AN ANALYSIS OF THE COMMERCIAL RELATIONS BETWEEN LATIN AMERICA AND CHINA

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Abstract

In recent years, China has become a key trading partner for Latin America. The relations between Latin America and China have been increasing at such an accelerated rate that it has sparked controversy among academics, experts and government officials about the actual opportunity these relationships represent for Latin America and what magnitude and significance they could potentially have. This paper is an analysis of the international trade relations between Latin America and China since 1995. The focus is on the imports and exports of both regions, the slightly skewed trade balance based on China's demand for minerals, raw materials, and energy, the weight of China in Latin American trade and vice versa. Just the dynamism of China has changed the relative importance of major trading partners and traditional trading patterns. With China's increasing demand for materials, many Latin American countries fill a niche market which leads to large differences in their participation in exports. This paper will provide an analysis of the composition of trade by both region and product, the intensity and strengthening of these relationships through free trade treaties with various countries, the growth of China's market share in this region and the advantages and disadvantages for Latin America. Finally, the paper will focus on an analysis of the bilateral flows of foreign direct investment between the two regions, given that Latin American investment in China is very limited while direct investment in Latin America is becoming stronger, especially in national projects.

Acknowledgements

This paper was enabled by the financial support of the University of Economics, Prague. It is a part of the project „Comparing the economic impact of China on Latin America and Europe“ no. MF/F2/4/2011.

Key words:

International Trade, Latin America, China, Foreign Direct Investment, Exports, Imports.

Introduction

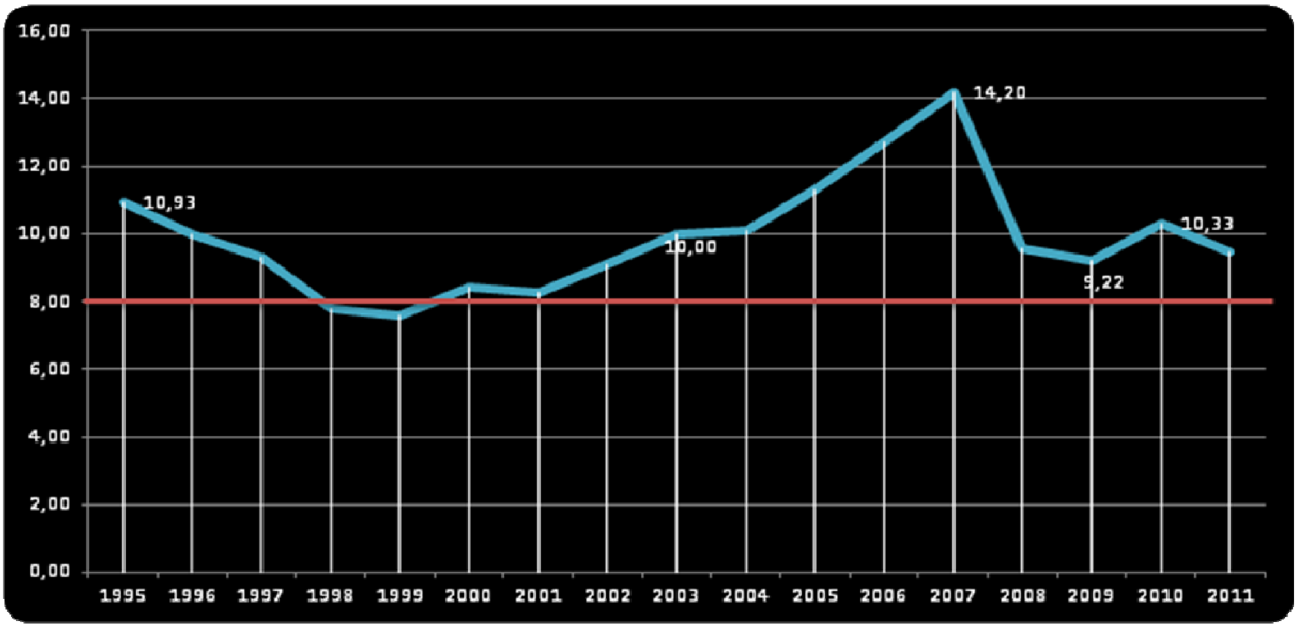
In recent years, a rapidly growing China has been searching for new markets and investment opportunities and increasing its presence in Latin America. With foreign direct investment, Latin America has strengthened and sustained economic growth over the last decade. In this same decade, trade between Latin America and China has grown tremendously due to China's increasingly high demand for natural resources which the relatively untapped markets in Latin America can provide, representing great investment opportunities. This article takes a look at economic developments in Latin America and China, their trade relations and discusses their potential for cooperation and the role China could play in Latin America.

China's economy

The People's Republic of China has an area of 9,596,961 km^2 and is the fourth largest country in the world. According to the latest data from July 2011, its population reached 1,336,718 people, giving China the largest population on the planet. As a combined result of labor force resources, and other policy changes, China has become the world's second largest economy according to the International Monetary Fund data and its gross domestic product in nominal terms. It took second place, behind the United States, in 2010, displacing Japan to third. China is the second largest exporter at $1.581 billion after the European Union and the third largest importer at $1.327 trillion after the United States and the European Union. China is one of the countries with the highest rate of economic growth, taking 6th place in the world in 2010 with a growth rate of 10.3%, although its per capita income only reached $7,600 to become 125th worldwide.

Economically, China has grown significantly in recent years. Since late 1970, China has gone from a closed, centrally planned economy to a market-oriented system. The reforms that have taken place in this country have been gradual and began with the phasing out of collectivized agriculture, the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the creation of a diversified banking system, and the rapid growth of the private sector, open trade and investment. As a result of these reforms and policies, China's economy has been growing by leaps and bounds since 1978. In the following chart we can see that China has achieved stable economic growth for more than ten consecutive years with a GDP above 8%.

Graph 1: GDP Growth in China (in%)



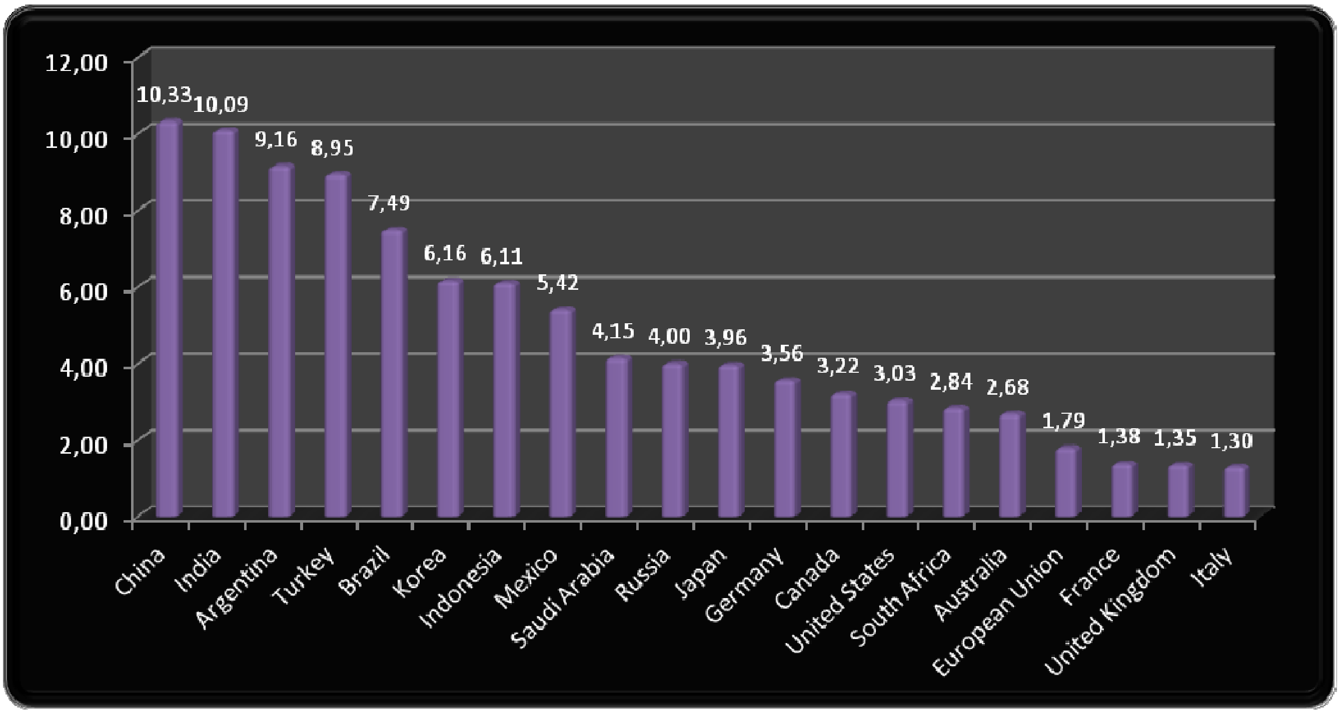
Source: IMF

The peak of China's GDP was in 2007, when it reached 14.20%. In 2008, as a result of the inflationary pressures generated by increases in food prices and the international economic downturn, GDP plummeted to 9.6%. At the same time, the diversification of China's trading partners gave them the necessary strength to ride out the mortgage crisis, namely Latin America and the European Union. The participation of China alone in Latin American economies is generating significant market integration.

In 2009, during the continuation of the global economic recession, China's economic growth dropped to 9.22% from the 9.6% of the previous year, showing that they were not immune to the crisis, yet they still maintained economic growth. That year the Managing Director of the International Monetary Fund (IMF), Dominique Strauss-Kahn, said that China would lead the world out of recession and play a central role in reforming and re-balancing the world economy in the long term.

In 2010 there was a quick upturn, when economic growth reached 10.3%. Figure 2 illustrates the economic growth of the G-20 as a comparison of the economic growth rate of other powers and emerging economies in 2010.

Graph 2: Gross Domestic Product (GDP) growth in the G-20 Countries in 2010 (in%)

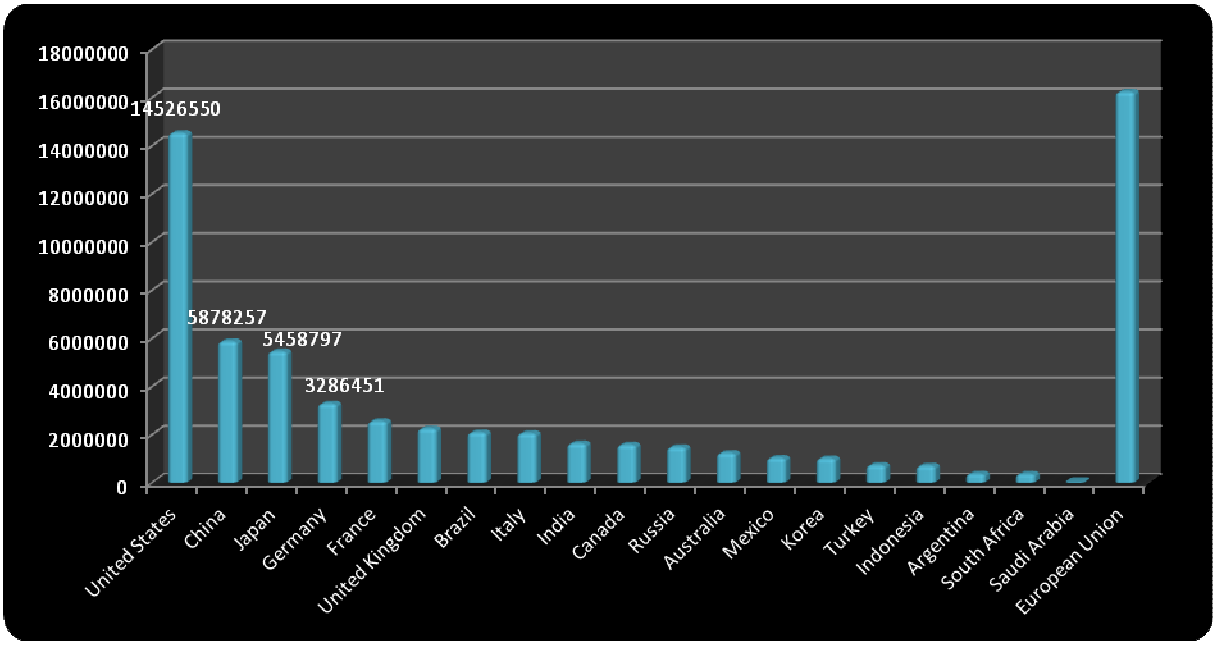


Source:IMF

The G-20 is composed of 8 countries that made up the global potential G-8 (Germany, Canada, the United States, France, Italy, Japan, the United Kingdom and Russia) and the top eleven emerging countries: Saudi Arabia, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, South Africa, South Korea, and Turkey. The twentieth member of the G-20 is the European Union, which is represented as a block through the rotating presidency of the Council of Ministers and the European Central Bank.

