



Sistema Económico
Latinoamericano y del Caribe

Latin American and Caribbean
Economic System

Sistema Econômico
Latino-Americano e do Caribe

Système Économique
Latinoaméricain et Caribéen



Status of the economic and cooperation relations between China and the countries of Latin America and the Caribbean

Extra-Regional Relations

Regional Meeting on the economic, trade and cooperation relations of Latin America and the Caribbean with the People's Republic of China

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F O R E W O R D

This study is carried out in compliance with Activity III.1.3 of the Work Programme of the Permanent Secretary of SELA for the year 2014, entitled "Analysis of the economic and trade relations between Latin America and the Caribbean and the People's Republic of China".

The document analyzes the current situation of China's economy and its participation in the market and in current international investment, particularly with respect to the changes that have been occurring in the economy of this country, expected to become the leading economy in the world in the next few years, as well as its implications on trade and investment flows towards Latin America and the Caribbean (LAC).

The study emphasizes China's current and future leadership in the world economy and the opportunities that it offers to LAC to extend and deepen its participation in the international economy. Likewise, suggestions on public policies are submitted for the development of new areas for expansion and strengthening of the LAC-China relation as well as options for mechanisms and procedures to promote these areas. In this regard, the analysis is focused on those policies aimed at increasing and strengthening exports from LAC to the Chinese market, at developing actions to promote Chinese investment and support financing for LAC development and finally, identifying new areas for economic and technical cooperation.

The Permanent Secretary wishes to express its gratitude and recognition to Dr. Gustavo Bittencourt for his valuable effort in carrying out this study as a Consultant.

EXECUTIVE SUMMARY

The strong dynamics of the Chinese economy emerged as the most impressive phenomenon of the world economy in the last four decades. A slowdown in its future growth is foreseen, resulting in a long term annual rate slightly over 6%; but despite this, China will continue to be the largest source of dynamism for the world economy in terms of the increase in its relative size, which could turn it into the largest economy in the world in the next five years.

Since it is already the world's number one exporter by a wide margin, its size and influence on foreign trade implies a displacement of the centre of the world economy toward the Pacific. How will this position of China impact worldwide geopolitical? Can Latin America and the Caribbean (LAC), through CELAC, play a part in the alliance with China towards the necessary reforms of the multilateral institutions? However, it should be noted that such central role is exercised by a dual economy and one that is still poor. There is a theoretical challenge to outline the functioning of a world that continues to have centres and peripherals, of its role in the distribution of technical advancement and productivity, but with a third block which, although poor, is the one that relatively has greater influence on production and is also the main supplier of products for world consumption.

Several studies report that China's growth was supported by a systematic, integral and long-term strategy; which involved in its application a large public participation by means of company ownership or incentives to private ones, applied from the central and decentralized government with great pragmatism and seeking local appropriation of technological capacity. Several stages occurred, from the creation of Special Economic Zones (SEZ) since the 1980s to priority in attracting foreign direct investment (FDI) in the 1990s, entering the World Trade Organization (WTO) in 2001, bilateral negotiation of trade agreements, and also the package for the post crisis of 2008-2009 (US\$ 600 billion) which included huge tax benefits and financing to promote export and the incorporation of Science and Technology.

As a background, the main engine of growth in the current model during the last three decades was the accumulation of capital, whose income was benefitted by an abundant work force due to the unique demographic conditions of China. Although China was and is an important receptor of foreign capital, it has shown less structural presence than the worldwide average, of developed countries, developing countries and the rest of the continents. As in India, Japan and South Korea (although with a more open regimen than in these two cases) the accumulation of capital is predominantly national.

But the demographic income (also known as "*demographic bonus*"), that is the positive impact of the increase in population (particularly the active population with respect to the passive, or demographic transition) on the profitability and accumulation of capital has been deteriorating inexplicably. The gradual loss of "demographic income" means a reduction in the actual and projected growth – "China grows old before becoming rich" – which could be partially compensated by the effect of the reforms (Fang, 2014). The long term rate projected by the Academy of Social Science of China coincides with the projection assumed by the IMF.

The transformation taking place in the Chinese development model must be characterized as a transition from demographic income towards growth based on the results of the reforms, which has as one of its principal aspects the promotion of innovative trends so that knowledge will become gradually the greater source of economic growth. The transformation in the "development model" involves three dimensions: the aspect of offer, from growth driven by the use of factors towards growth directed by productivity; by the aspect of demand, a proposal in a

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change in the burden of exports and investment toward domestic consumption as the drive for the level of activity; and in terms of sectors, from predominately manufacturing toward a greater importance in services. The world should expect China to continue growing, but at a slower pace, in a more balanced form and driven by productivity.

China is the world's leader in export of goods, surpassing US\$ 2.2 billion in 2013 and also of goods and services (US\$ 2.24 billion in 2012), despite the latter two not having occupied the podium, which is dominated by the developed countries. On matters relating to imports, China reached second place in 2012, behind the United States which continues to be the largest economy when considering its presence in imports and total trade. However, the speed of growth of China's imports and redirecting the growth process towards consumption and internal market enables us to forecast that the reduction expected in the rate of growth of the GDP will have no significant impact on the tendency to increase its imports.

With respect to China as an exporter of capital, the strategy "Going Global" implemented in the 1990s, indicates that it is expected to continue in the manner in which its objectives, macroeconomics – reduce international reserves – as well as microeconomics – obtain new technologies and raw materials and energy – continue being important in the near future. However, it is not reasonable to assume that reciprocal trade and FDI from China toward LAC will continue to grow as to date at annual rates above 20%.

Without detriment to this, some possible consequences of the changes in the Chinese model of development can be foreseen:

- Redirecting demand toward consumption may mean a significant increase in the demand for iron for housing, and foods, particularly in crops with difficulty to expand in China, such as beef, corn, sugar cane. However, it does not seem probable that this will mean an increase in the relative prices of these goods during the long term.
- Public demand for greater environmental regulation may moderate purchases of fossil fuels.
- Demand for services will probably include tourism, which may be an interesting opportunity especially for the economies of the Caribbean, and for others that already have a good development in the sector.
- A slower rate in growth of infrastructure construction can leave space for Chinese companies to invest abroad, in particular in LAC where there is a growing potential market in this area. There is no reason to think that foreign investments are going to stop, but that they will continue to grow, probably at a slower pace after this recent "emergence" process.
- It is very likely that Chinese financing is multiplied, in view of the offer of public funding through multilateral banks such as the New Development Bank founded in the BRICS bloc, or by means of the entry of Chinese Banks pursuing FDI of this origin, or the growing business of imports and exports with LAC.

With respect to reciprocal trade between LAC and China, the study identified the difference between the profiles of international trade inclusion of South America and Central America (including Mexico). The first is benefitted by the expansion of income originating from the increase in exports, although primary, the second loses productive space due to exports of goods that are competitive with those of the Chinese. A first group which in addition to Brazil, includes Chile, Peru, Venezuela and Uruguay, are those exposed to the Chinese demand. On the other extreme, the group with low exports to China includes on the one hand Mexico and El Salvador, but also several small Central American and South American countries, which have not yet entered into the circuit of this country. Also, it may be appropriate to establish a group with "medium"

dependence on China, wherein two profiles can be identified, the primary (Colombia, Argentina and possibly Cuba) and the “manufacturing”, made up by Costa Rica and the Dominican Republic.

With regard to direct investments originating from China, the study highlights how Chinese companies are entering with force in the region, particularly since 2010, in a very recent process. China is a very insignificant investor in comparison with the United States and the European Union, except in some countries such as Ecuador or Venezuela. Its presence is heavy in oil and gas in Argentina, Venezuela, Brazil, Colombia and Ecuador. In mining, it concentrates its activities particularly in Peru, but also in Brazil.

A relevant aspect of China’s FDI is the predominance of Chinese state companies investing in infrastructure, finance and mining. In these cases, the development of a fluent political bonding constitutes an important decisive. In the same manner, which for promoting FDI originating from other countries, aimed at the objectives of development, the national strategy should be able to select sectors and branches where there is an interest for receiving capital, designing a structure of adequate incentive.

The study considers that a more profound and informed academic and political reflection is necessary for identifying potential areas of common interests among categories in Latin American and Caribbean countries with respect to their relation with China, since based on observations it is quite clear that there are structural difficulties on reaching common political proposals by the LAC countries in their relation with China on matters regarding trade and FDI.

With the exception of certain willingness of all the countries regarding increasing the trade flows as well as reciprocal investment with China – which is very valuable, by the way – it is extremely necessary to advance toward establishing general agreements as regards concrete instruments for such promotions.

INTRODUCTION

For some decades now – especially since the start of the 21st Century – the economic and cooperation relations between China and the LAC countries have increased steadily, which have constituted in an important stimulus factor for economic growth in the region, particularly for several South American countries.

However, in different academic, social and political scenarios, the nature of the relation between both areas has been discussed, and elements that raise concern in this relation have been confirmed: LAC focused their exports on a reduced number of primary products (energy, mineral and agriculture), which are exchanged for a wide range of offers from China in very diverse manufacturing areas, with increasing incorporation of technologies, involving an elevated proportion of industrial consumables and capital assets.

Likewise, foreign direct investments (FDI) originating from China, although entering with force in the region, particularly since 2010, have been mainly aimed at sectors generating the necessary raw materials for its industrial development, such as crude oil, natural gas, soybeans, and mining in general.

Therefore, one of the main objectives of this study is to identify those public policies that may allow progressive change in the structure of this asymmetric relation, particularly in reciprocal trade but also with respect to the characteristics and sectoral positioning of the FDI coming from China. For this purpose, this study analyzes the structure of this relation and of the opportunities that this huge market offers to our region to promote its development and improve its inclusion in the world economy.

In strategic terms, SELA has proposed, within the framework of its activities, to encourage and promote productive and industrial development in the region, based on the application of new knowledge and advancement in technology for diversification and expansion in the offer of goods and services to the international markets. In the short term, the study proposes the need to put into effect compatible mechanisms with a long term strategy, which results in the growing and strengthening of their reciprocal trade and redirecting of the FDI originating from China.

For this purpose, this study introduces a reflection on the current nature of the relations between both regions, attempting to identify trends that go beyond first impressions, while seeking possible windows of opportunity within this relation.

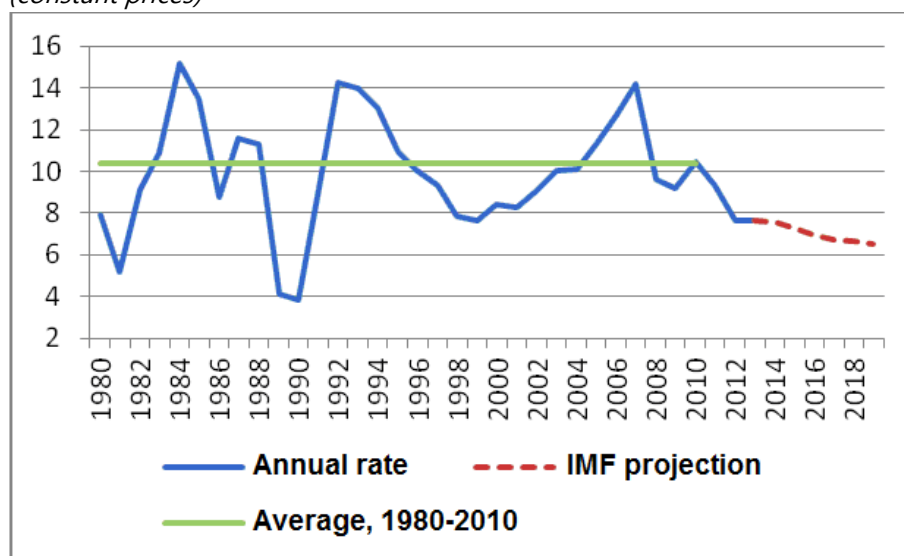
In this context, it must be mentioned that the continuous diplomatic and political rapprochement between LAC and China has significantly increased during the period 2010-2014, including exchanges of visits and meetings at the highest government level. Similarly, CELAC is ready to issue a joint statement with respect to this relation. In this connection, in the CELAC Plan of Action 2014, the Heads of State agreed to "*advance the constitution of the China-CELAC Forum and hold the first meeting of the Forum in 2014.*" This document deals with this important process as a contribution by SELA to its Member States for the discussions at the CELAC preparatory meeting for the Forum, which is proposed to be held in January 2015 in Beijing and, in this regard, it identifies possible new areas for cooperation and submits suggestions as regards mechanisms and procedures to promote them.

I. CURRENT SITUATION OF THE CHINESE ECONOMY AND ITS PARTICIPATION IN THE GLOBAL MARKET AND IN FOREIGN DIRECT INVESTMENT FLOWS (FDI)

1. Recent evolution of the Chinese economy and its influence on the world economy during the next five years

Due to its dynamism, the Chinese economy has emerged as the most impacting phenomenon on world economy during the last four decades. Since the period of reforms initiated in 1978, this economy has grown at a rate that surpasses 10% annually (in fact, it can be calculated at an annual average of 10.4% between 1980 and 2010, see Chart 1). This very high average performance has not been uniform during the entire period; very significant fluctuations can be observed, with huge drops in the rate of growth during the years 1981 and 1989-1990, and slowing down somewhat more gently during 1997-2002; compensated for drive peaks over 14% annually in 1984, 1992 and 2007. Despite such background of positive reaction in the face of adverse situations, such as continued reduction in the dynamics that respond to the international crisis of 2008, a future slowing down of the rate of growth is expected in the long term, reaching (according to statement by the IMF) an annual rate of slightly over 6%.

CHART 1
China. Annual GDP growth rate
(constant prices)



Source: Prepared by the author based on the IMF World Economic Outlook Data Base, April 2014.

This slowdown in the long-term dynamics, which is already occurring, is due to the instability and decrease in the growth rate expected for developing economies over the next few years, and also to the need for a change in China's model of growth of caused by internal motives. Some of these motives will be discussed briefly in the following section. What is important to indicate in this first approach is that despite the anticipated decrease in this dynamic, China continues to be the largest source of dynamism for the world economy, which means continuity in the process of convergence towards higher levels of development as well as increase in its relative size, to the point that if the expectations made by the IMF in its most recent report on the Global Economic Outlook are met, once the GDP is calculated in purchasing power parity, China will surpass the United States as the world's leading economy by 2019. In effect, Chart 2 shows that in 2013, the United States with a GDP of some US\$ 16.8 billion remained the leading economy of the world, very much above China if considered in current dollars (US\$ 9.2 billion), but not far behind if parity

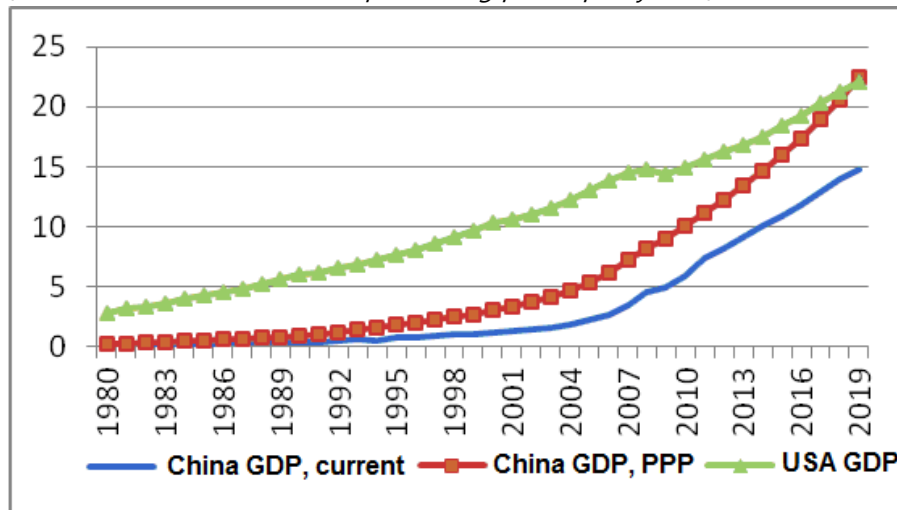
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purchasing power is considered (US\$ 13.4 billion). Although the giant China is marching at a slower speed than over the last 30 years, within five years, in 2019, its GDP in current dollars will be at approximately US\$ 14.8 billion current dollars, which in parity dollars would mean US\$ 22.4 billion, surpassing the US\$ 22.1 billion that is projected for the North American economy for that date.¹

CHART 2

US and China GDP

(billions of current dollars and purchasing power parity, PPP)



Source: Prepared by the author based on the IMF World Economic Outlook Data Base, April 2014.

This means that the United States will be slightly lowering its influence on the world economy from 19.3% of the world GDP (in PPP) in 2013 to 18.2%, whilst China will increase from 15.4% to 18.5% during the same period. This means significant challenges for reflection, which apparently are not being assumed with the urgency required by the academy, the political system, or the public opinion in the Latin American countries. By mentioning some of these topics, with regard to geopolitical aspects: how would the distribution of power and capacity to make decisions function in the world with China as leading world economy? The call by President Xi Jinping to join the Latin American voice toward rebalancing global institutionalism can have new meaning for the Member States of CELAC. On another aspect, when relating to the theoretic instrumental for understanding the development of the world economy, there must be available models more representative of this world, where the gigantic pole and determinant of the global evolution, is also, due to the effect of its structural duality, a poor country. This clearly does not function as a Central Peripheral model proposed by Prebisch in the 1950s.

