

Latin America and the Caribbean and **China**

Towards a
new era in
**economic
cooperation**



UNITED NATIONS

ECLAC

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Foreword

This document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) on the occasion of the visit by Li Keqiang, Prime Minister of China, to ECLAC headquarters on 25 May 2015.

The document has five sections. The first analyses the main features of the international economic context for Latin America and the Caribbean and China. The second examines progress of the economic reforms under way in China and remaining challenges in this regard. The third section offers an overview of the region's trade and investment relations with China, and the fourth discusses some of the main components of the China-CELAC Cooperation Plan 2015-2019, which was adopted by the Community of Latin American and Caribbean States (CELAC) and China in January 2015. Lastly, the fifth section offers a number of reflections and recommendations for enhancing economic ties between the parties.

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.

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 the Latin American and Caribbean region exports to China, which 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 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.

China is well aware of the growing importance of its links with Latin America and the Caribbean, in which five landmarks may be identified. The first is the White Book on foreign relations between China and Latin America, published by the Government of China in November 2008. A second was the proposal by the then Premier Wen Jiabao to strengthen political, economic and cooperation relations between China and Latin America and the Caribbean, made in June 2012, at ECLAC headquarters. A third milestone event was the proposal of an ambitious cooperation framework for 2015-2019, known as "1+3+6" which was presented in July 2014 by President Xi Jinping at the first Summit of Leaders of China and of countries of Latin America and the Caribbean, held in Brasilia. The fifth landmark was the adoption of the Cooperation Plan 2015-2019 between the member States of CELAC and China. And the fifth milestone is the visit of Prime Minister Li Keqiang to Brazil, Chile, Colombia, Peru and, again, to ECLAC headquarters.

The keen interest shown by the Chinese authorities in strengthening ties with Latin America and the Caribbean provides the region with a historic opportunity. For example, rebalancing the region's worrying export reprimarization calls for progress in productivity, innovation, infrastructure, logistics, and training and capacity-building. This is essential for achieving growth with equality, in a context of rapid technological change. Cooperation between CELAC and China could benefit this rethinking of industrial policy and lead to more processing of natural resources and better linkages with manufacturing and services. All this would help to diversify the region's exports and raise their technology content and value added. Insofar as cooperation with China

helps to close our gaps in infrastructure, logistics and connectivity, it will also fuel intraregional trade and the creation of regional value chains. Conversely, the wealth of experience our region has built up in terms of innovative social policy, urbanization, environmental protection and many other areas may benefit China's policies for tackling its own development challenges.

The timing is right for Latin America and the Caribbean to take a qualitative leap in its relations with China. The Cooperation Plan 2015-2019 is a necessary and important first step in this direction, as it defines an institutional framework and general groundlines. Now the Plan needs to be endowed with specific content, which in turn means agreeing upon a regional agenda of priorities, affording a prime role to multi-country initiatives. Achieving this will pave the way for a future Summit of Heads of State of China and Latin America and the Caribbean, as China has with Europe, Asia, Africa and the Arab world.

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Executive Secretary

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I. A challenging international scenario

A. Weak 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 2003 and 2007, world output expanded by an average of 5.1% a year but then slowed to 3.6% per year during 2011-2014. This slowdown was due mainly 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 2.8%). In 2014 and thus far in 2015, growth has picked up slightly in the developed countries, thanks mainly to the better-than-expected performance of the United States economy and an incipient recovery 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 preventing them from achieving stronger medium-term growth rates. Although some projections show an upturn in 2015, the global economic situation is not expected to vary much for the next six years (see table I.1).

The United States economy appears to be the most dynamic among the developed countries. GDP growth in the United States has exceeded the developed country average following the global economic crisis. Unemployment has fallen from almost 10% in 2010 to 6.2% in 2014, while inflation has been kept in check, dropping to 0.9% in 2014. Private consumption, the main variable within output, has regained strength and housing prices continue to recover. The United States

fiscal deficit has come down from a high of 13.5% of GDP in 2009 to 5.3% in 2014. Growth this year is projected at around 3.1%, higher than the 2014 rate of 2.4%.

Table I.1
World and selected regions and countries: average annual GDP growth at constant values, 2003-2020

(Percentages)

	2003-2007	2008-2009	2011-2014	2015-2020 ^a
World	5.1	1.5	3.6	3.8
Developed countries	2.8	-1.6	1.5	2.2
United States	2.9	-1.5	2.1	2.5
Eurozone	2.2	-2.0	0.3	1.6
Japan	1.8	-3.3	0.7	0.8
United Kingdom	3.0	-2.3	1.6	2.3
Developing countries and emerging economies	7.7	4.5	5.2	4.9
Community of Independent States	8.1	-0.5	2.9	1.2
Developing and emerging Asia	9.5	7.4	7.1	6.5
Latin America and the Caribbean	4.9	1.3	3.1	2.4
Middle East and North Africa	6.9	3.7	3.6	3.9
Sub-Saharan Africa	6.7	5.0	4.8	5.1

Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, April 2015.

^a Projections.

Although the short-term indicators show a relative upturn in the United States economy, it still shows signs of structural weakness. 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 of 13.4% —almost double— in previous recoveries of similar duration. Furthermore, the number of jobs has risen only 5.2%, 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, the main reason seems to be a declining labour force participation rate, which has dropped 4 percentage points (from 63% in 2007 to 59% in 2014). In short, the United States economy is creating few jobs, the duration of unemployment is increasing and real wages remain stagnant.

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. 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. Average income for the wealthiest 5% surged 38% in real terms between 1989 and 2013, income for the remaining 95% only rose slightly less than 10% (less than half a percentage-point increase per year. Distribution of wealth is even more unequal than distribution of income: in 2013, the bottom 50% of households owned 1% of the wealth (3% in 1989), while the richest 5% owned 63% (54% in 1989).²

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 table I.1). The unemployment rate is still high and has not dropped significantly after peaking at 12% in 2013 (see table I.2). Nor do the persistently sluggish economic activity and fiscal austerity augur well for reducing unemployment. Young people are in an even more

¹ See International Monetary Fund, *World Economic Outlook. Uneven growth: short- and long-term factors*, April 2015; Center for American Progress, *Economic Snapshot: September 2014* [online] <https://www.americanprogress.org/issues/economy/report/2014/09/26/97848/september-2014/> and *The State of the U.S. Labor-Market: Pre-October 2014 Jobs Release* [online] <https://www.americanprogress.org/issues/economy/news/2014/10/02/98227/the-state-of-the-u-s-labor-market-pre-october-2014-jobs-release/> and the OECD database.

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

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 turned negative at the end of 2014.

Table I.2
Eurozone: inflation and unemployment rates, 2006-2014
(Percentages)

	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	-0.2
Unemployment	8.3	7.5	7.6	9.5	10.1	10.1	11.3	12.0	11.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, April 2015.

The eurozone overall is expected to continue to post weak growth over the medium term, along with very low inflation, high levels of indebtedness and unemployment, and slack investment, all as a legacy of the financial crisis. In these conditions, the traditional approach of the European Union Stability and Growth Pact is unlikely to 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 taken since April 2015 to boost the supply of credit are having much impact on consumption and investment, because of weak demand and rapidly decelerating inflation.

Acute economic and income concentration, which is also occurring 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 “normalizing” 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 political economy issues are not addressed.

So far this decade, Japan’s economy has grown on average 0.7% annually. This rate is equivalent to just over a third of the country’s average before the global financial crisis, and well below its rate in the 1980s (4.6%). In the second half of 2014, Japan slipped into its fourth

³ United Nations. *World Economic Situation and Prospects 2015*, 2015, New York [online] http://www.un.org/en/development/desa/policy/wesp/wesp_archive/2015wesp_full_en.pdf.

recession since 2008. Domestic demand contracted with falls —of almost 20%— in consumption and investment that were too large to be offset by public spending.⁴ This performance occurred in a context of expansionary monetary policy, along with labour flexibility measures, reduced support for farmers, deregulation of public services and tax hikes to reduce the fiscal deficit and gross public debt, which now stands at 226% of GDP. Given the economy's poor rendering, a second rise in consumption tax (to 10%) was postponed until 2017. The fall in prices for oil and other primary products and weak demand slowed inflation to a 0.25% in the first quarter of 2015,⁵ further from the central bank's target of 2.0%. Inflation is expected to rise gradually in the next few years, underpinned by consumer expectations.⁶ Although the external sector has made a nil or negative contribution to output growth over the past few years, net exports should contribute to growth in 2015, owing to the depreciation of the yen and expectations of stronger demand.

B. Slowdown in the developing economies

China posted one of the highest rates of annual growth in the world during the period 2001-2010 (10.5% on average), even during the global financial crisis. But since early 2012, the growth of the Chinese economy gradually slowed, to reach 7.4% in 2014. This cooldown stems from slower growth in gross fixed capital formation and exports (see table I.3). Fearing an even sharper slowdown, the authorities rolled out a number of stimulus measures starting in 2014. Among them were an easing of bank lending restrictions, lower interest rates and increased public spending on infrastructure. Overall, the economy is expected to continue to lose momentum, with growth projections at around 7% for 2015, and between 6% and 7% for the rest of the decade (see section II).

⁴ Organization for Economic Cooperation and Development (OCDE), *OECD Economic Surveys, Japan. April 2015. Overview*, Paris, 2015.

⁵ Consumer Price index excluding the effects of the tax increase of April 2014.

⁶ Haruhiko Kuroda, "What we know and what we do not know about inflation expectations", presentation at the Economic Club of Minnesota, 19 April 2015 [online] https://www.boj.or.jp/en/announcements/press/koen_2015/ko150420a.htm/.

Table I.3
China: main economic indicators, 2011-2014

Variable	2011	2012	2013	2014
GDP (variation in percentages)	9.3	7.8	7.8	7.4
GDP (trillions of dollars)	7 314	8 387	9 469	10 380
Per capita GDP (dollars)	5 429	6 194	6 959	7 589
Total investment (percentages of GDP)	48.3	47.7	47.8	46.9
Inflation (percentages)	4.1	2.5	2.5	1.5
Volume of imports of goods and services (variation in percentages)	12.0	8.2	10.8	7.1
Volume of exports of goods and services (variation in percentages)	10.3	7.0	8.7	6.4
Unemployment rate (percentages)	4.1	4.1	4.1	4.1
General government revenues (percentages of GDP)	27.7	28.4	28.2	28.5
General government expenditure (percentages of GDP)	27.1	28.3	29.3	29.6
General government balance (percentages of GDP)	0.6	0.0	-1.1	-1.1
Gross debt of the general government (percentages of GDP)	36.5	37.3	39.4	41.1
Current account balance (percentages of GDP)	1.9	2.6	1.9	2.0
Current account balance (billions of dollars)	136	215	183	210

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, April 2015.

China maintained its position as the world's largest exporter and second largest importer of goods in 2014, but exports and imports trended in opposite directions in the second half of the year. After both flows slowed in the first half, the pace of exports picked up over the remainder of the year. This was partly due to an upturn in a number of trading partners, especially the United States. As a result, Chinese exports were up by 6% by value in 2014, well above the 1% rate of global exports. 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 also drove import value down although import volume held steady. China's imports thus expanded by 1% in 2014, similar to the rate for global imports.

Figure I.1
China: annualized variation in the value of foreign trade,
January 2012 to November 2014
(Cumulative 12-month flows, in percentages)



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

The situation in other emerging economies varies widely. India's economy is gathering speed, with growth of 7.2% in 2014 and projected at 7.5% in 2015. It is expected 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. The lower oil prices should boost disposable household income and help slow inflation. In the countries of South-East Asia (ASEAN-5), growth came in at 4.6% in 2014 and is expected to rise to 5.2% in 2015, thanks to stronger 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 various impacts of the conflict in 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, all of which will likely put the Russian economy into recession in 2015.

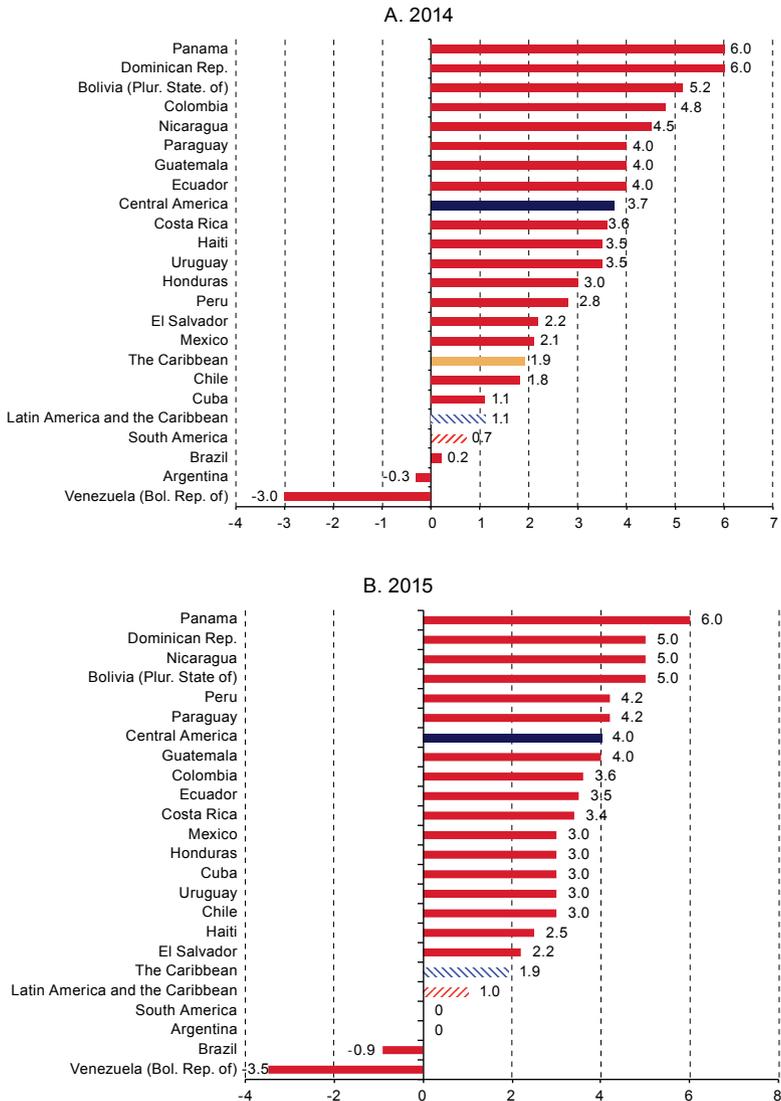
C. Sharp slowdown, on average, in Latin America and the Caribbean

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.

Regional growth was only 1.1% in 2014, and ECLAC estimates that this figure will slip further to 1.0% in 2015, which would be the slowest growth rate since 2009. This projection rests on the expectation of sluggish performance by the larger economies of South America (Argentina, the Bolivarian Republic of Venezuela and Brazil), while Mexico and Central America are likely to grow at rates that are similar to or higher than those posted in 2014 (see figure I.2).

