



The People's Republic of China and Latin America and the Caribbean

Dialogue and cooperation for the new
challenges of the global economy



UNITED NATIONS

ECLAC



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Foreword

The Economic Commission for Latin America and the Caribbean (ECLAC) has prepared this publication on the occasion of Chinese Premier Wen Jiabao's visit to ECLAC headquarters, in order to provide current information on trade and investment in Latin America and the Caribbean and the People's Republic of China, as well as contribute to the discussion on the current significance and future implications of closer ties with China and the Asia-Pacific region for regional development.

In recent decades, China —along with Asia's other emerging economies— has become a key factor in understanding globalization trends and perspectives. Owing to its outstanding performance in economic growth, international trade, foreign direct investment and technological innovation, as well as its role as a source of international financing, China is rapidly redrawing the global economic map. It is strengthening ties between developing economies and driving an unprecedented cycle of growth, trade, investment, poverty reduction and global integration among emerging economies. As a result, the income gap between those economies and their industrialized counterparts is shrinking.

Several decades of annual growth of around 10% in China have reshaped Asian value chains, which are increasingly based in China, the heavyweight country in the "Asia factory." China's swift economic growth is forging stronger links between the Asian economies and driving intra-industry growth and reciprocal investment. Accordingly, an effective strategy to build closer ties with China cannot overlook the strong relationship that exists between East and Southeast Asia.

China's robust growth is reflected in strong demand for commodities and natural resources, which often come from countries in Latin America and the Caribbean. Regional trade with China has been soaring for a decade, and in just a few years the country has become a key trading partner for Latin America and the Caribbean, spurring growth in the region's commodity exporting countries.

Accordingly, the time is right to seize this historic opportunity to tackle infrastructure, innovation and human resource deficits and transform natural resource wealth into various forms of human, physical and institutional capital, raising productivity and competitiveness and diversifying the export base. A very important parallel challenge will be to increase the volume of Chinese foreign direct investment (FDI) in the region, especially to improve infrastructure, promote export diversification and

encourage business partnerships between Latin America and China. To that end, the region must pursue a broader strategic relationship with China and East-Southeast Asia that transcends the country-level efforts that have prevailed thus far.

The recent consensus opinion on China's economic slowdown is that the country's economic policy is finely calibrated, enabling it to slow inflation and eliminate real estate bubbles, while creating headroom so stimulus programs can be deployed to sustain growth in the event that weak economic conditions in the industrialized countries persist.

This publication examines recent broad trends in trade between China and Latin America and the Caribbean, as well as in Chinese FDI in the region. It points out that trade is essentially inter-industry, with China exporting manufactured goods and Latin America and the Caribbean mainly exporting commodities. This weakens the potential for business partnerships between China and Latin America and makes it hard for countries in the latter region to more fully participate in value chains in Asia and the Pacific. It should be noted that Chinese authorities have indicated their willingness to discuss this major challenge and identify mutually beneficial agreements.

For several years, ECLAC has been involved in activities at various levels to strengthen economic relations between Latin America and the Caribbean and the Asia-Pacific region, especially China. It has participated in the five China-Latin America Business Summits, the first China-Latin America think-tank forum, organized in Beijing, the meetings of the Forum of Ministers of the Latin American Pacific Basin Initiative and the Pacific Alliance, and other forums. Moreover, in late May 2012, together with the Latin American Development Bank (CAF) and the Association for Latin American Integration (ALADI), it inaugurated the Latin America-Asia-Pacific Relations Observatory. Thus, this publication is part of ongoing efforts to encourage ties between Latin America and the Caribbean and Asia and the Pacific, the most dynamic region in the world.¹

Alicia Bárcena

Executive Secretary

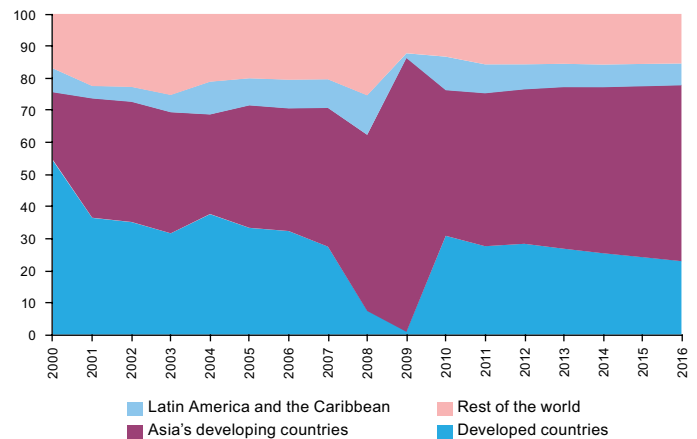
Economic Commission for Latin America
and the Caribbean (ECLAC)

¹ The following publications, among others, are particularly relevant: "The Latin American Pacific Basin Initiative and the Asia-Pacific region" (LC/L.2950), September 2008; "Economic and Trade Relations between Latin America and Asia-Pacific. The Link with China" (LC/L.2959), October 2008; "Opportunities for Trade and Investment between Latin America and Asia-Pacific. The Link with APEC" (LC/L.2971), November 2008; "The Latin American Pacific Basin Initiative after the Crisis. Challenges and Proposals" (LC/R.2156), November 2009; and "The People's Republic of China and Latin America and the Caribbean. Towards a Strategic Relationship" (LC/L.3224), June 2011. See [online] <http://www.cepal.org/comercio/>.

1. The world's developing countries, led by China, now contribute over half of global economic growth

- The industrialized countries' share of global growth fell from over half in 2000 to little more than one quarter in 2007. Following a partial recovery in 2010, the United States and especially Japan and the European Union are now looking at several years of sluggish growth. The forecast for 2016 is that the industrialized countries will be responsible for just one quarter of global economic growth. In other words, their contribution will have fallen by one half in 15 years.
- Meanwhile, the developing countries are now responsible for over half of global economic growth. Asia's developing countries, led by China, stand out in particular and are forecast to contribute around 55% of global growth by 2016.

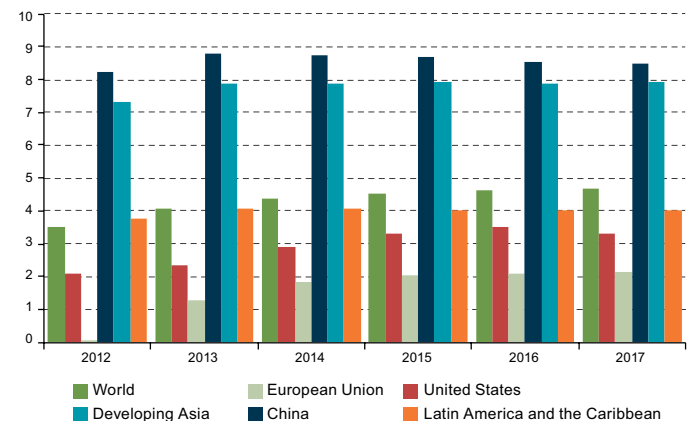
■ **Figure 1 ■**
Selected regions: contribution to global GDP growth, 2000-2016 ^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the International Monetary Fund's World Economic Outlook database, April 2011.

^a The 2011-2016 data are projections.

■ **Figure 2 ■**
World, countries, and selected groups: projected GDP growth, 2012-2017
(Percentages)

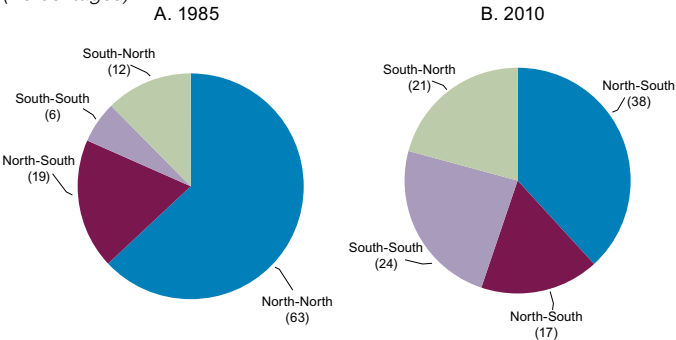


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the International Monetary Fund's World Economic Outlook database, April 2012.

2. By the end of the decade, trade between developing countries (South-South) is expected to surpass trade between developed countries (North-North)

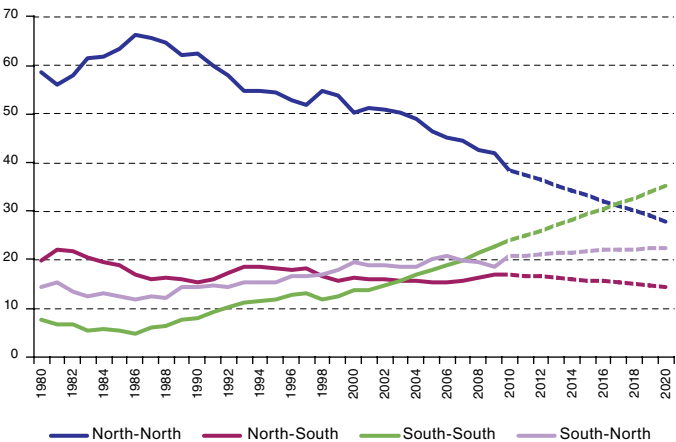
- International trade flows have been transformed in recent decades as the world's developed countries have outpaced their industrialized counterparts in economic growth. Since the mid-1980s, developing countries have seen their share of global exports rise sharply. In fact, developing countries now export more to each other than they do to developed countries. The strong growth of Asian trade, both within the region as well as with other developing regions, has been a key factor in this reconfiguration.
- The correlate to the above has been a sharp decline in the developed countries' share of global trade, from over 60% in 1985 to under 40% in 2010.
- If the growth rates seen in the different categories of trade flows over the past decade are extrapolated forward several years, trade between developing countries can be expected to surpass the volume traded by developed countries by around 2017.

■ **Figure 3 ■**
Developed countries (North) and developing countries (South):
distribution of global exports
(Percentages)



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

■ **Figure 4 ■**
Developed countries (North) and developing countries (South):
evolution of the distribution of global exports, 1980-2020 ^a
(Percentages)



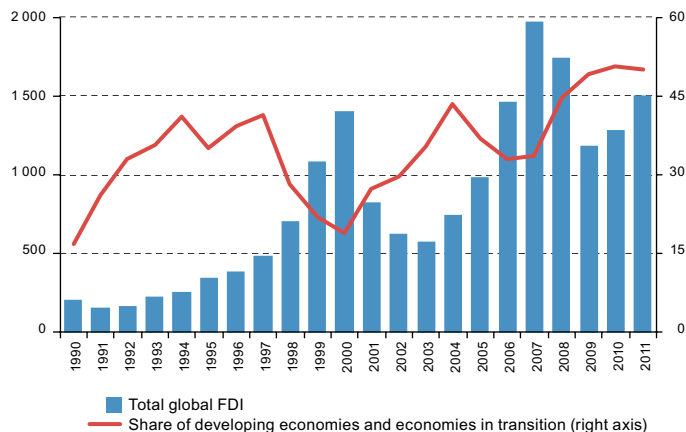
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the United Nations Commodity Trade Statistics Database (COMTRADE).

^a The figures for and after 2011 are ECLAC projections.

3. In 2010, for the first time ever, the developing countries, along with countries in transition, received half of global flows of foreign direct investment

- In 2010 and 2011, the developing countries and economies in transition received 51% and 50% of global FDI flows, respectively. The two developing regions that attract the largest FDI flows are Asia and Oceania, led by China and Hong Kong (Special Administrative Region of China), and Latin America and the Caribbean, where Brazil is the main recipient.
- The developing countries and economies in transition have also taken on a much more central role as foreign investors. Whereas in 2000 they originated 11% of global FDI flows, their share in 2011 was 26%, the second highest level ever, after 2010 (31%).

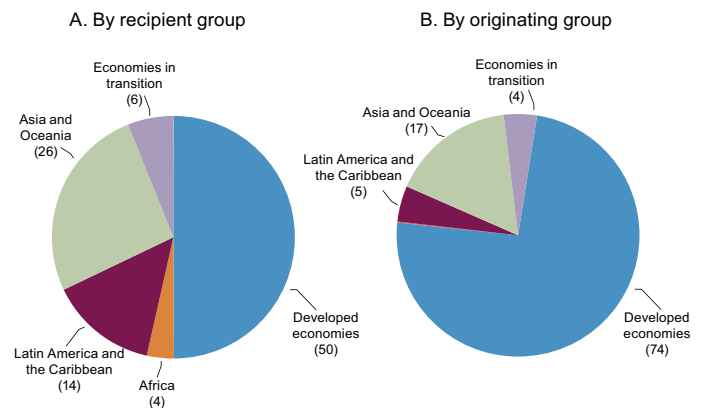
■ **Figure 5 ■**
Global inflows of foreign direct investment (FDI) and share of the economies in transition, 1990-2011^a
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the United Nations Conference on Trade and Development (UNCTAD), using the UNCTADSTAT database.

^a The 2011 figures are preliminary estimates.

■ **Figure 6 ■**
Distribution of foreign direct investment (FDI) flows, 2011^a
(Percentages)



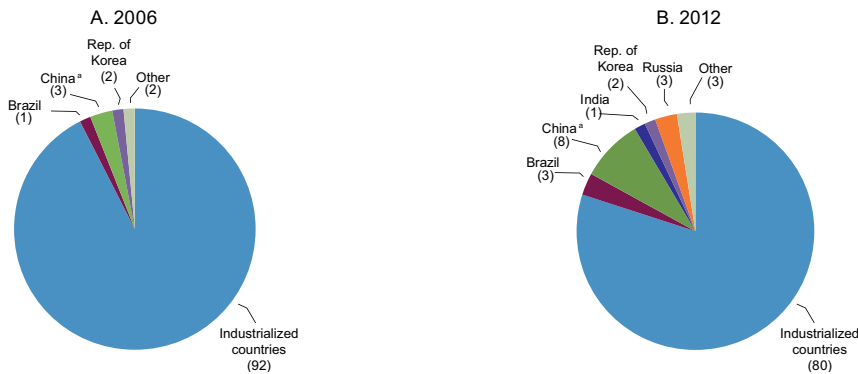
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the United Nations Conference on Trade and Development (UNCTAD), *Global Investment Trends Monitor*, No 8, January 2012 and No 9, April 2012.

^a Latin America and the Caribbean includes the financial centres of the Caribbean.

4. Firms in emerging countries are rising in the rankings of the world's largest companies

- The U.S. magazine Forbes publishes an annual list known as the Global 2000, a ranking of the 2,000 largest publicly traded companies in the world, chosen based on four indicators: sales, profits, assets, and market value. Of the 200 companies at the top of this list, firms from emerging countries strongly improved their presence between 2006 and 2012. In 2006, only 14 of the 200 largest companies (7%) were headquartered in emerging countries, a figure that grew to 40 (20%) in 2012. Along these same lines, only one firm from an emerging country ranked among the world's top 50 companies in 2006 (Samsung, Republic of Korea, in position 49), compared with 12 in 2012, three of which numbered among the top 10 companies on the list: Industrial and Commercial Bank of China (ICBC), PetroChina, and Brazil's Petrobras.
- Most companies from emerging countries that appear on the list are in the energy and banking industries, although some are also in mining, telecommunications, automotive, electronics and other industries. As for home country, most are based in the so-called BRIC countries (Brazil, Russia, India and China). Chinese companies make a particularly strong showing, accounting for 8% of the top 200 companies in 2012.

■ **Figure 7 ■**
Distribution of the 200 largest companies on the Forbes Global 2000 list, by country of origin
(Percentages)



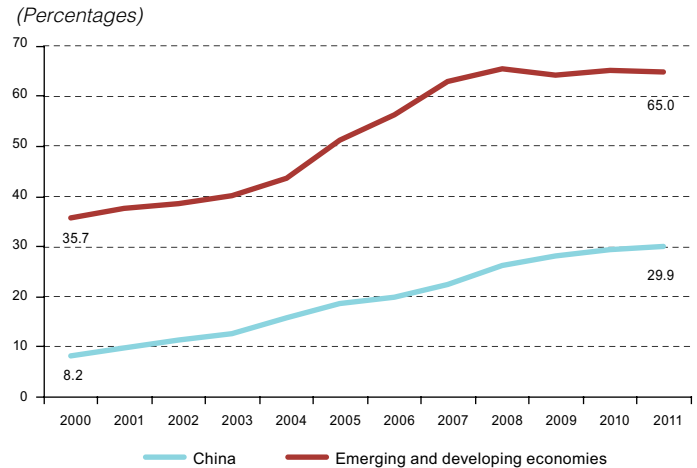
Source: Forbes magazine, [online] http://www.forbes.com/global2000/list/#p_1_s_a0_All%20industries_All%20countries_All%20states_y http://www.forbes.com/lists/2006/18/06f2000_The-Forbes-2000_Rank.html

^a China includes companies based in Hong Kong (Special Administrative Region of China).