2. Transformation of the Chinese model: from demographic income to innovative income

Growth phase based on abundant work force

Cai Fang, Director of the Academy of Social Science of China (in his own words, possibly the largest centre for investigation of social science in the world, measured by the employed personal), during a seminar organized in March 2014 in Buenos Aires, in an attempt to explain more structural

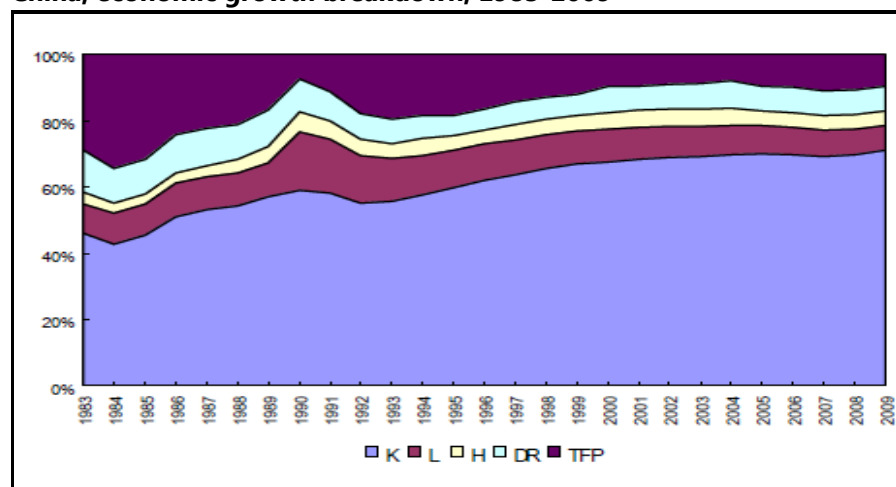
¹ Euromonitor (2014), citing as sources "National statistics/Eurostat/OECD/UN/IMF"; estimates that the GDP of China measured in Purchasing Power Parity, will reach the size of GDP of the United States in the current year (2014), but this affirmation is not supported in the data base of the IMF.

aspects, indicated that the growth in the last three decades, according to the data in Chart 3, can be explained mostly due to accumulation of capital (K in the Chart), at a lesser extent by the direct effect of the increase in the creation of jobs (L in the Chart) and with almost marginal impact by improvement in human capital (H). The remaining growth – known as residual of “Solow” – is broken down in two parts: the first is the dependence rate (DR), whose drop in the past explained a very important part of the residue, a movement that tends to change sign today, and the second, the increase in joint productivity of the factors, which seems to explain a very small part of growth.

Therefore, generally, specific characteristics can be perceived in three periods: the first from rural reform to urban reform, impacting strongly in a direct manner the labour factor; the second period with reforms and opening to mobilize investments, where the accumulation of capital factor is yet more predominant; and a third phase, initiated recently, which is transforming towards growth driven by total factor productivity (TFP in Chart 3). The calculation of growth shows those periods, which also coincides with general outlines of the five year plans and the countless political instruments applied. The importance of job accumulation is observed up to the beginning of the 1990s, as a result of the large mobilization field/city; since the beginning of the 1990s reforms have liberated the formation of capital (that is when a massive income of transnational companies and the FDI is produced); from 2005 the significance of the TFP began increasing, although still much less that the accumulation of capital as a source of growth (Fang, 2014).

Other studies, such as that of Anand et al (2014), shows that the residue of Solow decreases as part of the explanation of growth for China since the 2008-2009 crisis, which is attributed to a slowing down in the improvement of the total factor productivity, due to, probably, less use of the installed capacity (or generation of excess capacity) as well as problems in the assignment of resources. Both causes imply lower expected potential growth, and the need for reforms to facilitate the increase of the TFP.

CHART 3
China, economic growth breakdown, 1983-2009



Source: Taken from Fang, 2014.

Notes: Growth breakdown: K = Accumulation of capital; L = Labour incorporation; H = Human capital (education of labour force); DR = Dependence ratio (inactive population / population in working age); TFP = Total Factor Productivity.

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In addition to these “structural” factors or “determinants” for growth, it was driven by a series of policies that involved a broad participation of the Chinese State. Dussel Peters (2012) describes the following characteristics:

- i. The creation of dozens of Special Economic Zones (SEZ) from May 1980, with the objective of exporting, but particularly seeking to integrate these new products, processes and companies with the rest of the Chinese productive system. Initially on the coast and subsequently in the rest of the country, these would become the base for connecting China with the global manufacturing markets and allow for modernization of the productive system.
- ii. The policies for attracting FDI also pointed to generating learning processes. Since the 1990s, China became one of the most successful countries globally in the massive attraction of FDI, as a result of a set of outlined policies. The SEZ, added to sectoral and territorial mechanisms, played a significant role.
- iii. Entering the WTO in 2001 was an important part of the same strategy. This meant opening up the agricultural and service sectors, with the expectation of increasing their global presence in the manufacturing sector, which helped upgrade the value chains connecting export production with private and public companies, and providing growing sophistication in domestic technologies. Finally, “with the adherence to the WTO in 2001, China began with a negotiation process of trade opening up – largely and preferably bilateral – with several countries and which in several cases has ended in free trade agreements: presently, China is one of the most interested countries in signing this type of agreements, mainly with the objective of strengthening the productive system and its general competitiveness” (Dussel Peters, 2012).
- iv. Within the context of the international crisis of 2008 and an anti-crisis package by the central government – of almost US\$ 600,000 million – the central government has generated massive incentives to increase investment in infrastructure via reduction of taxes and stimulus to financing in 10 industrial sectors (including the textile, automobile as well as information technology, petrochemical and logistics sectors).²
- v. In order to benefit export, tax reductions were applied to the aggregated value and increase in the financial guarantees of exports, among other measures. Other drivers of exports were “the flexible monetary policy and the competitive exchange system, in addition to multiple measures connected to promoting Science and Technology and an industrial upgrading towards processes of higher aggregated value.”²
- vi. In addition to the actions by the Central Government, the application of an important series of instruments was regionalized and decentralized, as a requirement for the adherence of China to the WTO since 2001, although the WTO finds in these same measures new ways of protectionism, trade barriers and contradictory interventions with the rules of this institution.
- vii. Likewise, the central government plays along with the promotion of trade through bilateral negotiations: up to 2012 China had signed eight free trade agreements with 16 countries and regions – including the FTA with ASEAN (2007), Chile (2006), Pakistan, New Zealand, Singapore and Peru (2009), as well as Measures for a Close Economic Partner Association (CEPA) with Hong Kong and Macau. Also, the treaty for Most Favoured Nation (MFN) was

² “The National Programme for Scientific and Technological Development in Long and Short Term Period (2006-2020) establishes a series of ambitious goals and seeks to increase expenditures in S&T of at least 1% of the GDP in 2006 and 2.5% in 2020. This programme establishes the performance of the “*indigenous innovations*”, which have become a central aspect of the structural change – in terms of upgrading and technology development – and by means of policies proposed and implemented by the Commission for National Development and Reform (CDRN) and the State Council itself.” In 2009, “a notice was published creating a System for Accreditation of National Indigenous Innovative Products in six areas (including computers, telecommunications, office equipment, software, energy source and energy saving equipment) with the purpose of obtaining preferential treatment in government purchases, industrial policies and other incentives.”

also granted to all members of the WTO, with the exception of El Salvador and several territories of the United States (WTO 2010/b). Finally, the central government of China has taken a series of measures since 2009 to counteract the negative effects of the global crisis on Chinese exports.

Although China has become the number one receiver of FDI among developing countries since the mid-1990s, and presently the number two receiver of FDI in the world after the United States, in this country foreign capital has a decreasing presence since the second half of the 1990s up to the international crisis of 2008-2009 – the accumulated FDI went from 5% of the GDP in 1990 to almost 17% in 1998, reaching 8% in 2008 – since recovering important growth, converging with the countries of South Asia in something more than 10% presently (UNCTAD, 2014, WIR Data base). This trajectory is characterized by the fact that at the beginning of the 1990s, the policy of association with national capital was relaxed, particularly for the SEZ where 100% foreign capital is allowed, which paved the way for the largest transnational enterprises to open subsidiaries in China. After the middle of this decade, the GDP generated by local companies has grown more than the foreign capital stock. Following the world crisis of 2008-2009, the bet on foreign capital was renewed, whose presence accelerated a little more than the GDP up to 2012. China also appears as the first destination for investment in the world, according to the number of companies that considered investing there in the last few years (UNCTAD, 2012).

Although very important, foreign capital shows less structural presence in the Chinese economy with respect to the tendency of its presence in the world, in the developing countries and in developed countries, even more so, in the remaining countries of South East Asia, where it surpasses 35% at present. The role of foreign capital is more like that played in the economies of Korea or India, where national capital predominates, except in sectors with privileged development and where it is estimated that there are not yet sufficient local capacities.

According to Fang (2014), the demographic aspects resulted in key factors in determining the accumulation process and, subsequently, the Chinese growth in the last decades. The demographic transition determined the abundant work force, guaranteeing the provision of human capital, anticipating the decrease on the returns of capital and generating efficiency in the assignment of factors, which involved a fundamental demographic dividend for the explanation of growth.

From demographic income to reforms: flexibility and innovation

The current transformation of China's development model must be characterized as a transition from the demographic income towards growth based on the results of the reforms, which has as one of its principal aspects the promotion of innovative trends so that knowledge gradually becomes the largest source of economic growth. The previous model, which was initiated with the reforms of 1978, prevailed during a long period, despite the fact that the Chinese leaders were conscious of the necessary transformations since the mid 1990s (in the 9th Five Year Plan), but little progress was made in the development of the 9th Plan, as well as the 10th Plan. The 11th Plan, which is in progress, involves a re-launching of the fundamental transformation, supported strongly by a huge stimulus plan to demand (4 billion Yuan) and launched in 2009 in response to the international crisis (Fang 2014).

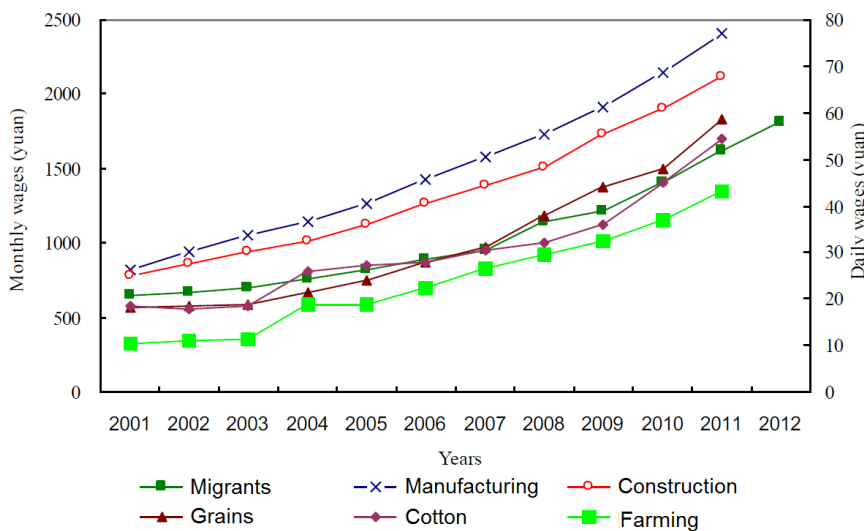
In China's case, the change in the "model" must be interpreted as the result of advancement in various phases of development and changes that arise during these "phases". The transformation in the "development model" included three dimensions:

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- on the aspect of offer, from growth driven by the use of factors towards growth oriented to productivity;
- on the aspect of the demand, from predominantly oriented to exports and investments towards domestic consumption;
- and in sectoral terms, from predominantly manufacturing towards greater importance to services.

The problem is that the demographic factor that was the key to explaining growth since 1980 is changing rapidly due to the reduction in absolute size of the population (especially the economically active population) and because of the difficulties to accommodate the massive movement towards urban centres. For several decades now, the one-child policy has achieved to reduce the increase in population, lowering the birth rate from 6 in the 1970s to 2 in the 1990s, and little more than 1 in 2000. This means that the total quantity of the population at working age is already decreasing, with a loss in the work force that is projected at some 150 million persons towards 2030, which could bring the total work force to some 600 million by 2050. Since 2010 various indicators on job demands exceed the evolution of job offers, which indicates a lack of jobs in the most modern sectors of the economy. As a result, real salaries are growing in all sectors, as shown by Fang in Chart 4.

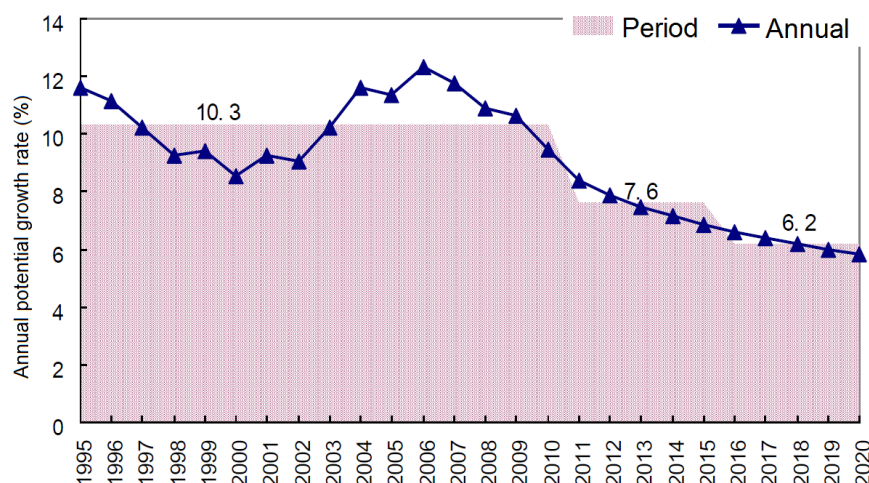
CHART 4
China. Salaries in selected sectors, 2001-2012



Source: Fang, 2014.

As a result of these tendencies, and also the difficulties in worldwide demand since the 2009 crisis, growth is no longer being driven by exports but by internal consumption and investments. Therefore, the gradual loss of “demographic income”, because of its effects on income and accumulation, will mean a reduction in the actual and projected potential growth – “China grows old before getting rich” – which may be partially compensated by the effect of the reforms (Fang 2014). Income in the changing model was very much associated with low salaries originating from the abundant work force, but for several years the “Lewis turning point” is being experienced. It is interesting to note that the long-term rate projected by the Academy of Social Sciences of China, and as such used as a base by the authorities of this country, coincides with the projection made by the IMF.

CHART 5
China's annual potential growth rate



Source: Fang, 2014.

With regard to the contents of the reforms, it is considered that the support packages to demand will not be useful in resolving long-term problems. It is observed that the branches receiving larger stimulus are not those growing the most. The reforms must be orientated, among its principal measures, towards the following:

- Improve the urban housing policy ("Hukou reform") which could enable an increase in the urban work force, increasing the use of the resource and efficiency in assigning capital also, which could enable 1 point in growth per year.
- Eliminate barriers that limit entry and exit of companies increasing PTF (it will add some 0.5 points).
- relax birth controls and increase number of births.

Fang (2014) concludes that the reforms are not aimed at stopping growth, but rather in making it possible, but it will be less than previously. The transition of the model points to finding new sources of growth, and the XVII Congress of the governing Party held in 2012 proposed a series of instruments in that direction. Consequently, the world should expect China to continue growing, but in a more balanced manner and driven by productivity, which would mean at a slower rate than in the last three decades. The important thing for the countries in the world is to identify the opportunities arising from the set of reforms currently taking place.

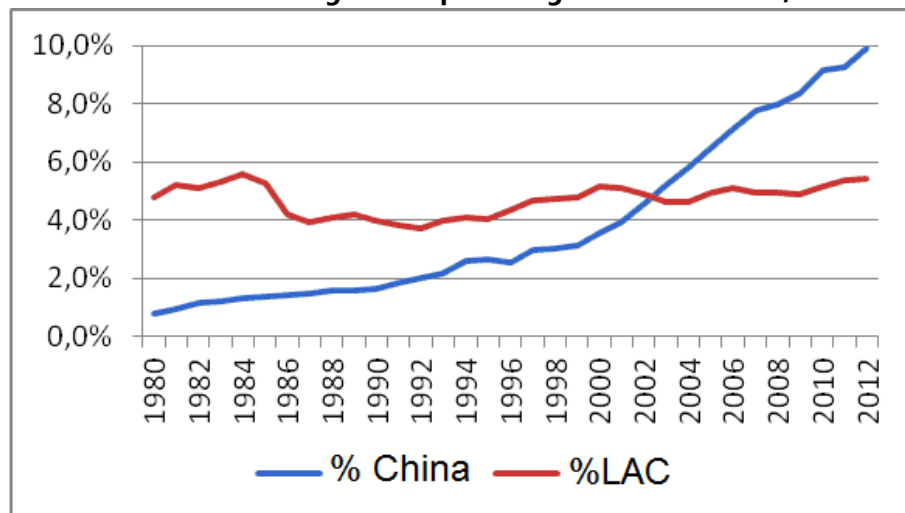
3. The importance of the Chinese economy in world trade: Some projections

While LAC remains relatively steady at around 5% of the world's exports of goods and services (if talking only of goods, the record would be around 6% of the world's total), the importance of Asia, and especially China, has been growing for the last three decades, particularly increasing after the year 2000, coinciding with its entry into the World Trade Organization (WTO) in 2001.

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CHART 6

China and LAC: Shares in global exports of goods and services, 1980-2012



Source: Prepared by the author, based on data from: IMF-WEO Data Base and Latin America-Asia-Pacific Observatory.

China is the world's leading exporter of goods, reaching nearly US\$ 2 billion in 2012, by a wide margin surpassing the United States, which exported 1.5 billion that year. Moreover, China was also the world's largest exporter of goods and services, in this case with a narrower margin (US\$ 2.24 vs US\$ 2.16 billion exported by the U.S.) because, in terms of international competitiveness in the services sector, China occupies a much lower position in the ranking, which is dominated by developed countries.

TABLE 1

Main world exporters, 2012

(billions of dollars)

	Goods	Services	Total
World	17.850	4.345	22.195
China	2.049	190	2.239
United States	1.547	614	2.161
Germany	1.407	275	1.682

Source: WTO, 2013.

The bulk of China's foreign sales is manufactured, hence its name that was popularized as the "world factory". Its competitiveness allows for access to markets worldwide, supplying a wide range of production of goods. Table A.2 of the Annex shows the 20 main items exported from China to Latin America in 2013, which also shows its value in exports to the world (in 2013 the total of goods reached US\$ 2.2 billion). It can be seen that, among the first products, there are several types of optical equipment and products for the electronic industry (IT and consumer goods), as well as medium-technology products, for example home appliances, auto parts (not vehicles, except to LAC) and the naval industry, but also several products from the traditional industry more intensive in manual labour such as footwear, handbags, toys, textiles and clothing. LAC is an important market for China, gaining 6% of their external sales in 2013. In some areas, this percentage is much higher, such as in motorcycles, automobiles, optical devices, air conditioning devices and some types of fabrics.

