

Sino-Latin America Cooperation: A Benign Interactive with Growth

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Abstract

After the economic fluctuation in the 1990s, the economy in Latin America has entered into a new growth cycle since 2003. The economic and trade cooperation between China and Latin America, with a trend of rapid development, realizes a new mutual benefit and win-win situation with a benign interactive. During the past four years, the trade between the two parties has increased by almost 3 times, while the cooperation in FDI and the contract project has also experienced a rapid growth. The growing economic and trade cooperation is one of the positive factors for growth. It, however, confronts new challenges in a globalized market, which need the courage and wisdom from both parties so as to bring the cooperation into a new stage.

Key Words: Sino-Latin America, Cooperation, Growth Latin American Economy.

Coperación China-Latinoamérica: una benigna interacción con crecimiento

Resumen

A partir de 2003 la economía de América Latina y el Caribe entró en un nuevo periodo de crecimiento. Las cooperaciones económicas y comerciales entre China y América Latina han logrado los beneficios y éxitos mutuos para ellas, apareciendo su tendencia de un rápido crecimiento. En los últimos años el comercio entre ellas aumentó 3 veces y las cooperaciones en términos de las inversiones extranjeras directas y los proyectos contratados también consiguieron un crecimiento acelerado. El aumento de las cooperaciones económicas y comerciales entre ambas ha constituido uno de los factores positivos para el crecimiento económico. A pesar de eso, enfrentándose con los nuevos desafíos en un mercado cada día más globalizado, es necesaria la voluntad e inteligencia de China y América Latina para que sus cooperaciones entren en un nuevo escenario.

Palabras clave: China-Latinoamérica, Cooperación, crecimiento económico latinoamericano.

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Since the opening-up and reform, China has maintained an annual average growth rate of some 10%, while its foreign trade has surpassed the economy with a development from \$ 20.64 billion in 1978 to \$2173.83 billion in 2007. Meanwhile, with an increased capability in attracting FDI, China has also become one of the major host countries in the world. It ranked the 60th in FDI attraction in 1980, but the 4th in 2006 (National Bureau of Statistics of China, 2007).

The great changes in China and the rapid growth of its foreign trade and cooperation has altered the traditional domain in the world economy, trade and investment while at the same time it has affected Sino-Latin America trade and economic cooperation. With the new growth cycle in Latin America, especially since 2003, the cooperation between China and Latin America shows a significant tendency of rapid growth. In the context of the global financial turmoil and the great challenge faced by the world economy, both China and Latin American countries are seeking the opportunities to strengthen their cooperation so as to meet the severe outer test.

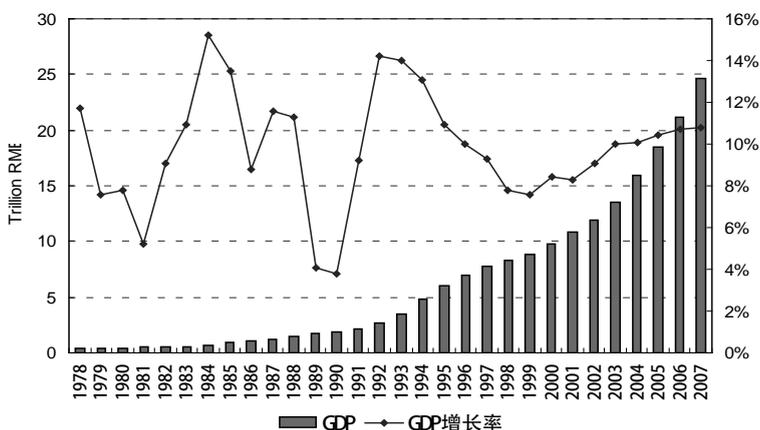
1. Sino-Latin America Trade: Mutual Benefit and Win-Win Progress

The economic trend of a country (region) affects its foreign trade and viceversa. Such an interactive is significant between China and Latin American countries. A comparison on the Sino-Latin America economic relation at different periods since the 1990s shows that their cooperation scale and speed in the new century is different from that in the 1990s. In recent years, with the rapid growth it both economies, Sino-Latin America cooperation has realized a new mutual benefit and win-win situation with a benign interactive.

Figure 1 and 2 illustrate that both China and Latin America have experienced the economic fluctuation in the 1990s. Then the economic fluctuation in Latin America and the Caribbean (LAC) and the bank crisis, financial turmoil and economic crisis in the 3 major regional countries had some negative impacts on the foreign trade in this region. Especially, the 2001 financial crisis in Argentina and the followed economic and social crisis negatively influenced the foreign trade and cooperation of the whole region. Since 2003, Latin America has nevertheless entered into a new growth cycle accompanied by a rapid growth in its trade, which has doubled during the past years and amounted to \$1429.43 billion in

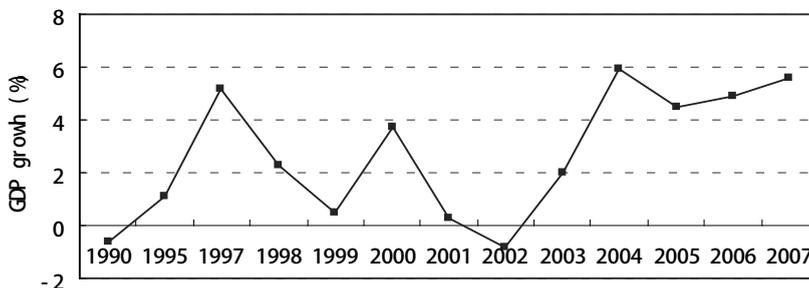
2007 (CEPAL, 2007).¹ At the same time, China has also maintained a stable growth and its trade has risen repeatedly to record. Between 2002 and 2007, China's trade volume added from \$620.77 billion to \$2173.83 billion, increased by 2.5 times (Chinese Ministry of Commerce, 2008). Under such a background, Sino-Latin America trade tends to surge up (Figure 3) and actively influences their economies. A comparison between the graphs of their growth and trade shows that both parties are obtaining the win-win targets in the benign interactive.