As observed in the above graph, the annual highest growth rate of 10.33% belongs to China, followed closely by India, Argentina, Turkey and Brazil. However, in terms of gross domestic product at nominal level, the following chart illustrates the major world powers. The U.S. maintains the top spot, at almost 2.5 times that of China, and is followed by Japan and Germany.

Graph 3: Gross Domestic Product in millions of dollars



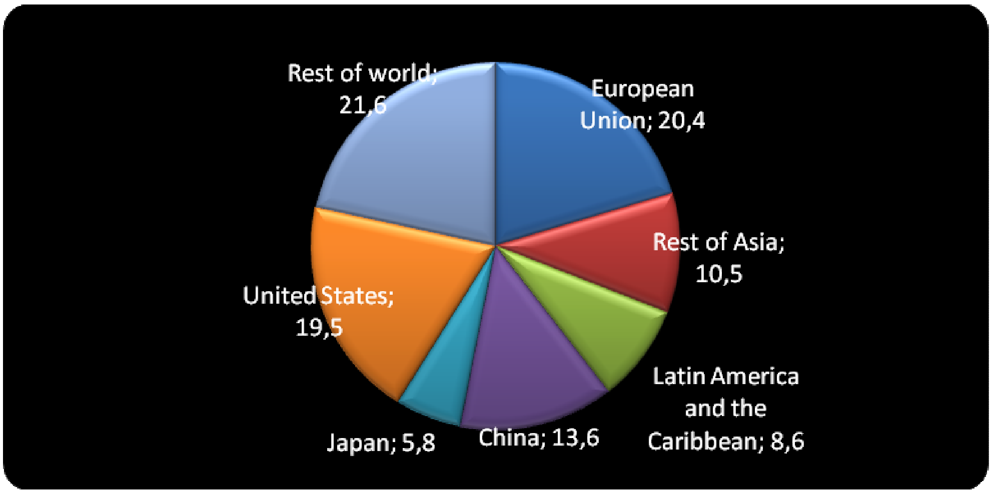
Source:IMF

This graph illustrates what was mentioned before, that China has surpassed Japan to become the second largest economy in the world, with a GDP total of $5.8bn compared to $5.4bn in Japan. According to IMF statistics, China was the seventh world economy ten years ago, which shows the rapid economic growth.

The International Monetary Fund report states that investment in manufacturing, the expansion of Chinese domestic industries, and the development of infrastructure were the leading contributors to economic growth in China. These activities, along with its foreign trade policy, led to an increase in exports and turned China into a production center for various multinationals attracted by a cheaper and larger labor source.

The weight of China in world GDP as a result of economic growth has increased its importance in terms of dynamics. Ten years ago, in 2000, their share amounted to 7.1% according to the IMF. Today, their share of world GDP in PPP is 13.6%, as illustrated in figure 4.

Graph 4: GDP based on PPP share of world total in 2010 (in%)



Source:IMF

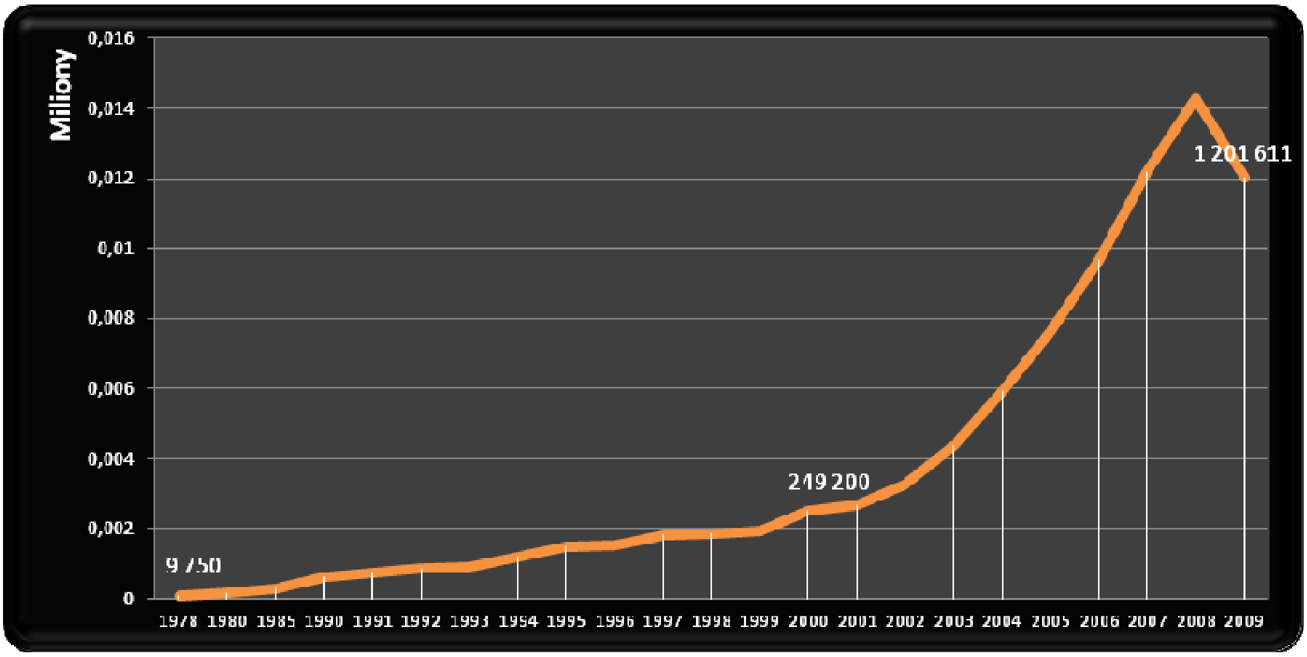
According to authors Robert Devlin, Antoni Estevadeordal and Andrés Rodriguez, the intense economic growth of China in recent years is due to three factors: favorable initial conditions for growth, structural reforms and the strategic features of policy implementation. The authors highlight the Chinese population, the largest in the world, as a favorable labor market with low wages, a disciplined and productive workforce in a very beneficial location. When it comes to structural reforms, the authors refer to the strategic developmental state policies paired with the various land and trade reforms, which allowed for an export economy, followed by unilateral tariff liberalization and adhesion to World Trade Organization (WTO) standards. The third factor, the strategic policy implementation, shows an economic strategy driven by long-range goals, policies and incentives at both the local and central level.

As for the composition of China's gross domestic product, the situation has changed considerably over the past thirty years. In the seventies, agriculture accounted for almost one third of the country's production, in 1978 it was 28.19% and in 2009 it had decreased to only 10.34% of GDP. Industry shifted from 23.94% in 1978 to 44% of GDP in 2009. The secondary sector of the Chinese economy accounted for 46.3% of GDP in the 70's and has remained practically constant throughout the last 40 years.

Chinese International Trade

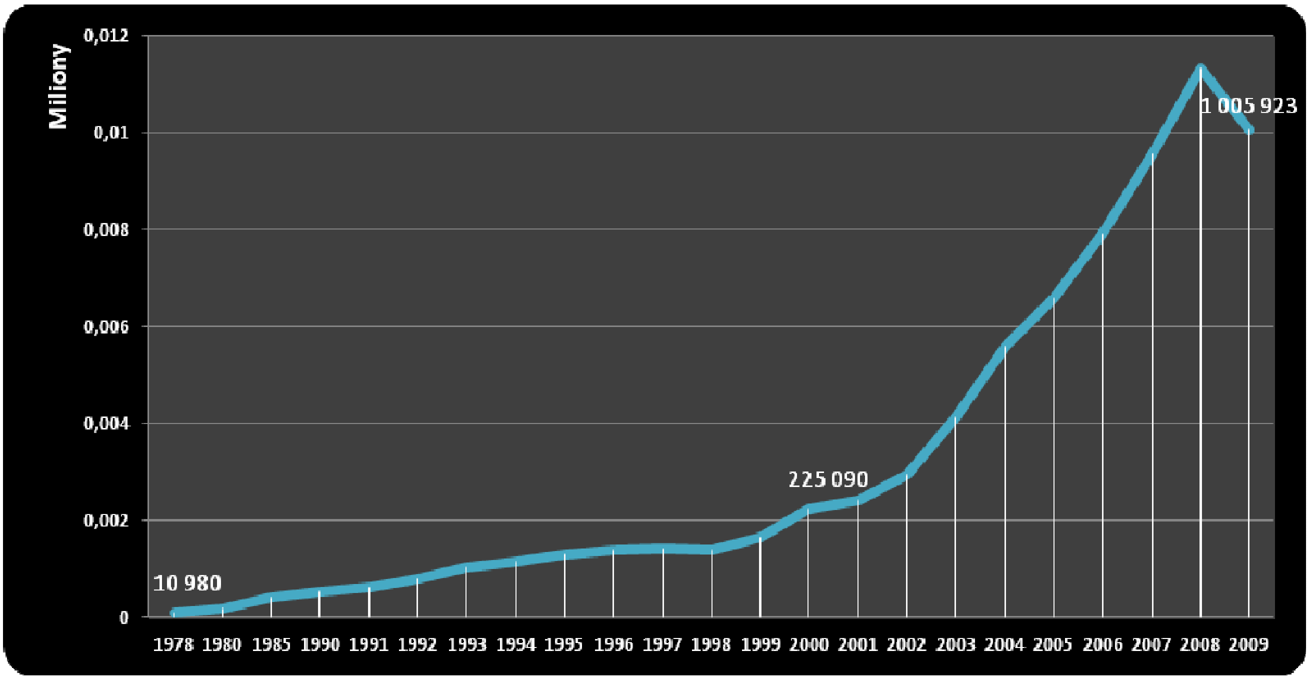
China has experienced a boom in exports in recent years. Its exports grew from $9.75 million in 1978 to $249.2 million in 2000 and reached $1.202 billion in 2009. Imports have kept pace with exports, rising from $10.98 million in 1978 to $225 million in 2000 to $1.006 trillion in 2009. The pace of growth is illustrated in the following graphs, compiled with the latest data from the National Bureau of Statistics of China:

Graph 5: Total value of exports from China from 1978 to 2009 (USD 100 million)



Source: National Bureau of Statistics of China

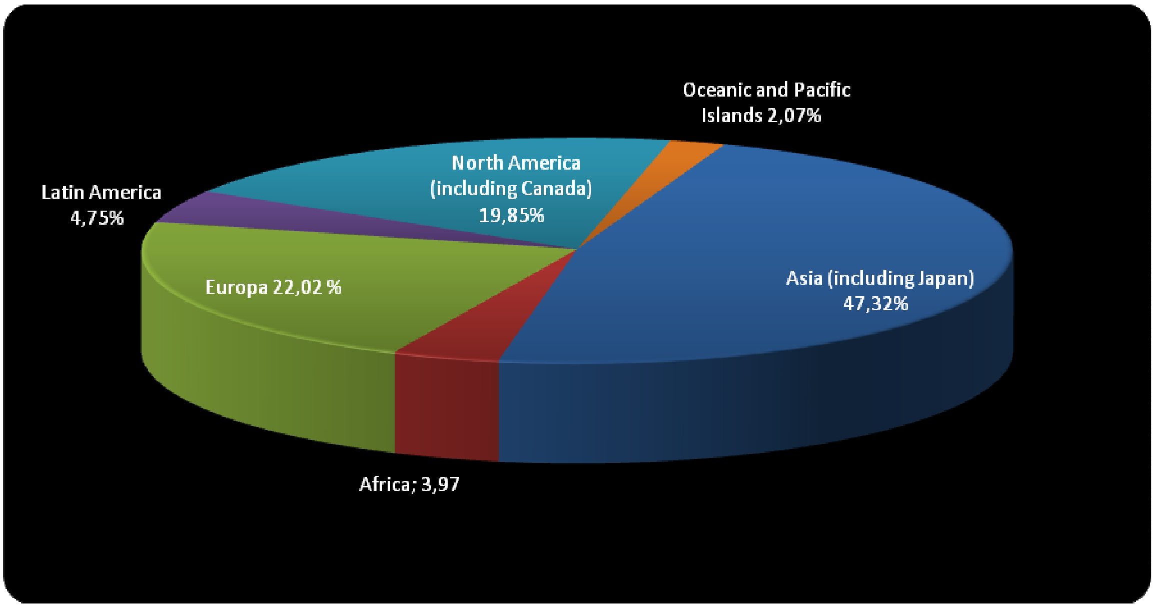
Graph 6: Total value of imports of China from 1978 to 2009 (USD 100 million)



