Sistema Económico
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Sistema Econômico
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Système Economique
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Relations between China and Latin America and the Caribbean in the current world economic situation

Extra-Regional Relations

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C O N T E N T S

F O R E W O R D

This paper has been prepared in compliance with Activity III.1.5., "Analysis of the Economic Relations between Latin America and the Caribbean and the People's Republic of China," as set forth in the Work Programme of the Permanent Secretariat of SELA for the year 2012.

Chapter I focuses on the analysis of the impact of the global economic and financial crisis on China, particularly as regards the overheating of the Asian country's economy and the policies that have been implemented to counteract the negative effects of such situation, as well as the future prospects for the Chinese economy in the medium and long term. Chapter II, in turn, highlights the "spillover effect" of the counter-cyclical policies and measures adopted by China, which are systemically important due to the size and relevance of this country's economy in terms of trade, financial, and cooperation relations at the global level and with Latin America and the Caribbean.

Finally, the Conclusions and Recommendations section outlines some specific actions that the region should undertake in order to develop a strategy of rapprochement and strengthening of relations with China, as well as an appropriate follow-up to the short-, medium- and long-term prospects for this country's economy given the potential impact that changes in its economic behaviour and in the structure of its trade might have on the rest of the world and especially on Latin America and the Caribbean.

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EXECUTIVE SUMMARY

The latest review of data on the 2009 global economic downturn, conducted by specialized international institutions such as the International Monetary Fund, the World Bank, the United Nations Conference on Trade and Development (UNCTAD) and the Economic Commission for Latin America and the Caribbean (ECLAC), and by the countries themselves – as it is the case for China – show that while Gross Domestic Products at the global level and particularly for the whole set of high-income countries experienced negative variations for that year, the People's Republic had a 9.2% increase in GDP, with developing Asia also growing in the midst of recession, although at a rate of two percentage points less than China on average. With its high demand for imports, China, and to a lesser extent India and other emerging Asian economies, has helped make the widespread fall in world trade and the contraction in global production less severe. In the Chinese case, the Government introduced a counter-cyclical programme that proved even more successful than had been estimated in 2010 (SELA, 2010: 3 and 4), but it was also clear that the Chinese leadership was determined to continue to give priority to investment, in particular to improve the support infrastructure for exports as a way to achieve a quick recovery after an economic slowdown that began in the second quarter of 2008 and reached its lowest point in the first quarter of 2009, which marked the beginning of the upswing of the economic cycle. This counter-cyclical policy was effective for a Chinese growth model that China’s own Government is trying to change. The purpose is to boost domestic consumption over investment, as it is expected to result in the reduction of internal disparities and the correction of China’s huge surplus with the rest of the world.

In 2011, Chinese economic authorities and a team of specialists from the IMF discussed the global spillover effect of the successful recovery programme of China, a country that together with the United States, Japan, the United Kingdom and all of the euro-zone economies makes up a core group whose actions can have a dramatic effect on the behaviour of the international economic system, this being the reason why they are called the S5, or Systemic Group of Five. According to the resulting report (IMF, 11/2011b), both parties agreed – although with some different nuances – that the Chinese economy can generate shocks in other countries and regions, as well as a positive locomotive effect. For 2012 and 2013, it has been estimated that China's economy will grow at rates lower than 9%, in an environment characterized by an erratic recovery of the global economy and by the continuation of what all experts are already calling a Great Recession. As a result, a less beneficial effect of the Chinese growth is to be expected for the rest of the world. Long-term forecasts made by the Chinese Government, through the Development Research Centre of the State Council, and the World Bank predict that by 2030 the Chinese society could reach a high level of relative income and a certain degree of modernity provided that a series of reforms are implemented for the purpose of ensuring an effective transition from a stage of high growth and few qualitative changes to a stage of moderate growth and real development.

Beyond projections based on assumptions and methodologies which could be relatively accurate, in the last five years China's economy has been a major factor in boosting Latin America and the Caribbean’s exports, as well as trade, financial, and cooperation relations between the Asian country and our region, which have grown increasingly varied and, as such, more difficult to measure because of their almost exponential increase in the period 2006-2011. South America is the part of the Western Hemisphere that has increased its interdependence with China the most. True, the relationship between the two sides is the classic relationship established between a major hub providing manufactured goods and a periphery exporting strategic raw materials and energy, with the caveat that China has lower levels of development than Latin America, as shown not only by GDP per capita but also by other indicators of well-being. Furthermore, Mexico and Central America are basically competing economies rather than complementary to China's economy, which is why they have growing trade deficits with it. Mexico and China actually compete with each other in the U.S. market, where the two countries rank second and first, respectively, as the two economies with the largest trade surpluses with the U.S. Meanwhile, the Caribbean is not as important for China in terms of absolute and relative figures in the commercial context, but it is a subregion to which Beijing does attach high strategic and political importance, among other reasons because it includes six countries that still maintain diplomatic relations with Taiwan. In this China-LAC relationship, the Asian country has a clear, holistic view of our region, while we lack something like that, except for ceremonial expressions and the recent emergence of several economic studies that underscore the strategic value of the relationship of LAC as a whole with China, which has already become an economic power. As a region, we do not have a common position towards China, which is to be expected given the diversity of countries comprising the region. Even so, it would be advisable to create mechanisms aimed at allowing LAC to negotiate as a group with the Asian country, preferably out of the framework of the existing free trade agreements (FTAs) between individual Latin American countries and China. MERCOSUR and the Andean Community are very well positioned to promote a common policy for the consolidation of development cooperation with China. Mexico and Central America should try something similar, while CARICOM should take advantage of the fact that the Chinese Government already sees the Caribbean as a bloc and develop a common policy towards China that is in line with the Caribbean Community's interests.

I. IMPACT OF THE FINANCIAL AND ECONOMIC CRISIS ON CHINA

1. An overheated Chinese economy, restrictive policy and its results

In the 21st Century, the People's Republic of China (PRC) went ahead with its economic growth from the past two decades of the previous century, to such an extent that it seemed to surpass such extraordinarily high levels. In 2000 and 2006, the GDP, measured at constant prices, climbed at an annual mean rate of 10% (based on data from NBS, *CSY2011*, p. 47, Table 2.4). At the beginning of 2007, the government's main concern was to surpass all the previous GDP growth rates and the possibility that the country would go through an inflationary stage similar to that of the second half of the 1980s.

In the second half of 2007, the People's Bank of China (the central bank) started to curb the monetary supply, and commercial, mostly state-run, banks would limit mortgages and building loans in order to cool down a glaringly overheated productive apparatus and control the domestic real estate market, which bore all the attributes of a bubble economy. In February 2009, some foreign experts noted that the slowdown of the economic growth of the People's Republic of China had begun in the second half of 2007, "well in advance to the worldwide effects of the subprime crisis (bad debt mortgages) in the United States" (Bottelier: 5/02/2009). Subsequent data run counter to such a story about China's fast economic growth beginning to slide in the second half of 2007. According to the International Monetary Fund (IMF), China's GDP in real terms grew at an annual average rate of 11.7% in 2003-2007. In 2007, the GDP variation rate compared with 2006 reached a noteworthy 14.2% (FMI-*PEM*, 09/2011: 198), with a relatively high inflation rate of 4.8% in 2007 – December-December consumer price index – two-fold the average 2.1% of the previous four years (*op. cit*.: 203). Economic growth in 2011 was at 9.9%, lower than the previous year by some more than one percent, but higher than that in 2009 by 7%, when the world recession sprouted.

In other words, notwithstanding the implementation of restrictive monetary and lending policies in the second half of 2007, the Chinese economy somewhat continued its runaway race. Extraordinary spending for the Summer Olympic Games of 2008 and maintenance of high levels of gross fixed investment, mainly in infrastructure in support of exports, played a key role.

Gross capital formation (investment) kept on levering up a fast growth (Table 1). However, in the second half of 2008, control over house building; downsizing after the Olympic Games, and a lesser tax spending hit state-owned small and medium-sized enterprises (SMEs). Their demand for inputs would slump compared with previous months (2007 and part of 2008). Urban employment was the first casualty of inner shrinkage.

TABLE 1
China: Share and contribution of the three components of total spending in the GDP and its growth (%), 2003-2011

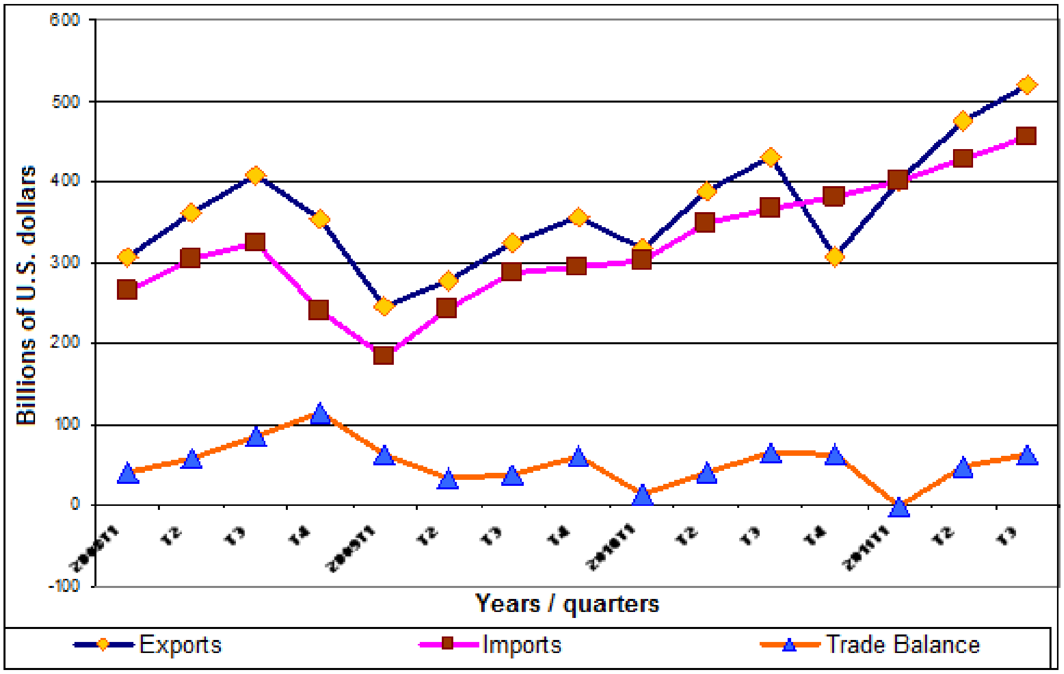
Years	Consumption		Gross Investment		Net exports (G&S)		GDP
	Share	Contribution	Share	Contribution	Share	Contribution	Var.
2003	35.8	3.6	63.2	6.3	1.0	0.1	10.0
2004	39.5	4.0	54.5	5.5	6.0	0.6	10.1
2005	37.9	4.3	39.0	4.4	23.1	2.6	11.3
2006	40.0	5.1	43.9	5.6	16.1	2.0	12.7
2007	39.2	5.6	42.7	6.1	18.1	2.5	14.2
2008	43.5	4.2	47.5	4.6	9.0	0.8	9.6
2009	47.6	4.4	91.3	8.4	-38.9	-3.6	9.2
2010	36.8	3.8	54.0	5.6	9.2	0.9	10.4
2011*	n.a.	n.a.	66.0	6.6	n.a.	n.a.	9.2

Source: National Bureau of Statistics of the People's Republic of China (NBS), China Statistical Yearbook (CSY) 2011, pp. 47 and 63.