Figure 1. China's GDP and its growth



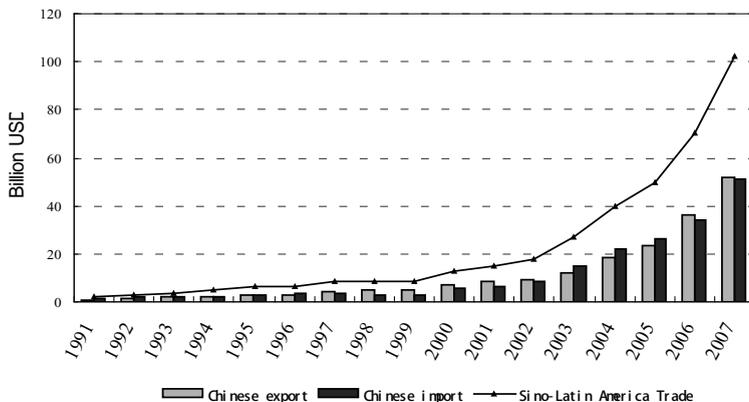
Source: National Bureau of Statistics of China (2007), *Statistical Yearbook 2007*.

Figure 2. GDP growth in Latin America and the Caribbean



Source: UN Economic Commission for Latin America and the Caribbean (UN ECLAC).

Figure 3. Sino-Latin America Trade, 1991- 2007



Source: Customs Statistics of China at <http://www.drcnet.com.cn>.

Vigorous development of Sino-Latin America trade brings a win-win situation, which in turn creates active influences on their positions in the world trade. According to WTO, between 1948 and 2003, LAC's (exclude Mexico) share in the global trade exhibited an overall decreasing trend. However, it has been reversed by the rise of Sino-Latin America trade in 2003-2006. Brazil has ended its decline in the global trade in goods with its weight in world export and import respectively increasing by 0.2% and 0.1%; the relative proportion of LAC (exclude Mexico) raised from 3% and 2.5% to 3.6% and 3.6%. In the same period, China's corresponding share has increased by 2.3% and 1.1%. (WTO, 2007: 10-11).² The features of fast growing Sino-Latin America trade are:

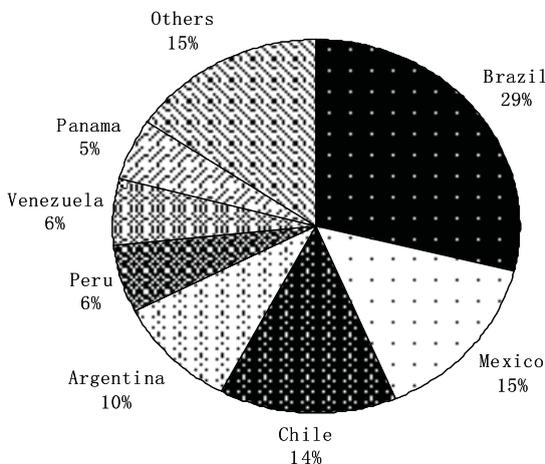
1) Sino-Latin America trade achieves a leap-style development

Figure 3 shows that Sino-Latin America trade, having experienced the stable increase in the 1990s, exhibits a rapid growing trend. LAC is now China's fastest growing trade partner. In the year 2001 and 2002, Sino-Latin America trade valued at \$14.94 billion and \$17.83 billion respectively, with an annual growth rate of some 19%. The stable growth in both China and LAC after 2003 has driven the trade between them. In 2003, the trade between the two economies amounted to \$26.8 billion and its growth rate (50.4%) surpassed China's trade with all the other regions. Among others, the annual growth rates of the trade between China and 9 major LAC countries were above the regional average,

even as high as 122.9% in the recovering Argentina (Chinese Ministry of Commerce, 2008). In the above context, President Hu Jintao, in his speech in Brazilian Parliament, declared that Sino-Latin America trade would achieve the target of \$100 billion in 2010. Since then, the bilateral trade stepped into a fast track. It was yearly added by 40.2% and the trade in goods increased from \$40 billion to \$102.6 billion between 2004 and 2007 (WTO, 2007: 10-11)³, which reached the Chinese government's target 3 years ahead of schedule. Meanwhile, with its growing proportion in Chinese import and export, it's more and more important in Chinese foreign trade.

2) More countries are benefited from Sino-Latin America trade

Figure 4. Sino-Latin America Trade by countries, 2007



Source: Customs Statistics of China.

Figure 4 shows that Sino-Latin America trade is relatively concentrated by countries: China conducted 85% of its trade in LAC with 7 countries in 2007, among which 70% in South America and over 1/2 with 3 large regional economies. Nevertheless, with the fast expansion of Sino-Latin America trade, the bilateral trade between China and almost all the LAC countries has been increasing. More and more LAC countries are benefited and China now is an important trade partner for this region. In accordance with Customs Statistics of China, there were 5 countries (i.e. Brazil, Mexico, Chile, Argentina and Panama) in 2001 whose bilateral trade with China was over \$1 billion and accumulated to

77% of total trade. While in 2007, the number of the countries reaching the above line were 11, taking 1/3 of the total countries and 94% of the total trade in this region. Among them, China's trade value with Brazil, Mexico and Chile were over \$10 billion. Sino-Brazil trade even valued about \$30 billion, which made it 9th import origin of China.