China participates in several International Supply Chains, which are organized by companies located there, both Chinese and transnational corporations (TNCs) from different backgrounds. These chains with Chinese participation are most often found in Asia rather than in any other regions, because there is where intra-regional trade grows most, as well as the intra-zone trade in goods. (WTO, 2013). However, there is no known relevant evidence with regard to the formation of global value chains where Chinese companies (or TNCs from other backgrounds) organize part of their production by integrating value segments into LAC countries together with Asian countries to supply the “world”, except when LAC occupies the primary sector (natural resources-intensive sector) of these GVCs. Studies collected by Dussel Peters (2014), analyzing 10 cases of Chinese companies investing in 5 LAC countries: Argentina, Mexico, Brazil, Peru and Uruguay, found no cases where these companies incorporated local value in global chains. Except for oil or mining, when studying manufacturing or service companies, they are oriented to the domestic market.

This Chinese trend of organizing international supply using international value chains involves a huge composition of imported goods in their exports, particularly those of high technology. This means that if we assess the importance of China according to the value added by its exports, its significance in the world would be less than what is expressed in gross terms, that is, what is computed on balance payments, being the price of the sold quantity of the final product, regardless of what part of the product has been produced within the borders. For example, if we calculate its trade surplus in value added compared to the USA, it would be 30% less than that computed on balance payments for 2011 (WTO, 2013).

Given its large structural trade surplus, China is less important as importer than exporter in the world, although the impressive dynamics of its economy and its increasing size are indications that it will soon become the largest importer in global economy also. Whether considering goods only, or comparing total trade in goods and services, China ranked second behind the United States, the largest importer in the world (with US\$ 2.7 billion vs US\$ 2 billion for China). Although second, far from first place, the figures indicate that this country has the only market comparable in size with North America in 2012.

TABLE 2
Main world importers, 2012
(billions of dollars)

	Goods	Services	Total
World	18.155	4.105	22.260
China	1.818	190	2.008
United States	2.335	406	2.741
Germany	1.167	281	1.448

Source: WTO, 2013.

Regarding the recent dynamics of China's foreign trade, Figure 7 shows an exponential growth trend that produces an annual increase of 16% for exports and 15% for imports³ on the average of the entire period from 1990 to 2013, but after the decline in the 2009 crisis, it is characterized by a significant slowdown, which places the growth rates of foreign trade around 12% per annum for 2010-2013. Beyond the economic adjustment because of difficulties faced by developed economies, the future probably does not promise growth rates of foreign trade as in the past, and

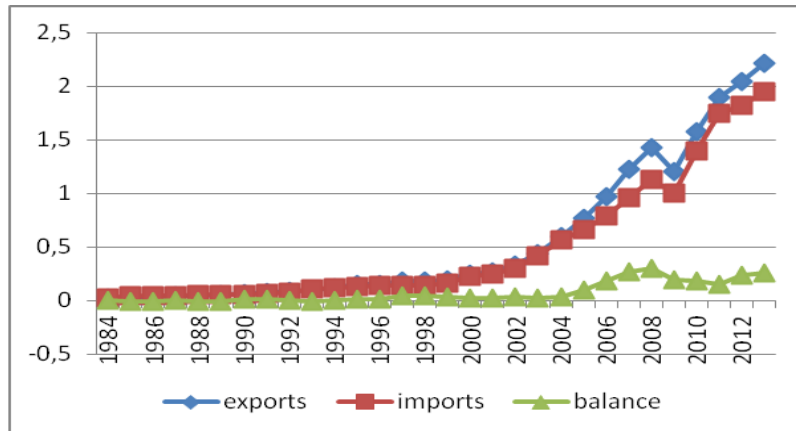
³ Certainly, rates are calculated with an exponential equation with an adjusted R2 of 99% and 98% for exports and imports, respectively.

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the permanent dynamic seem more like that of recent years (or less) than the jump that occurred at the start of the 21st Century. Anyway, with the latter rate of growth, China will continue to be the most dynamic phenomenon in global trade.

CHART 7**Exports and imports of goods from China and trade balance for the period 1990-2013**

(billions of current US dollars)



Source: UN Comtrade.

Finally, it is interesting to note some features of China as an importer. First, the slowdown mentioned was progressive from the middle of the decade following the 2000-2005 drive, which, for imports, was already perceptible before the 2009 crisis. Secondly, although careful review could be required in order to identify "issues" that may be of interest, it can be seen that among the 50 major categories of China's imports, microcircuits, other goods for the electronics industry, several petrochemical products, several primary metal, some machinery and specific equipment, few foods (including soya) occupy a very important position, and there are hardly any branches that clearly identify consumer products (with the exception of vehicles that are in 7), in that context of marked predominance of goods inside the imports basket.

4. The importance of China in global trans-nationalization

According to Dussel Peters (2012), "Currently, the main instrument used by the central government to promote Official Foreign Direct Investment (OFDI) is the *"Going Global Strategy"*. Initiated at the end of the 1990s, it continues to be a valid strategy for fulfilling macroeconomic and microeconomic objectives, such as reducing international reserves and obtaining new technologies, raw materials, and energy sources. In March 2009, the Rules for the Administration of Overseas Investments were enacted, and since May 2009 the Chinese Ministry of Commerce has delegated to provincial authorities the power to examine and approve OFDI projects.

It is important to remember that:

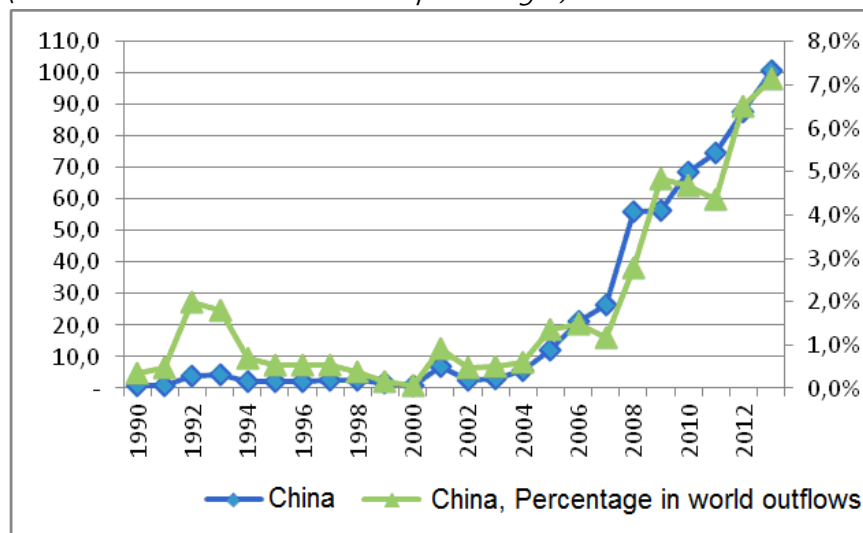
- i. If historically there have existed methods for regulating OFDI, with the *"Going Global Strategy,"* companies are now actively encouraged, if not pressured, to engage in overseas foreign direct investment.
- ii. Until then, companies that have engaged in OFDI have enjoyed significant incentives, such as being exempt from value-added tax for five years, as well as receiving funding from the *Export-Import Bank of China (EIBC)*, the *National Development and Reform Commission*

(NDRC)⁴ and the *Credit Insurance Company* (SINOSURE) in order to ensure the continuation of overseas projects at preferential rates⁵ (Berger, 2008).

- iii. As a result of the global financial crisis, since 2008 the Chinese Banking Regulatory Commission has permitted commercial banks to directly finance all foreign purchases and transactions.
- iv. Parallel to its domestic incentives, China has also promoted bilateral investment treaties and double taxation agreements.

Therefore, it is important to explain that every OFDI project must be approved by the NDRC but, once approval is obtained, public financing is immediately possible with favourable conditions.

CHART 8
FDI outflows from China, 1990-2013
(billions of current US dollars and percentages)



Source: WIR 2014 database.

Policies resulted in a boost in FDI flows from China, especially from the year 2004. In 2005, they merely exceeded US\$ 10 billion, multiplying by 10 until 2013, at an incredibly fast growth rate (more than 25% annually based on the 2001 or 35% annually during the decade of 2003-2013).

Thus, China became a significant investor worldwide in recent years, ranking on the podium of the largest investors in the world, in third position in 2012, with some 16,000 Chinese companies, transformed into parent companies with around 22 thousand subsidiaries extended in 179 countries and an aggregated capital of US\$ 530 billion (13th place in the world).

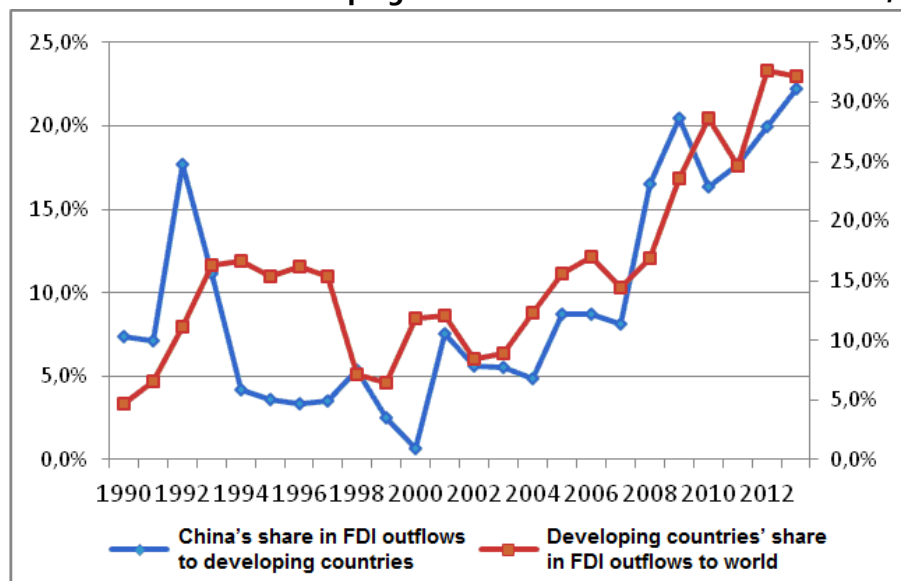
⁴ "After 2005, the NDRC established strategic priorities for OFDI support: a) Exploration of raw material projects in order to prevent a shortage in the domestic market, b) Infrastructure and production projects that allow for the export of technologies, products, and equipment from China, c) Scientific and technological projects which would allow for the use of advanced international technology and make use of talent and administrative experience, and d) Fusion and acquisition of companies and projects overseas – diverse types of OFDI – that increase competitiveness, presence and knowledge of international markets, among others (RBS 2009, quoted by Dussel 2012).

⁵ "If the investment proposed to the NDRC can be found in the Catalogue of products and sectors, and established guidelines are followed, projects currently exceeding 1 billion dollars must be approved by the NDRC and the State Council, Chinese businesses count on the financial support of the Export and Import Bank of China (EIBC) and the China Development Bank, as well as the guarantee of SINOSURE, in order to reduce risk for Chinese companies." (RBS 2009, quoted by Dussel 2012).

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According to calculations based on data from UNCTAD 2014 (see Chart 9), FDI out of China in 2012 and 2013 exceeds 6% of global FDI outflows, which also means that this country exceeds the fifth part of overseas investment by all developing countries in 2008 and over the last two years. It is important to note that during the period, particularly following the 2008-2009 crisis, there was a significant acceleration of transnational expansion of companies in developing countries (trans-Latin, as those with matrices in LAC are known), implicating that over the last two years this type of flow reached the historic record of being the third part of global FDI. China is one of the most active participants in this process, given that it passes from an average of less than 5% of total investments by developing countries during the decade 1994-2004, to exceed one-fifth of that total (greatly increased) over the past four years.

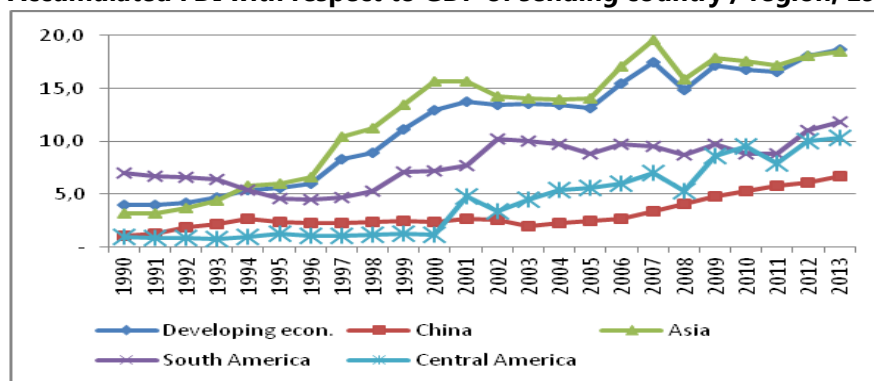
CHART 9
Shares of China and developing countries in FDI outflows to the world, 1980-2013 (%)



Source: UNCTAD-WIR 2014 Database.

When looking at the importance of these overseas investments with regard to GDP (Figure 10), indications are that this country invests overseas less than the combined average of developing and emerging countries, particularly those in Asia, also less than South America (where Chile and Brazil are important) and Central America (where Mexico is almost exclusive, grouped by UNCTAD in this category). Whilst the average of the developing countries, as well as the Asian countries, have invested overseas a capital amount of between 15 to 20% of their GDP between 2006 and 2013; the developing countries in America converge around 10% since 2009, with a more recent growth by Mexico. Throughout the second half of the nineties, until 2006, China maintained a stock growth of FDI overseas similar to the GDP growth, indicating that it had not increased its trans-nationalization rate until then, in which the capital held by Chinese companies in overseas subsidiaries would more than double their importance in local GDP to 6% of it. Therefore, recently, the active period of intense trans-nationalization of the Chinese economy is practically the last five years, which seems quite clearly associated with pro boost FDI policies.

CHART 10
Accumulated FDI with respect to GDP of sending country / region, 1980-2013 (%)



Source: WIR 2014 database.

The recent expansion of Chinese companies reached a wide range of countries and industries. According to MOFCOM data, Asia is the main receptive zone with almost $\frac{3}{4}$ of China's FDI accumulated stock abroad, even though a large part of OFDI is channelled through Hong Kong as a platform, in reality the level of commitment with Asia probably being much less. Secondly, ALC appears as destination, with predominance of investments destined to financial centres (Virgin and Cayman Islands) that also operate as a platform, with less than 10% divided among Brazil, Peru, Venezuela and Argentina. China invests predominantly in developing countries.

Regarding sectoral distribution, according to MOFCOM, Business Services, Finance and Construction were the three main destination sectors in 2011, taking two-thirds of the total, manufacturing and infrastructure having relatively marginal importance (6 and 4% respectively). However, when looking at the investing companies, manufacturing exceeds 40% and trade 22%, with lower investments amounts than in the other sectors. (Figure 3 in Chen and Pérez, 2014) The state-owned enterprises (SOEs) dominate with 63% of Chinese OFDI, covering mining, business services, construction and finance.

In mining, Chinese companies seem to have matured, advancing towards motivations such as proper negotiation of prices or lower manufacturing costs, positioning mining production in the international value chain, which has led them to invest preferably in Australia (where they are mostly focused until 2009) and in Canada as well as in South America, Africa and Southeast Asia. Recently, that is since 2010, Chinese miners are looking more towards Africa and South America.

The rapid growth of infrastructure in China since 1980 allowed the development of domestic business skills that are expressed today in companies such as: CSCEC and Sinohydro (construction), State Grid in energy, Huawei and ZTE in telecommunications, and other companies. Several of these investments are studied in the recent compilation carried out by Dussel Peters (2014), which we mention in Chapter V. Chen and Pérez 2014 point to three reasons for these infrastructure investments: plans launched by developed countries to promote economic recovery in the context of the global financial crisis, industrialization and urbanization in developing countries, and finally, accompany and support other Chinese investments, for example in Africa, where infrastructure conditions can benefit Chinese mining investments.

When speaking of Chinese FDI in manufacturing or retail trading, there are different motivations:

- i. Search for markets: exploring emerging markets for expansion of manufacturing in which the country has demonstrated high overall competitiveness. Even small and medium-sized

Chinese companies seek to establish at least commercial offices in developed country markets or in large emerging markets such as Russia. In similar logic, one can find investments to avoid tariffs or import restrictions, which explains the case of Brazil (at least in the automotive industry).

- ii. Search for efficiency: with rising domestic costs, several Chinese companies transfer intensive production sectors in manual labour to ASEAN, for example, Cambodia, Thailand and Vietnam.
- iii. Search for technology: Chinese companies set up subsidiaries in developed countries to capture assets in technology industries, whether abilities for Research and Development (R & D) or designs or brands, in order to force its expansion in China and the world.
- iv. In terms of Finance, Chinese banks invested to support OFDI in other sectors, or to take advantage of opportunities arising from the crisis, which left many institutions with devaluated assets. For example, China Construction Bank purchased AIG Finance (Hong Kong) in 2009.

For these reasons, noting the rapid growth of China as a major player on the world circuit of FDI during the last decade, it can be concluded that, although the OFDI from China is recent, their main motives are in line with those of most multinational corporations from other backgrounds, showing the same range of variants.

II. IMPLICATIONS OF CHANGES IN CHINESE ECONOMIC POLICY ON TRADE AND INVESTMENT FLOWS TOWARDS LAC

In summary, and taking into account the debate inspired in certain academic areas⁶, there are apparently some consensus that the Chinese model would not drastically affect the developing trends in trade and investment between China and LAC: expansion and access to a large middle class consumer market would continue, one into which several hundred million citizens of this country would be incorporated (it is estimated that, in the next twelve years, some 250 million people will move from rural to urban areas), which would positively impact the demand for gastronomic transition associated proteins; but, likewise, it will cause more than a proportional increase in the demand for other goods and more technologically sophisticated services: more and better health services, education, recreation; housing, which would continue to have an impact on the sustained demand for construction metals, especially iron; and medium and high technology articles, in which Chinese production continues to specialize, such as electronic and fine chemicals.