** Data on gross investment were estimated on the basis of figures from the CPR Statistical Report on Domestic Economy and Social Development in 2011, of February 22, 2012 (National Bureau of Statistics of China). The GPD variation was also retrieved from that source.*
Components include: expenditure in final consumption; capital gross formation and net exports of goods and services.
Share means the increase of each component of the GDP as part of the increase of overall GDP.
Contribution means the contribution of individual components to the GDP increase; it results from multiplying the GDP growth rate by the GDP proportion of each component.
GDP index prices at constant prices have changing base years, but the numbers match with the real GDP, as designated by the IMF.

In October 2008, one month after the Lehman Brothers crash (Tibman: 09/2009) in the United States, Chinese exports recorded a variation in the red that would remain in the first quarter of 2009; the unleashed financial crisis in advanced economies turned out to be global economic recession. Chart 1 shows the quarterly trend of China's exports and imports, including an export variation by -13% in the third and fourth quarters of 2003, and -31% between the last quarter of 2008 and the first quarter of 2009. Only in the third quarter of 2010, a level higher than the peak of the third quarter of 2008 was reached concerning the value of exports in billion U.S. dollars; however, a -28% variation followed in the third and fourth quarters of 2010. China's purchases of commodities from the rest of the world showed the same trend as its exports, including variation at -26% and -23%, respectively, in the fourth quarter of 2008 and the first quarter of 2009.

CHART 1 Quarterly trends of exports, imports and trade balances of China from 2008 to 2011



Source: Economist Intelligence Unit (EIU), Dec. 2011, Country Report China, p. 34, and EIU, March 2011, CR China, p. 35.

2. Global crisis and Chinese economy

The status of bloated portfolios of bad debt mortgage loans in US commercial banks and middlemen, worsened by securitization of these portfolios and excessive securities speculation, seriously damaged the banking systems of high-income economies. A problem of bank balance sheets turned out to be a real liquidity crisis, when the inter-bank loan market dried up. Pretty soon, the real estate prices and stock exchange values plummeted. Despite the endeavours of central banks of rich countries to inject liquidity into the system and save banks, mortgage firms, insurance companies and other financial intermediaries from bankruptcy, some of the major and most important ones crumbled. From then on, real economy got into global recession. More advanced economies in North America, Europe and Japan were mostly stricken. Unemployment hit unprecedented levels, ever seen from the period after World War II; domestic demand dramatically downsized; investment levels plunged, regardless of the increasing counter-cyclic public spending and, lastly, the domestic product of each of these economies slipped in 2009. The crisis was transmitted – this time from developed economies to emerging and developing economies – through world trade shrinkage.

The financial-economic crisis of 2008-2009 does not look very deep as appears from global data and compared with that of 1929-1933, thus far, the most serious crisis in the history of the capitalist system. Nevertheless, the world product recorded in 2009 a negative variation of 2.3%, at market exchange rates, and 0.9% based on the purchasing power parity of money (see Table 2), something unusual. Following the drop in production and business, unemployment levels in high-income economies have been the highest since the end of World War II and they remain significantly high. In addition, distrust prevails in financial markets, worsened by high public indebtedness in euro zone countries and the United States.

TABLE 2
World Bank summary of the global outlook (percentage change versus the previous year, except for oil prices)

	2009	2010	2011	2012	2013
Global conditions					
World trade volume	-10.6	12.4	6.6	4.7	6.8
Consumer prices:					
G-7[1,2]	-0.2	1.2	2.2	1.6	1.7
United States	-0.3	1.6	2.9	2.0	2.2
Raw materials in U.S. dollars					
Raw materials excluding oil	-22.0	22.4	20.7	-9.3	-3.3
Oil (US$ / barrel)[3]	61.8	79.0	104.0	98.2	97.1
Oil, percentage variation (%)	-36.3	28.0	31.6	-5.5	-1.2
GDP real growth[4]					
World	-2.3	4.1	2.7	2.5	3.1
World (ppp):[5]	-0.9	5.0	3.7	3.4	4.0
High-income economies	-3.7	3.0	1.6	1.4	2.0
Euro zone	-4.2	1.7	1.6	-0.3	1.1
Japan	-5.5	4.5	-0.9	1.9	1.6
United States	-3.5	3.0	1.7	2.2	2.4
Developing countries	2.0	7.3	6.0	5.4	6.0
East Asia and Pacific	7.5	9.7	8.2	7.8	7.8
China	9.2	10.4	9.1	8.4	8.3
Europe and Central Asia	-6.5	5.2	5.3	3.2	4.0
Russia	-7.8	4.0	4.1	3.5	3.9
Latin America and the Caribbean	-2.0	6.0	4.2	3.6	4.2
Brazil	-0.2	7.5	2.9	3.4	4.4
Mexico	-6.1	5.5	4.0	3.2	3.7
Argentina	0.9	9.2	7.5	3.7	4.4

Source: The World Bank. Global Economic Perspectives, January 201, p. 2 (Table 1).

[1] Germany, Canada, United States, France, Italy, Japan and the United Kingdom.
[2] In local currency, aggregate, using the weighted GDP at 2005 prices.
[3] Plain averages of Dubai, Brent and West Texas Intermediate.
[4] Aggregate growth rates at constant 2005 U.S. dollars.
[5] Estimated at the purchasing power parity of money and 2005 prices.

Recovery of the global GDP in 2010 was uneven, higher in developing countries compared with high-income countries, and has not been sustained afterwards.

Table 2 is a summary of main economic indicators, released by the World Bank in January 2012. Note the dire prospects in the medium term.

In 2011 most indicators worsened relative to the previous year –which was supposed to mark the beginning of a rising stage in the economic cycle. Even the prospects for this and next year were revised downwards at the end of last year, both by the World Bank and the IMF, UNCTAD, OECD and other organizations. We are going through what is generally known as a “Great Recession,” different from the Great Recession of 1929-1933, both in terms of depth and period of time, yet very serious.

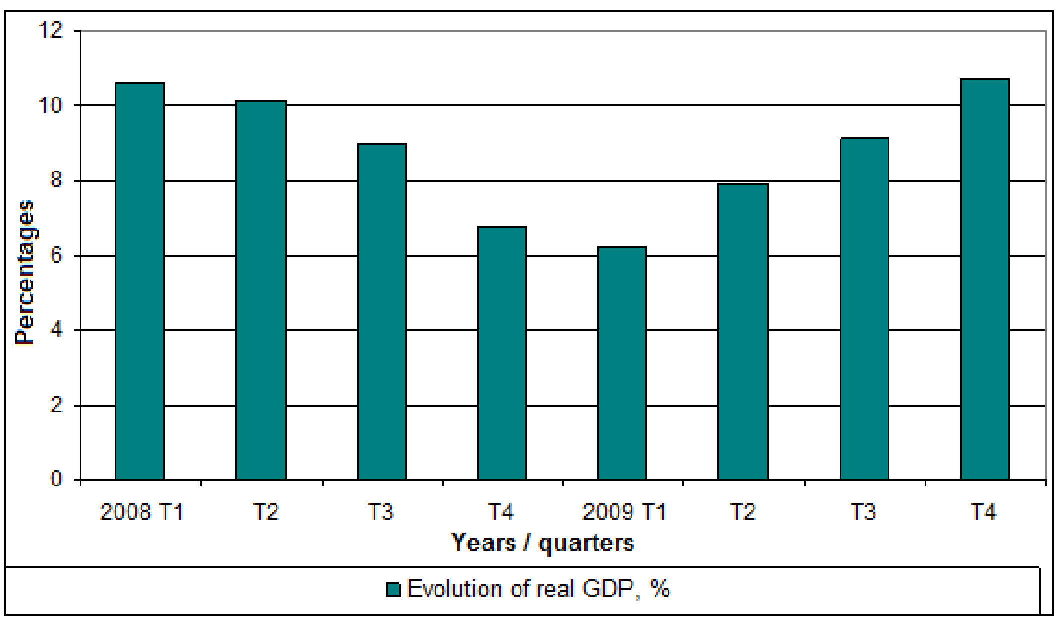
Also, as appears from the numbers listed in Table 2, the Chinese economy kept a sound growth despite an export fall between the third quarter of 2008 and the first quarter of 2009. That was the outcome of the prompt implementation of an economic recovery package, announced on November 9, 2008, of RMB 4 trillion (US$ 586 billion at the official exchange rate at that time); including tax reduction; raising fiscal spending and other outlays from state-owned enterprises (SE), municipal and provincial governments and other government agencies. The central government was expected to give around 25% of the package, leading the budget deficit to 1.6% of the GDP in subsequent years (2009 and 2010). The economic package would be backed by lower interest rates and expanded selected loan programs by development and commercial banks. Tax balances of the whole government – central and local governments – amounted to -2.3% and -1.6% of the GDP, respectively, in 2009 and 2010, with a preliminary number at -1.8% in 2011 and expected -3.1% by 2012 (EIU: 12/2011: 31).

It is worth mentioning that regardless of the bias on the 2009-2010 counter-cyclical package on behalf of gross capital formation and exports, and no matter a fiscal unbalance larger than expected, at least in 2009 their impact on the GDP growth was very positive, accounting for 9.2% in the year of recession. China was among the main driving forces of the global economy,[1] thus lessening the otherwise crushing impact on the entire world, including high-income and emerging countries. The recovery of the Chinese economic growth after two quarters in the red resulted in a standard V-curve, as seen in Chart 2.

3. Current performance of the Chinese economy and medium-term prospects

In the political arena, a change of leadership is nearing, as commented later on. However, domestic political stability is unlikely to change substantially in the medium term, a significant issue for continued growth.

CHART 2
Quarterly percent variation of China's GDP from 2008 to 2009



Source: Economist Intelligence Unit, Country Report, China, 03/2010, p. 36

In the economic ambit, after the successful counter-cyclic package of 2009-2010, China resumed the growth rate experienced during the period previous to the global crisis, with a GDP real growth at 10.4% in the second half of such period and 9.2% in 2011 (based on data of National Bureau of Statistics of China), despite the world slowdown. In the medium term a slower growth is expected compared with 2000-2007, yet not lower than

[1] Based on a recent case study, China's input to the world GDP growth in 2009 was near 62% (ECLAC, 3.2012:17).

the minimum level of annual 7.5% set by Chinese authorities. The forecast of 2012-2016 is based on both the last trends and the goals set in the 12th five-year plan of 2011-2015. The particulars of how the government intends to attain the main objectives are not known (see Box 1). Nevertheless, main action lines include offsetting growth so that it relies more on domestic consumption and less on high levels of gross capital formation, and pursuing a less unequal wealth distribution between the city and the countryside; between coast and inshore regions and inside these areas.

The world context in the first months of 2012 looks unfavourable. Chinese authorities have found the following risks coming from outside: slow recovery in many of the largest industrial economies in the world; high indebtedness level in the United States, the United Kingdom and euro zone countries; inconsistent economic policies inside the European Union; escalating global liquidity that could result in volatile global capital flows, and increasingly protectionist approaches by high-income and emerging economies.