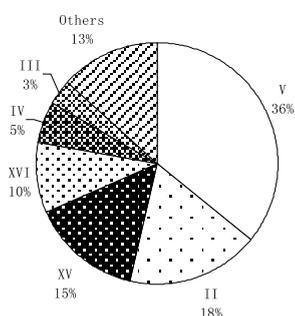
Table 1. LAC Countries: Trade Value with China \geq \$ 1 billion

2001	2003	2004	2005	2007
Brazil	Brazil	Brazil	Brazil	Brazil
Mexico	Mexico	Mexico	Mexico	Mexico
Chile	Chile	Chile	Chile	Chile
Argentina	Argentina	Argentina	Argentina	Argentina
Panama	Panama	Panama	Panama	Panama
	Peru	Peru	Peru	Peru
		Venezuela	Venezuela	Venezuela
			Costa Rica	Costa Rica
			Colombia	Colombia
				Cuba
				Ecuador

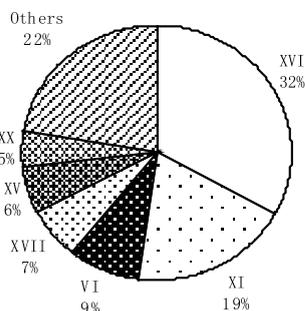
3) Sino-Latin America trade is highly concentrated and mutually complemented

Figure 5. Sino-Latin America Trade, by Products, 2005

Chinese Import from LAC



Chinese Export to LAC



Notes: Products are classified according to HS 1992: Section II-Vegetable Products; Section III-Animal or Vegetable Fats and Oils and their cleavage Products; Prepared

Edible fats; animal or Vegetable waxes; Section V-Mineral Products; Section IV-Prepared Foodstuffs; Beverages, Spirits and Vinegar; Tobacco and Manufactured Tobacco substitutes; Section V-Mineral Products; Section VI-Products of the Chemicals or Allied Industries; Section XI-Textile and Textile Articles; Section XV-Base Metals and Articles of Base Metal; Section XVI-Machinery and Mechanical Appliances; Electrical Equipment; Parts thereof; sound Recorders and Reproducers, Television Image and Sound Recorders and reproducers, Television Image and sound Recorders and Reproducers, and Parts and Accessories of such article; Section XVII-Vehicles, Aircraft, Vessels and Associated Transport Equipment; Section XVIII-Optical, Photographic, Cinematographic, measuring, checking, precision, medical or surgical Instruments and apparatus; clocks and watches; musical instruments; part and accessories thereof; Section XX-Miscellaneous Manufactured Articles.

Source: Customs Statistics of China at <http://www.drcnet.com.cn>.

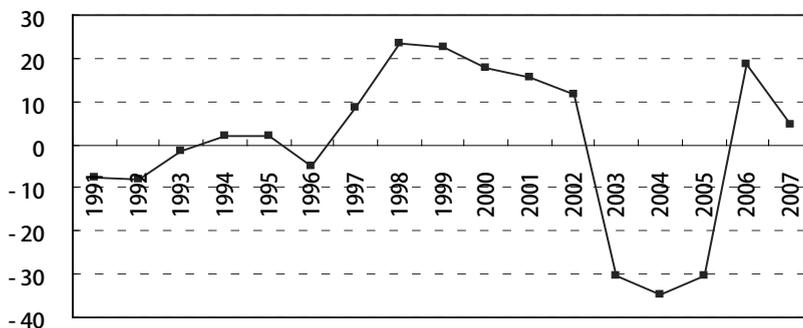
The concentrated and overall complementary product structure lay a sound foundation for the rapid growing Sino-Latin America trade. Therefore, both parties, with their sustained stable growth, have strong demands on the other products, which improve the bilateral trade. The trade, in turn, significantly draws the economic development in both economies and realize a mutual benefit and benign interactive in trade and growth. In the aspect of product structure, China mainly imports from Latin America the primary products and the derivatives (see Figure 5) such as the mineral products (Section V), the vegetable products (Section II) and the base metals and articles of base metal (Section XV). The above 3 products in sum take 74% in Chinese importation from the LAC countries in 2007. Chinese export to Latin America focuses on the manufactured products as the machinery and mechanical appliances, electrical equipment (Section XVI), the textile and textile articles (Section XI) and the products of the chemicals or allied industries (Section VI), which takes over 60% in the total exportation. In addition, Figure 5 also shows that China and Latin America partly duplicate with each other on their export of the mechanical and electrical equipment, recorders, video recorders and accessories.

4) Sino-Latin America trade maintains an overall balance

Figure 6 exhibits the trade balance of Sino-Latin America trade and its three changes since the 1990s. Between 1994 and 2002 (exclude 1996), China was in surplus in its trade with Latin America, which ever declined during the Brazilian financial turmoil and Argentinean Crisis. Since 2003, China's trade balance has reversed into deficit, which was about \$3 billion in 2005. After 2006, there is some minor surplus in

China's trade balance, as \$1.9 billion in 2006 and \$ 470 million in 2007, and the bilateral trade maintains a general balance. To the specific LAC countries, however, their trade balances with China varies in accordance with their product structures. In summarization, LAC countries as Mexico, Panama, Colombia and Ecuador are in deficit in their trade with China; while some countries, especially those in South America (except for Costa Rica), maintain surplus (see Table 2). Among other, Brazil and Mexico are respectively China's largest surplus and deficit country in LAC.

