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Latin America meets China and India:

prospects and challenges for trade and investment

Osvaldo Rosales and Mikio Kuwayama

The high growth levels projected for China and India will make these two countries the most important pole of the global economy for the next few years, creating a market of great potential for Latin American and Caribbean exports. These markets had remained largely untapped until recently, with the exception of certain South American primary products. Latin America should strengthen its ties with the two Asian countries, in order to increase production synergies with them. Free trade agreements and trade and investment partnerships should also be established, in order to increase access to both markets and facilitate insertion into Asian production and export chains.

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I
Introduction

Asia is the most buoyant region in the world economy in terms of growth, international trade, foreign direct investment, technological innovation and the generation of the financial resources needed to maintain international balances. One important feature of its emergence as a centre of global economic activity is the dominant role played by China and India. The reordering of Asia's economy and trade around these two countries is the most important process of its kind underway in the region. In addition, both countries have expressed an unprecedented level of interest in establishing strategic relationships with Latin America and the Caribbean. Given their high projected growth levels, China and India will remain the most important driver of world economic growth in coming years, creating a market of great potential for exports from Latin America and the Caribbean. These markets had remained largely untapped until recently, with the exception of certain primary products.

II
Chief characteristics and economic and trade performance

1. China and India confirm trend toward rapid growth

The past few years have witnessed a significant increase in the global economic importance of China. In terms of Gross Domestic Product (GDP), measured at current prices, China became the world's fourth largest economy in 2005, after the United States, Japan and Germany. It has already surpassed the United Kingdom and France. In terms of purchasing power parity (PPP), its GDP is second only to that of the United States. China alone was responsible for over 27% of world GDP growth in 2005, in PPP terms – a contribution larger than that of the United States, the European Union and Japan combined (ECLAC, 2006), and one which has undoubtedly helped to maintain the global growth rate. The Chinese economy grew by 10.7% in 2006, thanks to buoyant domestic investment and exports, which makes for an average growth level approaching two digits over the last three decades. Growth during this period has been driven by the industrial sector. The share of services in GDP has also increased, while that of agriculture has dropped (table 1). The buoyancy of the country's export sector is also reflected by the favourable behaviour of its current account surplus.

India posted a growth rate of 9.2% in 2006, accompanied by a similar increase in consumption. The new economic programme implemented in 1991 –which focuses on economic liberalization and the correction of macroeconomic imbalances– enabled the country to achieve an average annual growth rate of 6.4% between 1995 and 2005. The Indian economy has been marked by significant structural change: the share of services in GDP has increased, while that of the agricultural sector has clearly diminished (table 1). Growth is expected to remain steady over the next few years, with the services sector driving economic development. The role of the manufacturing sector is not as prominent in India as it is in China; productivity in that sector has increased on a far more modest scale (UNCTAD, 2005). Inflation –a constant source of concern in India– is approximately 6%, notwithstanding an increase in oil prices. Unlike China, India has run a current account deficit for the past few years.

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TABLE 1

China and India: main production and trade indicators

Indicators	China			India		
Population (thousands of inhabitants, 2005)			1 304 500			1 094 583
GDP (millions of dollars at current prices, 2005)			2 228 862			785 468
GDP (millions of ppp dollars at current prices, 2005)			8 572 666			3 815 553
Real GDP (real percentage variation, 1995-2005)			9.2			6.4
Composition of GDP by activity (%)	**1985**	**1995**	**2005**	**1985**	**1995**	**2005**
Agriculture	28.4	19.8	12.5	33.7	28.2	18.6
Manufacturing	43.1	47.2	47.3	26.4	28.1	28.6
Services	28.5	33.1	40.3	39.9	43.6	53.8
	100.0	100.0	100.0	100.0	100.0	100.0
Current account balance (billions of dollars, 2005)			160.8			–11.9
Current account (as a percentage of GDP, 2005)			7.2			–1.5
Per capita trade (millions of dollars, 2003-2005)			962			236
Ratio of trade to GDP (%)			64.5			36.7
Annual variation, exports of goods and services (%, 1995-2005)			19			14
Annual variation, imports of goods and services (%, 1995-2005)			16			12
Exports of F.O.B. merchandise (millions of dollars, 2005)			761 954			95 096
Primary export destinations	United States (21.4%); EU-25 (18.9%); Hong Kong. China (16.3%); Japan (11.0%); Korea. Rep. of (4.6%)			EU-25 (21.5%); United States (16.5%); United Arab Emirates (8.8%); China (6.6%); Singapore (4.8%)		
Imports of C.I.F. merchandise (millions of dollars, 2005)			660 003			134 831
Main sources of imports	Japan (15.2%); Rep. of Korea (11.6%); Taiwan Province of China (11.3%); EU-25 (11.2%); China (8.4%)			EU-25 (17.1%); United States (6.3%); China (6.2%); Switzerland (5.3%); United Arab Emirates (4.2%)		
Business service exports (millions of dollars, 2005). by main service category (1%)			73 909			56 096
Transportation			20.9			10.4
Travel			39.6			11.4
Other business services			39.5			78.1
Business service exports (millions of dollars, 2005). by main service category (1%)			87 173			52 211
Transportation			34.2			38.0
Travel			26.2			11.1
Other business services			39.6			50.9
Bound tariffs			100.0 (2010)			73.8 (2005)
Tariffs (Most Favoured Nation)	**Bound final**	**Applied 2005**		**Bound final**	**Applied 2005**	
Simple average of ad valorem duties (%)						
All products	10.0	10.0		49.8	18.3	
Agricultural products (Agreement on Agriculture)	15.8	15.9		114.5	37.6	
Non-agricultural products	9.1	9.1		34.3	15.4	
Non-*ad valorem* duties (% of overall tariff lines)	0.0	0.4		7.2	0.0	
Tariff-free imports (Most Favoured Nation)						
Percentage of overall imports, 2003			34.0 (2003)			2.1 (2001)
Foreign direct investment flows (millions of dollars, balance of payments, 1995-2004 annual average)			44 316			3 755
Inflation (annual variation, 1995-2005)			3.3			6.8
Gini coefficient (1996-2002)			44.7			32.5

Source: WTO (2006); World Bank (several years); IMF (2006a and b); UNDP (2006).

2. The growing role of China in the preservation of global macroeconomic balances

The importance of China is becoming abundantly clear, not only with regard to production and world trade, but also in terms of global finance. The country plays an increasingly active role in safeguarding global economic balances, and its plentiful supply of cheap goods helps keep demand high in developed countries without increasing inflation. It also provides the United States with cheap savings, keeps interest rates low and accumulates reserves through the purchase of Treasury bonds, thus helping to finance that country's current account deficit.[1] The slightest hint of action regarding these enormous reserves has immediate repercussions in global financial markets. India, on the contrary, plays a much smaller role in the world of international finance.[2]

Trade imbalances around the world continue to worsen. The current account deficit of the United States reached US$ 856.7 billion, or 6.5% of GDP, at the end of 2006. Sixty-three percent of this increase is attributed to a rise in imports from China; the current account deficit of the United States vis-à-vis China has risen from US$ 220.1 billion to US$ 261.7 billion. This enormous deficit is offset globally by the growing surpluses of emerging Asian nations (particularly China),[3] oil-exporting countries and Latin American and Caribbean countries. The latter were responsible for almost 14% of the United States deficit in 2005. The United States ran a current account deficit with India approaching US$ 12 billion in both 2005 and 2006.

The behaviour of the Chinese yuan in 2006 did little to help the United States adjust to its external imbalances. After restrictions on the exchange rate were relaxed in July 2005, the yuan appreciated 7% until August 2007. While the consequences of a substantial revaluation of the yuan are impossible to predict, a revaluation of the exchange rate in China and in most other Asian countries would not be enough to bring the trade imbalance of the United States within a sustainable range. United States authorities continue to pressure the Chinese government to liberalize its exchange regime, and legislation has been proposed to adopt retaliatory measures if it fails to do so. The Indian rupee has closely followed the trends set by international financial markets. In real terms, measured against other relevant currencies, its value is 6% higher than the average of the last 15 years. If the country's slide toward a deficit in the current account persists, the real exchange rate may depreciate.

3. The rise of China and India in world trade

In 2006, the combined exports of China and India comprised 9.2% of the world total (compared to 4.5% in 2000). Chinese exports grew by 27%, reaching a total of US$ 969 billion, or 1.5 times the exports of Latin America and the Caribbean. Indian exports and imports in 2006 totalled US$ 120 billion and US$ 174 billion, respectively.

The United States and the European Union constitute important export markets for both China and India (table 1). Neighbouring Asia-Pacific countries also hold a significant share of Chinese trade; this is particularly true of the Hong Kong Special Administrative Region (SAR) of China and Taiwan Province of China, as well as Japan, the Republic of Korea and the countries that comprise the Association of Southeast Asian Nations (ASEAN). As will be explained below, many of China's Asian neighbours are using it as a springboard for exports to the United States and Europe. These countries have also become important markets for India: Asia and Oceania together accounted for about 35% of total Indian exports and imports during the 2005/2006 fiscal year. Western Africa and the Middle East are also important markets for Indian products. The share of Latin America and the Caribbean in the trade of the two Asian nations amounts to only 3%.