The expected 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 will probably diminish further in 2015, 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 and Central America, on the other hand, exports are set to expand, driven by recovering demand in the United States. The lacklustre performance of several large economies in South America also has domestic causes, particularly stagnating investment and softening private consumption.

Figure I.2
Latin America and the Caribbean: GDP growth projections, 2014 and 2015^a
(Percentages)



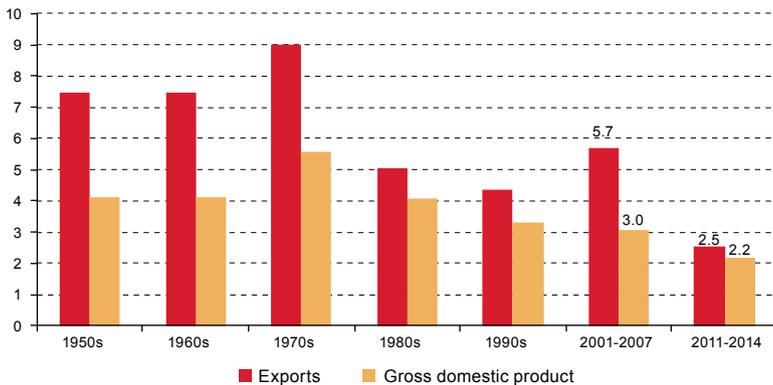
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2014* (LC/G.2632-P), Santiago, Chile. United Nations publication, Sales No. E.15.II.G.2 and projections up to 7 April 2015, [online] http://www.cepal.org/sites/default/files/pr/files/tabla_proyecciones_pib_america_latina_y_el_caribe.pdf.

^a Projections.

D. World trade remains subdued in a post-crisis context

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 as fast as output, while in the most recent period (2011-2014) both variables are growing at a similar rate (see figure I.3). The surge in world trade in 2001-2007 coincided with the entry of China into the World Trade Organization (WTO) and the proliferation of industrial value chains. Coupled with the aforementioned factors, the maturing of the production fragmentation process is thought to be partly behind the sluggish performance of world trade in recent years.

Figure I.3
World: average change in exports and gross domestic product,
selected periods
(Percentages)



Source: World Trade Organization (WTO).

A modest recovery in the volume of world trade is expected in 2015 and 2016, with growth rising to 3.3% and 4.0%, respectively, following three years in which trade growth averaged just 2.4%.⁷ The modest performance of 2014, when world trade grew by 2.8%, was determined by several factors. Near-zero eurozone growth since 2011 was compounded by slowdown in several leading economies, such as Brazil, China, Japan

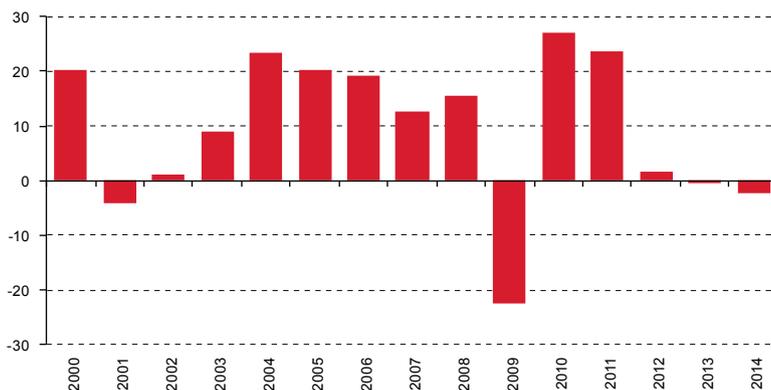
⁷ World Trade Organization (WTO), "Modest trade recovery to continue in 2015 and 2016 following three years of weak expansion", *Press Release*, No. 739, 14 April 2015, Geneva.

and the Russian Federation, weakening their demand for imports and, consequently, global trade flows. The crisis in Ukraine had a negative impact on the Russian Federation's trade with the United States and the European Union. The slight improvement projected for 2015 and 2016 largely reflects increased exports from Asia, North America and Europe; however, exports from commodity-producing regions (South America, Africa, the Middle East and the Commonwealth of Independent States) are expected to stand still or diminish slightly.

World trade growth in the coming years is heavily dependent on the economic performance of the European Union. 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). Yet while China accounted for 10.6% of global imports and the United States for 13% in 2014, the European Union accounted for one third (33%). Put another way, one point of United States GDP increases world imports by 0.80 points, one point of China's GDP does so by 0.64 points, and each one-point rise in Europe's GDP increases world imports by 1.95 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 also affected, demand in these countries for raw materials and other products from the region also declines.

The less favourable international scenario has set off a dramatic cooldown of the region's exports. Export value climbed at a yearly pace of 17% between 2004 and 2008, and at 25% a year in 2010 and 2011, after plunging in 2009. In 2014, Latin America and the Caribbean suffered its second consecutive year of falling export value (see figure I.4). Contributing factors include a sluggish economy and the resulting decline in demand for imports in some 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 an 8% drop in intraregional trade in 2014, according to preliminary figures.

Figure I.4
Latin America and the Caribbean: yearly variation in the value
of goods exports, 2000-2014
(Percentages)



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

Although all the subregions reported a slowdown in exports, the poor performance of exports since 2012 is mostly a reflection of the situation in South America. While South American exports declined for the third consecutive year in 2014, those of the group comprising Mexico, Central America and the Caribbean have recorded positive variations every year since 2010 (see table I.4). This contrast is caused mainly by the predominance of raw materials in the South American export basket, meaning that the subregion was more acutely affected by weaker demand from China and the fall in commodity prices since 2012. Mexico, Central America and the Caribbean have benefited from the relative buoyancy of their main trading partner, the United States.

Table I.4
Latin America and the Caribbean and subregions: annual variation
in the value of goods exports, 2010-2014
(Percentages)

	2010	2011	2012	2013	2014
South America	26.8	27.7	-1.1	-1.7	-6.2
Mexico, Central America and the Caribbean	27.6	17.7	6.1	1.8	3.6
Latin America and the Caribbean	27.1	23.7	1.6	-0.3	-2.2

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

It is expected that the unfavourable international context will continue to weigh on the export performance of Latin America and the Caribbean, and especially that of South America. Projections by WTO in April 2015 show the volume of exports from the region (excluding Mexico) barely edging up by 0.2% in 2015, before picking up somewhat to 1.6% in 2016. This figure is below half that of the projected growth in global exports for that year (4%). It is also likely that the region will continue to be outperformed by developing countries as a whole, as has been the case for the past decade.

The 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 13 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. The three best known 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 (albeit in the medium term) is the possible kick-off of negotiations to create a Free Trade Area of Asia-Pacific (FTAAP), 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.

II. Growth and reform in China: a long-term perspective

“We must be clear that our economy, though large in size, is not a strong one and its growth, although fast, is not of high quality. The development modality resulting from economic growth driven principally by factors such as natural resources and expanding size is not sustainableThe old path is a dead-end street. Where does the new path lie? In scientific and technological innovation and in the transition towards a growth model driven by factors and expanding investment fuelled by innovation.

We must build up an innovation chain around the industrial chain and improve the funding chain around the innovation chainwe must step up innovation in products, brands, industrial organization and trade modalities.”⁸

The performance of the Chinese economy in 2014 and the first four months of 2015 shows that downward pressure on economic activity remains strong. In fact, growth in 2014 (7.4%) was the lowest in 24 years, and in the first quarter of 2015 it was even lower (7%). The messages from the Government suggest that it will not be easy to achieve a growth rate of 7% for the year overall, and the economy in 2015 is likely to be more challenging than the previous year.⁹ These figures must be seen in

⁸ Xi Jinping, *The Governance of China*, Beijing, China Foreign Languages Publishing Administration (CFLPA), 2014.

⁹ Li Keqiang, “Report on the Work of the Government”, Third Session of the 12th National People’s Congress, 5 March, 2015 [online] http://english.gov.cn/archive/publications/2015/03/05/content_281475066179954.htm.

perspective, however. China's economy has been growing uninterruptedly for 37 years, since the reforms began in 1978, posting an average annual rate of 10%. Between 2000 and 2011, growth systematically exceeded the official target of 8%.

A. Phases of income convergence

Historically speaking, unbroken economic expansion at rates of close to two digits is uncommon for such lengthy periods as China has achieved. For example, Japan's growth averaged 9% per year between 1953 and 1971, but fell off sharply after the oil crisis and was just 0.9% per year between 1997 and 2006. The Republic of Korea achieved 40 years of growth at 8% (1965-2005), but in the decade from 1997 to 2006 the rate had already fallen to 4.9% per year. Singapore grew at 8% annually from 1960 to 1990, but between 1997 and 2006 this rate slipped to 5.4%.

China's very success in economic convergence makes it increasingly difficult to sustain two-digit growth rates. Over the medium term, growth depends on the contributions to output made by labour, capital and productivity. Rapid growth over several decades has also been accompanied by heavy urbanization, increased life expectancy, falling fertility rates and rising levels of education. These factors, together with others, have gradually been depleting the space within the labour market and, in fact, it is estimated that China's available workforce peaked in 2012.

In terms of expanding the capital stock, investment rates of 50% of GDP are obviously not sustainable, but are rather held up by sharp economic distortions. These include subsidized overproduction, cheap credit and administrative shortcuts; negative impacts on the environment in the case of energy-intensive investments (especially if the energy is coal-based in a context of low energy efficiency), and deteriorating income distribution, through the larger share of capital than wages in national income.

In light of the foregoing, much of the growth effort must be borne by productivity gains, which is precisely the aim of the economic reforms now under way in China. However, productivity cannot be expected to take spectacular leaps in short periods of time or to sustain progress over time without underlying structural changes to improve competitiveness, technological capacity and innovation in the new manufacturing sectors and in services.

Ultimately, a large per capita income gap with more developed economies makes it easier to produce two-digit growth, by taking advantage of technological catching-up, shifting labour from low-productivity to high-productivity areas, and using the advantages of external trade and attraction of foreign direct investment (FDI). Now that China has become the world's largest economy (in terms of purchasing power parity) and largest exporter, it is clear that any further growth impulse must come from industrial and services activities more in line with the dynamic pace of technological progress. The Government of China shows clear evidence of this conviction in its economic directives, insofar as they propose a development model aimed at building a new equation between industrialization, computerization, urbanization and agricultural modernization.

B. Impact of China's growth on the global economy

According to recent estimates by the International Monetary Fund, China's economy is already the world's largest, measured by purchasing power parity. The Chinese economy is larger than those of France, Germany and Italy combined. If China were to grow 7% in 2015, it would contribute US\$ 700 billion to the global economy —Japan's economy would have to grow by 14% to make the same contribution. China's growth rate is therefore doubly unprecedented, since not only has it exceeded the length and velocity of supercycles in other Asian economies, but it has also remained at around 7%, even as the largest economy in the world.

One implication of this is that, if China's economy expands 7% in 2015, it will make a larger contribution to global GDP (in constant prices) than it did in 2007, when its growth rate stood at 14.2%.¹⁰ For the global economy, it is preferable for China to grow at rates of 6%-7% per year while advancing with reforms, than to continue growing at 10% as in previous decades while shouldering the old imbalances. A Chinese economy engaged in gradually rebalancing its economic, financial, social and environmental gaps, and generating the jobs needed to keep unemployment from rising, will safeguard the momentum of the global economy, while the European economy seeks recovery.

¹⁰ *The Economist*, "Reform in China. The quiet revolution", 18 April 2015 [online] <http://www.economist.com/news/leaders/21648641-slowing-economy-commands-headlines-real-story-reform-quiet-revolution>.

C. The progress of economic reform

In his report on the work of government presented to the Third Session of the 12th National People's Congress in March 2015, Prime Minister Li Keqiang indicated that not only would the downwards pressure on the economy continue to mount, but that this would coincide with weak recovery in the global economy and with the contradictions inherent to a reform process geared towards generating new growth engines. Nevertheless, the figures for 2014 show some progress as regards the "new normal" of Chinese growth: less emphasis on GDP as a single indicator of economic progress; shift in the supply structure (more advanced services and less manufacturing) and in spending (more consumption and less investment); reduction in greenhouse gas emissions; and advances in energy efficiency and in the distribution of income.

China's GDP grew by 7.4%, inflation stood at 2% and 13.2 million jobs were created in 2014. This last indicator is important, because it indicates that each percentage point of growth generated 1.78 million jobs. This likely has much to do with the greater weight in GDP of services (48.2%), which have displaced manufactures (42.6%). This larger proportion of employment in services, in relation to capital- and energy-intensive manufacturing, is what makes the government confident. Until five or seven years ago, the Chinese economy needed to grow by 10% to create 10 million jobs, but with today's supply structure it can create the same number of jobs with growth of 5.6%.

Consistent with the targets set under the reforms, in 2014, the contribution of consumption to GDP growth increased by three percentage points to 51.2%. Growth in central and western regions (which have the lowest income) outstripped that of eastern regions; energy intensity dropped by 4.8%; disposable income rose faster in rural households (up 9.3%) than in urban ones, while spending on research and development topped 2% of GDP and the number of new businesses surged by 46%.¹¹ Progress was also seen in various aspects of fiscal and tax reform; greater interest-rate and exchange-rate flexibility; tariff reforms in energy, transport, telecommunications and environmental protection; and advances in administrative simplification and the decentralization of decision-making. The social safety net has also been greatly expanded, especially in relation to retirement insurance and basic old-age pensions for company retirees.

¹¹ Li Keqiang, *ibid.*

In agriculture, hydraulic structures and rural roads have helped boost production and rural incomes. Infrastructure investment (in roads, high-speed railways and broadband) is helping to improve physical and digital connectivity between major economic areas and cities, for example, between Beijing, Tianjin and Hebei, creating the conditions for a development strategy driven by innovation. Advances in innovation have been made in supercomputing, lunar exploration, satellite applications and civil aviation.

D. Significant challenges remain

Despite many achievements since the start of the reform phase, significant challenges remain. In the words of the Chinese Prime Minister: “Investment is sluggish; capacity for innovation is insufficient; overcapacity is a pronounced problem; the foundation of agriculture is weak; and there are still problems of public concern in medical services, elderly care, housing, transport, education, income distribution. Environmental pollution is serious in some localities, and shocking cases of corruption still exist.”¹² Nonetheless, the targets set for 2015 are ambitious and would be challenging for any of the world’s leading economies: achieving growth of around 7% with inflation no higher than 3%; creating 10 million jobs in urban areas; keeping urban unemployment below 4.5%; raising export and import volumes by about 6%; and reducing energy consumption per unit of output by 3%.¹³

Rebalancing the growth pattern towards more consumption and less investment requires major changes to economic policy. The considerable overinvestment has been financed mainly with low-interest loans; and the implicit subsidy this entails punishes personal and household savings and leads to inefficient allocation of investment resources. Accordingly, the liberalization of interest rates is a necessary step for adjusting the pace of investment to the levels envisaged in the reforms; and this explains the decision by the Chinese Central Bank to gradually loosen its control over interest rates. The key challenge is to avoid credit overheating without unduly affecting investment and growth.