5. Emerging and developing economies hold two thirds of official international reserves; China alone has 30%

- Over the past decade, emerging economies have nearly doubled their share of the world's holdings of official international reserves. China, in particular, stands out for having increased its share nearly four-fold in one decade. In 2011, it held 30% of the global stock of official international reserves, or roughly half of the share of all emerging and developing economies. This performance was facilitated by the large trade and current account surpluses that it posted throughout the period.
- Other developing and emerging countries, such as in the Middle East and North Africa, also increased their share of global reserve holdings, thanks to the trade surpluses generated by their oil exports.
- The increase in reserves held by the developing countries makes them less vulnerable than in the past to exchange-rate or balance-of-payment crises.

■ **Figure 8** ■
Participation by China and the emerging and developing economies in the global stock of official international reserves, 2000-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the International Monetary Fund's International Financial Statistics.

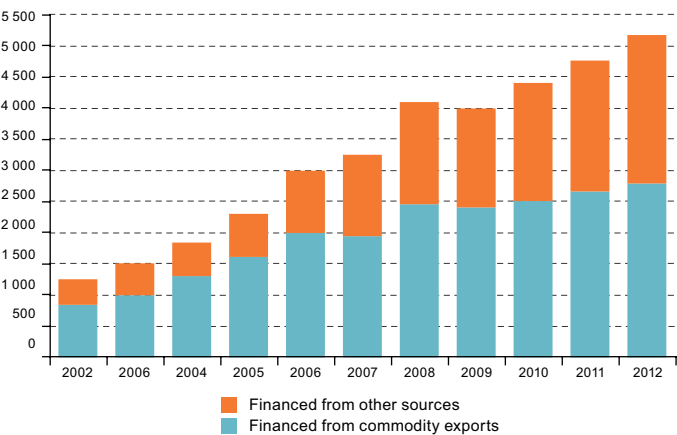
6. Emerging economies, led by China, hold a majority of assets managed by sovereign wealth funds

- Between 2002 and late 2011, the value of assets managed by sovereign wealth funds (SWF) grew from US\$ 1 billion to nearly US\$ 5 billion, while the number of SWFs increased more than in the previous four decades. Most of this growth took place in the oil-exporting countries of the Middle East and North Africa and in the countries with trade surpluses in Asia. These two subregions accounted for 55% of all SWFs and three quarters of the assets managed by such funds. SWFs financed by commodity exports, mainly oil, held 56% of all SWF managed assets at end-2011. The other SWFs were primarily financed from foreign currency reserves, fiscal account surpluses, government pension reserves and revenue from the privatization of State-owned enterprises.
- China is the largest sovereign investor by a wide margin, holding 29% of the global pool of SWF managed assets. It has four large funds: the SAFE Investment Company, the China Investment Cooperation, Hong Kong (Special Administrative Region of China), the Monetary Authority Investment Portfolio and the National Social Security Fund, all created between 1993 and 2007.
- SWFs have become essential financial actors. In particular, SWFs financed from sources other than commodity exports are a key source of international liquidity. A case in point are United States treasury bonds, of which China and Japan each hold a one-fifth share.

■ Figure 9 ■

Sovereign wealth funds: assets managed ^a

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the Sovereign Wealth Fund Institute and CityUK estimates.

^a The 2012 figures are projections.

■ Table 1 ■

Countries and regions of origin of sovereign wealth funds, 2011

(Billions of dollars and percentages)

Country	Amount	Percentage	Region	Amount	Percentage
China	1 411	29	Asia	1 927	40
United Arab Emirates	783	16	Middle East	1 682	35
Norway	560	12	Europe	802	17
Saudi Arabia	478	10	America	138	3
Singapore	405	8	Africa	130	3
Kuwait	296	6	Other	120	2
Russian Federation	114	2	Total	4 800	100
Other	753	16			
Total	4 800	100			

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the Sovereign Wealth Fund Institute and CityUK estimates.

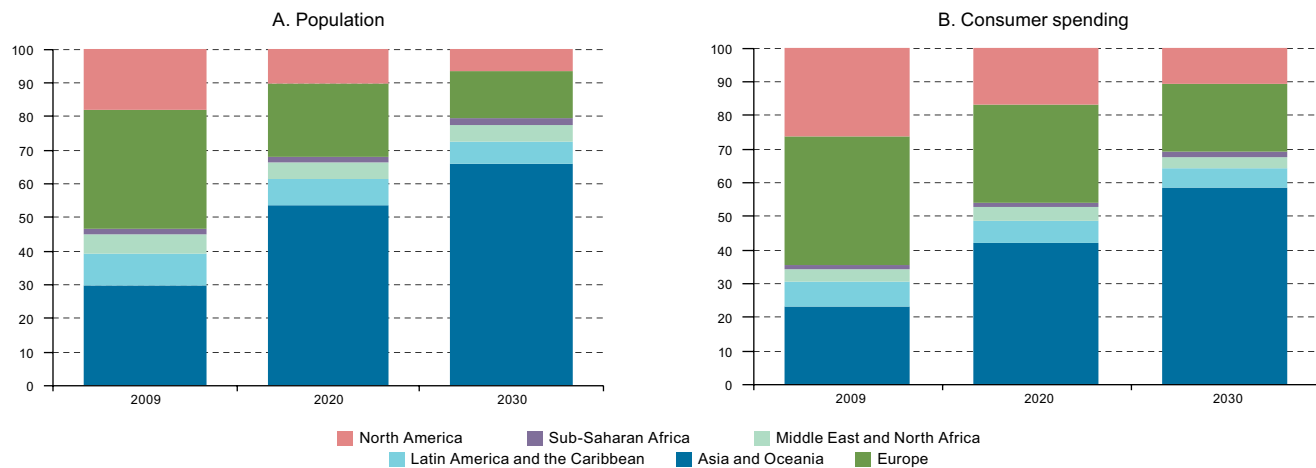
7. Two thirds of the world's middle class population is expected to be in the Asia-Pacific region by 2030, as against 21% in Europe and North America

- The dynamic growth that is forecast for the middle class in China and India could partly offset the stagnation expected in North America and Europe. It is also consistent with the greater emphasis the Chinese authorities wish to place on

domestic demand (and, within this, consumption) in future growth, partly in response to the need to reduce imbalances between rural and urban areas and between the dynamic coastal zones and the less developed interior.

■ Figure 10 ■

Major world regions: distribution of the middle class population and middle class consumer spending, 2009, 2020 and 2030^a
(Percentages)



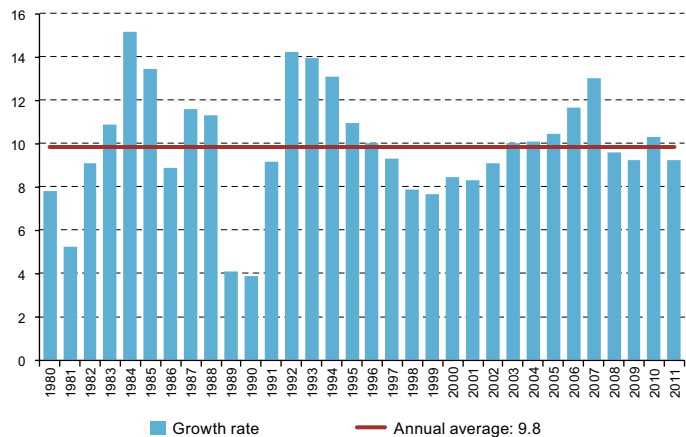
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Homi Kharas, "The emerging middle class in developing countries", Working Paper, No. 285, Organisation for Economic Co-operation and Development (OECD), January 2010.

^a The 2020 and 2030 figures are projections.

8. China is still the most dynamic driver of growth in the world economy

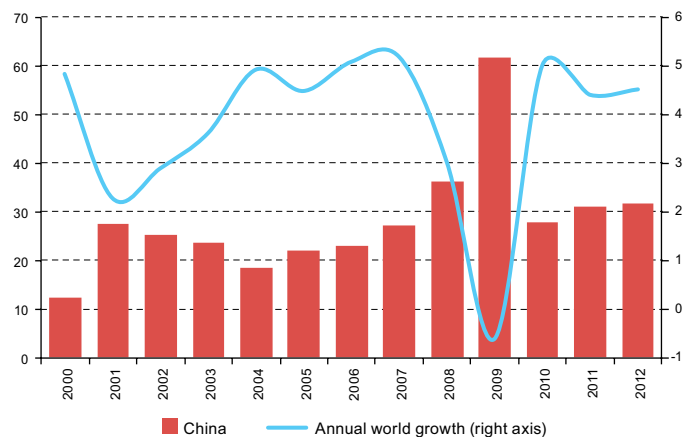
- With a growth rate of 9.2% in 2011, China has continued to be the main driver of global growth. It should be noted that the growth target set by the Chinese authorities for 2011-2015 is 7% a year, which is well below the recent trend.
- The most recent projections for the Chinese economy in 2012 indicate growth of 8.2% (International Monetary Fund, April 2012) or 8.6% (Economic and Social Commission for Asia and the Pacific, May 2012). In the 2013-2017 period, Chinese growth is projected to be in the range of 8.5% to 8.8% a year. The country should thus continue to be the fastest-growing of the world's major economies.

■ **Figure 11** ■
China: annual GDP growth rate, 1980-2011
(Percentages)



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

■ **Figure 12** ■
China: contribution to world GDP growth, 2000-2012
(Percentages)



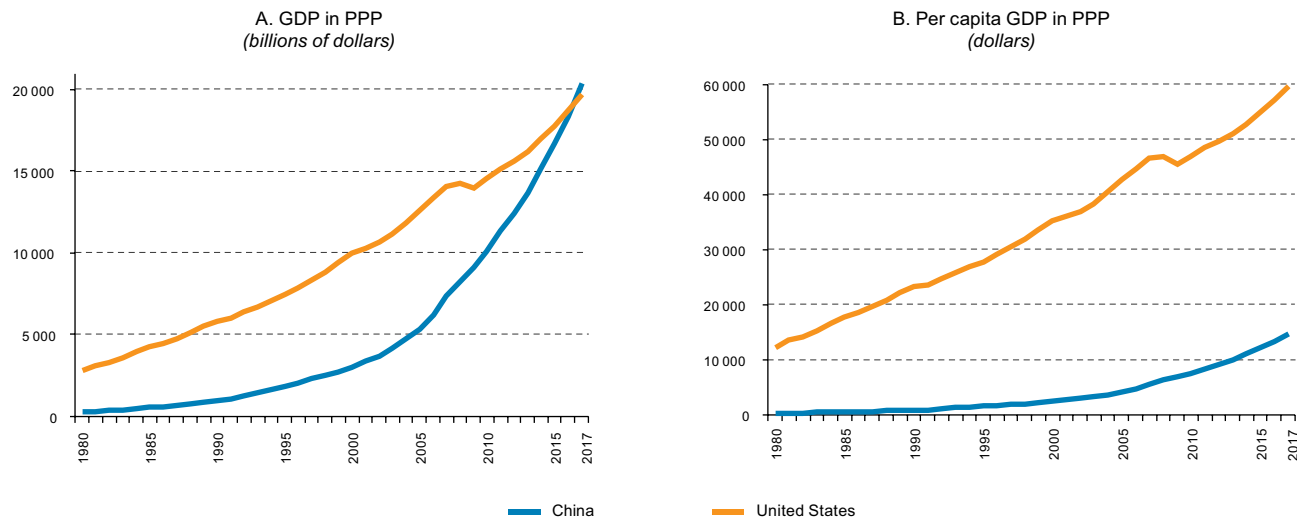
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, April 2011.

9. If it achieves the high growth rate forecast for the coming years, China will overtake the United States to become the world's largest economy in 2017 in purchasing power parity terms

- Recent International Monetary Fund (IMF) projections indicate that China's GDP, measured at purchasing power parity (PPP), should exceed that of the United States in 2017. This outcome would represent a major turning point in the international debate about globalization trends and governance.
- The three decades of economic reforms that began in China in 1979 represent the most intensive process of industrialization and urbanization humanity has ever seen. When these reforms began, China's GDP was just 9% of the United States level and its per capita GDP just 2%. The IMF projects that in 2017, China's GDP will be 3% greater than that of the United States and its per capita GDP will be a quarter of the United States level.

■ Figure 13 ■

United States and China: different measurements of national output, 1980-2017 ^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook Database* [online] www.imf.org/external/ns/cs.aspx?id=28, April 2011.

^a Values after 2011 are projections.

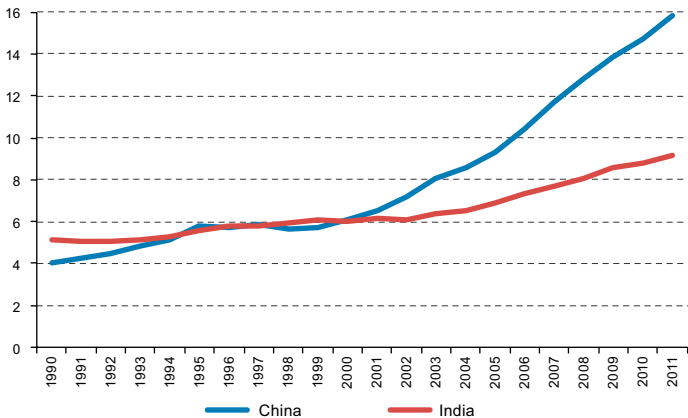
10. Total factor productivity has risen steadily in China over the last few years as a result of economic reforms and the take-up of new technologies

- Labour productivity in China grew rapidly in the last decade. The left-hand chart shows that Chinese labour productivity rose from 6% of the United States level in 2000 to 16% in 2011. By way of comparison, in 1990 labour productivity was higher in India, the second largest developing economy in Asia, than in China. Since 2001, however, it has been lower. Thus, China has made greater progress than India in closing the productivity gap with the United States.
- A better indicator for measuring the efficiency of the economy, including the contribution of capital, is total factor productivity (TFP), whose contribution to growth is illustrated in the right-hand chart. In the period from 2000 to 2008, the Chinese economy grew by an average of 9.9% a year, and the contribution of TFP was 4.2 percentage points a year. In other words, 42% of the growth in GDP is explained by greater efficiency in the use of capital and labour combined. The contribution of TFP was similar in the previous decade. The increase in the capital stock was

the most important factor, contributing 52% to growth in the period. Lastly, the increase in the workforce accounted for 15% of GDP growth between 1990 and 1999 and just 5% between 2000 and 2008.

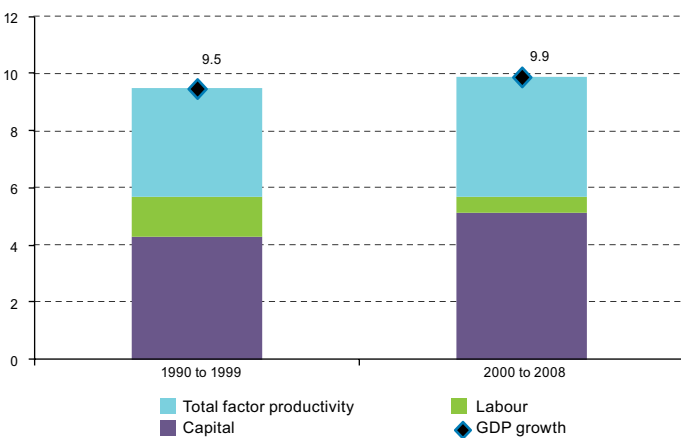
- A number of factors may account for the rapid rise in Chinese productivity. First, structural change in the economy, with resources moving from low-productivity sectors (farming) to higher-productivity ones (industry). Second, there has been the large-scale take-up by firms of new technologies and production processes embodied in imported machinery and equipment and in foreign direct investment. Third, the country has invested a great deal in infrastructure, which has brought down transport and communication times and costs. Fourth, trade opening and global competition have also been a spur to greater efficiency. Lastly, strong upward pressure on wages has made it necessary to increase productivity in order to maintain international competitiveness (see table 2 and figure 16).

■ Figure 14 ■
China and India: hourly labour productivity
(Percentages of the United States level)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Groningen Growth and Development Centre, Total Economy Database, 2012 and Asian Productivity Organization (APO), APO Productivity Database, 2011.

■ Figure 15 ■
China: average contributions to GDP growth
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Groningen Growth and Development Centre, Total Economy Database, 2012 and Asian Productivity Organization (APO), APO Productivity Database, 2011.

11. Wages in China have been growing faster than productivity. Combined with the appreciation of the renminbi, this has driven up unit labour costs to the point where they are converging on Mexico's

- A study by the United States Bureau of Labor Statistics shows that renminbi wages doubled between 2002 and 2008 in urban factories and rose by even more in rural areas. Partial information for the period from 2009 to 2011 shows wages rising at double-digit annual rates. They increased even more strongly in dollar terms, as the renminbi appreciated against the dollar throughout the period.
- This surge in wages is explained by growing demand for labour (especially in industry and construction) and by rising productivity. Meanwhile, the labour supply has been growing more slowly as migration flows from the countryside to the cities have declined and the working-age population has likewise expanded less quickly.
- Notwithstanding the improvement in productivity, average unit labour costs in dollars rose by a factor of 2.4 between 2002 and 2010 as a result of rising wages and currency appreciation. It is anticipated that these costs could soon be higher in China than Mexico.
- This trend could encourage multinational enterprises, especially those from the United States, to site investments in Mexico ("near-shoring") rather than China ("off-shoring"). However, a number of analysts have emphasized that wage costs are just one of the factors determining investment location, and that China is distinguished by the highly sophisticated and flexible production chains and clusters it has developed, and by the quality of its infrastructure.