China and India are among the world's ten leading exporters and importers of business services. The buoyancy of Indian service exports is particularly striking; they have grown at over twice the rate of Chinese exports since 2003, rapidly approaching the levels of that country and those of Latin America and the Caribbean. The "Other Business Services" category, which includes the subsectors that have displayed the highest levels of growth worldwide (for example, communication services, construction services, insurance services, computer and related services, royalties and licensing rights, personal services, cultural services, recreational services and other business services) accounts for 78% of Indian business-service exports, far surpassing the other two

[1] As of December 2006, China held US$ 350 billion in United States Treasury bonds – over half the amount held by Japan (US$ 644 billion). As of that date, Chinese reserves exceeded US$ 1.066 billion, surpassing those of Japan (US$ 875 billion). Chinese reserves are equivalent to over 40% of GDP.

[2] As of late 2006, the Reserve Bank of India held reserves totalling US$ 177 billion; it held only US$ 14 billion in United States Treasury bonds.

[3] China has become an important trading partner for the United States –so much so that, in 2005, it was responsible for 14.6% of total imports to that country, compared to a mere 3.2% for India.

main service categories, Transport and Travel, in terms of relative importance (table 1). For China, the "Other Business Services" category reached US$ 292 billion in 2005, or 40% of all its service exports.

India's buoyancy in terms of complex business services is closely linked to its international insertion strategy, which focuses on information and communication technologies (ICTs) and business process outsourcing. These two subsectors are strongly export-oriented, and have performed well, thanks to a growing demand for cheap, skilled, English-speaking workers, successful use of the country's time difference vis-à-vis the Northern Hemisphere and the installation of an undersea fibre-optic network. Between 2004 and 2005, India accounted for 65% of the global computer and communication business services market and 46% of the business process outsourcing market (Government of India, 2006, p. 117).

4. China and India as the chief source of demand for primary and manufactured products of interest to Latin America

The outstanding contribution of China to the current cycle of worldwide recovery has had significant global effects. The country has become a leading consumer of raw materials, minerals, energy and, to a certain extent, foodstuffs and manufactured goods. It is the world's foremost consumer of coal, tin, zinc, copper and cereals. It is also a major consumer of fertilizer, iron and steel, bananas, oilseeds and oils, plastic, electronic equipment, optical, photographic and medical equipment, nuclear reactors and machinery. For eight of 15 selected products, China represents 20% or more of global consumption; it is a source of net demand for ten such products on world markets, and one of the three leading consumers of 14 (table 2). This has put pressure on international markets, causing significant price increases for many products. Such is the case with copper, soya beans, nickel and petroleum, all of which have undergone sharper increases than those of manufactured goods.

China and India are both significant consumers of manufactured goods, although China's consumption is much larger. Both countries have been key consumers of several manufactured products that have been surging over the last decade. According to the Japan External Trade Organization (JETRO, 2006), the global market for motor vehicles expanded by seven million units between 1999 and 2005. China was responsible for almost 46% of that expansion, while India accounted for 7.4%. High percentages have also been observed for other high-technology goods, such as electronic devices, mobile telephone access and notebook computers. Chinese demand for the first two has surpassed that of the United States.

The export structure of China has undergone a spectacular change over the last two decades. The

TABLE 2

China: products of importance for the global economy, 2004
(Percentages of world totals)

	Production	Consumption	Imports	Exports	Consumption/production coefficient	World consumption rank
Coal	35.0	35.6	71.7	0.0	103.4	1
Iron ore	20.7	32.8	25.0	0.0	158.5	1
Steel	25.8	22.5	2.5	13.1	87.2	1
Tin	37.1	27.6	0.0	13.5	40.4	1
Zinc	23.6	25.9	6.8	13.0	56.1	1
Aluminium	22.8	21.0	5.6	…	90.5	2
Lead	19.6	19.6	2.5	27.2	78.3	2
Copper	12.9	19.6	25.3	0.0	157.3	1
Soya beans	8.1	17.4	35.4	0.4	165.6	2
Cereals	18.1	16.4	3.2	8.1	102.3	1
Nickel	5.6	10.6	…	3.9	195.1	3
Bananas	9.0	9.2	2.9	0.3	106.0	3
Petroleum	14.7	7.7	6.6	…	166.2	2
Natural gas	1.5	1.5	…	…	106.3	14
Sugar	6.1	0.8	2.1	1.0	107.8	2

Source: ECLAC. on the basis of information from various sources: FAO (2004); The Economist Intelligence Unit (2005); Chinese authorities; Heren Energy Ltd.; OPEC Secretariat; UNCTAD (2003); World Bureau of Metal Statistics (2005); ISSB Monthly World I&S Review (2005). available at www.steelonthenet.com/production.html.) and International Iron and Steel Institute (2005).

country has been transformed from an exporter of crude and refined oil and wearing apparel into a source of electronic goods and information and communication technologies. This transformation does not imply, however, that China has become a leading producer and exporter of such goods. As Branstetter and Lardy (2006) have noted, most of these products have become high-volume quasi-commodities (DVD players, notebook computers and mobile telephones). In addition, these booming sectors require high levels of imported inputs to increase their exports. Domestic value added is low, and accounts for only 15% of the value exported by the electronics and ICT sectors. China's role in this regard remains that of an assembler relying on labour-intensive production processes.

Furthermore, most assembly work is handled not by Chinese firms, but rather by foreign companies –particularly Taiwanese firms– that use China as an export platform. This suggests that China is still far from transforming itself from a net importer into a net exporter of high-technology goods.

5. The role of foreign firms in production and foreign trade

The international insertion strategies of China and India differ considerably. China has structured its international expansion around the attraction of foreign direct investment (FDI) for export production, whereas India has, until recently, been wary of opening its economy to this type of investment. Of the various types of foreign enterprises active in China, wholly foreign-owned firms make the largest contribution in terms of FDI. Such firms accounted for 62% of all FDI in China in 2005, far surpassing joint ventures. Foreign firms, whether wholly foreign-owned or of mixed ownership, represent only 3% of all firms in China, but contribute 28.5% of the country's total industrial value added, 20.5% of its tax revenue and 58% of its overall exports. They are also responsible for 89% of high-technology exports. Notwithstanding the tremendous export output of its foreign firms, China's trade is concentrated in a relatively limited number of companies.

While China has been a major net recipient of FDI over the past two decades, lately it has been investing abroad itself. In fact, among developing countries, it is now the world's sixth-largest source of FDI. As of late 2004, non-financial Chinese companies held a stock of US$ 33.2 billion abroad, of which US$ 2.85 billion was invested in 2003. Notwithstanding its relatively small role, China is emerging as a leading investor among developing countries, with investments comparable to those of the Republic of Korea. Chinese FDI abroad was valued at US$ 5.5 billion in 2004, of which 32% (1.76 billion) was invested in Latin America and the Caribbean. The presence of Lenovo in the Mexican state of Chihuahua is one important example of Chinese FDI in the region. The firm has established four plants for the manufacture of spare parts and equipment in Chihuahua (Government of China, 2006). Latin American FDI in China has also increased. According to the Chinese Ministry of Commerce, Latin American firms had financed 17 956 projects in China, for a total of US$ 56.9 billion, as of late 2005.[4]

India has been slower to open its economy to FDI. Inflows of foreign capital during the 2005/2006 fiscal year amounted to only US$ 5.1 billion. This is the highest amount on record, however, and represents a 60% increase compared to the previous year. This surge in FDI appears to be a result of policies designed to attract investors. Such policies include the establishment of special economic areas.

6. Challenges and prospects

Another significant difference between China and India lies in the fact that trade liberalization has been less extensive in India than it has in China (table 1). Chinese tariffs are low and linear, whereas India clings to pockets of protection, particularly in the agricultural sector. China has adopted commitments in every sector of business services covered by the General Agreement on Trade in Services (GATS) –93 sectors, including the financial and telecommunication services subsectors– whereas India has adopted commitments in only 37 sectors (WTO, 2006). The reduction of tariffs and non-tariff barriers within the framework of the ASEAN trade agreement with China, as well as the trade agreement between China and India –which may enter into force in 2007, and covers both manufactured and agricultural products– may have a significant impact on the future of Latin American trade with the two Asian countries, particularly in terms of diversion of trade.

As mentioned above, India continues to develop, and displays great potential for further growth in the field of information and communication technologies and business process outsourcing. ICTs comprise only a small fraction of the overall services sector,

[4] Information available at http://www.gov.cn/misc/2006-10/06/content_405906.htm .

however. One significant impediment to the expansion of these services is the current lack of investment in technological and human capital, given the tremendous growth of these technologies. A strong link has yet to be forged between trade and FDI, as it has been in China. This not only hampers India's insertion into global markets for commodities involving value added and knowledge, but also hinders its inclusion in the dynamic network of intra-industry and intra-firm trade in the Asian region.

The acceleration of China's booming economy in 2006 and the first semester of 2007 spotlights the risk of uncontrolled growth, which, driven by the country's enormous trade surplus, might lead to justified pressures to appreciate the yuan. In fact, there is no guarantee that growth will slow. As stated in the eleventh Five-Year Social and Economic Development Plan (2006-2010), the country must urgently address the structural weaknesses caused by its rapid industrialization and modernization. These weaknesses include idle capacity in certain sectors, deepening income inequality –particularly between urban and rural areas, and between the coast and the interior– and serious environmental problems. The main objective of the Plan is to promote a more balanced, equitable and sustainable approach to growth, using strategies specifically designed to correct the problems in question. It may alter the composition of aggregate demand and slow economic growth, in order to make it more sustainable in the long term.