- Xiabo Zhiang 2014, in an approach showing aspects but with great coincidences with that of Fang (2014), China faces three key trends of changes in future demand:
- "Lewis Turning Point", increase in salaries and labour shortages, added to specific problems of agricultural transformation. Since 2003, salaries have increased significantly, reflecting signs of labour shortage. Although the total productivity factors in agriculture have grown between 2 and 3% per annum over the past three decades, the demand of some crops will increase and the expansion of local production will not be able to cover this. The most typical case is maize, whose imports have been expanding since 2009 with a rise in 2010. Another case is beef. A second consequence of the drop in investment returns, is the increase in overseas investment (in line with public support for Chinese OFDI).
- "Kuznets Turning Point", understood as a demand for quality of life, increased household income, particularly in industrialized cities, increase public awareness on pollution, putting environmental issues at the center of the public opinion agenda. Increased ongoing

⁶ For example, the Forum organized by Red MERCOSUR, UBA and IDB in Buenos Aires, March 2014; or the debate within the LAC- Pacific Asia Observatory framework (LAIA-CAF-ECLAC) summarized in Bartesaghi, 2014 c).

environmental regulation that would correspond to the maintenance of the above pattern, can force to reduce the use of fossil fuels and raw materials containing them. Slower growth, particularly in infrastructure works, can leave idle capacity in Chinese firms that make more overseas investments, particularly in Africa.

- Changes in the demographic problem will impact the propensity to save, the demand for housing construction. Zhiang suggests the hypothesis that the lack of women resulting from the one-child policy, causes strong competition among men, particularly in rural communities, that encourages saving and is expressed in the strong demand for housing. Relaxed birth control and reforms in urban housing policies ("Hukou"), implicates a decrease in the pressure for housing at long-term; in the long-term, this may result in moderation of the increasing demand for iron for construction.

Meanwhile, in speeches by the Chinese authorities during visits to LAC, some of their expectations emerge with regard to the impacts of new development policies on the demands to LAC. As expressed both by Wen Jiabao or, more recently, by President Xi Jinping and Chancellor Wang, with regard to the China-CELAC Forum Cooperation, there are signs related to the strategic role assigned to it in the Chinese development strategy to link LAC. In July 2014, President Xi Jinping visited Latin America for the second time, for the sixth meeting of leaders of the BRICS countries held in Brazil. On completion, Xi Jinping paid a State visit to Brazil, the first country in the region to have established a strategic partnership with China. Following that, he then visited Argentina, where the Tenth Anniversary of the establishment of bilateral strategic partnership between the two countries was celebrated, after 42 years of trading and diplomatic relations. Visits were then made to Venezuela and Cuba. As indicated at that time by the Chinese Minister of Foreign Affairs, Wang Yi, it was mainly to "meet and strengthen relations." A year ago, he had made his first visit to the region, signing agreements and visiting leaders of Trinidad and Tobago, Costa Rica and Mexico. In July, from Fortaleza, he announced the establishment of the China-CELAC Forum Cooperation.

In a clear line of continuity, according to events from the last visit in July 2014, President Xi suggested to CELAC mutual interest in promoting a wider cooperative relationship, in diverse areas such as agriculture, science and technology, infrastructure, investment, knowledge development, cultural and youth exchanges, with a view to bi-regional development based on unity of diversity. He stated further that China will work closely with the PPT in defining the roadmap where themes of the Forum will be defined; a process done in close cooperation between CELAC Member States and China's counterpart.

Also, at meetings with CELAC officials, Chancellor Wang manifested the importance of establishing integral cooperation mechanism and outlined features of the proposed cooperation forum. Also, the proposal went further to suggest waiting until CELAC plays a greater role in regional and global affairs expressing a stronger voice to LAC, in a world that will have major changes. This stems from the consideration that "China and CELAC and part of the rising forces in international relations and are active players in the global multi-polarization process". This statement can be interpreted as a call to work together in multilateral forums for profound changes in the multilateral agenda, which would require the construction of a common agenda for LAC.

Analyze with certain precision the possible consequences of this series of proposals, as well as other effects caused by the change in the Chinese development model on trade and the FDI that LAC receives would require specific studies on the potential markets for the goods demanded by that country, and also establish prospective scenarios regarding the potential impact by technological and regulatory change and in the productive dynamic in the world, in China and LAC.

However, even with the need for reflections with more logical and deeper perspective as first impressions regarding the impacts of passing to another model of "balanced" growth in the Chinese economy, may suggest some grounds for debate:

- i. Chances are that, as a trend in the medium and long term future, Chinese GDP would grow less than in the past, as established both by Chang 2014 and the IMF projections.
- ii. Therefore, two stages with different evolutions should be considered. In the short term, internal consumption will grow faster than GDP, at least during the transition or adjustment stage to a new permanent structure of demand; that is, until a stable level (lower than the actual) is achieved in export aperture, a greater proportion of internal consumption (and lower savings) in GDP, and a more equilibrated balance of trade surplus. This implies that the demand for food or metal for housing may grow faster than the rate of GDP growth in the first stage. This probably coincides in time with the application or momentum of some reforms that can accelerate demographic changes such as rural-urban mobility which, in turn, imply peaks in the mass entry into more sophisticated markets. A particular case which may have a strong demand expansion are high-value crops that have productivity difficulties in China, outstanding examples being corn, beef, and probably sugars.
- iii. The increase in demand for services by expansion of the "middle class" will include, with high probability, the demand for tourism services, which can be an interesting opportunity especially for Caribbean and other economies that already have good development in the sector, such as the Southern Cone.
- iv. In the longer term, with a consolidated demand structure, the consumption growth rate is assimilated to the GDP, and an inflection point can be expected in the demanded quantity explosion.
- v. Similarly, what happens to the absolute amounts should not necessarily have the same impact on the relative amounts and as a result on relative prices. As expected in the coming decades, access to the middle class of hundreds of millions of Chinese will result in a greater demand of other goods (such as sophisticated or electronic services) more than food; much cannot be said about relative demand. Neither can we anticipate what could happen with other producers, such as Africa, nor can much be said about relative supply. As one can imagine, it "new consumption" is unlikely to impact positively on relative prices in the long term, as the relative demand for the new Chinese middle class will lead to more goods and services other than food and relative supply may also increase entry of other producers.
- vi. Modification of LAC's supply of goods and services, necessary in order to enter international markets for high income elasticity in the long-term future, is the same as would be required to be successful in China.

Impacts on access to finance for the LAC countries, can also be expected to arise at least in the following two ways:

- Official loans. At the last BRICS Summit in July 2014, the document to create a new development bank was signed: the first multilateral development bank in the world, showing the attempt to bring the rebalancing of geopolitical power in the world, accelerated over the past two decades, also towards the international financial arena. The New Development Bank (NDB) will loan money for development and infrastructure projects with an initial capital of US\$ 50,000 million contributed equally by each member. So far, the BRICS' NDB is the strongest promise of creating institutions that evade or complement those created in the Bretton Woods agreement of 1946, which established the World Bank and the International Monetary Fund. At that same meeting, a Contingent Reserve Arrangement (CRA) of US\$ 100,000 million was created – with China providing US\$ 41

billion – to bolster financial stability of these countries before the imminent end of the quantitative easing rounds in the United States.

- FDI in banks: Chinese banks are entering the financial systems in some Latin American countries, as in the case of Argentina, through the installation of representations to finance construction or through the acquisition of installed networks of financial institutions with problems.

III. FEATURES, SIZE AND STRUCTURE OF TRADE BETWEEN CHINA AND LAC

1. LAC-China trade relations in large aggregates

Aggregate trade data shows that China's relationship with LAC has intensified tremendously in recent years. With variants in respect of the member countries, as will be noted later, China becomes the first partner for several countries in the region. For all countries, China is able to get to be the target of 8.3% of total average exports from 2010 to 2012 (data from the Latin America-Asia-Pacific Observatory).

China becomes the second member of LAC, gradually approaching USA's main trading partner in the region, surpassing the European Union (EU) as a source of imports since 2010, and with a projection to excel as a destination of its exports in the period 2015-2016.

According to Hiratuka et al. calculations (2012), it can be seen that the increasing importance of China implies a diversification of markets, since it is accompanied by an increasing share of exports to other Latin American countries, while traditional Northern markets (Europe and the United States) lose importance. While the United States remained the main trading partner for Latin American countries, accounting for 34.4% of total trade flows in 2009, it involved a 9-point percentage reduction with relation to the same participation in 1990. Something similar happened with the EU, which fell 9 points to reach 13% in 2009. Simultaneously, intra-regional exports in LAC grew significantly, from 11.7% in 1990 to 18.5% of the total in 2009.

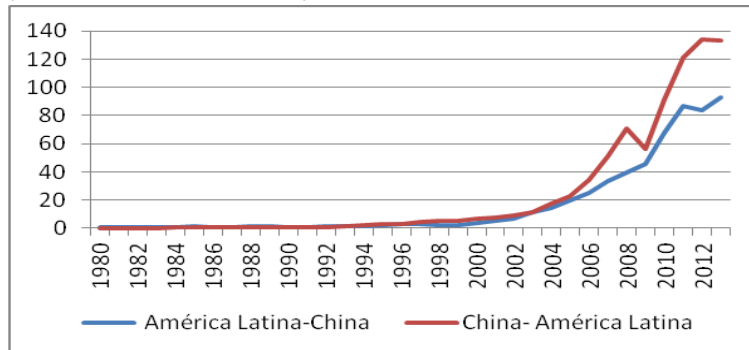
Most of the change mentioned occurred in the 21st Century. The exchange of LAC with China shows the greatest dynamism between 2000 and 2012: while total exports of the region grew at a high rate (9.9% annually), sales in the region, led by China, grew three times (29.5% per year). Also, Chinese exports to LAC grew more than its sales to the world in the same period (27.8% and 19.2%, respectively), showing that for both regions the bilateral relationship has become most convenient with the passing of time. However, as shown in Graph 11, the growth of Chinese exports to LAC is faster than exports from LAC to China, which is generating a growing trade deficit. The crisis of 2009 temporarily hindered LAC imports, whereas in recent years (2012 and 2013) growth of LAC exports to China reduced and came to a standstill.

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CHART 11

LAC and China bilateral exports, 1980-2013

(billion US current dollars)



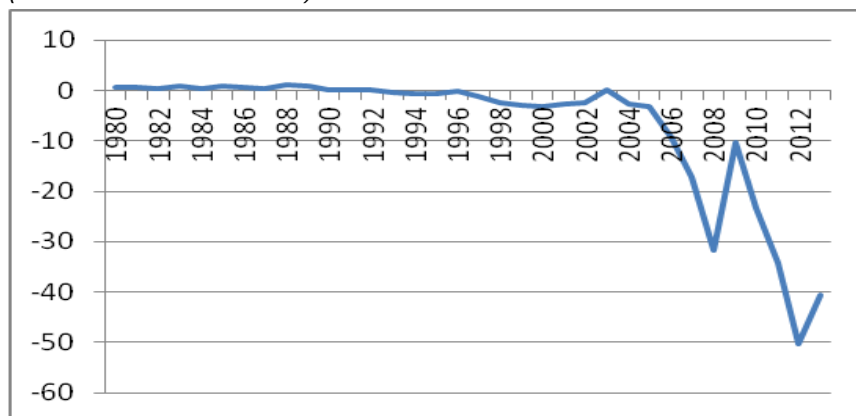
Source: Latin America-Asia-Pacific Observatory / 2007-2013 Comtrade.

The trade deficit with China is increasing and shoots up since 2004, as shown in figure 12. Several studies show that the bulk of the deficit is due to manufacturing exporting countries, with Mexico being the best exponent. This is a key issue for countries that export goods that are similar to those that are being established by China as the “world factory”, for example, automobiles, electronics or clothing; it becomes very difficult to export these goods to China (the bilateral trade balance becomes strongly negative). Furthermore, it loses in international markets, as that of the USA or other countries in LAC. Those who are primary exporters are favoured by complementarities with the Chinese economy, which demands metals, oil and agricultural exports, strongly energizing (and therefore the average real income) but increasing the profile of the primary export structure.

CHART 12

Approximate trade balance between LAC and China, 1980-2013

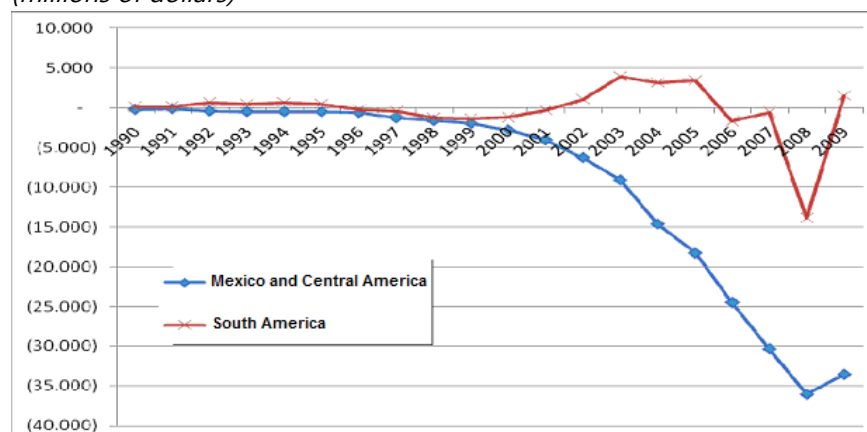
(billion US current dollars)



Source: Latin America-Asia-Pacific Observatory / 2007-2013 Comtrade.

As a matter of fact, previous calculations prepared by Hiratuka et al (2012), presented in Chart 13, show that most of the trade deficit for the 2002-2009 period is justified by the Central American deficit (especially Mexican) that amounts to US\$ 35 billion in 2008 and 2009, an amount similar to that estimated for 2011 and 2013 in the chart above, with different sources.

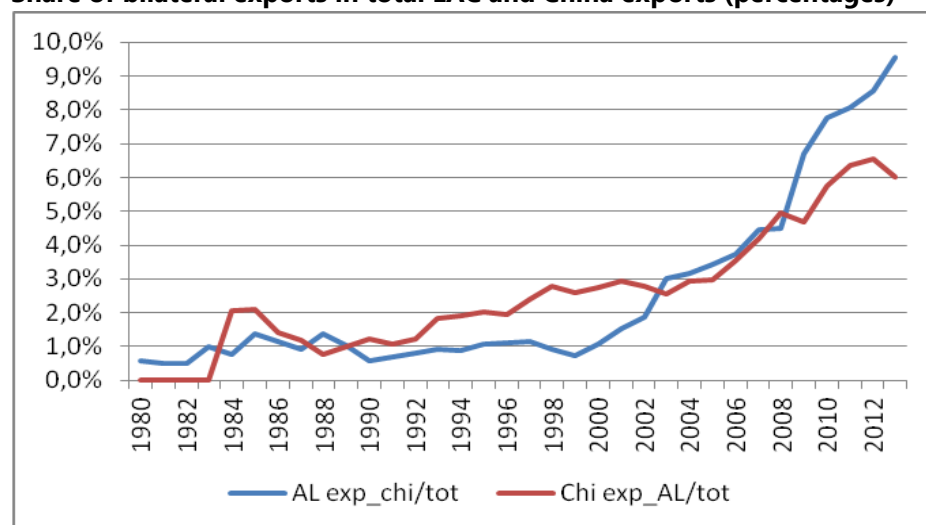
CHART 13
Trade balance by sub-regions in LAC
(millions of dollars)



Source: Hiratuka et al, 2012.

Exports of goods from LAC to China represent a growing proportion, although with a slight drop in 2012, of the total exports of the region, reaching 8.3% in 2010-2012; while most international diversification of Chinese exports means that, for that country, its sales to LAC represent 6.3% of its total exports during the same period. These figures imply that, while Chinese demand has a very important direct impact on LAC, the importance of this region as a market for Asia's great economy cannot be discarded. The impact of Chinese demand on LAC is also indirect, considering its growth impacts the prices of "commodities", thus affecting its exports to other destinations.

CHART 14
Share of bilateral exports in total LAC and China exports (percentages)



Source: Latin America-Asia-Pacific Observatory / 2007-2013 Comtrade.

In the conclusions regarding trade relations between China and Latin America and the Caribbean, two characteristics should be highlighted:

- First of all, there is a distinct asymmetry between exports and imports. Latin America was consolidated as an exporter of primary products to China while, in the Latin American region, this country sells a wider range of manufactured products.

- Secondly, there are asymmetries among Latin American countries. South America benefits mostly from expanding demand and from improving trade terms associated with the rise of the Chinese economy. And Mexico and Central America, with an export structure close to that of China, with more manufacturing contents, find fewer benefits from expanding demand and greater challenges in internal markets, especially in the North American market.

2. Classification of countries and strategic alternatives to China

Some differences arise with much clarity among these countries, considering their export structure, which we will represent, on the one hand, according to the weight of the primary products in the total (taken from CEPALSTAT), and, on the other hand, according to the weight of exports to China in the total (estimation of the authors based on data from the Latin America-Asia Pacific Observatory of ALADI).

Specializing in a few primary products is one of the main characteristics of the peripheral countries in the logic of the structural model, but other interpretations on development (for instance, Rodrik's or even the World Bank's) point out that exports diversification, that is, switching from an intense activity in natural resources to more intensity in knowledge (or technological complexity) is a determinant factor for development. Rather than concentrating on the need for diversifying the export offer, the discussion focuses on the type of diversification needed (concerning the weight of the knowledge-intensive products) and the path to be followed to reach such a diversification. This vision results in very different strategic perspectives, which involve the need for public policy actions oriented to modifying the productive structure.

Chart 15 shows the evolution of the participation of primary products in the total of exports of some countries and groups of countries. It is remarkable that, until 1984, the group of Latin America had a basket of predominantly primary products (over 80%); from 1984 to 1998 that proportion fell to 40%. After 2003, all the countries and groups pushed the proportion of primary products to 60%, which is almost the only common tendency among the countries or group of countries in the chart.

The movements of Latin America and the Caribbean are the result of what happened to the Brazilian exports in the two first decades and those of Mexico in the last two. The two countries, though, are the most influential during all the period.

- i. As a result of the industrialization of the production for the domestic market and the promotion of industrial exports, Brazil increased external sales of manufactures between the early 1970s and nearly 1990, when the country ended its "extended" substitution model.
- ii. Meanwhile, Mexico, which holds the first place among automobile – actually its manufacture exports have been growing steadily since 1982 – is the country with the major exporting growth and diversification after the appearance of the maquilas and the North American Free Trade Agreement (NAFTA). Between 1998 and 2002, it exported 85% of the manufactures in its basket.