Box 1
Relevant items in the 12th five-year plan of China, 2011-2015

Coverage. Document of a high strategic level where the trend of policy and reform in the years to come is set, as well as specific goals in some areas (including, among others, growth, urban development and energy use). In many of these areas, the plan does not delve into the specific steps to attain social and economic goals.
Topics. The central topic of the plan is growth rebalance. The emphasis on exports to incentives will go to domestic consumption, in order to "speed up transformation in the pattern of economic development" through reinforced productivity, support to innovations and investment in human capital. The priority has been shifted from the total growth level to its quality and impact on the "people's standard of living."
Domestic balance. The government promises to further its support to agriculture and the service sector, as well as to a balanced regional development. This will be done by means of a stronger urban development and relocation of industries in the province.
Household income. In order to push consumption up, the plan points to a necessary growth of available household income – urban and rural residents – far beyond the overall economic income. In this way, the perennial decline of the household income share in the GDP would be reversed.
Security networks. There are plans to enlarge the coverage of health and pension systems and supply houses to low-income families, up to 20% of urban families.
Technology and environment. The plan seeks to move forward in the value chain of manufactures. For such purpose, there is the need to raise the technology level and foster investments in strategic industries. There is continued emphasis on clean energy and rising prices of material inputs in order to include the cost of contamination and its externalities.
Tax reform. During the five years of the plan, the government will endeavour to drive the economic system to market interest rates and reach convertibility of the capital account.

Source: IMF. PRC, staff report for the 2011 article IV consultation. Country Report No. 11/192 (June), p. 6.

The most serious economic pressures faced by China include an overheated production apparatus and inflationary stress out of the domestic demand, particularly of fresh foodstuffs, housing and real estate. China People's Bank has combated inflation with administrative measures, including selected loan controls, instead of market instruments, such as management of interest rates. Another part of the inflation is due to higher production costs, particularly wage increases for skilled labour; bottlenecks in the transport of food, energy products and other inputs. However, it has a lesser effect compared with the hike of prices owing to an enlarged domestic supply.

High prices of real estate, housing and the building industry as a whole are the most representative instance of inflationary pressure out of demand and also from constant speculation that causes bubbles in such goods and stock-market values. Based on IMF estimates, supported by a wide range of information sources (Bloomberg, CEIC Data Company Limited; Centaline Property Agency Limited, and other dedicated agencies), the price/income ratio of access to a house or room in China in 2010 was almost 5, higher than in the United States and the United Kingdom, but lower than that in Singapore. As for cities, Beijing had a ratio near 20 and Shanghai's was close to 15, that is, 10 points above Tokyo and 6 points below Hong Kong, one of the most expensive cities in the world in terms of housing.[2]

The Chinese government is advised to pay priority attention to the financial intermediation system. Although shallow, it is very extensive and acts as a driving belt of loans that feed the real estate semi-bubble and expands the risk range of banks. Even if briefly, the attributes of such system should be remembered here. The system is sustained by four pillars: 1) banks and other financial intermediaries; 2) financial markets; 3) a "non-standard sector" composed of non-state enterprises and enterprises not listed in the stock market. Such enterprises are organized under several ownership structures, the operation of which is very similar to that of a market economy, and 4) external sector regarding the balance of payment capital account (Anguiano-Rodríguez, 2011).

The pillar of banks and other financial intermediaries captures most of the country financial resources. It is composed of the institutions listed in Table 3, together with their assets in RMB and recent development. The three development banks or "policy banks" are China Development Bank (国家开发银行); China Export-Import Bank or Eximbank (中国进出口银行) and China Industrial and Commercial Bank (中国农业发展银行). Add to this, in the ranking of development or policy banks, the People's Bank of China, the country central bank. Taken together, the five largest commercial banks in the country, owned by the central government,[3] and the assets of the above-mentioned three development banks, state-run banks amass more than half financial assets of banks and other financial intermediaries (57% in 2009; Table 3). If all that was not enough, most of the 12 largest stock commercial banks in the country are in State hands.

In 2001-2007, China's intermediation system, particularly banks and other financial intermediaries, was consistently healed and loan/deposit ratios went from 77% in 2003 down to some less than 68% in 2009. Again, however, they exceeded 70% in 2010 (Anguiano-Rodríguez, 2011: 14). Following an on-masse injection of loan incentives, in reply to the global crisis of 2008-2009, the bank system managed to absorb downward risks, as appears from the stress tests that the authorities of the central bank and the regulating agency, China's Banking Regulatory Commission, took on commercial and investment banks over the past few years as part of the *Financial System Stability Assessment* or FASP (IMF. Report 11/321, 11/2011). There is still the risk of shocks in multiple fronts –low economic growth; diving real estate, and higher interest rates. This would leave small banks with scanty capital to meet their requirements. As regards quality of loans, key risks focus on the loans granted by local governments by means of a wide array of intermediation vehicles, loan portfolios outside balance sheets and, to a lesser extent, loans administered in the sector of real estate owners.

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[2] The comparison base is the price of a 70-square meter house as a multiple of the average available annual income of a family.

[3] China Industrial and Commercial Bank (中国工商银行), China Construction Bank (中国建设银行), China Bank (中国银行), Communications Bank (交通银行) and China Agricultural Bank (□□农业银行).

TABLE 3
China: total assets of banks and other financial institutions, 2003-2009
(billion RMB)

Banks and other financial intermediaries	2007	2008	2009	2010
Total (3,769 units)	**53,116.0**	**63,151.5**	**79,514.6**	**95,305.3**
Development banks, or so-called policy banks (3)	4,278.1	5,-45.4	6,945.6	7,652.1
Large commercial banks (5)	28,500.0	32,575.1	40,799.8	46,894.3
Stock commercial banks (12)	7,274.2	8,833.7	11,818.1	14,903.7
City commercial banks (143)	3,340.5	4,132.0	5,680.0	7,852.6
Rural commercial banks (43)	609.7	929.1	1,866.1	2,767.0
Rural cooperative banks (196)	646.0	1,003.3	1,279.1	1,500.2
Urban credit unions (11)	131.2	80.4	27.2	2.2
Rural credit unions (3,056)	4,343.4	5,211.3	5,494.5	6,391.1
Non-bank financial institutions (350)	971.7	1,180.2	1,550.4	2,089.6
Postal savings bank (1)	1,768.7	2,216.3	2,704.5	3,510.1
Foreign banks (37)	1,252.5	1,344.8	1,349.2	1,742.3

Source: Partially taken from a table prepared by Anguiano-Rodríguez, 2011, p. 12.

In light of the above-mentioned hurdles that China should face in the medium term, the prospects for 2012-2016 look rosy, as evidenced from Table 4, where economic and social indicators are based on the forecasts of the International Monetary Fund and a British think tank of international standing. In the next five-year term, in the absence of an oversized political or social disaster, China will consolidate its position as the second global economic power, very close to the United States. And if the Chinese leadership (the fifth generation), makes headway with rebalance of the growth model, with increasing share of domestic consumption, opening of the capital account abroad, and streamlining of the domestic financial system, the factors with a higher negative impact on the rest of the world will be reduced, namely: excessive and sustained surplus of China's foreign current account balance and undervaluation of its exchange rate.

Figures from the IMF and the Economist Intelligence Unit (EIU) relative to GDP variations are different from each other both for 2011 and for forecasts, which the IMF keeps constant at 9.5%. Nevertheless, in the IMF first report of 2012 (*World Economic Outlook. April 2012*), the forecast of 2012, 2013 and 2016 gets closer to the EIU estimates. In the remaining items there is little difference, except for the current account balance, either as part of the GDP or in current U.S. dollars (Table 4). Here, the IMF data are much higher, resulting, obviously, in very different forecasts. According to the inter-government agency, China's current account surplus compared with abroad will remain over the next five years by more than 6-7% of the GDP, from the current year (2012). Instead, for the expert staff of The Economist, such surplus will be significantly lower in the upcoming five-year term, compared with the results from the first five years of the present decade. Here, also, the IMF seems to have rectified its extrapolations. In its cited report of April 2012, it makes an analysis of China's future foreign surplus, where the possibility of going downward is pondered (IMF: 4.2012: 43-46).

TABLE 4
China: illustrative scenario in the medium term[1] (a) and EIU forecasts (b)

		2011	2012	2013	2014	2015	2016
				(percentage change)			
Real GDP	(a)	9.5	9.5	9.5	9.5	9.5	9.5
	(b)	9.2	8.2	8.5	8.0	8.0	7.6
Overall domestic demand	(a)	8.5	9.0	8.9	8.9	8.8	8.9
	(b)	9.4	9.0	9.4	9.0	8.9	8.7
Consumption	(a)	9.5	9.6	9.6	9.5	9.4	9.4
Private consumption	(b)	8.9	9.4	10.1	9.9	9.4	9.2
Government consumption	(b)	9.8	12.5	8.9	9.1	9.4	9.0
Fixed investment	(a)	7.9	8.7	8.6	8.5	8.5	8.5
Fixed gross investment	(b)	10.1	8.0	9.3	8.8	8.5	8.0
Net exports[2]	(a)	1.5	1.1	1.2	1.3	1.3	1.3
Consumer prices (annual average)	(a)	4.7	3.3	3.0	3.0	3.0	3.0
	(b)	5.6	3.8	4.5	4.3	3.9	4.1
				(as GDP %)			
Gross capital formation	(a)	48.5	48.5	47.9	47.4	47.0	46.6
Domestic gross saving	(a)	54.0	54.5	54.4	54.2	54.2	54.1
Tax balance	(a)	-1.6	-0.7	0.0	0.1	0.2	0.2
	(b)	-1.8	-3.1	-2.4	-2.1	-1.7	-1.9
Current account balance, GDP %	(a)	5.5	6.0	6.5	6.9	7.3	7.5
	(b)	2.9	2.0	1.7	1.1	0.7	0.4
Current account balance (US$ MM)	(a)	377	455	545	644	758	865
	(b)	201	167	162	120	93	52

Sources: IMF (July 2011) Country Report No. 11/192, p. 46; EIU, Country report China, pp. 9 y 11. (US$ MM) = billion US dollars. [1] Customarily, in this scenario a constant real exchange rate and a continued policy framework are assumed. (a) FMI 11/2011; (b) EIU, 12/2011.

Anyhow, the differences noted in the numbers of Table 4 with regard to the foreign current account balance –reaching the 2016 forecast of 7.1% of the GDP and US$ 813 billion- are partly due to significant differences in the respective forecasts (no changes in economic policies on the IMF assumption and with changes in the trends of each extrapolated component under the method adopted by the EIU). Also, such variations are due to the different ways of counting the main components of the current account balance. The IMF records CIF exports and imports based on the BOP (Balance of Payments), that is, per countries of shipment instead of countries of origin. The EIU publication takes into account FOB exports and imports. There are also significant differences concerning the net balance of factorial income. Importantly, however, it is noting in an indicative manner what could happen in the next five years to the Chinese economy, based on the two extrapolations.

4. China by 2030

In a widely referenced event, on the occasion of the commemoration in 2010 of the 30th anniversary of the admission of the People's Republic of China to the World Bank,[4] the President of the international financial institution Robert Zoellick, whose term will expire in July 2012, suggested Chinese leaders that together – the World Bank and China – should undertake an in-depth study on the lessons that the tremendous growth of the past 30 years has taught this country and the entire world, and on the strategic framework that

[4] Although China had regained its place in the UN since October 1971, Chinese leaders would take nearly a decade to decide on their joining the international monetary and financial system of Bretton Woods institutions.

should be developed to ensure the continuation of China's rapid growth and economic development for the next 20 years.