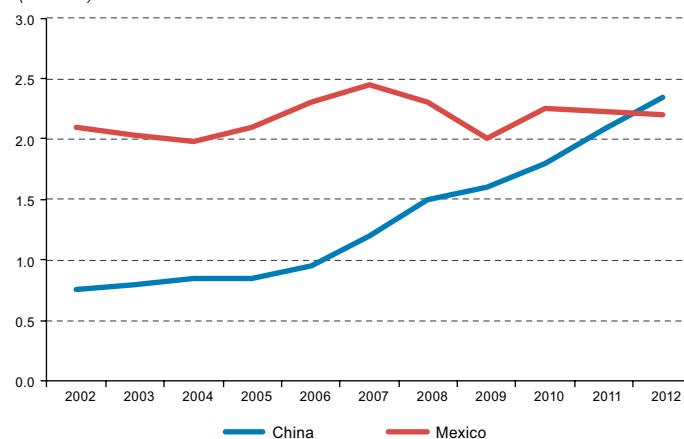
■ Table 2 ■

China: hourly cost of labour in industry, 2002 to 2008
(Renminbi)

	2002	2003	2004	2005	2006	2007	2008
Urban areas	7.9	8.9	9.86	10.6	11.7	13.9	16.5
Rural areas	3.4	3.6	3.7	4.1	4.2	4.9	5.7
Total	4.7	5.2	5.5	5.9	6.4	8.1	9.5

■ Figure 16 ■

China and Mexico: unit labour costs, 2002-2012
(Dollars)



Source: United States Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs in Manufacturing, 2010", 11 December 2011; Pedro Aspe, on the basis of JP Morgan, "The Evolution of Mexico's Economy", presentation at the Woodrow Wilson International Center for Scholars, 8 February 2012 [online] <http://www.wilsoncenter.org/sites/default/files/PAA%20Woodrow%20Wilson%20Feb%2008.pdf> [retrieved on 6 June 2012].

Note: The 2011 and 2012 data are estimates.

12. China accounts for over 20% of the world population and has a constantly growing middle class, making it a market of huge potential for Latin America and the Caribbean

- China currently accounts for 20% of the world population. Although this share will gradually decline over the coming decades, in absolute terms China’s population is not expected to start falling until 2030.
- The Chinese middle class is estimated at 157 million people and is already larger than that of the United States. It is projected to total 500 million by 2020, making it by far the largest global market. Indeed, China has already overtaken the United States as the world’s largest market for mobile phones, automobiles and personal computers.
- The rise in per capita income expected over the coming decades should boost both the size and the purchasing power of the Chinese middle class, turning it into a key market for food, higher-quality wearing apparel, tourism, pharmaceuticals, medical services, retail services and luxury goods, among other goods and services. Accordingly, it is vital for Latin America and the Caribbean to concentrate on diversifying its exports to the dynamic market that is the emerging Chinese middle class.

■ Table 3 ■
Selected regions and countries: population growth, 2000-2050
(Millions of people and annualized growth rates)

	2010	2020	2030	2040	2050	Annualized growth rate, 2010-2050
Latin America and the Caribbean	585.0	647.1	696.5	729.7	746.0	0.6
Central America	42.5	50.5	58.3	65.5	71.6	1.3
South America	392.3	431.2	461.1	479.9	487.6	0.5
The Caribbean	36.6	39.2	41.2	42.3	42.3	0.4
Mexico	113.4	125.9	135.4	141.5	143.9	0.6
Asia	4 164.3	4 565.5	4 867.7	5 061.0	5 142.2	0.5
China	1 341.3	1 387.8	1 393.1	1 360.9	1 295.6	-0.1
South-East Asia ^a	593.4	655.9	706.0	740.9	759.2	0.6
India	1 224.6	1 386.9	1 523.5	1 627.0	1 692.0	0.8
Other Asia	1 004.9	1 134.9	1 245.2	1 332.1	1 395.4	0.8
United States	310.4	337.1	361.7	383.5	403.1	0.7
European Union	499.3	509.7	514.5	514.0	510.3	0.1
World	6 895.9	7 656.5	8 321.4	8 874.0	9 306.1	0.8
Chinese share of the total	19.5	18.1	16.7	15.3	13.9	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects*, 2010 revision.
^a Includes Brunei Darussalam, Cambodia, Philippines, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Singapore, Thailand, Timor-Leste and Viet Nam.

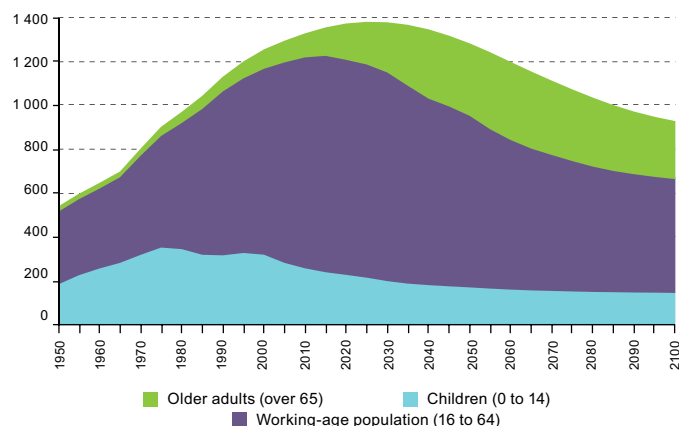
13. China's working-age population will start to fall in 2015 even as the older adults group increases, thus raising the dependency ratio and creating pressure for dissaving

- United Nations projections suggest that China's working-age population will peak at almost a billion around 2015. From then on this segment is expected to shrink, falling to 790 million people by 2050. The number of older adults, meanwhile, is forecast to rise from 130 million in 2015 to 330 million in 2050.
- As a result of these two developments, the dependency ratio (number of older adults per 100 working-age people) should increase from 11 in 2010 to 20 in 2025, 30 in 2035 and 50 in about 2050. The number of children per 100 working-age people, meanwhile, has been falling since 1965, partly as a result of the one child policy, and will bottom out in about 2045.
- The consequences of population ageing could be manifold. First, although there are still a great many workers who could potentially migrate from the low-productivity rural farm sector to the better-paying industrial urban zones, this reserve will gradually dwindle. As it does, wage pressure is going to increase, something that is already happening. This situation means it will be a challenge to keep output high enough to meet growing demand if productivity gains are not enough to offset the fall in the active population.
- Secondly, in the absence of a comprehensive system of pensions, and with the dependency ratio rising, older adults will increasingly have to draw on their savings as a means of subsistence. This will reduce the availability of these funds for financing investment, thus impacting future economic growth.

■ Figure 17 ■

China: population by age group, 1950 to 2100

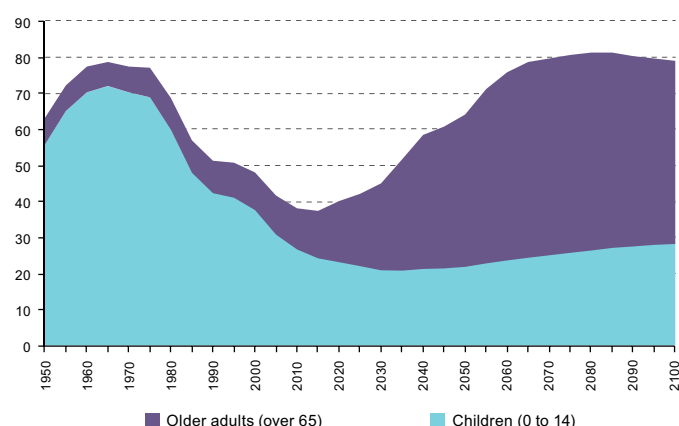
(Millions of people)



■ Figure 18 ■

China: dependency ratio, 1950 to 2100

(Number of dependents per 100 working-age people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects*, 2010 revision.

14. The “middle-income trap” in China and Latin America and the Caribbean: a prime topic for dialogue and cooperation

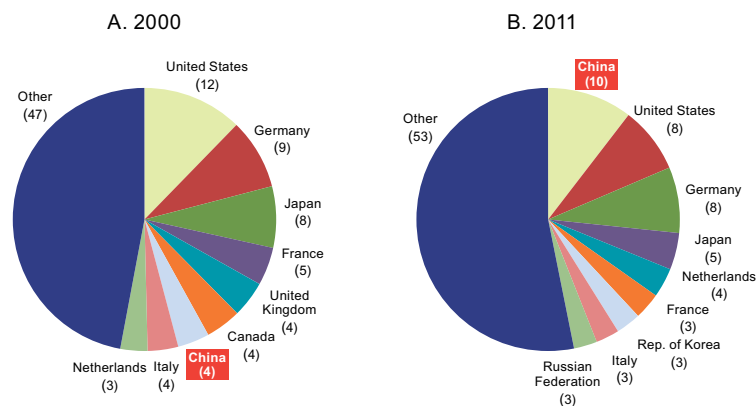
- China’s twelfth five-year plan (2011-2015) is designed to reorient the Chinese economic development model away from the current emphasis on investment and cheap exports towards a model that is more reliant on domestic consumption, more sustainable, more socially cohesive and more innovative. Rebalancing towards greater domestic consumption is necessary not only to offset the expected weakness in demand from industrialized countries but also to improve distribution indicators, which show a deterioration in earnings and a rise in income concentration. Thus, increases in the minimum wage and other measures to stimulate consumption in middle- and lower-class households, especially in the country’s interior, will be accompanied by greater public spending on social housing and social insurance in an attempt to narrow differences in incomes and quality of life between the urban and rural populations. One very ambitious goal is to universalize medical insurance coverage by incorporating a further 200 million people into the scheme. To develop the interior, steps will be taken to turn Chongqing and Chengdu into hubs of Chinese economic and industrial strength and promote internal migration to these cities.
- Another emphasis of the Plan is on making growth sustainable by carrying out a major productive restructuring, placing greater stress on technological innovation and product quality, improving environmental protection and reducing energy intensity and carbon emissions per unit of output. China’s rapid industrialization has indeed been based on polluting energies and low energy efficiency. This is changing, albeit slowly.
- Reducing energy consumption per unit of output and investing more in unconventional renewable energies are vital parameters of the current five-year plan. The potential for China to carry on growing at high rates in the coming decades and overcome the middle-income trap depends not only on an improved income distribution but also on substantial alterations to its pattern of energy use. It is no longer possible to carry on achieving dramatic increases in industrial output with high and inefficient consumption of water, energy and natural resources and methods that severely damage the environment. This is why sustainable energy, domestic consumption and income redistribution have now become vital to Chinese growth. The 2010-2011 figures are not particularly encouraging on these indicators, so the likelihood is of a redoubled effort to comply effectively with the commitments of the five-year plan.
- China is already the leading producer of renewable energies and will soon be the largest exporter of technologies and services associated with these. If it can move ahead with a sustainable and more socially inclusive growth model, it will be setting the pace for the rest of the world. Thus, in examining the challenges for China’s economic growth, we are also debating the limitations of our own growth models, since environmental damage, income concentration and social exclusion are ills that continue to afflict our societies.

15. In 2011, China retained its position as the world's largest exporter of goods and fourth largest exporter of services

■ Figure 19 ■

World's leading goods exporters

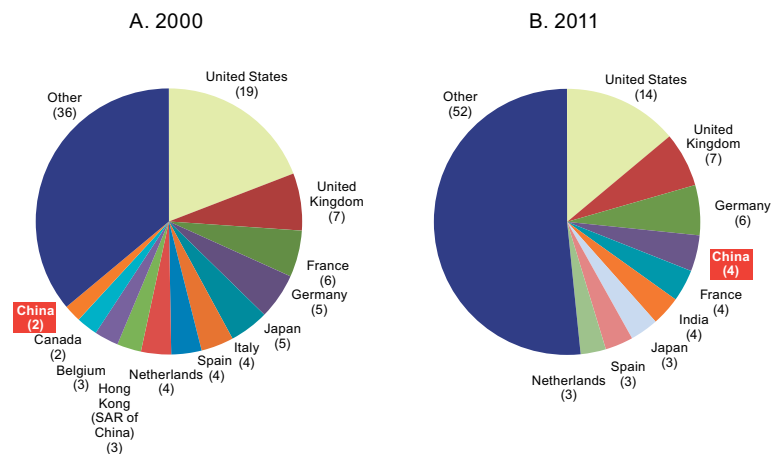
(Percentages)



■ Figure 20 ■

World's leading services exporters

(Percentages)



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

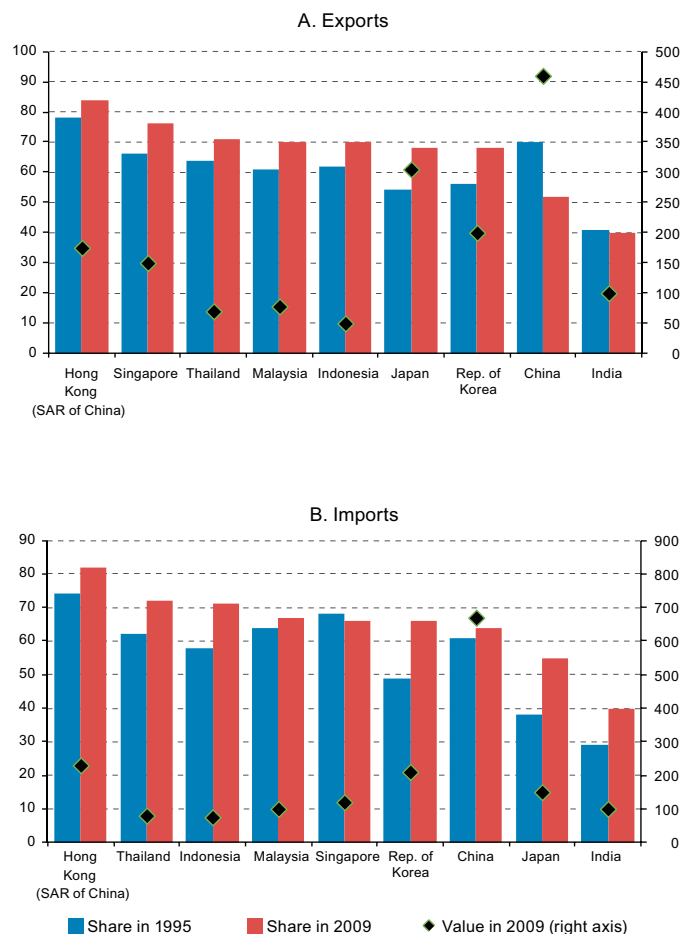
16. China is at the heart of what is known as “Factory Asia”, assembling parts and components imported from other economies in the region and exporting finished products

- Asian production chains have developed rapidly over the last two decades. Production processes are highly fragmented and each country specializes in the phase of production for which it has a comparative advantage. The importance of regional chains is illustrated by this chart, which shows the high percentage accounted for by intermediate goods (parts and components) in the intraregional exports and imports of a number of the region's main economies.
- The network of interconnected producers in Asia has grown quickly over time, even as its configuration has shifted. In 1985 there were just four participants, with Japan at the centre and Indonesia, Singapore and Malaysia around it. Around 1990, Japan extended its supply chain to other countries such as the Republic of Korea, Thailand and Taiwan Province of China. In the early 2000s, China became the second giant in the Asian production chain. This was contributed to by its entry into the World Trade Organization in 2001 and its strong production links with the Republic of Korea and Taiwan Province of China.
- From 2005, China would be at the centre of the Asian production chain, pushing Japan into second place. China is now the main regional market for intermediate goods, which are used to produce the finished goods exported to the markets of the United States and European Union. According to a 2010 study, the average import content of Chinese exports in 2008 was 37%, and it was as high as 56% in the case of products originating in export processing zones.¹

■ Figure 21 ■

Selected Asian economies: intraregional trade in parts and components as a proportion of total intraregional trade, 1995 and 2009

(Billions of dollars and percentages)



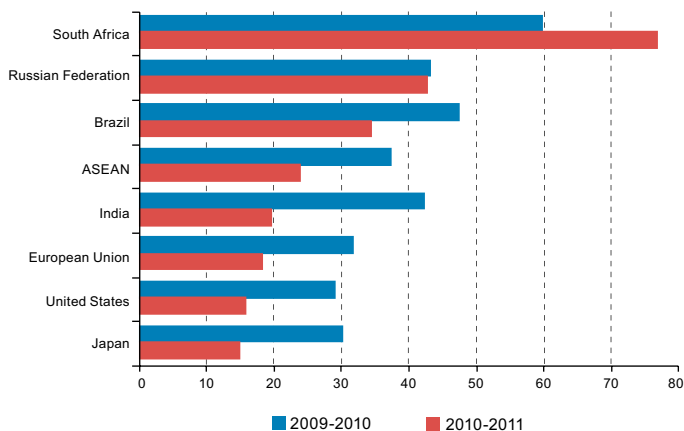
¹ Christophe Degain and Andreas Maurer, “Globalization and trade flows: what you see is not what you get!”, *WTO Working Papers*, No. ERSD-2010-12, 2012.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/Institute of Developing Economies of the Japan External Trade Organization (IDE-JETRO), *Trade Patterns and Global Value Chains in East Asia: from Trade in Goods to Trade in Tasks*, Geneva, June 2011, p. 87.