In the short-term, India's prospects are promising: growth will continue at a rate of seven percent to nine percent over the next few years, with moderate inflation. In the medium term, however, the country will be faced with high public debt, a growing current account deficit and a need for reform. It is imperative that the government continue to strengthen its fiscal position, while also improving the country's infrastructure (particularly its power supply and road network), in order to support industrial development. It must also promote the training of human resources in the services sector, and make the investments necessary to increase rural productivity.

III

Growing trade relations between Latin America and the Caribbean and China and India

Trade between the countries of the region and China and India increased considerably between 1990 and 2005 –particularly during the last five years of that period. The patterns of exchange of the two Asian nations and those of the subregions of Latin America are strikingly similar. South America enjoys trade surpluses with both countries, while Mexico and Central America run growing deficits (table 3). The structure of the region's exports to China and India is characterized by a predominance of natural resources and natural-resource-based manufactures. This stands in sharp contrast to the structure of intraregional Latin American trade, which is characterized by a high percentage of medium-technology products. China must ensure a supply of raw materials, foodstuffs and energy products to support its rapid growth. It is also seeking a favourable market for its exports, and wishes to quash allegations that it employs "abusive" trade defence mechanisms, such as antidumping. To that end, it has worked to obtain the "market-economy status" awarded by 27 countries, seven of which are located in Latin America and the Caribbean (ECLAC, 2005).

1. Trade between China and South America, Central America and Mexico

While the growth of China and its increasing demand for primary products have had a positive impact on the terms of trade, results have been uneven among the subregions of Latin America and the Caribbean. The countries of South America –particularly those which export oil and metal– have benefited from rising Chinese demand for commodities and the low prices of Chinese manufactures. The prices of these products have favoured terms of trade of these countries which encourage savings and fiscal accounts. On the other hand,

TABLE 3

Latin America and the Caribbean: exports to China and India, 2005
(Millions of dollars and percentages of total exports)

Trade flows / Countries	Percentage of total Latin American and Caribbean exports			Percentage of total Latin American and Caribbean exports		Percentage of country exports	
	India	China	World	India	China	India	China
Latin America and the Caribbean	**3 048**	**19 442**	**555 445**	**100.0**	**100.0**	**0.5**	**3.5**
Andean Community	**115**	**3 009**	**106 981**	**3.8**	**15.5**	**0.1**	**2.8**
Bolivia	1	19	2 734	0.0	0.1	0.0	0.7
Colombia	5	237	21 187	0.2	1.2	0.0	1.1
Ecuador	26	82	10 649	0.8	0.4	0.2	0.8
Peru	79	1 826	17 001	2.6	9.4	0.5	10.7
Venezuela (Bolivarian Rep. of)	4	845	55 410	0.1	4.3	0.0	1.5
MERCOSUR	**1 875**	**10 317**	**163 414**	**61.5**	**53.1**	**1.1**	**6.3**
Argentina	729	3 302	40 013	23.9	17.0	1.8	8.3
Brazil	1 137	6 834	118 308	37.3	35.2	1.0	5.8
Paraguay	5	61	1 688	0.2	0.3	0.3	3.6
Uruguay	4	120	3 405	0.1	0.6	0.1	3.5
Chile	**493**	**4 390**	**39 536**	**16.2**	**22.6**	**1.2**	**11.1**
Central American Common Market	**17**	**349**	**21 806**	**0.6**	**1.8**	**0.1**	**1.6**
Costa Rica	8	245	7 090	0.3	1.3	0.1	3.5
El Salvador	2	2	3 383	0.1	0.0	0.0	0.1
Guatemala	3	80	5 381	0.1	0.4	0.1	1.5
Honduras	5	15	4 377	0.2	0.1	0.1	0.3
Nicaragua	0	7	1 574	0.0	0.0	0.0	0.4
Mexico	**522**	**1 091**	**213 711**	**17.1**	**5.6**	**0.2**	**0.5**
Other Latin American and Caribbean Countries	**26**	**287**	**9 998**	**0.9**	**1.5**	**0.3**	**2.9**
Panama	22	23	2 013	0.7	0.1	1.1	1.1
Cuba	2	247	2 430	0.1	1.3	0.1	10.2
Dominican Republic	3	17	5 554	0.1	0.1	0.0	0.3

Source: ECLAC, on the basis of official country data and IMF data (2006a and b).

surging Chinese demand for primary products has not benefited the countries of Central America, which are net importers of oil and exporters of textiles and wearing apparel. These countries have actually seen their terms of trade deteriorate as a result of Chinese competition for the United States manufactures market.

China is already one of the main export markets of several countries in the region (figure 1). Its trade with the countries of South America has been highly beneficial for the latter; 2005 marked the fourth consecutive year of growth for the subregion's trade surplus (figure 2). This accrued surplus is concentrated mainly in primary products and natural-resource-based manufactures, however. The subregion's deficit in terms of manufactures that include technology has increased considerably. For example, South America supplies over 60% of Chinese soya bean imports (mainly from Brazil and Argentina); 80% of its fish meal (from Peru and

Chile); about 60% of its poultry and chopped poultry waste (Argentina and Brazil); and 45% of its grapes and wine, from Chile (table 4). The export basket of the subregion is dominated by a small number of products. In the case of Argentina, for example, three products (soya beans, soya bean oil and petroleum) account for over 84% of the country's total exports to China. Chile is similarly situated: three products (refined copper, copper concentrate and wood pulp) account for 85% of the country's total exports to China.

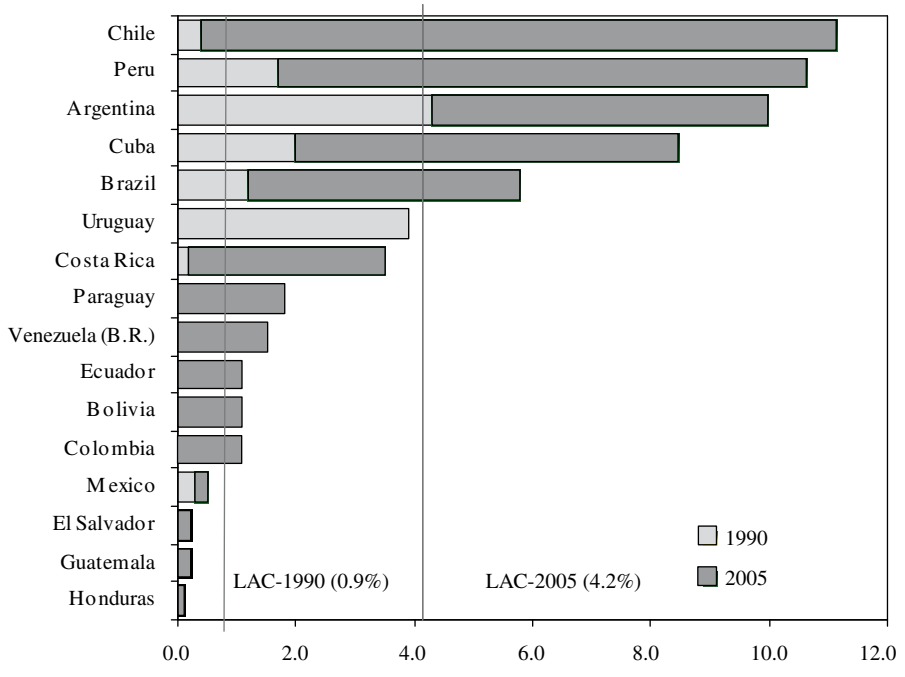
The composition of exports from Mexico and Central America to the United States is similar to that of Chinese exports to that country (figure 3, section A). The subregion and China both export medium- and high-technology manufactures (electrical and electronic products, including computers and products for the motor vehicle industry, among other items). They also export low-technology products, such as textiles and wearing apparel. Protectionist tendencies in the United States have interlocking consequences in both regions, as illustrated by the negotiations surrounding the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), in 2004 (ECLAC, 2005).

A detailed analysis of the structure of imports to the United States from Latin America and the Caribbean shows that, of the 30 main products imported in 2004 (classified according to the three-digit system employed by the International Standard Trade Classification - ISTC, Rev. 2), Mexico competed directly with China to be the main supplier of 19 product categories (table 5). The two countries compete for the United States market in sectors ranging from electricity/electronics, machinery, motor vehicles and furniture to textiles and wearing apparel.