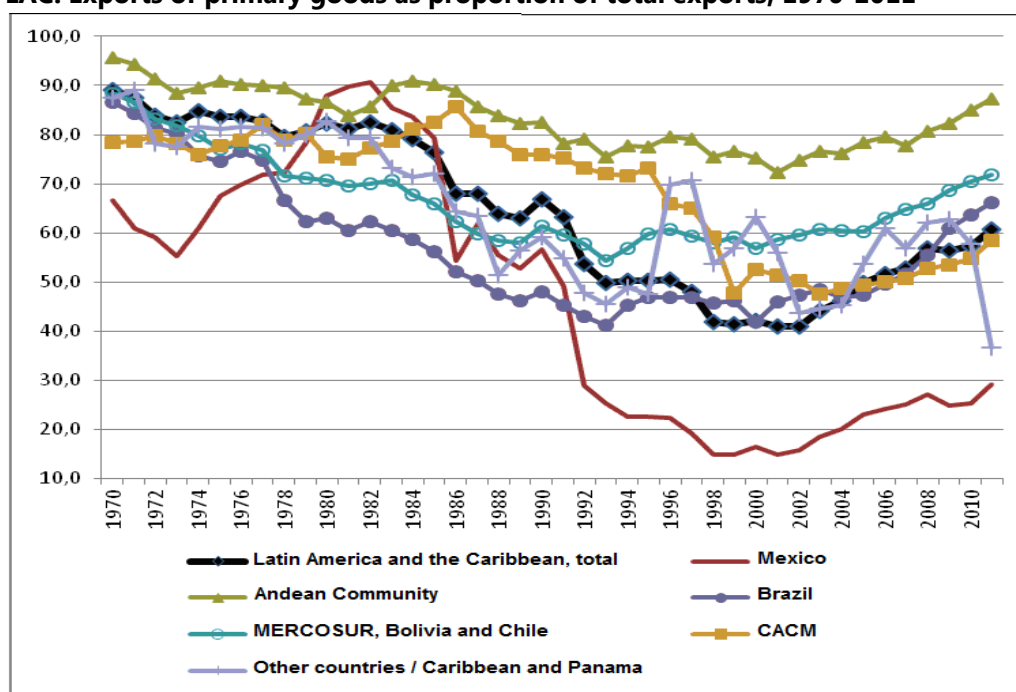
The rest of the groups show behaviours that are worthwhile highlighting:

- i. The Andean Community – which in this study includes Colombia, Ecuador, Bolivia and Peru – never stopped to be predominantly an exporter of primary products, with better figures than any other country or category;

- ii. The Central American Common Market rapidly reduced the primary quota of its exports in the second half of the 1990s and increases it in the 21st Century, but to a much lesser extent than the rest of the categories;
- iii. MERCOSUR – formed by Brazil, Argentina, Paraguay and Uruguay – together with Bolivia and Chile, follow the tendency marked by the largest country of the group, but with a higher level of primary exports, so that the average reaches 70% at the end of the period (similar to the figure of the end of the 1970s).
- iv. Lastly, the group formed by the Caribbean and Panama has a much more fluctuating behaviour, with a lower tendency to recovering the proportion of primary products by the end of the period, but this probably hides the lack of data on the exports of nickel and other metals from Cuba.

CHART 15

LAC: Exports of primary goods as proportion of total exports, 1970-2011



Source: CEPALSTAT.

Chart 16 tries to identify the behaviour of these groups by comparing the proportion of trade with China at the end of the period and the contribution of the exports to China on the growth in total external sales in the period 2000-2012 to the growth of the primary exports percentage of each sub-region of Latin America during the same period.

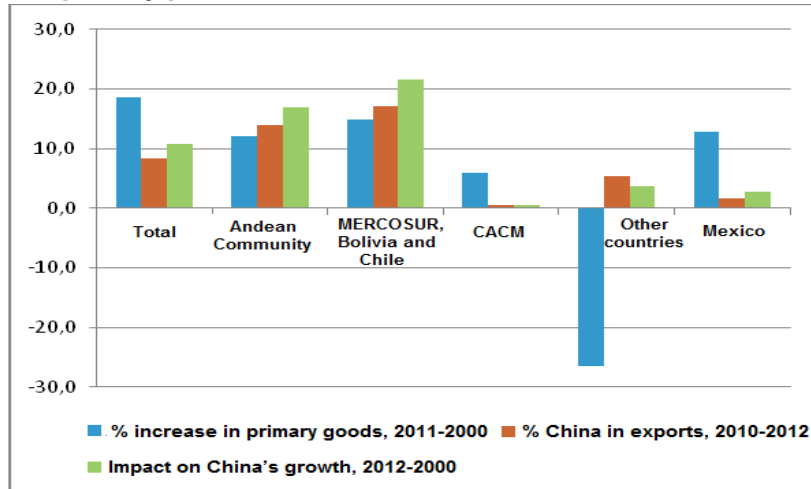
As seen in the previous graph, the percentage of primary product exports for Latin America and the Caribbean gained 20 points in the 21st century, while China contributed more than 10 points to the exporting growth, going up to 8.3% at the end of the period. This includes two types of movements: MERCOSUR and the Andean Community (almost all of South America), where the increase in the Chinese stake (the inclusion of China as a partner) seems to stimulate the movement toward primary product exports, especially in the extended MERCOSUR, where the Chinese contribution to the growth and participation at the end of the period are larger. Mexico and the Central American Common Market, as well, seem to move according to a common pattern, in which the rise in the stake of the raw materials is not coupled with a significant impact – at least a direct one – of the Chinese presence. The rest – mostly Caribbean countries – is the only

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group where the weight of the primary exports decreased after the year 2000, in spite of a small increase in the activity of China as a buyer.

CHART 16

Profile of groups of LAC countries by relevance in terms of exports to China and primary products, 2000-2012



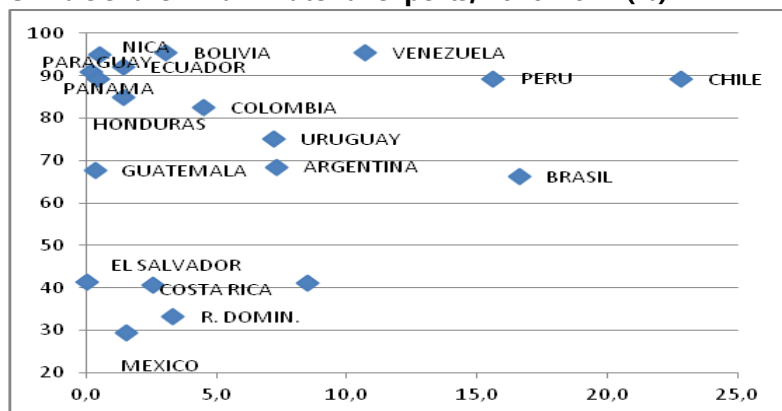
Source: Prepared by the author, with data from CEPALSTAT and the Latin America-Asia-Pacific Observatory.

- i. Total: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.
- ii. The Andean Community: Bolivia, Colombia, Ecuador, and Peru.
- iii. MERCOSUR, Bolivia and Chile: Argentina, Brazil, Paraguay, Uruguay, plus Bolivia and Chile.
- iv. CACM: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.
- v. Other countries: Barbados, Belize, the Dominican Republic, Guyana, Haiti, Jamaica, Panama, and Trinidad and Tobago.

Chart 17 identifies peculiarities of the countries and whether it is necessary to include other characteristics to explain the relation between the Chinese direct demand and the increase in the proportion of primary exports.

CHART 17

China's share in raw material exports, 2010-2012 (%)



Source: Prepared by the author, with data from CEPALSTAT and the Latin America-Asia-Pacific Observatory.

Considering that the all of Latin America and the Caribbean took a stake of 60.7% of the raw materials in 2011, and China barely 8.3% in the period 2010-2012, some grouping may be identified, depending on where the divisions are made. The groups range from those countries with voluminous primary exports and a high level of dependence from China, including Venezuela, Peru, Chile and Brazil – Uruguay should be included as well – to those where exports of manufactures are predominant (that is, a low proportion of primary goods in the structure of sales abroad), and the importance of China as buyer is reduced, including Mexico and El Salvador. An intermediate group, close to the first one, includes Colombia and Argentina, where China has an average importance. There are additionally two other groups: One includes a large number of relatively small countries (Bolivia, Ecuador, Guatemala, Honduras, Nicaragua, Panama, and Paraguay), with a high proportion of primary products exports but exporting to China less than the average. The other (including Costa Rica and the Dominican Republic) exports mainly manufactures, with a medium importance of the demand from China.

Although China is not still a significant – yet highly dynamic – buyer for some countries, the group of countries affected by the “dependence on China” should comprise the Dominican Republic and Costa Rica, together with Colombia and Argentina, a class that receives an average impact from the exports from China.

TABLE 3
Classification of countries according to primary specialization and exposure to Chinese demand in 2010-2012

	Low participation of China as a buyer (and small increase)	High (and medium) participation of China as a buyer
High proportion of primary exports	GROUP III Nicaragua, Panama, Honduras, Guatemala, Paraguay, Bolivia, Ecuador	GROUP I Venezuela, Peru, Chile, Brazil and Uruguay* Argentina, Colombia
Low proportion of primary exports	GROUP IV Mexico, El Salvador	GROUP II Cuba**, Costa Rica, Dominican Rep.

Source: Prepared by the author, with data from Chart 17 and calculations of the increase of China's importance as importer for each country.

Notes:

- a. * If we consider exports from free trade zones in Uruguayan territory, China becomes its first buyer, so Uruguay would be included in Group I.
- b. ** CEPALSTAT does not takes into account Cuba's exports of nickel for 2006 (last known data), whose computation would probably mean that Cuba should join Group I.

Therefore, some countries follow the logic established in previous papers, which implies that a high proportion of primary products in exports is associated to more (and more dynamic) sales to China, while a high proportion of manufacture exports indicates less (and less dynamic) sales to that country. That is what the upward diagonal line of the table describes: Groups I and IV, which include Brazil and Mexico, respectively. The other diagonal, which describes groups II and III, that is, relatively small countries, deserve additional comments, as they encompass those specialized in primary goods but without a marked dependence on China, and those specialized in manufactures but with abundant exports to China.

The countries in Group IV (and partly those in the group III) were effective in integrating in value chains promoted by the transnational enterprises, which used commercial preferences to access the North American market (Mexico through the NAFTA and the Central American countries through the CAFTA and other mechanisms), generated fragmentation processes and re-located the production, which implied high levels of import of parts and components to support the flow of exports to northern destinations. Therefore, Mexico and Central America received a little positive impact from the rise in the demand of primary products associated to the Chinese presence in the world market. For those countries, China appears as a challenge, as they export products with which China is seen as a world manufacturing centre. This means competition to gain the North American market. Unlike the Asian countries, which suffered the impact of the Chinese competition in markets such as the United States but at the same time receive some impulse from the demand of pieces and components (such as the case of Malaysia and Thailand), Mexico is affected almost exclusively by the effect of competition, as shown by the asymmetries in commercial flows.

In the other extreme, South America marginally integrated to this strategic movement organized by the large transnational corporations. The region has historically been conceived more as a market than as a global provider, except for the exports based on natural resources. Even during the international commercial restructuring started in the 1990s, this resulted in a more pronounced inclination of the investments toward the market than towards improving the international competitive efficiency.

Because of its large scale and speed, the global emergence of the Chinese phenomenon – caused by the industrial expansion, the massive investments in urban infrastructure, the access of a vast number of people to the consumption market – ignited an explosion in the demand for raw material and products intensively based on natural resources. This ended up changing the conditions of commercial insertion of the Latin American countries, and, therefore, the countries of South America joined the international trade with an exporting line that was increasingly formed by primary products.

Favourable conditions provided fiscal resources for expanding demand policies that helped reactivate the domestic markets and, consequently, the rise in imports, in which China played a major role. These countries, particularly Brazil, applied more active policies in the promotion of productive and social development, encouraging the recovery of the domestic industrial production, which grew simultaneously, always in a lower scale than the expanding imports figures. An increased intra-regional trade allowed Brazil, main provider of manufactures for its regional partners, to compensate the tendency to exporting primary products. Freitas et al. (2014) observe that Brazil's manufacture commercial deficit from 2007 to 2012 resulted from its commercial relation with China, which hit 18% of the industrial imports of that country. This deficit is compensated with exports of soya, iron and oil (see Table A.7 of the Statistic Annex) and turn around intermediate products and capital goods, mostly from the electronic and machinery industries. The Brazilian imports are an important part of a structure similar to that shown in Table A.2 in the Statistic Annex.

In the other diagonal line in Table 3, Group III includes three differentiated cases: a) the countries of the CACM, which have signed trade agreements with Taiwan and, probable for that reason, do not have strong ties with China; b) Paraguay and Bolivia, small and poor countries with a certain geographic isolation that keep a very preferential relation with Brazil and Argentina (the effects of the Chinese demand reach them rather indirectly, but they are not irrelevant), and c) the case of Ecuador, a country that, even with a very low figures of trade with China, receives significant Chinese investments (oil and mining). Such investments will probably intensify the commercial relation once they start producing results. This implies that, from the point of view of the strategy

of international insertion and the role of China in it, the cases b and c might be grouped together with those of MERCOSUR.

The other “atypical” case regarding the expected relation between the weight of the primary imports and the preferential links with China is the group II, especially Costa Rica and the Dominican Republic. Both of them joined this group because of their relation with China, but this relation was still marginal in 2013 – 3.3% of the total trade for the former and 5% for the latter. They are different cases as well, according to their specialization: The Dominican Republic exports manufactured product in general, but it basically exports mining products to China; Costa Rica, meanwhile, exports products from the electronic industry (see Table A.7 of the Statistic Annex). This might be connected to the presence of Intel and other companies in both countries and the existence of a free trade agreement between them, two important peculiarities of the Costa Rican case within the Central American context.

IV. TRADE POLICIES TO INCREASE AND DEEPEN EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN TO THE CHINESE MARKET

The countries of Latin America and the Caribbean, in general, need to clarify their domestic development agendas. Few countries show processes of social and political discussion about the alternatives for the mid- and long-term future, with somehow precise objectives for the productive and social transformation of these economies (more than just generalities), strategies to reach such objectives, resources to be assigned, goals or expected results, and indicators for follow-up. Brazil seems to be an exception – recently joined by Ecuador and, partially, Colombia and Costa Rica – as a country that value the need to use instruments for the planning of development at mid- and long-term. China, for its part, seems to be clear on its long-term perspective, that is, where it wants to go, and uses a large number of instruments to attain those objectives. The decisions on international insertion and preferential relations are an important part, but they are one more part of the transformation goals.

In spite of a certain lack of definition with respect to the long-term strategy (the one that should illustrate the selection of the form of international insertion), the countries continuously take options in the practice, which imply a result in the correlation of forces among different alternatives. On this point, Bartesaghi (2014a) comments: “While Chile, Colombia, Peru and Mexico have free trade or association agreements with the United States, the European Union and other Asia Pacific countries. The MERCOSUR countries give priority to integration more in the political than in the economic ground (Union of South American Nations), and until now they have not concluded commercial agreement with an economic and commercial impact with the United States, Europe or Asia Pacific”. This context produced the emergence of the Pacific Alliance, which can be compared to MERCOSUR in diverse grounds:

- i. In terms of institutions, the Pacific Alliance declares to seek for a level of integration comparable to the common market, attempts to achieve it in a pragmatic and maybe less institutionally ambitious than MERCOSUR, which followed the model of the European Union.
- ii. The Pacific Alliance started with more unilaterally open economies than those of MERCOSUR, as it appears from the comparison of average MFN tariffs (six against 12% in MERCOSUR).
- iii. As for the indicators of competitiveness, in the Doing Business of the World Bank, the Pacific Alliance countries show better positions, “which has to do with the reforms implemented by those countries at instances of the international agreements subscribed with the developed countries”. Considering the indicators of the World Economic Forum,

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while Chile enjoys the best position, Brazil is ahead of Colombia, Peru and Mexico, but the rest of the countries of MERCOSUR occupy lower positions than all the members of the Pacific Alliance.

- iv. It is noteworthy that, in MERCOSUR, the intra-regional trade has 10 points above the links developed by the Pacific Alliance, while several Pacific Alliance countries are placed over Brazil and Argentina in their capacities of direct foreign investment.

Bartesaghi (2014c) reviews the adoption of trade agreements between Latin America and Asia Pacific, and finds several cases of this type of agreements signed with the countries of the Asian region. They could be classified as follows:

- i. Those that hold treaties of commercial liberalization with China, including, on the one hand, Chile and Peru – they appear as the most active countries in their relation with Asia Pacific, with 11⁷ and five agreements⁸, respectively – and, on the other hand, only Costa Rica, which has signed agreements with China and, in the same region, also with Singapore alone.
- ii. Those that have signed only one agreement: MERCOSUR with India, Mexico with Japan and Colombia with Korea.
- iii. Those that have signed one agreement with Taiwan: The CACM (El Salvador, Honduras and Nicaragua) and Panama, which also has an agreement with Singapore.
- iv. Those that have no commercial agreement with any country of the Pacific region: Bolivia, Cuba, the Dominican Republic, Ecuador and Venezuela.

The number of accords and the preferences exhibit evidences of the various strategies followed by the countries of Latin America and the Caribbean regarding the Asian region and the world. This variety of approaches demonstrates that it is not possible to schematize only two conceptions of the role of international insertion for development: The Pacific Alliance approach (open and inclined to signing free trade agreements with an active bilateral negotiation according to purely economic interests) and the MERCOSUR view (relatively less open and, consequently, more selective regarding the signing of liberalization agreements). These forms, at the same time, may accept many variations, such as those adopted by the Central American, Caribbean and medium-sized economies (particularly the small ones, which require more opening but may encounter difficulties between their membership aspiration and the policies favouring growth). In these circumstances it does not seem likely to choose one single agenda to respond to the emergence of China as commercial partner of the region.

Commercial opportunities

In the forum on the relations with China organized by the Latin America-Asia Pacific Observatory (summarized in Bartesaghi, 2014b), some experts identified the potentials of certain sectors. One of them is the sector of services trade, in which investment might have important opportunities thanks to the level of specialization in the industry reached by some countries of Latin America and the Caribbean, and due to the still limited development of the Chinese foreign services trade (at least when compared to the foreign goods service). Other examples are:

⁷ With Australia, Brunei, China, Hong Kong, India, Japan, Malaysia, New Zealand, the Republic of Korea, Singapore, and Vietnam.

⁸ With China, Japan, the Republic of Korea, Singapore, and Thailand.