¹² Li Keqiang, “Report on the Work of the Government”, Third Session of the 12th National People’s Congress, 5 March, 2015 [online] http://english.gov.cn/archive/publications/2015/03/05/content_281475066179954.htm.

¹³ Li Keqiang, “Report on the Work of the Government”, Third Session of the 12th National People’s Congress, 5 March, 2015 [online] http://english.gov.cn/archive/publications/2015/03/05/content_281475066179954.htm.

The ongoing sectoral restructuring process emphasizes the transition towards smart manufactures, referred to as “strategic emerging industries”. These include mobile Internet, integrated circuits, high-end equipment, new-energy vehicles, electronic commerce, logistics, fast-delivery services and cultural industries. The “Made in China 2025” programme aims to strengthen the computerization of manufacturing industry, promoting the development of digital networks and the technological upgrading of traditional industries. The “Internet Plus” programme seeks to combine mobile Internet, cloud computing, big data and the “Internet of Things”, with modern manufacturing. Sectoral restructuring should also improve energy efficiency and reduce emissions, turning industries that are involved in energy saving and environmental protection into new engines of growth and job creation.

Another important issue in sectoral restructuring entails reducing overcapacity in 15 priority production sectors, including iron and steel and cement. A range of measures is needed to achieve this, including restrictions on credit and business mergers and takeovers, among others. In the case of iron and steel, the figures seem to show contrary trends. According to recent information from the World Steel Association, although there have been production-facility shutdowns equivalent to 35 million tons, new production capacity in 2013-2014 (not previously reported) amounted to 112 million tons. Thus, in net terms, and despite the authorities’ achievement of production closures, overproduction has grown by 77 million tons, which surpasses Latin America’s entire iron and steel output. This means that the figures need to be more scrupulously checked, and the restructuring and reduction of overproduction needs to be speeded up. As this is an inherently gradual process, the Latin American iron and steel industry has signalled its willingness to seek ways to mitigate part of the heavy impact on this overproduction on international prices.

The Chinese authorities have identified a number of guidelines to steer the reforms in the coming years. These include: deepening administrative simplification and decentralization of decision-making processes; reforming the investment and financing regime, by opening up more space for private initiative; and continuing with the reform of the price system, and with fiscal, tax and financial reforms. For the latter, incentives will be given for the creation of small and medium-sized private banks; and a bank deposit insurance system will be set up. In relation to State-owned firms, progress towards mixed- ownership entities is proposed, allowing for the presence of private capital in State

investment projects. In relation to the external sector, the aim is to halve the number of sectors subject to foreign investment restrictions, and to speed up investment abroad, particularly in infrastructure.

The Chinese authorities have also been moving ahead in easing controls on cross-border capital flows and expanding the yuan flotation range. As a result, it hopes that the International Monetary Fund (IMF) will recognize the yuan as a convertible currency before the end of 2015. This would strengthen China's role in international finance, stimulating the development of yuan-denominated financial instruments and the use of the yuan as a reserve currency. Moreover, foreign firms are gradually being allowed to repatriate more of their profits.

In the fiscal domain, the government is in the process of rebuilding local government finances. Although general government gross debt is still at controllable levels, the debt of the provinces, prefectures, counties, and towns as a whole, is estimated to add at least 30% of GDP to the total public debt. This situation is largely due to the heavy investment undertaken by local governments in infrastructure and real estate projects since the 1990s, which was frequently financed with loans from the shadow banking system. The central government has announced a variety of measures to correct this situation, including larger transfers to local governments, particularly to finance social spending and create a municipal debt market.

China has also recently launched a number of large-scale strategic initiatives, which aim to strengthen economic ties with its surrounding regions. These include the infrastructure mega-project known as the "Silk Road Economic Belt" and the creation of the Asian Infrastructure Investment Bank (AIIB) (see boxes II.1 and II.2, respectively). China has also recently concluded free trade agreements (FTAs) with Australia and the Republic of Korea; it is currently negotiating a trilateral FTA with the latter country and Japan; and it is actively promoting the Regional Comprehensive Economic Partnership (RCEP) project. This will create a large free trade area encompassing Australia, China, India, Japan, New Zealand, the Republic of Korea and the 10 member countries of the Association of Southeast Asian Nations (ASEAN). In his intervention at the Annual Conference of the Boao Forum for Asia, in March 2015, Chinese President Xi Jinping called for the completion of the RCEP negotiations during the current year. These and other initiatives, such as the Shanghai Experimental Free Trade Zone and similar projects in Guangdong, Tianjin, and Fujian, will also contribute to the objectives of openness and reform.

Box II.1**The Silk Road Economic Belt and the Maritime Silk Road**

In late March 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Trade of China announced their plan of action to implement the Silk Road Economic Belt and Twenty-first Century Maritime Silk Road Initiative. Also known as the “One Belt, One Road” plan, this initiative was first proposed by Chinese President Xi Jinping in September 2013. Its aim is to strengthen economic ties between China, the rest of Asia, the Middle East, Africa and Europe, by developing a number of economic corridors over both land and sea. A further aim is to promote economic development in the different participating countries and regions. For example, the Silk Road Economic Belt aims to promote the development of the inland regions of China (which are less advanced than the coastal regions) and of the countries of Central Asia, by improving their connectivity with Asia-Pacific and European markets. Implementing this initiative will require major infrastructure investment, including highways, railways, pipelines, ports and other works, to be executed jointly by China and the other stakeholder countries. The Chinese authorities estimate that the various projects encompassed by this initiative will impact a population of 4.4 billion people in 65 countries, and that, as a result, trade between China and the other participating countries could reach US\$ 2.5 billion in a decade.

The Silk Road Economic Belt involves a group of roads and railways, starting from the east coast of China, crossing the entire country and continuing through several Central Asian countries. From Turkey, it will also reach the Russian Federation and Europe. On the European continent, a high-speed rail line is envisaged from Bulgaria to XinJiang province in the west of China. A high-speed train project between Moscow and Beijing is also being contemplated, which would cut the journey between the two cities from six to two days. A third route, also by rail, will join Lao People’s Democratic Republic, Thailand, Malaysia and Singapore with China. The Twenty-first Century Maritime Silk Road includes the construction of a set of ports and other coastal works in eastern and southern Asia, East Africa and the Mediterranean.

Along with the development of physical infrastructure, the “Belt and Road” also involves other complementary projects to promote trade between the participating countries. These include an “Information Silk Road” connecting regional information and communication technology networks, the reduction of barriers to trade and investment, and implementation of the Trade Facilitation Agreement of the World Trade Organization (WTO).

The “One Belt, One Road” initiative will be at the centre of the 13th Chinese Five-Year Plan (2016-2020), and will guide the national infrastructure development strategy for the next 15 years. Its financing will come from the creation of a new US\$ 40 billion Silk Road Fund, and from the recently created Asian Infrastructure Investment Bank and the New Development Bank, among other sources.

Source: National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, *Vision and actions on jointly building Silk Road Economic Belt and the 21st-century Maritime Silk Road*, 28 March 2015 [online] http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm; Jacob Stokes (2015), “China’s Road Rules: Beijing looks west towards Eurasian Integration”, Foreign Affairs, 19 April 2015.

Box II.2**The Asian Infrastructure Investment Bank and the New Development Bank**

Chinese President Xi Jinping and Premier Li Keqiang announced the AIIB initiative during their respective visits to Southeast Asian countries in October 2013. According to the Chinese authorities, the AIIB, which will be based in Beijing, will aim to promote inter-connectivity and economic integration in Asia. It will focus on the development of infrastructure, broadly defined to include energy, transportation and telecommunications, agricultural development, access to drinking water, irrigation, environmental protection and logistics. Its modus operandi will be lean, clean and green. This means that the bank will be run by a small and highly skilled team, which will implement a policy of zero tolerance towards corruption, and whose actions will respect the environment.

The AIIB is envisaged as a multilateral development bank, which would cooperate with other similar institutions existing in Asia, particularly the Asian Development Bank. Its initial membership would include 57 countries, of which nearly 40% are non-Asian, including a large block of European countries. The only Latin American country on the list is Brazil. In addition to Brazil, all other members of the BRICS group are among the prospective founding members of the AIIB.

Prospective founding members of the Asian Infrastructure Investment Bank

East and South-East Asia and Oceania	South Asia	Middle East, Caucasus and Central Asia	Europe	Other regions
1. Australia	16. Bangladesh	21. Saudi Arabia	36. Germany	54. Brazil
2. Brunei Darussalam	17. India	22. Azerbaijan	37. Austria	55. Egypt
3. Cambodia	18. Nepal	23. United Arab Emirates	38. Denmark	56. Maldives
4. China	19. Pakistan	24. Georgia	39. Spain	57. South Africa
5. Philippines	20. Sri Lanka	25. Iran	40. Finland	
6. Indonesia		26. Israel	41. France	
7. Lao People's Democratic Republic		27. Jordan	42. Iceland	
8. Malaysia		28. Kazakhstan	43. Italy	
9. Mongolia		29. Kyrgyzstan	44. Luxembourg	
10. Myanmar		30. Kuwait	45. Malta	
11. New Zealand		31. Oman	46. Norway	
12. Republic of Korea		32. Qatar	47. Netherlands	
13. Singapore		33. Tajikistan	48. Poland	
14. Thailand		34. Turkey	49. Portugal	
15. Viet Nam		35. Uzbekistan	50. Russian Federation	
			51. Sweden	
			52. Switzerland	
			53. United Kingdom	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Asian Infrastructure Investment Bank (AIIB) [online] <http://aiibank.org>.

The prospective founding members of the AIIB held four meetings between November 2014 and April 2015 to define various aspects related to this new financial institution (principles, policies, governance, etc). The results of these discussions are expected to be compiled in a document (the "Articles

Box II.2 (concluded)

of Agreement”), which would be open for signature in late June 2015. The bank could then start operating formally towards the end of 2015. Its initial capital would be US\$ 50 billion.

Another institution, similar to the AIIB, that has been promoted by China in the last few years is the New Development Bank (NDB), previously known as the BRICS Development Bank. The NDB is also a multilateral development bank but with a more restricted membership than the AIIB, consisting solely of the five members of the BRICS group of countries: Brazil, the Russian Federation, India, China and South Africa. The agreement to create the NDB was signed at the sixth BRICS Summit held in Fortaleza (Brazil) in July 2014. The NDB will be headquartered in Shanghai and have an initial capital of US\$ 100 billion. Also during the Fortaleza Summit, agreement was reached to set up a common reserve fund of US\$ 100 billion. These resources would be available to assist member countries in the event of balance of payments crises.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Asian Infrastructure Investment Bank (AIIB) [online] <http://aiibank.org>, and The Economist, “Why China is creating a new “World Bank” for Asia,” 11 November 2014.

E. Macroeconomic and financial difficulties

Coping with the global economic crisis of late 2008 and 2009 forced the Chinese authorities to implement a major countercyclical policy. When Chinese exports posted year-on-year falls of up to 35% in the last two months of 2008, fiscal and monetary policy provided an expenditure stimulus equivalent to four percentage points of GDP. This enabled China to negotiate the crisis and maintain two-digit growth rates, causing commodity prices to skyrocket, which enabled the Latin American economies to come out of the global recession relatively unscathed. Nonetheless, that major countercyclical effort left marks in the form of a debt overhang, a real estate bubble, and worrying levels of local government debt. The consolidated debt (government, enterprises and households) soared from 100% of GDP in 2008 to 250% in 2014. The bulk of corresponding credit was channelled into real estate businesses.¹⁴

The slowdown of the Chinese economy is helping to gradually deflate the real estate and construction bubble. Construction of new properties fell by about 20% in the first quarter of 2015. Apart from the slower pace of growth, the reasons for this include the application of a variety of instruments to restrict credit and discourage the purchase of second homes, and a less expansionary monetary policy. Fiscal changes

¹⁴ *The Economist*, “Why China is creating a new ‘World Bank’ for Asia”, 11 November 2014.

are also making local government expenditure more difficult. The risk of a financial crisis is fading because the debt is largely domestic, and because the opening up of the capital account will be moderate, and the financial system will remain quite closed. In brief, the current situation displays a gradual dismantling of the real-estate and credit bubbles, which will inevitably put downward pressures on the economy.

Several indicators show that China is clearly growing below its potential rate: inflation close to 1% (with producer prices in negative territory); a cautious fiscal policy (the deficit on public accounts in 2015 will rise from 2.1% to 2.3% of GDP); and a prudent monetary policy. In other words, if in a few years time it proves possible to rule out a financial crisis, by gradually deflating the real estate bubble and reducing local government debt, the growth rate of the Chinese economy will probably rise by a couple of percentage points; and, without financial clouds on the horizon, it will then be possible to enjoy the returns that progress in economic reforms could generate for it.

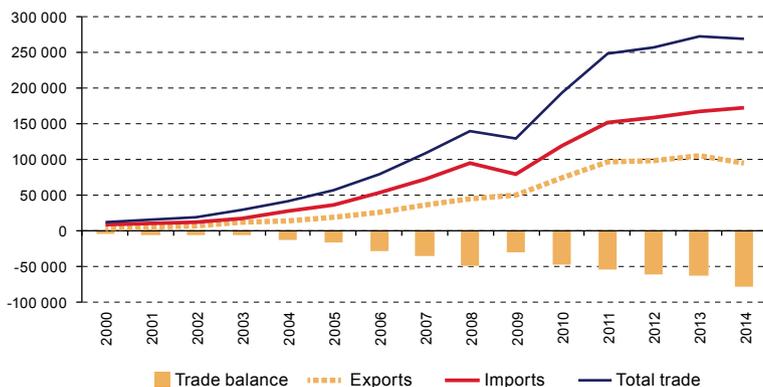
III. Main features of trade and investment between Latin America and the Caribbean and China

A. Overview of trade

In 2014, merchandise trade between Latin America and the Caribbean and China decreased by 2% in value terms, compared to the 2013 level, marking the first fall since 2009. Bilateral trade, which in 2013 totalled nearly US\$ 274 billion (an all-time high), in 2014 was only US\$ 269 billion. This reduction is mainly explained by the sharp fall in the value of exports from Latin America and the Caribbean to China (10%), which was partly offset by a 3% rise in the value of its imports from that country (see figure III.1). The region's exports to China in 2014 fell much more steeply than its exports to the world as a whole (2%). In fact, 2014 was the first year in which exports from Latin America and the Caribbean to China had decreased in this century, having grown even in 2009 and 2013, when exports to the rest of the world had faltered.