Unlike South America, Mexico runs a huge and growing deficit in its trade with China. Trade between the two countries is comprised mainly of medium- and high-technology products, although Mexico runs a deficit in all categories –primary products and manufactures alike. It has also been displaced by China as the chief trading partner of the United States, after

FIGURE 1

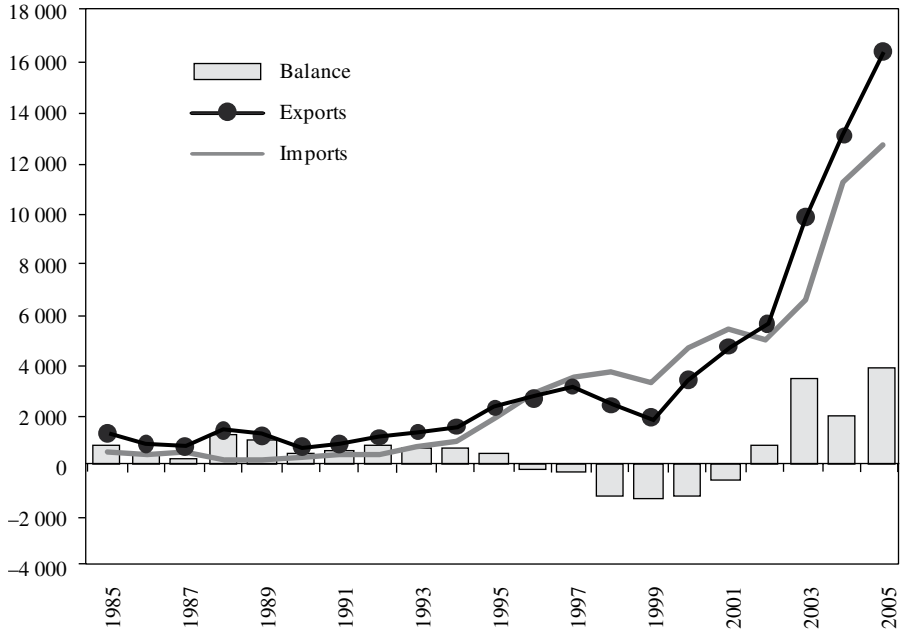
China: total exports from Latin America and the Caribbean, 1990 and 2005



Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

FIGURE 2

China: trade balance with South America, 1990 and 2005
(Millions of dollars)



Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

TABLE 4

China: 15 main imports from South America, 2004
(Millions of dollars and percentages of total) [a]

Main products C = (A)/(B)	Argentina	Brazil	Chile	Peru	Rest of South America	South America (A)	World (B)	Total percentage (C)
Soya beans (2222+4232)	2 555	2 619	0	0	0	5 174	8 528	60.7
Iron (2815+2816+6712+6725+6746)	25	3 252	168	256	208	3 909	19 677	19.9
Copper (2871+2882+6821+6822)	12	40	2 793	540	73	3 456	13 532	25.5
Wood and pulp (2482+2483+2517+6416)	36	527	371	4	6	943	4 584	2.6
Crude petroleum (3330)	183	423	0	0	139	745	33 912	2.2
Fish meal (0814)	17	0	103	502	2	623	770	80.9
Hides and wools (6114+6512+6129+2681)	145	301	2	1	88	537	4 152	12.9
Ferroalloys (6713+6716+6727+6749)	6	203	0	0	233	442	9 613	4.6
Lead (2874)	0	0	0	122	0	122	437	27.9
Aluminium (2873+6845)	0	67	0	0	37	105	2 069	5.1
Other vehicle parts and accessories (7849)	3	101	0	0	0	104	7 305	1.4
Poultry and chopped poultry waste (0114)	37	53	0	0	0	90	154	58.7
Cotton (2631+2632+2633+2634)	0	31	0	0	49	80	3 242	2.5
Tobacco (1211-1212)	0	74	0	0	0	74	232	31.6
Grapes and wines (0575+1121)	1	0	61	0	0	61	135	45.4
Sample total	3 019	7 690	3 497	1 424	834	16 465	108 342	15.2
Other products	236	978	170	99	148	1 630	442 973	0.4
Total imports	**3 255**	**8 669**	**3 667**	**1 523**	**982**	**18 095**	**551 315**	**3.3**

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

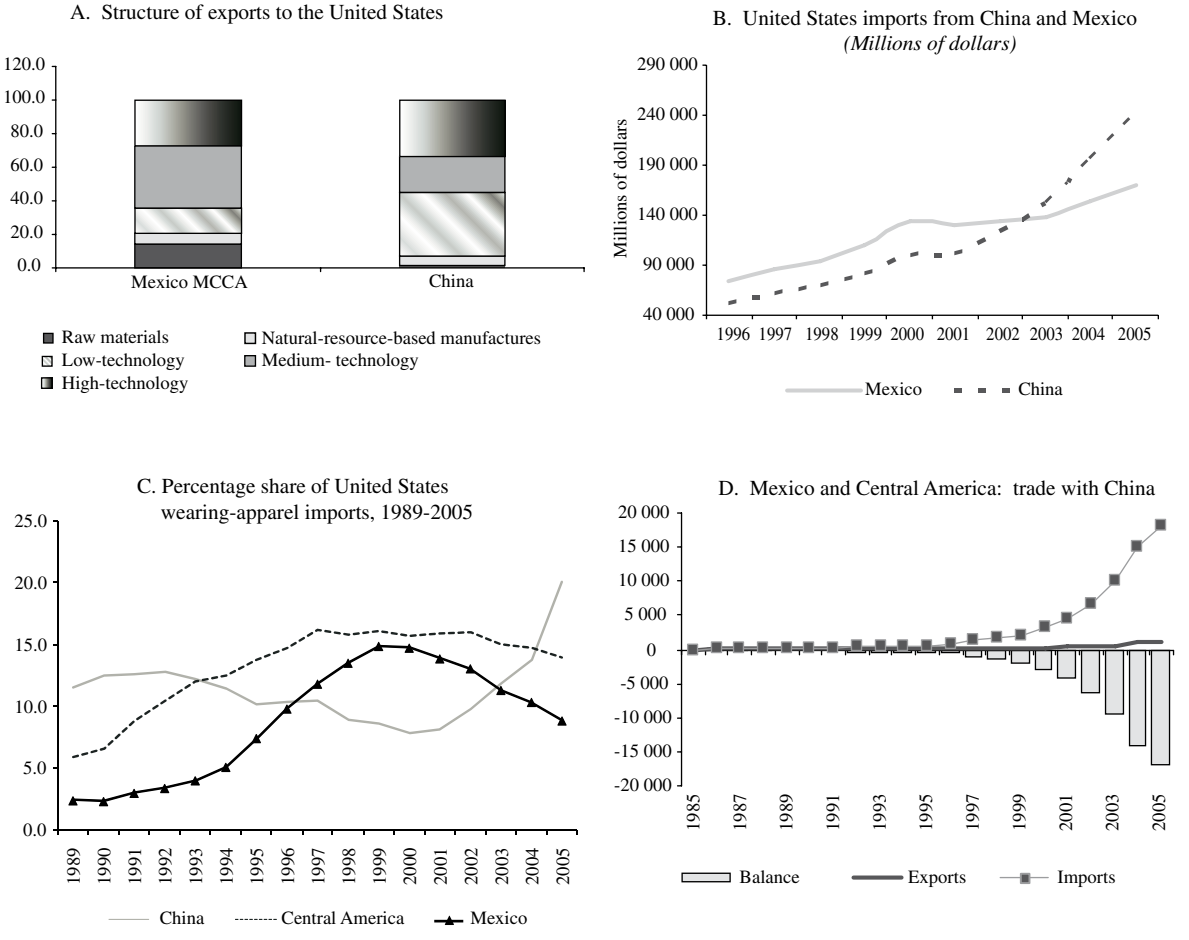
[a] Standard International Trade Classification (SITC, Rev.2).

Canada (figure 3, section B). The textile and wearing apparel categories clearly reflect this shift; both Mexico and Central America have suffered a significant loss of market share in those sectors (figure 3, section C). A similar, even sharper transformation is taking place in the electricity/electronics sector –particularly with regard to computers (Dussel Peters, 2005).

Trade between China and Mexico is also highly asymmetrical; China accounts for less than 1% of overall Mexican exports, and yet it is the second largest exporter of goods to that country. As a result, Mexico and Central America now run growing deficits in their trade with China (figure 3, section D). This asymmetry is also reflected by the fact that the 15

FIGURE 3

Relationship between Mexico and Central America and its impact on the United States market, 2005



Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

TABLE 5

United States: 30 main products imported from Latin America and the Caribbean and its competitors, 2004[a]
(Millions of dollars and percentages)