Figure 6. Sino-Latin America Trade Balance, 1991-2007
 (\$ 100 million)



Source: Customs Statistics of China.

Table 2. Major Trade Imbalance of China from LAC Countries, 2007
 (\$ 100 million)

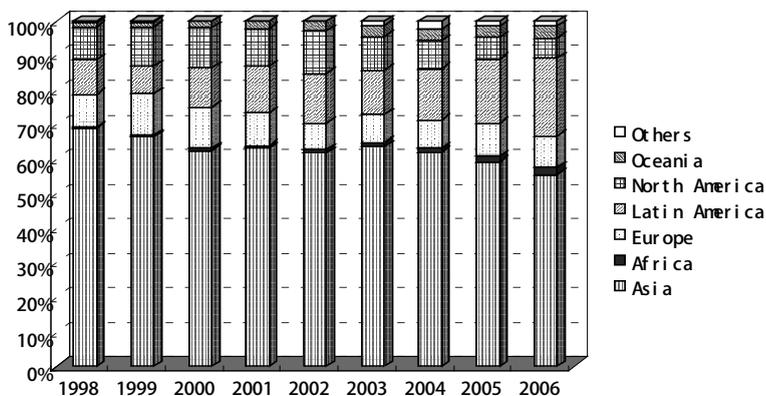
	Chinese Export	Chinese Import	Trade Balance
Latin America and the Caribbean	515.43	510.68	4.75
Brazil	113.72	183.33	-69.61
Chile	44.16	102.57	-58.41
Argentina	35.67	63.35	-27.68
Peru	16.79	43.36	-26.58
Costa Rica	5.67	23.07	-17.39
Guatemala	7.97	0.47	7.50
Ecuador	9.42	1.41	8.01
Colombia	22.62	10.95	11.66
Panama	55.79	0.08	55.71
Mexico	117.08	32.62	84.46

Source: Customs Statistics of China.

FDI: A New Light in Sino-Latin America Relation

With the rapid economic growth and deepening opening-up and reform in recent years, Chinese companies have significantly improved their capabilities and competitiveness, and speeded up their «going abroad» strategies. Chinese overseas investment exhibits a rapid increasing trend and FDI is now a key dimension of Chinese transnational cooperation. During their «going abroad» process, LAC is one of the major destinations for Chinese companies. Recently, Chinese overseas investment in LAC takes on a soaring tendency. Chinese non-financial outflow FDI in LAC was \$1.04 billion in 2003 and \$6.47 billion in 2005. In 2006, it rose further to \$8.47 billion and took 48.7% in Chinese overall non-financial FDI abroad. By the end of 2007, LAC has attracted \$24.7 billion of Chinese outflow FDI stock, becoming the second largest destination for Chinese overseas capitals (see Figure 7).

Figure 7. Chinese FDI Outflows by regions, 1998-2007



Source: Chinese Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange (2008), *2007 Statistical Bulletin of China's Outward Foreign Direct Investment*.

It is worth to mention that Chinese non-financial FDI in LAC concentrates in Cayman Islands and British Virgin Islands. In 2007, 91% of Chinese FDI outflow and 95% of its overseas FDI stock in LAC flew to the two host economies (Chinese Ministry of Commerce, 2007). Similar to the outward FDI distribution in LAC, most of Chinese inward FDI from LAC are from the above two economies. According to Chinese National

Bureau of Statistics, of the overall \$14.16 billion Chinese FDI inflow in 2006, \$13.35 billion was from the above-mentioned islands (94%) (National Bureau of Statistics of China, 2007). Given the specialties of Cayman Islands and British Virgin Islands, we will exclude them in our following discussion

Deducting Chinese inward and outward FDI related to the above-mentioned islands, we can find that FDI scale is much less than the bilateral trade between China and Latin America. In comparison with their economic realities and overall inward (outward) FDI scales, China and LAC should go further in their cooperation. However, it should be noted that the stable growth and soaring bilateral trade have brought the attention of the investors from both parties to the mutual investment, which made FDI a new light in Sino-Latin America cooperation. During 2003 and 2006, Chinese FDI to LAC has increased from \$21.86 million to \$97.91 million, added by 348%. At the same period, Chinese inward FDI from LAC has been more than trebled, climbing up from \$264 million to \$810 million.

Especially with such large Chinese enterprises as ShouSteel, BaoSteel, China Petrol and Minmetal realizing their investment schemes in LAC countries, China has enhanced its outward FDI to Latin America. Chinese non-financial investment has covered almost the thorough LAC region, even reaching to some Mid-American countries with no diplomatic relations with China. Between 2003 and 2006, Chinese FDI stock in Ecuador, Chile, Argentina, Cuba, Venezuela and Brazil has respectively increased by 6998%, 1345%, 980%, 329%, 269% and 157%⁴. By the end of 2007, the LAC countries in which Chinese FDI stock is over \$100 million include Brazil (\$190 million), Argentina (\$ 1.6 million), Mexico (\$ 1.5 million) and Peru (\$ 1.3 million) (Chinese Ministry of Commerce, 2008).

