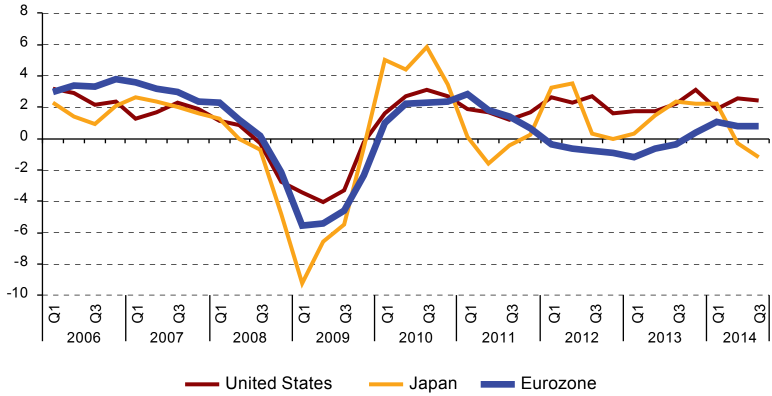


Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, October 2014.

[a] The figures for 2014 are projections.

[1] See Center for American Progress, "Economic Snapshot: September 2014" and "The State of the U.S Labor-Market: Pre-October 2014 Jobs Release", and OECD database [online] http://stats.oecd.org/.

Figure I.2
United States, Japan and eurozone: quarterly change in GDP, first quarter 2006 to third quarter 2014
(Over same prior-year quarter, percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), quarterly GDP 2014 [online] http://data.oecd.org/gdp/quarterly-gdp.htm [date of reference: 15 December 2014].

Increased social vulnerability in the United States reflects an upsurge in the concentration of income and wealth. In 2013, income for families belonging to the wealthiest 5% was more than nine times the income of the poorest 20%; this is the widest gap since statistics have been kept (1967). Inflation-adjusted corporate profits were 94% higher in June 2014 than in June 2009, while median household income is still 8% below its pre-crisis level. This striking asymmetry in the distribution of the benefits of growth worries even the Federal Reserve System. Federal Reserve Board Chair Janet Yellen expressed concern over soaring inequality of distribution in the United States, calling it the most sustained increase since the nineteenth century. She referred to the figures for 2013, which show that the bottom 50% of households received 1% of the wealth (3% in 1989), while the richest 5% received 63% (54% in 1989). Average income for the wealthiest 5% surged 38% between 1989 and 2013; income for the remaining 95% only rose slightly less than 10% (less than half a percentage-point increase per year).[2]

[2] Janet Yellen, "Perspectives on Inequality and Opportunity from the Survey of Consumer Finances", presentation at the Conference on Economic Opportunity and Inequality, Boston, Massachusetts, Federal Reserve Bank of Boston, 17 October 2014.

Acute economic concentration, which is also taking place in the United Kingdom, not only foreshadows social and political tensions to come; it is a drag on economic growth as well. In economies where private consumption accounts for some two thirds of GDP, declining or flat real wages and a labour market that is returning to "normal" with low labour participation and high long-term unemployment rates are a warning sign that effective demand will remain depressed and potential output will be lower. So, global economic growth will continue to be disappointing if these touchy political economy issues are not addressed.

So far this decade, Japan's economy has grown on average 0.9% annually. This rate is similar to the 1.1% and 0.8% posted in the 1990s and 2000s, respectively, and is less than a quarter of the 4.6% pace of growth seen in the 1980s. For 2014, in a context of sluggish consumption and flatlining net exports, the central bank is forecasting growth of only 1% after the double-dip recession. This lacklustre performance is set against a backdrop of measures to promote labour market flexibility, decrease support for farmers, deregulate utilities and raise taxes in order to bring down the fiscal deficit. Inflation is expected to approach the target rate of 2% in the next few years, underpinned by an aggressive, expansionary monetary policy stance. But it remains to be seen whether the exit from deflation will be sustained over time.

The eurozone countries as a whole are slowly emerging from a recession that lasted six quarters between the end of 2011 and early 2013. But the eurozone has been on a virtually zero-growth path since 2011 (see figure I.2). The unemployment rate is still high and has not dropped significantly after peaking at 11.9% in 2013 (see table I.1). Nor do the persistently sluggish economic activity and fiscal austerity augur well for reducing unemployment. Young people are in an even more precarious position: the youth unemployment rate stands at 23% in the eurozone and as high as 53% in Spain.[3] Moreover, inflation is still slowing and could turn negative if economic stagnation persists.

[3] United Nations, "Global Economic Outlook", New York, October 2014.

Table I.1
Eurozone: inflation and unemployment rates, 2006-2014
(Percentage)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Inflation	1.9	3.1	1.6	0.9	2.2	2.8	2.2	0.8	0.5
Unemployment	8.4	7.5	7.6	9.6	10.1	10.1	11.3	11.9	11.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, October 2014.

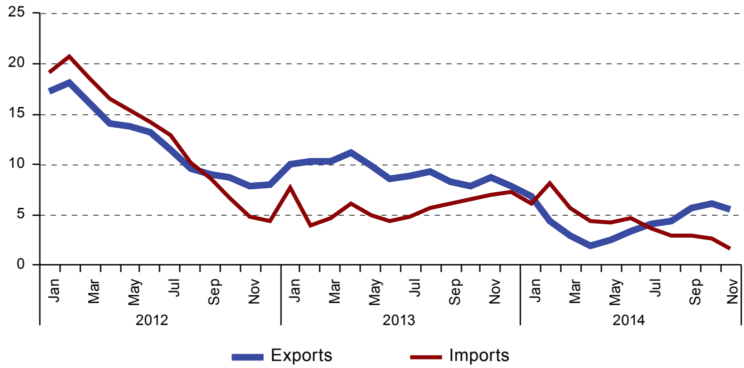
In this scenario, the focus of the European Union Stability and Growth Pact has not helped pull Europe out of stagnation. In any case, fiscal consolidation exacerbates recessionary pressures and unemployment, increasing the social cost and weakening aggregate demand. Against this backdrop, none of the measures to boost the supply of credit are having a major impact because weak demand and rapidly decelerating inflation do not encourage consumption or investment in a context of job instability.

B. Slowdown in China and the developing economies as a group

Among the developing countries, since 1980 China has posted one of the highest rates of annual growth in the world (about 10%), even during the global financial crisis. But since early 2012, the growth of the Chinese economy has gradually slowed to 7.3%. This cooldown stems from slower growth in gross fixed capital formation and exports (see figure I.3). Fearing an even sharper slowdown, the authorities rolled out a number of stimulus measures in 2014. Among them were an easing of bank lending restrictions, lower interest rates and increased public spending on infrastructure.

A central aim of the reforms under way in China is a rebalancing of the growth model followed for the last three decades, so that it is based more on consumption and less on fixed capital investment and exports. This rebalancing would take several forms: urban disposable income growth faster than GDP growth; a positive real deposit rate; growth in investment in residential real estate slower than GDP growth; growth of lending to small businesses faster than business lending overall; and service sector growth faster than manufacturing sector growth. A composite index of the economic rebalancing of the Chinese economy, calculated quarterly by the Peterson Institute of the United States taking these factors into account, shows mixed progress in 2014.[4] In fact, the government's emphasis on meeting the growth target for 2014 hampered the rebalancing of the drivers of the economy because a good part of the economic stimulus measures are aimed at construction and housing.

Figure I.3
China: annualized variation in the value of foreign trade, January 2012 to November 2014
(Cumulative 12-month flows, in percentages)



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

In the second half of 2014, Chinese exports and imports trended in opposite directions. After both flows slowed in the first half of the year, the pace of exports picked up over the remainder of the year. This is partly due to an upturn in a number of trading partners, especially the United States. By contrast, imports continued to sag as the real estate sector stagnated; above all, this affected purchases of products such as cement and steel. Slumping prices for commodities such as coal, copper, iron and oil have also driven import value down although import volume is holding steady.

China is facing two challenges that could adversely affect its growth potential in the coming years: the weak housing market and the economy's high indebtedness. The unsold housing stock was 30% larger in mid-2014 than in 2013. This affects construction of new housing and, therefore,

[4] See [online] http://blogs.piie.com/china/?p=1635.

demand for intermediate goods such as cement, iron and nonferrous metals. Another concern is the high and rapidly-growing indebtedness of the Chinese economy. Total national debt grew from 147% of GDP at year-end 2008 to 251% in June 2014. This is far higher than in other emerging markets and is comparable to levels in the United States (260%) and the United Kingdom (277%). The People's Bank of China expects credit growth of 16% and GDP growth of 7.5% for 2014 as a whole. Lending growing faster than GDP could be unsustainable in the medium term and lead to poor allocation of capital, as indicated by overcapacity in several industries (such as cement and solar panels) and the housing market.