As described in the Foreword and the Executive Summary of the report resulting from this effort,[5] the research was conducted jointly by China's Ministry of Finance (MOF), the Development Research Centre of the State Council (DRC), and the World Bank, with the report being written by experts from the last two mentioned institutions. The first draft of the report was discussed at a High-Level International Conference held in September 2011 at Beijing's Fragrant Hills, with the attendance of international and Chinese experts and officials of several units of the Chinese State and executives of China's leading companies and banks.

The drafters collected views, criticisms and comments expressed at the above Conference and, by common agreement, developed the version disclosed on 27 February this year. The central hypothesis of this joint work is that China has enough potential to become a modern, harmonious, and creative high-income society by 2030, but to do this the country must change its institutional framework and some of its policies. So far, the study noted, China's GDP has grown dramatically at a rate of 10% per year over the past three decades, which among other things has resulted in more than 500 million people finding their way out of poverty (WB, China 2030: 2012, xv). Nevertheless, the next phase of China's development will pose formidable challenges and risks that will require the Asian country to introduce substantive changes.

China's current strengths – high savings, lots of increasingly skilled workforce and potential for improved urbanization – should serve as the basis for future changes, with external opportunities such as globalization, the rapid growth of other emerging economies and access to new and promising technologies also being exploited. In presenting the study, neither Zoellick nor PRC's President Li Wei make explicit reference to the risks posed by the current "great recession" to all economies in the world. Domestically, China has to deal with issues such as an aging population, growing inequity, large and growing environmental deficit, and persistent external imbalances (in the form of surpluses).

Researchers and authors of the study suggest six strategic directions for a new development strategy, laying out a timeframe for the introduction and implementation of reforms and the sequence they should follow in order to realize an optimistic vision of the future (2030). The six directions or strategic guidelines are: first, rethinking the role of the state and the private sector to encourage increased competition in the domestic economy; second, encouraging innovation and adopting an open innovation system with links to global research and development networks; third, pursuing green development and looking to it as a new and significant driving factor for growth; fourth, promoting equal opportunities and social protection for all; fifth, restructuring the fiscal system and improving its sources of financing; and sixth, ensuring that China, as a major international player, continues its integration with global markets.

This is not the first time that special reports issued by the World Bank are referenced by the Chinese Government for the general orientation of its economic policies. In 2006 the IBRD, the International Finance Corporation and the Multilateral Investment Guarantee Agency presented the Report 35435 entitled "Country Partnership Strategy for the People's Republic of China for the period 2006-2010," which was taken into account by the

[5] The World Bank and the Development Research Center of the State Council, the People's Republic of China. *China 2030. Building a Modern, Harmonious, and Creative High-Income Society.* Conference Edition, as presented on 27 February 2012 in Beijing.

Chinese authorities not only for the development of China's Eleventh Five-year Development Plan, but also for the design of general and sectoral economic policies. But the study that marked a milestone in World Bank-China cooperation was *China 2020 series*, a work published in 1997 in seven numbers (The World Bank, 1997). The first of them, Development Challenges in the New Century, contains a very insightful analysis of the conditions and factors leading to what today might be called the take-off of China's economy (1985-1995) and, based on such assessments, it provides growth forecasts for the next 25 years, many of which, such as gross domestic product and investment growth rates projected for the end of the XX century and the first decade of the XXI century, fell short when compared to what really happened. The assessment of the most daunting challenges facing the Chinese economy was much more accurate though.

As noted above, participating in the preparation of the report of February 2012 were Chinese and World Bank experts, which suggests that the result is a consensus document. The current leadership of the Chinese Communist Party – in fact the highest body of the State–will end their 10 year term at the direction of the Party in autumn this year, while their constitutional mandate at the head of the State and of the Government will expire in the first months of 2013. Hu Jintao, the Secretary-General of the Communist Party and President of the People's Republic of China, will transfer his responsibilities to Xi Jinping, the current Chinese Vice President who ranks sixth in the hierarchy of the Party, while Prime Minister Wen Jiabao will hand over the reins of the Government to Li Keqiang, now Deputy Prime Minister of the State Council and ranked seventh in the hierarchy of the CP. These two successors – Xi and Li – belong to the so-called fifth generation of leaders, who were born in the 50's after the establishment of the People's Republic. Unless something extraordinary happens, these leadership changes will occur during the XVIII National Congress of the Communist Party and the XII National People's Assembly, the two bodies that are theoretically sovereign to choose its leaders and to adopt national policies for the coming years.

After being re-elected in 2007, the outgoing duo – Hu Jintao and Wen Jiabao – proposed the so-called "Theory of the Three Harmonies," which has been attributed to the former: Heping (和平), "peace" as a message to the world; He jie (和解), "reconciliation" as a message to Taiwan; and Hexie (和谐), "harmonious" referring to that kind of internal growth. The study presented on 26 February 2012 is entitled, *Building a Modern, Harmonious, and Creative High-Income Society*, which undoubtedly incorporates the motto of one of the three harmonies of the alleged Hu Jintao's "theory". It is a legacy of the outgoing generation of leaders and also part of a vision of the future that those leaders want for their country. Ironies of history, a ruling Communist Party works together with World Bank experts in order to develop an economic growth plan for the future of a formally socialist system, which in pursuance of its objectives introduces and implements policies that lead to a market economy rather than a state-controlled economy.

II. EFFECTS OF CHINA'S COUNTER-CYCLICAL POLICIES AND MEASURES ABROAD

1. Global spillover effect

Following three decades of rapid and sustained growth in China, the Chinese economy is expected to slow down and a cycle of relative maturity, characterized by moderate GDP growth rates, is expected to begin. Such likely slowdown, from a real annual average growth in the past 30 years at 9.9% (WB, 2012: 3) to something more "normal," poses a question for scholars and governments around the world on whether such change will be gradual and smooth, or abrupt. In other words, the question is whether the Chinese economy will have a standard landing or will crash. Obviously, it is in everybody's interested that the slowdown of the growth rate of the huge Asian country is smooth.

Overall, the effects of rapid Chinese growth have been beneficial for many economies, particularly East Asia and Southeast Asia, but also for emerging economies in other regions, especially those that export strategic raw materials (commodities). On the contrary, the advanced economies, particularly the United States and the European Union, have found a formidable competitor in China, mainly in the manufacturing sector. This is also the feeling of emerging economies competing with China in manufacturing.

The IMF regularly assesses the effects that the economies the Fund calls systemic (the United States, the United Kingdom, the Euro area, Japan and China) have on the world economies. Under Article IV of the IMF Charter, a group of its regular team of experts prepared the 2011 Spillover Report on China. The paper based on data up to July 2011 year and was published in November, after the required consultations between the experts and the Chinese government. The report's conclusions are as follows (IMF, 11/2011b: 1 and 3):

- China has the capacity to both transmit and originate real shocks in the rest of the world, as it is currently the first or second largest trade partner of 78 countries representing 55% of the global GDP. Insofar as China's growth model is export-oriented, it will continue to be a source of stresses, thus making its economic rebalancing crucial.
- Chinese currency (RMB) appreciation is important to that process of rebalancing its growth model, but alone it is not enough to reduce the positive unbalance of China vis-à-vis other countries. Significant positive effects on others' output and trade require a comprehensive transformation that reduces China's household and corporate savings rates and raises depressed factor prices in the country's productive sector. Raising salaries in China could alleviate concerns among many governments that China's competitiveness is built on a distorted cost structure, thus easing somehow trade tensions between China and other countries.
- Failure to rebalance the growth model – a goal that the Chinese authorities themselves have set – would imply unprecedented increases in China's export market share, potential overhang in capacity (particularly in the manufacturing sector), and adverse spillovers from resulting stresses on corporate and bank balance sheets.
- Regarding the effects on global capital flows, the IMF report shows that China's financial policies can affect global capital flows, but that role is secondary to fundamentals such as emerging market country growth and advanced country liquidity conditions. While China's large purchases of reserve currency assets reduce their yields and push capital to emerging markets, it is unclear what the net effect of its closed capital account is, and what opening it up would do.

The export-oriented model in China has relied on undervalued exchange rate, financial support to the external sector and trade incentives of various kinds. The IMF estimates that China's exports almost quadrupled in 15 years (they doubled since China joined the WTO in late 2001), from about 3% of world exports in 1995 to 12% in 2009 (in 2011 they represented 16% of world exports of goods and services. IMF: 04.2012: 179). The composition of exports also changed significantly during this period, with a rapid increase in its share in capital goods sales abroad (IMF, 11/2011-Selected Issues- p. 4). Also, China has advanced rapidly in the value added chain in the global context, while it has become a very important buyer of raw materials from countries such as Saudi Arabia, Argentina, Australia, Brazil, Canada, Chile, etc. In the meantime, the growth of domestic consumption, both final and intermediate, has relied on supplies from countries such as South Korea, Japan, the European Union and the United States.

China's indirect effects or externalities (spillover effects) on the rest of the world have been calculated based on an analysis built on Input-Output tables for 2000 and 2008 from Mohommad and others (IMF, 04/2010: 43-46). These I-O tables show the detailed production structure for 10 economies – Indonesia, Malaysia, Philippines, Singapore, Thailand, China, Taiwan (Province of China), Korea, Japan, and the U.S. – with 7 sectors in each economy. (IMF, 11/2011-Selected Issues, Appendix I: 9). We found positive externalities, such as those resulting from the implementation of the 2009-2010 counter-cyclical financial package of China, which helped keep China's GDP growth rate at 9.2% (PPP) in 2009, while global output fell 0.9% (PPP) (see Table 2). This benefited emerging economies and others that export raw materials to China, as well as neighbouring Asian economies, which together with China are part of the East Asian extensive trade network or node.

Additionally, the indirect effects of China's growth on foreign countries were analyzed by means of the "vector autoregression" (VAR) model. The analysis highlighted pressures from internal distortions of China's economy: recovery focused on capital accumulation and investment in infrastructure to support exports; need to continue placing excess productive capacity abroad, which implies opacity in domestic costs/prices and a slow correction of the undervaluation of the RMB; accumulation of bad debt/portfolios of Chinese state enterprises and banks; and protracted excessive current account surplus of China with foreign countries, at the expense of the different deficits that trading partners have in such account with China.

Desirable for a correction of global imbalances is that China implements policies of economic recovery in moments of crisis, such as those introduced in 2009, or in post-crisis stages, in order to boost domestic consumption and consequently its imports rather than its exports. Table 4 shows the degree of "centrality" (see footnote 1 of Table 5) that China's exports have reached, compared to some of its major trading partners and other key economies in the world.

There follows a final comment on China's accumulation of international reserves and the lack of openness of its capital account.

According to a report by the National Bureau of Statistics of China, dated February 22, 2012, China's international reserves hit US$ 3.18 trillion in late 2011. Some forecasts for the next two years estimate them as follows: US$ 3.61 trillion in 2012 and US$ 3.84 trillion in 2013 (EIU December. 2011: 31).