	Code	Product description	Value	World %						Total
	SITC, Rev.2	1	2	3			4			5
1	333	Crude petroleum	23 746	16.6	SAU	CAN	**VEN**	**MEX**	NGA	65.9
2	781	Passenger motor vehicles, except buses	10 449	8.4	CAN	JPN	DEU	**MEX**	KOR	89.6
3	752	Automatic data-processing machines	10 291	16.9	CHN	MYS	**MEX**	SGP	TWN	78.7
4	764	Telecommunications equipment and parts, n.e.s.	9 668	18.8	CHN	KOR	**MEX**	MYS	CAN	73.4
5	784	Parts and accessories of motor vehicles	8 930	22.8	CAN	JPN	**MEX**	DEU	CHN	82.0
6	761	Television receivers	7 534	46.0	**MEX**	CHN	JPN	TWN	KOR	87.3
7	782	Motor vehicles for the transport of goods	6 578	37.3	CAN	CHN	JPN	GBR	SWE	98.4
8	778	Electrical machinery and apparatus n.e.s.	6 520	34.1	CHN	**MEX**	JPN	CAN	TWN	72.7
9	773	Equipment for distributing electricity	6 363	65.3	**MEX**	CHN	CAN	PHL	JPN	84.1
10	772	Electrical apparatus for switching or protecting electrical circuits	5 435	36.1	**MEX**	JPN	CHN	DEU	CAN	70.8
11	821	Furniture and parts thereof	4 693	15.1	CHN	CAN	**MEX**	ITA	TWN	79.3
12	713	Internal combustion piston engines, and parts thereof	4 671	24.9	JPN	CAN	**MEX**	DEU	**BRA**	87.4
13	334	Petroleum products	4 567	11.3	CAN	**VEN**	RUS	GBR	NLD	43.2
14	054	Vegetables, fresh, chilled, frozen or preserved	3 205	64.5	**MEX**	CAN	**PER**	NLD	CHN	88.5
15	057	Fruits and nuts, not including oil nuts	3 130	54.3	CHL	MEX	CRI	GTM	ECU	62.6
16	699	Manufactures of base metal, n.e.s.	2 819	23.7	CHN	**MEX**	CAN	TWN	JPN	75.3
17	759	Parts and accessories suitable for use with machines falling within groups 751 and 752	2 800	9.2	CHN	JPN	MYS	TWN	SGP	74.9
18	872	Instruments and appliances, n.e.s., for medical purposes	2 647	27.6	IRL	**MEX**	DEU	CHN	JPN	65.5
19	792	Aircraft and associated equipments and parts thereof, n.e.s.	2 643	16.0	CAN	FRA	**BRA**	DEU	JPN	82.6
20	842	Men's and boys' outerwear, knitted or crocheted	2 544	23.3	**MEX**	CHN	**DOM**	VNM	BGD	47.6
21	716	Rotating electric plant, and parts thereof	2 535	39.0	**MEX**	JPN	CHN	CAN	DEU	72.7
22	776	Cathode electric lamps, valves and tubes	2 423	8.7	KOR	TWN	MYS	JPN	PHL	62.0
23	874	Measuring and checking instruments and apparatus	2 309	14.5	JPN	**MEX**	DEU	GBR	CHN	64.0
24	749	Non-electric parts and accessories of machinery, n.e.s.	2 240	15.0	JPN	CAN	DEU	**MEX**	CHN	66.3
25	893	Articles n.e.s. of materials described in chapter 58	2 212	16.7	CHN	CAN	**MEX**	TWN	JPN	77.8
26	971	Gold, non-monetary	2 193	54.8	CAN	**PER**	COL	BRA	MEX	87.6
27	846	Underwear, knitted or crocheted	2 017	18.7	HND	MEX	**SLV**	CHN	**DOM**	44.5
28	843	Women's or girls' outerwear, n.e.s..	2 011	10.5	CHN	**MEX**	HKG	IDN	IND	49.1
29	775	Household-type electrical and non-electrical equipment	1 953	16.7	CHN	**MEX**	KOR	CAN	DEU	83.4
30	682	Copper	1 914	39.5	CAN	**CHL**	PER	MEX	DEU	72.5
	Other products		65 913							
	Total trade		216 953							

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

[a] Column 1 lists the 30 main products imported by the United States from Latin America and the Caribbean, based on the value of imports in 2004. Column 2 lists the value of these imports in 2004. Column 3 details the share of each import from Latin America and the Caribbean in overall imports of that product from the rest of the world. Column 4 lists the five main suppliers of each product. Column 5 details the share of these five countries in total import value.

TABLE 6

China: main 15 products imported from Mexico and Central America, 2004
(Millions of dollars and percentages)

Main products (SITC, Rev.2)	Mexico	Costa Rica	Other Central American countries	Mexico and Central America (A.1)	World (B)	Percentage of total C= (A.1)/(B)	South America (A.2)	Percentage of total C= (A.2)/(B)
Electronic parts and accessories (7599)	322	0	0	323	13 887	2.3	0	0.0
Electronic integrated circuits (7764)	263	592	0	856	61 047	1.4	2	0.0
Copper ores and concentrates (2871)	133	0	0	133	2 236	5.9	1 217	54.4
Iron ingots (6725)	125	0	0	125	1 443	8.7	186	12.9
Metal waste and scrap (2882)	116	1	20	138	3 577	3.8	144	4.0
Other electrical machinery and equipment (7788)	110	1	1	111	7 503	1.5	14	0.2
Diodes, transistors and photocells (7763)	74	8	0	82	7 416	1.1	0	0.0
Electrical apparatus for switching, etc. (7721)	65	2	0	67	8 673	0.8	8	0.1
Heterocyclic compounds with oxygen (5156)	58	0	0	58	1 247	4.6	8	0.7
Polycarboxylic acids (5138)	55	0	0	55	5 106	1.1	4	0.1
Internal combustion engine parts (7139)	53	0	0	53	1 671	3.2	33	2.0
Synthetic filament tow (2666)	51	0	0	51	383	13.2	2	0.5
Motor vehicle parts and accessories (7849)	48	0	0	48	7 305	0.7	104	1.4
Iron ore agglomerates (2816)	41	0	0	41	1 824	2.2	741	40.6
Parts for sound-recording apparatus (7649)	39	2	0	41	17 868	0.2	5	0.0
Sample total	1 553	606	21	2 180	141 187	1.5	2 470	1.7
Other products	587	35	55	704	410 128	0.2	15 625	3.8
Total imports	2 140	641	76	2 900	551 315	0.5	18 095	3.3

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

products that dominate Chinese imports from Mexico and Central America are manufactures –particularly in the electronics sector– with the exception of copper and iron ore. The market share of these products in China remains negligible (table 6).

Given all of the above, the subregion should strengthen its trade ties and strive for complementarity with China, instead of focusing solely on central markets (the United States and the European Union). To that end, it should establish trade and technology partnerships, which would entail the adoption of international quality standards and thus benefit the subregion. Such partnerships could also lead to trade complementarities that may help to deflect protectionist pressures from industrialized countries.

2. Trade between India and Latin America and the Caribbean

While Latin America and the Caribbean does not represent a significant market for India as of yet, the region's importance is growing. During the April 2005/ March 2006 fiscal year, it accounted for less than 3.0% (US$ 2.993 billion) of India's exports and 1.8% (US$ 2.663 billion) of its imports, leading to a trade surplus for India (table 7).

India's basket of imports from Latin America and the Caribbean is, like China's, low on diversity: 15 products, classified according to the four-digit Harmonized Commodity Description and Coding System, represented about 77% of all imports from the region during the 2005/2006 fiscal year (table 7). Most of these imports are

TABLE 7

India: main products imported from Latin America and the Caribbean, classified according to 2005/2006 fiscal year figures

(Millions of dollars and percentages)

Nº	Code, HS [a]	Products	2004-2005	2005-2006	Growth %
1	1507	Soya beans	604.69	810.55	34.0
2	2603	Copper and concentrates	342.13	413.16	20.8
3	8901	Cruise ships	57.95	162.26	180.0
4	2207	Alcohol	111.69	134.31	20.3
5	8905	Light vessels, etc.	76.02	130.40	71.5
6	1701	Beet sugar, table sugar	193.11	118.81	–38.5
7	1512	Sunflower-seed, safflower oil, etc.	24.43	41.65	70.5
8	4403	Wood in the rough, etc.	50.37	40.65	–19.3
9	7204	Ferrous waste, etc.	23.83	32.24	35.3
10	8473	Parts and accessories used in groups 8469-8472	26.49	30.82	16.3
11	2613	Molybdenum ores and concentrates	24.27	29.38	21.0
12	8413	Pumps for liquids, liquid elevators	8.29	29.20	252.1
13	2601	Iron ore and concentrates	28.52	27.83	–2.4
14	2801	Fluorine, chlorine, bromine and iodine	13.68	27.13	98.3
15	4108	Tanned bovine leather and furskins	25.44	26.00	2.2
Subtotal, 15 main products (A)			**1 610.91**	**2 054.39**	**27.5**
Total imports from Latin America and the Caribbean (B)			**2 054.80**	**2 662.75**	**29.6**
Share of 15 main products in LAC total:(A)/(B)*100 (%)			**78.4**	**77.2**	
Total imported from rest of the world (C)			**111 517.44**	**149 162.73**	**33.8**
Share of Latin America in imports from world: (A)/(C)*100 (%)			**1.8**	**1.8**	

Source: Government of India, Ministry of Commerce & Industry, Department of Commerce, http://dgft.delhi.nic.in/.
[a] HS: Harmonized Commodity Description and Coding System.

primary products or natural-resource-based manufactures. Soya beans, copper and copper concentrates, other metals, wood and alcohol constitute the region's main exports to India. India's exports to Latin America are also low on diversity: 15 products account for about 60% of all exports. Petroleum, medicaments, motor cars, chemical products, textiles and wearing apparel are the main products in the country's export basket (table 8).

3. China as the driver of trade between Asian countries

China's striking economic growth has put it at the heart of Asia's booming trade. The role of Asia as a supplier to China is well known: in 2005, Japan, Taiwan Province of China, the Republic of Korea and ASEAN supplied half of all Chinese imports. China runs a deficit in its overall trade with these countries –particularly with the Republic of Korea and Japan– since they are the main suppliers of the capital goods and intermediate inputs that sustain its manufacturing industry. China exports its manufactures to its other trading partners –particularly the United States and the European Union– with whom it invariably runs its largest trade surpluses in terms of low, high and –to a lesser degree– medium-technology products (ECLAC, 2005). As a result, China's trade deficit with Asia, which exceeded US$ 70 billion in 2005, has been more than offset by its large and growing trade surpluses with the United States (US$ 114 billion) and the European Union (US$ 70 billion).