The situation in other emerging economies varies widely. India's economy is gathering speed, with growth projected at 5.0% in 2014 and 5.5% in 2015. After this year's elections, it is likely that the government will succeed in its efforts to implement further reforms and jump-start investment and that exports will expand more quickly, fuelled by the recent depreciation of the rupee and strengthening international demand. In other emerging and developing economies of South-East Asia, growth is set to remain at 5.5% in 2014 and increase to 5.8% in 2015, thanks to burgeoning external demand and the weakening of national currencies. By contrast, the outlook for the Russian Federation has been revised downward. Its growth will likely be hindered by the impact of clashes between that country and Ukraine, including the economic sanctions imposed on the Russian Federation by the United States and the European Union, and, more recently, by the plummeting price of oil.

C. Sharp slowdown, on average, in Latin America and the Caribbean

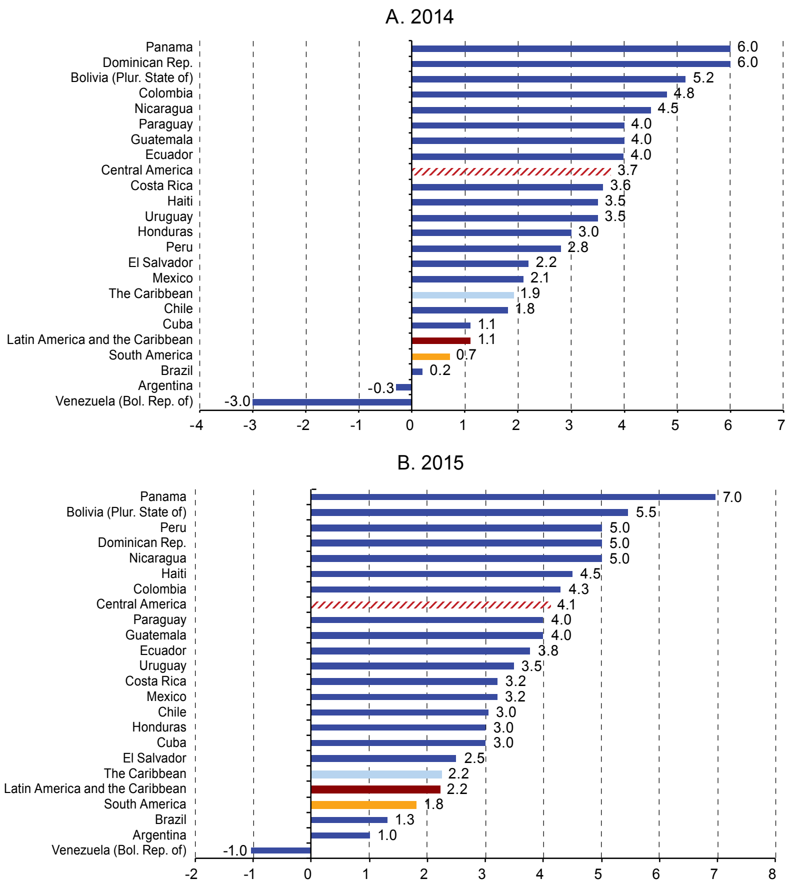
The region's growth performance over the past decade mirrors the ups and downs of the international economic context. Surging growth between 2003 and 2008 was driven by a favourable external environment, with an expanding world economy, high commodity prices and marked improvements in the terms of trade for net commodity exporting countries, especially in South America. After the region's output fell in 2009 amid the global economic crisis, activity rebounded in 2010 and 2011 on the strength of high growth in China and expansionary monetary policies in the United States and other industrialized countries. Starting in 2012, growth in the region saw a marked slowdown as the global economy faltered.

For 2014 ECLAC estimates that regional growth will come in at only 1.1%, the lowest rate since 2009. The slowdown is concentrated in the larger economies of South America (Argentina, Brazil and the Bolivarian Republic of Venezuela). Mexico and Central America (except Panama) are likely to grow at rates that are similar to or higher than the ones posted in 2013 (see figure I.4). A modest recovery of regional growth, to 2.2%, is forecast for 2014.

Figure I.4

Latin America and the Caribbean: GDP growth projections, 2014 and 2015

(Percentages)



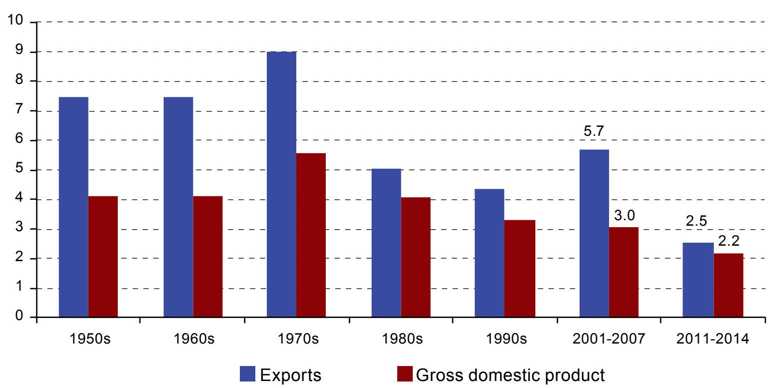
Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2014. Briefing paper, Santiago, Chile, 2014.*

The differences in GDP growth between South America and Central America and Mexico are due to external and internal factors. On the external side, the value of exports from South America is likely to shrink by about 5% in 2014, pushed by falling export volumes and, especially, declining prices for South America's main export commodities. This drop is, in turn, the outcome of weaker demand for imports in key markets such as China and the European Union. In Mexico, on the other hand, exports are set to expand by 5% in 2014, driven by recovering demand in the United States. The lacklustre performance of several large economies in South America has domestic causes as well. Investment is stagnating in these countries, and private consumption is losing steam.

D. World trade stumbles

In the wake of the 2008-2009 crisis, global output and trade are both growing more slowly than during the immediate pre-crisis period. But trade has fallen off more than output. Between 2001 and 2007 trade grew almost twice more than output, while in the most recent period (2011-2014) both variables are growing at a similar rate (see figure I.5). The surge in world trade in 2001-2007 coincides with the entry of China into the World Trade Organization (WTO) and the proliferation of industrial value chains.

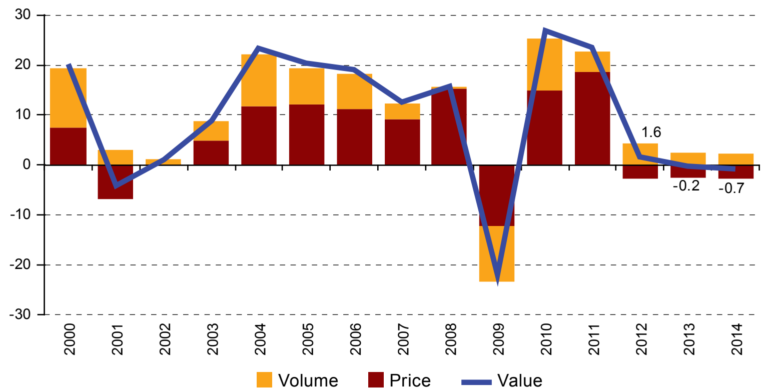
Figure I.5
World: average change in exports and gross domestic product, selected periods
(Percentages)



Source: World Trade Organization (WTO).

The less favourable international scenario has also set off a dramatic cooldown of the region's exports. Export value climbed at a yearly pace of 17% between 2004 and 2008 and above 20% a year in 2010 and 2011 after plunging in 2009. But 2014 will be the third straight year of flatlining exports in Latin America and the Caribbean (see figure I.6). Contributing factors include a sluggish economy and the resulting decline in demand for imports in a number of the region's major trading partners (particularly the European Union), as well as slower growth in China and lower prices for a number of commodities. Another key factor behind this poor performance is a 5% projected drop in intraregional trade.[5]

Figure I.6
Latin America and the Caribbean: yearly variation in goods exports, 2000-2014 [a]
(Percentages)



Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] The figures for 2014 are estimates.

The recent trade slowdown in the world and in Latin America and the Caribbean coincides with uncertainty about the future of the World Trade Organization (WTO) Doha Round negotiations, which started thirteen years ago. In this context, a number of initiatives aimed at deep integration could drastically change world trade governance in the coming years. They are referred to as "megaregional" negotiations.

[5] Economic Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy. Regional integration and value chains in a challenging external environment* (LC/G.2625-P), Santiago, Chile, 2014. United Nations publication, Sales No: E.14.II.G.5.