- Logistics and transportation, infrastructure associated to trade, ports, railways, sailing, and so on, in which, additionally, the competitiveness of the Chinese companies turn them into important investors in the world.
- Software: The presence of the Chinese companies in the telecommunications markets require this type of cooperation, and the adaptation of programs and systems developed in Latin America and the Caribbean to the Chinese environment offers opportunities to the enterprises that have reached competitive positions in these countries.
- Tourism: Several countries of Latin America and the Caribbean have sophisticated and developed offers, with differentiated possibilities for the new layers of population with purchasing power in China; reciprocally, China shows an offer of geographic and cultural patrimony that could attract many consumers from Latin America and the Caribbean, if the transportation ways were more accessible.

Beside these, a number of other goods-producing sectors may be listed with coincidences between the interests of the Latin American and Caribbean countries and the Chinese reality, the new trends in its growth model and the interests expressed by the authorities of that country, in which they have already experienced success:

- Metals: Mainly, iron and copper (South America exports about US\$20 billion in extractive forms for each), but the exports of precious metals (tin, zinc, nickel, and, especially, other non-ferrous metal under the form of waste for recycling) are also growing; it is noteworthy that China does not import significant amounts of steel or basic metals in more elaborated forms, except when they are part of sophisticated components for industries of medium and high technology (see Table A.3 of the Statistic Annex).
- Agriculture: The demand for soya, animal flours, feathers, meat, fruits, dairy products, and so on, is sustained, and it may be expected that corn and others become one of the main products imported to China – some countries, such as Argentina, have been advancing into this sector in recent years. The MERCOSUR countries plus Chile and Peru, based on their comparative advantages, is the only group that participates in the exchange of these products.
- Energy: Oil and, in a lesser extent and almost exclusively from Colombia, coal; in some cases, the presence of significant Chinese investments in Latin America and the Caribbean may imply policies addressed to widen the local contents of those exports, either through joint technological developments conceived to facilitate and lower extraction costs, or to export refined or compressed fuels with a higher degree of elaboration; these products are not however included in the current imports of China from the rest of the world.
- Automobiles: Mexico and some other countries export products in this sector, which reports important cost differences and, therefore, largely depends on the commercial strategies that the transnationals adopt to provide the expanding Chinese market.
- High technology: The only case of certain importance is the Brazilian exports, which, given the specialization and competitiveness of Embraer in some models, may bring an interesting flow in the context of some strategic agreements between the two countries in the future; but this does not seem to be at reach for the industrial structures of the rest of the countries of Latin America and the Caribbean.

The strategies of Latin America and the Caribbean to promote its international commercial insertion might point to, at least, two main objectives: Diversification (by increasing the amount of exportable products) and scaling of the value chains (attempting to gain added value through the creation of new scales locally. Both objectives appear in the discourse of almost all the governments of Latin America and the Caribbean.

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Regarding diversification – adding new products to the basket of exports to China – a simple look to the structure and dynamic of the Chinese imports from the rest of the world may suggest some ideas (not replace the necessary prospective study considering the present and future characteristics of the world markets). For instance, China imports a large number of products of the chemical, petrochemical, and metallurgical industries, some of them with a high value per unit. Such industries have natural resources available in the Latin America and the Caribbean countries, which may be produced through biotechnological procedures. Adding an important number of these activities may be a solution for the diversification of the industrial production, especially in the small and mid-size countries, and they are susceptible of integrating into the chains of global value through this non-traditional via. It might imply to add value to resources from other industrial processes, already installed in these countries.

Considering the scaling of chains, which implies making advances forward and backward, one of the peculiarities of the strategy toward China to promote such scaling is related to the fact that many buying decisions in that country depend on public policies; therefore, the possible inter-governmental agreements may be crucial.

V. DIRECT INVESTMENT FLOWS FROM CHINA TO LATIN AMERICA AND THE CARIBBEAN, MAGNITUDE, MODALITIES AND STRUCTURE

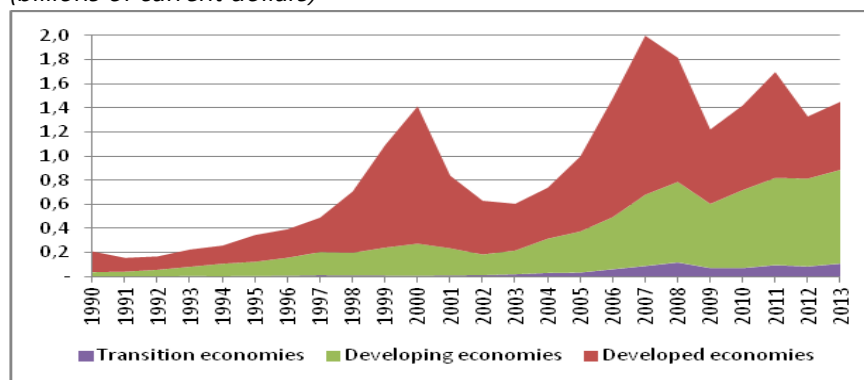
1. Global transnationalization

The process of global transnationalization – the growing presence of transnational enterprises in the organization of world production and trade through networks of subsidiary – is a phenomenon underlying in the other process of globalization. As the transnational enterprises expand, in general, through investments in other countries, one way to measure the intensity and speed of this process is observing the flows of direct foreign investments, as totalled in the balances of payments of the countries. The graph shows that the process is experiencing a strong growing tendency, but its advance is irregular. The world direct foreign investment has had several peaks (in the years 2000, 2007 and 2011), generally caused by the waves of large mergers and acquisitions in the developed countries.

CHART 18

FDI flows, world and type of destination countries, 1990-2013

(billions of current dollars)



Source: Prepared by the author based on data from UNCTAD WIR 2014 Database.

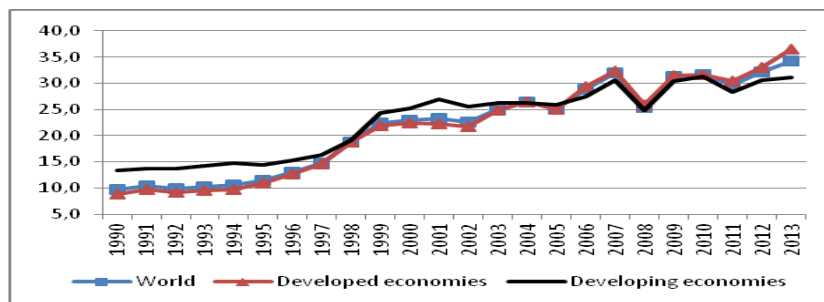
Since 2009, the developing countries receive more than half the world flows of direct foreign investments, that is, over 60% registered in 2012 and 2013, due to a new contraction in the direct foreign investment destined to the developed world in 2012. This is among the most contrasting

tendencies with the past: In the 20th century the process of transnationalization was a phenomenon predominantly associated to the developed countries, with certain tendency to marginalization of the developing countries (a situation that changed very clearly in the 21st century). Moreover, what after the 2008-2009 crisis could be perceived as a possible conjunctural phenomenon – the recent importance of the developing countries as receivers – seems to become a very probable structural tendency. The difficult solution to the crisis that Europe is living, faced to the stable dynamic of Asia and the ascension of China as the first economy in the world, may be realigning the world investors southward in a more definitive manner.

A more adequate way to measure the process of transnationalization is comparing the cumulative direct foreign investment, which represents a capital stock that the transnational enterprises have in the receiving country or region, regarding some added value of the economic activity of the zone. In this case we used GDP, which is the measurement provided by the UNCTAD. This indicator reaches 35% in 2013 for the world, and has been hitting over 30% since 2007 (with the exception of the critical year of 2008). In those years, the indicators of process advance have converged in most developed and developing countries, although in 2012 and 2013 it seems to resume the separation between the behaviours in both groups.

CHART 19

Transnationalization / FDI stock over GDP: World, developed and developing countries, 1990-2013



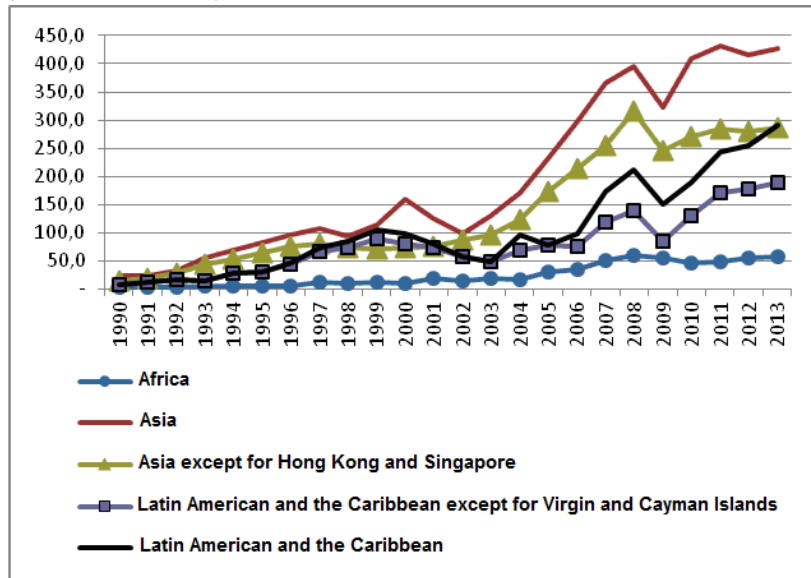
Source: Prepared by the author based on data from UNCTAD WIR 2014 Database.

2. Latin America and the Caribbean in the world circuit of direct foreign investments

Examining what continents or regions of the developed world receive these flows, it is possible to draw some conclusions:

- Asia is the major receiving region, followed by Latin America and the Caribbean, but Africa only appeared in the map of investors in the 21st century.
- When the figures of the financial centres are eliminated, the scene changes significantly, both for Asia and Latin America and the Caribbean. Leaving Hong Kong and Singapore out, the flows to Asia between 2011 and 2013 lose a third. Something similar happens when taking the Virgin Islands and Cayman Islands out of the flows received by Latin America and the Caribbean: The role of the Caribbean is mostly financial. Actually, the resources deposited in these islands are not direct foreign investment but an intermediate stage of direct foreign investments that go to other countries. If those countries counted them as originated in the islands, the flows of the continent would double.
- Additionally, eliminating that duplication changes the tendency, so that the growth in the last few years becomes much more moderate. The financial centres impact the tendency of the global growth of direct foreign investment. It is possible to observe a phenomenon since the mid-1970, but it has become important now.

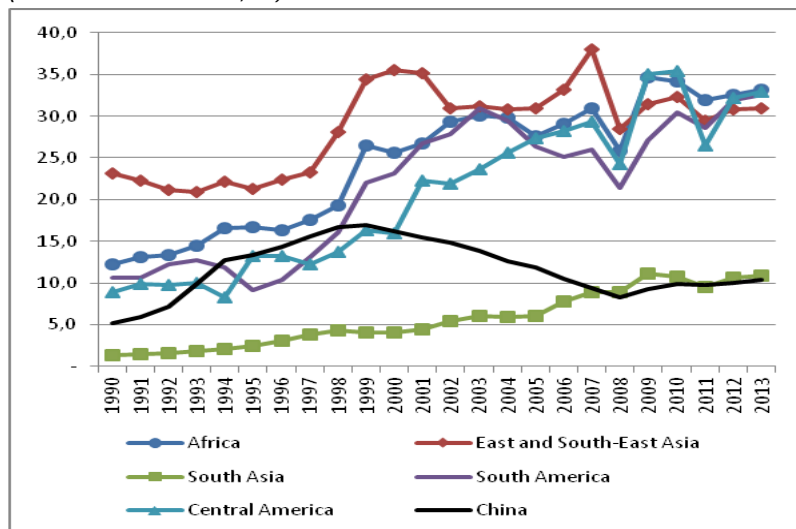
CHART 20
FDI flows by destination regions, 1990-2013
(billions of dollars)



Source: Prepared by the author based on data from UNCTAD WIR 2014 Database.

It is interesting that, even with the pronounced similarities in importance and speed in the process both for the developed and developing economies, South Asia (where India is the largest economy) and China are exceptions. The graph shows that South and Central America (including Mexico), East and South East Asia and Africa are converging toward a foreign capital equivalent to one-third of the GDP after the 2008-2009 crisis. Meanwhile, China and South Asia are converging to a tenth of their GDP. Undoubtedly, foreign capital is playing a different, less central role in these two regions than the one it plays in the rest of the world.

CHART 21
Transnationalization in developing countries, by regions
(FDI stock over GDP, %)



Source: Prepared by the author based on data from UNCTAD WIR 2014 Database.

South America, led by Brazil, and Central America, led by Mexico, report similar weights of the foreign capital in their economies, which surrounds a third of their GDP in the last few years. This convergence, similar to that of the world as a whole, may be surprising considering the diversity of strategies or forms of expansion implemented by the transnationals in the two groups of economies. When the financial centres of the Caribbean are added, as in the Latin America and the Caribbean series of Chart 20, the indicator of presence grows significantly: More than 10 percentage points of the GDP compared to the values of the same indicator in South or Central America in Chart 21, due to the high capital stock which is recorded in those islands, which actually operate as a financial platform for re-exporting capital. This means that the capital that these islands receive is not really FDI, because it is not aimed at integrating capital of companies that produce through facilities based in their territories. It is very important to study these islands because it is known that they channel investment into other countries. Particularly, they have been a preferred channel for China's FDI in Latin America and the Caribbean.

3. Sectoral profile of the FDI received by Latin America and the Caribbean

According to UNCTAD 2014, the sectoral composition of the foreign direct investment in Latin America and the Caribbean shows some similarities but also many differences among the countries and sub-regions. This pattern of reception of foreign direct investment by sector has some characteristics that are worth commenting: Services are the main destination of the direct foreign investment both in South America and in Central America and the Caribbean, but somewhat more significant in the latter. In both regions services are followed by manufactures, relatively more important in Central America and the Caribbean. Investments made in the primary sector are much heavier in South America, but marginal in the rest of Latin America and the Caribbean. The countries that concentrate the most foreign direct investment in manufacture, Brazil and México, follow two different strategies: Oriented to the primary market in the former, oriented to exports (seekers of efficiency) in the latter, which has modelled the productive structures of both countries and regions.

4. FDI and presence of Chinese companies in Latin America

According to Chen and Pérez Ludeña (2014), the dimensions of the reciprocal relations in terms of foreign direct investment are not comparable to the importance of the commercial link established by the two regions in the 21st Century. For example, for Latin America and the Caribbean, Europe is the origin of 40% of the capital received, while in Asia it does not reach 7%, and almost no data is available for China. Only in some countries such as Ecuador or, maybe, Venezuela, which receives relatively few investments from other origins, China has become in an important source of foreign direct investment. The United States and Europe are the main origins of capital in the majority of the countries. Also, the presence of Latin American countries as investors in China is even more marginal.

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CHART 22

Estimated flows of Chinese FDI into selected LAC countries, 1990-2012

(millions of dollars)

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

Source Economic Commission for Latin America and the Caribbean (ECLAC), based on official data, Thomson Reuters, FDI Markets, Heritage Foundation and information from enterprises.

Note na: not available.

The Chinese companies are firmly entering in the region, particularly since 2010 in a very recent process. China is a less important investor compared to the United States and the European Union, except for some countries such as Ecuador or Venezuela. It has a heavy presence in the oil and gas industry in Argentina, Brazil, Colombia, Ecuador and Venezuela. Its mining activity is concentrated in Peru but also in Brazil. Only in Brazil, China has an important presence apart from the natural resources, with some manufacturers and a big electrical company. There are also some important investments in the financial sector, only relevant presence among the services, supporting direct foreign investment operations or commerce with China. For their part, Chile and Mexico did not attract direct foreign investment substantially from China. In Chen and Pérez' view, totally shared by this consultant, China investments can be expected to continue growing in the future and flows from Latin America and the Caribbean to China could be produced.

According to Chen and Pérez Ludeña (2014), the importance of the commercial relations with China influences the nature of direct foreign investment projects from this origin. This is visible in the fact that some Chinese companies open commercial offices which, afterwards, grow to become manufacturing operations that assemble parts imported from China. Besides, the Chinese investments in finances – the only ones identified as relevant among the services – are carried out to facilitate commercial operations. Even the investments in natural resources are usually linked to the importing agents in China as investors in mining or oil in this region.

Chen and Pérez (2014) offer some estimates on the investments of Chinese companies, as most of them come through the financial centres and, therefore, do not enter the balance of payments as an incoming flow from China. Such estimations suggest that the Chinese companies invested some \$10 billion per year in the period 2010-2012, which resulted in a significant presence. Even far away from the main investors in the region, the importance of the Chinese companies in the mining and oil industries is rather notorious. The authors conclude that the Chinese investment

projects in Latin America and the Caribbean not always were successful. The Chinese enterprises are still studying a new ground and learning about it.

Presence of Chinese enterprises in Mexico and Central America

Mexico: Dussel (2014) points out that the direct foreign investment of China in Mexico is relatively marginal only since 2010, mostly for mining projects, followed by commerce and, in a lesser volume, manufactures. For the case study, the selected companies are Huawei and Giant Motors – a Mexican-capital company that processes Chinese vehicles.

In Central America, only Panama and Costa Rica seem to be able to sustain any type of important relation with the Chinese companies. Also, the links of the other Central American countries that have given priority to their relation with Taiwan, recognize it diplomatically and have signed commercial agreements with it is almost inexistent.

Presence of Chinese companies in South America

The case of Brazil appears more interesting than the Mexican one as a receptor of direct foreign investment from China. It is probable that some Chinese companies are using this Latin American country as a first step toward their process of transnational expansion, or in their process of production expansion beyond borders. The automobile producer Chery and the electronic enterprise Lenovo, for instance, have chosen this country with the traditional logic of the market search. Meanwhile, the company selected by Freita et al. (2014), the electricity firm State Grid, is one of the biggest of its industry in the world thanks to its extended presence in China.

Concerning mid-sized economies, most of the cases identified by Dussel (2014) belong to the area of natural resources, such as oil producers CNOOC y Sinopec in Argentina, where the case of Huawei is studied as well, and the cases of Chinalco and China Fishery Group in Peru.

Chinese companies in the Caribbean

We identify no enterprise with productive activity in the Caribbean islands, although the relation of the Dominican Republic and Cuba with the Chinese companies is worth studying. Special attention deserve the particular way in which the Chinese companies use the fiscal paradise of the Caribbean as platforms for the entrance of capital into Latin America and the Caribbean.