ASEAN trade with China totalled US$ 114.3 billion, or 10.9% of the group's overall trade, in 2005. During

TABLE 8

India: main products exported to Latin America and the Caribbean, classified according to 2005/2006 fiscal year figures

(Millions of dollars and percentages)

Nº	Code, HS [a]	Products	2004/2005	2005/2006	Growth %
1	2710	Petroleum	517.49	815.81	57.7
2	3004	Medicaments	110.25	177.85	61.3
3	8703	Motor cars	104.47	132.77	27.1
4	2942	Organic compounds nesoi	105.03	132.74	26.4
5	3808	Insecticides, etc.	68.62	82.51	20.2
6	8711	Motorcycles	56.93	72.52	27.4
7	3907	Polyacetals and other acetals, etc.	23.72	58.09	144.9
8	8708	Used parts and accessories for motor vehicles	36.01	57.00	58.3
9	4011	New pneumatic tires, of rubber	44.04	47.14	7.0
10	5402	Synthetic yarn and filaments	42.25	41.23	-2.4
11	3204	Synthetic and organic colouring matter	29.72	37.84	27.3
12	6206	Women's or girls' blouses, shirts	24.94	36.63	46.9
13	6204	Women's or girls' dresses, jackets, etc.	15.90	33.27	109.2
14	2941	Antibiotics	28.00	33.04	18.0
15	5205	Cotton yarn and filaments	20.77	32.92	58.5
Subtotal, 15 main products (A)			**1 228.14**	**1 791.36**	**45.9**
Total imports from Latin America and the Caribbean (B)			**2 160.70**	**2 993.47**	**38.5**
Share of 15 main products in LAC total:(A)/(B)*100 (%)			**56.8**	**59.8**	
Total imported from rest of the world (C)			**83 535.94**	**103 090.54**	**23.4**
Share of Latin America in imports from world: (A)/(C)*100 (%)			**2.6**	**2.9**	

Source: Government of India, Ministry of Commerce & Industry, Department of Commerce, http://dgft.delhi.nic.in/.

[a] HS: Harmonized Commodity Description and Coding System.

the same year, China became the fourth largest trading partner of ASEAN, after Japan, the United States and the European Union. ASEAN, in turn, became China's fifth largest trading partner, after the United States, the European Union, Japan and the Hong Kong Special Administrative Region of China. This upsurge in trade is being driven by the electronics sector and, to a lesser degree, by natural-resource-based products. Once the trade agreement between China and ASEAN enters into full effect, these countries will form a trading bloc that may surpass the North American Free Trade Agreement in terms of intraregional commerce (*People's Daily Online*, 2005).

Latin American exporters of primary products face stiff competition on the Chinese market from exporters from other regions, particularly ASEAN economies. China now depends more heavily on the countries of the Latin American Integration Association (LAIA) than on ASEAN countries for its supply of primary products (table 9). With regard to natural-resource-based manufactures, however, the market share of ASEAN is twice that of LAIA. Approximately 20% of China's imported high-technology manufactures are supplied by ASEAN countries, while over 8% of its high-technology exports and 11% of its natural-resource-based manufactures are sold to those countries. These relatively high percentages suggest that a network of intra-industry trade exists between China and ASEAN. They also suggest that many raw materials and natural-resource-based manufactures belong to sectors in which LAIA faces sharp competition from Asian countries.

This competition is illustrated in table 10, which lists the 30 main products imported by China from Latin America and the Caribbean in 2004, the top five suppliers of each product and their respective market shares. What stands out is the importance of many Asian countries as suppliers of the same natural resources for which Latin America possesses a sizable comparative

TABLE 9

China and India: composition of trade with ASEAN and LAIA, 1990-2004 [a]
(Percentage share of trade flows for each product group)

	China	1990		2000		2004	
		Imports	Exports	Imports	Exports	Imports	Exports
Primary	ASEAN	13.2	9.1	12.3	11.1	9.0	9.9
	LAIA	7.4	1.1	9.4	0.6	13.3	0.9
NRBM	ASEAN	25.4	12.9	15.8	10.7	15.6	11.1
	LAIA	4.4	0.7	4.0	2.1	7.8	3.4
LTM	ASEAN	0.8	3.4	3.8	3.1	5.0	4.1
	LAIA	2.1	0.3	1.2	1.9	2.4	2.2
MTM	ASEAN	2.3	6.2	6.2	9.8	6.2	8.4
	LAIA	1.2	0.6	0.5	2.8	1.2	3.1
HTM	ASEAN	0.7	5.6	13.3	8.9	19.5	8.3
	LAIA	0.0	0.5	0.7	1.8	0.6	1.7
Other	ASEAN	1.3	6.2	4.4	1.4	4.7	3.2
	LAIA	0.0	0.2	0.1	0.2	0.6	0.5
	India	1990		2000		2004	
		Imports	Exports	Imports	Exports	Imports	Exports
Primary	ASEAN	6.8	5.3	8.4	10.5	16.1	8.4
	LAIA	0.8	0.3	3.5	1.0	6.8	0.3
NRBM	ASEAN	8.9	6.8	13.9	7.4	14.5	16.5
	LAIA	2.0	0.2	3.3	1.7	3.9	3.1
LTM	ASEAN	3.1	2.3	11.5	3.3	8.2	3.4
	LAIA	4.9	0.2	1.2	1.6	0.9	1.3
MTM	ASEAN	4.0	9.6	8.6	9.7	8.3	11.5
	LAIA	5.0	0.9	1.4	3.2	1.5	3.7
HTM	ASEAN	7.3	7.6	24.8	15.1	15.9	9.7
	LAIA	0.1	0.3	0.5	5.0	0.4	4.4
Other	ASEAN	2.2	19.4	2.1	4.1	2.1	23.8
	LAIA	0.1	0.1	0.2	1.1	0.1	0.5

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

[a] ASEAN: Association of Sout-East Asian Nations. LAIA: Latin American Integration Association. Primary: primary products. NRBM: natural-resource-based manufactures; LTM: low-technology manufactures; MTM: medium-technology manufactures. HTM: high-technology manufactures.

advantage on the Chinese market, and in which it continues to specialize. Notwithstanding the significant role of some Latin American countries as major suppliers of primary products, competition within Latin America is expected to intensify, and diversion of trade may have a significant impact on the region unless proactive policies are adopted with regard to the establishment of bilateral or subregional trade agreements.

As shown in table 9, which details the respective shares of China and India in trade flows with ASEAN and LAIA, India is joining Asia's network of intra-industry trade. For India, the countries of ASEAN are important

suppliers of primary goods and natural-resource-based manufactures –much more so than LAIA. ASEAN countries account for a relatively high share of the manufactured goods imported by India. Approximately 16% of India's high-technology manufactures and 8% of its medium- and low-technology goods are imported from neighbouring ASEAN countries. LAIA countries are of little import as a destination for Indian exports.

The Indian market remains largely unexplored by Latin America and the Caribbean. In addition to the expansion of its information and telecommunication technology sectors, growth has been observed in manufacturing sectors such as the motor vehicle, electronics and transport-equipment industries. The Government of India also supports the pharmaceutical industry, as well as the rapidly developing biotechnology sector, in order to exploit the human and biogenetic resources they provide.

4. Free trade agreements with China and India

A new commercial order is forming around the Chinese economy in east Asia. This region, which is emerging as a bloc in the international economy, is consolidating an integration process that began in the 1980s, spurred by intraregional investment and growing intra-industry trade. A preferential trade regime, accompanied by greater standardization of rules regarding trade disciplines, investment, services, technical and phytosanitary standards, trade facilitation and labour mobility, among other issues, would be a decisive step toward deeper regional integration. A future free trade area comprising China, Japan, the Republic of Korea and ASEAN, with the possible addition of Australia, New Zealand and India, would strongly encourage intraregional trade. Above all, however, it would have a significant impact on the economic landscape of the Asia-Pacific region. A free trade area consisting of ASEAN and China would represent a combined GDP of at least US$ 1.6 billion; if Japan is included, that figure would rise to US$ 5.5 billion, making east Asia a significant counterweight to the United States and Europe.

China and India have negotiated several free trade agreements over the past few years. China began by establishing special trading arrangements with the Hong Kong Special Administrative Region and Macao, followed by a free trade agreement (FTA) with Chile and an "early harvest" agreement with Pakistan.[5] It also began reducing the tariffs applied to ASEAN countries. It has either signed or is negotiating free trade agreements with around 27 countries (People's Daily Online, 2006). India is also creating a complex network of trade agreements. It has already established eight FTAs, including partial agreements with Chile and Mercosur, it is negotiating agreements with eight other groups of countries and it is considering ten more agreements (table 11). China has signed investment protection agreements with Argentina, Barbados, Bolivia, Chile, Cuba, Ecuador, Jamaica, Peru and Uruguay, and has established tourism agreements with six Latin American countries (Argentina, Brazil, Chile, Cuba, Mexico and Peru) since 2003 (Government of China, 2006).