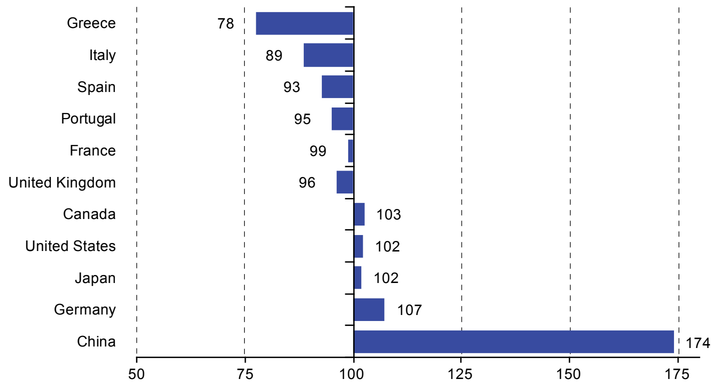
The three best-known ones are the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership between the United States and the European Union (TTIP) and a proposed Regional Comprehensive Economic Partnership with the participation of China and 15 other Asian countries. In addition to these three ongoing processes is the possible kick-off of negotiations to create a Free Trade Area of the Asia Pacific, with the participation of all of the members of the Asia-Pacific Economic Cooperation (APEC) forum. This project, which has been under study for nearly a decade, received fresh backing at the request of China during the APEC Economic Leaders' Meeting in November 2014 in Beijing.

If the megaregional negotiations are successful, they will have a dramatic impact on the geographical distribution and governance of global trade and investment flows in the coming years. The magnitude of these initiatives, both in terms of the economic power of the participants and in terms of their ambitious thematic agenda, could in practice mean that by 2020 the rules of international trade will have been renegotiated in order to adapt to the reality of value chains. However, unlike the most recent major negotiations of this kind worldwide (the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)) , this time the new rules would be defined outside the WTO by a limited number of countries —essentially, those that are more involved in value chain trade. This alone should be cause for concern for the countries of Latin America and the Caribbean, which (with a few exceptions) are not heavily involved in this kind of trade.

E. Medium-term outlook

The global economic slowdown is expected to continue for the medium term; the pace of growth is unlikely to return to pre-crisis or immediate post-crisis levels. According to International Monetary Fund projections, per capita output (measured in constant domestic currency) in a number of European economies in 2014 will still be lower than in 2007. Germany, Canada, the United States and Japan will barely top that figure. This trend stands in contrast to the nearly 75% expansion of this variable in China during the same period (see figure I.7). Prospects for recovery in the eurozone have dimmed, given the continued weakness of economies such as Germany and France. Although the United States economy should continue to recover as financial conditions become more favourable and the fiscal deficit narrows, growth will be lower than expected.

Figure I.7
Selected countries: variation in GDP per capita, 2007-2014 [a]
(Index: 2007=100)



Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, October 2014.
[a] The data for 2014 are projections.

This international context will continue to affect the performance of Latin America and the Caribbean, especially in the countries of South America. The reason is the expected decline in demand for the commodity exports on which the region is so heavily dependent. The region is likely to continue to grow at a slower pace than the developing countries as a group, as it has throughout the past decade (see table I.2).

Table I.2
World and selected regions and countries: annual average GDP growth rate at constant values, 2003-2007 to 2014-2019

	2003-2007	2008-2009	2010-2013	2014-2019 [a]
World	**5.1**	**1.5**	**4.1**	**3.9**
Developed countries	**2.8**	**-1.6**	**1.8**	**2.3**
United States	2.9	-1.5	2.2	2.8
Japan	1.8	-3.3	1.8	0.9
Eurozone	2.2	-2.0	0.6	1.5
Developing countries and emerging economies	**7.7**	**4.4**	**5.9**	**5.0**
Commonwealth of Independent States	8.1	-0.4	3.8	2.2
Developing and emerging Asia	9.5	7.3	7.6	6.5
Latin America and the Caribbean	4.9	1.3	4.0	2.7
Middle East and North Africa	6.8	3.8	4.3	4.0
Sub-Saharan Africa	7.1	5.2	5.4	5.7

Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, October 2014.
[a] Projections.

In short, the health of the world economy now depends largely on what happens in the eurozone, not only because of its share of global output but also because of its share of trade. The economy of the European Union is equivalent to 16.9% of global GDP measured in purchasing power parity —slightly higher than the shares of China and the United States (16.5% and 16.3%, respectively). But while China accounts for 10.9% of global imports and the United States 13%, the European Union accounts for almost one third (32%). Put another way, one point of the United States GDP increases world imports by 0.79 points, one point of China's GDP does so by 0.66 points and each one-point rise in Europe's GDP increases world imports by 1.89 points. Because Europe's growth pattern is much more import-intensive, a stagnant Europe is a heavy drag on world trade. This has a double negative impact on exports from Latin America and the Caribbean: when Europe grows less or falls into recession, exports from the region to Europe suffer. And because exports from China and the United States to Europe are affected as well, demand in these countries for raw materials and other products from the region declines.

F. Implications of the international context for Latin America

Over the medium term, prospects are dim for a significant improvement in the economic situation in the developed countries as a whole. Indeed, the threat of a recession with deflation in the eurozone has not eased. For example, while Greece is emerging from a prolonged recession it still faces challenges to achieve fiscal adjustment and preserve political governance. With monetary policy in the United States gradually returning to normal, the dollar is likely to strengthen against the currencies of the region and make external financing more expensive. In addition, economic growth in China is not expected to exceed the range of 6% to 7% over the next few years. Medium-term stagnation of prices for the main commodities in the region's export basket does not point to significant improvement in the terms of trade for net commodity exporting countries, either, especially those in South America. Plunging oil prices during the second half of 2014 are having mixed effects on the world economy and on the region's. Net oil importers will benefit, but net exporters will lose income and have to face declining net tax revenues and investment cuts in the sector.

These factors together, along with their impact on the economies of the region, make the following a priority: (i) maintain macroeconomic prudence, especially in the fiscal arena, monitoring levels of indebtedness and the widening current-account deficit; (ii) strengthen macroprudential regulation; (iii) enhance regional financing mechanisms for countries facing balance-of-payments crises; and (iv) establish lines of financing to support intraregional trade and enhance emerging subregional value chains. The region needs to build new engines of growth that make it less dependent on the vagaries of the international situation. This means forging ahead in competitiveness and innovation, and seeking for regional integration to contribute more to growth. A new type of cooperation with China could include several of these factors, to support the development and international competitiveness of the region.

II. Snapshot of trade and investment between Latin America and the Caribbean and China

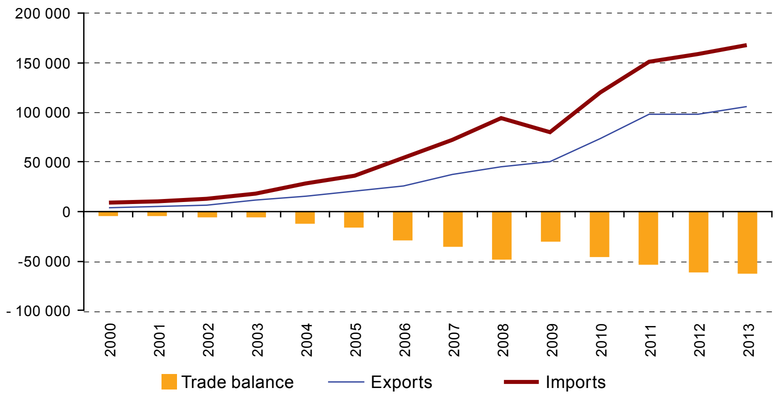
A. Trade

Between 2000 and 2013, trade in goods between Latin America and the Caribbean and China increased 22-fold, from just over US$ 12 billion to nearly US$ 275 billion. By way of comparison, the region's trade with the world grew just three-fold over the same period. The region's exports to China have been particularly robust, increasing 27-fold between 2000 and 2013 while imports rose 20-fold. However, Latin America and the Caribbean still runs a persistent and growing trade deficit with China (see figure II.1). The only exceptions to this trend are Brazil, Chile and the Bolivarian Republic of Venezuela.

If bilateral trade were to keep growing in the coming years at the same average 12% yearly as in 2010- 2013, it would break the US$ 500 billion barrier in 2019. China's President Xi Jinping proposed this as a 10-year goal in July 2014. On the other hand, if bilateral trade were to expand over the next few years at the same rate it did in 2013 (6%), it would reach the US$ 500 billion mark in 2023 or 2024. That is within the timeframe put forth by President Xi Jinping.

Between 2000 and 2013, China's share of the region's exports climbed from 1% to 10%; its share of imports rose from just over 2% to 16%. China is thus on the way to replacing the European Union as the second largest market for Latin American and Caribbean exports in 2014. By 2010 it had already taken the European Union's place as the second largest source of imports to the region (see figure II.2).