Source: National Bureau of Statistics of China

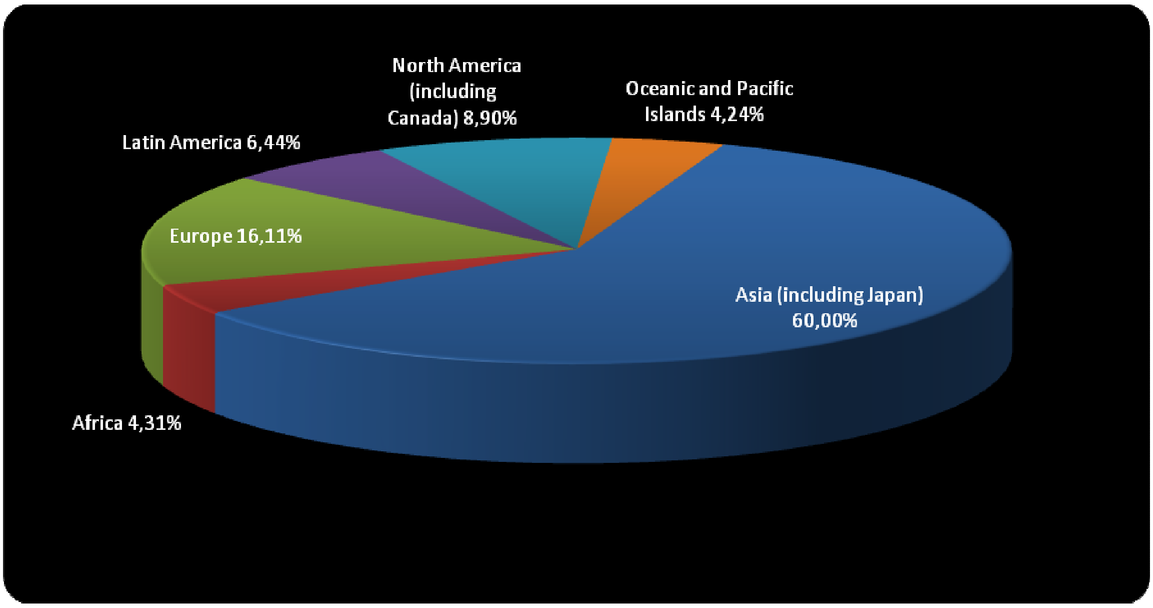
The structure of China's exports and imports by regions in 2009 according to total percentage is represented in the graph below. The export growth has been astounding, specifically in the case of its exports to the United States and Canada. In the 1980s, exports to the United States and Canada accounted for 8.7% of total exports. Currently it accounts for 19.85%. A similar case is that of Latin America, where Chinese exports jumped from 1.4% to 4.75%.

Graph 7: Direction of China's exports by region in 2009 (percentage share)



Source: National Bureau of Statistics of China

Graph 8: Direction of imports from China by region in 2009 (percentage share)

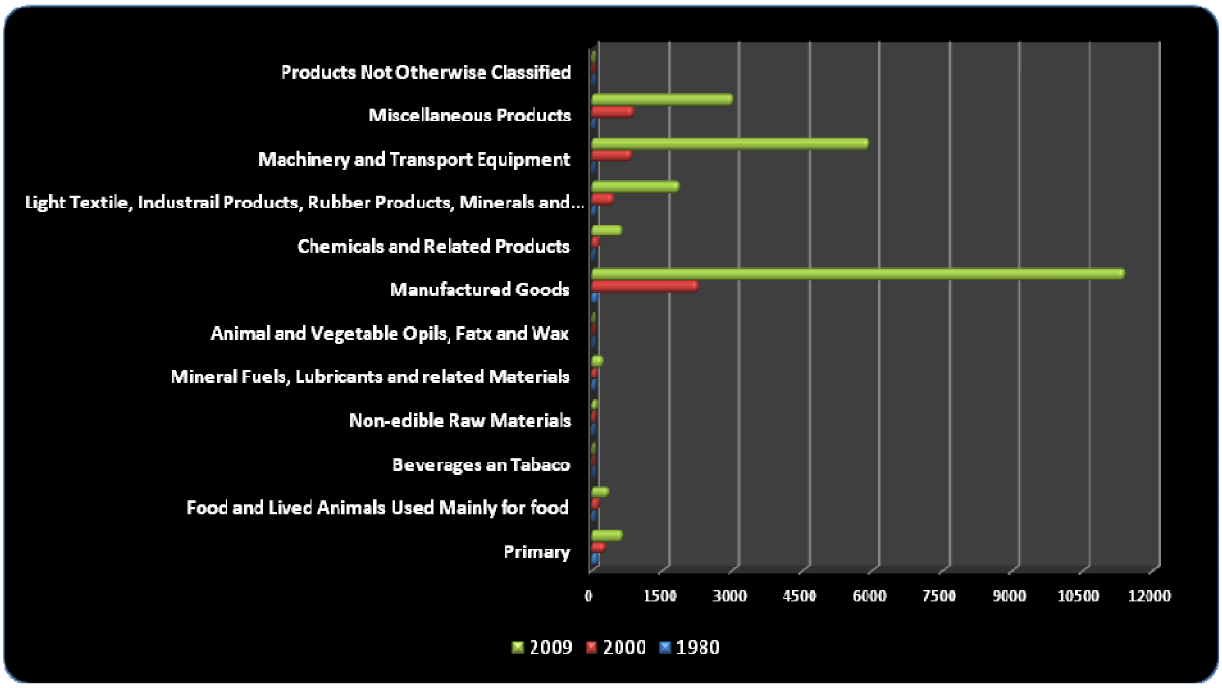


Source: National Bureau of Statistics of China

As observed in the graphs, the distribution of China's exports is primarily focused on Asia with 47.32%, and in 1994-1995 this percentage reached a high of 60%. China's trade industry is currently focusing on other markets. According to the latest data available from the National Institute of China, Europe is their second largest export market with 22% followed by the U.S. and Canada with 19.85%. The distribution of imports follows a similar path in the same order but with different values. The percentage has remained constant compared to the years 1994-1995, with Europe at 16.11% and North America representing 8.9% of total imports.

The impressive business and export growth in China and its expansion into international markets can be primarily attributed to three areas: manufacturer products, machinery and transport equipment, and various manufactured goods, which are the product categories which have grown the most according to data from the Institute of Statistics. This is illustrated graphically in figure 9:

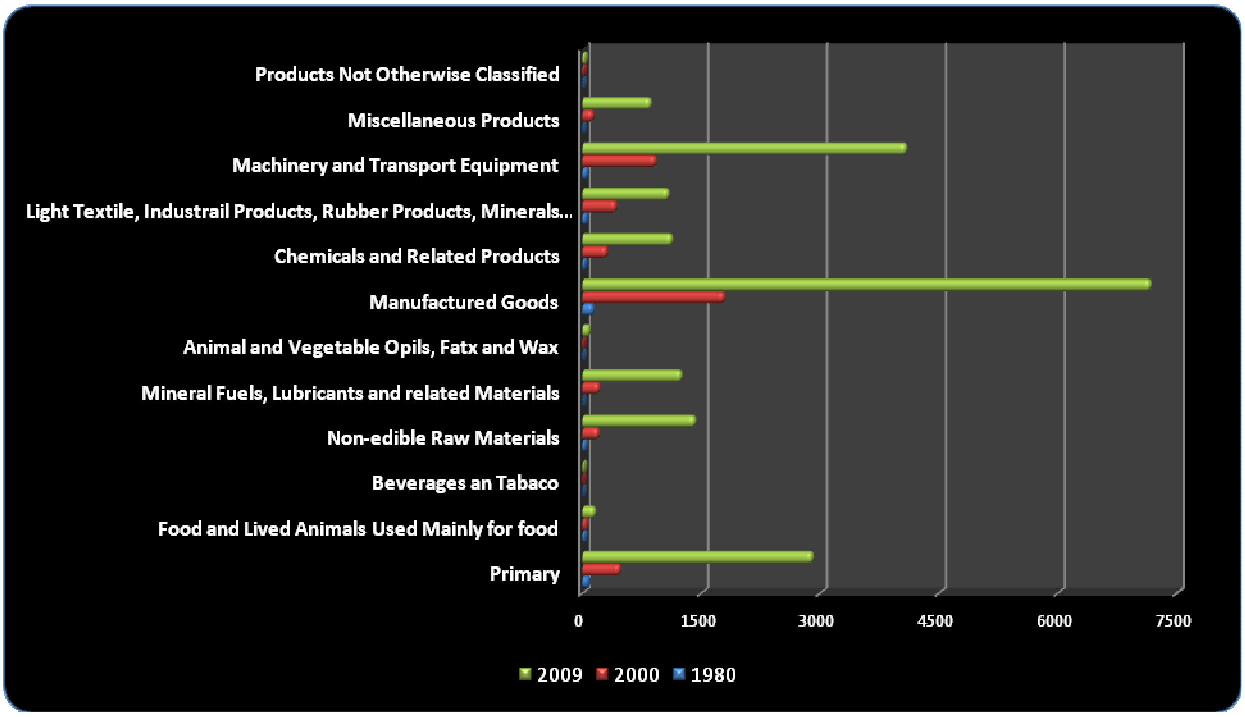
Graph 9: China´s Exports Value by Category of Commodities 1980-2009 (USD 100 million)



Source: National Bureau of Statistics of China

The increasing import trend is largely related to intra-industry trade which brings in the raw materials and mineral fuels used in the production of finished products which are subsequently exported. In the graph below we see the strongest sectors of import:

Graph 10: China´s Imports Value by Category of Commodities 1980-2009 (USD 100 million)

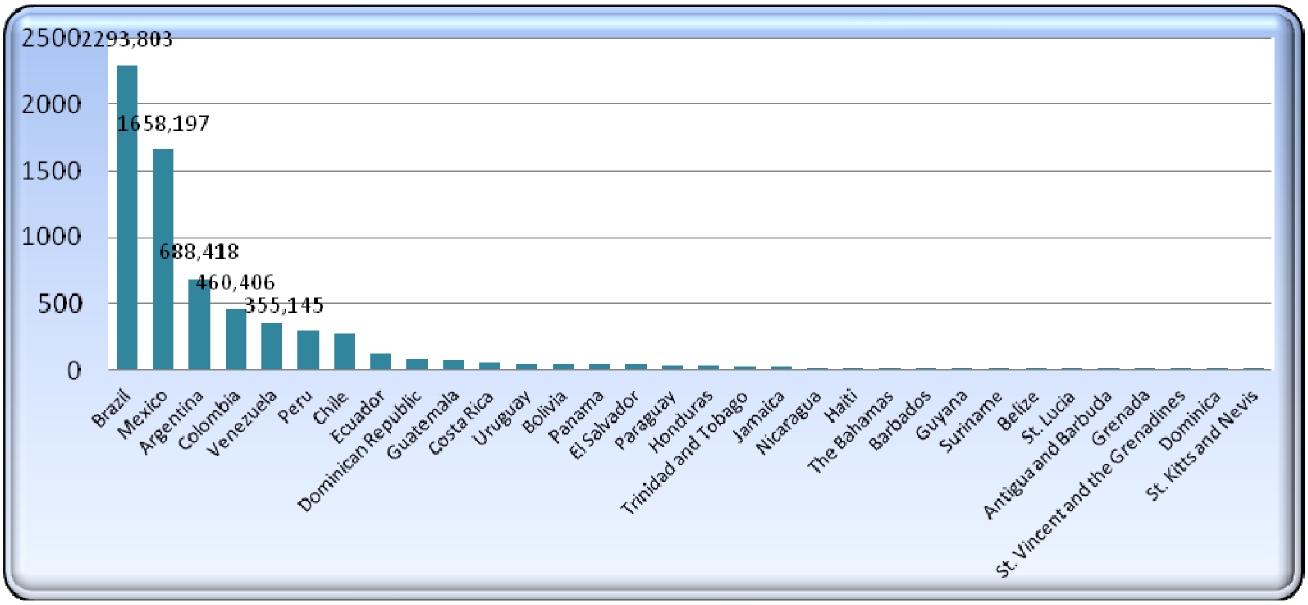


Source: National Bureau of Statistics of China

Overview of Latin America

According to The World Bank, the combined Latin American economy at market prices (purchasing power parity) is the 3rd largest and most powerful in the world at $6.7 billion. It is an economy based mostly on the primary / secondary sector. In recent years there have been great advances in political, economic and social development, producing a rapid development in virtually all countries. It has a stable financial system with relatively small, but well sanitized banks.

Graph 11: GDP of Latin American and Caribbean countries in 2011 (in PPP)



Source: Author's calculations based on ECLAC data

As shown in the Graph No. 11, the largest economy in Latin America is Brazil, with a GDP (PPP) of $2.293 billion according to data from 2011. It is the 7th largest in the world. It is included in BRICS (Brazil, Russia, India, China and South Africa), showing that by 2050 it will become, along with the United States, one of the five largest economies in the world with a nominal GDP of $11.366 trillion and GDP per capita of $49,759 annually.

The second largest regional economy is Mexico, with a GDP (PPP) of $ 1.658 billion (2011). Mexico is 11th in the world, but it was not initially included in BRICS, although it is estimated that by 2050 it will have a nominal GDP of $9.340 trillion (after Brazil) and a GDP per capita of $63,149 annually.The third regional economy is Argentina, with a GDP (PPP) of $688 billion (2011). Argentina, which is located 22nd in the world, is an active member of the G-20 along with Brazil and Mexico, which joins industrialized countries and major emerging countries. They are one of the major food exporters in the world.