The decline in the region's exports to China in 2014 was generalized and reflects a slackening of raw-materials demand in that country. Exports to China were down in 13 of the 16 countries for which information is available, representing almost 94% of the region's total sales to that country (see table III.1). The slower growth of the Chinese economy since 2012 has reduced demand for the raw materials that make up the bulk of the region's basket of exports to that country.

Figure III.1
Latin America and the Caribbean: goods trade with China, 2000-2014
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE). The data for 2014 come from official sources in 16 countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

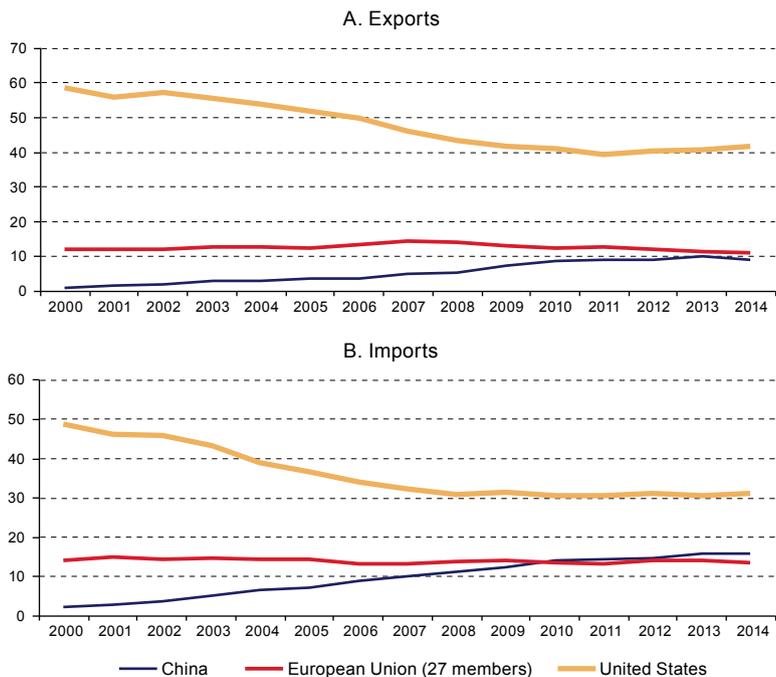
Table III.1
Latin America and the Caribbean (16 countries):
goods exports to China, 2012-2014
(Millions of dollars and percentages)

Country	2012	2013	2014	Share 2014	Variation 2013/2014
Argentina	5 001	6 407	4 650	4.9	-27.4
Bolivia (Plurinational State of)	316	320	434	0.5	35.6
Brazil	41 228	46 026	40 616	42.6	-11.8
Chile	18 098	19 090	18 438	19.4	-3.4
Colombia	3 343	5 104	5 617	5.9	10.1
Costa Rica	331	372	338	0.4	-9.0
Ecuador	392	569	502	0.5	-11.8
El Salvador	4	47	6	0.0	-87.7
Guatemala	35	167	43	0.0	-74.5
Honduras	114	135	71	0.1	-47.2
Mexico	5 721	6 470	5 979	6.3	-7.6
Panama	34	51	69	0.1	35.3
Paraguay	42	57	48	0.1	-16.0
Peru	7 849	7 331	6 968	7.3	-5.0
Uruguay	796	1 290	1 219	1.3	-5.5
Venezuela (Bolivarian Republic of)	14 101	11 587	10 324	10.8	-10.9
Total	97 403	105 024	95 323	100.0	-9.2

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

China is now the region's second largest import source and third largest export destination. Between 2000 and 2014, China's contribution to the region's imports grew from just over 2% to 16%, while its export share rose from 1% to 9% (attaining 10% in 2013). Thus, in 2014, China and the European Union accounted for virtually the same share of the region's merchandise trade with the world as a whole (12.4% and 12.5%, respectively). Although the European Union remains the second largest market for the region's exports after the United States, since 2010 China has overtaken it as the second largest import source, also behind the United States (see figure III.2).

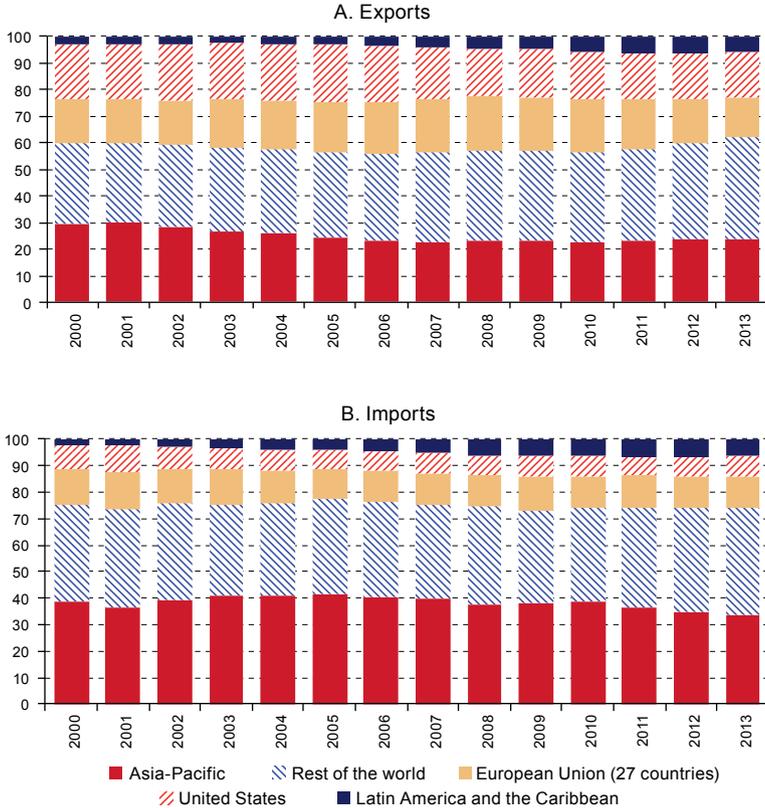
Figure III.2
Latin America and the Caribbean: share of selected trading partners
in goods trade, 2000-2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE). The data for 2014 come from official sources in 15 countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Latin America and the Caribbean has gained ground as a trading partner for China. Whereas in 2000 the region absorbed 3% of China's total goods exports and supplied 2% of its imports, in 2013 the equivalent shares were 6% and 7%, respectively (see figure III.3).

Figure III.3
China: share of selected partners in goods trade, 2000-2013
(Percentages)



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

Given the slower pace of growth forecast for the next few years, both in China and in Latin America and the Caribbean, bilateral trade is unlikely to expand at the pace seen in the last decade and a half.

Between 2000 and 2013, the value of merchandise trade between Latin America and the Caribbean and China expanded by a factor of 22, growing at an average rate of 27% per year. In comparison, the region's trade with the world grew just threefold in value in the same period, at an average annual rate of 9%. In the current decade, however, trade with China has slackened—growing at just 5% per year between 2011 and 2013, and declining by 2% in 2014. If bilateral trade were to expand in the next few years at the pace recorded in 2013 (6%), it would reach US\$ 500 billion between 2023 and 2024. This figure was proposed as a target to achieve in 10 years under the 2015-2019 Cooperation Plan, agreed upon in January 2015 between the Community of Latin American and Caribbean States (CELAC) and China.

The region's trade deficit with China is driven basically by the growing deficits maintained by Mexico and Central America with that country. The Caribbean also runs a persistent deficit with China, whereas South America has a broadly balanced trade account. Latin America and the Caribbean as a whole have a growing trade surplus with China in commodities and natural-resource-based manufactures, which is generated specifically in South America. In contrast, the region as a whole, and all of its subregions, are running a growing deficit with China in trade in other manufactures (see figure III.4).

Most Latin American and Caribbean countries run trade deficits with China. As shown in figure III.5, in 2014 (and in 2013) just three countries in the region, all of them South American, ran trade surpluses with China: Chile, Brazil and the Bolivarian Republic of Venezuela. In all cases, these surpluses are generated by sales of a small number of commodities. At the other extreme, Mexico's trade deficit with China accounted for roughly 77% of the region's total deficit with that country. This reflects the fact that less than 2% of Mexico's exports, but 17% of its imports, were accounted for by China in 2014.

Figure III.4
Latin America and the Caribbean and subregions: balance
of trade with China, 2000-2013
(Millions of dollars)

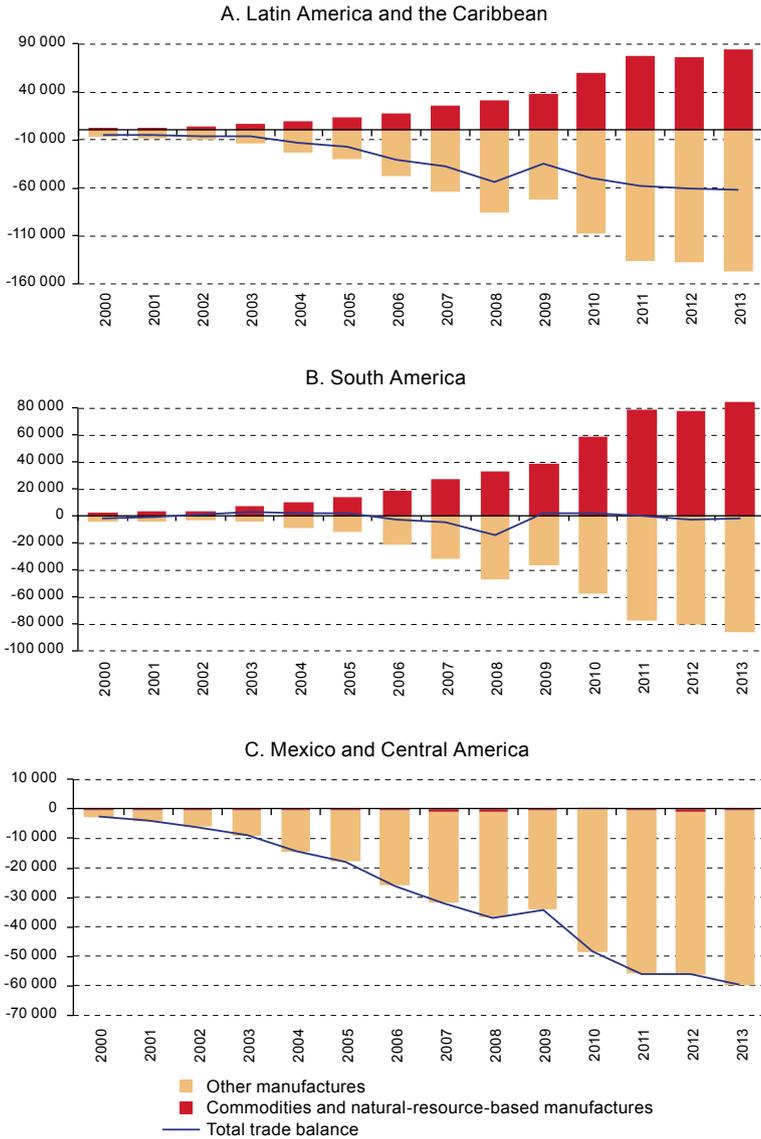
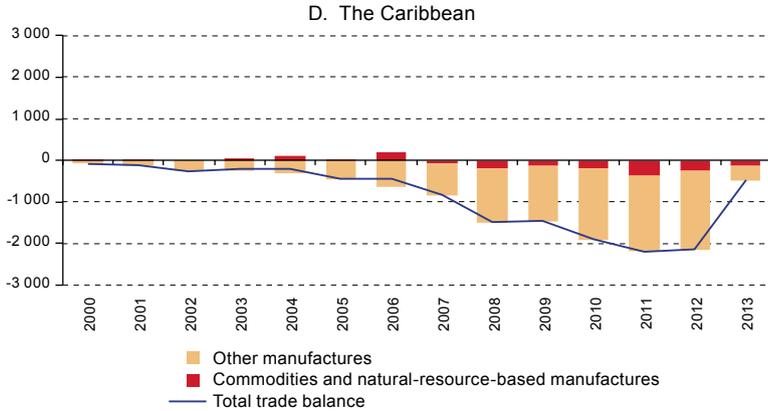
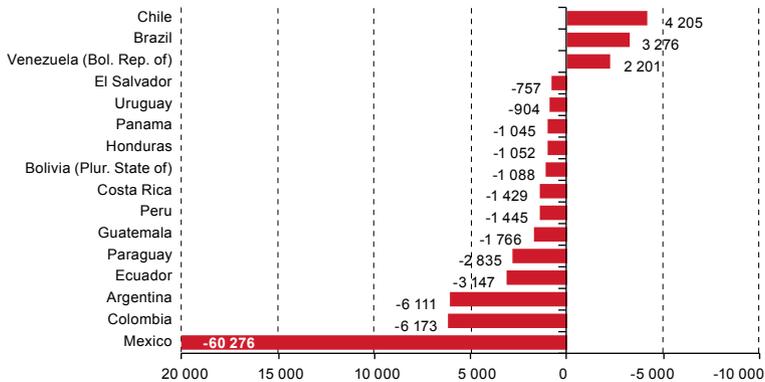


Figure III.4 (concluded)



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

Figure III.5
Latin American and Caribbean countries: balance of trade with China, 2014
(Millions of dollars)

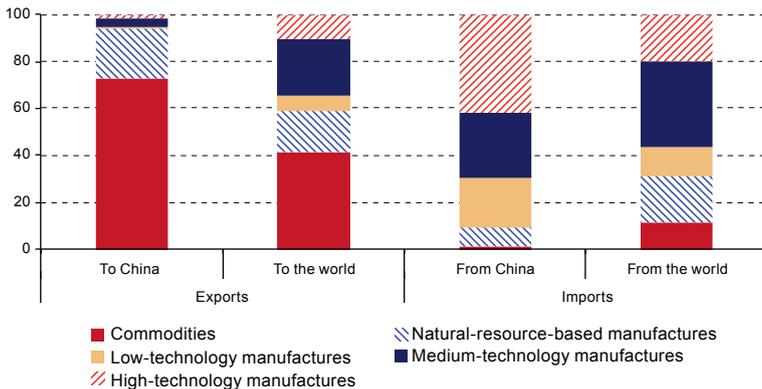


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries. The figures for El Salvador and Panama come from the United Nations Commodity Trade Database (COMTRADE).

The range of goods that Latin America and the Caribbean exports to China is much less sophisticated than its worldwide export basket. In 2013, commodities accounted for 73% of the region’s exports to China, compared to 41% of its worldwide sales. In contrast, low-, medium- and high-technology manufactures accounted for just 6% of the region’s exports to China, compared to 42% of its global exports. The opposite is

true of imports, however: whereas low-, medium- and high-technology manufactures accounted for 91% of regional imports from China in 2013, they represented just 69% of its global imports (see figure III.6). In other words, trade between Latin America and the Caribbean and China is clearly inter-industry: commodities in exchange for manufactures.