Figure II.1
Latin America and the Caribbean: goods trade with China, 2000-2013
(Millions of dollars)



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

Figure II.2
Latin America and the Caribbean: selected partners' share of trade in goods, 2000-2013
(Percentages)

A. Exports

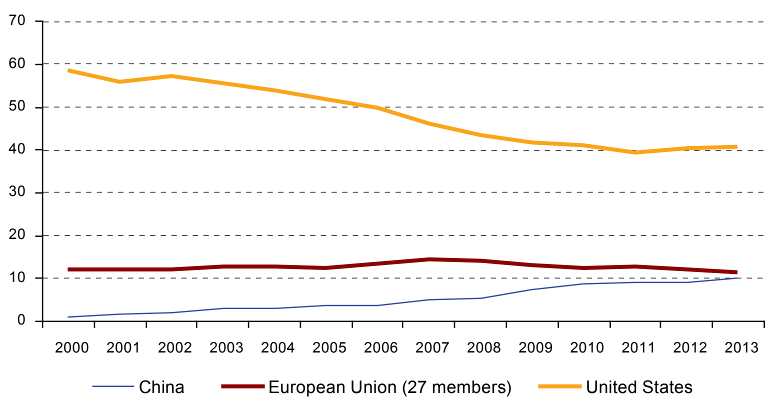
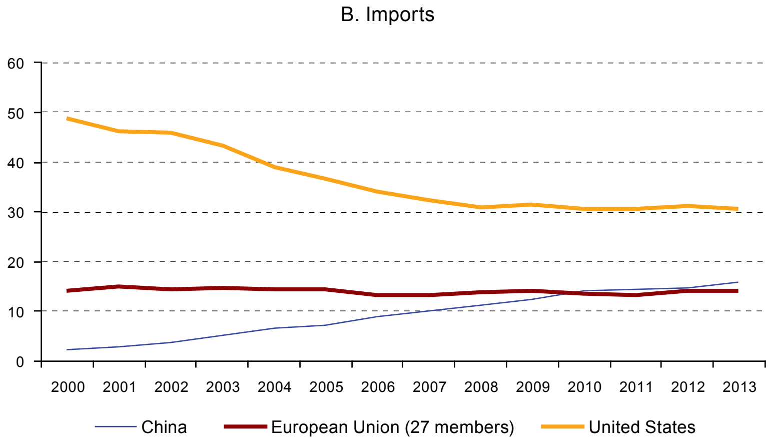


Figure II.2 (concluded)



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

The region's trade deficit with China is mainly due to Mexico and Central America's widening deficit with that country. The Caribbean also has a persistent deficit with China; South America has a fairly balanced trade balance. Thanks to South America, Latin America and the Caribbean as a group has a growing trade surplus with China in commodities and natural resource-based manufactures. But the region as a whole and all its subregions are running a growing deficit with China in trade in other manufactures (see figure II.3).

Most of the countries of Latin America and the Caribbean have trade deficits with China. As figure II.4 shows, in 2013 just three countries of the region (all of them in South America) ran trade surpluses with China. They were Brazil, the Bolivarian Republic of Venezuela and Chile. In all three, the surplus was due to exports of a small number of commodities. At the other extreme is Mexico's trade deficit with China, which accounts for approximately 85% of Latin America and the Caribbean's entire deficit with that country. The reason is that while less than 2% of Mexico's exports in 2013 went to China, 16% of its imports that year came from China.

Figure II.3

Latin America and the Caribbean and subregions: trade balance with China, 2000-2013

(Millions of dollars)

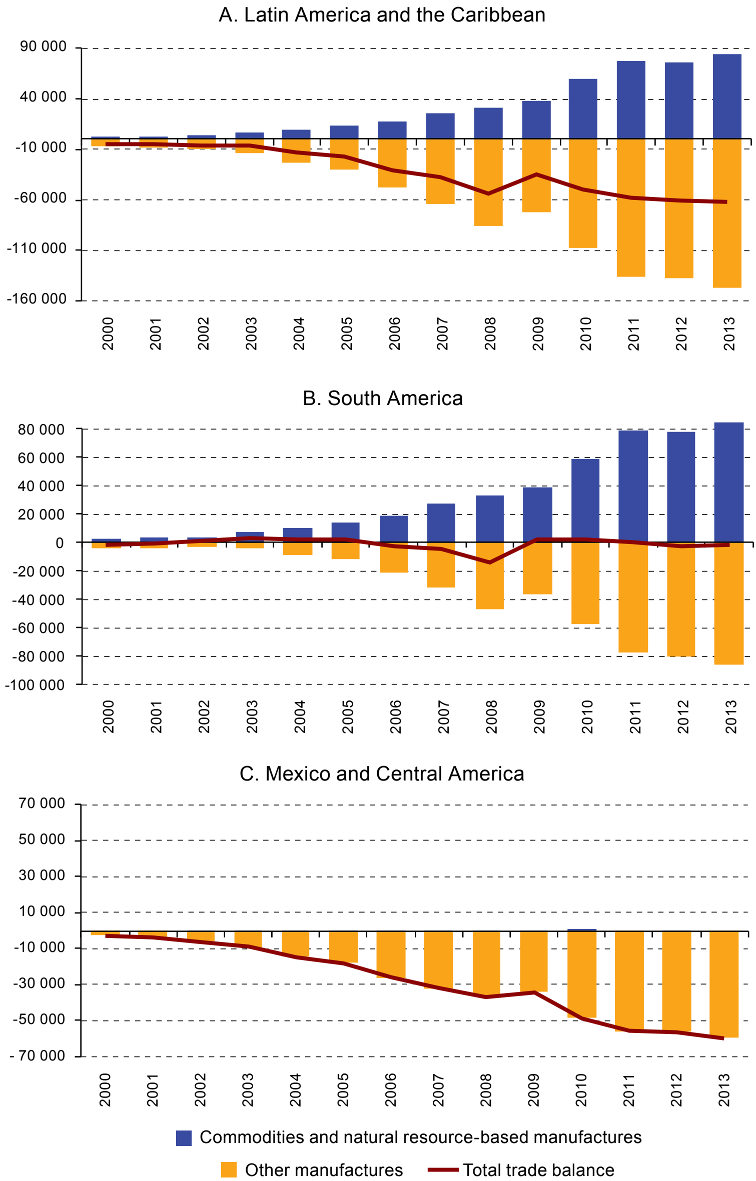
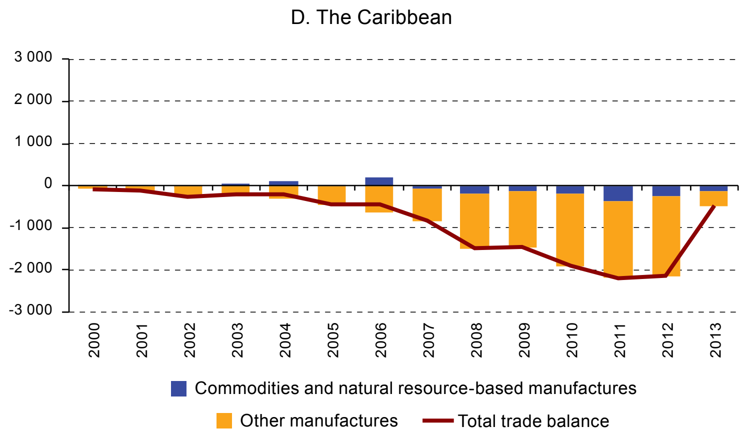
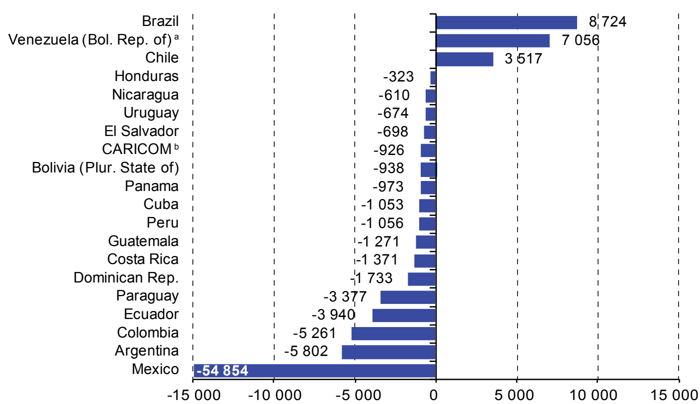


Figure II.3 (concluded)



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

Figure II.4
Latin America and the Caribbean (selected countries): trade balance with China, 2013
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE). The data for Cuba, Honduras and the Dominican Republic come from the International Monetary Fund, Direction of Trade Statistics (DOTS) database.

[a] The data for the Bolivarian Republic of Venezuela are mirror statistics.

[b] CARICOM includes information for Antigua and Barbuda, Bahamas, Barbados, Belize, Guyana, Jamaica and Trinidad and Tobago.

In little more than a decade, China has bounded up the ranks as a trading partner of Latin America and the Caribbean. In 2013 it was the single largest destination of exports from Brazil, Chile and Cuba, the second largest for Argentina, Colombia, Peru and the Bolivarian Republic of Venezuela, the third largest for Panama and Uruguay and the fourth largest for Mexico and the Dominican Republic. As a source of imports China's rise is even more marked; in 2013 it ranked as one of the four main suppliers for virtually every country of the region (see table II.1).