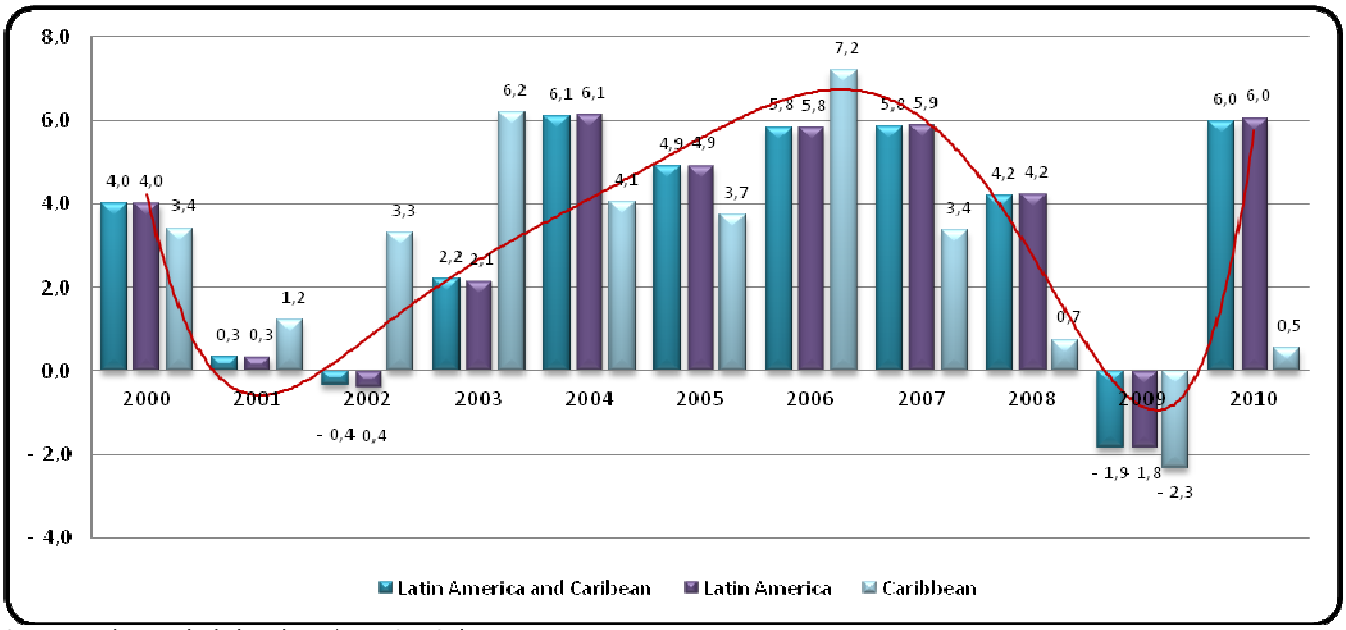
Colombia's economy is fourth in Latin America by IMF standards, with a GDP (PPP) of $ 460 billion (2011). Colombia has experienced an average annual growth of 5.5% since 2002. The main exports of Colombia are oil, with reserves estimated at 1,506 million barrels, which are developed by Ecopetrol (14%) and other corporations. The economy growing at the highest rate is Peru with an average of 7.5% per year, estimated by the IMF to reach 9% or 10% by 2012. Their 2011 GDP (PPP) is $299.648 billion.

Economy of Latin America, it stage after the international crisis

The economic crisis in the U.S. and Europe recently struck Latin America in late 2008. They saw a decline in global trade and capital flows.

In the period 2003-2008, Latin America and the Caribbean experienced a period of continuous expansion, unprecedented in 40 years, during which countries not only experienced a steady economic growth and lower poverty levels but also improved significant aspects of macroeconomic management and reduced external vulnerability. This period of growth ended abruptly in 2008 following a number of external shocks. Among them, the most significant was the collapse of the financial sector in industrialized countries in late 2008. This expanded rapidly around the world and caused one of the worst international economic crises in over half a century, with serious consequences for Latin America and the Caribbean. Most countries in the region had been prepared through political policy to face the adverse consequences of a marked economic downturn with increased foreign exchange reserves, fiscal surpluses and reduction of external debt. However, they were not immune to external shocks such as the drastic reduction of trade and investment flows and the rapid deterioration of financing conditions in international markets. As a result, the region experienced negative growth in 2009. We can illustrate this information graphically:

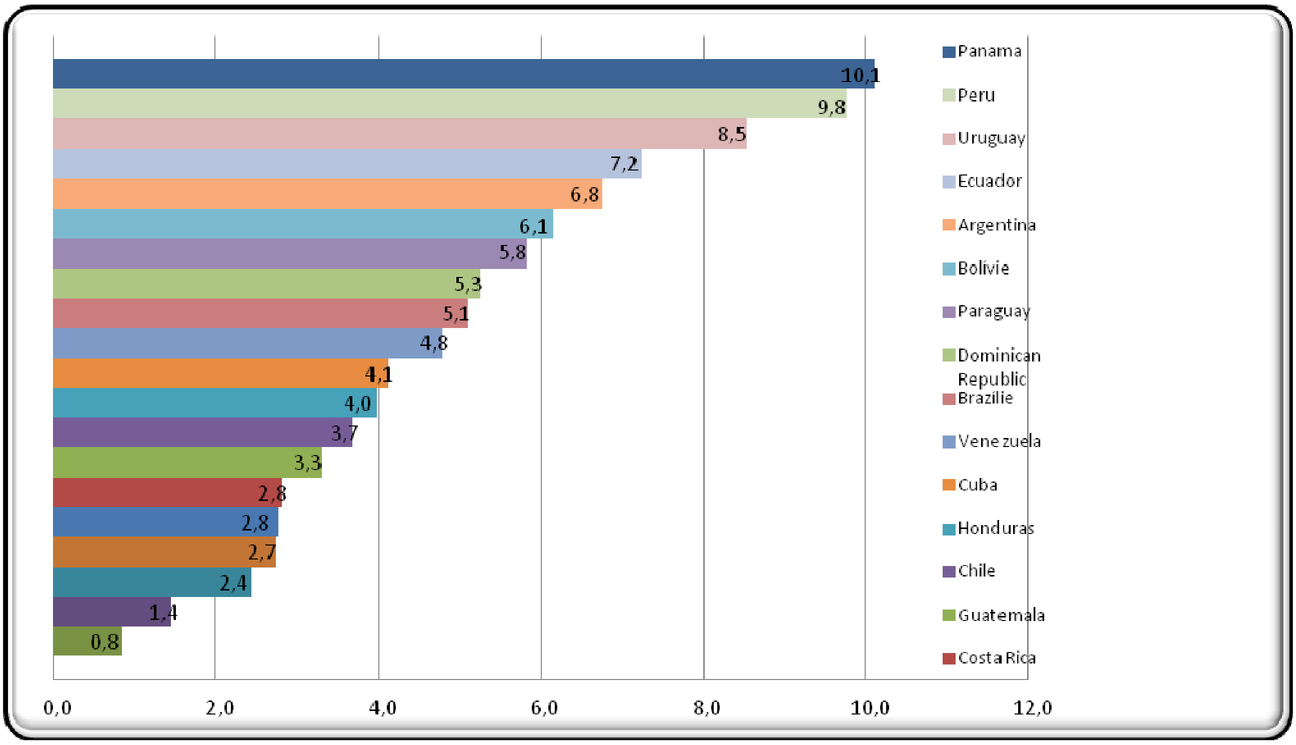
Graph 12: Economic growth in Latin America and the Caribbean GDP: 2002-2010



Source: Author's calculations based on ECLAC data

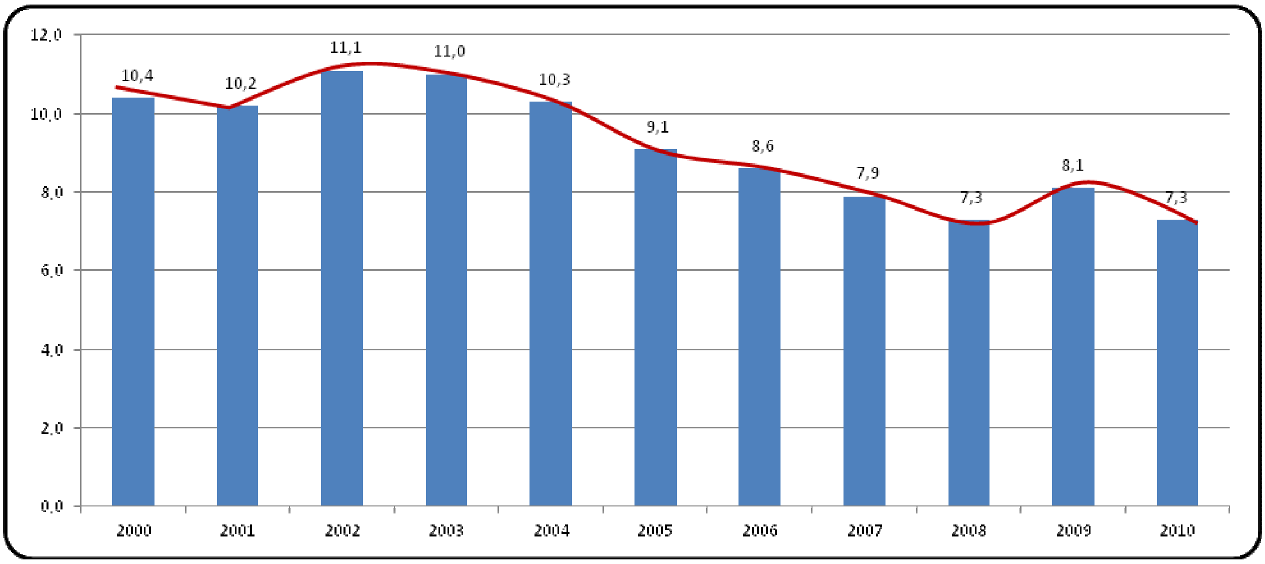
As shown, there was growth in Latin America for six years without interruption, then contracted 1.9% in 2009, according to data from the Economic Commission for Latin America and the Caribbean. This decline represents a reduction of per capita GDP of about 3.1% and a negative impact on the labor market. The following graph shows the economic growth of the fifteen Latin American countries selected for this analysis. In 2008 the highest growth was Panama with 10.1%, followed by Peru and Uruguay with 9.8 and 8.5% respectively. Of the 15 selected cases the lowest GDP is 0.8% and corresponds to the country's poorest region of Haiti.

Graph 13: GDP Growth in 2008 (in %)



Source: Author's calculations based on ECLAC data

Graph 14: Unemployment rate in Latin America and the Caribbean (in %)