17. Although its growth slowed sharply in 2011, Chinese external trade continued to be more dynamic than world trade as a whole. China's trade with emerging countries is growing by more than trade with industrialized countries

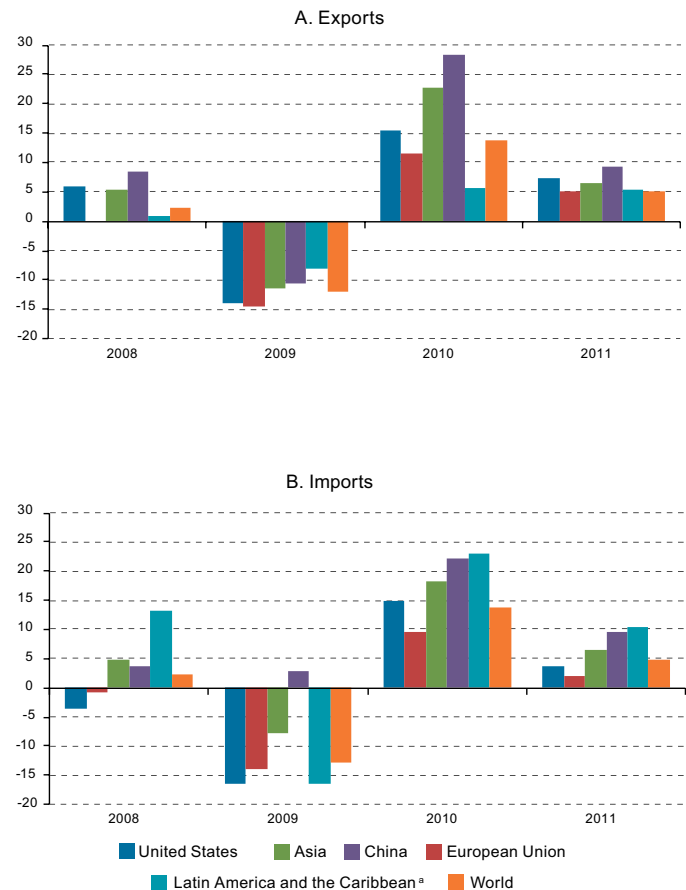
- China led the 2010 recovery in world trade. In that year, its exports and imports (measured by volume) grew by 28% and 22%, respectively. In 2011, in a context of instability and low growth in the United States and European Union, China's external trade growth slowed sharply, with exports and imports rising by 9% and 10%, respectively, although these figures were still higher than overall growth in world trade (6%).
- Although the United States, the European Union and Japan are China's main trading partners, trade flows with emerging countries and regions have proved more dynamic in recent years. This highlights the growing importance of South-South trade to the world economy.

■ **Figure 23** ■
China: trade with selected countries and groupings, by value, 2009-2010 and 2010-2011
(Percentage growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *Trade Policy Review. Report by the Secretariat. China*, 2012.

■ **Figure 22** ■
Selected countries and regions: goods trade by volume, 2008-2011
(Percentage growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "World Trade 2010, Prospects for 2011", Press/628, 7 April 2011 and "World Trade 2011, Prospects for 2012", Press/658, 12 April 2012.

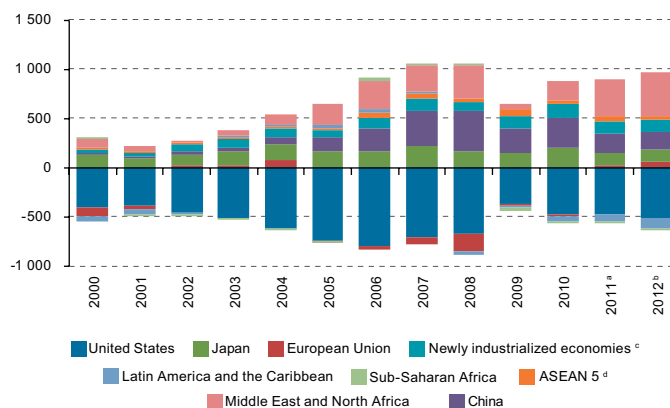
^a Excludes Mexico, which the World Trade Organization (WTO) treats as part of North America.

18. China's current account surplus declined sharply in 2011 and is expected to fall further in 2012. This could help to correct some of the main imbalances in the global economy

- China has had the world's largest current account surpluses in absolute terms over recent years. In the interests of a less fragile recovery in the global economy, China and other countries such as Germany and Japan need to reduce their large surpluses. In other words, the dynamic of domestic spending needs to be strengthened in these economies so that the contribution of net exports to output growth is reduced. If higher spending on imports is reflected, for example, in higher exports from the United States, the economy with the largest trade and current account deficits, the recovery in the world economy will be more stable and balanced. China's twelfth five-year plan is oriented accordingly, its aims being to raise domestic consumption as a proportion of income, stimulate imports and allow the currency to gradually appreciate.
- In 2011, China saw a large reduction in its current account surplus, which came in at US\$ 201 billion, as compared to the US\$ 372 billion projected by the IMF in April that year, while an even smaller surplus of US\$ 182 billion is projected for 2012. This outcome has been influenced by a number of factors: the gradual appreciation of the renminbi in real terms since 2005, the deterioration in China's terms of trade because of rising prices for the raw materials it imports, the lack of dynamism in the markets of the United States and European Union, which is negatively affecting Chinese exports, and the rise in domestic investment as a percentage of GDP in China between 2007 and 2010.

■ **Figure 24 ■**
Selected regions and countries: current account balances, 2000-2012

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, April 2012.

^a The figures for China are estimates.

^b The figures for all regions and countries are estimates.

^c Comprises Hong Kong (Special Administrative Region of China), Taiwan Province of China, the Republic of Korea and Singapore.

^d Comprises Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

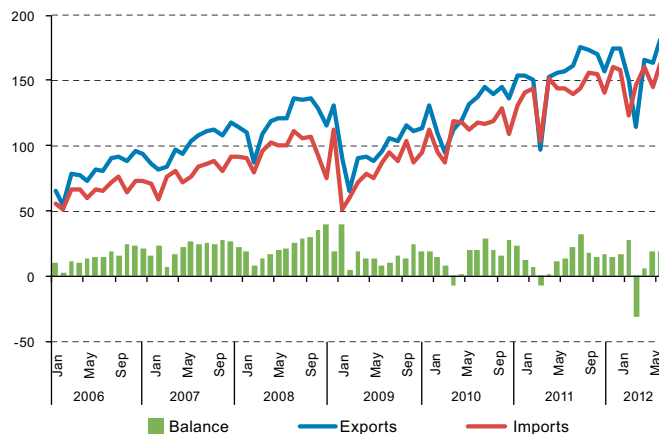
19. The most recent Chinese foreign trade data exceeded market expectations and suggest that the incipient slowdown since late 2011 could be coming to an end

- The strong upward trend of Chinese exports and imports was cut short in early 2009 because of the global financial crisis. However, exports began to recover in March 2009 and imports in February that same year. Since then, both exports and imports have followed a generally upward trend.
- There has been a gradual slowdown in China's external trade since the last four months of 2011, in an international context marked by low growth and high levels of

uncertainty in the United States and, particularly, the European Union. However, China's foreign trade figures for May 2012 show a substantial rebound in both exports and imports, which grew by 15% and 13%, respectively, over the same month in 2011. These figures compare favourably with earlier market projections, which put year-on-year export growth in May at about 7% and import growth at about 5%.

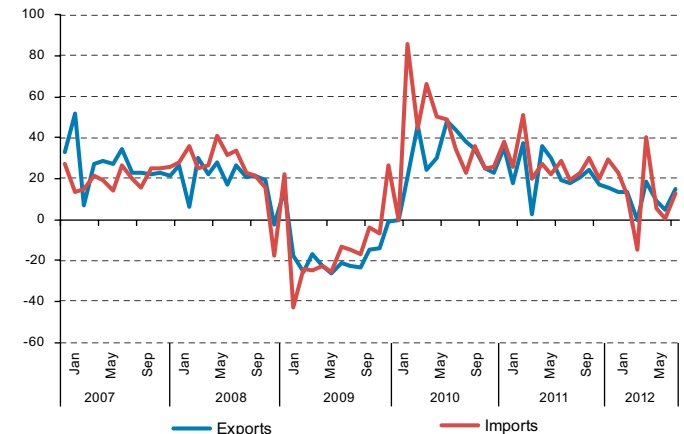
■ Figure 25 ■

China: exports, imports and trade balance with the world, January 2006 to May 2012
(Billions of dollars)



■ Figure 26 ■

China: year-on-year change in total exports and imports, by value, January 2007 to May 2012
(Percentages)

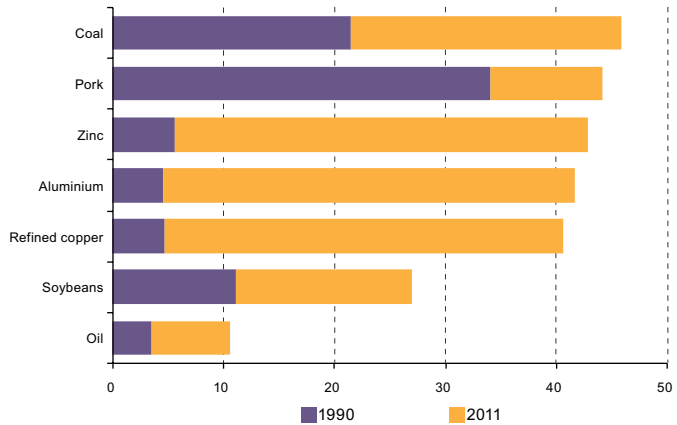


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the Ministry of Commerce of China.

20. In the last two decades, China has greatly increased its share of global consumption of a number of commodities

- Between 1990 and 2011, China became one of the main global consumers of a number of commodities, including both agricultural products and minerals and fuels. In the cases of zinc, aluminium and copper, for example, China's share of global consumption was less than 10% in 1990 but is now over 40%. In the cases of coal and pork, for which China already represented a substantial share of world consumption in 1990, this has also expanded over the past two decades to over 40%.
- In the specific case of foods, the dynamism of Chinese consumption offers great export opportunities for Latin America and the Caribbean. In 2011, China was the world's largest consumer of wheat, soybeans, rice and meat, and the second largest consumer of maize.
- Although China's agricultural productivity has risen continuously over recent years and the country is the world's largest producer of rice, cotton, wheat and potatoes, its agricultural sector is still in deficit overall. In 2010, its agricultural exports were US\$ 36 billion while its imports were US\$ 67 billion. China offers great potential as an importer even for those products of which it is a major producer, as it is not self-sufficient in them.

■ **Figure 27 ■**
China: share of global consumption of selected products, 1990 and 2011 or latest year available
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), Statistical Databases (FAOSTAT), World Bureau of Metal Statistics, World Steel Association and Energy Department of the United States.

■ **Table 4 ■**
China: share of global production and imports of selected agricultural products
(Percentages of total)

Product	Percentage of global output			Percentage of global imports		
	1990	2000	2011	1990	2000	2010
Wheat	16.7	17.1	17.7	13.2	2.0	1.4
Maize	20.1	17.9	19.7	7.5	6.0	4.2
Soybeans	10.2	9.6	5.7	7.7	26.2	44.5
Rice	37.0	31.7	30.6	4.4	3.0	3.4
Pork	34.4	45.4	44.0	3.3	6.6	5.2
Dairy products	1.3	2.1	5.9	2.2	2.8	2.6

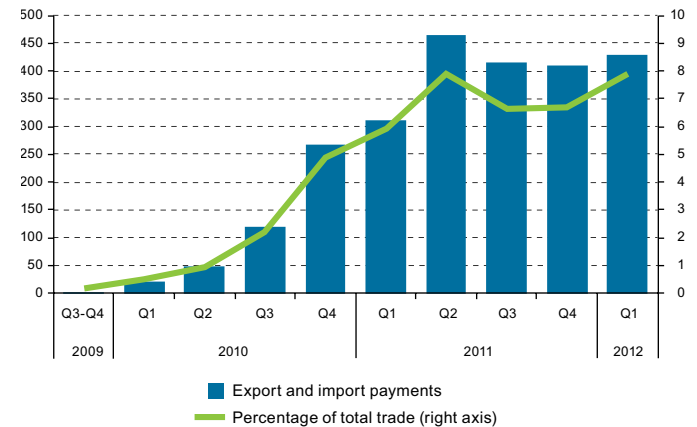
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), Statistical Databases (FAOSTAT).

21. China's currency, the renminbi, is internationalizing and being used for a growing percentage of its trade, particularly imports

- In July 2009, China introduced a pilot scheme to promote the use of the renminbi (RMB) for international trade payments. The scheme initially operated between five cities and the Special Administrative Regions of Hong Kong and Macao and the countries of ASEAN. In 2010, the system was extended to 20 cities and provinces for trade with all countries of the world, covering 90% of exports. In August 2011, the scheme was extended throughout the country. In June 2012, an agreement came into force between China and Japan allowing firms in the two countries to carry out currency transactions directly in renminbi and yen.
- As a result of these measures, the proportion of trade payments in renminbi grew rapidly. In fact, between the first quarter of 2010 and the first quarter of 2012, this proportion rose from less than 1% to 8%. Up to mid-2011, with the currency expected to appreciate, use of the system was largely confined to import payments. More recently, these expectations have moderated and use of the system by exporters has increased, even as it has been extended around the country.
- A private-sector bank (HSBC) anticipates that a third of China's trade may be conducted in local currency in 2016. Another indication of increased use of the renminbi is that 4% of all letters of credit issued around the world are in that currency, placing it third after the dollar (84%) and the euro (7%), according to the SWIFT international payments system.
- There are a number of advantages to renminbi use in trade transactions. First, it does away with the risk of exchange-rate fluctuations for exporters and importers, which should reduce the use of hedging instruments and lower the cost of the products or services traded. This aspect is particularly important for small and medium-sized enterprises (SMEs). Second, payments involving all countries other than the United States could become quicker and cheaper, as only one change of currency will be required instead of two.

■ Figure 28 ■

China: export and import payments in renminbi
(Billions of renminbi and percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of People's Bank of China, *China Monetary Policy Report, Quarter One, 2012*.

22. Since the middle of the last decade, Latin America and the Caribbean has been China’s most dynamic trading partner

- In the 2005-2011 period, growth rates for exports from China to Latin America and the Caribbean and for its imports from the region were considerably higher than those for its exports and imports overall. The share of Latin America and the Caribbean has thus grown so that by 2011 it accounted for 6% of China’s exports and 7% of its imports. In other words, the trading relationship is becoming more and more substantial, although trade levels are still relatively low.
- China’s great importance in world trade and the still low level of trade with it by the region are both challenges and opportunities for the region’s economies.

■ Table 5 ■
China: average annual trade growth, by main regional partners, 1990-2011
(Percentage growth rates)

	Exports			
	1990-1995	1995-2000	2000-2005	2005-2011
Latin America and the Caribbean	32.2	17.8	26.8	31.6
Asia-Pacific ^a	26.5	9.3	20.3	15.3
United States	36.7	16.1	25.6	12.2
European Union	26.3	15.0	28.8	16.1
Rest of world	8.6	7.1	26.6	18.0
World	19.1	10.9	25.0	20.0

	Imports			
	1990-1995	1995-2000	2000-2005	2005-2011
Latin America and the Caribbean	14.5	12.7	37.6	28.2
Asia-Pacific ^a	32.4	12.2	23.9	15.4
United States	19.7	6.8	16.8	16.7
European Union	18.2	7.6	18.8	19.1
Rest of world	11.2	13.4	26.8	18.1
World	19.9	11.3	24.0	21.4

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

^a Includes Australia, Japan, New Zealand, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

■ Figure 29 ■
China: selected partners’ trade shares, 1990-2011
(Percentages)



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

^a Includes Australia, Japan, New Zealand, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

23. By the same token, in a decade China has become a key trading partner for Latin America and the Caribbean

- China has come to account for a large share of the region's trade flows, even as the United States and European Union have lost ground in relative terms. Between 2006 and 2011, the rate of growth in the region's exports to China was more than triple its overall export growth rate, while the region's imports

from China grew twice as fast as total imports. Thus, in 2011 China was the destination for 9% of the region's total exports and the source of 14% of its imports. It has thus overtaken the European Union by a narrow margin as the second most important market of origin for the region's imports.