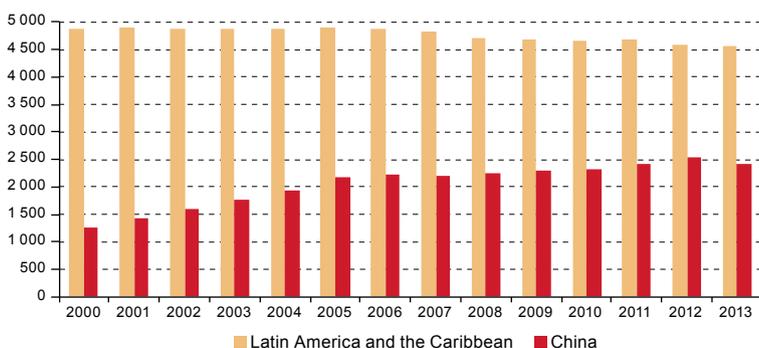
Figure III.6
Latin America and the Caribbean: structure of trade with the world and China by technology intensity, 2013
(Percentages)



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

Two direct correlates of the above 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. Between 2000 and 2013, the region nearly doubled the number of products it exported to China, from 26% of the number of products exported within the region itself in 2000 to 53% in 2013 (see figure III.7). Nonetheless, the difference between the number of products sent to the two markets is much more pronounced at the country level. Except for Brazil and Mexico, this difference varies between 8 and 35 times for the other countries of the region (see table III.2). Moreover, just five products, all commodities, accounted for 75% of the value of regional sales to China in 2013. The same five products generated just 47% of the value of the region's exports to that country in 2000, thereby demonstrating the strong reprimarization process that has occurred since then (see figure III.8).

Figure III.7
Latin America and the Caribbean: number of products exported to the region and to China, 2000-2013^a



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

^a At the six-digit level of the Harmonized Commodity Description and Coding System.

Table III.2
Latin America and the Caribbean countries (selected countries): number of products exported to the region and to China, 2013^a

Country	Latin American and the Caribbean (A)	China (B)	A/B
Argentina	3 557	437	8
Bahamas	226	12	19
Belize	308	29	11
Bolivia (Plurinational State of)	634	51	12
Brazil	3 934	1 370	3
Chile	2 985	388	8
Colombia	3 219	232	14
Costa Rica	2 878	278	10
Dominican Republic ^b	2 048	127	16
Ecuador	1 997	94	21
El Salvador	2 557	74	35
Guatemala	3 313	194	17
Guyana	764	46	17
Jamaica	858	48	18
Mexico	3 910	1 444	3
Nicaragua	375	36	10
Panama	301	32	9
Paraguay	945	43	22
Peru	3 142	282	11
Uruguay	1 387	106	13
Venezuela (Bolivarian Republic of) ^c	1 689	110	15

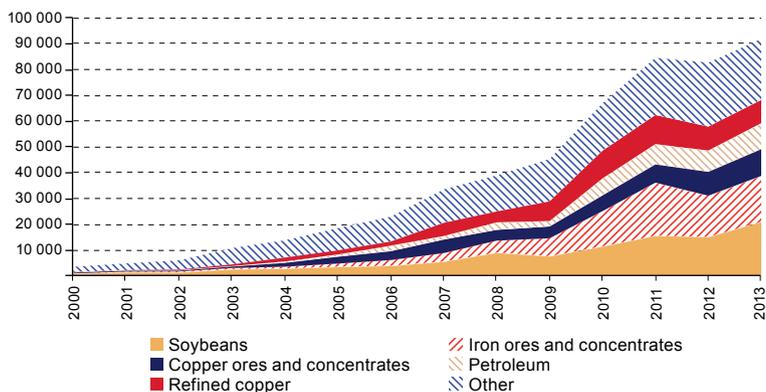
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

^a At the six-digit level of the Harmonized Commodity Description and Coding System.

^b The data refer to 2012.

^c Data obtained through mirror statistics.

Figure III.8
Latin America and the Caribbean: exports to China by product, 2000-2013
 (Millions of dollars)



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

Consistent with the foregoing observation, the five leading export products of all countries of the region (except Mexico) 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 agribusiness 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 III.3).

Owing to their high intensity in extractive-industry products, Latin America's exports to China create relatively fewer jobs and generate a greater environmental impact than the region's exports to the rest of the world. A recent study¹⁵ shows that between 2009 and 2012, the region's exports to China generated between 44 and 47 direct jobs per US\$ 1 million exported (at 2002 prices), whereas the same value of exports to the world at large created 54 and 56 direct jobs in that period. The same study shows that sales to China generate larger greenhouse gas emissions and consume more water per dollar exported than the region's exports worldwide (see figure III.9).

¹⁵ Rebecca Ray, Kevin P. Gallagher, Andrés López and Cynthia Sanborn (eds.), *China in Latin America: Lessons for South-South Cooperation and Sustainable Development*, Global Economic Governance Initiative, Boston University (2015) [online] <http://www.bu.edu/pardeeschool/files/2015/04/Working-Group-Final-Report-Pages1.pdf>.

Table III.3
Latin America and the Caribbean (selected countries): top five exports to China, 2013
(Percentages of total exports)

Country	Sum of the five leading products	First	Second	Third	Fourth	Fifth
Argentina	85	Soybeans, including broken	Crude petroleum oils and oils obtained from bituminous minerals	Soybean oil and its fractions; whether or not refined	Unprocessed tobacco; tobacco refuse	Raw hides and skins of bovine or equine animals, shaved and prepared
Bolivia (Plurinational State of)	85	Precious metal ores and concentrates	Unwrought tin	Zinc ores and concentrates	Lead ores and concentrates	Tin ores and concentrates
Brazil	87	Soybeans, including broken	Iron ores and concentrates, including iron pyrites	Petroleum oils and oils obtained from bituminous minerals	Cane or beet sugar and chemically pure sucrose	Chemical wood pulp, soda or sulphate
Chile	88	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
Colombia	97	Crude petroleum oils and oils obtained from bituminous minerals	Ferro-alloys	Copper waste and scrap	Coal; briquettes, ovoids and similar solid fuels	Aluminium waste and scrap
Costa Rica	90	Integrated circuits and electronic micro-assembly	Electrical apparatus for splitting, switching, protecting and deriving	Bovine or equine raw hides and skins (fresh or salted)	Copper waste and scrap	Cane or beet sugar and chemically pure sucrose

Table III.3 (continued)

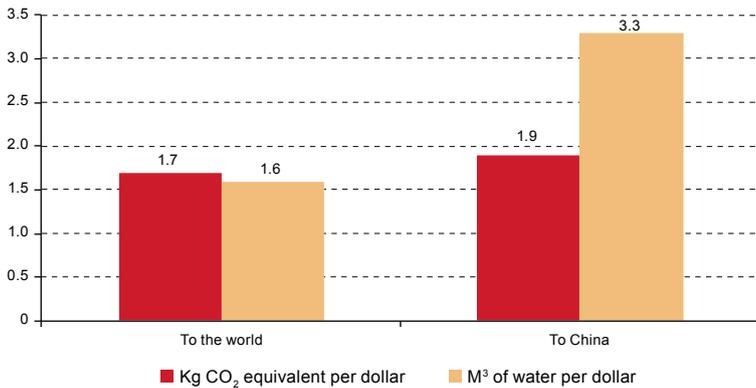
Country	Sum of the five leading products	First	Second	Third	Fourth	Fifth
Cuba	98	Cane or beet sugar and chemically pure sucrose	Nickel mattes; nickel oxide sinters and other intermediate products 36	Petroleum oils and oils obtained from bituminous minerals 15	Cobalt ores and concentrates 3	Copper waste and scrap 1
Dominican Republic		Copper ores and concentrates	Ferro-alloys	Copper waste and scrap	Instruments and appliances used in medical, surgical, dental or veterinary sciences 7	Ferrous waste and scrap, melted; scrap ingots 4
Ecuador	86	32	25	17	Copper waste and scrap	Precious metal ores and concentrates 4
		Crude petroleum oils and oils obtained from bituminous minerals	Crustaceans, including shelled, live, fresh, chilled, frozen	Flours, meals and pellets, of meat or of meat offal, of fish or of crustaceans		
	87	54	13	11	7	3
El Salvador		Recovered (waste and scrap) paper or paperboard	Aluminium waste and scrap	Waste, parings and scrap of plastics	Polymers of ethylene, in primary forms 8	Ferrous waste and scrap, melted; ingots 7
	80	39	14	12		
		Cane or beet sugar and chemically pure sucrose,	Waste, parings and scrap of plastics	Paper or cardboard for recycling (waste and scrap)	Coffee, including roasted or decaffeinated; coffee husks and skins 1	Aluminium waste and scrap 1
Guatemala		92	2	2		
	98	Iron oxides and hydroxides; earth colours	Precious metal ores and concentrates	Mineral substances not elsewhere specified or included	Zinc ores and concentrates	Cane or beet sugar and chemically pure sucrose 4
Honduras		68	7	5	5	4
	89	Motor cars and other motor vehicles for the transport of persons	Copper ores and concentrates	Petroleum oils and oils obtained from bituminous minerals	Electrical apparatus for line telephony or line telegraphy	Copper waste and scrap 6
	64	21	18	10	8	6

Table III.3 (concluded)

Country	Sum of the five leading products	First	Second	Third	Fourth	Fifth
Nicaragua		Bovine or equine raw hides and skins, shaven, prepared	Wood sawn or chipped lengthwise, sliced	Wood, including strips and baseboard for parquet flooring (not assembled)	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 fish or crustaceans	Aluminium waste and scrap	Wood sawn or chipped lengthwise, sliced	Bovine or equine raw hides and skins, shaven, prepared
	90	42	24	14	5	4
Paraguay		Copper waste and scrap	Bovine or equine raw hides and skins, shaven, prepared	Aluminium waste and scrap	Wood sawn or chipped lengthwise, sliced	Ferrous waste and scrap, melted, scrap ingots
	92	35	33	9	8	8
Peru		Copper ores and concentrates	Refined copper and copper alloys, unwrought	Flours, meals and pellets, of meat or of meat offal, of fish or of crustaceans	Iron ores and concentrates, including pyrites	Zinc ores and concentrates
	86	46	14	12	12	3
Uruguay		Soybeans, including broken	Meat of bovine animals, frozen	Wool, not combed or carded	Milk and cream, concentrated or containing added sugar or other sweetening matter	Wool and fine or coarse animal hair, carded or combed
	84	50	20	6	5	3
Venezuela (Bolivarian Republic of)		Petroleum oils and oils obtained from bituminous minerals	Petroleum oils and oils obtained from bituminous minerals, except crude oils	Iron ores and concentrates, including pyrites	Ferrous products obtained by direct reduction of iron ore	Bovine or equine raw hides and skins, shaven, prepared
	100	77	18	4	0	0
Caribbean Community (CARICOM)		Petroleum gases and other gaseous hydrocarbons	Wood in the rough, whether or not stripped of bark or sapwood	Copper waste and scrap	Materials not elsewhere specified	Orthopaedic appliances including crutches and surgical trusses
	76	47	10	8	6	5

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

Figure III.9
Latin America and the Caribbean: environmental impact of exports
to the world and to China, 2004



Source: Rebecca Ray and others (eds.), *China in Latin America: Lessons for South-South Cooperation and Sustainable Development*, Global Economic Governance Initiative, Boston University, 2015 [online] <http://www.bu.edu/pardeeschool/files/2015/04/Working-Group-Final-Report-Pages1.pdf>.

As described in this section, although the region has benefited in various ways from the growth of its sales to China, the composition of the export basket remains a cause for concern. The persistence of a clear commodity bias in exports to that country hinders attempts by the region's governments to move towards a more diversified, knowledge-intensive and socially and environmentally sustainable productive and export structure. In this context, export diversification is an urgent challenge. The next section addresses agriculture, which is often mentioned as one of the sectors offering the best prospects for diversification of the region's exports to China in the next few years.

B. Agricultural trade

With just 7% of the world's arable land and 6% of its water resources, China has to feed 22% of the world's population. It became a net food importer in 2004, and since then it has had a growing trade deficit in the agriculture sector. Moreover, China is going through intense processes of urbanization and expansion of the middle-class. The urban population, which in 2014 amounted to 758 million people (54% of the total population), is expected to increase by 39% by 2050, when it will reach

1.05 billion (76% of the total).¹⁶ The middle class (defined as households with an average expenditure of between US\$ 10 and US\$ 100 per day) comprised 247 million people in 2012 (18% of the population), and is projected to reach 607 million (44% of the total) by 2020.¹⁷

Agriculture and agribusiness are promising sectors for diversifying the region's exports to China. The transformations currently under way in that country are already producing changes in its food consumption patterns. Urban income growth is usually associated with a change in diet, with a larger share of proteins, processed foods, and generally those with higher levels of quality and safety or special properties (see box III.1). This provides a considerable opportunity for Latin America and the Caribbean, several of whose countries are highly competitive food exporters. With its vast natural and water resources, the region has comparative advantages as one of China's leading suppliers of nutritious, safe and high-quality foods.

Box III.1

Prospects for the food market in China to 2040

The November 2011 study *Food 2040*. The future of food and agriculture in East Asia contains a forward-looking analysis of the likely trend of the food market in East Asia over the next three decades. This study, prepared by the consultants Informa Economics and Foresight Alliance for the U.S. Grains Council, identifies six broad trends that are likely to shape that market going forward. These are summarized below, stressing their features and specific implications for China.

- 1. East Asia will become a world leader in bioscience.** This largely responds to the need to improve agricultural incomes, given the disparity that exists between its vast population and limited arable land area. China, in particular, has invested heavily in biotechnology, and the government supports the development of genetically modified foods. Ongoing and future research will increasingly focus on developing crop varieties that are more resistant to the effects of climate change.
- 2. The behaviour of Chinese consumers will heavily influence the world's agricultural and food product markets.** This influence will be reflected in many ways. China will redefine global agribusiness, biotechnology, processing, logistics and food trade, increasingly from a position of strength.

¹⁶ United Nations, *World Urbanization Prospects: The 2014 Revision, Highlights* (ST/ESA/SER.A/352), New York, Population Division 2014 [online] <http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf>.

¹⁷ Estimates by Homi Kharas, of the Brookings Institution, quoted in *The Wall Street Journal* (2012), "Chasing China's shoppers", 14 June.