As for the openness or lack of openness of the balance of payments of China with foreign countries, on February 23, 2012, the People's Bank of China circulated internally a document containing a 10-year timetable for gradually easing China's capital markets, both domestically and abroad. Several Western media reproduced the essence of such a document, including British weekly *The Economist*, which in its editorial of 3 March highlighted the dangers of rapid liberalization of these markets, but also the problems that China's economy could face if such liberalization is not carried out gradually.

Households, corporations and joint ventures in China save a large portion of their available income outside the financial intermediation system precisely because of the high degree of state control on the financial system and the authorities' discretion in managing it. As for individuals, they are paid confiscatory interest rates for their savings in commercial banks, mostly state-owned banks. The interest rates banks pay on term deposits are negative in real terms or slightly above zero. Therefore, they are comparable to a tax on depositors and a subsidy for industry, as banks funnel most of the term deposits to state corporations and to those listed on domestic and Hong Kong-based stock exchanges, which receive these funds in the form of preferential loans. Non-public Chinese companies (not listed on domestic stock exchanges) that are organized under a variety of forms of ownership (private firms, joint ventures between provincial governments and private partners, cooperatives, etc.) are banned from buying shares or foreign bonds. Consequently, the natural outflow of distributable profits is the real estate market and the acquisition of fixed assets, which intensifies the speculative nature of real estate and excess installed production capacity.

TABLE 5
Centrality of exports (Rank, with 1 being the most central as measured by the "Eigenvector centrality" index[1])

	Total Exports		Capital Goods		Consumer Goods		Intermediate Goods		*Commodities[2]*	
	2000	**2008**	**2000**	**2008**	**2000**	**2008**	**2000**	**2008**	**2000**	**2008**
China	4	1	5	1	1	1	5	3	9	10
Euro Area	1	2	3	3	2	2	1	1	6	8
U.S.	2	3	2	4	4	5	2	2	3	4
Japan	3	4	1	2	3	4	4	4	16	16
U.K.	5	5	7	9	5	3	3	5	4	7
South Korea	7	6	8	5	7	6	7	6	20	20
Russia	10	8	18	19	13	7	6	7	5	2
Mexico	6	10	6	7	6	8	11	11	2	3
Brazil	15	12	14	15	15	17	9	9	8	5
India	19	15	17	16	14	9	10	10	13	11

Source: IMF, 11/2011 –Selected Issues- p. 5.
[1] This index weights the size of exports with the exchanges with other major players.
[2] Including raw materials and hydrocarbons.

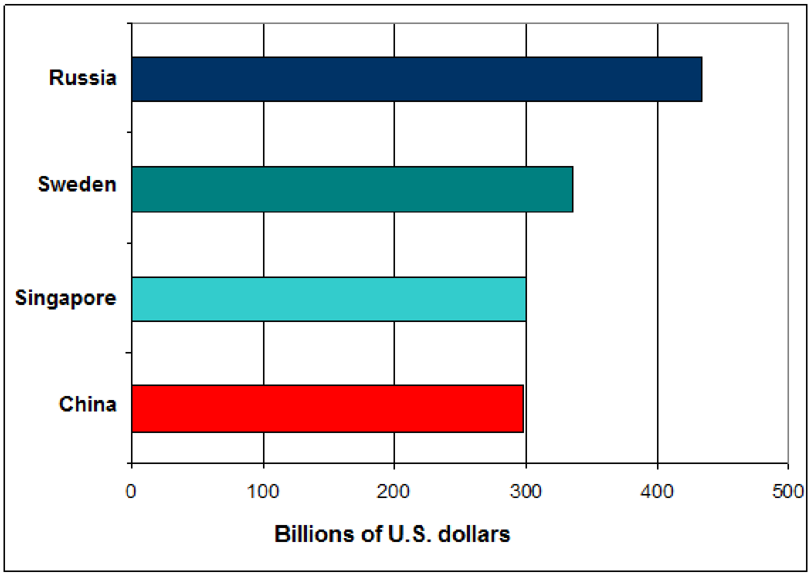
The availability of cheap capital is one of the explanations for the rapid growth of China's GDP. The state manages the large mass of domestic savings so that it is channelled to investments that are not always the most economically rational, especially when borrowers are the big Chinese companies, which due to their monopolistic structure produce goods at prices that are high domestically but comparatively competitive for export. This, in turn, promotes a mercantilist trade policy that leads to the accumulation of dangerous levels of foreign reserves. Simultaneously, "China's excess saving is currently funnelled through the central bank into (overpriced) American Treasuries and similar bonds. This appetite for safe securities encouraged Western banks to create synthetic, AAA assets that later turned toxic, with ruinous results".[6]

Chinese saving households and corporations should be free to invest in foreign securities where the opportunity cost of savings is lower than in regulated banks and other domestic financial intermediaries. While some monopolistic corporations, particularly commercial state-run banks, can place bonds abroad or make direct investments in other economies, such flexibility is limited. A self-stabilizing mechanism of the external current account in cases of high and sustained surpluses such as China's is the export of foreign direct investment (FDI) and capital loans, but control of China's capital account prevents full operation of this mechanism. That is why China's FDI to the world is smaller than that of

[6] *The Economist*, 3-9 March 2012, p. 18.

countries such as Russia, Sweden and Singapore, as measured in terms of accumulated inventory rather than flows, as shown the following figure:

CHART 3
Accumulated FDI outflows from selected economies by 2010



Source: UNCTAD. World Investment Report 2011. Annex, Chart I.2, pp. 191-194.

However, liberalization of the capital account cannot be done without liberalizing domestic capital markets. Otherwise, this would lead to chaotic speculative loans and capital that could engulf Asia and much of the world. Therefore, the People's Bank of China has presented a three-phase programme for the elimination of controls: during the first stage, Chinese businesses would be encouraged to buy foreign companies. This would translate – in the second stage – into a huge amount of commercial loans, including cross-border loans in Chinese currency. The third and last stage is the elimination of the remaining controls, while preserving a degree of discretionary management by the government to limit speculative flows.

2. Impact on Latin America: Trade flows

The impact of the "Great Recession" on the Latin American region was higher than the global average (-1.7 and -0.7, respectively in terms of GDP growth in 2009),[7] but it was lower than in advanced economies, where growth collapsed. However, the contraction in Latin America was deeper than that in the developing economies of Asia, whose lowest percentage change in growth (in 2009) was 1.7 points above the highest growth in Latin America and the Caribbean over the past nine years, which was recorded in 2004 (see Table 6).

After the setback of 2009, an overall modest recovery followed, which soon began to slow down worldwide and particularly in Latin America. Forecasts for 2012 have been revised down. China recorded a real GDP growth of 9.2% in 2009, which was certainly lower than in previous years and of 10.4% in 2010. A further slowdown came in 2011, when GDP soared 9.2%, and forecasts for this year are pessimistic.

[7] IMF calculations related to GDP at purchasing power parity (PPP) of currencies, which differ from the World Bank estimates of world GDP at -2.3% and -2.0% Latin America GDP in 2009, but at market exchange rates in U.S. dollars at 2005 prices (see Table 2).

China and to a lesser extent India, Russia, Brazil and other emerging economies were the engines of growth in 2007-2008. Particularly, thanks to China the global contraction was less dramatic, and that of developing countries in general was less marked than in advanced economies. Developing Asia (including China) is the region of the world that has not stopped growing, although expected increases in the short term are below the trend in this century. UNCTAD estimates that as a result of the crisis in the Euro area, growth in developed economies will be minimal and possibly negative. It forecasts that the high growth rate of China will be tempered, and consequently exports from our region to that country will almost certainly drop. The prices of commodities (agricultural products, minerals, metals and oil) will enter a phase of high volatility and uncertainty, due to both reduced overall production activity and fluctuations in the exchange rates of major currencies (UNCTAD-*TDR2011*: 10 and 11). The conclusions of this study provide estimates of growth for 2012 and medium-term projections.

TABLE 6
World Output and Output of some regions and countries, 2003-2011
(annual percent change in real terms)

Region/country	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
World	3.6	4.9	4.5	5.2	5.4	2.8	-0.6	5.3	3.9
Advanced Economies	1.9	3.1	2.6	3.0	2.8	0.0	-3.6	3.2	1.6
Latin America and the Caribbean	2.1	6.0	4.7	5.7	5.8	4.2	-1.6	6.2	4.5
Brazil	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7
Mexico	1.4	4.0	3.2	5.1	3.2	1.2	-6.3[1]	5.5	4.0
Developing Asia	8.1	8.5	9.5	10.3	11.4	7.8	7.1	9.7	7.8
China	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2

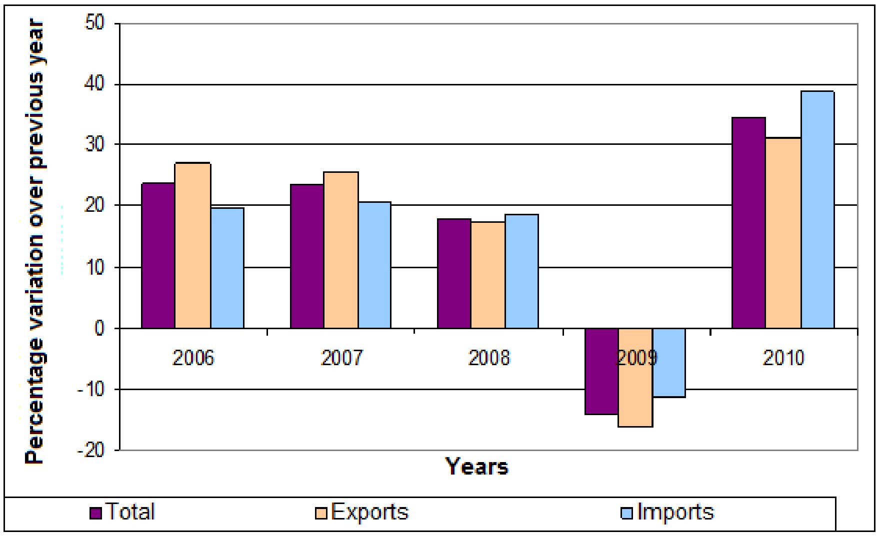
Source: FMI, World Economic Outlook, April 2012, pp. 190, 195 and 196.
[1] Revised Lumber. It was 6.2% up to November 2011 (IMF: 09.2011: 197).

In other words, the counter-cyclical policies the Chinese government implemented in 2009 proved very effective in making the country's economy grow over 9% even in times of widespread contraction, thus benefiting South American nations and other countries in our region. However, a bleak outlook has prevailed again in the post-crisis, from late 2011 to date, and Sino-Latin American trade flows are likely to be hit negatively.

It is clear, however, that between 2008 and 2009 the China-LAC trade recorded only a mild contraction and immediately recovered as a result of the reactivation of China's high GDP growth rate. This involved high imports of soybean in various forms; metallic minerals, particularly copper; fishmeal, and crude oil. These and a few others are the raw materials at the centre of South America-China trade relations in recent years. Mexico and Central America exported manufactured goods and industrial components to the Asian country. The positive effect of the successful counter-cyclical program of China was much lower in this subregion.