■ Table 6 ■

Latin America and the Caribbean: trade with selected partners, 2006-2011

(Billions of dollars and growth rates)

	2006	2007	2008	2009	2010	2011	Annualized growth rate 2006-2011
Exports	World	670.7	758.1	879.0	679.2	865.1	1 061.9
	United States	335.4	350.2	380.7	281.8	354.4	420.1
	European Union	93.0	110.3	128.4	92.2	110.4	138.2
	Asia	65.4	87.0	106.9	103.0	144.1	183.4
	China	22.2	34.8	42.8	47.6	71.8	94.0
	Other Asian economies	43.2	52.2	64.1	55.4	72.3	89.4
	Latin America and the Caribbean ^a	115.4	138.2	172.4	128.0	163.4	196.0
Imports	Rest of world	61.5	72.5	90.6	74.2	92.8	124.3
	World	583.3	697.9	852.7	638.5	837.0	1 011.2
	United States	203.3	227.4	264.6	200.2	255.4	304.0
	European Union	82.3	100.1	122.7	94.2	117.1	137.5
	Asia	128.7	161.3	199.3	157.8	224.3	270.3
	China	49.1	67.4	89.2	75.5	111.6	139.7
	Other Asian economies	79.6	93.9	110.1	82.4	112.6	130.6
	Latin America and the Caribbean ^a	119.6	143.0	180.3	132.1	164.7	205.1
	Rest of world	49.4	66.2	85.8	54.2	75.6	94.4

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

^a The sum of intraregional exports reported by the countries of Latin America and the Caribbean does not match the sum of intraregional imports. The difference in 2011 was 4.5% (US\$ 205 billion of intraregional imports versus US\$ 196 billion of intraregional exports).

■ Table 7 ■

Latin America and the Caribbean: selected partners' shares of trade in goods, 2000 and 2011

(Percentages)

	2000	2011
Exports	United States	59.7
	European Union	11.6
	China	1.1
	Other Asian economies	4.2
	Latin America and the Caribbean	16.0
	Rest of world	7.4
		11.7
Imports	United States	50.4
	European Union	14.2
	China	1.8
	Other Asian economies	8.8
	Latin America and the Caribbean	15.3
	Rest of world	9.5

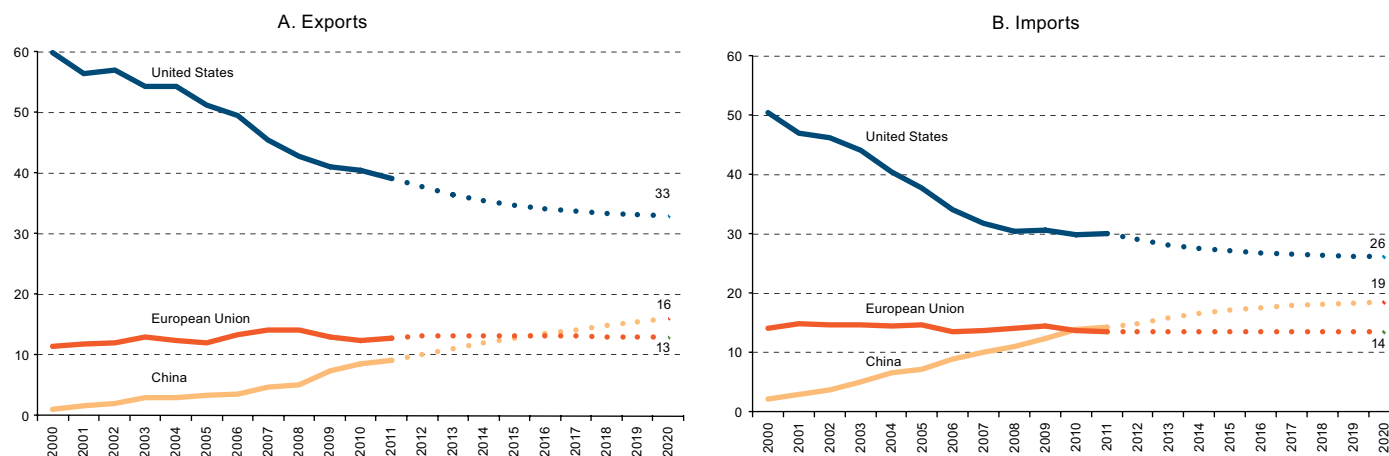
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official national statistics.

24. China has already caught up with the European Union as a source of Latin American imports and could also overtake it as an export destination by about the middle of this decade

- Projections up to 2020 suggest that China will continue to strengthen very substantially its relative position as a trading partner for Latin America.
- If the current rate of growth in demand for the region's products from the United States, the European Union and the rest of the world is maintained, and if Chinese demand grows just half as quickly as in the last decade, the country will overtake the European Union in 2016 as the region's second largest export market.
- China caught up with the European Union as the second largest market of origin for Latin American imports in 2010, and is expected to overtake it in 2012.
- How far these projections actually materialize could be influenced by a number of factors. These include the economic performance of the United States, the European Union and China over the rest of the present decade and, to a lesser degree, the implementation of new trade agreements between those economies and countries or country groupings in Latin America and the Caribbean.

■ Figure 30 ■

Latin America (16 countries): selected partners' share of trade in goods, 2000-2020^a
(Percentages)



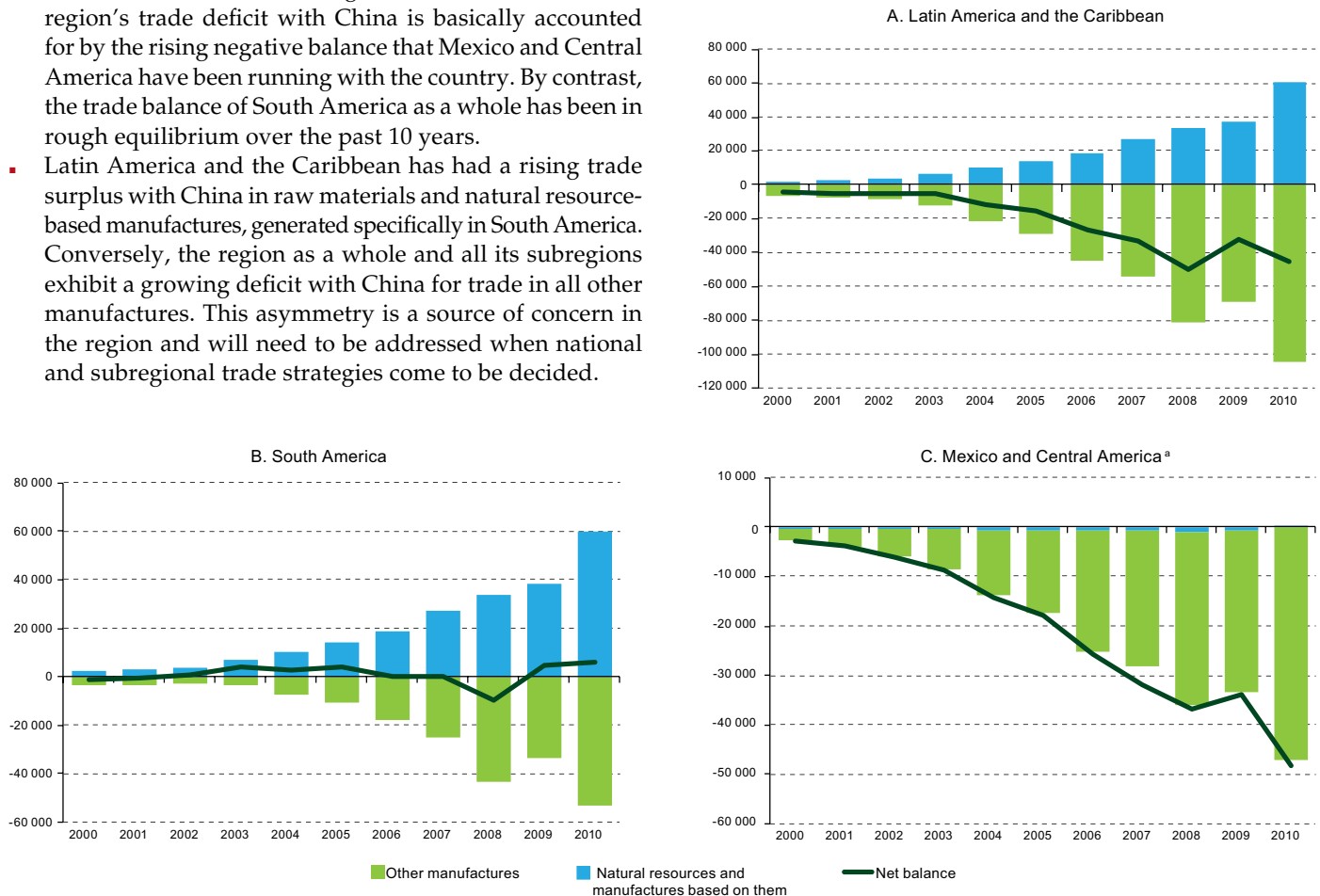
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and national sources.

^a The 16 countries are: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. Estimates and projections based on GDP growth rates from 2000 to 2009 in Asia and the Pacific, China, the European Union, Latin America and the Caribbean, the United States and the rest of the world. The rate of trade growth is expected to converge on countries' economic growth rates in the long run.

25. As a region, Latin America and the Caribbean has a trade deficit with China because of the rising deficits of Mexico and Central America

- Latin America and the Caribbean has recorded a rising trade deficit with China in the last decade. Patterns differ between the different subregions, however. In fact, the region's trade deficit with China is basically accounted for by the rising negative balance that Mexico and Central America have been running with the country. By contrast, the trade balance of South America as a whole has been in rough equilibrium over the past 10 years.
- Latin America and the Caribbean has had a rising trade surplus with China in raw materials and natural resource-based manufactures, generated specifically in South America. Conversely, the region as a whole and all its subregions exhibit a growing deficit with China for trade in all other manufactures. This asymmetry is a source of concern in the region and will need to be addressed when national and subregional trade strategies come to be decided.

■ **Figure 31 ■**
Exports, imports and trade balance with China
(Millions of dollars)



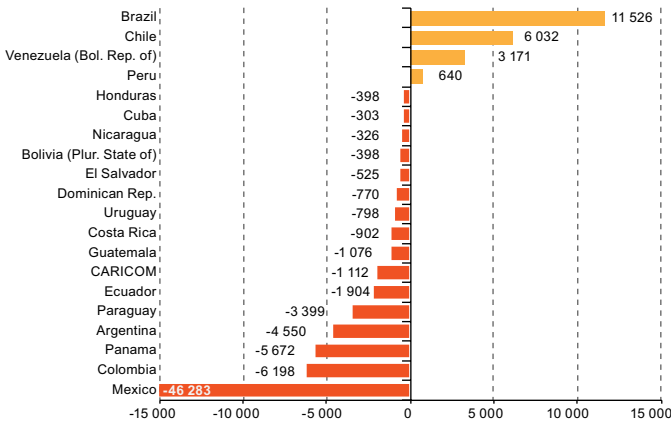
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

^a Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

26. Most of the countries of Latin America and the Caribbean have trade deficits with China

- As can be seen in the chart, just four countries in the region, all of them South American, run trade surpluses with China: Brazil, Chile, the Bolivarian Republic of the Venezuela and Peru. In all cases, these surpluses are due to sales of a handful of commodities (see table 10).
- At the other extreme is Mexico’s trade deficit with China, by far the largest run with the latter by any country in the region. This reflects the fact that whereas less than 2% of Mexican exports went to China in 2011, 15% of its imports came from the country that year.
- Mexico’s trade deficit with China is equivalent to the whole deficit of Latin America and the Caribbean. In other words, if Mexico is excluded, then the region’s trade with China is practically in balance.
- By subregion, the trade balance with China in 2011 was:
 - South America: US\$ 3.697 billion
 - Central America (including Panama): US\$ 8.733 billion
 - The Caribbean: US\$ 3.686 billion.

■ **Figure 32 ■**
Countries of Latin America and the Caribbean: trade balance with China, 2011
(Millions of dollars)



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

27. In a decade, China has moved strongly up the rankings as a trading partner for a large number of Latin American countries

- China has gone from being generally a very minor trading partner for the Latin American countries at the start of the last decade to being a hugely important one now. This is a very major structural change in the region's external trade matrix, given the peculiarities of its trade with China.
- As an export destination, China rose up the rankings between 2000 and 2011 for all the countries analysed in table 8 except Panama and Paraguay. Thus, in 2011 China was the top destination for the exports of Brazil, Chile and Peru, the second for Argentina, the Bolivarian Republic of Venezuela, Cuba and Uruguay, and the third for Mexico. Generally speaking, China still occupies a secondary position as a destination for the exports of Central America and Panama.
- China has made even more progress as a source of imports, having moved up the rankings for all 17 countries analysed. Thus, in 2011 it was among the top three suppliers for all the countries except El Salvador and Honduras, for which it ranked fourth and fifth, respectively.
- The region does not yet seem to have embarked upon any strategic thinking commensurate with the scale of the economic and other repercussions that could arise from this dramatic shift in its external trade matrix.

■ Table 8 ■

Countries of Latin America: China's rank as a trading partner, 2000 and 2011 ^a

	Exports		Imports	
	2000	2011	2000	2011
Argentina	6	2	4	2
Bolivia (Plurinational State of)	18	8	7	3
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	36	4	9	2
Costa Rica ^b	30	13	15	2
Cuba ^c	6	2	3	2
Ecuador	18	16	10	2
El Salvador ^d	49	44	23	4
Guatemala	43	28	19	3
Honduras ^d	54	11	21	5
Mexico	19	3	7	2
Nicaragua	35	20	20	3
Panama	31	31	25	1
Paraguay	15	23	3	1
Peru	4	1	9	2
Uruguay ^e	4	2	7	3
Venezuela (Bolivarian Republic of) ^f	35	2	18	2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), except for the Bolivarian Republic of Venezuela, Cuba, El Salvador, Guatemala, Honduras and Uruguay.

^a The European Union countries were considered individually.

^b China was the second largest destination market for Costa Rican exports in 2009.

^c The data are from the National Bureau of Statistics (ONE) and are for 2010.

^d The data are from the Central American Trade Statistics System (SEC) of the Secretariat for Central American Economic Integration (SIECA).

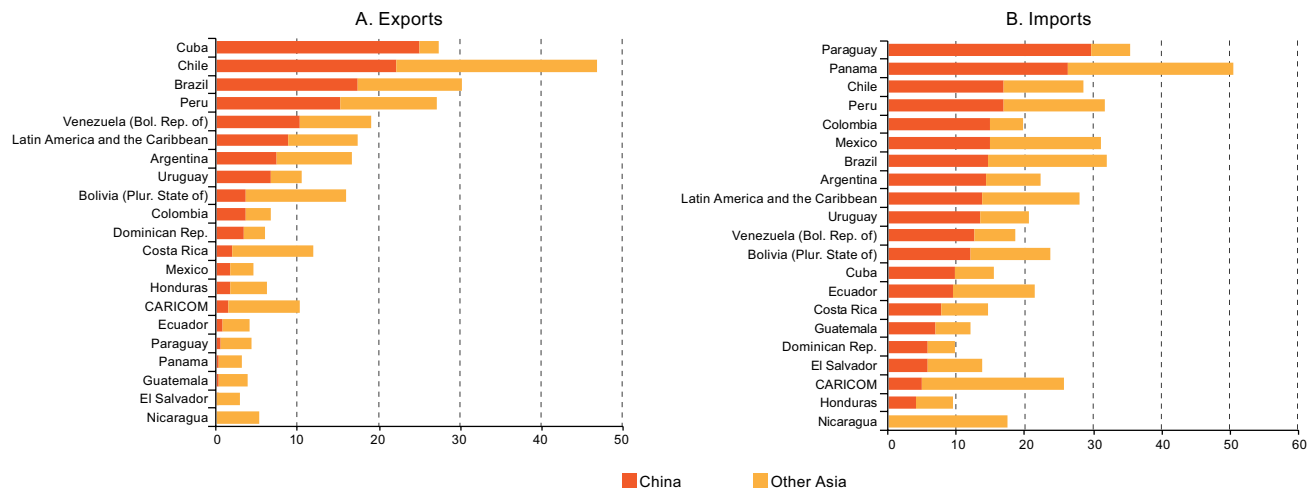
^e The data are from Uruguay XXI.

^f The export data are from the International Monetary Fund (IMF) Direction of Trade Statistics (DOTS) database.

28. Some countries in the region still have relatively weak trade relations with China, however, especially as an export market

- The importance of China as an export market varies greatly between the countries of Latin America and the Caribbean. Since the beginning of the last decade, China has become a vital market for Cuba, Chile, Brazil, Peru, the Bolivarian Republic of Venezuela and Argentina (in descending order of the share of total exports going to China). China’s share as a destination could be considerably higher if triangular export trade through Hong Kong (Special Administrative Region of China) is included. Conversely, the Chinese market has hitherto been little exploited by the other countries in the region, particularly Mexico and the countries of Central America and the Caribbean.
- By contrast with the export situation, China is now a major source of imports for the great majority of the region’s countries, although its share also varies greatly from one country to another.

Figure 33 Latin America and the Caribbean: trade shares of China and other Asia-Pacific economies, 2011 (Percentages of each country’s total exports and imports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database.