Box III.1 (concluded)

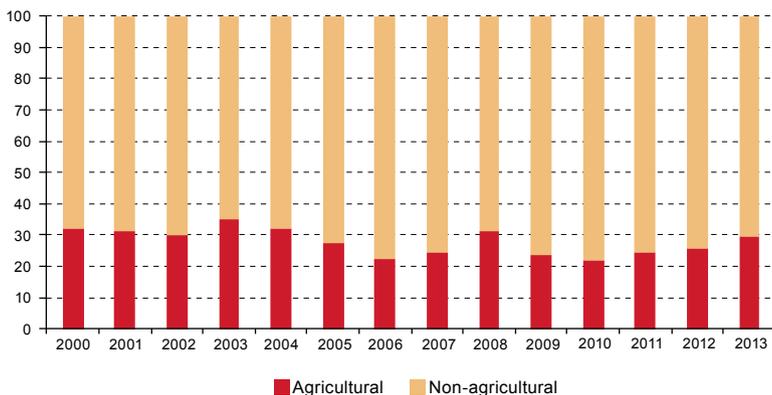
It will also continue to expand its production abroad, by renting or buying agricultural land in other developing regions, the produce from which will be exported to China to guarantee its food security.

3. **Asian consumers will demand more safety in their food products.** In 2040, a large proportion of the value of foods in East Asia will stem from the capacity to provide verifiable information on their safety, quality and traceability. Products that can fulfil these standards will obtain significant price differentials. Nonetheless, the Chinese food industry has lagged behind in this area, and this has opened up spaces for imported products. A key example is the success achieved with baby milk powder formulas which the Argentine dairy co-operative San Cor started to export to China in January 2013, in conjunction with a local partner.
4. **East Asia offers major opportunities for food products with special properties.** This continent has a long tradition of using food consumption to achieve health objectives. This, together with the increasing ageing of its population, opens up vast opportunities for “functional foods,” which, in addition to their nutritional characteristics, contain various biological components to improve health and reduce the risk of contracting diseases.
5. **The Asian population will increasingly consume foods prepared outside their homes.** This trend is particularly clear in Japan, for a number of reasons, including the fact that fewer people are getting married and those who do, marry later. This is compounded by a trend towards smaller families, greater female labour participation and the penetration of Western fast food chains. Nonetheless, China is likely to follow a similar path in the coming decades, which means that the market for ingredients will shrink in relative terms, whereas the market for prepared foods will expand. Opportunities will also open up for new technologies and methods of food production, preservation, and even delivery.
6. **The Asian food market will evolve towards the coexistence of multiple niches.** Consistently with the aforementioned trends, the next few decades will see a “hyper-nichification” of the food market in East Asia. Its population, with increasingly high incomes and more sophisticated tastes, will demand a wide range of specialty foods. This will generate multiple markets for foods, differentiated by brand, style, nutritional or health properties, mode of cultivation or preparation.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of U.S. Grains Council, *Food 2040. The future of food and agriculture in East Asia, 2011* and Gina Caballero, *La restructuración económica china: implicaciones para América Latina. El caso agrícola*, 2013, unpublished.

The proportion of agricultural products in the region's exports to China has been trending upwards since 2010.¹⁸ The agriculture share of total sales rose from 22% in that year to 30% in 2013, which means that the sector is close to recovering the share it had at the start of the last decade (32%), prior to the period of high mining commodity and energy prices (see figure III.10).

Figure III.10
Latin America and the Caribbean: composition
of exports to China, 2000-2013
(Percentages)



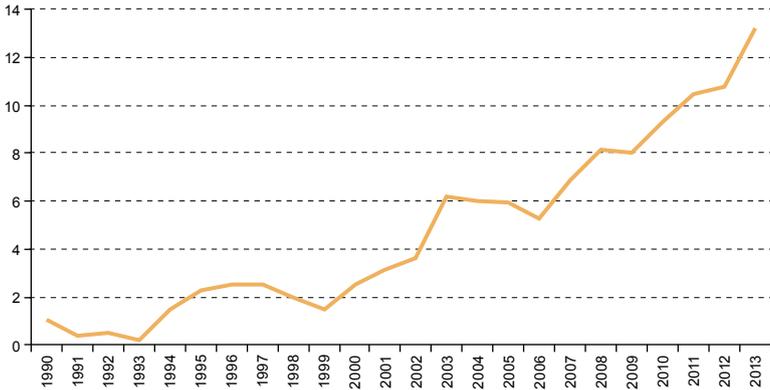
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

China has vigorously expanded its market share of the region's agricultural exports. China's share in the region's agricultural exports rose from 1.1% in 1990 to 2.5% in 2000 and to 13.2% in 2013 (see figure III.11). As noted above, this occurred despite the fact that the share of agricultural products in exports to China is still slightly below the year 2000 figure.

The region is running a large and growing surplus with China in agricultural trade. Whereas its agricultural exports have grown by 27% per year since 2000, to reach US\$ 27.4 billion in 2013, its imports have grown at a rate of 15%, attaining US\$ 1.5 billion in the same year. As a result, in 2013, the region recorded a surplus of US\$ 26.0 billion in its agricultural trade with China (see figure III.12).

¹⁸ In this section agricultural products are defined as in the WTO Agreement on Agriculture, to include commodities, agribusiness products, beverages and alcohols, along with other products such as hides, skins, wool, silk and cotton.

Figure III.11
Latin America and the Caribbean: share of China in agricultural exports to the world, 2000-2013
(Percentages)



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

Figure III.12
Latin America and the Caribbean: agricultural trade with China, 2000-2013
(Millions of dollars)

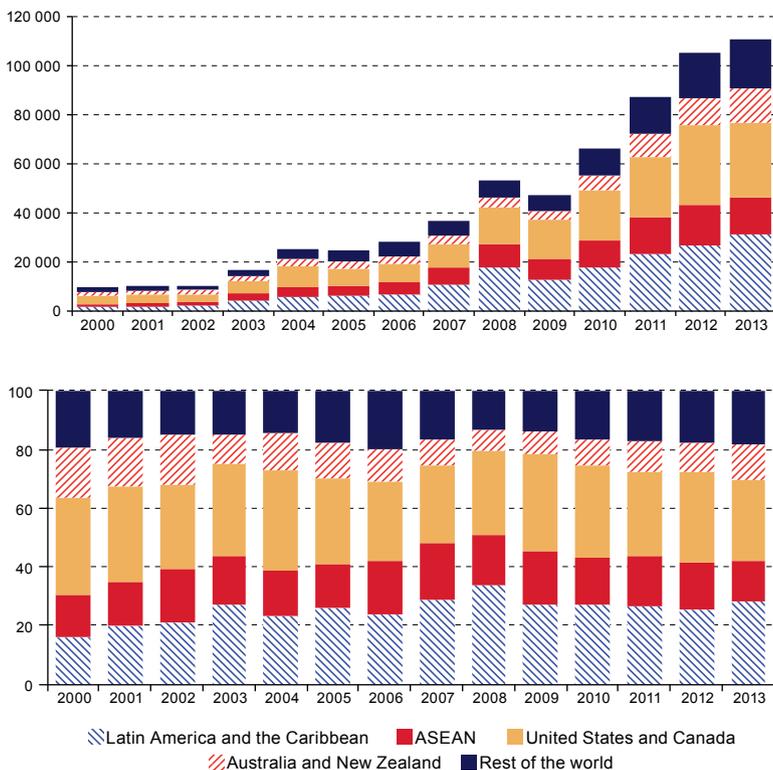


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

The Latin American and Caribbean region has greatly increased its importance as an agricultural supplier for China. The region's share in

Chinese imports of crop and livestock products rose from 16% in 2000 to 28% in 2013. The latter figure is similar to that recorded by the United States and Canada jointly, and more than double the shares of important competitors such as the 10 member countries of ASEAN, on the one hand, and Australia and New Zealand on the other (see figure III.13). This is explained by the fact that, while China's total agricultural imports have grown at 21% per year since 2000, its agricultural imports from the region have grown at an annual rate of 26% and are the fastest-growing among all the source countries shown in figure III.13.

Figure III.13
China: agricultural imports from selected partners, 2000-2013
(Millions of dollars and percentages)



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

The momentum of the region's agricultural exports to China is likely to be maintained in the next few years. This is due not only to the vigorous processes of urbanization and expansion of the middle-class currently under way in China, but also to that country's difficulties in feeding its population. All of these elements help to generate objective conditions of strategic complementarity between the region and China in the agrifood sphere. In 2012 the Chinese authorities set a target for agricultural trade between China and Latin America and the Caribbean to surpass US\$ 40 billion within five years.¹⁹ Nonetheless, it is highly likely that the target will be attained sooner. Unlike total trade, agricultural trade between the region and China has not slackened in recent years; and were it to continue growing at its 2013 rate (25%) over the next few years, it would exceed US\$ 40 billion as early as 2015.

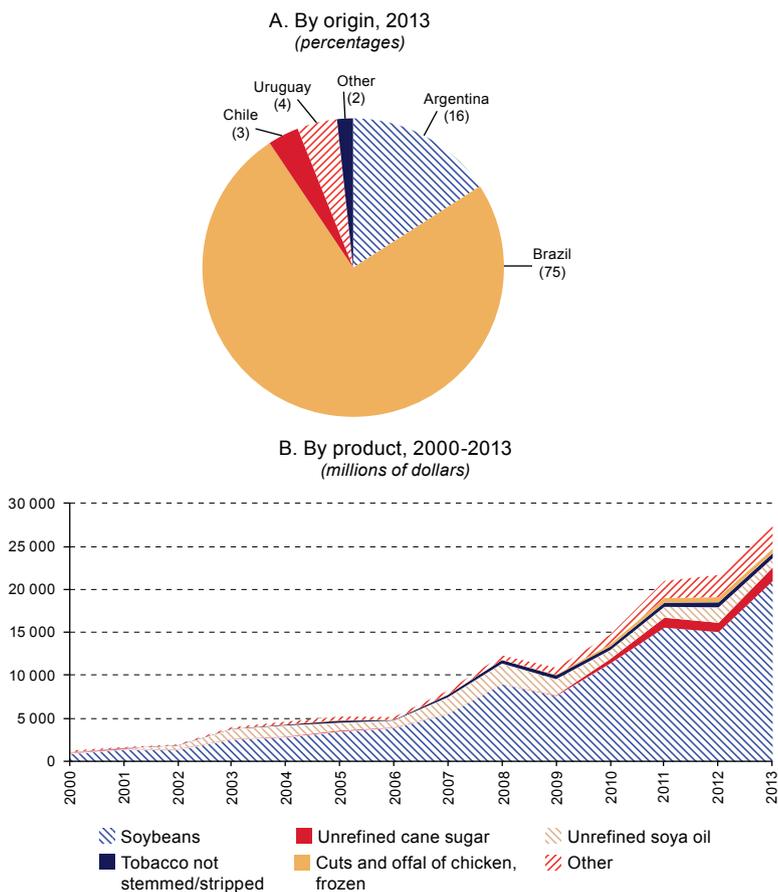
Despite the buoyancy of the region's agricultural exports to China, their very high concentration by origin and product restrict the benefits for the region. At the country level, Brazil alone accounts for 75% of those sales, and when Argentina, Uruguay and Chile are added, their joint share is close to 100% (see figure III.14 A). Brazil is already China's second-largest agricultural supplier after the United States, with a 20% share in imports in 2013. At the product level, agricultural exports to China are even more concentrated than total sales, since a single product (soybeans) represented 77% of the total value exported in 2013. When the next four leading exported products are added, their joint share is 90% (see figure III.14B). Processed products have a minimal share in the current export basket to China, apart from soybean oil; and even the share of this product in agricultural exports to China, which had attained 27% in 2003 and 2004, was just 4% in 2013.

China's agricultural imports from the world as a whole are much less concentrated by product than those obtained from Latin America and the Caribbean. The 10 leading products imported by China worldwide account for 60% of its total agricultural imports (see figure III.15). As is true of imports from Latin America and the Caribbean, soybeans are by far the leading agricultural product imported by China from the world; but while this product accounts for 34% of China's total agricultural imports, its share in agricultural imports from the region is more than

¹⁹ See "Trusted friends forever", address by Premier Wen Jiabao at the Economic Commission for Latin America and the Caribbean (ECLAC) [online] <http://losangeles.china-consulate.org/eng/topnews/t945842.htm>.

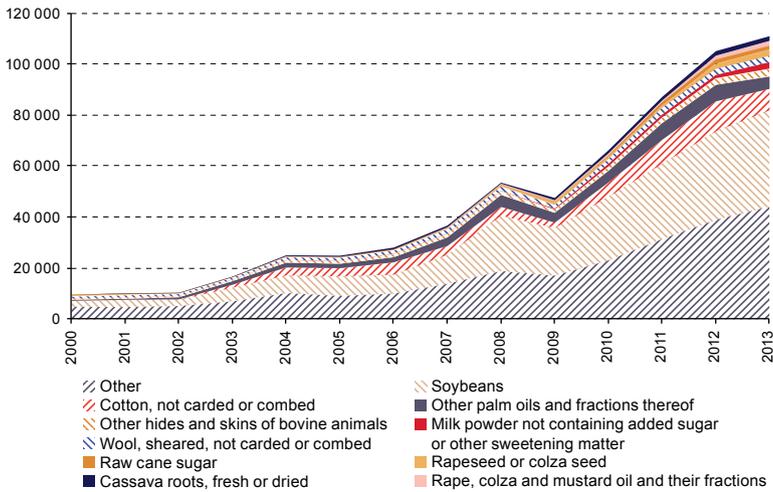
twice that (77%). This suggests that there are still untapped opportunities for diversifying the region's agricultural exports to China. Nonetheless, as is the case for imports from the region, the list of the main agricultural products imported by China from the world as a whole contains few processed products and mainly consists of commodities used as inputs for Chinese industry, such as the food and textiles and garment industries.

Figure III.14
Latin America and the Caribbean: composition
of agricultural exports to China



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

Figure III.15
China: product composition of total agricultural imports, 2000-2013
(Millions of dollars)



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

The countries of the region that have signed free trade agreements (FTAs) with China may find it easier to increase their agricultural exports to that country in the next few years. Three of the region's countries have signed such agreements thus far: Chile (in force since October 2006), Peru (in force since March 2010) and Costa Rica (in force since August 2011). As a result, these countries, particularly Chile, which has had an agreement for the longest, pay tariffs in the Chinese market that are considerably more favourable than the general Most-Favoured-Nation (MFN) regime. In addition, sanitary marketing authorizations, which often take years to obtain, are processed more expeditiously. This tariff advantage could become an effective edge in trade. Nonetheless, access conditions for the three Latin American countries are not as good as those enjoyed by competitors with longer-standing preferential agreements with China, such as the ASEAN countries and New Zealand (see table III.4).