The recent trend toward the consolidation of trade between Latin America and the Asia-Pacific region through various types of agreements may facilitate the inclusion of Latin American firms in Asian production chains revolving around China and India. While the Chile-China FTA (already signed) and the India-Mercosur agreement are promising, their depth and scope must be increased. The Chile-China FTA is the first trade agreement to be established between China and a Western country, and is thus viewed as a bridge between South America and the Asia-Pacific region. Other initiatives developed by Asian and Latin American countries bordering on the Pacific include the Free Trade Agreement between Chile and the Republic of Korea (the first trans-Pacific FTA); the Trans-Pacific Strategic Economic Partnership Agreement between Brunei-Darussalam, Chile, New Zealand and Singapore, which has already been signed; several Peruvian proposals (an FTA with Thailand, for which negotiations were finalized in 2005, and possible FTAs with Singapore, China and India); and an FTA between Panama and Singapore. In addition, Chile recently finished negotiating an FTA with Japan, and is negotiating similar agreements with Thailand and Malaysia. These initiatives reflect a serious attempt by Latin American countries to adopt a more strategic approach to their relationship with China and the Asia-Pacific region.

5. Implications for Latin America and the Caribbean of a regional free trade agreement in Asia

The creation of a free trade area in Asia consisting of China, the Republic of Korea and Japan (and possibly India, which might be included as a trading partner at some point in the future) poses a challenge to Latin America and the Caribbean, inasmuch as integration in Asia is more intraregional in nature, with intraregional

[5] That is, an agreement that begins producing results before it enters into full effect.

TABLE 10

China: 30 products imported from Latin America and the Caribbean and its competitors, 2004 [a]
(Millions of dollars and percentages)

	SITC, Rev. 2	Product description	Value	World (%)	Main source countries and percentage of imports					Total
	Code	1	2	3	4					5
1	222	Oilseeds and oleaginous fruits, whole or broken	2 776	38.6	USA	**BRA**	**ARG**	CAN	IND	99.4
2	682	Copper and copper alloys	1 822	23.6	**CHL**	TWN	KOR	JPN	Z/F[b]	67.0
3	287	Ores and concentrates of base metals	1 652	24.8	AUS	**CHL**	**PER**	IND	USA	61.4
4	423	Fixed vegetable oils, liquid, crude, refined	1 350	75.2	**ARG**	**BRA**	CAN	AUS	TWN	99.1
5	281	Iron ore and concentrates	1 242	9.8	IND	AUS	**BRA**	ZAF	CAN	88.6
6	251	Pulp and waste paper	611	11.5	USA	CAN	IDN	RUS	**BRA**	69.7
7	081	Feeding stuff for animals (not including unmilled cereals)	544	57.3	**PER**	USA	**CHL**	IND	RUS	82.4
8	333	Petroleum oils, crude	407	1.2	AGO	SAU	OMN	IRN	RUS	59.3
9	611	Leather	403	12.0	TWN	KOR	ITA	Z/F[b]	**BRA**	65.9
10	759	Parts and accessories (other than covers, carrying cases and the like)	256	1.7	Z/F[b]	JPN	TWN	KOR	THA	78.5
11	672	Ingots and other primary forms of iron or steel	242	3.8	KOR	JPN	TWN	UKR	RUS	65.3
12	671	Pig-iron, spiegeleisen, sponge iron, powders	229	20.8	KAZ	**VEN**	RUS	AUS	**BRA**	56.6
13	248	Wood, simply worked, and railway sleepers of wood	165	11.7	USA	IDN	THA	**BRA**	RUS	63.6
14	674	Flat-rolled products of iron or steel, clad, plated or coated	156	1.3	JPN	TWN	KOR	RUS	KAZ	77.6
15	288	Metal waste and scrap	143	4.0	USA	JPN	HKG	BEL	AUS	61.3
16	713	Internal combustion piston engines, and parts thereof	113	3.0	JPN	DEU	KOR	USA	HUN	79.8
17	776	Cold cathode lamps, tubes and electronic valves	104	0.1	TWN	JPN	KOR	MYS	PHL	72.2
18	121	Tobacco, unmanufactured; tobacco refuse	102	43.9	ZWE	**BRA**	USA	CAN	TUR	99.0
19	784	Parts and accessories of motor vehicles, n.e.s.	102	1.4	JPN	DEU	KOR	TWN	USA	86.1
20	651	Textile yarn	62	1.5	Z/F[b]	TWN	KOR	PAK	JPN	75.4
21	263	Cotton	60	1.9	USA	UZB	AUS	BFA	BEN	77.8
22	011	Meat and edible meat offal	60	12.6	USA	CAN	DNK	**BRA**	NZL	83.1
23	583	Polymers and copolymers	48	0.3	TWN	KOR	JPN	USA	SGP	66.2
24	341	Gas, natural and manufactured	45	1.9	SAU	ARE	AUS	KWT	THA	78.0
25	034	Fish, fresh, chilled or frozen	44	2.6	RUS	USA	NOR	JPN	PRK	75.1
26	641	Paper and paperboard	39	0.9	USA	JPN	TWN	KOR	IDN	53.3
27	058	Fruit, preserved, and fruit preparations	38	35.1	**BRA**	USA	ISR	SWE	THA	64.6
28	742	Pumps for liquids, whether or not fitted with a measuring device	36	2.2	DEU	JPN	USA	KOR	ITA	69.6
29	036	Crustaceans and molluscs, whether in shell or not	36	5.6	PRK	CAN	KOR	**PER**	USA	62.0
30	273	Stone, sand and gravel	35	4.7	IND	EGY	TUR	**BRA**	ESP	62.0
		Other products	858							
		Total trade	13 780							

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

[a] Column 1 lists the 30 main products imported by China from Latin America and the Caribbean, based on the value of imports in 2004. Column 2 lists the value of these imports in 2004. Column 3 details the share of each import from Latin America and the Caribbean in overall imports of that product from the rest of the world. Column 4 lists the five main suppliers of each product. Column 5 details the share of these five countries in total import value.

[b] Free zones.

TABLE 11

China and India: preferential agreements signed or under negotiation

Signed or in force	Framework agreement (FA) signed or in negotiation	Proposed / under consideration
	CHINA	
• ASEAN-China Free Trade Area (in force) • Asia-Pacific Trade Agreement (in force) [a] • Chile-China Free Trade Agreement (in force) • Closer Economic Partnership Arrangement between Mainland China and Hong Kong (in force) • Mainland and Macao Closer Economic Partnership Arrangement (in force) • China-Pakistan FTA (signed) • China-Thailand FTA (in force)	• China-New Zealand FTA (FA signed; FTA under negotiation) • China-Australia FTA (FA signed; FTA under negotiation) • China-Gulf Cooperation Council FTA (under negotiation) [b] China-Iceland FTA (under negotiation) • China-Singapore FTA (under negotiation) • China-Southern Africa Customs Union (under negotiation) [c]	• China-India Regional Trade Agreement • Eastern Asia Free Trade Area • China-Japan-Republic of Korea FTA • China-Republic of Korea FTA • China-Peru FTA • China-South Africa FTA • Shanghai Cooperation Organization FTA
7	6	7
	INDIA	
• Asia-Pacific Trade Agreement (in force) [a] • India-Afghanistan Preferential Trade Agreement(signed) • India-Chile Preferential Trade Agreement (signed) • India-Mercosur Preferential Trade Agreement (signed) • India-Singapore Comprehensive Economic Cooperation Agreement (signed) • India-Sri Lanka FTA (in force) • India-Nepal Trade Agreement (in force) • South Asia FTA (in force) [d]	• ASEAN-India Regional Trade and Investment Area (FA signed, FTA under negotiation) • Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (FA signed, FTA under negotiation) • India-Egypt Preferential Trade Agreement (under negotiation) • India-Gulf Cooperation Council FTA (FA signed, FTA under negotiation) [b] • India-Republic of Korea Comprehensive Economic Cooperation and Partnership Agreement • India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (under negotiation) • India-Southern Africa Customs Union Preferential Trade Agreement (FA signed, FTA under negotiation) [c] • India-Thailand FTA (FA signed, FTA under negotiation)	• India-China Regional Trade Agreement • India-Australia FTA • India-Colombia Preferential Trade Agreement • India-European Union FTA • India-Indonesia Comprehensive Economic Cooperation Agreement • India-Israel Preferential Trade Agreement • India-Republic of Korea Comprehensive Economic Partnership Agreement • India-Uruguay Preferential Trade Agreement • India-Venezuela Preferential Trade Agreement • India-Nepal Trade Agreement • India-Malaysia Comprehensive Economic Cooperation Agreement
8	8	10

Source: Prepared by the authors, on the basis of *People's Daily Online* (2005), ESCAP (2005), Asian Development Bank, Free Trade Agreement Database for Asia, http://aric.adb.org/; NIC (s/f) and DIRECON (s/f).

[a] The five States originally participating in the Agreement were Bangladesh, India, the Republic of Korea, the Lao People's Democratic Republic and Sri Lanka. The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the Secretariat for the Agreement.

[b] Members are Bahrein, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

[c] Members are Botswana, Lesotho, Namibia, South Africa and Swaziland.

exports playing a greater role in the region's scheme of tariff preferences. As mentioned above, imports from Latin America and the Caribbean still consist mostly of primary products and natural resources, whereas imports from ASEAN countries are mainly comprised of high-technology goods, such as information and telecommunications. The tariffs applied to these products have dropped considerably over the past few years.