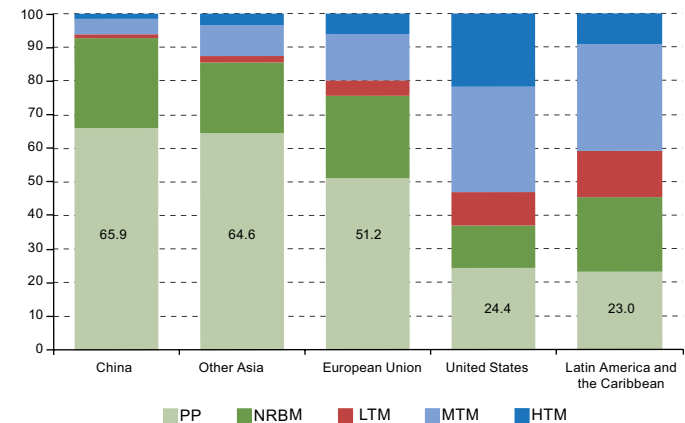
29. The region's basket of exports to China consists mainly of unprocessed and processed commodities

- When the composition of Latin American and Caribbean exports to their main destinations is analysed by technology intensity, it is in exports to China that commodities have the largest share, averaging two thirds of the total exported to the country. They are followed by natural resource-based manufactures, such as processed mineral products and, to a lesser extent, agricultural products. Other (low-, medium- and high-technology) manufactures account between them for just 7% of the amount exported by the region to China.
- Strong demand from China (and to a lesser extent other Asian economies) has been a critical factor in the renewed primacy of raw materials in the region's export structure, a development described by ECLAC in 2009.¹

■ Figure 34 ■

Latin America and the Caribbean: structure of exports to main destinations by technology intensity, 2010

(Percentages of total)



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

Note: Does not include Cuba, Granada, Haiti, Saint Kitts and Nevis or Saint Lucia. The categories are PP: primary products, NRBM: natural resource-based manufactures, LTM: low-technology manufactures, MTM: medium-technology manufactures, and HTM: high-technology manufactures. Other Asia includes Japan, the Republic of Korea and the members of the Association of Southeast Asian Nations (ASEAN).

¹ See Economic Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy 2009-2010. A crisis generated in the centre and a recovery driven by the emerging economies* (LC/G.2467-P), Santiago, Chile, September 2011. United Nations publication, Sales No. E.11.II.G, chapter II.

30. The region's basket of exports to China is also limited in terms of the number of products exported

- An analysis of the number of products exported by Latin America and the Caribbean to different destinations shows that China is the market where the region's exports are most concentrated.
- The region exports only half as many products to China as to the United States, and less than half as many as are exported within the region itself.
- If Brazil and Mexico are excluded, the average number of products exported to China by the countries of Latin America and the Caribbean is less than 10% of the number they export within the region itself.
- All this reflects the fact that the region's exports to the Chinese market are dominated by a small number of products, mainly commodities (see table 10).

■ Table 9 ■

Latin America and the Caribbean: product exports to main destination markets, 2010

(Number of products at the six-digit level of the 2002 Harmonized System)

	Latin America and the Caribbean	China	Other Asia ^a	United States	European Union
Argentina	3 705	478	934	1 558	1 872
Bolivia (Plurinational State of)	700	83	108	328	366
Brazil	3 905	1 080	1 706	2 565	2 839
Chile	3 015	369	529	1 338	1 274
Colombia	3 160	190	374	1 740	1 296
Costa Rica	2 722	212	397	1 716	969
Dominican Republic	1 156	63	93	1 086	440
Ecuador	1 887	95	166	971	852
El Salvador	2 461	46	90	1 038	292
Guatemala	3 278	142	358	1 402	698
Honduras ^b	1 816	99	141	984	377
Mexico	3 831	1 221	1 750	4 068	2 740
Nicaragua	1 835	48	43	889	228
Panama	2 937	96	146	1 179	763
Paraguay	975	47	68	235	276
Peru	2 986	304	659	1 692	1 534
Uruguay ^b	1 488	107	151	417	807
Venezuela (Bolivarian Republic of)	1 148	44	75	579	452
Caribbean countries ^c	2 765	188	248	2 309	1 209
Latin America and the Caribbean ^d	4 773	2 281	3 004	4 523	4 034

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

^a Includes Japan, the Republic of Korea and the members of the Association of Southeast Asian Nations (ASEAN).

^b Figures for 2009.

^c Includes Bahamas, Barbados, Belize, Dominica, Guyana, Jamaica, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

^d Does not include Honduras or Uruguay.

31. An analysis by country confirms that exports from Latin America and the Caribbean to China are confined to a very few products, most of them commodities

■ Table 10 ■

Latin America and the Caribbean: top five product exports to China, by country, 2011

(Percentages of total)

Country	Sum of top five products	First	Second	Third	Fourth	Fifth
Argentina	87.8	Oil-seeds and oleaginous fruits, 69.3	Fixed vegetable oils, 8.3	Crude petroleum, 5.1	Leather, 3.2	Unprocessed tobacco, 1.9
Bolivia (Plurinational State of)	91.3	Base metal ores, 39.2	Tin, 23.4	Precious metal ores, 20.4	Wood, simply worked, 5.0	Leather, 3.2
Brazil	86.9	Iron ore, 49.1	Oil-seeds and oleaginous fruits, 22.5	Crude petroleum,	Paper pulp and waste, 3.5	Sugars, molasses and honey, 2.4
Chile	94.0	Copper, 60.7	Copper ore, 18.3	Iron ore, 7.8	Paper pulp and waste, 4.9	Fruit and nuts, 2.1
Colombia	98.2	Crude petroleum, 66.2	Ferro-alloys, 14.6	Base metal scrap, 8.9	Coal, not agglomerated, 6.5	Leather, 1.9
Costa Rica	99.1	Electronic microassemblies, 96.5	Other electrical machinery and apparatus, 1.4	Apparatus for electrical circuits, 0.8	Leather, 0.2	Preserved or prepared fruit, 0.2
Cuba	99.7	Nickel ore, 61.3	Sugars, molasses and honey, 33.4	Base metal ores, 4.5	Base metal scrap, 0.2	Nickel, 0.2
Dominican Republic	95.1	Copper ore, 35.2	Ferro-alloys, 34.9	Base metal scrap, 14.0	Other medical apparatus, 8.7	Paper pulp and waste, 2.1
Ecuador	90.8	Crude petroleum, 63.6	Base metal scrap, 7.9	Aquatic invertebrates,	Other wood manufactures, 6.4	Animal feed, 6.2
El Salvador	93.4	Other electrical machinery and apparatus, 74.0	Plastic waste, 10.7	Men's knitwear, 3.6	Other wearing apparel, 2.9	Scrap iron, 2.2
Guatemala	78.1	Plastic waste, 27.7	Base metal scrap, 23.8	Unworked wood, 10.1	Base metal ores, 9.1	Coffee and coffee substitutes, 7.3
Honduras	94.6	Iron ore, 66.2	Base metal scrap, 14.4	Base metal ores, 10.9	Other electricity distribution equipment, 1.6	Other wearing apparel, 1.3
Mexico	54.5	Copper ore, 14.0	Crude petroleum,	Electronic microassemblies, 11.7	Passenger vehicles, 10.0	Iron ore, 6.3
Nicaragua	92.2	Unworked wood, 46.9	Plastic waste, 16.0	Fixed vegetable oils, 14.3	Wood, simply worked, 9.9	Base metal scrap, 4.9
Panama	93.1	Unworked wood, 57.2	Base metal scrap, 21.2	Leather, 5.6	Animal feed, 4.5	Scrap iron, 4.4
Paraguay	97.2	Leather, 54.7	Base metal scrap, 26.2	Wood, simply worked, 11.6	Plastic waste, 3.0	Cotton, 1.5
Peru	89.3	Copper ore, 31.4	Iron ore, 18.6	Base metal ores, 16.4	Animal feed, 13.5	Copper, 9.1
Uruguay	89.5	Oil-seeds and oleaginous fruits, 57.1	Paper pulp and waste, 18.9	Wool, 7.9	Livestock, 3.1	Untanned leathers and hides, 2.4
Venezuela (Bolivarian Republic of)	99.8	Crude petroleum, 62.2	Petroleum derivatives, 27.5	Iron ore, 8.1	Ferro-alloys, 1.6	Base metal scrap, 0.4
Caribbean Community (CARICOM)	90.8	Natural gas, 55.6	Petroleum derivatives, 13.7	Ferro-alloys, 7.5	Alcohols and halogenated derivatives thereof, 7.0	Unworked wood, 6.9

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

Note: The analysis was conducted at the four-digit level of the Standard International Trade Classification (Revision 3). Product names have been adapted to fit the space available.

32. There is also great asymmetry between the most dynamic products exported by China to Latin America and the Caribbean and the most dynamic products exported by the region to China

- The most dynamic products exported by China to Latin America and the Caribbean in the period from 2005 to 2011 are all manufactures with differing degrees of technology intensity.
- By contrast, Latin America and the Caribbean had a smaller number of dynamic products in its exports to China in the same period, and all of them were natural resources (primary or processed).

■ Table 11 ■
China: most dynamic products in trade with Latin America and the Caribbean, 2005-2011
(Percentage export and import growth)

	SITC code and description		Growth 2005-2011	Share of total exports or imports	Main partner and share
Exports	6552	Fabrics, knitted or crotched	43.6	1.1	Brazil (28.7)
	6842	Aluminium and aluminium alloys, worked	74.3	1.7	Mexico (74.0)
	7415	Air-conditioning machines	35.3	1.5	Brazil (28.3)
	7522	Digital automatic data-processing machines	66.1	3.0	Mexico (39.8)
	7611	Television receivers, colour	40.3	1.4	Brazil (21.1)
	7643	Transmission apparatus for radio-telephony	45.1	2.6	Mexico (33.4)
	7812	Motor vehicles for the transport of persons	86.0	1.0	Brazil (40.0)
	7843	Motor vehicle parts and accessories	36.6	1.2	Mexico (36.0)
	7932	Ships and boats	47.9	3.5	Panama (74.5)
	8312	Trunks, suitcases and similar containers	31.0	1.1	Brazil (34.9)
	8442	Apparel	48.2	1.1	Panama (51.3)
	8513	Footwear	32.7	1.5	Panama (39.6)
	8719	Liquid crystal devices	69.2	3.6	Mexico (59.0)
Imports	0611	Sugar	38.1	1.3	Brazil (79.9)
	2815	Iron ore and concentrates	40.2	24.7	Brazil (84.2)
	3330	Petroleum, crude	53.5	13.6	Venezuela (Bolivarian Republic of) (46.7)
	6821	Copper, refined and unrefined	34.0	11.7	Chile (92.4)

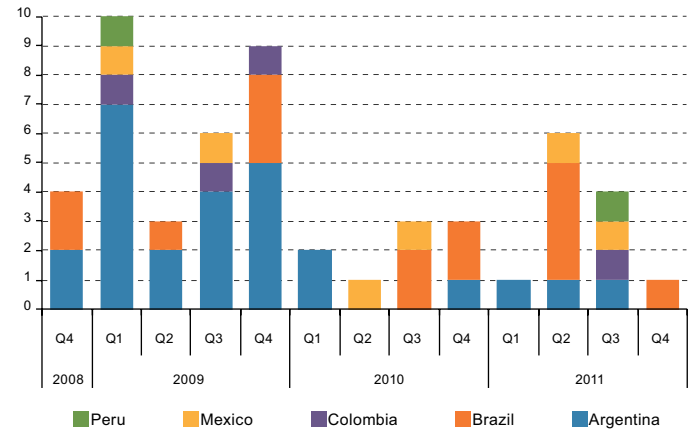
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
Note: A product is deemed dynamic when the amount exported or imported grew by more than overall exports or imports in the 2005-2011 period and its share of the export or import total in 2011 was over 1%.

33. Imports from China have been the subject of numerous anti-dumping investigations in the region since late 2008

- Since the global economic crisis broke out, imports from China have often been the subject of anti-dumping measures and other tariff and non-tariff trade barriers in Latin America and the Caribbean, as elsewhere in the world.
- The number of dumping investigations against Chinese imports peaked in 2009, the year when the effects of the crisis were felt most strongly in the region. After a marked fall-off in 2010, in the context of the post-crisis recovery, the number of new investigations rose again in 2011, albeit to levels lower than the 2009 peaks.
- The Chinese products that have most often been the subject of anti-dumping investigations are manufactures from the iron and steel, chemicals, textile, footwear, household electrical appliances and tyre sectors. These are the very sectors in which Chinese manufactures have been displacing both imports from other sources and local production in the region (see table 12 and figure 36).
- Most of these investigations have been initiated in those countries of the region that have the largest manufacturing sectors competing with Chinese imports: Argentina (49% of the total), Brazil (28%) and Mexico (11%).
- In these circumstances, it is worth considering the advisability of Chinese and Latin American producers taking a more coordinated medium-term approach, concentrating on complementarities and opportunities for cooperation. Otherwise, trade disagreements are likely to persist and be reflected in further anti-dumping measures or other non-tariff barriers.

■ Figure 35 ■

Latin America and the Caribbean: anti-dumping investigations against China, fourth quarter of 2008 to fourth quarter of 2011
(Number of investigations initiated)



Source: Chad P. Bown, "Global Anti-dumping Database" [online] www.brandeis.edu/~cbown/global_ad/ (retrieved on 5 June 2012).

34. The increasing penetration of Chinese manufactures is putting pressure on the industrial sectors of the Latin American and Caribbean countries

- Observation of the rate of growth of imports from China by a group of six countries in the region (Argentina, Brazil, Chile, Colombia, Ecuador and Mexico) between 2005 and 2010 reveals that these imports grew by more than those from the rest of the world in 10 of the 12 sectors analysed.
- It is possible to identify at least six industrial sectors in which Chinese imports appear to be displacing local producers: machinery and equipment; textiles, wearing apparel and footwear; rubber and plastic; metals and

derivatives; automobiles and parts; and other manufactures. This is reflected in the rising share of Chinese imports in the apparent consumption of these sectors between 2005 and 2010.

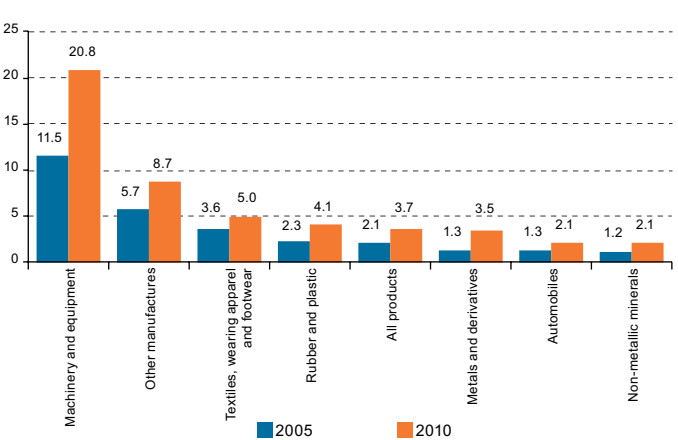
- The competitive pressure exerted by Chinese manufactures on the region's industrial sectors has become even stronger as a result of the real exchange-rate appreciation experienced by a number of countries in the region since 2010, which has led to calls for greater protection.

■ **Table 12 ■**
Latin America (six countries): growth in imports from China, 2005-2010 ^a
(Annual growth rates)

Description	China	Rest of world	World
Agriculture, forestry, hunting and fisheries	9.2	14.6	14.5
Petroleum and mining	-0.8	7.7	7.7
Food, beverages and tobacco	33.4	9.8	10.6
Textiles, wearing apparel and footwear	20.7	-4.2	9.4
Wood, cellulose and paper	29.1	6.6	7.3
Chemicals and pharmaceuticals	24.4	15.2	15.5
Rubber and plastic	27.5	7.5	9.0
Non-metallic minerals	26.0	7.7	10.5
Metals and derivatives	38.2	10.3	13.9
Machinery and equipment	27.9	7.5	10.7
Automobiles and parts and components	25.4	12.6	13.1
Other manufactures	22.2	9.9	13.0
Manufactures	27.4	10.2	12.0
Total	27.2	10.2	11.9

Source: José Durán and Andrea Pellandra, “Cambios en la estructura económica e industrial mundial en la primera década del siglo XXI: El efecto de la emergencia de China sobre producción y comercio en América Latina y el Caribe”, unpublished, May 2012.
^a The countries are Argentina, Brazil, Chile, Colombia, Ecuador and Mexico.

■ **Figure 36 ■**
Latin America (six countries): share of Chinese imports in apparent consumption, 2005 and 2010 ^a
(Percentages of total apparent consumption)



Source: José Durán and Andrea Pellandra, “Cambios en la estructura económica e industrial mundial en la primera década del siglo XXI: El efecto de la emergencia de China sobre producción y comercio en América Latina y el Caribe”, unpublished, May 2012.
^a The countries are Argentina, Brazil, Chile, Colombia, Ecuador and Mexico.