VI. POLICIES TO PROMOTE CHINESE INVESTMENTS FOR THE SUPPORT OF FINANCING FOR DEVELOPMENT IN LAC

The countries determine (implicitly or explicitly) a development strategy that allocates certain role to foreign capital, from which a series of instruments are available, and that imply specific conditions for the subsidiaries of foreign companies. This general framework determines the differences between countries in terms of the way in which they deal with foreign investment, much more than the specific bond with the country in which the capital originates (beyond the possibility of signing bilateral treaties for investment protection). Thus, and in order to review the current and strategic framework towards Chinese companies, it is necessary to bear in mind the landscape in terms of the treatment of foreign capital in general.

In this connection, the following typology of instruments is used:

- a. **Entering conditions:** obligation of co-participation ET-EN. Limitation of the activities in which the ET can participate. Obligatory nature of Location of investment in some region of the country. It can be negative or positive.
- b. **Performance requirements:** Local contents or others. It may be in exchange for incentives.
- c. **Competence via rules:** business environment, investment Law, Duty Free Areas not specifically assigned to certain companies, National Treatment in general, or specific regulations to guarantee stability (Type DL600 Chi or Col Contracts).
- d. **Competence via incentives:** Free Trade Areas assigned to companies, customized tax exonerations, contributions in infrastructures.
- e. **Specific incentives for sectors:** for instance, Hydrocarbons, Mining, High technology, Automotive, etc. Important sectoral policies that could serve to determine or attract FDI.
- f. **Negotiation processes between State and ET**
- g. **Promotion agencies**
- h. **International agreements:** Free trade agreements, Agreements for the Promotion and Reciprocal Protection of Investments (APPRIs).
- i. **Hostile environment:** expropriations, nationalizations, explicit preference for national capital companies in policies and public actions.

When this typology is applied to the analysis of national policies carried out in the 21st Century by a sample of Latin American countries, we are able to summarize the results in the following table:

	Arg	Bol	Bra	Chi	Col	C Rica	Ecu	Mex	Pan	Par	Per	Uru	Ven
Entering conditions	no	no	no	no	no	no	no	no	no	no	no	no	no
Performance requirements			x			x	x						
Competence via rules		x		x	x		x	x	x	x	x	x	
Competence via incentives			x	x					x		x	x	
Sectoral incentives	x		x	x		x	x	x				x	

	Arg	Bol	Bra	Chi	Col	C Rica	Ecu	Mex	Pan	Par	Per	Uru	Ven
Negotiation processes			x			x							
Promotion agency	x	x	x	x	x	x	x	x	x	x	x	x	
International agreements				x	x			x	x		x	x	
Hostile environment	x												x

Based on this study of instruments applied, we can deduce that although several governments frequently have highly anti-imperialistic discourses, there is no practical application of regimes that can be considered Nationalistic-Expropriator or anti-systemic, with the exception of some specific actions. Not even less radical versions, such as the ones that used to be frequent in the Latin America of the 1970s, classifiable as unilateral Regulator, which do not accept the national treatment of foreign capital.

- Three countries are carrying out expropriation processes, although they are specific, and only in two of them a "hostile environment" can be observed, reported on several reports. They are: Argentina and Venezuela. Likewise, Bolivia also practiced somewhat "hostile" expropriations, but in all three cases they ended up negotiating the payment for the capital of the expropriated companies.
- The regimes of most countries could be classified as predominantly liberal and/or promoters of foreign capital without the application of very relevant conditions. They are: Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Two regimes also share the liberal predominance, but apply some particular incentives in order to get certain types of FDI, and qualify as promoters, but with negotiation of conditions: it is clearly made by Costa Rica, which seeks HT investors, and grants ZF with local content formula; while Panama is a better case study. There may be negotiation processes, at least at the City of Knowledge (1998), and a special AEEPP economic area (2004).
- Brazil and Ecuador are classified as regulators and negotiators, but with guarantees for foreign capital. This is clear in Brazil. There are doubts in Ecuador on the application of sectoral policies, which are applied by Brazil with heavy incentives. In both cases, national treatment for ETs is observed.

For these reasons, development strategies (implicitly or explicitly) imply different attitudes for foreign capital, which at the same time has certain coincidences with the guidelines in the matter of trade policies: the countries that have free trade agreements with the US, have them because their development strategy has an evident liberal sublayer, in the sense of a low intervention of the State in the creation of the productive structure, thus showing a generalized opening towards the reception of FDI. These countries have a tendency to align themselves with the Pacific Alliance, with the leadership of Mexico and Chile. The remaining Latin American countries have a tendency to align themselves with the extended MERCOSUR, which implies the search for an international insertion strategy that is more autonomous in relation to the US, in tension with governments and private agents, under the leadership of Brazil.

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The countries with mainly liberal regimes inserted in MERCOSUR, such as Paraguay and Uruguay, have a particular problem, a problem they probably share with other small economies that move in the same space or aspire to do so. This is important because small countries need foreign trade to solve minimum scale problems for the efficiency of almost any economic activity, whether it is industrial or modern services. When integration processes do not provide these markets in a stable manner, neither do they advance in significant openings to third parties, it is only natural that they should claim the possibility of extending their international commercial space, which collides with the conception of Customs Union. Something similar happens with their capability to attract investment, as they cannot offer an internal market, or easy access to their partners' markets, and requires the offering of regulations or other incentives, which usually is not understood by relatively larger partners.

Within a context of growing South-South relation, it can be expected that Chinese FDI in LAC will continue to grow, and it can also be expected that Latin America companies would start to make large-scale investments in the Chinese economy. LAC governments should support Chinese companies in the diversification of their activities, so that their presence would contribute to the productive diversification and to an increase in productivity. A relevant peculiarity, however, is the predominance of State-owned Chinese enterprises (SOEs) investing in infrastructure, finances, and mining. In these cases, the development of a fluent political bond represents an important determining factor.

Proper planning systems are required to identify the needs of infrastructure in the future medium and long term, so as to generate social and political consensus on the projects to be promoted, which offers an inter-temporal security framework that could be what Chinese companies require to participate on these investments.

In the same way applied to promote FDI coming from other countries, aiming at development objectives, the national strategy should be able to select sectors and subsidiaries where there is an interest to attract capital, designing a proper incentives structure. Most countries have specialized institutions for the promotion and management of FDI (Agencies), but in general they cannot fully comply with the necessary functions:

- Identification of potential investors that would be associated to the objectives of the development strategy, which might include the installation of "antennas" or branches of such agency in the countries in which the targeting is being made, in this case, China.
- Collaborate in the management of the authorizations and in the insertion of these investments in the sectoral strategies defined by the corresponding Ministries.
- Collaborate in the management of the benefits deriving from the promotional frameworks applied by the recipient State in its different levels: central, provincial or municipal, trying to bring coherence to the scheme, particularly counselling high-level political decision-making people in charge of negotiating with the companies.
- Carry out the follow-up, or "*after care*", once investments are made, with the double objective of verifying the compliance with commitments, as well as to facilitate the link of entering investors with the public bodies in charge of regulating the activity of the companies.

If the idea is to promote the entry of high-tech Chinese companies, the key is in the local efforts for training internationally competitive human resources. In these cases, the efforts to generate local capabilities merge with the efforts that produce advantages for the attraction of FDI. In this sense, every progress that can be made in scientific and technological cooperation between the

institutions of Latin American and Caribbean countries and China merge in the same objective, especially when the geographic and cultural gap is as large as in the case of these two regions.

Although it may seem very difficult and no evidence of local participation in international chains of supplies organized by Chinese ETs can be found, aimed at exporting the final products to China or to the developed world (which one could call global value chains), with the exception of intensive resources in natural resources, the deepening of the regional integration could give way to Chinese companies organizing at least some parts of the regional chains of value. Some examples to illustrate this idea:

- a) The presence of companies such as Huawei and ZTE as providers of telecommunication systems in several countries might generate some local activities that would take the shape of regional chains of value. The role of public purchases could be an instrument to actively foster these chains.
- b) The arrival of some Chinese automotive companies in MERCOSUR countries, with assembly plants in more than one country, could attract the presence of Chinese auto-parts companies, or create local supply networks in China, which could enter similar circuits to those already being made by the ETS of the sector in the sub-region. The automotive policy in the framework of MERCOSUR, which implies the regulation of quantities in the exchange of vehicles and auto-parts, as well as the regional content to be able to access the intra-zone trade, is a key instrument to promote this type of facilities.
- c) There is also some interesting evidence with Chinese subsidiaries in chemical and rubber-plastic industries in the framework of MERCOSUR, with the objective of obtaining products such as textile fibres, sports shoes soles, or components for food industries, based on the recycling of industrial and family residues, or the transformation of agricultural products through the application of bio-technological procedures in high-value supplies for other industries. The ease of mobilization of supplies across borders, which implies the free mobility of goods in general or specific mechanisms for this type of trade, is a necessary policy so that this type of networks can be established. There is the possibility of finding more facilities for this kind of businesses to be established between Uruguay and Paraguay, with respect to chains mainly created in Brazil, than for the link with the case of Argentina, where commercial obstacles have been somewhat frequent in recent years.

In another relevant dimension, the increase in the relations with China will probably intensify migratory flows, which today are already relevant and can be publicly seen with the presence of small Chinese entrepreneurs in retail trade, in several Latin American cities. If this happens, the establishment of networks could multiply the "temporary" movements of people associated to tourism, which could be an aspect of great importance for all economies, but especially for those of the Caribbean. Promoting the arrival of Chinese investors in this sector could facilitate the reduction of cultural distances and of marketing operations in China. The increase in air flights frequency and the reduction of the costs associated to it might facilitate the explosion of tourism services in both directions.

A particular aspect is the promotion of FDI outflows from Latin American countries to China. The installation of diplomatic representations capable of working as promotion agencies (of the type business "antennas") in this country may facilitate the access to a complex environment to do business. The public impulse to the creation of bilateral entrepreneurial chambers between China and local entrepreneurs might facilitate the exchanging of experiences and the ease of access.

VII. IDENTIFICATION OF NEW COOPERATION AREAS BETWEEN CHINA AND LAC AND SUGGESTIONS TO PROMOTE THEM

On the current situation of cooperation between LAC countries and China

In order to propose cooperation areas, it seems necessary to, in the first place, know what is the bilateral reality, what type of cooperation projects has China supported to favour relations with some LAC countries.

In the multilateral framework, in light of China's initiative and eventually of some CELAC countries, a series of forums have been created: of Ministers of Agriculture, of Youth, of Science and Technology, think-tanks, the Friendship meeting between Civil Organizations, the China-Latin America Entrepreneurial Summit, the Economic and Commercial Forum, etc.; which explicitly, and without setting any global priorities, are setting the bearing of the Agenda.

As said before, no published material has been found with a monitoring or evaluation data of what has happened in recent years in terms of the cooperation between China and LAC countries. However, some studies might be useful to define priorities of cooperation. In this regard, referring to the link between Eastern Asia and Latin America, the Forum for East Asia Latin American Cooperation (FOCALAE) could lead the debate on the organization of a cooperation program between both regions, setting priorities in several subjects. Besides subjects like food and energy security, this Forum has established several interesting points about why and how they should be included in the agenda of priorities for cooperation in four areas: i) trade and investments facilitation,⁹ ii) infrastructure, iii) science, technology and innovation, and iv) sustainable development (which includes green economy and climate change). Almost all proposals made in the framework of this Forum seem relevant, both because of their importance for the development of LAC, and for its potential feasibility as common areas of interest between both parties, for their treatment in the most restricted space only in China, which could allow for greater progress.

New areas for cooperation vis-à-vis the CELAC-China Cooperation Forum

From the meetings held in July in Brasilia, it was known that President Xi Jinping declared that China would collaborate closely with the Pro Tempore Secretariat (PPT) in the definition of the roadmap that will define the subject areas of the Forum; a process that is made in close collaboration between member States of CELAC and the counterpart, China. Likewise, the conduction of the First Meeting of the Forum was confirmed, in January 2015 in Beijing. This meeting will count on the participation of the Ministers of Foreign Affairs of the 33 member States of CELAC, and the Minister of Foreign Affairs of the People's Republic of China, Wang Yi. The gathering will also be attended by the Heads of State and Government of Costa Rica and Ecuador, in their role as Pro Tempore Chairmanship of current and future CELAC.

As preliminary subjects of interest for CELAC, it has been said that the PPT has indicated the following: training of human resources, scientific cooperation, innovative technology transfer, natural disasters, and agriculture, as well as economic and commercial subjects. China indicated it has no problem with this. Such selection, which properly summarizes the cooperation areas indicated by the national CELAC coordinators in successive meetings, seems apt and relevant, in accordance with the diagnosis made in previous paragraphs.

⁹ Concretely, several activities for exchange of information and dialogue are proposed about: i) opportunities and access conditions to markets, including information on trade regimes and investments, public, sanitary, and intellectual property contracting regulations, etc.; ii) policies to promote reciprocal trade and investments, in order to identify obstacles and needs in the matter of promotion of capability or institutional strengthening; iii) existing main initiatives for economic integration or that are being developed in both regions (RCEP, TPP, ASEAN Economic Community, Pacific Alliance, and extension of MERCOSUR, among others).

According to this declaration of the PPT, as well as to interests expressed by CELAC member States, a wide list of subjects and a series of action areas is opened, referring to sets of instruments that might be part of promotion strategies in each of the subjects mentioned. Many of them (not all) suggest action spaces for the promotion of each of the subjects in the agenda. For instance, cooperation for the development of infrastructures could include: exchanges for professional training in the areas of planning and engineering; generation of conditions for the application of technologies, which in this case most probably imply the transfer from China to LAC, and that allow for the development of the works; and exchange of information about current programs and their possibilities.¹⁰

Another relevant example is the area of Global Governance. In this matter, Chinese authorities have talked about the need for CELAC to be a voice that joins China's in the world. If we add to this the fact that China will become the biggest economy in the world within this five year period, both facts suggest China's interest in generating alliances with LAC as an opportunity for both voices to be heavily influential, at least in some subjects. If this were CELAC's will, a line of action in the area of Global Governance could be established with the aim of: A1 train personnel to properly manage LAC's joint proposals and the negotiation with China, investigate the conditions for the design of proposals in the framework of prospective studies on international economy, exchange of information to move forward in the creation of a common stance between LAC countries and China around several subjects related to, reforms to the international financial and monetary system, government of the trade system, regulations to foreign capital, etc.

Although several other subjects of the list obtained from the previous table could be tackled, the exercise could be too long and out of the reach of this phase of the work. For starters, the political decision logic should select some priority subjects, and then narrow more precise supplies about what type of things can be done. Considering the importance of the transformation of the productive structure to favour activities with more technological content and their diversification, as a necessary condition for development, some actions come up that might be considered a priority. Among them, and only as an example, the following could be mentioned:

- Priority in the education and training of human resources: FORUM OF UNIVERSITIES, systems of grants and scientific exchanges, encompassing not only hard sciences and technologies, but also social sciences. Knowledge about the Chinese society and the alternatives it offers seems too concentrated in very few people inside Latin American societies.
- Priority in the exchange of information and fostering of the link between Chinese and LAC Technology and Scientific Research Centres, from the discussion of results to the development of joint researches. Something like this seems to be happening in some countries in the area of agriculture, but it appears to be essential to have it at least in the areas of biotechnologies and electronics.
- Fostering of exchanges between societies to achieve the improvement of knowledge, study of cultural traditions and creation of mutual trust between the peoples. This consultant is under the impression that there are important affinities with Chinese culture and traditions in intellectual groups of LAC, which are not being properly developed or exploited in order to maximize the possibilities of generating a better fluency of exchanges.

¹⁰ In this regard, and in reference to FOCALAE, ECLAC 2013 proposes the "Presentation in FOCALAE of the different initiatives of infrastructure currently being made in Latin America (COSIPLAN/IIRSA and the Mesoamerica Project, among others), and examine the way in which FOCALAE Eastern Asia countries could support these initiatives, from the technical and financial point of view."

CONCLUSIONS AND RECOMMENDATIONS

Several reflections have been made in this study on the type of bond that could and should be promoted with China, in order to favour the development strategies of LAC countries. To this end, different sources have been reviewed and analyzed on the recent evolution of trade, foreign direct investments (FDI) and international cooperation, three policy spaces that lead to some conclusive ideas for the debate between SELA Member States.

First of all, in the matter of international trade integration, the analysis made in this document shows that, when a reflection is made on proper development policies in the current global situation and of the bond with China, there are several quite differentiated cases that make it hard to create a common position in terms of the degree of liberalization that is desirable in relation to country. While several countries have signed FTAs (Chile, Peru and Costa Rica), and some others will probably sign one, but can't do it due to conditions imposed by other agreements signed by them, others would be willing to open themselves more, although with certain regulations, or even with more defensive policies.

In this latter case, Mexico suffers dearly the Chinese competition in foreign markets and in its own (indicated by its growing trade deficit), suggesting a negotiation agenda with China, which has to include defensive measures.

On the other hand, several South American countries with a larger primary specialization, and thus more complementarity with China, increase their exports and their income, which allows for the invigoration of manufacturing production for their domestic markets and for the markets of the other countries of the region, along with the increase in imports from China. The intensification of the commercial link with China increases the specialization towards the intensive production of natural resources, but the increase of the income partially compensates this de-industrialization through the increase in intra-regional trade, with more manufacturing content.

These exchanges in more technologically complex goods allow for the generation of a counterweight to the Chinese demand for natural resources, partially balancing the structure of exports. For this reason, for these countries the use of the favourable external framework to stimulate commercial and productive integration mechanisms with its neighbours could be an essential element so that the positive effects may continue in the future.

But, as stated before, stimulating the intra-regional trade of goods with a higher technological content, promoting the creation of regional productive chains, fostering technological complementarities, and reducing structural and policy asymmetries, are elements that have been in LAC's negotiation agenda for quite some time now. Perhaps China's presence as a strong competitor in local productive sectors, causing more primary specialization, could be turned into an opportunity, taking advantage of the resources generated by that same intense relationship, so as to favour the improvement in the insertion of the region.