The growing trend of Chinese FDI in LAC reveals some new changes in Sino-Latin America cooperation. The first is the increasing productive investment. Chinese large enterprises expand their FDI in LAC, which demonstrates that they begin to actively meet the challenges of economic globalization and allocate their global operations in accordance to their development strategies. Such investments, with clear objects and market positioning, are mostly long-termed and strategic. Besides ShouSteel's early investment in Peru, all of BaoSteel's investments in Brazil are of this kind. The second is the enlarging scale in the investment cooperation. Taking BaoSteel as an example, it now has two investment projects in

Brazil, of which BAOVALE MINERACAO, established on October 18th, 2001 with its investment valued \$1.8 million, is a joint-venture with CVRD. Baosteel Victoria Iron & Steel, established six years later on October 3rd, 2007, is also a joint-venture of BaoSteel and CVRD. As BaoSteel's first iron and steel plant in abroad, the latter, in which BaoSteel takes 60% share, is much bigger than the former in capital size. The third is the increasing impacts on the local employment and economic growth. The emergency of Chinese FDI in LAC, especially the enlargement of the scales of the single investment schemes, has more and more significantly active influences on the host countries. In 2006, ShouSteel's Peruvian affiliate employed 1702 native workers, whose salaries were well above their colleagues in the local companies of the same industry. BAOVALE MINERACAO has 640 local employees, while Baosteel Victoria Iron & Steel plans to have 3600 local workers and another 3600 native employees in its auxiliary projects. All these have turned BaoSteel one of the major job providers in corresponding countries. The fourth is the strengthening social responsibilities. BaoSteel's projects in Brazil have combined its social responsibilities and investment programs in the initiation period. At the beginning of the project, Baosteel Victoria Iron & Steel put forward its object to build an ecological steel company on the demand of protecting local environment. It also employed native professional companies to make and perform the social contribution plans; actively participated to the local public welfare undertakings; respected the local cultures and traditions and made relevant development plans. The positive evolution and practice of Chinese FDI in LAC have significant impacts on Sino-Latin America cooperation and active roles on the sustainable development of both parties.

Table 3. Major LAC Countries' FDI in China
 (\$ 10 thousand)

	2003	2004	2005	2006
World	5 350 467	6 062 998	6 032 459	6 302 053
Latin America and the Caribbean	690 657	904 353	1 129 333	1 416 262
British Virgin Islands	577 696	673 030	902 167	1 124 758
Cayman Islands	86 604	204 258	194 754	209 546
Barbados	2 446	3 129	9 701	53 548
Bahamas	8 787	4 800	7 467	8 394
Panama	3 283	3 592	4 291	5 956
Brazil	1 671	3 070	2 461	5 560
Belize	1 990	1 033	2 284	2 345
Mexico	555	2 129	710	1 234
Saint Kitts and Nevis	1 400	1 057	623	1 007
Argentina	1 889	3 080	1 089	686
Cuba	1 407	100	30	280
Chile	801	339	636	560
Bolivia	290	134	164	306
Dominican Republic	307	114	204	164
Paraguay	60	830	142	158
Honduras	69	539	290	131
Jamaica	10	360	100	79
Peru	90	445	338	73
Turks and Caicos Islands	57	127	350	52
Ecuador	53	10	76	10

Sources: National Bureau of Statistics of China (2005, 2006 and 2007), *Statistical Yearbook*, Beijing: China Statistics Press, China.

Latin America's ongoing improvement and liberalized market provide a good opportunity for Sino-Latin America cooperation, while China's sustained rapid growth, deepening reform and increasing opening-up also offer Latin American enterprises with a unique chance to develop in China. Both China and LAC are utilizing their own advantages, so that their FDI cooperation takes on a joint developing trend. Since 2003, LAC's non-financial investment in China has been going up. Deducting Cayman Islands and British Virgin Islands, LAC's actual FDI in China climbed up from \$264 million in 2003 to \$820 million in 2006, increased by 211%. Twenty-three LAC countries have invested in China,

among which includes some Mid-American countries with no diplomatic relations with China. Between 2003 and 2006, Brazil's annual actual FDI in China was over \$ 10 million, while Mexico's investment increased from \$5.55 million to \$12.34 million (see table 3).

China and LAC countries' cooperation in service also developed quickly. In 2003-2006, the value of China's economic cooperation with LAC increase from \$709 million to \$1970 million, added by 178% (National Bureau of Statistics of China 2005, 2006 and 2007). At present, China's cooperation with LAC is concentrated on the contracted projects, labor cooperation, design and consultation, among which the first one is the major form. During 2003-2006, China's contracted projects almost trebled, surging from \$648 million to \$1913 million. With the cooperation value over \$100 million during the consecutive 4 years since 2003, Mexico becomes China's major economic cooperating partner in Latin America. Brazil is China's fastest growing partner in the region with the cooperation value adding from \$1.34 million to \$156 million in the same period. Venezuela, where Chinese enterprises took more and more contracted projects, is another important partner for China. In addition, Guyana's and Cuba's economic cooperation value with China was also over \$ 100 million in 2006.

China & LAC: Comparison on Trade Competitiveness⁵

1) Analysis on Nations

In order to compare China's and LAC's competition on the specific industries or products in the world, the Balassa Revealed Comparative Advantage (RCA), which measures a specific product's share in the country's total exports relative to a share of this product in the world trade, is to be used. When RCA is more than 1, it indicates that the economy has comparative advantage of this product in the world, and when RCA is less than 1, it shows economy has no comparative advantage in product in the world. To be specific, if RCA is more than 2.5, this economy has a very strong competitiveness (VCS) in product in the world; if RCA is between 2.5 and 1.25, of this economy has a strong competitiveness (SC) in product in the world; if RCA is between 1.25 and 0.8, this economy has competitiveness (C) in product in the world; if RCA is less than 0.8, of this economy is competitively weak in product in the world. To keep the comparativeness of the data, «HS 1992» classification rule is adopted and the 2-Digits HS code is to be taken to make sort and comparison.