35. China has become a platform through which its Asian neighbours export to the developed countries. Latin America and the Caribbean should seek to form part of these value chains

- China has a trade deficit with ASEAN, the Republic of Korea and Japan, since they are the main suppliers of capital goods and intermediate inputs for its manufacturing industry. Chinese manufactures are then exported on to other trading partners, chiefly the United States and the European Union, with which the country has the most favourable trade balances, especially in manufactures with low and high technology content. China is thus becoming a platform through which many neighbouring countries in Asia export to the United States and Europe.
- Although Latin America and the Caribbean is a major supplier of commodities and natural resource-based manufactures to China, the region is competing with the ASEAN countries, the United States, Australia and New Zealand in commodities, and also with Japan and the Republic of Korea in natural resource-based manufactures.
- The countries of Latin America and the Caribbean should be working towards integrating into the value and supply chains making up “Factory Asia”, organized around China. Such integration would require greater efforts by Latin American businesses to strengthen biregional links between trade and investment via different forms of business partnership.

■ Table 13 ■

China: composition of trade balances with selected partners, by technology intensity, 2011

(Millions of dollars)

	Overall balance	Commodities balance	Manufacturing balance			
			Natural resource-based	Low-technology	Medium-technology	High-technology
Latin America and the Caribbean	- 34 ^a	-78 271	-10 537	33 096	32 117	23 463
South America	-31 288	-74 067	-16 838	20 396	21 919	17 237
Mexico and Central America	28 229	-3 337	6 073	11 403	8 208	5 853
Caribbean	3 025	-868	228	1 297	1 991	372
Asia-Pacific	-202 211	-97 859	-41 364	85 151	-54 283	-92 476
ASEAN	-25 165	-34 220	-14 189	35 428	24 906	-37 590
Australia and New Zealand	-50 555	-74 548	-4 310	13 396	7 306	9 075
Republic of Korea	-80 395	3 838	-16 683	8 199	-27 668	-47 088
Japan	-46 096	7 072	-6 181	28 128	-58 828	-16 872
United States	200 643	-21 064	-3 268	110 790	22 741	94 622
European Union	144 529	1 278	-8 748	105 042	-37 409	83 850

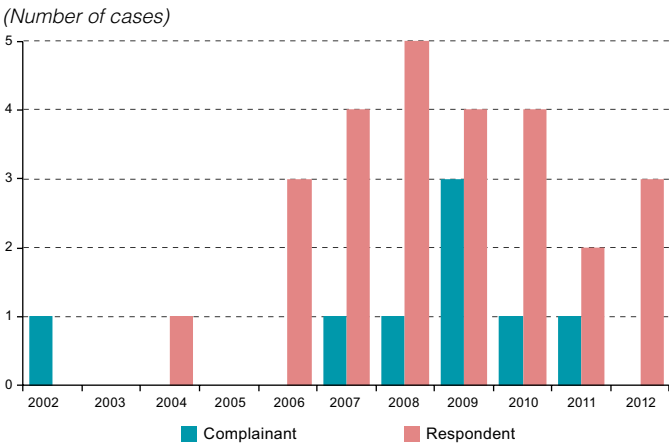
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

^a China's statistics for 2011 show a trade balance with Latin America and the Caribbean that is practically in equilibrium. The statistics of the region's countries, on the other hand, show a trade deficit with China of about US\$ 46 billion that year.

36. In the past five years, China has become increasingly involved in WTO dispute settlement cases

- A decade on from its entry into the WTO, China has participated in 119 disputes: eight as complainant, 26 as respondent and 85 as a third party.
- In the early years, China's participation in the dispute settlement mechanism tended to be passive. Thus, between 2002 and 2005 it was a complainant in just one dispute and was likewise a respondent in one.
- China has participated far more actively in dispute settlement proceedings since 2006, as both complainant and respondent. Specifically, it has been a complainant in seven disputes, all of them involving either the United States or the European Union. Most disputes concern the use of trade defence instruments, particularly anti-dumping measures, against Chinese exports.

■ Figure 37 ■
China's participation in the WTO dispute settlement mechanism, 2002-2012



Source: World Trade Organization (WTO). Dispute settlement: the disputes [online] http://wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm [retrieved on 31 May 2012].

■ Table 14 ■
Disputes initiated by China at the World Trade Organization, 2002-2011

Respondent	Year initiated	Subject of the dispute	Agreements involved ^a	Stage reached
United States	2002	Definitive Safeguard Measures on Imports of Certain Steel Products	Safeguards, GATT	Appellate Body
United States	2007	Preliminary Anti-Dumping and Countervailing Duty Determinations on Coated Free Sheet Paper from China	SCM, Protocol of Accession, Anti-Dumping Agreement, GATT	Consultation phase
United States	2008	Definitive Anti-Dumping and Countervailing Duties on Certain Products from China	SMC, Protocolo de Adhesión, Acuerdo Antidumping, GATT	Appellate Body
United States	2009	Certain Measures Affecting Imports of Poultry from China	SPS, Agriculture, GATT	Panel
European Union	2009	Definitive Anti-Dumping Measures on Certain Iron or Steel Fasteners from China	Protocol of Accession, Anti-Dumping Agreement, GATT	Appellate Body
United States	2009	Measures Affecting Imports of Certain Passenger Vehicle and Light Truck Tyres from China	Protocol of Accession, GATT	Appellate Body
European Union	2010	Anti-Dumping Measures on Certain Footwear from China	Protocol of Accession, Anti-Dumping Agreement, GATT	Panel
United States	2011	Anti-Dumping Measures on Shrimp and Diamond Sawblades from China	Anti-dumping, GATT	Consultation phase

Source: World Trade Organization (WTO). Dispute settlement: the disputes [online] http://wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm and Economic Commission for Latin America and the Caribbean (ECLAC), Integrated Database of Trade Disputes for Latin America and the Caribbean (IDATD) [online] <http://badicc.cepal.org>.

^a Abbreviations: GATT: 1994 General Agreement on Tariffs and Trade, SPS: Agreement on the Application of Sanitary and Phytosanitary Measures, SCM: Agreement on Subsidies and Countervailing Measures.

37. Most cases against China have been brought by the United States and the European Union

- Since entering the WTO, China has been a respondent in 26 disputes (25 of them since 2006). Most of these have been initiated by the United States or the European Union. The only Latin American countries to have brought cases against China are Guatemala and Mexico. The disputes involving China as respondent have concerned a wide range of issues that include, among other things, the protection of intellectual property rights, restrictions on raw material exports, conditions placed on the provision of certain services, and measures to support the renewable energy sector.

■ Table 15 ■

Disputes initiated against China at the World Trade Organization, 2002 to May 2012

Complainant	Year brought	Subject of the dispute	Agreements involved ^a	Stage reached
United States	2004	Value-Added Tax on Integrated Circuits	Services, GATT	Consultation
European Union, United States, Canada	2006	Measures Affecting Imports of Automobile Parts	SCM, TRIMs, PA, GATT	Appellate Body
United States	2007	Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments	SCM, TRIMs, PA, GATT	Consultation
Mexico	2007	Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments	SCM, TRIMs, PA, GATT	Consultation (agreement reached)
United States	2007	Measures Affecting the Protection and Enforcement of Intellectual Property Rights	TRIPS	Panel
United States	2007	Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products	PA, GATS, GATT	Appellate Body
European Union, United States, Canada	2008	Measures Affecting Financial Information Services and Foreign Financial Information Suppliers	TRIPS, GATS, PA	Consultation
United States	2008	Grants, Loans and Other Incentives	Agriculture, SCM, PA, GATT	Consultation
Mexico	2008	Grants, Loans and Other Incentives	Agriculture, SCM, PA, GATT	Consultation
Guatemala	2009	Grants, Loans and Other Incentives	Agriculture, SCM, PA, GATT	Consultation
United States	2009	Measures Related to the Exportation of Various Raw Materials	PA, GATT	Appellate Body
European Union	2009	Measures Related to the Exportation of Various Raw Materials	PA, GATT	Appellate Body
Mexico	2009	Measures Related to the Exportation of Various Raw Materials	PA, GATT	Appellate Body
European Union	2010	Provisional Anti-Dumping Duties on Certain Iron and Steel Fasteners from the European Union	Anti-dumping, GATT	Consultation
United States	2010	Certain Measures Affecting Electronic Payment Services	GATS	Consultation
United States	2010	Countervailing and Anti-Dumping Duties on Grain Oriented Flat-Rolled Electrical Steel from the United States	SCM, Anti-dumping, GATT	Consultation
United States	2010	Measures Concerning Wind Power Equipment	SCM, PA, GATT	Consultation
European Union	2011	Definitive Anti-Dumping Duties on X-Ray Security Inspection Equipment from the European Union	Anti-dumping, GATT	Consultation
United States	2011	Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States	SCM, Anti-dumping, GATT	Panel
United States, European Union, Japan	2012	Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum	PA, GATT	Consultation

Source: World Trade Organization (WTO) [online] http://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm and Economic Commission for Latin America and the Caribbean (ECLAC), Integrated Database of Trade Disputes for Latin America and the Caribbean (BADICC) [online] <http://badicc.cepal.org>.

^a Abbreviations: GATS: General Agreement on Trade in Services, PA: Protocol of Accession of China to the WTO, Safeguards: Agreement on Safeguards, SCM: Agreement on Subsidies and Countervailing Measures, SPS: Agreement on the Application of Sanitary and Phytosanitary Measures, TRIMs: Agreement on Trade Related Investment Measures, TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights.

38. Some of China’s recent WTO disputes may have major implications for the development of and trade in new technologies, including environmental technologies

- In March 2012, the United States, the European Union and Japan initiated a dispute at the WTO over measures by China restricting exports of rare earths. This is the term commonly used for a group of 17 chemical elements: scandium, yttrium, lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium and lutetium.
- With sustainable development now a core concern on the global agenda, rare earths, and their application in new technologies, have become increasingly important in world trade. While these minerals have been widely used in high-technology products and defence systems for decades, they have recently been applied as well to the creation and development of clean energy technologies.
- China has 50% of the world’s reserves of rare earths. Since the 1980s it has been the dominant producer and supplier of these, with Japan and the United States as its main export markets.
- China has expressed concern about the damage caused to the environment by the large-scale extraction of rare earths, and about their possible depletion. To remedy this, it has implemented measures that have led to the application of export quotas, reducing the amount of these earths available to other countries.
- The dispute is still at the consultation phase. The outcome will have major implications for the global supply of these earths, which are essential to the development of new industries and technologies.

■ Table 16 ■
Uses of rare earths in high-technology products, green technologies and defence systems

High-technology products	Defence systems	Green technologies
Hard drives	Control systems	Energy-efficient fluorescent light bulbs
Laptops	Guidance systems	
Mobile phones	Advanced optical technologies	Electric vehicle engines
Flatscreen televisions	Radar and radiation equipment	Hybrid vehicle engines
Oil refining	Advanced communication systems	Wind turbines
X-ray technologies		
Ceramics	Airborne vehicles	
Iron alloys		
Metal alloys		

Source: United States Congressional Research Service, *Rare Earth Elements: The Global Supply Chain*, 8 June 2012.

Other disputes involving China at the WTO with environmental implications

The dispute over rare earths is not the first to involve the Chinese system for exporting natural resources. In 2009, the United States, the European Union and Mexico initiated disputes with China over measures limiting the export of certain raw materials used in technology products, including bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc. China produces these raw materials, and in some cases is the only source. China stated that the measures concerned had been implemented in order to conserve these natural resources and protect the health of its citizens.

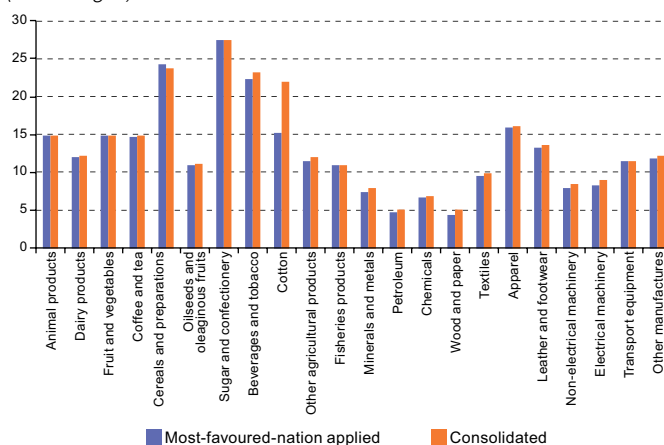
A Panel found that China’s export duties were inconsistent with its commitments as a WTO member. The WTO Appellate Body confirmed these findings. The deadline agreed for China to bring its regulations into line with WTO provisions expires in December 2012

Lastly, in December 2010 the United States asked China to hold a consultation under the WTO dispute settlement mechanism with regard to certain support measures for firms manufacturing wind energy equipment. According to the United States, these measures could be incompatible with WTO subsidies provisions. The parties are still in consultation.

39. Despite opening its market considerably since joining the WTO, China still maintains high tariffs in sectors of interest to Latin American and Caribbean exporters

- China maintains average applied tariffs of over 10% ad valorem in all agriculture and agroindustry subsectors, as well as on fisheries products. These tariffs approach or even exceed 25% ad valorem for cereals and preparations thereof, sugar and confectionery, and beverages and tobacco. These levels of protection are substantial, albeit lower than those maintained by other Asian economies in the area of agriculture.
- Conversely, China's lowest levels of tariff protection are in the mining, forestry, chemicals and hydrocarbons sectors. These, along with oil-seeds and oleaginous fruits, account for the bulk of Latin American and Caribbean exports to the country.
- It can be concluded from this that the tariff structure of China is one of the factors contributing to the low degree of diversification in the region's exports to the country. This and other reasons have led some countries in the region to seek free trade agreements with China (see table 17).

■ **Figure 38 ■**
China: average tariffs by sector, 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *World Tariff Profiles 2011*.

40. China is actively extending its network of trade agreements, which already includes agreements with three countries in the region

- China has 11 trade agreements in force, differing in scope and depth. These have been signed with economies in Asia and the Pacific and with three countries in Latin America. Those are Chile (in force since 2006), Peru (since 2010) and Costa Rica (since 2011). All three can be classified as free trade agreements (FTAs), since the proportion of goods on which tariffs are to be removed is over 90%. In addition, other issues such as trade in services and investment are addressed.
- China is currently in the process of expanding its network of trade agreements, negotiating with countries or groups of countries in Oceania, the Middle East, Europe and Africa.
- In parallel with this, China is continuing to strengthen its ties in Asia. To this end, it is participating in initiatives of vast scope, including the projects known as ASEAN+3 and ASEAN+6. An enormous step towards putting these initiatives into effect would be the materialization of an FTA between China, Japan and the Republic of Korea, a project that has been under consideration for a number of years.
- In May 2012, three developments of importance for economic relations between the three largest economies in East Asia took place. First, the Prime Ministers of China and Japan and the President of the Republic of Korea announced that negotiations on a trilateral FTA would begin before the end of 2012. Second, the three countries signed an investment promotion, facilitation and protection agreement. Lastly, the first round of negotiations was held for an FTA between China and the Republic of Korea.
- In Latin America and the Caribbean, besides the agreements with Chile, Costa Rica and Peru, agreement was reached in May 2012 on the creation of a binational group to assess the feasibility of starting negotiations on an FTA between China and Colombia. All this reflects the growing importance of China as a trading partner for the region.

■ Table 17 ■
China's trade agreements, June 2012

In force	Under negotiation	Announced or under consideration
<ul style="list-style-type: none">Asia-Pacific Trade Agreement ^aASEANCosta RicaChileNew ZealandPakistanPeruTaiwan Province of ChinaSingaporeHong Kong (SAR of China)Macao	<ul style="list-style-type: none">AustraliaGulf Cooperation CouncilIcelandNorwaySwitzerlandSouthern African Customs Union (SACU)Republic of Korea	<ul style="list-style-type: none">ASEAN+3 ^bASEAN+6 ^cIndiaJapan-Republic of KoreaColombia

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *Trade Policy Review. Report by the Secretariat. China*, 2012.
^a Bangladesh, China, India, Lao People's Democratic Republic, Republic of Korea and Sri Lanka.
^b China, Japan, the Republic of Korea and the 10 ASEAN members.
^c The ASEAN+3 participants plus Australia, India and New Zealand.

■ Table 18 ■
Areas covered by China's agreements with Chile, Peru and Costa Rica

Area	Chile	Peru	Costa Rica
Tariff removal	Yes	Yes	Yes
Customs procedures	Yes	Yes	Yes
Rules of origin	Yes	Yes	Yes
Trade defence	Yes	Yes	Yes
Sanitary and phytosanitary measures	Yes	Yes	Yes
Technical barriers to trade	Yes	Yes	Yes
Trade in services	Yes	Yes	Yes
Temporary entry for business persons	No	Yes	Yes
Investment	No ^a	Yes	Yes
Intellectual property	Yes ^b	Yes	Yes
Government procurement	No	No	No
Competition policy	No	No	No
Dispute settlement	Yes	Yes	Yes
Transparency	Yes	Yes	Yes
Cooperation	Yes	Yes	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization of American States (OAS), Foreign Trade Information System (SICE) [online] www.sice.oas.org.
^a Chile and China are currently negotiating an investment chapter.
^b Geographical denominations only.