Table III.4
China: average MFN tariffs and for preferential partners, 2013
(Percentages)

Country	All products		Agricultural products		Non-agricultural products	
	Average tariff	Duty-free tariff lines (percentages)	Average tariff	Duty-free tariff lines (percentages)	Average tariff	Duty-free tariff lines (percentages)
MFN	9.4	9.8	14.8	8.1	8.6	10.1
Philippines	0.7	94.8	1.8	93.5	0.6	95.0
Indonesia	0.7	94.8	1.8	93.5	0.6	95.0
Malaysia	0.7	94.8	1.8	93.5	0.6	95.0
New Zealand	0.5	96.7	2.2	91.3	0.2	97.6
Thailand	0.7	94.8	1.8	93.5	0.6	95.0
Vietnam	0.7	94.8	1.8	93.5	0.6	95.0
Chile	0.9	74.5	2.9	67.6	0.6	75.6
Costa Rica	2.8	65.7	7.0	35.7	2.1	70.6
Peru	3.5	61.0	8.2	31.4	2.7	65.8

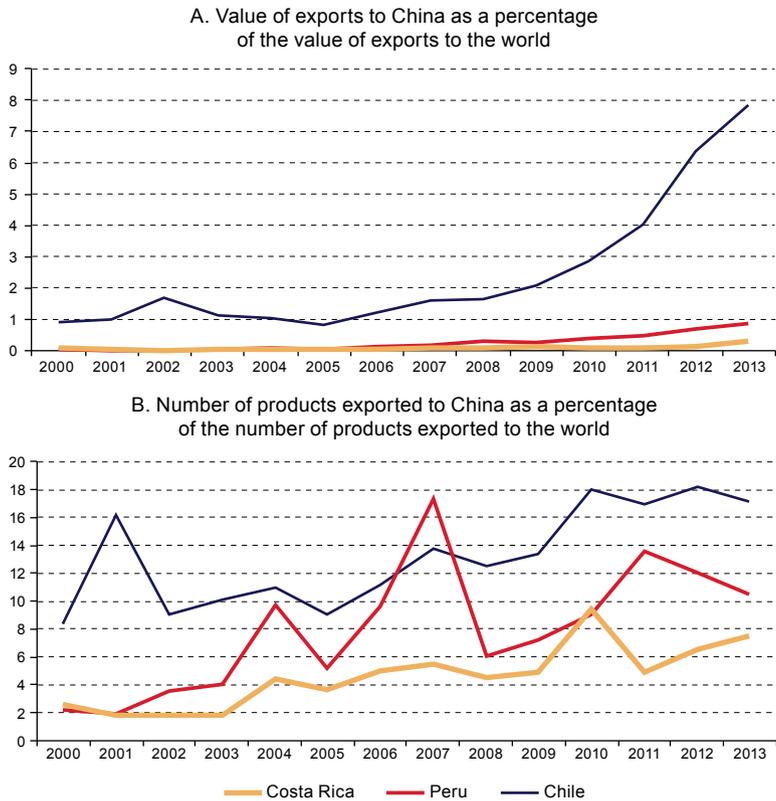
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO) (2014).

The performance of agricultural exports from Chile, Costa Rica and Peru to China seems to suggest a positive impact from the current free trade agreements. This impact seems clearest in the case of Chile, whose FTA with China has been in force longest (eight years). Since its FTA came into force, China's share in Chile's agricultural exports to the world has grown continuously, from 1.2% in 2006 to 7.8% in 2013. China has also increased its share—although it still falls short of 1%—in the worldwide agricultural exports of Costa Rica and Peru, with which it has more recent agreements (see figure III.16 A). In terms of the number of products exported, the impact is again most clearly discernible in Chile. Since the entry into force of its FTA with China, the number of agricultural products exported to that country has increased as a share of Chile's total agricultural products exported to the world, from 11.2% in 2006 to 17.2% in 2013. By contrast, no clear trend has yet emerged in the cases of Costa Rica and Peru (see figure III.16B).

Ongoing trends in Asia open up promising opportunities for partnerships between Latin American agribusiness firms and their Chinese partners. As noted above, Asian consumers increasingly want foods that are trustworthy in terms of their safety, quality and traceability.

Nonetheless, the Chinese agrifood industry still suffers from significant shortcomings in these aspects, such as in terms of cold storage or the maximum levels of certain chemicals in foods. This limits its capacity to supply an increasing proportion of the demand from its own consumers, as well as its export potential. Moreover, several Latin American firms have built up strengths in food production and distribution after successfully entering the most demanding markets. This makes it a natural step for those firms to invest in China, drawing on their know-how to supply the local market and use it as an export platform.

Figure III.16
Chile, Costa Rica and Peru: agricultural exports to China, 2000-2013
(Percentages of agricultural exports to the world)



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

The China-Latin America and the Caribbean Agricultural Ministers' Forum, established in Beijing in June 2013, is a good mechanism for exploring actions to expand trade between the two parties. One of the agreements reached in the Forum's founding meeting was to use this cooperation framework to collaborate on facilitating agricultural trade. The actions envisaged for this purpose include working towards the elimination of tariff and non-tariff barriers, and expediting procedures for approving sanitary and phytosanitary permits.

The Forum could also be an ideal platform to promote knowledge and technology exchange and partnerships between agrifood enterprises in China and the region. The Beijing Declaration stresses mutual interest in promoting joint investments in agribusiness projects aimed at stimulating value added and the processing of agricultural products, as well as improving production infrastructure, transport and logistics. If these partnerships succeed in penetrating the Chinese market's supply and marketing chains, it would open up considerable opportunities for developing dynamic competitive advantages around regional agriculture. A prerequisite for this is to make progress in the exchange of information and experiences on issues such as biotechnologies, food market trends and quality and safety standards.

C. 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 III.5). These figures make up 5% to 6% of the region's total inward FDI flows.

Table III.5
Latin America and the Caribbean and selected 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
Latin America and the Caribbean	7 342	13 712	10 175	9 206	9 624

Source: 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 respective companies.

Note: na = not available.

This trend apparently held steady in 2014 and FDI may even have risen, owing to some large-scale acquisitions in Peru. The first was the purchase by Minmetals of Las Bambas mine from Glencore Xstrata of Switzerland, for a total of US\$ 7.005 billion. This was the largest cross-border acquisition in the region in 2014 and confirmed Chinese business as the main players in Peru's mining sector. The China National Petroleum Corporation (CNCP) also bought Petrobras assets in Peru for US\$ 2.6 billion. Chinese firms have continued to show interest in Brazil and, at the end of 2013, CNOOC and CNPC partnered with Total of France and Shell of the Netherlands in the consortium that won the auction for the deep-sea Libra oil field in Brazil, which will require an estimated total investment of US\$ 200 billion over the next 35 years.

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 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 common 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 sources.

For China, Latin America is primarily a producer of raw materials, and 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. A number of countries, such as Chile and Mexico, have yet to attract significant FDI from China.

There are four major oil companies in China (CNPC, Sinopec, CNOOC and Sinochem), all State-owned and all with 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 purchasing assets belonging to private companies and, in many cases, forming joint ventures with them.

Chinese oil companies have a presence in all the Latin American countries that export oil and gas, except 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 the major investments are in Peru and Brazil. In Peru, all the entries have been since 2007; the one exception is the steelmaker Shougan, 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. In Peru, Chinese

companies operate mines independently (or in partnership with other Chinese companies); in Brazil they have taken minority stakes in existing operations owned by domestic companies.

The concentration of Chinese FDI in mining and oil has led to socio-environmental conflict in some countries in the region.

These episodes are largely the result of weakness in natural resource governance in the region, including weak regulatory frameworks, lack of regulatory oversight, conflicts between different levels of government and inadequate—or non-existent—mechanisms for consultation with the local communities involved. Firms from China, a relatively recent operator in the region by comparison with other countries, can also suffer from lack of familiarity with the policy framework and other factors (such as cultural issues) in the countries where they invest. The relative importance of these and other factors varies depending on the country and sector.

The challenge of making investment more socially and environmentally sustainable requires commitment from all the parties involved.

Governments in the region must build up their regulatory frameworks for investment (local and foreign alike) in extractive activities, and strengthen oversight and enforcement. They also need better coordination between the different levels of government involved in projects and better mechanisms for consultation with local communities. Chinese firms, for their part, should redouble their efforts not only to comply rigorously with regulatory frameworks in the countries where they invest, but also to adapt to local customs and practice. They should also increase efforts to hire and train workers from the areas where they invest, and to generate linkages with local suppliers. Lastly, the Government of China could strengthen mechanisms to ensure compliance with the various guidelines developed over the past 20 years for Chinese firms investing abroad.²⁰

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 has more than 6,000 kilometres of power lines in operation and plans to invest a total of 10,000 million reais

²⁰ A good example is *Guidelines for Environmental Protection in Foreign Investment and Cooperation*. These are voluntary guidelines issued jointly by the Ministries of Commerce and Environmental Protection of China in February 2013 [online] <http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml>.

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.

Chinese FDI in agriculture remains limited, but shows a clear uptrend. The Chongqing Grain Group (CGG) is investing in the Brazilian State of Bahia to develop a soybean processing centre. Along similar lines, COFCO bought six vineyards and warehouses from the winemaker Bisquertt, to sell Chilean wine to the Chinese market, and Joyvio invested in five Chilean farms with a view to exporting fruit to China in partnership with Subsole, a local exporter. Meanwhile a number of firms, including Noble and Kuok, have invested in the ethanol sector in the region.

Chinese FDI in agriculture could increase in the coming years, attracted by the region's advantages for securing the Chinese market's supply needs. An example of this trend is the attempt by the State-owned Heilongjiang Beidahuang Nongken Group Company to lease 300,000 hectares of land in the Argentine province of Río Negro, to grow crops to export to China. There have also been some partnerships between firms in the Brazilian meat sector (Marfrig and BRF Foods) and Chinese businesses (COFCO, Chinwiz and Dah Chong Honf Limited), geared towards entering the Chinese market. Meanwhile, a number of Chilean agrifood companies have invested in China (Río Blanco, Agrícola San Clemente, Viña Errázuriz and Watts, among others).

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 to 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.

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-Latin companies (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 of 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 Molybmet (molybdenum processing).

Three 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. Another is to diversify towards non-extractive industries such as manufacturing, services and infrastructure. The third major challenge is to make Chinese investment more socially and environmentally sustainable, especially in the extractive industries.

In January 2015, the CELAC member countries and China agreed to aim for a mutual investment stock target of at least US\$ 250 billion by 2025. Given the difficulties of measuring real flows of Chinese FDI into the region, it is hard to estimate the existing investment stock, and therefore difficult to estimate the gap vis-à-vis the target set for 2025. Be this as it may, just as important as increasing the volume of Chinese FDI in the region is diversifying it into non-extractive activities, and thus boosting its contribution to capacity-building and quality employment in host countries.

The reforms under way in China could give a strong boost to FDI flows into Latin America and the Caribbean in the next few years.

In keeping with the stated intentions of the Chinese authorities, outflows of Chinese capital should increase in response to the slower rate of investment expansion in China, excess capacity in some industries, rising labour costs and the search for reliable and profitable opportunities to

invest surplus savings. The Latin American and Caribbean region offers interesting opportunities for this sort of capital, including a large consumer market, the proximity and preferential access some of its economies enjoy to the United States market, and an abundance of natural resources. On this last point, and as noted earlier, great opportunities could be envisaged in the agricultural and agrifood sectors. In fact, the region could play a strategic role in ensuring China's food security in the coming decades.

Bringing these initiatives to fruition will require investment promotion agencies to play a stronger role in the region. Consistently with the economic reforms under way, Chinese private enterprise may be expected to increase its footprint in the region in the coming years. This will call for major efforts to provide these firms with information on applicable regulatory frameworks and on potential investment projects.

At the same time, the region must invest more extensively in China if it is to take full advantage of many of the business opportunities arising there in the next few years. Being closer to final consumers in China would enable Latin American firms to respond more quickly and efficiently to shifting demands. This is a complex challenge, but one which must be tackled urgently. Moreover, in addition to promoting diversification of goods exports to China, the region's governments should support direct presence of Latin American and Caribbean firms in that market. In this regard, lessons may be drawn from the experience of several pioneering trans-Latin companies which have set up in China. It will also be important to monitor the opportunities arising from initiatives such as the Shanghai free trade area opened in 2013.

IV. China-CELAC Cooperation Plan 2015-2019

The China-CELAC Cooperation Plan (2015-2019) was adopted at the First Ministerial Meeting of the China-CELAC Forum, held in Beijing on 8 and 9 January 2015. The Plan sets out 13 thematic areas of work, 8 of which are in economic spheres: Trade, Investment and Finance (III), Infrastructure and Transportation (IV), Energy and Natural Resources (V), Agriculture (VI), Industry, Science and Technology, Aviation and Aerospace (VII), Education and Human Resources Training (VIII), Tourism (XI) and Environmental Protection, Disaster Risk Management and Reduction, Poverty Eradication and Health (XII).²¹

The scope for potential cooperation is therefore extremely broad and varied. For the time being, the thematic areas propose only general goals and lines of action, which would need to be grounded in specific initiatives and projects. The themes are also indicative, and may be subject to change as the China-CELAC dialogue is deepened. China has established a technical secretariat for the ongoing evaluation of progress in these areas, and it would be fitting for CELAC to respond in kind. Considerable political and technical challenges must be overcome in order to make the transition from general formulations to specific projects and initiatives. Political challenges include the need for Latin American and Caribbean countries to establish forums for discussing the types of initiative that would be best adapted to the objectives set out in the Plan. Such initiatives should reflect the necessary balance between

²¹ The other thematic areas are Policy and Security (I), International Affairs (II), Culture and Sports (IX), Press, Media and Publication (X) and People-to-People Friendship (XIII).

subregions and the demands of the integration progress, as well as urgent requirements arising from the prevailing economic conditions.²²

On the technical front, the general objectives need to be endowed with more operative content. This in turn requires some analytical refining, along with the identification of complementarities between initiatives and synergies between initiatives and national and subregional policies. Another requirement is that the contents of the Cooperation Plan be disseminated among the region's economic actors, particularly business groups and trans-Latin corporations. This is a major dialogue and outreach undertaking that has not yet commenced, and which is holding up the launch of the Plan. In that sense, CELAC is facing a huge coordination challenge at the technical and political levels. To tackle it, the Community should probably seek the support of regional bodies specializing in economic development, as well as universities and academic centres. Together, these institutions may contribute to an updated diagnostic of the region's main shortcomings and the viability and likely social return of the various initiatives that may be launched in the framework of the Cooperation Plan.

The main objectives established under the economic themes of the Cooperation Plan are set out below, along with some suggested lines of action.