By calculating China's and LAC countries' RCA indices, it can be found that their competitiveness in the global market are different. Table 4 shows, having 52 categories of products with comparative advantages in the global market, China surpasses the overall LAC region in the export capacity, while the latter has generated different levels in their competitiveness. Among LAC countries, Brazil, Argentina and Colombia's are stronger in the export rivalry, with 35 to 50 categories of dominant products (1/3-1/2 of the total categories); Costa Rica, Uruguay, Mexico, Peru and Chile are in the middle, with 20 to 35 categories of products being revealed competitive (1/4-1/3 of the total categories); Paraguay, Panama, Bolivia, Ecuador, Jamaica, Bahamas, Guyana, Saint Lucia, Belize, Trinidad and Tobago, St. Kitts and Nevis, Venezuela and other countries are relatively weak with less than 20 categories of dominant products (1/5 of the total categories).

Table 4 also compares China and LAC in products/industries. It can be seen that the complementariness between them surpasses the competitiveness. In particular, China and LAC countries show 3 types of competition. The first group of countries includes Mexico, Costa Rica, Peru and Colombia, which are relatively stronger exporters and have more industries and products in competition with China. Among the first group, Mexico is in fierce competition with China. The second category of countries, including Brazil and Argentina, also has more competitive advantages, but they are in clear complementary with China nevertheless the existence of intense competition between them. The third group, including Chile, Uruguay, Trinidad and Tobago, Venezuela and Bolivia, has more products in complementarities and are less competed with China.

Table 4. China & LAC: Trade Competitiveness in the Global Market

	China & LAC: Comparative advantages				Competitiveness & Complementariness	
	Total	VCS	CS	C	Complementariness	Competitiveness
China	52	15	24	13		
Argentina	39	14	12	13	66	14
Bahamas	14	9	2	3	52	7
Bolivia	20	8	6	6	60	5
Brazil	42	14	14	14	60	17
Chile	21	10	6	5	57	8
Colombia	37	8	15	14	54	16
Costa Rica	35	9	13	13	49	15
Ecuador	20	8	6	6	54	9
Guyana	13	8	2	3	53	6
Jamaica	15	8	3	4	55	6
Mexico	28	1	13	14	46	17
Panama	20	12	4	4	66	7
Paraguay	20	14	3	3	56	8
Peru	26	15	4	7	50	14
Saint Kitts and Nevis	9	3	3	3	51	5
Saint Lucia	12	7	4	1	56	4
Trinidad and Tobago	9	4	2	3	57	2
Uruguay	29	16	5	8	59	11
Venezuela	3	1	1	1	49	2

Note: Data in the table is the number of HS Chapters.
 Source: Calculated on the data of UN Comtrade.

2) Analysis on Industries

China's and LAC countries' RCA indices show that their export competitive advantages distribute in different industries, which can be seen from Table 5 summarization based on HS 22 sections. It shows that China is dominant in such industries as textile, clothing and footwear manufacturing, metal processing and manufacturing, machinery manufacturing, chemical, agriculture, food processing, mining, wood processing and leather manufacturing, among which the first 5 have the most prominent export advantages. The overall competitive advantages in Latin America also scatter in different industries, and most countries have advantage in agriculture, food processing, mining, textiles, metal processing and manufacturing, wood processing and chemical industry. Therefore, China and LAC are both complemented and competed with each other. Table 5 shows, the two parties' conflicts in the textile, metal

processing, clothing and footwear manufacturing industry are relative apparent. Table 6 further describes the products/industries in competition among LAC countries and China. It demonstrates that China and LAC have their own victories. China is dominant in the textile, footwear and headgear, leather products, some chemical products, transport equipment, ceramics, iron and steel products and miscellaneous manufactured products, whereas LAC countries are stronger in animal products, plant products, food processing, mineral products, wood and wood products, a variety of metals and their products.

Table 5. Distribution of China's and LAC Countries' Competitive Advantages

HS 22 Sections	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	
China	2	2	1	2	1	2	2	2	2	1	14	4	3	8	2	2	2	3					
Argentina	4	7	1	8	2	7	1	2		1	1			4			1						
Bahamas	2			2	2	3	1				1			2			1						
Bolivia		5	1	3	2	1	1	1			2	1		1			1						
Brazil	2	6	1	8	2	2	1	1	1	2	4	1	2	5			2		1				1
Chile	3	5	1	5	1	3		1	1					1									1
Colombia	3	5	1	4	2	4	1	2		2	7		2	1	2					1			
Costa Rica	5	6		6		6	1	1	1	1	3		1	1	1	1		1		1			1
Ecuador	1	6	1	7	1			1			1	1	1										
Guyana	2	1		3	1			1			1			1	1		1						
Jamaica	2	3		5	3	1								1									
Mexico	1	4	1	4	1	2					3		3	3	2	2	1			2			
Panama	5	4		6				1	1	1				1									
Paraguay	2	4	1	4		2		2	1	4													
Peru	1	5	1	5	2	2		1	1	3			1	4									1
Saint Kitts and Nevis	3			1					1					1	1	1	1			1			1
Saint Lucia		1		2	2	1			2				1					2					1
Trinidad and Tobago				4	1	3								1									
Uruguay	5	4		4	1	4	2	2	1	1	3		1										
Venezuela						1																	2

Note: Data in the table is the number of HS Chapters.
 Source: Calculated on the data of UN Comtrade.