41. The cooperation chapters of the free trade agreements between China and Latin American countries are wide-ranging

- The three FTAs signed between China and Latin American countries contain cooperation chapters encompassing a wide range of issues. They all provide for cooperation on economic, educational and cultural issues, SMEs, research, science and technology, the environment, investment and intellectual property protection, among other things. In addition to these common issues, cooperation chapters cover others like fisheries, tourism and traditional medicine (in the case of Peru) and natural disaster management and private dispute settlement (in the case of Costa Rica).
- Cooperation between China and these countries has been manifested in high-level visits, the signing of cooperation agreements, contacts between academic institutions and the establishment of cultural centres, among other activities.
- In June 2011, Chile and China signed nine cooperation agreements covering agriculture, telecommunications and technology and investment, among other areas. In the area of mining, a strategic cooperation memorandum was signed between the National Copper Corporation of Chile (Codelco) and Minmetals of China. In February 2012, Chile's National Industrial Property Institute (INAPI) and the State Intellectual Property Office (SIPO) of China signed a cooperation agreement providing for the promotion, protection and administration of industrial property rights.
- China and Peru signed an Agreement on Economic and Technical Cooperation in May 2011, and this was followed in October that year by a Memorandum of Understanding for Cooperation in Higher Education between the Strategic Alliance of Peruvian Universities (AEUP) and the China Education Association for International Exchange (CEAIE). It provides for exchanges of researchers between universities in different areas of knowledge.
- In June 2012, a Memorandum of Understanding was signed between Costa Rica's State-owned oil refiner Recope, China Development Bank (CDB) and China National Petroleum Corporation International (CNPCI) with a view to raising financing for a joint refinery.

■ Table 19 ■

China and Latin American countries: areas of cooperation in FTAs

	Chile	Peru	Costa Rica
Common areas			
Economic cooperation	Yes	Yes	Yes
Research, science and technology	Yes	Yes	Yes ^a
SMEs	Yes	Yes	Yes
Culture	Yes	Yes	Yes
Education	Yes	Yes	Yes
Environment	Yes	Yes ^b	Yes
Investment	Yes	Yes	Yes ^c
Information technology	Yes	Yes	Yes
Intellectual property	Yes	Yes	Yes
Competition	Yes	Yes	Yes
Additional areas			
Mining and industry	Yes	Yes	No
Agriculture	No	Yes	Yes
Labour and social security	Yes	Yes	No
Traditional medicine	No	Yes	No
Fisheries	No	Yes	No
Tourism	No	Yes	No
Natural disaster management	No	No	Yes
Private dispute settlement	No	No	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization of American States (OAS), Foreign Trade Information System (SICE) [online] www.sice.oas.org/agreements_s.asp.

Note: Some areas are not covered by specific articles but are dealt with in the cooperation and other chapters.

^a Promotion of Innovation, Science and Technology.

^b Cooperation on Forestry and Environmental Protection.

^c Not only does investment have its own chapter, but the agreement also reaffirms the commitments made under the October 2007 Agreement on Investment Promotion and Protection between the People's Republic of China and the Government of the Republic of Costa Rica.

42. Although Latin America and the Caribbean is an important destination for Chinese FDI, too much of this goes to financial centres

- It is estimated that as of late 2010, about 14% of China's outward FDI had gone to the economies of Latin America and the Caribbean, bringing the stock of Chinese FDI in the region to close to US\$ 44 billion. However, 92% of this went to financial centres in the Caribbean, specifically the Cayman Islands and the British Virgin Islands.
- A growing number of large Chinese public firms operating in the natural resource and manufacturing sectors have invested in the region recently, but the size and scope of these companies' activities remain limited.

■ Table 20 ■

Latin America and the Caribbean: classification of Chinese FDI destinations, 2009-2010

(Millions of dollars and percentages of total revenues)

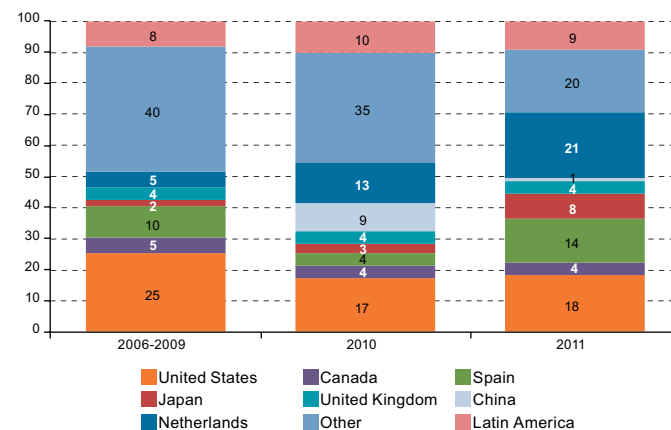
Country/region	Stock of Chinese FDI, end-December 2009	Chinese FDI flows in 2010	Stock of Chinese FDI at end-2010	Percentages of FDI stock in the region, end-2010
Total worldwide outward FDI	245 750.0	68 811.0	317 210.0	...
Latin America and the Caribbean	30 595.5	10 538.3	43 875.6	100.0
British Virgin Islands	15 060.7	6 119.8	23 242.8	53.0
Cayman Islands	13 577.1	3 496.1	17 256.3	39.3
Brazil	360.9	487.5	923.7	2.1
Peru	284.5	139.0	654.5	1.5
Venezuela (Bolivarian Republic of)	272.0	94.4	416.5	0.9
Panama	81.1	26.1	236.6	0.5
Argentina	169.1	27.2	219.0	0.5
Guyana	149.6	28.4	183.2	0.4
Mexico	173.9	26.7	152.9	0.3
Ecuador	106.6	22.1	129.6	0.3
Chile	66.0	33.7	109.6	0.2
Rest of region	294.1	37.3	351.2	0.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ministry of Commerce of China (MOFCOM), 2010 Statistical Bulletin of China's Outward Foreign Direct Investment, Beijing.

43. Chinese direct investment in Latin America and the Caribbean still has a great deal of room to grow

- ECLAC estimates that Chinese firms invested over US\$ 15 billion in the region in 2010. China thus became the third largest investor in Latin America and the Caribbean that year, after the United States (17%) and the Netherlands (13%), with a share of 9%. This marked a departure from the historical trend, as China had previously had only a small investment presence in the region.
- Over 90% of Chinese investment in the region in 2010 went into natural resource extraction, mainly in the hydrocarbons sector and to a lesser extent in mining. The largest investment was made by Sinopec, which acquired 40% of the Brazilian operations of Repsol-YPF for US\$ 7.111 billion. The oil companies CNOOC and Sinochem also announced major acquisitions in Brazil and Argentina, respectively. In mining, mention should be made of Chinalco and Minmetals (Peru) and Wuhan (Brazil). Investments were made in telecommunications by Huawei and ZTE and in the automotive sector by BYD, Chery and Geely.
- By countries, Chinese FDI mainly goes to Brazil, Argentina and Peru, which have a strong trade relationship with the country. China can be a significant source of investment for some small economies, as it has been recently in Ecuador and Guyana. There is very little Chinese investment in Mexico and Central America, with the sole exception of Costa Rica.
- By contrast with the strong influx of Chinese investment in 2010, in 2011 the country once again accounted for only a small fraction (1%) of the FDI received by the region. There were some major investments, however, such as the acquisitions by Sinochem in Brazil and Sinopec in Argentina. There were also greenfield investments, such as the mining operations of Minmetals and Chinalco in Peru and the financing by China's Exim Bank of the large Baha Mar tourism project in the Bahamas.

■ **Figure 39 ■**
Latin America and the Caribbean: foreign direct investment by origin, 2006-2011^a
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2010* (LC/G.2494-P), Santiago, Chile, 2011. United Nations publication, Sales No. E.11.II.G.4 and *Foreign Direct Investment in Latin America and the Caribbean 2011* (LC/G.2538-P), Santiago, Chile, 2012. United Nations publication, Sales No. E.12.II.G.4.

^a The chart covers 80% of total FDI in Latin America and the Caribbean.

44. Official visits to Latin America and the Caribbean by Chinese heads of State have grown significantly in the recent period, reflecting an ample agenda of mutual interests

- Official visits to Latin America and the Caribbean by the highest Chinese authorities since the beginning of the last decade reflect the convergence of interests on an agenda of mutual benefit. Along with these visits, the map of contacts is growing and diversifying.
- On the commercial front, the China Council for the Promotion of International Trade has held five China-Latin America Business Summits, with more and more businesses from both sides participating. The first was held in Santiago (2007) and the next in Harbin, Heilongjiang (2008), Bogotá (2009), Chengdu (2010) and Lima (2011). The sixth will be held in Hangzhou in October 2012.
- In November 2010, the Chinese People’s Institute of Foreign Affairs hosted the first China-Latin America and the Caribbean Think Tank Forum in Beijing. ECLAC has been involved in all these activities.
- In November 2008, the Chinese Government published its white paper on relations between China and Latin America. The document covers a variety of subjects on the bilateral agenda, such as economics, trade, culture, defence, tourism, sport and cooperation.
- It is clearly China that is taking the lead in energizing bilateral relations. The time seems to have come when the region can define a shared strategy for engaging with China and Asia-Pacific. In the region’s emerging process of internationalization, there are already forums for institutional dialogue with the United States and the European Union. Similar arrangements oriented towards China and Asia-Pacific have yet to be put in place.

Table 21 China and Latin America and the Caribbean: visits by high-level authorities, 2001 to June 2012

Year	Chinese authority	China to Latin America	Latin America to China
2001	Jiang Zemin	Chile, Argentina, Uruguay, Brazil, Bolivarian Republic of Venezuela, Cuba	Peru, Chile, Mexico, Bolivarian Republic of Venezuela
2002	Jiang Zemin	Mexico (unofficial visit) ^a	Ecuador, Uruguay
2003	Jiang Zemin		Ecuador, Cuba, Guyana
2004	Hu Jintao	Chile, Brazil, Argentina, Cuba	Argentina, Brazil, Bolivarian Republic of Venezuela, Suriname
2005	Hu Jintao	Mexico	Peru, Colombia
2006	Hu Jintao		Bolivarian Republic of Venezuela, Plurinational State of Bolivia
2007	Hu Jintao		Costa Rica
2008	Hu Jintao	Peru, Costa Rica, Cuba	Peru, Chile, Mexico, Brazil, Bolivarian Republic of Venezuela
2009	Hu Jintao		Chile, Brazil, Bolivarian Republic of Venezuela, Uruguay
2010	Hu Jintao	Brazil, Bolivarian Republic of Venezuela, Chile ^b	Argentina, Chile
2011	Vice-president Xi Jinping	Cuba, Uruguay, Chile	Brazil
2012	Prime Minister Wen Jiabao	Brazil, Argentina, Uruguay, Chile	Colombia

Source: Official website of the Government of China [online] <http://english.gov.cn>.
^a President Jiang visited Mexico in 2002 only to attend the APEC meeting.
^b The visits to the Bolivarian Republic of Venezuela and Chile were cancelled because of the earthquake in the region of Qinghai (China).

Conclusions and recommendations

- China has been, and will continue to be, a key actor in the rapidly changing economic geography of today's world. Its GDP, measured in purchasing power parity, is expected to overtake that of the United States in 2017, making it the world's largest economy. This historic development is coinciding with a dramatic strengthening of China's trade links with emerging and developing economies. On the assumption that the dynamism of the world economy in the coming decades will depend greatly on what happens to China and the Asian economies in general, there is a major challenge to be met if the dynamic of South-South investment and trade is to alter the traditional pattern of developing economies' participation in the international division of labour.
- The high growth expected for China over the next 10 to 15 years, even allowing for the moderation projected in the twelfth five-year plan, holds out the prospect of a prolongation of the favourable terms-of-trade cycle from which the economies of Latin America and the Caribbean have benefited since 2003, particularly those of South America. This would provide them with additional resources that would be extremely helpful, if properly used, in closing the innovation and competitiveness gaps that still affect the region.
- The time has come for a qualitative leap in the relationship with China and the Asia-Pacific region generally. China is now venturing abroad with growing but still comparatively small investments. Trans-Latins (Latin American transnationals) are further along their international learning curves than many Chinese firms, especially in banking, financial and business services, energy, mining and agrifoods. In areas where the trans-Latins have advantages, then, there is a need to move quickly to define innovative policies that enable them to tap the enormous resources of China's sovereign funds, banks and firms. These are promising areas in which to nurture Sino-Latin American business partnerships, and in which joint initiatives could be explored in the context of the incipient internationalization of the renminbi.
- China's large savings surpluses could also help to finance infrastructure, energy, transport and logistics infrastructure in Latin America and the Caribbean. There should be all the more interest in this given the low rates of interest and growth projected for the industrialized economies in the next five years. The challenge for the region is to identify these projects, evaluate them and develop a portfolio of projects where Chinese investment would do most to speed up work. Infrastructure projects decided on as part of the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and the Meso-America Project look like natural candidates.
- If the region's countries are able to make the needful progress with innovation, competitiveness, the internationalization of firms and an increasing presence in global or regional value chains, they will improve employment quality and pay. If all this is complemented by active policies to bring small and medium-sized enterprises (SMEs) into the process, it will be possible to make progress with growth, equity and international trade at the same time. If the moment is not seized, however, the renewed preponderance of commodity exports could become entrenched and a new form of centre-periphery relationship could arise between China and Latin America and the Caribbean.
- If the region as a whole is to become an important economic and trading partner for China, it is urgent for the countries to join forces and decide on a concerted agenda of regional priorities. This means giving preference to multinational approaches and placing less emphasis on unilateral initiatives. For this, it is necessary to organize technical meetings and high-level political and business gatherings, hopefully culminating in the near future in a China-Latin America and the Caribbean summit of heads of State, like those China holds with Europe, Asia, Africa and the Arab world.
- A shared trade and investment working agenda for Latin America and the Caribbean and China could include the following subjects, among others:

- The establishment of a working group to examine the statistics on trade between the two sides, with a view to dealing with the major discrepancies that currently exist between the Chinese figures and those of the Latin American and Caribbean countries.
- Regular sharing of information on basic economic indicators, investment and biregional trade legislation and trends, and market access opportunities and conditions (technical standards, sanitary and phytosanitary measures, non-tariff trade barriers, trade defence rules).
- Regular sharing of information on the two sides' respective foreign investment regimes and on opportunities for Chinese investment in Latin America and the Caribbean and for investment by the region in China.
- The establishment of regular forums for dialogue on the different trade negotiation and integration initiatives currently under way in Latin America and the Caribbean and in Asia and the Pacific, including any impacts on the economic and trade relationship between the region and China.
- The establishment of a forum to detect and remove any obstacles to trade and to identify opportunities for diversifying it. This should also be the main forum for the negotiated prevention or settlement of any disputes on the basis of a long-term outlook that seeks the mutual benefit of the parties.

This point is very important, given the concern that exists about the strong competition Chinese manufactures represent for the region's industrial sectors.

- Nonetheless, the main challenge before the region is internal. The issue is how to link the domestic innovation and competitiveness agenda with renewed economic ties to China and the Asia-Pacific region in general. For example, more innovation and knowledge need to be incorporated into exports to prevent their being excessively skewed towards commodities. This requires active production development policies to pursue advances in productivity, innovation, infrastructure, transport, logistics and human resource quality. Every one of these issues offers scope to construct an agenda for regional cooperation with China, to the benefit of both sides.

- More and better regional cooperation and integration would be very helpful in this task. Joint regional or subregional initiatives on innovation, competitiveness, infrastructure and anti-climate change measures would complement the contribution of national public policies. If the region's countries use these spaces actively, attractive opportunities will arise for trade and investment with China and with the whole Asia-Pacific region.
- One step forward here has been the creation of the Latin America-Asia-Pacific Relations Observatory, an initiative of the Latin American Integration Association (LAIA), the CAF Development Bank of Latin America and ECLAC, which came into operation on 31 May 2012. The Observatory will furnish fuller knowledge about the economic relations between the two regions and will have a permanent mechanism to enable the region's countries to obtain the information they need to adopt policies and strategies in this area.
- In conclusion, it should be noted that the Chinese academic debate sometimes illustrates the "middle income trap" to be avoided by evoking the difficulties the Latin American development process has had in achieving growth, competitiveness and progress on equality. Nonetheless, the most recent data show that in the first decade of this century the region made substantial progress on growth and even on distributional equity, although considerably less on innovation and competitiveness. However, the scope for sharing public policy experience in this area could be very extensive and mutually enriching. Numerous regional experiences with targeted social spending, conditional transfers, countercyclical macroeconomic management, prudential financial supervision, fiscal reforms and public-private coordination could be disseminated in China, stimulating the debate about economic and social reform oriented towards sustainable development with greater social cohesion. These are the key parameters that ECLAC has been conveying to the region's governments with the document *Time for equality: closing gaps, opening trails*. This, then, is another area of cooperation that should be pursued.



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