Charts 4 and 5 show annual percentage changes in trade in goods from China in 2006-2010 with the world and with LAC, respectively. The numbers are expressed in millions of current U.S. dollars, based on Chinese official statistics in both cases. The fall in 2009 of China's exports, imports and total foreign trade and trade with LAC was double-digit (percentage). The decline was more severe in the case of LAC, except for China's imports from this region: imports from the world decreased by 11.18%, while imports from LAC fell 10.80% Furthermore, Chinese trade with both parties (the world and LAC) recovered remarkably in 2010: total trade with the world (exports plus imports) climbed 34.72% and they jumped 51.64% with LAC. This is due to the reactivation policies that allowed China's GDP to grow 9.2% in 2009, a year of widespread recession.

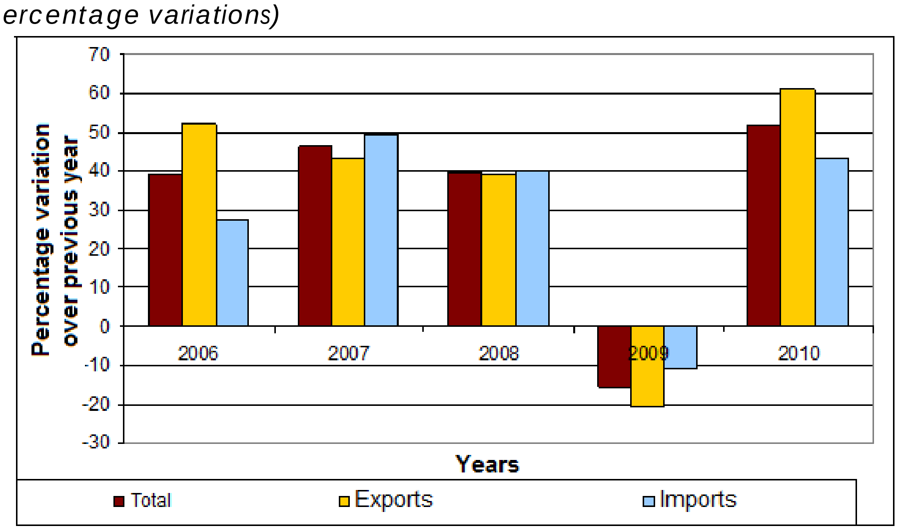
CHART 4
China's total trade, exports and imports with the world
(Annual percentage variations)



Sources: NBS, CSY2011, p. 228; CSY2009, p. 733; CSY2008, p. 717 and CSY2006. p. 740.

China's share in Latin America foreign trade has expanded in recent years. The Asian country is apparently the second largest trading partner for countries in the region, after the United States. However, the relative share of Sino-Latin American trade in the total foreign trade of both parties is still small when compared with the trade of each of them with the world. However, in five years it has almost doubled for LAC, as shown in Table 7.

CHART 5 China's total trade, exports and imports with Latin America and the Caribbean
(Annual percentage variations)



Sources: NBS, CSY2011, p. 230; CSY2009, p. 735; CSY2008, p. 719 and CSY2006. p.742.

TABLE 7
China-Latin America trade in 2006 and 2010 – total and as a share of trade between each party and the world

	2006		2010	
	Million US$	**%**	**Million US$**	%
China-world total trade	1,760,396	100.00	2,973,998	100.00
China-LAC total trade	70,203	3.99	183,640	6.17
LAC-world total trade	1,264,915	100.00	1,696,206	100.00
China-LAC total trade	70,203	5.55	183,640	10.83

Sources: NBS, CSY2011, pp. 228 and 230 for year 2010; CSY2008, pp. 717 and 719 for year 2006, and ECLAC, Statistical Yearbook for Latin America and the Caribbean 2011, Table 2.2.1.2, p. 93 on LAC trade with the world.

According to figures provided by China Customs, our region recorded a deficit with China of US$ 1,853 million in 2006. Five years later, it recorded a modest surplus of US$ 44 million, as shown in Table 8,[8] which also shows data on China's total trade, exports and imports with the 11 LAC countries that absorb most of the region's trade with China (94% of LAC total trade in 2010; exports + imports). Brazil is the country that has increased most significantly its trade with China. In 2010, China became Brazil's top trade partner, followed by Chile and Mexico, which went from the second place in 2006 to the position in 2010.[9] A characteristic of the seven South American countries with most trade with China is the fact that their trade balance is relatively more balanced than others in the region. According to Chinese figures, five of them have surpluses and only Colombia and Ecuador have a trade deficit with China.

Mexico, Cuba and Panama have significant deficits due to different factors. Mexico has a competitive economy that is non-complementary of China's economy. Given its lack of competitiveness, Mexico's domestic market has been flooded by Chinese manufacturing and intermediate goods, despite the implementation of high countervailing on Chinese goods. The result is a severe trade deficit in a context in which China has become the second largest supplier of Mexico. Cuba has reassembled its political relationship with China virtually back to pre-1962 levels. Therefore, the island receives funds that allow it to purchase a wide range of Chinese products. Panama is basically a mediation centre for Chinese exports which it redistributes in several Latin American economies. Costa Rica is the only country in Central America that has established full diplomatic relations with China and that has opened the doors for exporting to China mainly electronic components and parts.

[8] The numbers mean the following: China's exports represent LAC imports, either as a whole or by individual countries, and vice versa. Similarly, a surplus for China represents a deficit for LAC or for the Latin American countries for which it is calculated, and vice versa.
[9] Reference is made to China's revenue from trade with Mexico. If we used the calculations made by the Bank of Mexico, much higher numbers would be recorded: at 49,803, 4,196 and 45,608 million U.S. dollars (taken from COMTRADE, UN, report on Mexico), respectively, for total trade between Mexico and China, for Mexican exports to China and for Mexico's imports from China.

TABLE 8
China: Foreign trade with regions of the world and some Latin American economies, several years
(million U.S. dollars)

Region/country	2006 Total	2006 Exports	2006 Imports	2010 Total	2010 Exports	2010 Imports
World	1,760,397	968,936	791,461	2,973,998	1,577,754	1,396,244
Asia	981,094	455,727	525,367	1,566,911	731,955	834,956
Africa	55,460	26,688	28,772	127,046	59,954	67,092
Europe	330,227	215,370	114,857	573,058	355,188	217,870
U.S. and Canada*	286,036	219,114	66,922	422.920	305,843	117,077
Oceania/P.	37,333	16,009	21,324	99,035	33,017	66,018
LAC	70,203	36,028	34,175	183,640	91,798	91,842
Argentina	5,704	2,004	3,700	12,920	6,116	6,804
Brazil	20,290	7,380	12,910	62,560	24,461	38,099
Chile	8,845	3,109	5,736	25,960	8,025	17,935
Colombia	1,760	1,496	264	5,923	3,820	2,103
Costa Rica	2,156	409	1,747	3,795	688	3,107
Cuba	1,793	1,265	528	1,832	1,067	765
Ecuador	802	715	87	2,003	1,496	507
Mexico	11,431	8,824	2,607	24,748	17,873	6,875
Panama	3,881	3,867	14	11,992	11,967	25
Peru	3,917	1,009	2,908	9,918	3,550	6,368
Venezuela	4,335	1,698	2,637	10,348	3,649	6,699

** It also includes Greenland, Bermuda and other North American territories*
Source: NBS, CSY2001, pp. 228-231, for year 2000, and CSY2009, PP. 733-736 for year 2007.

Importantly, among LAC countries whose exports to China represent a share somehow significant of their total sales abroad, in 2009 some of them did not record a decrease in their GDP. Those countries which GDP actually tumbled recorded a slowdown that was definitely less severe than that experienced by countries such as Mexico, which ships to the United States nearly 80% of total exports. The difference is that while China's GDP grew 9.2% in 2009, the U.S. economy fell 3.6% compared to 2008 (IMF: 2012: 190). An assessment of the cases of China's major trading partners in Latin America, based on their economic data for 2010, and adding the percentage change of GDP in 2009, found the following:

TABLE 9
Total Imports and Exports to/from China in 2010
*(In million US$ and % of the total)***, and percent change of GDP in each case**

	Total	(%)	Exports to China	% of total exports	GDP 2009 / GDP 2008
Argentina	68,134.1	100.0	5,798.8	8.5	0.9
Brazil	197,356.4	100.0	30,752.4	15.6	-0.3
Chile	70,631.5	100.0	17,355.4	24.6	-1.7
Peru	35,073.2	100.0	5,425.9	15.5	0.9
Venezuela*	66,962.7	100.0	6,698.9	10.0	-3.2

Sources: UN COMTRADE, at http://comtrade.un.org/db; CEPAL, Statistical Yearbook for Latin America and the Caribbean, 2011, Table 2.1.1.1, p. 77.
** Venezuela's exports to China are those reported by China. Venezuela reported US$ 719.4 million for 2010, which does not include its sales of oil to China, either crude oil or non-crude products.*

In addition to the fact that China's economy preserved a high growth during the global recession, there is a huge appetite for raw materials and oil. Consequently, the South American countries cited found in the Asian country a very dynamic demand for their commodity exports. In this way, 82.5% of Argentina sales to China in 2010 relied on two products: soybean oil (71%) and crude oil (11.5%). Brazil's exports concentrated in three products (80.4%): iron ore and concentrates (44.7%), soybeans (24.7%) and crude oil (11%). In Chile, 85% of exports to China included three products: refined copper and alloys (59%), copper ore and concentrates (21.7%), and iron ore and concentrates (4.3%). In Peru, three types of products accounted for 90.1% of exports to China: mineral slag and ash at 64% (including copper ore and concentrates at 31.2%), refined copper and alloys (10.5%), and fish meal, meat meal and / or poultry meal for feeding animals at 15.6% (UN COMTRADE).

In the case of Venezuela, we found that the information reported by this country, although it includes oil exports, both crude oil and not crude oil, to the world[10], it does not account for the sales of oil to China. In this particular case, we chose to take the information reported by China on its trade with Venezuela, which is included in the database on trade in goods (UN COMTRADE) of the United Nations Statistics Division. While indirectly, it appears that the bulk of Venezuela's exports to China in 2010 (94.1%) consisted of three products: crude oil (53.3%), petroleum oils, bituminous oil and distillates, except for crude oil (30.0%), and mineral iron and concentrates (10.8%).

Since there are significant differences between the statistics of China and the statistics of Latin American having trade relations with China, this paper includes an appendix with data as current as possible on trade balances for the countries as a whole. The data was taken from the perspective of these Latin American countries and from the Chinese source.

[10] Venezuela reports total exports at US$ 66,962.7 million, and crude and non crude oil exports at US$ 62,317.0, representing 93.1% of Venezuela's total exports. Regarding Venezuela's trade with China, the South American country fails to report oil sales, both crude and non crude oil, but it does report exports of iron ore and concentrates, although in an amount lower than that reported by China (China reports U.S. 725.6 million and Venezuela reports U.S. 408.6 million).