To the specific countries, China and LAC have different stresses in the competitive sectors (see Table 6). Here lists the situation of Mexico, Brazil and Colombia, who are in relatively intense competition with China. There are 18 HS chapters of competitive products between Mexico and China. Chinese products in dominance are pyrotechnic (HS36), textiles (HS 61-63), building materials, ceramic products, glass and its products (HS68-70), iron and steel products (HS 73), machinery and equipment (HS 84 and 86), miscellaneous manufactured articles (HS 94 and 96), while Mexican plant products (HS7 and 14), zinc products and miscellaneous manufactured articles of base metals (HS79 and 83), part of apparatus and equipment (HS85 and 90) take the lead. 17 HS chapters of competitive products exists between China and Brazil, among which Chinese textile products (HS50, 52 and 53), shoes and apparel (HS64) and ceramic products (HS69) are in dominant position, and Brazilian agricultural products (HS5 and 14), food (HS16 and 20), mineral products (HS25 and 28), wood and wood products (HS44), part of special textiles (HS56), building materials (HS68), metals and products (HS 72,76 and 79) are revealed competitive. China and Colombia compete on 16 chapters of products. Among them China is good at the weaving plant products (HS14), leather products (HS42), textiles and clothing (HS58, 59,60,61,62 and 63) and miscellaneous manufactured articles (HS96), while Columbia takes advantages on agricultural products (HS3 and 5), mineral products (HS25), part of special textiles (HS56), ceramics and glass products (HS69 and 70) and iron and steel products (HS72).

**Table 6. China's Position in it's Comparison with LAC
on the Competitive Categories**

	Dominant HS Code	Dominated HS Code
China	5, 16, 28, 43, 51, 78, 79	3, 7, 14, 20, 51, 73, 76
Argentina	63, 73, 82	3, 5, 25, 89
Bahamas	36, 52, 61, 65	14
Bolivia	50, 52, 53, 64, 69	5, 14, 16, 20, 25, 28, 44, 56, 68, 72, 76, 79
Brazil	5, 36	3, 14, 16, 20, 28, 44
Chile	14, 42, 58, 59, 60, 61, 62, 63, 96	3, 5, 25, 56, 69, 70, 72
Colombia	5, 16, 36, 41, 42, 61, 62, 96	3, 7, 20, 56, 70, 76, 85, 90
Costa Rica	14, 53, 65, 69	3, 7, 16, 20, 44
Ecuador	61, 93	3, 20, 44, 86
Guyana	25	3, 7, 20, 28, 72
Jamaica	36, 61, 62, 63, 68, 69, 70, 73, 84, 86, 94, 96	7, 14, 79, 83, 85, 90
Mexico		3, 5, 7, 16, 20, 44, 76
Panama	42, 50, 62	5, 14, 44, 52, 56
Paraguay	16, 28, 44, 55, 61	3, 7, 14, 20, 25, 36, 51, 78, 79
Peru	73, 86, 96	3, 85
Saint Kitts and Nevis	91	25, 92, 94
Saint Lucia		28, 72
Trinidad and Tobago	25, 28, 50, 53, 69	3, 5, 16, 43, 44, 51
Uruguay	72	76

Source: Calculated on the data of UN Comtrade.

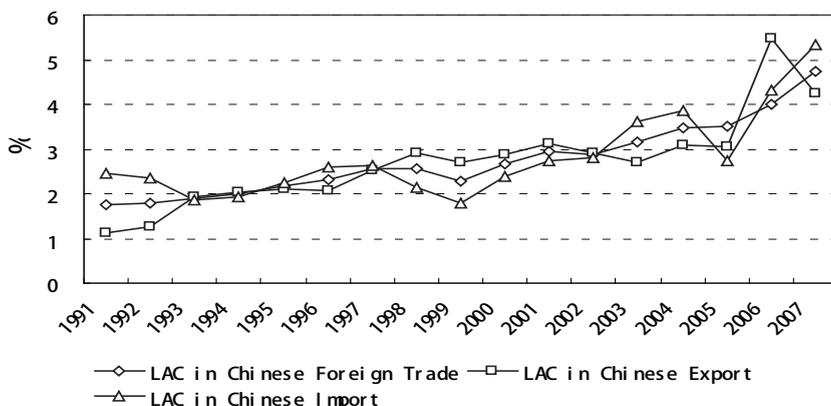
Meeting the Challenges, Shaping the Future

The sustained growth in China and Latin America creates sound foundation for their mutual benefit and win-win cooperation. In the context of the current uncertainties caused by the US sub-prime crisis and the negative world financial and economic situation, Sino-Latin America cooperation is of significance to both parties. According to their economic capabilities and cooperating scales, they have great potential to make further cooperation in the areas as trade and FDI.