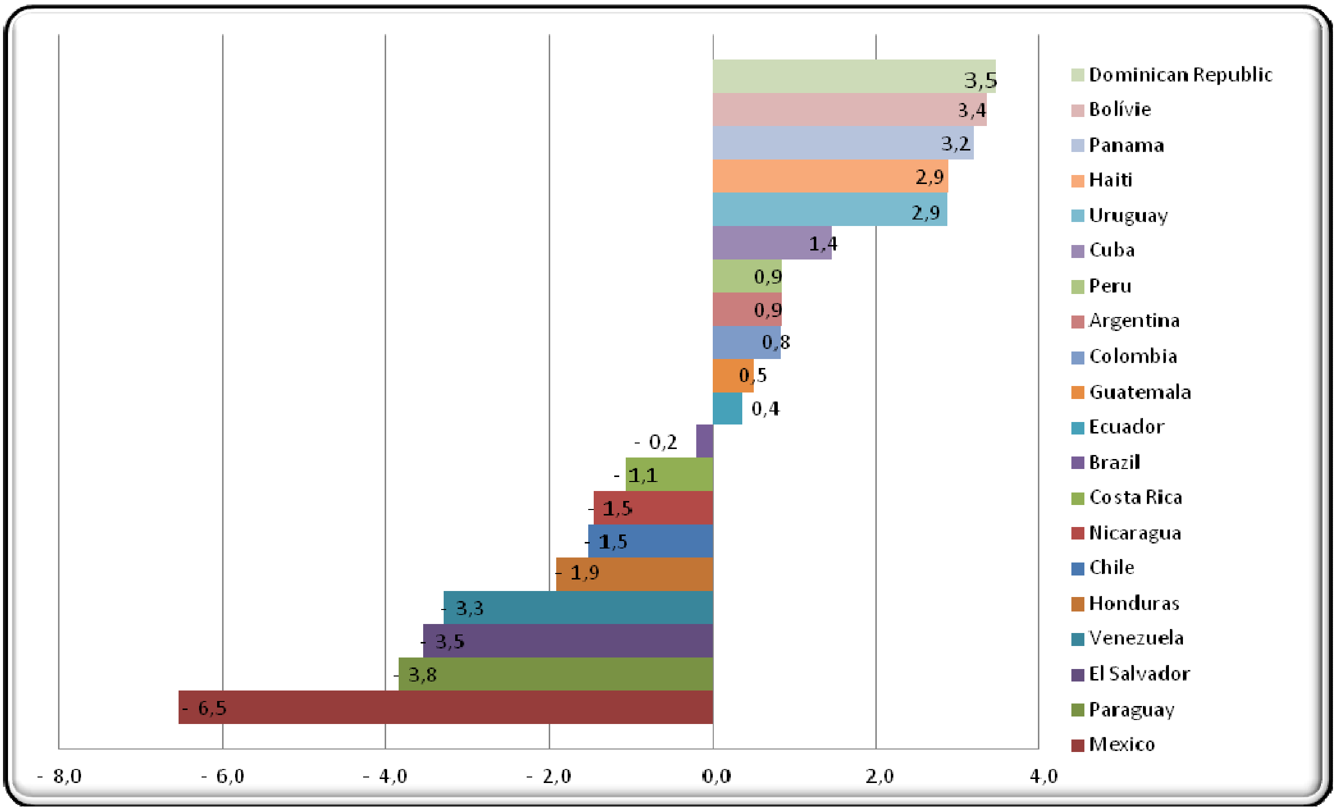


Source: Author's calculations based on ECLAC data

In the graph 14 the negative impact on the labor market from the economic crisis is visible, which fluctuated from 7.3% in 2008 to 8.1% in 2009 back to 7.3% in 2010. The country affected the most, according to the ECLAC economic data, was The Bahamas where unemployment increased 5.5 points from 8.7% to 14.2%, followed by Belize, Costa Rica, Nicaragua and Barbados. Mexico was not far behind with an increase of 1.7 points, from 4.9% to 6.6%. Among the South American countries, Chile's unemployment rate increased 1.9 points, Ecuador and Colombia increased 1.2 points in the previous year, and while in contrast, Uruguay reduced its unemployment rate by 0.3 points to 7.6% in 2009.

In the graph 15 represents the economic growth of the 15 sample Latin American countries in the year 2009, when the effects of the global economic crisis were felt most. As seen, Mexico and Central America paid higher costs because of their interdependence and strong ties to the U.S. economy. Regionally, South America is more exposed to the slowing growth in Europe, especially Argentina, Chile, Peru and Uruguay, countries where the estimated weight of exports to Europe is greater than or equal to 4% of GDP. However, given the high number of commodities in the exports, they have been redirected to other markets, unlike manufactured products, whose characteristics and marketing channels are more related to specific target markets. These economies have recovered quickly as shown by the chart below. In turn, in Central America, Costa Rica exports a significant proportion of its GDP to Europe, so they have also been affected by this recession but to a lesser extent than those countries with closer ties to the U.S.

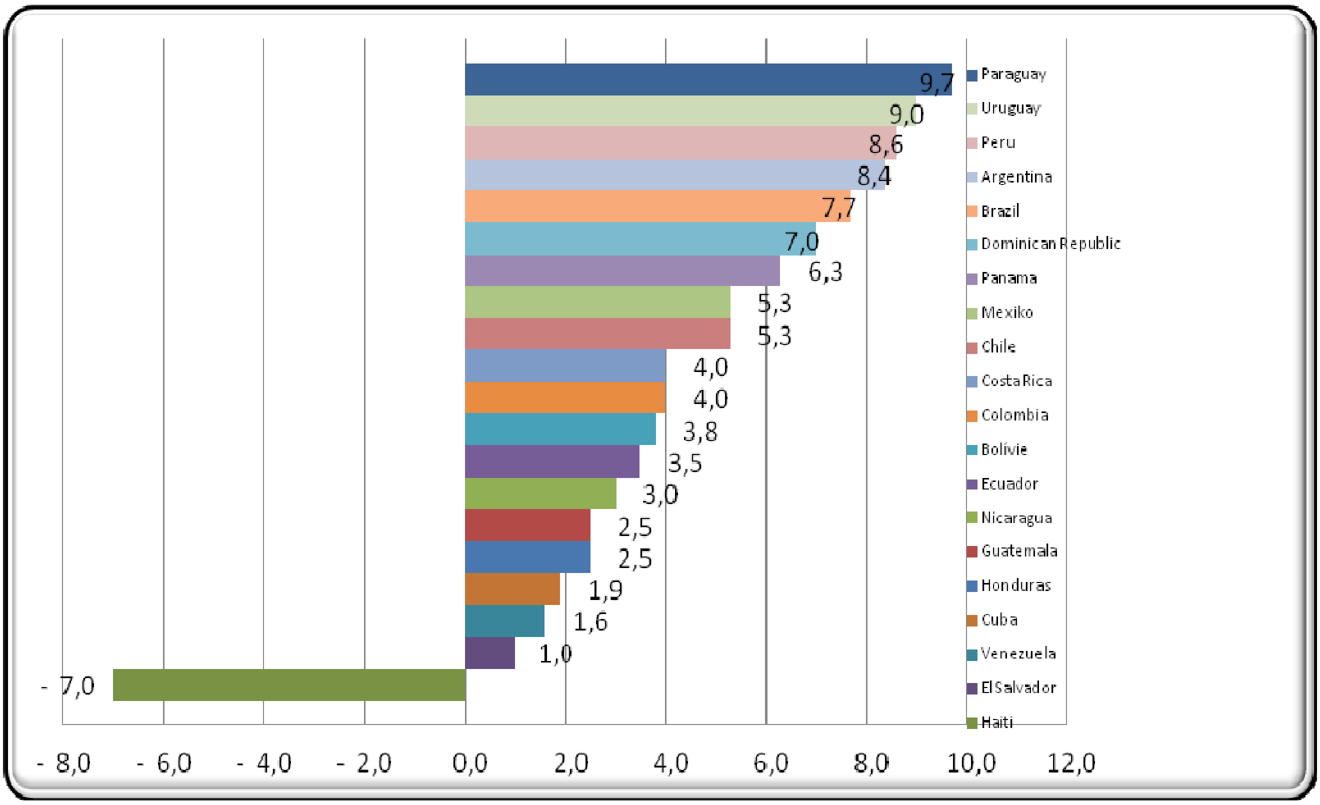
Graph 15: GDP Growth in 2009 (in %)



Source: Author's calculations based on ECLAC data

Through late 2009 and early 2010, Latin America and the Caribbean faced the recovery from the financial crisis due in part to the sustained demand for raw materials, mainly from a dynamic China, an incipient recovery in the U.S. and a slow recovery in Europe. After the outbreak of sovereign debt crises in some European countries, it became likely that the recovery of this group would be delayed further, with several countries announcing fiscal consolidation measures aimed at reducing the public deficit through contraction or lower growth in private spending.

Graph 16: GDP Growth in 2010 (in %)



Source: Author's calculations based on ECLAC data

As shown in the graph 16, in 2010 it appears there is widespread recovery, although higher rates are seen in South America as opposed to the Caribbean.

One of the most important indicators for economic stability at this time is the rapid recovery from a worldwide economic crisis. The speed of recovery is due in part to public policy. Many of the macroeconomic policies implemented prior to the crisis reduced the countries exposure to the recession that has stalled the growth of many of the world's top economies. They used, as they had in the past, an exceptional period of prosperity in economics and finance to consolidate public finances, reduce and improve debt profiles and increase international reserves. This enabled more room for unprecedented proactive public policies aimed at counteracting the negative effects of the deterioration of the international arena, and allowed for the recovery in 2009.

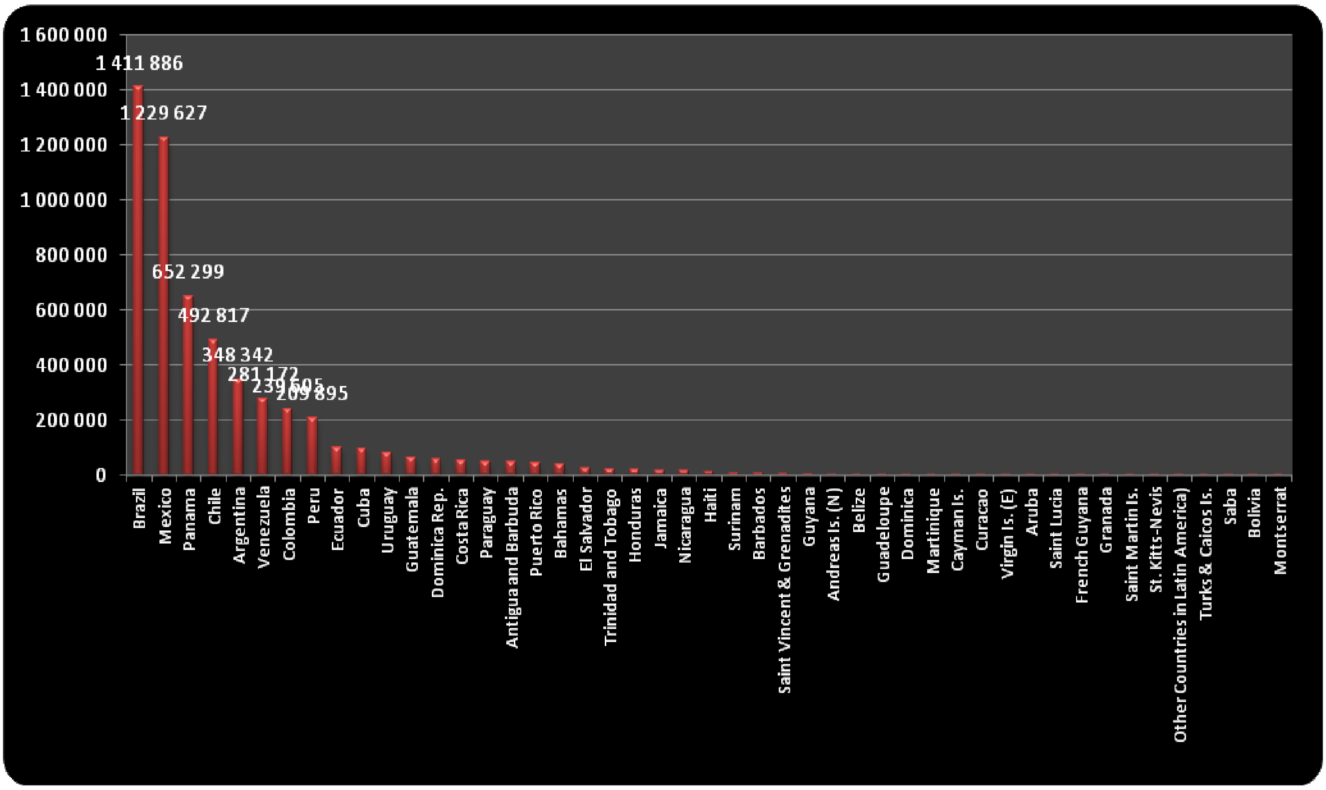
As the implementation of fiscal stimulus and monetary policy, in a context of decreasing uncertainty on the normalization of financial markets and greater access to credit, led to a gradual recovery of economic activity throughout the year, which was consolidated in 2010 under the impetus of private consumption and investment and, to a lesser extent, exports.

In the international environment after the crisis, it is expected that development patterns in the region will make major adjustments to accommodate the "new norm”. This scenario will most likely be characterized by slower global economic growth, lower levels of economic development in developing countries, the reduction of global trade flows with the emergence of new trade barriers, more restricted and selective access to less flourishing financial markets, and new labor market dynamics, considering the possibility of recovery without significant job creation.

China economic relations - Latin America

According to statistical data of total exports and imports between Latin America and China shown in the graph below, it is obvious which countries maintain the closest business relationships with China. In recent years, China has become a stronger business partner for the Latin American countries, which results in a shifting of the array of foreign trade. The main Latin American trading partners with China are Brazil, Mexico, Panama, Chile, Argentina, Venzuela, Peru, Colombia, Ecuador, Cuba, Uruguay, Guatemala, Dominican Republic, Costa Rica, Paraguay, Puerto Rico and El Salvador.