Table II.1

Latin America and the Caribbean: China's rank as a trading partner, 2000 and 2013 [a]

	Exports		Imports	
	2000	2013	2000	2013
Latin America				
Argentina	6	2	4	2
Bolivia (Plurinational State of)	18	8	7	3
Brazil	5	1	4	1
Chile	12	1	11	2
Colombia	36	2	9	2
Costa Rica	30	7	15	2
Ecuador	18	9	10	2
El Salvador	49	34	23	4
Guatemala	43	10	19	3
Honduras	54	8	21	2
Mexico	19	4	7	2
Nicaragua	35	19	20	3
Panama	31	3	25	4
Paraguay	15	29	3	1
Peru	4	2	9	2
Uruguay	4	3	7	1
Venezuela (Bolivarian Republic of)	35	2	18	2
The Caribbean				
Antigua and Barbuda	na	26	26	3
Bahamas	29	13	28	6
Barbados	42	11	9	4
Belize	23	7	17	4
Cuba	6	1	3	1
Dominica	na	30	25	5
Dominican Republic	12	4	2	2
Guyana	27	19	6	3
Jamaica	16	11	10	4

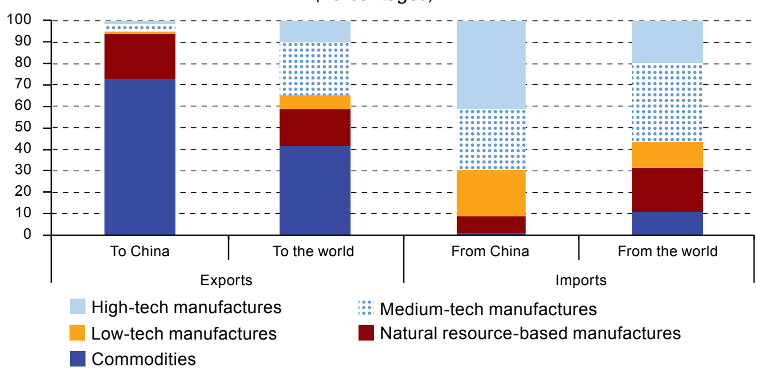
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE).
Note: na: Not available.
[a] The countries of the European Union were considered individually.

Latin America and the Caribbean's export basket to China is much less sophisticated than its export basket to the world. In 2013, commodities made up 73% of the region's exports to China, versus 41% of its exports to the world. By contrast, low-, medium- and high-tech manufactures combined accounted for only 6% of exports to China, compared with 42% of exports to the world. The opposite is true for imports: in 2013 low-, medium- and high-tech manufactures accounted for 91% of the region's imports from China and only 69% of its imports from the world (see figure II.5). In other words, trade between Latin America and the Caribbean and China is clearly inter-industry: raw materials for manufactures.

Figure II.5

Latin America and the Caribbean: structure of trade with the world and China by technology intensity, 2013

(Percentages)



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

Two direct correlates of this are the comparatively small number of products that Latin America and the Caribbean exports to China and the high concentration of exports to that country. As shown in Table II.2, in almost all of the countries of the region (except Mexico) the largest number of products is exported to the regional market itself. The United States and the European Union are in an intermediate position; the smallest number of products (among the major export markets) goes to China and Japan. The difference between the number of products exported to Latin America and the Caribbean and to China in 2013 is greater than 10 times for most countries in the region. Even Brazil and Mexico (the two largest economies in Latin America and the ones with the highest degree of productive sophistication) export three times more products to the region than to China.

Table II.2
Latin America and the Caribbean (selected countries): number of products exported to selected destinations, 2013
(Six-digit Harmonized Commodity Description and Coding Systems)

Country	Latin America and the Caribbean	United States	European Union	China	Japan
Antigua and Barbuda	465	486	392	4	3
Argentina	3 557	1 402	1 700	437	359
Bahamas	226	1156	148	12	11
Belize	308	342	49	29	36
Bolivia (Plurinational State of)	634	292	259	51	59
Brazil	3 934	2 794	3 038	1 370	1 214
Chile	2 985	1 296	1 381	388	264
Colombia	3 219	1 806	1 370	232	201
Costa Rica	2 878	1 746	1 057	278	173
Ecuador	1 997	1 067	843	94	95
El Salvador	2 557	1 094	401	74	50
Guatemala	3 313	1 451	740	194	101
Guyana	764	691	247	46	11
Honduras [a]	1 528	1 456	542	590	151
Jamaica	858	850	374	48	54
Mexico	3910	4218	2 899	1 444	1 296
Nicaragua	375	284	167	36	30
Panama	301	163	79	32	10
Paraguay	945	349	321	43	27
Peru	3142	1862	1585	282	498
Dominican Republic[a]	2 048	1933	909	127	58
Uruguay	1 387	434	732	106	54
Venezuela (Bolivarian Republic of) [b]	1 689	373	1 024	110	37

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The data are for 2012.
[b] Data obtained using mirror statistics.

Consistent with the foregoing observation, for all of the countries of the region (except Mexico) the five main exports accounted for 80% or more of the total value of exports to China in 2013. Commodity exports make up the largest share by far. Among them are oil, iron ore, copper in different forms, soybeans, scrap metals, fishmeal, wood and sugar. Except for products in the soybean chain, agricultural and agro-industrial products still make up a very small share of the region's basket of exports to China. The same applies to manufactures, except for Costa Rica and Mexico (see table II.3).

Table II.3

Latin American and Caribbean countries (selected countries): five main exports to China, 2013

(Percentages of total exports)

Country	Sum of the 5 main commodities	First	Second	Third	Fourth	Fifth
Argentina		Soya beans, whether or not broken	Crude petroleum oils and oils obtained from bituminous minerals	Soya-bean oil and its fractions, including refined	Tobacco unmanufactured; tobacco refuse	Bovine or equine hides and leather, no hair
	85%	58%	13%	10%	2%	2%
Bolivia (Plurinational State of)		Precious metal ores and concentrates	Unwrought tin	Zinc ores and concentrates	Lead ores and concentrates	Tin ores and concentrates
	85%	32%	24%	17%	7%	5%
Brazil		Soya beans, whether or not broken	Iron ores and concentrates; including iron pyrites	Crude petroleum oils and oils obtained from bituminous minerals	Cane or beet sugar and chemically pure sucrose	Chemical wood pulp, soda or sulphate
	87%	37%	35%	9%	3%	3%
Chile		Refined copper and copper alloys, unwrought	Copper ores and concentrates	Unrefined copper; copper anodes for electrolytic refining	Chemical wood pulp, soda or sulphate	Iron ores and concentrates; including iron pyrites
	88%	38%	30%	9%	6%	5%
Colombia		Crude petroleum oils and oils obtained from bituminous minerals	Ferro-alloys	Copper waste and scrap	Coal; briquettes, ovoids and similar solid fuels	Aluminum waste and scrap
	97%	84%	6%	5%	1%	1%
Costa Rica		Electronic integrated circuits and microassemblies	Electrical apparatus for switching, protecting, or making connections to or in electrical circuits	Raw hides and skins of bovine/equine animals (fresh or salted)	Copper waste and scrap	Cane or beet sugar and chemically pure sucrose
	90%	80%	4%	3%	2%	2%

Table II.3 (continued)

Country	Sum of the 5 main commodities	First	Second	Third	Fourth	Fifth
Cuba		Cane or beet sugar and chemically pure sucrose	Nickel mattes, nickel oxide sinters, other intermediate products	Crude petroleum oils and oils obtained from bituminous minerals	Cobalt ores and concentrates	Copper waste and scrap
	98%	45%	36%	15%	3%	1%
Ecuador		Crude petroleum oils and oils obtained from bituminous minerals	Crustaceans, peeled, live, fresh, refrigerated, frozen	Flours, meals and pellets, of meat, offal, fish or crustaceans	Copper waste and scrap	Precious metal ores and concentrates
	87%	54%	13%	11%	7%	3%
El Salvador		Recovered (waste and scrap) paper or paperboard	Aluminum waste and scrap	Waste, parings and scrap, of plastics	Polymers of ethylene, in primary forms	Ferrous waste and scrap, remelt scrap iron/steel ingot
	80%	39%	14%	12%	8%	7%
Guatemala		Cane or beet sugar and chemically pure sucrose	Waste, parings and scrap, of plastics	Recovered (waste and scrap) paper or paperboard	Coffee, roasted, decaffeinated, husks and skins	Aluminum waste and scrap
	98%	92%	2%	2%	1%	1%
Honduras		Iron oxides and hydroxides; colouring earths	Precious metal ores and concentrates	Mineral substances, not otherwise specified	Zinc ores and concentrates	Cane or beet sugar and chemically pure sucrose
	89%	68%	7%	5%	5%	4%
Mexico		Motor cars and other motor vehicles	Copper ores and concentrates	Crude petroleum oils and oils obtained from bituminous minerals	Electric apparatus for line telephony or line telegraphy	Copper waste and scrap
	64%	21%	18%	10%	8%	6%
Nicaragua		Bovine or equine hides and leather, no hair	Wood sawn/ chipped lengthwise, sliced/peeled	Wood continuously shaped along any edges	Copper waste and scrap	Waste, parings and scrap, of plastics
	82%	35%	18%	17%	6%	5%
Panama		Copper waste and scrap	Flours, meals and pellets, of meat, offal, fish or crustaceans	Aluminum waste and scrap	Wood sawn/ chipped lengthwise, sliced/peeled	Bovine or equine hides and leather, no hair
	90%	42%	24%	14%	5%	4%