3. Impact on Latin America: Financial flows

The emergence of China as an exporter of direct investment to the rest of the world as a whole – and therefore to Latin America and the Caribbean – is a relatively recent development. Usually, a few developed or high-income economies were capital suppliers worldwide, because that is the production factor that these economies have in relatively abundant proportions. The emergence of China as a direct investment exporter, not as an isolated, but a sustained and growing phenomenon, at least so far in the 21st century, is something truly new, because China is a country that, regardless of its position as the world second in terms of its total GDP size, measured in nominal U.S. dollars, in 2011, in per capita terms, ranked 91st among the 197 economies that the International Monetary Fund systematically studies, with nominal US$ 8,400,[11] below the average in Latin America. In 2011, China's per capita income was much lower than that of oil-producing and scarcely populated Middle East countries like Qatar (world 2nd with US$ 97,967 per inhabitant) and the United Arab Emirates (3rd, with US$ 66,625); but also below many Latin American countries, namely: Trinidad & Tobago, with US$ 16,693 (world 42nd and 1st in LAC); Uruguay, US$ 14,697 (45th and 4th); Chile, US$ 13,970 (49th and 5th; Brazil, US$ 12.917 (53rd and 6th); Mexico, US$ 10,803 (60th and 8th); Argentina, US$ 10,640 (6th and 9th), and Venezuela US$ 10,409 (65th and 10th), just to mention some of those that are over China (http://en.wikipedia.org/. List prepared with IMF statistical data, *World Economic Outlook Database-April 2012*).

Exports or FDI outflows from China amounted to US$ 68.81 billing in 2010 (Table 10) and cumulative data until end-2010 were US$ 317.21 billion: of the total flows, 30% accounted for stock investments; 34.9% corresponded to profits reinvestment and 35.1% to other type of investment; cumulative until 2010, the respective percentages were 18.8%, 38.1% and 43.1% (China Ministry of Commerce, *2010 Statistical Bulletin of China's Outward Direct Investment*: 79).

According to the *World Investment Report 2011* released by the United Nations Conference on Trade and Development (UNCTAD), world total FDI outflows amounted to US$ 1.32 trillion and cumulative stock in late 2010 was US$ 20.4 billion (UNCTAD WIR, 2011: Table I.1 p. 187, and Table I.2, p. 191). Concerning this world total, FDI export flows from China accounted for 5.2% and global cumulative figure, 1.6%; that is, this developing country occupied the 5th and the 17th place, respectively, in terms of FDI flows and cumulative FDI (China MOFCOM, *2010, SBofCODI*, 2010: 83).

In the five-year period from 2006-2010, China's total outward foreign direct investment (OFDI) (as it is called in China's statistics)[12] increased 290.2%, from US$ 17.634 to US$ 68.811, with a 40.5% average compound yearly increase rate. No decrease with respect to the previous year was recorded in any of the years of that five-year period, although between 2008 and 2009, an increase of just 1.1% was posted, as a result of the global financial crisis and a drop in the very high growth rate of Chinese GDP in 2009. Table 10 shows figures of China's capital exports as direct investment worldwide and per region.

[11] Source: IMF, *World Economic Outlook Database-September 2011.*

[12] *Statistical Bulletin of China's Outward Foreign Direct Investment*, yearly published by the Ministry of Commerce of China. In statistic yearbooks published in English and Chinese by the National Statistics Office o the People's Republic of China, OFDI is called *net oversea direct investment* (NBS, *CSY2011*: 247).

TABLE 10
China: Outward Foreign Direct Investment (flows), total and by region, 2006-2010
(millions of U.S. dollars)

	2006	2007	2008	2009	2010
Total	17,634	26,506	55,907	56,529	68,811
Asia	7,663	16,593	43,548	40,408	44,890
Africa	520	1,574	5,491	1,439	2,112
Europe	598	1,540	876	3,353	6,760
U.S.	198	196	462	909	1,308
Latin America and the Caribbean	8,469	4,902	3,677	7,328	10,538
LAC share of total flows (%)	(48.03)	(18.49)	(6.58)	(12.96)	(15.31)

Source: Ministry of Commerce of the PRC, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment. pp. 82-86.

The main destination of China's FDI is Asia with the Hong Kong Special Administrative Region accounting for 87.2%, on average throughout the five-year period, of Chinese FDI in Asia. The 34 Latin America and the Caribbean countries are in the second place. This region experienced an acute contraction of Chinese FDI in 2006 and 2007 (-42.1%), which could be explained by a deviation of those investment toward Africa, Europe and Asia (Table 10). In 2008, contraction of China's FDI flows to LAC reached its record high throughout the 5-year period and starting in 2009 (year of the global recession), a significant recovery is registered, so that in 2010, the level of 5 years ago was finally exceeded, to a cumulative rate of 24.4% and an average annual rate of 5.6%.

According to international data on incoming and outgoing foreign direct investment, China is one of the world economies that remarkably stand out in both categories, as seen in Table 11.

TABLE 11
Major economies' FDI flows 2008-2010
(Billions of U.S. dollars)

	Incoming FDI			**Outgoing FDI**		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
World Total	1,744	1,185	1,244	1,911	1,171	1,323
U.S.	306	153	228	308	283	329
U.K.	91	71	45	161	44	11
Japan	24	12	-1	128	75	56
China	108	95	106	52	57	68
Hong Kong (China's SAR)	60	52	69	51	64	76

Source: UNCTAD. World Investment Report 2011. Annex, Table I.1, pp. 187-190.

In 2008-2010, China occupied the world second place as FDI destination, after the U.S.; in 2010, as an FDI exporter, it could be said that China also occupied the second position (if Hong Kong, an economy of high per capita income and a financial and commercial intermediation hub, is excluded), although far below the U.S. It is worth noting that Chinese overseas FDI data summarized in Table 11 (outgoing FDI) are slightly different to those shown in Table 10, which come from official Chinese statistics. On the contrary, figures in Table 11 are prepared by UNCTAD and are based on international sources. In any case, the fact that both sources release very similar figures is a sign of reliability as to accounting methods.

The performance of Chinese cumulative FDI (stocks), world, region and country totals, with the same selection as in Table 10, is presented below (Table 12).

TABLE 12
China: Overseas cumulative investment (stocks), total and per region, 2006-2010
(millions of U.S. dollars)

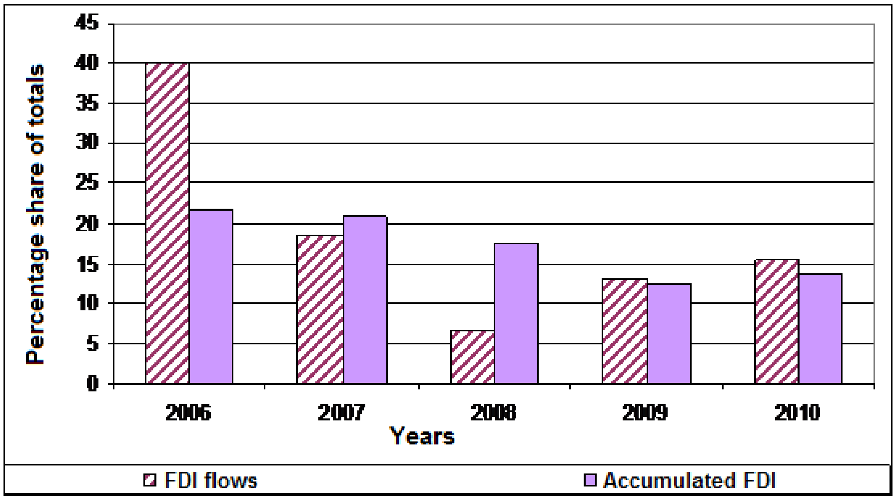
	2006	2007	2008	2009	2010
Total	75,026	117,910	183,971	245,755	317,211
Asia	47,978	79,218	131,317	185,457	228,146
Africa	2,557	4,461	7,804	9.332	13,042
Europe	4,458	7	5,134	8,677	15,710
U.S.	1,238	1,881	2,390	3,338	4,874
Latin America and the Caribbean	19,694	24,701	32,240	30,595	43,876
LAC share in cumulative totals (%)	(26.25)	(20.95)	(17.52)	(12.45)	(13.83)

Source: Ministry of Commerce of the PRC, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment. Pages 88-93.

At first sight, LAC would appear to be an important destination for Chinese FDI. However, two considerations should be made before drawing any conclusion. The first is that if FDI flows are taken into account, 2006 was an exceptional year in terms of Chinese capital reception, with US$ 7.83 billion to the Cayman Islands, or 92.5% of the total for that year, but starting in 2007, the inflow of Chinese FDI substantially dropped, to such an extent that cumulative FDI from China to Latin America went from 26.3% of the total of that country in 2006 to just 13.8% in 2010. The decline in the growth rate of that indicator does not appear to be related to 2009 global recession, although the downward trend persisted throughout that year, and much less to the countercyclical measures applied by Beijing government in 2009 and 2010. Chart 6 shows that in 2006-2007 (before the crisis), a strong drop in FDI flows from China to LAC (bars with diagonal lines), measured as a proportion of total FDI outflows in China, perhaps just because other regions of the world were more attractive than the Latin American economies together, including the region's tax havens (Cayman Islands and British Virgin Islands).

The second consideration is that the bulk flows and cumulative FDI from China to LAC go to tax havens, as mentioned in the above paragraph and shown in the following table (13). Cayman Islands and British Virgin Islands absorbed, on average throughout the five-year term, 95% of FDI flows and 92% of cumulative investment from China at the end of 2010, which substantially reduces LAC dimension as receiver of that kind of capital. In terms of individual Latin American countries, Brazil is the most attractive destination for Chinese FDI, followed by Peru and Venezuela, both concerning cumulative investment and flows in 2006-2010. Mexico, Ecuador and Chile appear in a second place, according to magnitude of Chinese cumulative FDI at the end of 2010.

CHART 6
FDI to Latin America and the Caribbean –
FDI flows and accumulated FDI for the period 2006-2010
as percentage share of totals



Source: NBS, CSY2011, pp. 228 and 230; CSY2009, pp. 733 and 735; CSY2008, pp. 717 and 719; and CSY2006. pp.740 and 742]

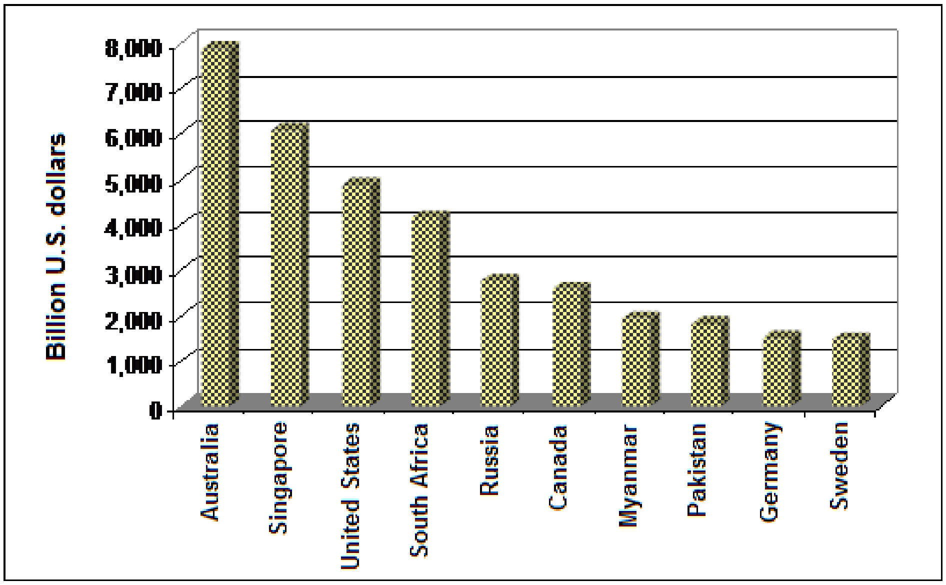
TABLE 13
China: FDI flows to LAC, 2006-2010, and cumulative investment by the end of 2010
(millions of U.S. dollars)

	2006	2007	2008	2009	2010	Cumulative 2010
Total LAC	8,469	4,902	3,677	7,378	10,538	43,876
Cayman Islands	7,833	2,602	1,524	5,366	3,497	17,256
British Virgin Islands	538	1,876	2,104	1,612	6,120	23,243
Argentina	6	137	11	-23	27	219
Brazil	10	51	22	116	487	924
Chile	7	4	1	8	34	110
Cuba	30	7	6	13	-16	69
Ecuador	2	4	-9	18	22	130
Mexico	-4	17	6	1	27	153
Panama	--	8	7	14	26	237
Peru	5	7	25	59	139	654
Venezuela	18	70	10	116	94	417

Source: Ministry of Commerce of the PRC, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment, pp. 85, 86, 92 y 93.