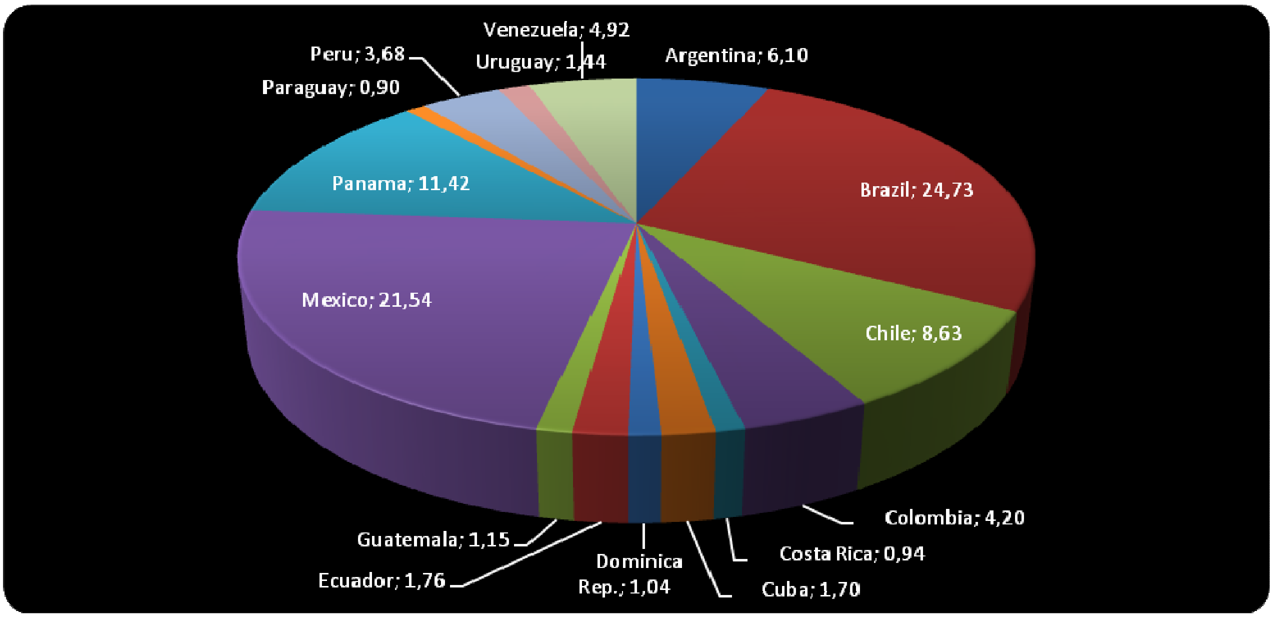
Graph 17: Imports and exports by country in Latin America and the Caribbean by origin / destination in the year 2009 (USD 100 million)



Source: Based on data of the National Bureau of Statistics of China

These countries were selected because they have significant trade relations with China. The numerical overview is shown in the graph below.

Graph 18: Participation in% of total Chinese exports to Latin America

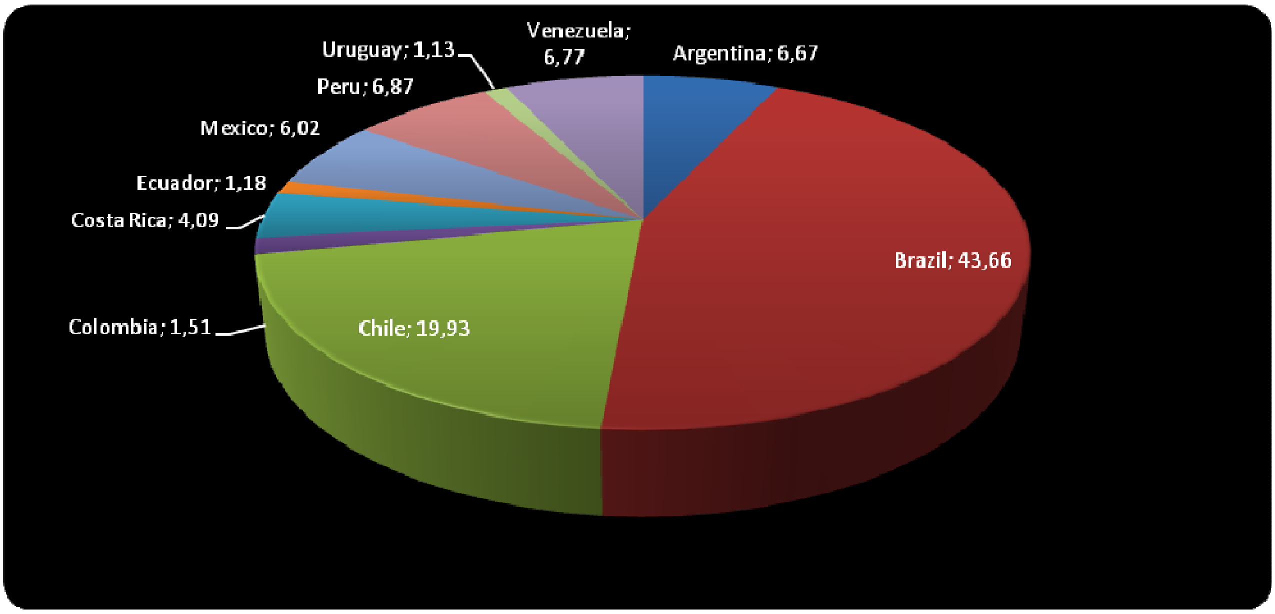


Source: Author's calculations based on data of the National Bureau of Statistics of China

Brazil leads the continent with 24.73% of total exports from China $14.118 million, followed by Mexico with 21.54% ($12.296 million), Chile with 8.63% and Argentina with 6.10% at $4.928 and $3.483 million respectively. The total exports from China to Latin America came was $57.094

million, while imports reached a total of $64.768 million in 2009. The situation of Latin American imports to China is as follows:

Graph 19: Participation in% of total imports from Latin America to China in 2009

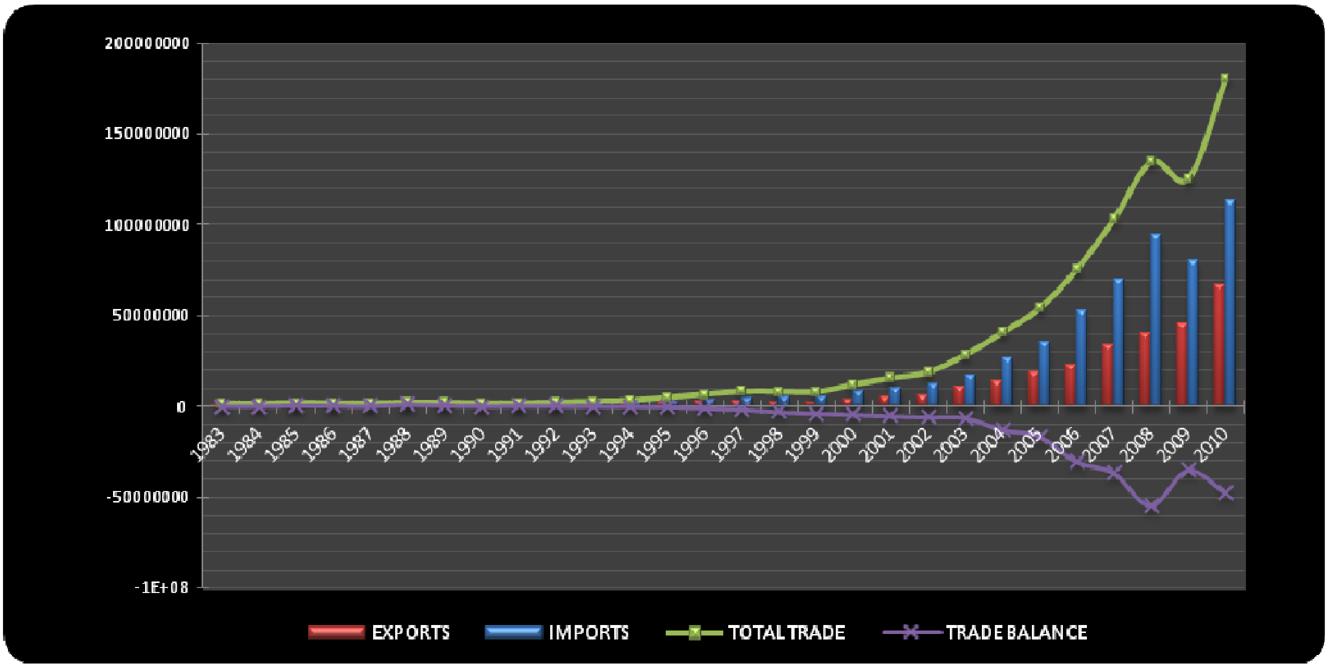


Source: Author's calculations based on data of the National Bureau of Statistics of China

Concerning imports from Latin America to China, it is again obvious that Brazil is the forerunner with the highest percentage, at 43.66% of the total imports, followed by Chile with 19.93%, Venezuela and Argentina with 6.77% and 6.67%, respectively.

The following graph illustrates the development of trade relations between China and Latin America. The main source for high imports from China, are primary products.

Graph 20: Latin American Trade volumes with China (in thousands of dollars)

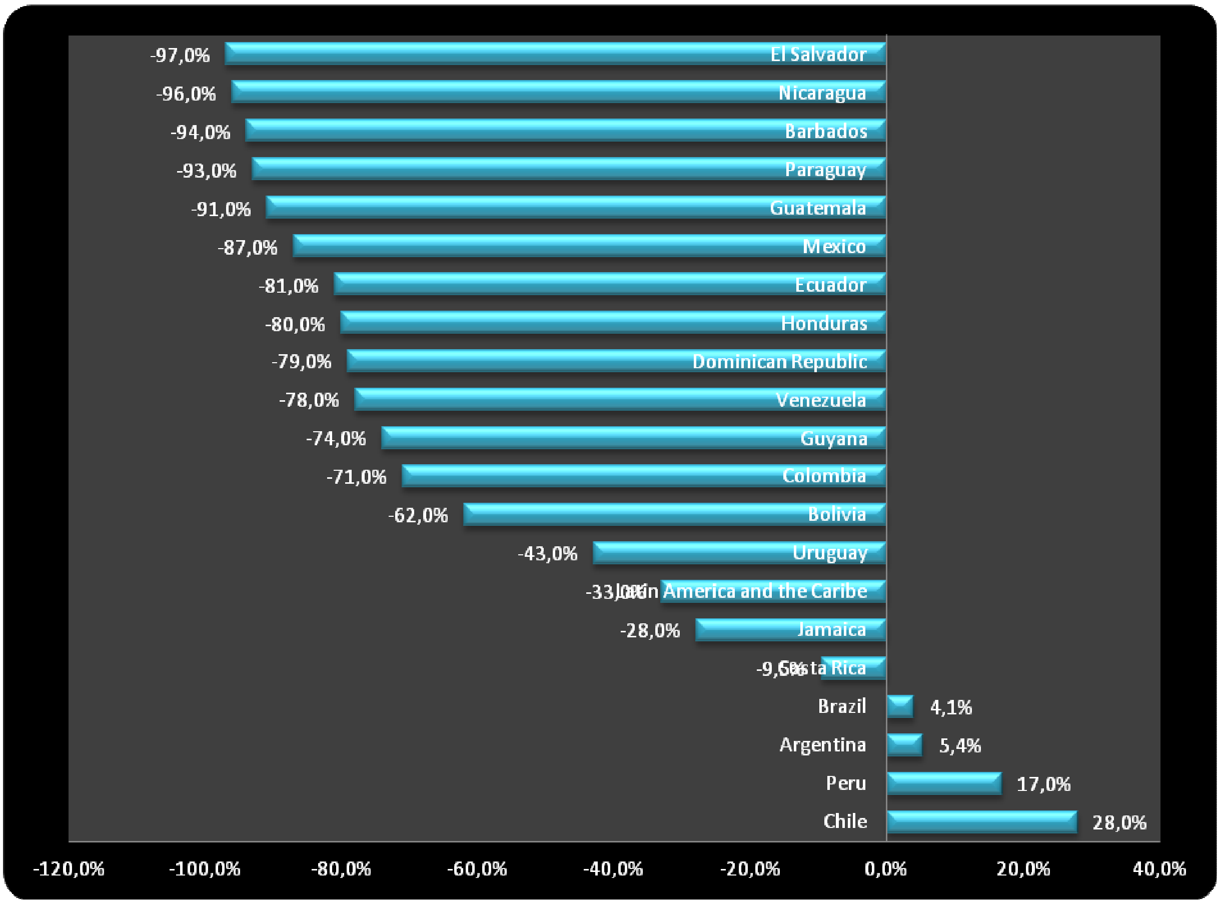


Source: Author's calculations based on data of the Interactive Graphic System of International Economic Trends (SIGCI Plus)-Trade Module

In the last decade Latin America has experienced a period of rapid economic growth; despite that, the economic growth figures are not comparable to those of China. This economic boom is attributed by the Inter-American Development to its stable macroeconomic situation, the increased demand for key export products from Latin America, and the consequent increase in raw material prices. The main reason for the increase in trade with China is their increasing demand for commodities. According to the latest data, Latin American exports have increased, on average, by 34.06% while overall average imports grew by 28.7% in the last ten years. Trade between Latin America and China is roughly twelve times what it was in 2000. The graph shows that imports from China have grown faster than exports to China.

In 2009, 85% of Latin American exports to China came from only a few countries: Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru and Venezuela. Of which Argentina (except for the last two years), Brazil, Chile and Peru are the few countries that have maintained a trade surplus with China, while the other countries have significant trade deficits.