Table II.3 (concluded)

Country	Sum of the 5 main commodities	First	Second	Third	Fourth	Fifth
Paraguay		Copper waste and scrap	Bovine or equine hides and leather, no hair	Aluminum waste and scrap	Wood sawn/ chipped lengthwise, sliced/peeled	Ferrous waste and scrap, remelt scrap iron/steel ingot
	92%	35%	33%	9%	8%	8%
Peru		Copper ores and concentrates	Refined copper and copper alloys, unwrought	Flours, meals and pellets, of meat, offal, fish or crustaceans	Iron ores and concentrates; including iron pyrites	Zinc ores and concentrates
	86%	46%	14%	12%	12%	3%
Dominican Republic		Copper ores and concentrates	Ferro-alloys	Copper waste and scrap	Medical, surgical, dental or veterinary instruments and appliances	Ferrous waste and scrap, remelt scrap iron/steel ingot
	86%	32%	25%	17%	7%	4%
Uruguay		Soya beans, whether or not broken	Meat of bovine animals, frozen	Wool, not carded or combed	Milk and cream, concentrated or sweetened	Wool and fine or coarse animal hair, carded or combed
	84%	50%	20%	6%	5%	3%
Venezuela (Bolivarian Republic of)		Crude petroleum oils and oils obtained from bituminous minerals	Petroleum oils and oils obtained from bituminous minerals, except for crude oils	Iron ores and concentrates, including iron pyrites	Ferrous products obtained by direct reduction of iron ore	Bovine or equine hides and leather, no hair
	100%	77%	18%	4%	0%	0%
Caribbean Community (CARICOM)		Petroleum gases and other gaseous hydrocarbons	Wood in the rough, stripped or not of sapwood	Copper waste and scrap	Commodities not elsewhere specified	Orthopaedic appliances, including crutches, surgical belts and trusses
	76%	47%	10%	8%	6%	5%

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

B. Investment

Until 2010, very little foreign direct investment (FDI) flowed from China to Latin America and the Caribbean. It has increased significantly since then. ECLAC estimates that in the two decades prior to 2010, the region's inward FDI from China totalled some US$ 7 billion. A turning point was reached in 2010, when the inflow of FDI from China approached an estimated US$ 14 billion —equivalent to 11% of the region's total inward FDI. Three fourths of total Chinese FDI to the region in 2010 was for two major acquisitions in the oil industry: Sinopec in Brazil and CNOOC in Argentina. But the increase was not limited to these two acquisitions. Many Chinese companies from different sectors arrived in the region or substantially increased their presence in it in 2010. Subsequently, Chinese FDI has continued to flow into the region, at an estimated US$ 9 billion to US$ 10 billion annually (see table II.4). These figures make up 5% to 6% of the region's total inward FDI flows.

Table II.4
Latin America and the Caribbean (10 countries): estimated FDI flows from China, 1990-2013
(Millions of dollars)

Country	1990-2009	2010	2011	2012	2013
Argentina	143	3 100	2 450	600	120
Brazil	255	9 563	5 676	6 067	2 580
Chile	na	5	0	76	19
Colombia	1 677	6	293	996	776
Ecuador	1 619	45	59	86	88
Guyana	1 000	na	15	na	na
Mexico	146	9	2	74	15
Peru	2 262	84	829	1 307	4 626
Trinidad and Tobago	na	na	850	na	na
Venezuela (Bolivarian Republic of)	240	900	na	na	1 400
Total Latin America and the Caribbean	**7 342**	**13 712**	**10 175**	**9 206**	**9 624**

Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information, Thomson Reuters, FDI Markets, Heritage Foundation and information from the companies.
Note: na: Not available.

Official data on Chinese FDI in Latin America and the Caribbean do not reflect the real scope of these investments because Chinese companies usually channel most of their investments through third countries. This makes it particularly difficult to identify bilateral investment flows. For example, China's largest acquisition in the region so far (the purchase of 40% of Repsol's operations in Brazil for US$ 7 billion) was recorded as an investment from Luxembourg because the transaction was channeled through the Luxembourg subsidiary of a Chinese company. This is standard practice among companies around the world, but is particularly prevalent in China. As a result, in this report ECLAC examines Chinese FDI using its own estimates based on data from the companies themselves and other supplementary sources.

For China, Latin America is primarily a producer of raw materials; this shows in the makeup of Chinese FDI in the region. Almost 90% of estimated Chinese investments between 2010 and 2013 went to natural resources; only 25% of the region's total inward FDI during the same period went to that sector.

China is one of the major foreign investors in oil and gas extraction in Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Ecuador and Peru. China's investments in mining have focused on Peru and, to a lesser extent, Brazil. Other than natural resources, China's largest footprint is in Brazil, with a number of manufacturing companies and at least one major power company. There still are a number of countries that have not yet attracted significant FDI from China, such as Chile and Mexico.

There are four major oil companies in China (CNPC, Sinopec, CNOOC and Sinochem). All of them are State-owned, and all have significant investments in Latin America. CNPC has operated in the region the longest; its traditional mode of entry has been through State concessions and joint ventures with State-owned oil companies. Today it has operations in the Bolivarian Republic of Venezuela, Ecuador and Peru. Chinese oil companies began to broaden their strategy in 2010, when they started investing by purchasing assets belonging to private companies and, in many cases, forming joint ventures with them.

Chinese oil companies have a presence in all of the Latin American countries that export oil and gas, except for Mexico (where the sector is still closed to foreigners) and the Plurinational State of Bolivia. Chinese mining investments are much more concentrated. Although there have been many small-scale investments in exploration projects throughout Latin America, all of the major investments are in Peru and Brazil. In Peru all of the companies have arrived since 2007; the one exception is the steelmaker Shoughan, which purchased an iron mine in 1992. At present there are at least four major investment projects owned by Chinese companies in Peru; only one (owned by Chinalco) is in production. In 2014 Chinese mining company operations in Peru expanded significantly when Minmetals purchased the Las Bambas mine for US$ 5.850 billion. In Peru Chinese companies operate mines for their own account (or in partnership with other Chinese companies); in Brazil they have taken minority stakes in existing operations owned by domestic companies.

In infrastructure, the biggest investor so far is the power transmission company State Grid, which entered Brazil in 2010 by acquiring assets from Spanish companies. State Grid now has more than 6,000 kilometres of lines in operation and plans to invest a total of 10,000 million reais in Brazil by 2015. Among these investments is the Belo Monte transmission line for which State Grid was awarded the concession in early 2014 at the head of a consortium with other companies. Many other Chinese companies are working under construction contracts in the region (these are not officially counted as FDI). They are usually linked to financing agreements with State-owned Chinese banks. But there are still only a few Chinese construction companies that have been awarded large public works tenders in the region.

As in other sectors, for the most part Chinese manufacturing companies did not start investing in the region until 2010. Most of them have announced investments that have yet to be made. Most Chinese investment in the manufacturing sector seeks to serve local markets and has focused on Brazil. Chinese companies tend open a production plant after years of importing products from China; they do so either to gain proximity to and knowledge of the local market or to circumvent import restrictions. There are many large-scale projects in the automotive sector, but to date very few have entered production. Some Chinese companies are starting to venture into Mexico in order to export their products to other markets, especially the United States. Larger ones such as Lenovo in electronics and Nexteer in auto parts have gained a foothold in Mexico by purchasing United States companies that had plants there.

Two major challenges thus emerge in relation to Chinese FDI in Latin America and the Caribbean. One concerns the still-limited amounts involved. China has become a significant direct investor in the region but is far from being one of the largest. Only in Ecuador and (possibly) the Bolivarian Republic of Venezuela could it be considered a major source of FDI. **The other major challenge is to diversify towards non-extractive industries such as manufacturing, services and infrastructure.**

Outward FDI from Latin America to China is still in its infancy. One of the reasons is that the sectors that are the focus of many of the largest trans-Latins (mining and natural resource-based manufactures) are virtually closed to FDI in China. In addition, the foreign investment strategy followed by most of the trans-Latins has been to replicate their business models in their country of origin, so they have preferred to channel their investments to neighbouring countries. The largest investments that the region has made in China to date have been by Brazilian manufacturing firms Marco Polo and Embraer, and Chile's Molymet (molybdenum processing).