In this context, there are also significant differences between South American countries. Brazil, with a more complete industrial structure, has been directly affected by China's competition, but profits the most from the regional demand. Smaller, specialized economies, such as Uruguay, Paraguay, Bolivia or Ecuador, do not feel China's manufacturing competition so intensely, and although they align themselves in general with MERCOSUR's strategy, they can show a better disposition to sign commercial agreements that imply deeper liberalization processes with China. The case of Uruguay in particular, where trade with China is a key factor to explain its recent economic dynamics, and perhaps for the case of Ecuador, with a low current trade, but with some Chinese investments and

in a regional context (Andean Community), which mutates towards the Pacific Alliance (PA), an option that does not seem to match the strategic alternatives selected by this country.

Medium industry countries, such as Argentina or Colombia, have also been suffering the shocks of China's competition, although in a smaller number of markets, as their insertion with manufacturing exports that compete with China in the North American market is not significant. Although both choose different strategies (Argentina towards MERCOSUR, and more recently in a logic that trusts more its domestic market, Colombia bets on the Pacific Alliance) none of them seem to aim to deep liberalizations with this Asian country. In fact, Colombia is not participating yet in the macro Trans-Pacific Partnership (TPP), promoted by the United States.

In another case, Chile and Peru consolidate their position among the more opened countries, adding to their FTA with China, and in spite of its growing international insertion that depends on this Asian economy, its participation in the TPP. Among Central American and Caribbean countries, only the cases of Costa Rica and the Dominican Republic show a strong dynamics of trade with China, the former exporting high-tech manufactured goods and with a free trade agreement, and the latter with a more traditional insertion with mining products.

Several possible export opportunities are pointed out in the document by some LAC countries, both in goods and in services.

Secondly, when analyzing the instruments of the policies towards foreign capital, the conclusion is that the development strategies (implicitly or explicitly) imply different attitudes in relation to foreign capital, which at the same time has certain coincidences with the alignments in the matter of commercial policy. Countries with a FTA, particularly with the US, have them because their development strategy has a strong liberal sublayer, in the sense of a low State intervention in the creation of the productive structure and, thus, showing a generalized opening towards receiving FDI.

These countries have a tendency to align themselves with the Pacific Alliance, under the leadership of Mexico and Chile. The rest of the South American countries have a tendency to align themselves with the extended MERCOSUR, which implies a search for a strategy for a more autonomous international insertion in relation to the US, in tension with the governments and private agents, under the leadership of Brazil.

A special problem is suffered by the countries with mainly liberal regimes inserted in MERCOSUR, such as Paraguay and Uruguay; a problem probably shared with other small economies. In order to sustain their capability to attract investments, as they cannot offer a domestic market, or easy access to markets of their partners, they need to offer better rules and other incentives.

The observations made about the tendencies on the Chinese economy and the changes on its development model indicate that it can be expected that the FDI originated there will continue to grow in LAC, as well as it is possible that trans-Latin companies would start to invest in a large scale in the Chinese economy. LAC governments should help Chinese companies to diversify their activities, so that their presence would contribute to the productive diversification and to the increase in productivity in the region. A relevant particularity, however, is the predominance of State-owned Chinese companies investing on infrastructure, finances, and mining. In these cases, the development of a fluent political bond is an important determining factor.

In section V, there are some possible examples of areas that could be promoted to attract Chinese FDI aimed at development. In the matter of national policies, it is clear that in order to attract

quality FDI it is necessary to make very clear the development strategies, and allocate an important amount of resources in this direction. For instance, if the idea is to attract a Chinese FDI to sectors specialized in high technology (such as biotechnology or related to IT), it is necessary to have a high availability of qualified personnel, and good infrastructures in both dimensions, and the same conditions that apply to the "internal" development agenda. The committed support, through public programs aimed at the creation of regional chains of value may also be attractive. The availability of incentives systems and promotion Agencies that fulfill all of their functions are important contributing factors.

When the study refers to a joint regional agenda, particularly for a space as large CELAC's, although a deeper and better informed academic and political reflection is considered necessary to find potential spaces of common interest between categories of LAC countries in their relationship with China, from what has been presented it is pretty obvious that there are structural difficulties to get to common political proposals of CELAC member countries with respect to China, both in the matter of trade and in FDI.

However, there seem to be very interesting spaces for an organization such as SELA to join CELAC in the institutional organization of LAC and China cooperation, which agenda is just being drafted and, thus, the current times require the establishing of a system of priorities to integrate the agenda. These could be in line with some proposals made at FOCALAE, maybe more applicable when the relationship acquires a higher degree of "bilateral" treatment, if CELAC manages to designate one single voice to negotiate with one single partner, as in the case of China.

Areas are pointed out there that have much to do with commercial exchanges, such as food and energy security, but other four areas are established in particular, in which cooperation areas could be organized to look after the needs for mutual development (but particularly for LAC), and that could be included in the agenda of priorities, such as: trade facilitation, promotion of direct investments, physical infrastructure, science, technology and infrastructure; and sustainable development.

The document intends to organize the action subjects and areas which, up until now, seem to have been expressed as priorities, both by CELAC countries and by the Chinese government, in an attempt to organize the debate. In this context, some examples of subjects that would turn out to be priorities are highlighted. The idea is that future readings of this document as a whole (and of other materials that refer to the strategic alternatives of LAC countries in relation to China), contribute to the necessary reflection for the selection of new subjects and instruments, and in their classification in a consistent strategy.

A N E X O I

ANEXO ESTADÍSTICO

CUADRO A1

Producto Interno Bruto Mundo, EUA, China y América Latina

(Millones de dólares corrientes y en paridad de poder adquisitivo PPP)

	PIB MUNDO CORRIENTE	PIB MUNDO PPP	CHINA PIB CORR.	CHINA PIB PPP	EUA PIB	LAC PIB CORR	LAC PIB PPP
2010	64.019.535	75.099.378	5.930.393	10.039.901	14.958.300	4.931.687	6.448.548
2011	70.895.760	79.381.105	7.321.986	11.189.111	15.533.825	5.640.507	6.873.875
2012	72.105.761	83.258.426	8.229.381	12.255.872	16.244.575	5.632.628	7.206.763
2013	73.982.138	86.995.061	9.181.377	13.395.396	16.799.700	5.775.307	7.512.705
2014	76.776.008	91.093.118	10.027.558	14.625.212	17.528.382	5.697.295	7.819.471
2015	81.009.256	96.256.321	10.940.377	15.968.430	18.365.803	5.961.059	8.194.217
2016	85.559.972	101.913.958	11.878.659	17.405.898	19.282.539	6.276.565	8.628.206
2017	90.546.742	108.015.602	12.908.392	18.954.512	20.239.777	6.620.066	9.104.578
2018	95.733.352	114.454.996	13.996.729	20.615.064	21.179.687	6.986.850	9.613.914
2019	100.846.638	121.264.783	14.839.242	22.406.036	22.089.994	7.363.371	10.161.725

Fuente: IMF WEO Database

56**CUADRO A2****China: Exportaciones a ALC y al Mundo, totales y 20 mayores productos, 2013***(Millones de dólares y %)*

Rank	CUCI rev2	Concepto	China a ALC	%	Acum. %	China al mundo	Rank	%ALC/ Total
	'TOTAL'	Todos los bienes	133.107	100,0		2.209.007		6,0%
1	'8710'	Opticos, aparatos	4.701	3,5	3,5	39.132	8	12,0%
2	'7643'	Televisión y radio, trasmisores	4.489	3,4	6,9	95.663	2	4,7%
3	'7649'	Partes y accesorios aparatos div. 76	4.268	3,2	10,1	62.073	5	6,9%
4	'7522'	Máquinas de procesamiento digital	3.433	2,6	12,7	115.011	1	3,0%
5	'8510'	Calzado	2.826	2,1	14,8	48.145	6	5,9%
6	'7599'	Partes y.. aparatos div. 75, 751 752	2.134	1,6	16,4	28.837	11	7,4%
7	'8310'	Valijas y carteras	1.939	1,5	17,9	27.841	12	7,0%
8	'7415'	Aparatos aire acondicionado	1.934	1,5	19,3	13.240	34	14,6%
9	'8459'	Vestimenta tejida no elástico	1.917	1,4	20,8	41.868	7	4,6%
10	'7849'	Otras partes vehículos secc. 722, 781-783	1.877	1,4	22,2	25.518	15	7,4%
11	'7932'	Barcos	1.872	1,4	23,6	21.687	24	8,6%
12	'7611'	Televisión, aparatos receptores	1.845	1,4	25,0	21.785	23	8,5%
13	'7851'	Motocicletas	1.764	1,3	26,3	5.821	81	30,3%
14	'8942'	Juguetes	1.651	1,2	27,5	26.213	14	6,3%
15	'7758'	Electro-termicas aplicaciones, otras	1.487	1,1	28,7	18.753	29	7,9%
16	'6531'	Tejidos de material sintético	1.465	1,1	29,8	11.806	37	12,4%
17	'8124'	Iluminación, otros aparatos	1.358	1,0	30,8	25.281	16	5,4%
18	'7810'	Automotores pasajeros (no buses)	1.286	1,0	31,7	#N/A	#N/A	#N/A
19	'6552'	Tejidos fibras no sintéticas	1.269	1,0	32,7	10.936	42	11,6%
20	'8939'	Artículos varios de plásticos	1.249	0,9	33,6	21.952	22	5,7%

Fuente: CEPALSTAT Comtrade

CUADRO A4

América del Sur (12 países): Exportaciones 20 mayores productos a China, 2013
(millones de dólares)

Ran k	Nombre producto	Export. AS a China	%	% acum,	Tasa anual 2013-2000	% china en exp. total por rubro
	Todos los bienes	85.445	100,0 %		28,0%	15,4%
1	Soja granos	21.009	24,6%	24,6%	27,8%	66,6%
2	Hierro mineral y concentrados	17.108	20,0%	44,6%	41,9%	61,0%
3	Cobre y sus aleaciones	10.788	12,6%	57,2%	29,0%	42,8%
4	Cobre mineral y concentrados	9.491	11,1%	68,3%	30,3%	34,1%
5	Petróleo	9.348	10,9%	79,3%	53,3%	16,5%
6	Pulpa de papel	2.426	2,8%	82,1%	21,4%	31,2%
7	Azucares	1.420	1,7%	83,8%	#N/A	14,9%
8	Harinas de carnes, pescado, etc.	1.128	1,3%	85,1%	9,4%	53,9%
9	Soja aceite	1.090	1,3%	86,4%	27,2%	17,6%
10	Cuero de bovinos y equinos	842	1,0%	87,4%	16,9%	21,0%
11	Hierro aleaciones	823	1,0%	88,3%	40,5%	24,9%
12	Hierro aglomerados	719	0,8%	89,2%	14,6%	10,7%
13	Otros desechos metálicos no ferrosos	670	0,8%	90,0%	28,5%	63,5%
14	Tabaco	562	0,7%	90,6%	22,1%	16,4%
15	Aves y sus vísceras comestibles	505	0,6%	91,2%	29,1%	6,2%
16	Metales preciosos extracción o concentrados	351	0,4%	91,6%	#N/A	17,5%
17	Frutas	317	0,4%	92,0%	42,8%	9,1%
18	Carne bovina	312	0,4%	92,4%	#N/A	3,5%
19	Zinc mineral y concentrados	263	0,3%	92,7%	#N/A	14,2%
20	Madera coníferas aserrada	243	0,3%	92,9%	29,6%	15,6%

Fuente: CEPALSTAT Comtrade

58**CUADRO A5**

MERCOSUR: Exportaciones de 20 mayores productos a China, 2013.

(Millones dólares y %)

Rango	Cod.	Producto	valor	%	Acum. %
	'TOTAL'		52.885	100,0	100,0
1	'2222'	Soja granos	21.009	39,7	39,7
2	'2815'	Hierro mineral y concentrados	15.246	28,8	68,6
3	'3330'	Petróleo	4.747	9,0	77,5
4	'0611'	Azúcares	1.420	2,7	80,2
5	'2517'	Pulpa de madera	1.366	2,6	82,8
6	'4232'	Aceite soja	1.090	2,1	84,9
7	'6114'	Cuero bovino o equino	791	1,5	86,4
8	'2816'	Hierro aglomerados	706	1,3	87,7
9	'6821'	Cobre y sus aleaciones	588	1,1	88,8
10	'1212'	Tabaco	562	1,1	89,9
11	'6716'	Ferro-aleaciones	497	0,9	90,8
12	'0114'	Aves	481	0,9	91,7
13	'0111'	Carne bovina	312	0,6	92,3
14	'2871'	Cobre mineral	288	0,5	92,8
15	'2516'	Pulpa madera	230	0,4	93,3
16	'0224'	Lácteos	202	0,4	93,7
17	'2631'	Algodón primario	196	0,4	94,0
18	'7924'	Aviones más de 15000 kg	183	0,3	94,4
19	'2731'	Piedras para construcción	182	0,3	94,7
20	'7923'	Aviones de 2000 kg a 15000 kg	124	0,2	95,0
Nota: incluye Argentina, Brasil, Paraguay y Uruguay					

Fuente: CEPALSTAT Comtrade

CUADRO A6

México: Exportaciones 20 mayores productos a China, 2013

(Millones de dólares y %)

Rango	Cod.	Producto	trade value	%	Acum. %
	'TOTAL'		6.467	100,0	100,0
1	'7810'	Automóviles (exc. buses)	1.386	21,4	21,4
2	'2871'	Cobre mineral y sus concentrados	1.184	18,3	39,7
3	'3330'	Petróleo	673	10,4	50,1
4	'2882'	Otros desechos de metales no ferrosos	444	6,9	57,0
5	'2815'	Hierro mineral y concentrados	352	5,5	62,4
6	'7849'	Otras partes y accesorios automóviles 722, 781-783	225	3,5	65,9
7	'7649'	Partes y accesorios aparatos 76	154	2,4	68,3
8	'2874'	Plomo	139	2,1	70,5
9	'5156'	Compuestos heterocíclicos	105	1,6	72,1
10	'5839'	Otros productos de polimerización y copolimerización	96	1,5	73,6
11	'6821'	Cobre y sus aleaciones	80	1,2	74,8
12	'2890'	Metales preciosos mineral y desechos	61	0,9	75,7
13	'7643'	Television, radio-broadcasting; transmisores, etc	57	0,9	76,6
14	'2631'	Algodón primario	48	0,7	77,4
15	'7139'	Partes de motores: 7132, 7133 and 7138	44	0,7	78,1
16	'2879'	Otros no ferrosos metales básicos	44	0,7	78,7
17	'2511'	Papel para reciclaje	42	0,6	79,4
18	'0814'	Harinas de animals	37	0,6	80,0
19	'2731'	Piedra para construcción	37	0,6	80,5
20	'7525'	Unidades periféricas, incluye de control	33	0,5	81,0

Fuente: CEPALSTAT Comtrade

60**CUADRO A7****Países de CELAC: resumen de exportaciones a China según categorías, 2013 o último año con datos***(Millones de dólares y porcentajes)*

Categ.	País	Valor	% export total	Productos (número luego del concepto es % sobre exp. País a China)
1	Brasil	46.026	19,2%	Soja granos 37, hierro 35, petróleo 9, azúcares 3, pulpa madera 3
2	Argentina	5.510	7,4%	Soja granos 50, petróleo 13, aceite soja 10, lácteos 2, mariscos 2, cuero y tabaco 2
2	Uruguay	1.291	14,4%	Soja granos 50, carne bov. 20, lácteos 5, lana 9, vísceras 2, cuero 2
2	Ecuador	569	2,3%	Petróleo 54, mariscos 13, harinas animales 11, no ferrosos 8, met prec 3
2	Venezuela (R.B. de)	476	0,5%	Datos de 2011 hierro y acero en diferentes versiones más de 90%
2	Bolivia (E. M. de)	320	2,7%	Metales preciosos 32, estaño 29, zinc 17, plomo 7,
2	Paraguay	57	0,6%	Metales no ferrosos 44, cueros 34, madera 8, desechos hierro 7, algodón 2
3	Chile	19.219	25,3%	Cobre 77, Pulpa madera 5, hierro 5, frutas 2, no ferrosos, madera, uvas, harinas 1
3	Perú	7.343	21,7%	Cobre 63, harinas animales 12, hierro 12, zinc 3, met prec 3, plomo 3
3	Colombia	5.102	9,0%	Petróleo 84, ferro aleaciones 6, no ferrosos 5, carbon 1
4	México	6.467	1,7%	Automóviles 22, Cobre 18, Petróleo 10
5	Costa Rica	378	3,3%	Microcircuitos 79, eléctricos 4, no ferrosos 3, pieles 3, azúcares 2, frutas preparadas 1
5	Guatemala	167	1,7%	Azúcar 92, polietileno 2, papel rec. 2, café 1
5	Honduras	123	2,7%	Oxidos metálicos 45, met. no ferrosos 18, met. preciosos 13, plomo 8
5	Panamá	51	6,0%	Met. no ferrosos 56, harinas 24, madera 5, cueros 4, madera y sus artículos 4
5	Nicaragua	21	0,5%	Madera 36, cueros 35, no ferrosos 6, polímeros 5, mariscos 5, vestimenta 5
5	El Salvador	5	0,1%	Papel recic. 39, no ferrosos 14, polimeros 12, polietileno 8
6	Dominicana	356	5,3%	Hierro y ferro aleaciones 53, cobre 28, no ferrosos 11, instrumentos médicos 2
6	Trinidad y Tobago	33	0,3%	Datos 2010: alcoholes 27, petroleo 26, no ferrosos 29, hierro y ac recic 8
6	Cuba	23	0,8%	Datos 2006: otros met. no ferrosos 82, instrumentos med. 12
6	Jamaica	15	0,9%	Automóviles 51, metal reciclable 39
6	Haití	s.d.		

Categ.	País	Valor	% export total	Productos (número luego del concepto es % sobre exp. País a China)
7	Dominica	20	54,1%	Partes máquinas 85, vidrios especiales 12
7	Belice	15	2,9%	Prod. no clasificados
7	Barbados	10	1,5%	Ortopédicas aplicaciones
7	Guyana	8	0,9%	Maderas
7	Granada	0	0,7%	Vestimenta
7	Antigua y Barbuda			
7	Bahamas			
7	San Cristóbal y Neves			
7	San Vicente y Granadinas			
7	Santa Lucía			
7	Surinam			

Fuente: elaboración propia sobre datos de CEPALSTAT/Comtrade

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