A. Trade and investment ²³

- *Increase the level of bilateral trade to US\$ 500 billion in 10 years.*
- *Work together to make trade balanced and mutually beneficial.*
- *Raise the stock of reciprocal investment to at least US\$ 250 billion in the next 10 years, and the CELAC stock of investment with particular emphasis on high-technology and value-added goods production.*
- *Boost trade in services and e-commerce.*
- *Properly handle trade frictions in compliance with World Trade Organization (WTO) rules and existing trade agreements between the parties.*

²² For example, in March 2015, a meeting was held at ECLAC headquarters in Santiago with a view to advancing progress in the identification of viable spaces for infrastructure cooperation. The meeting was attended by experts from ECLAC, the China Development Bank and the Development Bank of Latin America (CAF).

²³ The objectives established in the Cooperation Plan are given in italics.

- *Stimulate investment and the forging of joint ventures and partnerships.*
- *Encourage cooperation between small and medium-sized enterprises, supporting their internationalization and presence in global value chains.*
- *Enhance collaboration in customs and quality inspection.*

Trade between Latin America and the Caribbean and China has grown at a remarkable rate in the past 15 years, although serious shortcomings remain and cannot be ignored. Most Latin American and Caribbean countries run a trade deficit with China. Trade is almost exclusively inter-industrial, and is characterized by the exchange of manufactured goods for raw materials. This asymmetry is reflected in the region's basket of exports to China, which is extremely concentrated. Agro-industrial products, in which several Latin American countries are competitive in highly demanding third markets, scarcely figure among exports to China. Meanwhile, the growing manufactured goods trade deficit with China is a source of concern in Latin America and the Caribbean. In short, the current pattern of trade between the two parties diminishes the potential for Sino-Latin American business partnerships and makes it difficult for the countries of the region to enter Asia-Pacific production chains more effectively.

The Chinese authorities have shown themselves willing to maintain a dialogue on the challenge of diversifying the region's exports to China, seeking mutually beneficial agreements. However, such agreements have been slow to materialize, largely because the region has not yet articulated its response through a specific agenda. The China-CELAC Cooperation Plan 2015-2019 creates a space for conducting this dialogue in an institutional setting. Specifically, the framework of the Plan provides for the possibility of establishing 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, which would seek to support exports from the region to China, encouraging diversification and promoting trade and investment partnerships with Chinese companies. It would also provide institutional support to facilitate organized dialogue with Chinese authorities involved in trade and investment.

Such a Centre would also help 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 perform some of the following functions:

- Help understand and manage cultural differences in the business arena.
- Coordinate exporters and embassies in the region on specific aspects of trade and investment with China.
- Provide a forum for brainstorming and representing regional interests before the relevant Chinese authorities, including local governments.
- Represent the region in a bilateral technical body devoted to examining trade and FDI 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 the region.
- Prepare 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, and requirements for establishing joint ventures with Chinese companies, among others).
- Provide referrals on possible Chinese export, import and investment counterparts, building databases that provide greater legal certainty for small and medium-sized Latin American and Caribbean firms.
- Provide 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.
- Provide a forum for dialogue aimed at preventing or resolving disputes through negotiation, taking a long-term view geared towards mutual benefit.

- Promote business opportunities in Latin America and the Caribbean.
- Provide information on foreign trade and investment regimes in the region.
- Conduct basic market research.

B. Infrastructure and transportation

- *Foster cooperation in areas such as transportation, ports, roads and warehouse facilities, business logistics, information and communications technologies, broadband, radio and television, agriculture, energy and power, and housing and urban development.*
- *Encourage enterprises from China and CELAC countries to participate in key projects for the integration of Latin America and the Caribbean and the improvement of connectivity between China and CELAC countries.*

Some advances have already been made in the area of infrastructure. One initiative is the Integration Priority Project Agenda (API), drawn up by the South American Infrastructure and Planning Council (COSIPLAN) of the Union of South American Nations (UNASUR). The Agenda is made up of **31 strategic projects with a large impact on the region's physical integration and socioeconomic development, involving an investment amount estimated at US\$ 21.173 billion.** These projects are designed to encourage connectivity through the construction and efficient operation of infrastructure, while taking into account sustainable social and economic development criteria and preserving the environment and the balance of ecosystems. The components of the Agenda are not isolated but are **“structured projects” because they strengthen physical connectivity networks that are regional in scope, with the purpose of enhancing existing synergies and solving deficiencies in the infrastructure in place.**²⁴

API was devised by the 12 member countries of UNASUR, approved by the Ministers at the Second Ordinary Meeting of COSIPLAN (Brasilia, November 2011) and ratified by the Presidents at the Sixth Meeting of the Council of Heads of State and Government of UNASUR (Lima, November 2012). In December 2014, the presidents of UNASUR member countries declared that priority would be given to seven key infrastructure

²⁴ See [online] <http://www.iirsa.org/Page/Detail?menuItemId=33>, date of reference 27 April 2015.

projects for regional connectivity, with an estimated cost of between US\$ 12 billion and US\$ 14 billion. These seven projects are:

1. Caracas-Bogotá-Buenaventura/Quito Road Corridor
2. Northeastern Access to the Amazon River
3. Paranaguá-Antofagasta Bioceanic Railway Corridor
4. Routes Interconnecting Venezuela, Guyana and Suriname, including the Construction of the Bridge over the Corentyne River
5. Improvement of Navigation Conditions on the Rivers of the La Plata Basin
6. Foz do Iguazu-Ciudad del Este-Asunción-Clorinda Road Connection
7. Paraguay-Argentina-Uruguay Railway Interconnection

This list provides a specific agenda of projects, which may serve as a platform for further progress through the identification of economic activities that may complement or benefit from these initiatives. The impact of these infrastructure projects on social profitability and private returns from various business activities, as well as the scope for continued progress in building subregional production chains, clearly illustrates the potential of infrastructure investment for regional competitiveness, intraregional trade and regional integration prospects.

Several projects are still awaiting pre-feasibility studies, and in this regard there is ample space for cooperation with Chinese agencies, since the governments of the region do not always have the fiscal space required to fund the pre-execution stage. As is known, these projects are implemented on the basis of international tendering processes. Where projects, or sections thereof, are financed by governments, it is also possible to find space for cooperation with Chinese agencies. In other cases, the space for cooperation corresponds to participation in the public tendering phase.

C. Energy and natural resources

- *Enhance technological research and development in the sustainable use of natural resources.*
- *Strengthen collaboration and investment in the electricity sector, including power generation, high- and ultra-high voltage power transmission, water resources planning and development, bio-energy, solar, geothermal and wind power.*

- *Promote training programmes for technicians and experts in the management and development of renewable energy.*

Below is a list of some of the spheres in which CELAC member countries could agree on possible linkages between infrastructure, energy and natural resources.²⁵ Once consensus has been reached, it will be possible to identify the main gaps and the policies needed to close them, coordinating national, subregional and regional efforts with the cooperation envisaged in the Cooperation Plan.

- The economic infrastructure gap in Latin America and the Caribbean: evolution of the stock of economic infrastructure, the situation of public and private investment in infrastructure, analysis of infrastructure supply and demand in the medium and long term, training and capacity-building.
- Integrated and sustainable policies on infrastructure, logistics and mobility: analysis of the impact of public policies in the region, tools for incorporating criteria of comprehensiveness and sustainability into public policies, groundwork for public-private dialogue and regional dialogue on national logistics and mobility policies.
- Infrastructure and natural resource governance: the relationship between infrastructure governance and natural resource governance, strategic recommendations and training in infrastructure and logistics to enhance the sustainable use of natural resources.
- Sustainability of logistics chains: promoting value-added logistical services, performance indicators for logistical chains and corridors, energy efficiency and sustainability of logistics chains.
- Analysis of the long-term trends and prospects for energy investment in Latin America and the Caribbean, with emphasis on the technological options that are set to dominate the region in the next decade.
- Economic, social and environmental impact studies on energy megaprojects currently under consideration in the region, with a time frame to 2030.

²⁵ The Economic Commission for Latin America and the Caribbean (ECLAC) and the Development Bank of Latin America (CAF) have extensive experience in research activities and the provision of technical assistance in these thematic areas.

- Analysis and proposals for overcoming social, economic, labour and environmental conflicts related to energy, water and mining projects, which could hamper an appropriate regional response in terms of the domestic supply of natural resources and related services.

D. Challenges for CELAC

The China-CELAC Cooperation Plan 2015-2019 refers to several summits and forums that are due to be held in the coming years. Some of these meetings are a continuation of existing processes, such as the China-LAC Agriculture Ministers' Forum, the China-LAC Think Tanks Forum, and the China-LAC Business Summit, whose ninth edition will take place in October 2015 in Guadalajara, Mexico. New high-level meetings proposed under the Cooperation Plan include the China-LAC Capital City Mayors' Forum, the China-LAC Local Governments Cooperation Forum, the China-LAC Infrastructure Forum, the China-LAC Energy and Mineral Resources Forum, the China-LAC Industrial Development and Cooperation Forum and the China-LAC Scientific and Technological Innovation Forum. With due preparation, all of these meetings could give renewed impetus to cooperation within CELAC and between CELAC and China, insofar as they identify specific spheres of action and clearly define the parties responsible for implementation and funding.

This ambitious meeting schedule requires significant prior political coordination among the members of CELAC, as well as technical work that accurately identifies the best way forward so that cooperation can be reflected in concrete and measurable outcomes. In this context, CELAC could prepare a work agenda to ensure that its members can draw on sufficient technical preparation and political coordination when attending the various summits suggested in the Plan. For example, the organizational tasks corresponding to CELAC ahead of these summits and forums could be assigned to different countries. This would enable those countries to organize technical preparation activities that could even result in documents or proposals that would in turn facilitate political decisions within CELAC and improve dialogue with China at these meetings.

Similar work might be necessary in order to access the funds committed as part of the cooperation process. The Cooperation Plan (and previous statements given by Chinese high-level authorities)

mention the following: (i) a US\$ 5.0 billion cooperation fund designed to promote cooperation in industrial manufacturing projects, new technologies and sustainable development; (ii) a US\$ 10.0 billion credit line for infrastructure construction including railways, roads, ports, power plants, electrical grids and telecommunications facilities; and (iii) a US\$ 50 million agricultural cooperation fund, intended to create five to eight agricultural research and development centres, agro-industrial parks and agricultural investment and development zones. These funds are initial contributions by Chinese agencies, and counterparts are expected to be announced by the region. In all of these spheres, the participation of regional development banks and the member countries of CELAC would help deliver a more streamlined agenda, both at the project level and in terms of financing arrangements.

Progress on this agenda is of immediate importance and would help identify national, subregional and even regional priorities in several of the thematic areas outlined in the Cooperation Plan. This, in turn, would lead to the creation of synergies, financing and complementarities that could facilitate and increase the profitability of initiatives which, without cooperation and the coordination of national priorities, would probably take much longer to become a reality. For the time being, a highly useful exercise would be to identify points of intersection between the China-CELAC cooperation agenda and the objectives, targets and indicators that CELAC is seeking to generate with a view to 2020. This concern is raised in the Cooperation Plan, which refers to the common interest in achieving progress on the post-2015 development agenda.

V. Concluding remarks

Economic relations between Latin America and the Caribbean and China have flourished in the past 15 years. Trade has witnessed extraordinary growth, increasing 22-fold between 2000 and 2014, while foreign direct investment flows and Chinese capital inflows in general have also surged. This process occurred in the context of a Chinese economy that posted yearly growth of 10% between 2000 and 2011, fuelling a “supercycle” of high commodity prices that benefited much of the region and South American countries, in particular.

Since 2012, growth has slowed both in China and Latin America and the Caribbean. For its part, China is seeking a growth rate compatible with its ambitious programme of reforms, and is aiming to avoid any negative impact on job creation as a consequence of slower growth. In this context, it is likely that its economy will grow at rates of between 6% and 7% for the rest of the decade. In Latin America and the Caribbean, growth has faltered owing to a combination of internal and external factors. Stagnating investment and weakening consumption on the domestic front have been compounded by the aforementioned slowdown of the Chinese economy, leading to a softening of demand for commodities and a consequent drop in prices.

In view of current conditions, bilateral economic relations face a number of challenges in the coming years. From the Latin American and Caribbean perspective, the main issue in need of attention seems to be export diversification, on which no progress has been made despite

the surge in trade with China. In 2013, just five products, all primary, accounted for 75% of the region's exports by value to China, as compared with 47% in 2000, indicating a strong reprimarization process during the intervening period. The dynamics of Chinese foreign direct investment in the region reinforce this pattern, since extractive industries (especially mining and hydrocarbons) received 90% of said investment between 2010 and 2013. This has also led to social and environmental conflicts in some countries.

The Chinese authorities have signalled that the drivers of the country's growth in recent decades are no longer sufficient, and that henceforth increased productivity will play a key role in maintaining high and sustainable growth. In keeping with that assessment, reforms are under way to improve China's integration in the knowledge economy through a massive investment drive in human capital, science, technology and innovation. Notwithstanding obvious differences, and the heterogeneity of the region itself, Latin America and the Caribbean faces a similar challenge. Progress towards more prosperous and equal societies will require that the region leave behind the current model in which linkages with the global economy consist of exports of raw materials and manufactures with little local value-added.

China recognizes the strategic nature of its ties with Latin America and the Caribbean, as witnessed by increasingly close relations since 2008, culminating in the agreement of the China-CELAC Cooperation Plan 2015-2019. At the initiative of the Chinese authorities, the Plan contains ambitious targets for the growth of trade and foreign direct investment between the two parties over the next decade. While these targets are welcome, it is clear that an emphasis on quantitative objectives alone will not help the parties overcome the significant shortcomings in their economic relations. At present, actions to shift the structure of trade and investment flows are as important—or more so—as steps to increase their volume in absolute terms. In particular, Latin America and the Caribbean needs to make much more progress in diversifying its exports to China, an objective whose fulfilment would be assisted by the diversification of Chinese FDI towards non-extractive industries. Responsibility for achieving this progress rests with the governments of the region and China, as well as their respective private sectors.

China's strong interest in enhancing links with Latin America and the Caribbean offers a historic opportunity for the region. More plentiful, more diversified Chinese investment flows in the coming years could not only transform economic and trade relations between the two parties, but could also promote production integration within the region. For example, greater Chinese presence in the automotive, agro-industry and electronics sectors, coordinated with local suppliers, could strengthen regional value chains and help increase the customarily low level of intraregional trade in Latin America and the Caribbean.

Insofar as cooperation with China contributes to closing the region's infrastructure, logistics and connectivity gaps, it would also stimulate intraregional trade and the emergence of regional value chains. Conversely, the region's wealth of accumulated experience in innovative social policies, urbanization, environmental protection and many other fields could enrich policies for addressing China's huge challenges on the road to development. The China-CELAC Cooperation Plan 2015-2019 provides a suitable institutional framework for progress in all these areas. It is now up to both parties to agree upon mutually beneficial initiatives that will give that cooperation concrete form.

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