Graph 21: Accumulated Trade Balances with China as share of Total Trade 2000-2009



Source: IDB/INT on COMTRADE data

According to the authors Porzecanski and Gallagher, the countries most threatened by competition from China are Mexico and some Central American countries. These economies are comprised of mainly light industry and services, while the rest of the countries, excluding Brazil, do not follow the same rhythm. The table below lists the focal export products to China.

Table 1: Export of goods from Latin America and the Caribbean to China

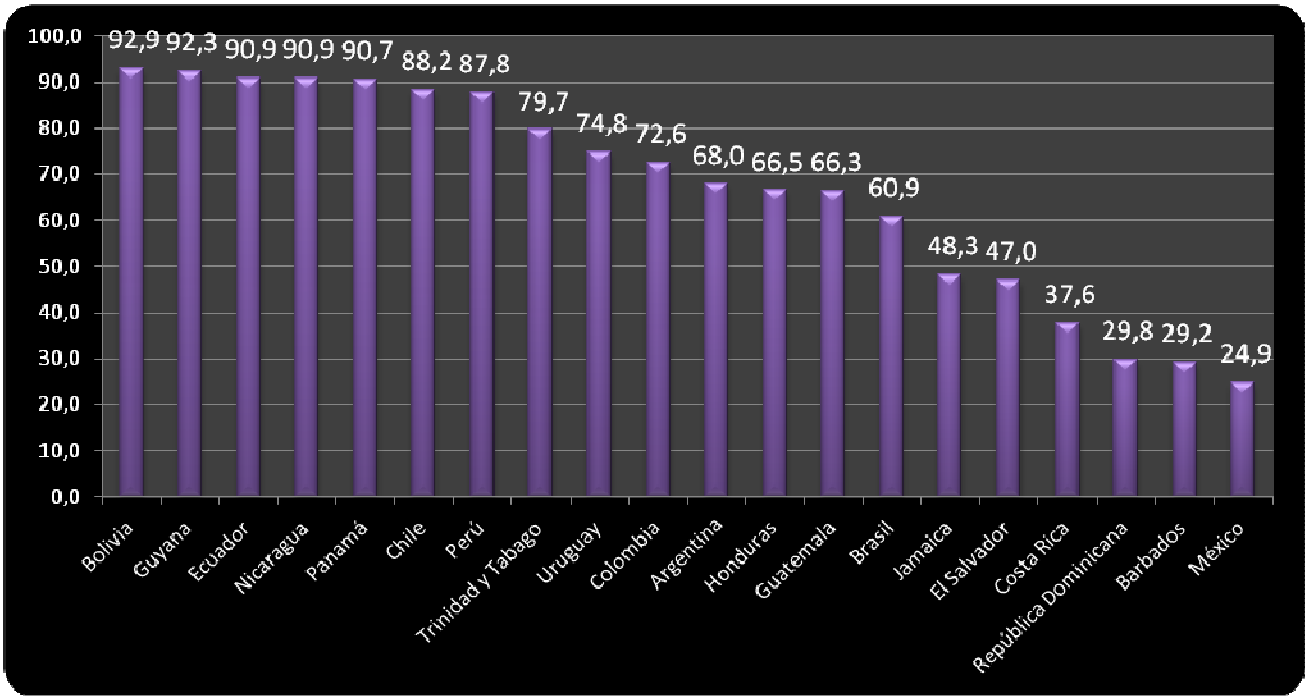
Sector	Share of Total Latin American and Caribbean exports to China	Country (Share of Total Latin American and Caribbean Exports to China)
Copper Alloys	17,9 %	Chile (90%)
Iron ore and concentrates	17,3%	Brazil (89%)
Soybean and other seeds	16,8%	Brazil (83%), Argentina (16%)
Ores and concentrates of base metals	13,5%	Chile (47%), Peru (39%)
Crude petroleum	4,5%	Brazil (65%), Colombia (20%)
Soybean oils and other oils	4,5%	Argentina (79%), Brazil (20%)
Pulp and waste paper	4,4%	Brazil (55%), Chile (43%)
Feedstuff	2,4%	Peru (63%), Chile (30%)
TOTAL	81,4%	

Source: Gallagher and Porzekanski (2010)

Brazil is one of the few countries that has benefited from trade with China, its trade surplus has increased significantly due to the price of iron. Brazil is one of the few countries to produce industrial products as well as primary products. However, according to ECLAC, the exports of primary products in 2006 exceeded that of manufactured products. There is also a risk that Brazil will fall victim to the Dutch disease, tempted by the potential growth.

Latin America primarily exports raw materials and primary products, as presented in the following graph.

Figure 22: Exports of primary products as its share of the total in 2009



Source: CEPAL

Note that most Latin American countries focus their exports of primary products. Unfortunately in terms of competitiveness, delays in innovation and productivity still represent a major obstacle to successful economic growth strategies in Latin America. The weakness of structural changes, lack of diversification in production, and limited development of the technology sector and other sectors which make intensive use of knowledge make Latin America vulnerable to the risk of lagging behind the rest of world and decrease the ability to expand the productivity gap within other regions. Much progress is needed to increase competitiveness in key areas such as infrastructure, logistics and trade facilitation. The asymmetries between productive sectors must be reduced and new opportunities need to be capitalized on in global value chains. Trade ties should be promoted and new investment ties sought with partners in Asia, the Pacific and the European Union.

In the following table presents more complete data on the composition of exports from Latin America and the Caribbean to China and its development from 1990 to 2006, according to available data.

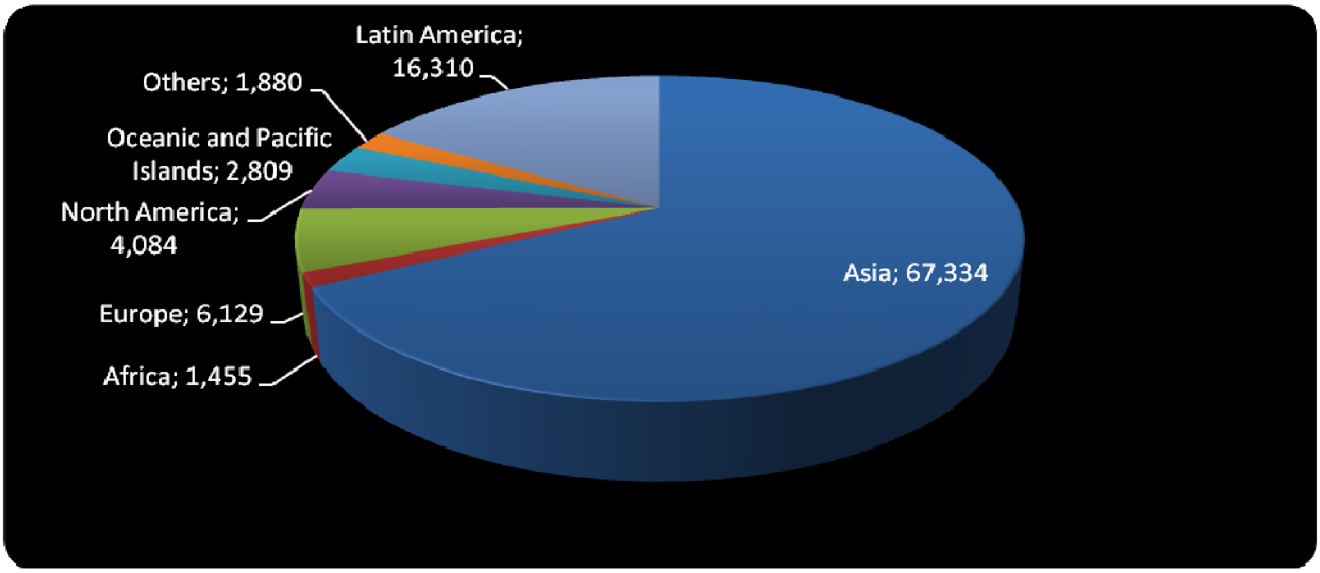
Table 2: Composition of exports of Latin America and the Caribbean

	Primary products (incl. manufactured products Manufactures based on NR)	Manufacturing not based on natural resources including low and Intermediate technology	High technology	Others
Mexico				
1990	59,80%	34,90%	4,50%	0,80%
2000	18,50%	52,90%	28,20%	0,30%
2006	25,60%	47,90%	25,40%	1,10%
Central America		0,00%		
1990	78,90%	15,40%	2,80%	2,90%
2000	59,20%	23,40%	16,70%	0,60%
2006	59,60%	24,40%	14,60%	1,40%
Brazil		0,00%		
1990	54,00%	40,40%	4,30%	1,30%
2000	47,60%	37,20%	12,50%	2,70%
2006	54,30%	35,60%	7,70%	2,50%
South America without Brazil		0,00%		
1990	84,90%	13,30%	0,70%	1,10%
2000	80,30%	15,30%	1,60%	2,90%
2006	82,70%	12,50%	1,00%	3,70%

Source: United Nations Department of Economic and Social Affairs.

To complete this analysis, external Chinese investment in Latin America must be mentioned. Surprisingly, this investment represents 16.3% of total Chinese investment according to the 2009 data provided by the National Bureau of Statistics of China. Total Chinese investment is graphically illustrated below:

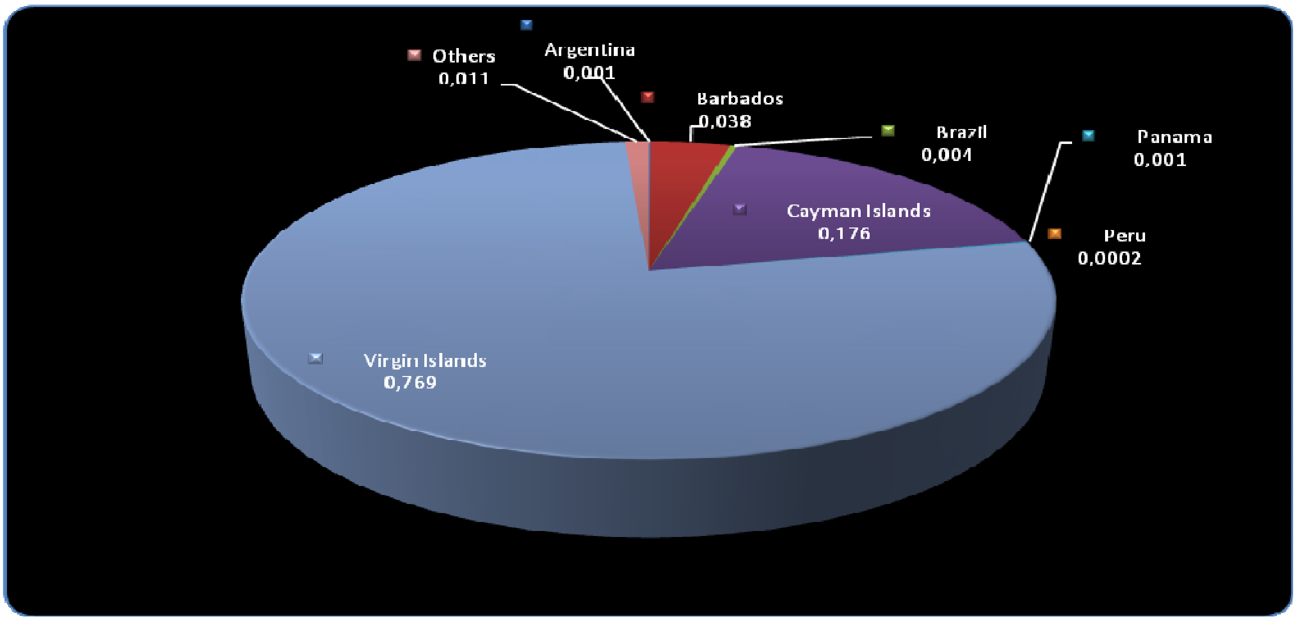
Graph 23: Foreign investment in China by region in% (2009)



Source: Based on data from the National Institute of Statistics of China

As the structure of investments in Latin America is even more surprising, as we shall see in the following graph:

Graph 24: China Foreign Investment in Latin America by country in% (2009)



Source: Based on data from the National Institute of Statistics of China

In 2009, Chinese investments in Latin America composed only 0.3% 2009, but if we include the Virgin and Cayman Islands then investment in Latin America is significant and represents 16.3%. Total Chinese investment in Latin America fell by 29.76% compared to 2008, but increased in 2010. These FDI flows are concentrated in 4 countries, Chile, Peru, Argentina and Brazil. The Ministry of Commerce of China states that Peru has recently grown into one of the major investments in Latin America, receiving over $1,400 million. The first was the creation of the mine Shougang Hierro Peru, which took over the extraction of mineral deposits from the company Hierro Peru in 1992 with a capital of 150 million dollars, and later entered the oil subsidiary Sapet Development, it has oil deposits on the northwest coast and in the Amazon region. In May 2011, the mining company Chinalco acquired shares of Peru Copper Company for $703 million and invested more than $2.2 billion. This company works the Toromocho copper deposit, located in the central Peruvian district of Junín at more than 3,500 meters above sea level. Other investments include the purchase made by China Minmetals Jiangxi Cooper-American from Northern Peru Corporation, to win the Galen project to mine gold and copper in the northern district of Cajamarca for $434 million.