C. Probable impacts of China's economic reforms on trade and investment relations with Latin America and the Caribbean

The Chinese economy's headlong growth (averaging around 10% a year for more than 36 years) is of historic proportions because it is taking place in the world's most populous nation. Steady growth of this magnitude inescapably comes with significant imbalances. The Chinese authorities have seen this, and at the time described the growth pattern as "unbalanced, uncoordinated and unsustainable".

Among the major imbalances were neglecting consumption while overemphasizing investment, focusing too much on manufacturing at the expense of services and, most important, high energy inefficiency, severe environmental deterioration and a sudden concentration of income. Hence the realization that moving towards a more sustainable pattern of growth over time called for focusing more on domestic consumption, reducing reliance on State-financed fixed investment and gradually becoming less export-oriented. The results of overinvestment can be seen in, for example, overproduction in key sectors such as steel, cement, glass and aluminum, which reduces the marginal efficiency of investment.[6]

[6] Chi Fulin (Chief Editor), *Bonus from Reforms: Five Trends of Transformation and Reforms after the CPC's 18th National Congress*, China Institute for Reform and Development, China Intercontinental Press, 2013.

Moving towards growth that relies more on domestic consumption requires raising the minimum wage, encouraging development in rural areas and the interior provinces by investing in infrastructure and services, facilitating access to urban housing and improving access to the banking system and credit for the underprivileged. Building a social safety net to ensure health services and pensions is crucial for enabling families to allocate a greater percentage of their disposable income for consumption.

On the macroeconomic level, this process should be accompanied by tax and capital market reforms and the gradual opening of the capital account, including internationalization and convertibility of the renminbi. On the production level, the challenge is to move from low-cost and highly energy-inefficient assembly operations towards intelligent manufacturing that emphasizes productivity, innovation, design, quality, branding and associated modern services, as well as energy efficiency and efficient use of water and materials.

There is no question that this is a colossal challenge, especially since it involves what is now the world's largest economy. It is therefore not surprising that the world is watching the progress of these reforms with interest and concern. The results so far are mixed, although the legal changes and policy initiatives set in motion by the authorities leave no room for doubt as to their substantive commitment to these reforms.

For Latin America and the Caribbean, given its growing economic and trade ties with China, the best scenario is one where China makes headway with its reforms and consolidates high and stable growth rates. Double-digit growth is a thing of the past; those who miss it do not understand that heading down that path again would just rekindle and deepen the imbalances that should be avoided. By contrast, growth of 5%-7% for the remainder of the decade would do more than allow progress in reforms: it would provide an anchor of stability for the global economy and an attractive scenario for the region, which, with the right policies for this new era, stands to benefit from the ongoing economic reforms.

For starters, rapid urbanization in China is helping to lay the material groundwork for taking advantage of economies of scale and agglomeration that can drive advances in productivity and innovation and help diversify production and consumption. At the same time it gives added impetus to the shift in the pattern of consumption and hence to imports. Rising urban income levels come with a gradual change in diet, with a greater emphasis on meat, fish, fruit, vegetables and dairy products, as well as wines and spirits. And it fuels the growing demand for quality public services in transport, health, education, housing, child care, and care for the elderly, among others. The complex environmental legacy of nearly four decades of rapid growth also means a pressing demand for environmental services and engineering in areas such as water use, treatment of solid and other waste, and energy efficiency.

In all these fields there is ample room for the region to diversify its exports to China, ranging from quality food to goods and services for young children and the elderly, from seismic engineering to environmental services, and from financial services to business services specialized in branding, management and negotiation with retail chains. In a number of these areas the trans-Latins could play a decisive role in building Sino-Latin American business.

De-emphasizing domestic investment will boost Chinese investment abroad. In 2014 Chinese investment abroad already outstripped inward FDI to China. This trend will sharpen, and the composition of that investment will shift towards private and smaller-scale investment. Therefore, if governments and business organizations in the region coordinate with each other and do a good job in promoting and attracting investment, Chinese investment in manufacturing, services and infrastructure can be expected to increase.

Here the challenge for Chinese investors is to better understand the business climate in the region, as well as its public policies, legal framework, institutional practices and interaction between the State and civil society. The best way to gain that knowledge is probably through encouraging joint ventures between Chinese and Latin American and Caribbean companies, facilitating knowledge and mutual learning by means of Chinese investments in the region and regional investments in China and Asia and the Pacific.

In short, the economic reforms under way in China are opening an attractive opportunity for diversifying the region's exports to China and increasing and diversifying Chinese investment flows to the region. This is a two-way street, so the governments and business organizations of the region can facilitate this process by joining efforts to agree on a medium-term strategic agenda for these issues. This would facilitate dialogue and negotiation with China.

III. Conclusions and recommendations

China is and will continue to be a central player in today's fast-changing global economic geography. According to some estimates, its gross domestic product measured in purchasing power parity overtook that of the United States in 2014, making it the largest economy on the planet. This historical development is enhanced by China's position at the hub of the complex network of productive links known as "Factory Asia" and its increasingly close trade ties with developing regions worldwide.

Global economic growth over the coming decades will be shaped by what happens with China and the Asian economies in general. This poses a significant challenge: how to keep the South-South trade and investment dynamic from feeding the traditional pattern of insertion of Latin American economies in the international division of labour. One of the main development tasks for Latin America is to define the policies, institutions and areas of cooperation that will make it possible to change that pattern, diversifying exports aimed at the Chinese market (and Asian markets in general).

One of the key challenges for the region in the coming decades will be to move towards closer ties with China, in particular, and Asia and the Pacific in general. In all of the economies of the region (especially South America), trade ties with China have become relevant to their potential for growth, employment and macroeconomic stability. With the economic reforms under way in China, Chinese investment in Latin America and the Caribbean could take on an increasingly important role. The region has the opportunity to participate in designing this new link, provided it has a vision and the right policies and faces this challenge in a coordinated manner. National initiatives, while necessary, are clearly insufficient.

If the required response is regional in scope, the Community of Latin American and Caribbean States (CELAC) is the most appropriate body to address it. The first CELAC-China Forum, scheduled for January 2015, is a milestone in this regard. The meeting provides the region with an opportunity to engage in dialogue with the Chinese authorities on the agenda for future cooperation with an agreed position and specific proposals. China has recently proposed an ambitious cooperation framework for the region for 2015-2019, known as "1+3+6".[7] It is now up to the region to a respond. Set out below are some thoughts on specific aspects of economic relations between China and the region where it would be useful for Latin America and the Caribbean to focus its efforts.

A. Diversifying exports and greater trade balance equilibrium

Trade between Latin America and the Caribbean and China has skyrocketed over the past decade and a half, expanding by an average of nearly 30% per year between 2000 and 2013. It is unlikely that this pace will continue into the coming years because growth in the region and in China began to moderate in 2012. Even so, the expected cooling in the region's other traditional markets, especially the European Union, means that for the rest of the decade China should continue to grow in importance as a destination for the region's exports.

The countries of Latin America and the Caribbean have benefited in various ways from growing trade with China. Robust Chinese demand for raw materials has helped boost their prices, improving the terms of trade for net exporters of commodities. Surging exports to China have cushioned the impact that falling demand in the region's traditional markets like the United States and the European Union has had on the region's exports, especially after the global financial crisis of 2008.

[7] The "1" means one plan for the entire region, with a single goal: inclusive and sustainable development. The "3" refers to the three engines of regional cooperation: trade, investment and financial cooperation. In these areas, China is proposing to scale up trade with the region to US$ 500 billion in 10 years, with the stock of Chinese FDI in the region climbing to US$ 250 billion, and to promote local-currency settlement arrangements for trade. The "6" refers to the six specific fields that China sees as priorities. These are energy and natural resources, infrastructure construction, agriculture, industry, scientific and technological innovation and information technologies.

Growing imports of manufactured goods from China have helped to contain inflationary pressures and broaden access to consumer goods for the most disadvantaged segments of the population. And imports of intermediate and capital goods from China have expanded the range of suppliers available to companies in the region, thus making them more competitive.

That said, the wide gaps that remain in bilateral trade cannot be ignored. They have consistently meant deficits for most of the countries of Latin America and the Caribbean. This trade is almost exclusively inter-industry, involving the exchange of manufactured goods for raw materials. This asymmetry is reflected in the extreme concentration of the region's export basket to China. For example, the region's agribusiness exports to China are negligible despite the fact that many Latin American countries are competitive in third markets in this area. The region's export basket to China is also highly concentrated in terms of the companies that export to the Chinese market; they are mostly large and associated with raw materials. This pattern undermines the potential for Sino-Latin American business partnerships and hinders a more effective integration of the countries of the region in the productive chains of Asia and the Pacific, which are increasingly intra-industry.