The countries of Latin America and the Caribbean would face less of a disadvantage as they compete with ASEAN for Chinese markets if they signed free trade agreements with that bloc. The strongest competition would arise in the primary- product and natural-resource-based manufacture sectors, where ASEAN countries will continue to enjoy comparative production advantages if effective tariffs remain high (table 12). The tariffs applied by ASEAN, China, Japan and the Republic of Korea (ASEAN + 3) to agricultural products, textiles, wearing apparel and certain categories of machinery remain high; a lowering of these tariffs within the framework of the ASEAN + 3 agreement, the respective agreements between ASEAN and the three countries mentioned above or even the China-ASEAN or ASEAN-India agreement would benefit ASEAN countries at the expense of Latin America and the Caribbean.

These new agreements between ASEAN countries and trading partners outside of their own bloc are part of a second wave of preferential trade agreements –one which follows the Agreement on the Common Effective Preferential Tariff Scheme for the Establishment of the ASEAN Free Trade Area (AFTA). The main objective of this Agreement, which was approved in 1992 and entered into force in 1993, is to integrate the economies of ASEAN into a single production area, creating a vast market of 500 million people.

IV

Conclusions and recommendations

The economic, strategic and demographic importance of China and India has put them at the forefront of Asian countries. From an economic perspective, both countries –particularly China– have played a key role in the significant changes that have occurred in the level and structure of world demand, and have served as a significant source of financial resources for the preservation of international balances. Relations between the two countries and Latin America and the Caribbean are still in their infancy, however –although exchanges with China have recently increased, mainly as a result of that country's interest in securing access to the natural resources of South America.

So far, South American exports to China and India have been dominated by natural-resource-based manufactures, while the region's imports from the two countries have consisted mainly of low-, medium- and high-technology manufactures. China has become a major destination for exports from other Asian countries, which have gradually attained a higher degree of specialization, and now produce not only natural-resource-based manufactures but also more complex inputs.

Given the inter-industrial nature of trade between China and South America, the region should seek to create partnerships between its firms and successful Asian companies, in order to gain access to supply chains that produce more complex, technologically sophisticated inputs for production units. The best approach may be to build partnerships around chains, in order to increase the sophistication of the natural-resource-based manufactures the region exports to Asia. Latin America should make optimal use of its natural resources, promoting long-term contracts, investment agreements and technological partnerships in the natural resources sector, as well as strategic production clusters among countries, firms and specific geographic areas in Asia. Strategic partnerships should also be created to increase value added throughout the production and marketing chain, and mutually beneficial technological partnerships should be developed (to apply advances in biotechnology to agro-industry, mining, forestry and fishery, for example).

As for strategic relations between Mexico-Central America and China, efforts should be made to ensure that the former plays a part in the integration of regional production –a process being driven by Asian markets, and one in which China plays an increasingly important role. This is an achievable goal, given the advantages the subregion enjoys in its relationship with the United States market, which include logistical efficiencies and

TABLE 12

Selected Asian countries: average applied tariffs, 2003/2005 [a]

	Total tariff lines	All products with tariffs exceeding 20%	Share (%)	All products	Agriculture, except fisheries	Fish and fish products	Petroleum	Woood, pulp, paper and furniture	Textiles and wearing apparel	Leather, rubber, footwear and articles for travel	Metals	Chemicals and photographic products	Transport equipment	Non-electrical machinery	Electrical machinery	Mineral products, gems and others	Manufactured articles, n.e.s.
Japan				7.1	21.1	5.9	2.1	1.7	6.6	15.7	0.8	2.5	0.1	0.0	0.2	0.9	1.4
China				9.9	15.2	10.5	6.3	5.0	11.4	13.1	7.3	7.0	13.3	8.0	9.0	8.8	11.7
Korea, Rep. Of				12.8	51.6	16.8	5.8	2.6	9.8	8.9	4.7	6.0	6.0	6	5.5	5.9	6.2
Singapore		Average applied tariffs		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand				11.4	24.3	10.0	5.5	8.1	18.0	14.4	7.3	5.1	19.6	4.2	8.1	6.5	14.7
Malaysia				9.3	3.1	1.9	0.5	2.5	13.4	12.5	17.4	5.8	48.1	6.0	8.9	0.0	7.5
Indonesia				7.2	8.6	5.0	5.0	4.1	10.5	6.6	8.1	5.5	17.0	2.3	6.1	4.6	7.7
Philippines				5.3	7.0	7.1	2.6	6.0	9.5	5.6	4.5	3.6	8.1	2.1	3.9	4.3	4.0
Vietnam				16.5	24.8	27.2	7.4	17.1	35.4	19.6	9.3	6.0	11.7	6.0	15.0	12.5	15.0
Japan	9 111	448	4.9		361	3	0	0	0	84	0	0	0	0	0	0	0
China	7 605	467	6.1		173	1	0	0	12	27	12	4	62	14	46	40	76
Korea, Rep. Of	11 261	551	4.9		542	5	0	0	0	0	0	4	0	0	0	0	0
Singapore	6 036	0	0.0		0	0	0	0	0	0	0	0	0	0	0	0	0
Thailand	5 960	1 082	18.2	Number of tariff lines	473	17	0	13	319	56	7	20	62	15	27	23	50
Malaysia	10 458	1 565	15.0		22	0	0	73	128	148	346	221	292	97	72	85	81
Indonesia	7 542	112	1.5		29	0	2	0	0	0	4	1	76	0	0	0	0
Philippines	5 556	54	1.0		34	0	0	0	0	0	0	0	20	0	0	0	0
Vietnam	6 521	2 038	31.3		359	88	2	114	624	73	120	109	86	77	142	81	163
Total	70 050	6 317	9.0		1 993	114	4	200	1 083	388	489	359	598	203	287	229	370
Share (%)	100.0	9.0	9.0		2.8	0.2	0.0	0.3	1.5	0.6	0.7	0.5	0.9	0.3	0.4	0.3	0.5

Source: Prepared by the authors, based on the plans of action of Asia-Pacific Economic Cooperation (APEC) member countries.

[a] Figures for China, Japan, the Republic of Korea and Thailand date from 2005; figures for Malaysia date from 2002; those for the Philippines, Indonesia and Vietnam date from 2003.

geographic proximity. This weighs heavily in the strategic calculations of China, Japan, the Republic of Korea and Singapore. Furthermore, increased intra-industry trade between China, on the one hand, and Mexico and Central America, on the other, would provide the subregion with new access routes to the Chinese market, encourage the adoption of new technologies and improve worker skills and management techniques.

Notwithstanding the significant role played by some Latin American countries as leading suppliers of primary products, competition in that sector between Asia and South America is likely to intensify, leading to significant diversion of trade for the region, unless proactive policies are pursued with regard to the adoption of bilateral or subregional trade agreements. Such agreements would have a positive impact on the region, given their effect on international flows of foreign direct investment, as well as the business they would generate for products currently facing sharp competition on the Chinese market from the economies of East Asia.

It is also imperative that the countries of the region take advantage of the economic buoyancy of China and India, as well as the new ties being forged with those countries, in order to foster innovation and competitiveness within the region. Those assets tend to be one of the weaker links in the Latin American regional experience. This will require stronger ties between trade and investment, and between the various components of production and technology. China and India offer investments (particularly in areas such as infrastructure, information and communication technologies and energy) that can supplement the funding of important projects in these sectors. An interesting challenge in this regard is to determine which infrastructure, energy and research and development initiatives are in greatest need of this Chinese or Indian investment, with a view to speeding their completion. This would not only strengthen the region's ties with China and the Asia-Pacific region, facilitating trade and investment, but would also generate external inputs that might strengthen the subregional integration process, be it in South America or in Mexico-Central America. Thus, the region's strategic partnership with China and India would supplement the aggiornamento of regional integration through unified markets,

APPENDIX A

Country codes for tables 5 and 10

CODE	Country	CODE	Country	CODE	Country
AGO	Angola	GBR	United Kingdom	NZL	New Zealand
ARE	United Arab Emirates	GTM	Guatemala	OMN	Oman
ARG	Argentina	HKG	Hong Kong (SAR)	PER	Peru
AUS	Australia	HND	Honduras	PHL	Philippines
BEL	Belgium	HUN	Hungary	PRK	Democratic People's Republic of Korea
BEN	Benin	IDN	Indonesia	RUS	Russian Federation
BGD	Bangladesh	IND	India	SAU	Saudi Arabia
BFA	Burkina Faso	IRL	Ireland	SGP	Singapore
BRA	Brazil	IRN	Islamic Republic of Iran	SLV	El Salvador
CAN	Canada	ISR	Israel	SWE	Sweden
CHL	Chile	ITA	Italy	THA	Thailand
CHN	China	JPN	Japan	TUR	Turkey
COL	Colombia	KAZ	Kazakhstan	TWN	Taiwan Province of China
CRL	Costa Rica	KOR	Republic of Korea	UKR	Ukraine
DEU	Germany	KWT	Kuwait	USA	United States
DNK	Denmark	MEX	Mexico	UZB	Uzbekistan
DOM	Dominican Republic	MYS	Malaysia	VEN	Bolivarian Republic of Venezuela
ECU	Ecuador	NGA	Nigeria	VNM	Viet Nam
ESP	Spain	NLD	The Netherlands	ZAF	South Africa
F/Z	Free zones	NOR	Norway		

Source: ECLAC, on the basis of data obtained from the United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Statistics Division.

increasingly standardized norms and greater legal certainty. There is no "Great Wall of China" standing between stronger economic ties with the Asia-Pacific region and increased regional integration. On the contrary, given the proper policies and political will on both sides, dynamic complementarities can be built between both strategic possibilities.

(Original:Spanish)

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