In the perspective of trade, there are at least two basic factors which can explain the potential for future development. The first one is that there's room to enhance the weight of Sino-Latin America trade in Chinese foreign trade. Since 2003, China and Latin America have been important trade partners to each other. However, Latin America only takes

a relatively small part in Chinese overall trade (see Figure 8). Given the demand in their economic growth, there still is large space for China and LAC to enlarge their trade. The second one is that LAC's share in world trade is much less than its historical level. Although LAC took more and more part in global trade in goods after 2003, its weight in world export in goods is lower than that in 1983; while its proportion in world import in goods is equivalent to that in 1993, but lower than that in the import substitution period. According to WTO, between 1983 and 2006, the world export in goods expanded from \$1.8 trillion to \$11.8 trillion, increased by more than 5 times. However, the share of Mid & South America (exclude Mexico) in 1983-1993 declined from 4.4% to 3%, and readjusted to 3.6% during 2003-2006. Among others, Brazil's goods export in the world decreased from 1.2% to 1% in 1983-1993, and went up to 1.2% in 2003-2006. During the studied 24 years, the world import in goods increased more than 5 times from \$1.9 trillion to \$12.1 trillion. But during the first 20 years, Mid & South America's global share shrank from 3.8% to 2.5% and increased by only 0.5 percentages in the later 4 years. Brazil took a similar track with the whole region. That is to say its global share of import decreased by 0.2% in 1983-2003 and increased by 0.1% after 2003 (WTO, 2007: 10-11). It should be noted that Mid & South America's evolution in their proportion in the world trade took a similar trend as their economic growth and the development of Sino-Latin America trade. This means that LAC can take more part in global trade. Latin America's future development in its economy and foreign trade will push Sino-Latin America trade to a higher stage and introduce more results of the global trade boom into the region.

Figure 8. Sino-Latin America Trade in Chinese Foreign Trade, 1991-2007



Sources: National Bureau of Statistics of China (2005, 2006 and 2007), *Statistical Yearbook*, Beijing: China Statistics Press, China.

In the perspective of investment, there are also great potentialities. In spite of their closer cooperation in investment, China and major LAC countries' actual FDI to each other can be raised according to their overall FDI attractions and economic capabilities. At present, relatively few Chinese companies have invested in Latin America, but there are many capable enterprises from China that can accomplish much in investing in the region. On the contrary, a number of Latin American firms have the abilities and advantages to invest in China. By utilizing their own advantages in certain industries to enlarge FDI, the economic cooperation between China and Latin America should have a bright future.

It is no doubt that Sino-Latin America cooperation will inevitably meet the challenges from the market in a globalizing world. Here followed some common challenges which need the courage and wisdom from both parties:

The first is governments' and enterprises' capabilities of innovation, i.e. innovation in system and in economic structure and trade products. In a globalized market framework, the corresponding system will create a relatively stable foundation for long-term sustainable Sino-Latin America cooperation. Among others, the bilateral Free Trade Agreements (FTAs) is one option. But given the numerous and various countries in Latin America, it is a complicated and tough job task to make one-by-one FTA negotiations with each country. Wisdom and innovation from both

parties are thus needed to improve the establishment of FTAs. Sino-Chile FTA is a good trial. The two governments took an active attitude on FTA and split the negotiation into easy-to-difficult stages. They signed FTA in goods and then FTA in service, and agreed on the further negotiation on investment. This method achieved a good result. On the aspects of economic structures and innovation on trade products, both China and Latin America are facing challenges. Confronting the variation in global market, it is necessary to appropriately adjust their economic structures and trade products. To increase the complementariness of Sino-Latin America trade can partially reduce the competition and thus help to maintain the development of their cooperation. In fact, China and LAC countries are making such endeavors. Chile innovated its import & export products and changed the traditional economic and trade structures. By doing so, it made the fruits and sea products its major origins of export revenues. It also made necessary system innovation to iron the impact of the fluctuated copper price on the domestic economy (Santiso, 2007: 170). Chinese government has clarified that it will change economic growth mode and switch the dependence of growth from the investment and export to the domestic demand, investment and export, which will significantly influence Chinese current economic and trade structures.

The second is the improvement on competitiveness of the states and enterprises. In a globalized market, each economy, certainly including China and LAC countries, will inevitably face the pressures from the market competitions. Of course, the pressures vary to different countries. As developing countries, China and LAC countries confront some common market competitions as the adjustment of exchange rate, the increasing labor costs, the inflation caused by the soaring food and oil prices. In such a context, China and LAC countries should strengthen their economic cooperation and policy coordination so as to maximize their advantages and enhance their competitiveness in a benign interactive.

The third is to deepen the reforms. Sino-Latin America cooperation is base on the major economic reforms of both parties. In the dynamic processes, China and Latin America will meet some new problems in their economic reforms and market liberalizations, which may bring new challenges to their cooperation. Just in such processes, their cooperation can maintain the sustainable development vigor. The drawbacks in some major policies or backwards of certain government will impact its market liberalization and also negatively influence Sino-Latin America cooperation.

The fourth is to maintain the macro-economic stability and sustainability. Recent rapid development of Sino-Latin America cooperation is based on their stable and sustained growth, which is also necessary condition for the further cooperation. With various uncertainties in world economy and their increasing negative impacts on China and Latin America, both parties are confronting the historically severest challenges on macro-economic stability and sustainability. They can strengthen the relevant cooperation and exchange experiences in macro-economic policies so as to jointly meet the challenges.

Notes

- ¹ Cuadro A-1 en *Balance preliminar de las economías de América Latina y el Caribe 2007*, Santiago de Chile.
- ² *International Trade Statistics 2007*.
- ³ *International Trade Statistics 2007*.
- ⁴ Calculation based on *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*.
- ⁵ The RCA is calculated on trade statistics of UN Comtrade. Restricted by the availability of data, the calculation is based on the year 2006 and the following 19 LAC countries are included: Argentina, Bahamas, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guyana, Jamaica, Mexico, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Trinidad and Tobago, Uruguay and Venezuela.

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