The Chinese authorities have indicated they are available for a dialogue on the considerable challenge of diversifying the region's exports to the Chinese market, seeking mutually beneficial agreements. But work on these agreements has gone slowly, largely because the region has yet to respond, through its public- and private-sector representatives, with a concrete agenda for that dialogue. Moreover, the growing deficit that Latin America and the Caribbean has with China in trade in manufactured goods is a source of concern in the region and should also be discussed between the two parties.

In the coming years, economic relations between Latin America and the Caribbean and China will be shaped by the reform process that Chinese authorities have begun as they address the limits of the development model that China has followed over the past few decades. The reforms seek to rebalance that model by focusing somewhat less on investment and exports and somewhat more on domestic demand, particularly household consumption. Another goal is to assign a larger role to knowledge and innovation as engines of growth, especially in view of rising labour costs over the past few years. Lastly, while this is not an exhaustive list, the reform process does seek to ensure environmentally sustainable economic growth in the decades to come.

The guidance provided by the Chinese authorities for rebalancing the development model gives rise to a number of opportunities for diversifying exports from Latin America and the Caribbean to China. The same applies to the rapid changes taking place in Chinese society, such as urbanization, expansion of the middle class and population aging. In this context, the business sectors in Latin America and the Caribbean have already identified attractive niche markets in areas such as agribusiness and a wide range of services that include tourism, entertainment, architecture, urban planning, environmental management and, in general, services for older adults.

B. Increasing and diversifying Chinese investment in Latin America and the Caribbean

In the coming years, ongoing reforms in China can well boost inward foreign direct investment in Latin America and the Caribbean. The expected slower expansion of investment, excess capacity in a number of industries, rising labour costs and the search for safe and profitable opportunities to place surplus savings should encourage more Chinese capital to flow abroad in keeping with the guidance provided by the Chinese authorities. Latin America and the Caribbean holds attractive opportunities for that capital. They include the region's growing consumer market (as the middle class expands), proximity and preferential access to the United States market for some of the region's economies, and its abundant natural resources. Chinese FDI in the region has so far focused on hydrocarbons and mining, but the next few years augur substantial opportunities in the agriculture and agrifood sectors. The region can play a strategic role in food security in China, which has to feed 22% of the world population with 7% of the world's arable land and 6% of its water resources.

China's vast excess savings could also help finance infrastructure, energy, transport and logistics initiatives in Latin America and the Caribbean. The challenge for the region is to define an agreed portfolio of projects where Chinese investment would be most useful in speeding up the work. Infrastructure projects identified as priorities under the South

American Infrastructure and Planning Council of the Union of South American Nations (COSIPLAN/UNASUR) and the Mesoamerica Project would be natural candidates.

Carrying out these initiatives will require a more active stance on the part of agencies tasked with attracting investment and promoting exports. The economic reforms under way mean that Chinese private enterprises will increasingly participate in trade and investment in Latin America. This will require a substantial effort to provide these companies with information on regulatory frameworks and potential investment projects.

The increasing and more diversified flow of Chinese investment in Latin America and the Caribbean in the coming years could do more than dramatically redefine the economic and trade relationship between them: it could even promote productive integration within the region itself. For example, an increased presence of Chinese manufacturing enterprises in industries such as the automotive and electronics sectors, in cooperation with local suppliers, could strengthen regional value chains. This would make for denser productive linkages among the region's economies and help raise Latin America and the Caribbean's low levels of intraregional trade. Such an outcome would be enhanced if the countries of the region equip themselves with active policies that allow them to make progress in overcoming known lags in innovation, competitiveness, science and technology, infrastructure, trade facilitation and business internationalization. In this regard, efforts made during 2014 to define a convergence agenda between the Pacific Alliance and the Southern Common Market (MERCOSUR), which could include cooperation in several of these areas, were positive indeed.

C. Boosting regional investment in China

Taking full advantage of many of the business opportunities that will arise in the coming years in China will, because of their very nature, require that the region invest more heavily in China. This will mean greater proximity to the end consumer and make it possible to respond more quickly and efficiently to consumer demands. This is a complex challenge, but it must be addressed urgently. The governments of the region, in addition to promoting the diversification of goods exports to China, should increasingly support the direct presence of Latin American and Caribbean companies in the Chinese market. The lessons learned from the experience of pioneer trans-Latins that first ventured into China and have operations there could prove useful. It will also be important to monitor the opportunities arising from initiatives such as the Shanghai Free Trade Zone, opened in 2013.

D. Movement of persons

Consultations with business sectors in the region have also brought to the fore the desirability of moving towards more streamlined systems for granting visas to Chinese citizens. There have been reports of cases where restrictions currently in place in a number of countries of Latin America and the Caribbean have thwarted business opportunities and cultural, academic and scientific exchanges (including the presence of Chinese students in postgraduate programs in the region). It is also estimated that the region could be missing an opportunity to attract significant flows of Chinese tourists. This last point is of utmost importance because the World Tourism Organization has projected that the number of Chinese citizens traveling abroad as tourists could reach 100 million in 2015. In fact, in 2012 China moved into first place worldwide in terms of spending by its tourists abroad. The issue of migratory requirements is complex because of the need to strike the right balance between a variety of public policy objectives. Increasingly close cooperation in this sphere between the governments of the region and the Chinese government offers significant mutually beneficial opportunities.

E. A Regional Centre for Trade and Investment Facilitation in Beijing

It is increasingly necessary for the countries of the region to better understand the likely impact of the economic reforms under way in China, as well as emerging consumer trends there. Other countries and regions have public-private organizations that provide a support platform for entrepreneurs and individuals interested in approaching China. Two examples are the European Union Chamber of Commerce in China and the American Chamber of Commerce in China. Latin America and the Caribbean needs a similar structure, such as a Regional Centre for Trade and Investment Facilitation. Such a centre, located in Beijing, would seek to support exports from the region to China, encouraging diversification and promoting trade and investment partnerships with Chinese companies.

It would provide institutional support to facilitate organized dialogue with Chinese authorities involved in trade and investment.

A centre like the one proposed herein would make it possible to identify the most common barriers to and regulations affecting trade and investment, facilitating dialogue and a joint search for solutions, working directly with China's Ministry of Commerce and the China Council for the Promotion of International Trade. The centre could also conduct basic market research at the level of cities and specific markets; such research would provide new information to exporters in Latin America and the Caribbean and to national export promotion agencies.

In short, the regional centre for trade and investment facilitation proposed here could support users in the region in many ways, such as:

- Helping understand and manage cultural differences in the business arena.
- Coordinating exporters and embassies in the region on specific aspects of trade and investment with China.
- Providing a forum for brainstorming and representing regional interests before the relevant Chinese authorities, including local governments.
- Representing the region in a bilateral technical body devoted to examining trade statistics for both parties, in an effort to overcome the major discrepancies between the figures reported by China and those reported by the countries of Latin America and the Caribbean.
- Preparing material on the main regulations applicable to trade and investment with China, both in general and for specific sectors and products (technical standards, sanitary and phytosanitary measures, requirements for establishing joint ventures with Chinese companies, among others).
- Providing referrals on potential Chinese export, import and investment counterparts, building databases that provide greater legal certainty for small and medium-sized Latin American and Caribbean firms.
- Providing a forum for dialogue on the integration initiatives and trade negotiations currently under way in Latin America and the Caribbean and Asia and the Pacific, including their potential impact on economic and trade relations between the region and China.
- Providing a forum for dialogue aimed at preventing or resolving disputes through negotiation, taking a long-term view geared towards mutual benefit.

- Promoting business opportunities in Latin America and the Caribbean.
- Providing information on foreign trade and investment regimes in the region.
- Building logistical capacity.
- Conducting basic market research.

F. Closing remarks

This is the right time for Latin America and the Caribbean to take a qualitative leap in its relationship with China. China understands this, too, as evidenced by the ambitious proposals that the highest Chinese authorities have made to the region from ECLAC headquarters. In order for the region as a whole to become a meaningful economic and trade partner of China, the countries urgently need to combine efforts and agree on a regional agenda of priorities. This means giving priority to multi-country approaches and focusing less on unilateral initiatives. Doing so calls for promoting technical, business and high-level policy meetings that could lead to a future summit of heads of state of China and Latin America and the Caribbean, much like the ones that China holds with Europe, Asia, Africa and the Arab world.

But the main challenge facing Latin America and the Caribbean going forward is internal. It concerns how to link the innovation and competitiveness agenda with renewed economic ties with China and with Asia-Pacific in general. For example, avoiding excessive reprimarization of exports requires boosting the innovation and knowledge content of export products. This in turn calls for active productive development policies that promote gains in productivity, innovation, infrastructure, transport, logistics and quality of human resources. In each of these spheres there is room for building a mutually beneficial regional agenda for cooperation with China.

ECLAC

Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
www.eclac.org