Brazil is another concrete example of Chinese investments. According to official figures Chinese investment in Brazil increased from $22 million in 2008 to $408 million during the first six months of 2010. However, these figures include only the flows that pass through the Chinese central bank. It is believed that China's Sinopec oil company bought the Brazilian division of Repsol, a Spanish company for $7.1 billion, which would be China's largest acquisition in Latin America. The numbers can differ due to various methods of purchase.

Conclusions

The potential impact of China on Latin America is extremely relevant. On one hand China is seen as a powerful partner for Latin America, which would enable a greater independence from the United States, but on the other hand it is becoming increasingly clear from the concentration of exports on primary commodities that the industrialization of Latin America, which should be a highest priority for this region.

At the same time we see China as an example of growth to follow, a country that in the past three decades has transformed and grown in such a way that is has become the second world economic power. We cannot forget that each region in Latin America is very specific and it would be a mistake to implement all the reforms and policies designed for China in Latin America, though they may serve as a source of inspiration.

China's economic growth demands a large amount of non-agricultural raw material and processed products and we could say that Latin America is merely taking advantage of this opportunity; especially the four countries mentioned above; Chile has found a perfect market for copper, minerals, wood, slag and ash, while Brazil is selling iron ore, iron pellets and soy. These opportunities should continue be capitalized on, but in a rational and sustainable way, keeping in mind the environmental impacts that could have profound implications for the various development models in Latin American countries.

In terms of competitiveness, the lack of innovation and productivity in Latin America still represents a major obstacle to the success of strategies for economic growth with equity. The closer trade ties between Latin America and China, if used correctly, could forge new trade associations needed by Latin America to aid in their process of industrialization and when paired with an investment in infrastructure and the existing stable macroeconomic environment of Latin America could boost growth and competitiveness.

Central American countries need to be aware of the competition that China presents in manufacturing industries such as textiles for both local and international markets and acknowledge that this competition will spread to other industries such as food and mineral processing.

Latin America is a region with abundant natural resources. With the correct usage of foreign investment, they could grow and diversify quickly. The multiple countries that comprise Latin America have started to work together to create stronger international commercial relationships. However, they need to look farther to the future in order to avoid catching the Dutch disease.

China's position as a top economic world power and its leading role in global markets represents a challenge for Latin America. The ability to find the correct balance between partner and competitor will determine the outcome of their future with the Chinese phenomenon.

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Annex

Table 1: Value of exports by product category

Year	Total	Primary	Food and Lived Animals Used Mainly for food	Beverages an Tabaco	Non-edible Raw Materials	Mineral Fuels, Lubricants and related Materials	Animal and Vegetable Opils, Fatx and Wax
1980	**181,19**	91,14	29,85	0,78	17,11	42,8	0,6
1985	**273,5**	138,28	38,03	1,05	26,53	71,32	1,35
1990	**620,91**	158,86	66,09	3,42	35,37	52,37	1,61
1991	**719,1**	161,45	72,26	5,29	34,86	47,54	1,5
1992	**849,4**	170,04	83,09	7,2	31,43	46,93	1,39
1993	**917,44**	166,66	83,99	9,01	30,52	41,09	2,05
1994	**1210,06**	197,08	100,15	10,02	41,27	40,69	4,95
1995	**1487,8**	214,85	99,54	13,7	43,75	53,32	4,54
1996	**1510,48**	219,25	102,31	13,42	40,45	59,31	3,76
1997	**1827,92**	239,53	110,75	10,49	41,95	69,87	6,47
1998	**1837,09**	204,89	105,13	9,75	35,19	51,75	3,07
1999	**1949,31**	199,41	104,58	7,71	39,21	46,59	1,32
2000	**2492,03**	254,6	122,82	7,45	44,62	78,55	1,16
2001	**2660,98**	263,38	127,77	8,73	41,72	84,05	1,11
2002	**3255,96**	285,4	146,21	9,84	44,02	84,35	0,98
2003	**4382,28**	348,12	175,31	10,19	50,32	111,14	1,15
2004	**5933,26**	405,49	188,64	12,14	58,432	144,8	1,48
2005	**7619,53**	490,37	224,8	11,83	74,84	176,22	2,68
2006	**9689,36**	529,19	257,23	11,93	78,6	177,7	3,73
2007	**12177,75756**	615,09101	307,42648	13,96535	91,16295	199,50868	3,02755
2008	**14306,93066**	779,56932	327,61992	15,29425	113,18901	317,72923	5,73691
2009	**12016,11806**	631,11794	326,27782	16,40951	81,53077	203,73732	3,16252

Source: National Bureau of Statistics of China

Table 2: Value of exports by product category (continued)

Year	Manufactured Goods	Chemicals and Related Products	Light Textile, Industrail Products, Rubber Products, Minerals and Metallurgical products	Machinery and Transport Equipment	Miscellaneous Products	Products Not Otherwise Classified
1980	90,05	11,2	39,99	8,43	28,36	2,07
1985	135,22	13,58	44,93	7,72	34,86	34,13
1990	462,05	37,3	125,76	55,88	126,86	116,25
1991	556,98	38,18	144,56	71,49	166,2	136,55
1992	679,36	43,48	161,35	132,19	342,34	
1993	750,78	46,23	163,92	152,82	387,81	
1994	1012,98	62,36	232,18	218,95	499,37	0,12
1995	1272,95	90,94	322,4	314,07	545,48	0,06
1996	1291,23	88,77	284,98	353,12	564,24	0,12
1997	1588,39	102,27	344,32	437,09	704,67	0,04
1998	1632,2	103,21	324,77	502,17	702	0,05
1999	1749,9	103,73	332,62	588,36	725,1	0,09
2000	2237,43	120,98	425,46	826	862,78	2,21
2001	2397,6	133,52	438,13	949,01	871,1	5,84
2002	2970,56	153,25	529,55	1269,76	1011,53	6,48
2003	4034,16	195,81	690,18	1877,73	1260,88	9,56
2004	5527,77	263,6	1006,46	2682,6	1563,98	11,12
2005	7129,16	357,72	1291,21	3522,34	1941,83	16,06
2006	9160,17	445,3	1748,16	4563,43	2380,14	23,15
2007	11562,66655	603,23845	2198,77195	5770,44663	2968,44464	21,76487
2008	13527,36134	793,46416	2623,91215	6733,29153	3359,59317	17,10033
2009	11384,83473	620,17021	1848,1598	5902,74465	2997,46872	16,29134

Source: National Bureau of Statistics of China

Table 3: Value of imports by product category

Year	Total	Primary	Food and Lived Animals Used Mainly for food	Beverages an Tabaco	Non-edible Raw Materials	Mineral Fuels, Lubricants and related Materials	Animal and Vegetable Opils, Fatx and Wax
1980	**200,17**	69,59	29,27	0,36	35,54	2,03	2,39
1985	**422,52**	52,89	15,53	2,06	32,36	1,72	1,22
1990	**533,45**	98,53	33,35	1,57	41,07	12,72	9,82
1991	**637,91**	108,34	27,99	2	50,03	21,13	7,19
1992	**805,85**	132,55	31,46	2,39	57,75	35,7	5,25
1993	**1039,59**	142,1	22,06	2,45	54,38	58,19	5,02
1994	**1156,14**	164,86	31,37	0,68	74,37	40,35	18,09
1995	**1320,84**	244,17	61,32	3,94	101,59	51,27	26,05
1996	**1388,33**	254,41	56,72	4,97	106,98	68,77	16,97
1997	**1423,7**	286,2	43,04	3,2	120,06	103,06	16,84
1998	**1402,37**	229,49	37,88	1,79	107,15	67,76	14,91
1999	**1656,99**	268,46	36,19	2,08	127,4	89,12	13,67
2000	**2250,94**	467,39	47,58	3,64	200,03	206,37	9,77
2001	**2435,53**	457,43	49,76	4,12	221,27	174,66	7,63
2002	**2951,7**	492,71	52,38	3,87	227,36	192,85	16,25
2003	**4127,6**	727,63	59,6	4,9	341,24	291,89	30
2004	**5612,29**	1172,67	91,54	5,48	553,58	479,93	42,14
2005	**6599,53**	1477,14	93,88	7,83	702,26	639,47	33,7
2006	**7914,60868**	1871,28569	99,94272	10,40618	831,56652	890,00589	39,36437
2007	**9559,50261**	2430,85441	114,99623	14,01138	1179,10225	1049,3009	73,44366
2008	**11325,62161**	3623,9471	140,51178	19,20046	1666,95129	1692,41994	104,86363
2009	**10059,23196**	2898,04194	148,27193	19,53647	1413,46691	1240,37598	76,39065

Source: National Bureau of Statistics of China

Table 4: Value of imports by product category (continued)

Year	Manufactured Goods	Chemicals and Related Products	Light Textile, Industrail Products, Rubber Products, Minerals and Metallurgical products	Machinery and Transport Equipment	Miscellaneous Products	Products Not Otherwise Classified
1980	130,58	29,09	41,54	51,19	5,42	3,34
1985	369,63	44,69	118,98	162,39	19,02	24,55
1990	434,92	66,48	89,06	168,45	21,03	89,9
1991	529,57	92,77	104,93	196,01	24,39	111,47
1992	673,3	111,57	192,73	313,12	55,88	
1993	897,49	97,04	285,27	450,23	64,95	
1994	991,28	121,3	280,84	514,67	67,68	6,79
1995	1076,67	172,99	287,72	526,42	82,61	6,93
1996	1133,92	181,06	313,91	547,63	84,86	6,46
1997	1137,5	192,97	322,2	527,74	85,5	9,09
1998	1172,88	201,58	310,75	568,45	84,56	7,54
1999	1388,53	240,3	343,17	694,53	97,01	13,52
2000	1783,55	302,13	418,07	919,31	127,51	16,53
2001	1978,1	321,04	419,38	1070,15	150,76	16,76
2002	2458,99	390,36	484,89	1370,1	198,01	15,64
2003	3399,96	489,75	639,02	1928,26	330,11	12,82
2004	4439,62	654,73	739,86	2528,3	501,43	15,29
2005	5122,39	777,34	811,57	2904,78	608,62	20,08
2006	6043,32299	870,46841	869,238	3570,20746	713,10507	20,30404
2007	7128,6482	1075,54022	1028,77256	4124,59135	875,09754	24,64653
2008	7701,67452	1191,8783	1071,64906	4417,64784	976,41209	44,08723
2009	7161,19002	1120,9004	1077,39087	4077,9684	851,86068	33,06968

Source: National Bureau of Statistics of China

Table 5: Value of imports and exports by countries in Latin America and the Caribbean by origin / destination in the year 2009 (USD 10 000)

Country (Region)	2009		
	Total	Exports	Imports
Latin America y el Caribe	**12 186 305**	**5 709 426**	**6 476 879**
Antigua and Barbuda	49 379	49 369	10
Argentina	780 066	348 342	431 724
Aruba	1 185	1 170	15
Bahamas	42 269	42 254	15
Barbados	9 379	9 155	223
Belize	3 304	3 303	1
Bolivia	7	7	
Brazil	4 239 579	1 411 886	2 827 692
Cayman Is.	1 799	1 799	1
Chile	1 783 880	492 817	1 291 063
Colombia	337 535	239 605	97 930
Dominica	2 348	2 232	116
Costa Rica	318 410	53 762	264 648
Cuba	154 731	97 287	57 444
Curacao	1 582	1 582	
Dominica Rep.	69 263	59 211	10 052
Ecuador	176 672	100 356	76 316
French Guyana	487	487	
Granada	398	395	3
Guadeloupe	3 006	3 006	
Guatemala	68 216	65 883	2 333
Guyana	6 983	5 908	1 075
Haiti	15 037	14 749	288
Honduras	26 571	21 216	5 355
Jamaica	21 855	19 699	2 156
Martinique	2 217	2 217	
Mexico	1 619 488	1 229 627	389 862
Montserrat	17	4	13
Nicaragua	19 649	19 326	324
Panama	655 180	652 299	2 881
Paraguay	54 131	51 386	2 745
Peru	655 025	209 895	445 130
Puerto Rico	79 123	47 931	31 192
Saint Lucia	697	679	18
Saint Martin Is.	161	161	
Saint Vincent & Grenadites	8 179	8 179	
El Salvador	26 016	25 669	347
Surinam	10 809	9 618	1 191
Trinidad and Tobago	34 752	24 421	10 331

Turks & Caicos Is.	39	39	
Uruguay	155 320	81 956	73 364
Venezuela	719 386	281 172	438 214
Virgin Is. (E)	1 588	1 568	20
St. Kitts-Nevis	127	122	4
Other Countries (Regions in Latin America)	59	59	

Source: National Bureau of Statistics of China