In late-2010, Chinese cumulative FDI to Brazil amounted to US$ 924 million, higher than those to any other LAC country, other than tax havens. But that level was far below the 10 world countries that recorded the global highest FDI stocks in 2010, which together accounted for 11% of total FDI from China worldwide.

CHART 7
Main destinations of China's FDI, accumulated up to 2010



Source: China MOF, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment, Table 2, pp. 88-93.

In four countries – two developed (Australia and Canada) and two emergent economies (South Africa and Russia) – Chinese FDI have been mainly oriented toward guaranteeing supply sources for metals, coal, oil and gas. Singapore is the major market for the placement of stocks of Chinese transnational firms, including bank corporations, all of which are state-owned, although marginally public (because they are quoted on open stock exchange markets). Chinese FDI, almost completely from state-owned companies, goes to the United States, Germany and Sweden, so as to take advantage of domestic markets in those countries, both in manufacture as well as in high-tech areas. Chinese investment to Myanmar and Pakistan are due to strategic State reasons: in the first country, China is developing land and port infrastructure that will provide a short exit to the Indian Ocean, considered by India as its *mare nostrum*, and the second country has been, for more than a half century, a fundamental partner for China's geopolitical security in its western flank and a land counterweight of India.

According to a recent study, during 1990-2010, 86% of China's FDI in LAC were earmarked to guarantee supply sources of energy and raw materials, and only 13% moved toward the region looking for markets (Bittencourt: 2012, 78). Mergers and acquisitions prevail, as well as the development of new production projects. Financial operations, such as supplier credits and development loans, are carried out by the Chinese administration through the so-called political banks (development banks), like the Export-Import Bank of China and the Development Bank of China. For instance, in 2009, the latter opened a credit facility for Petrobras, worth US$ 10.0 billion, against a "guarantee of oil supply in the subsequent decade" (Bettencourt: 2012, 75).

3. Impact on Latin America: Cooperation

In the period 2009-2011, political contacts at the highest level, reciprocal visits by Heads of Government or State and the adoption of new cooperation mechanisms between China and Latin America and the Caribbean followed the growth and diversification trend of this century. If as described in previous pages, the international financial and economic crisis brought about negative variations in trade and investment flows between our region and the Asian country, the truth is that in both parties the political determination of boosting cooperation in different areas prevailed.

In the sphere of diplomatic relations, no changes took place concerning the situation existing before 2009, namely: 21 Latin American and Caribbean countries maintain formal relations with the People's Republic of China (1 from North America, 1 from Central America, 10 from the Caribbean and 9 from South America); the other 12 countries of the region maintain diplomatic bonds with Taiwan (5 from Central America, 6 from the Caribbean and 1 from South America). Of the 23 countries in the world that still maintain diplomatic relations with Taipei, more than the half belong to LAC (SELA, 2010:18 Table 7). Although since the return to power of Kuomintang (the nationalist party) in Taiwan in 2008, through direct elections, tensions between the Island and Continental China have decreased, and even though both countries signed a virtual FTA in June 2019 (see Box 2), the People's Republic of China maintains the principle that there is only one China and it cannot be accepted that any government in the world expects to have diplomatic relations at the same time with China and with the so-called Republic of China in Taiwan, which Beijing simply considers a rebel province. For this reason, notwithstanding the current low risk of a confrontation between both entities in Taiwan Strait, there is a diplomatic rivalry and a "dollar diplomacy" that Beijing and Taipei administration constantly take advantage of in order to gain political partners, within a very asymmetric context, because while the PRC maintains diplomatic links with 169 countries, Taiwan does the same with only 23 countries.

In the bilateral arena (per country or group of countries) for Latin America and the Caribbean, China has established:

- Strategic partnership relations with Argentina, Brazil, Mexico and Peru.
- Strategic partnership for shared development with Venezuela.
- Comprehensive cooperation partnership with Chile.
- Friendship association for shared development with Jamaica.
- Strategic dialogue mechanism with Brazil and Mexico.
- Political consultation mechanism between Foreign Ministries with every one of the 21 countries in the region that maintain diplomatic relations with the People's Republic of China.
- Close cooperation with the Caribbean Community (CARICOM). Of its 14 members that are independent States, nine maintain diplomatic relations with the PRC and 5 with Taiwan. At the China-Caribbean II Forum on Economic and Trade Cooperation, held in Port of Spain, Trinidad & Tobago, in August 2011, the Chinese government announced through its Vice Prime Minister Wang Qishan, that the country would grant loans (without indicating the date) for US$ 1 billion to the Caribbean Development Fund.
- Multilateral dialogue mechanism with the Andean Group.
- Multilateral dialogue mechanism with MERCOSUR.
- Multilateral dialogue mechanism with foreign ministries of the Caribbean countries that maintain diplomatic relations with China.

Box 2

Economic Cooperation Framework Agreement between the Two Shores

China and Taiwan signed a historical *Economic Cooperation Framework Agreement between the Two Shores (literal translation of*: 两岸经济合作架构协议), in Chongqing, on 29 June 2010. That city, which has the administrative character of special municipality, together with Beijing, Tianjin and Shanghai, was the capital of the Republic of China during the war of resistance to Japan, which merged into the 2nd World War. Generalissimo Chiang Kaishek, President of the Republic, and Mao Zedong, leader of the Communist party, which was based in the North of China, negotiated at that time a precarious alliance, which was broken in 1946 and ended in a civil war which was won by the Communists who later founded the People's Republic of China. The nationalist regime took refuge in the island of Taiwan and surrounding islands and with the continued protection of the U.S., has been able to survive since 1949 to present time.

The ECFA was reached after six decades of rivalry, distrust and even risk of armed conflict between both Chinese parties. With the agreement, export tariffs for 539 categories of Taiwan-made products and import of 267 Chinese categories were lifted. Beijing cut back tariffs to products worth 11.26 billion euro, whereas Taipei will to the same with Chinese product worth 2.33 billion euro. The pact will allow Taiwan companies to have access to 11 services sectors on the continent, including banks, insurance and hospitals. The flow of Taiwan-made goods amounts to 65.0 billion euro per year, whereas in the opposite direction, it reaches 24.4 billion euro. Tariffs will be cut back to zero by late 2012.

The administration of Taiwan President Ma Ying-jeou defends this alliance, arguing that it benefits competitiveness of companies in the Island vis-à-vis that of other countries in Southeast Asia (ASEAN), which signed a free trade agreement with China that entered into force in 2010. Although polls show that most Taiwanese citizens support the pact, there are differences as to Beijing's intentions and there have been demonstrations against the agreement.

Taiwan, with 23 million inhabitants, is one of the main trade partners of China. One million of Taiwanese people and about 40,000 firms from Taiwan are operating in the mainland, where they have invested more than 68.0 billion euros over the last two decades.

Relations between both sides of Taiwan Strait have improved over the two past years, both thanks to the policy deployed by Ma Ying-jeou, who assumed power in May 2008 and was re-elected for another 4 years in 2012, based on reducing tensions and strengthening economic bonds, and to the stance of Hu Jintao's administration, who has opted for a seduction policy, instead of the rhetoric of threats with which Beijing traditionally replied to pro-independence desires of a part of Taiwanese citizens (China has more than one thousand missiles pointing toward Taiwan). "China seals with a historical trade agreement the reconciliation with Taiwan." *El País*, Wednesday, 30 June 2010.

In Latin America, Chile, Argentina, Brazil and Venezuela have granted China treatment as a market economy. Chile was the first country in the region that signed a general FTA with China, which entered into effect in October 1996. On 1 August 2010, a Sino-Chilean FTA on services entered into force. The "all-in-one" FTA between Peru and China entered into force on 8 April 2010 and the FTA with Costa Rica, which had been executed 19 months before, entered into effect on 1 August 2011.

China, Argentina, Brazil and Mexico belong to G20, the largest global economies, which operates inside the IMF and that since the global crisis has become an informal harmonization forum more relevant than G7 (advanced economies) for the search of a consensus that leads to a deep reform of international monetary and financial system. Although positions of China and the three largest economies in Latin America inside G20 are not necessarily in agreement, their respective ministries or secretariats of finance and their central banks maintain an active exchange of opinions.

Within the so-called BRICS, originally composed of 4 countries (Brazil, Russia, India and China, or BRIC) there definitely exist a clear purpose of cooperation and harmonization of stances vis-à-vis the relevant global economic and political issues. Goldman Sachs, in a study prepared in 2003, identified the BRIC countries as possibly the most important economies of the world by 2050. The administrations of these countries, to which South Africa joined in 2011 (after which BRIC became BRICS), have been setting joint political stances, without any formal agreement of the group as a bloc among countries that are not part of the same region. To date, four summit meetings have been held (heads of State and government); the first two – Yekaterinburg, Russia, June 2009, and Brasilia, Brazil, April 2010 – were among the leaders of the four original countries (Inácio Lula da Silva, Dmitri Medvedev, Manmohan Singh and Hu Jintao), whereas the new president of Brazil, Dilma Rousseff, the Prime Minister of India, Manmohan Singh, and presidents Hu Jintao (China), Dmitry Medvedev (Russia) and Jacob Zuma (South Africa) attended the two last meetings, which took place in Sanya, Hainan, China in April 2011 and in New Delhi, India in March 2012.

At the intergovernmental forum of Asia-Pacific Economic Cooperation (APEC), Chile, Mexico and Peru took part, for Latin America, and China for Asia, so that at the yearly summit meetings (of economic leaders)[13] there is room for bilateral meetings between Latin American and Chinese leaders. At the meeting of November 2009 (Singapore), former Chilean President Michelle Bachelet met her colleague, Hu Jintao, and handed over an extensive written response of Chile to the *Document on China's policy toward Latin America*, which was disseminated by the Chinese government in November 2008. At the summit meetings of Yokohama (November 2010) and Honolulu (November 2011), bilateral talks took place between some Latin American leaders and Hu Jintao, and the same will happen at the meeting of APEC leaders in 2010, to be held in Vladivostok in September this year. This meeting will be the last attended by President Hu.

During the period from 2009 through March 2012, the following Latin American and Caribbean leaders visited China:

- Argentina's President Cristina Fernández de Kirchner paid her first official visit to China (July 2010), during which intergovernmental agreements were signed in areas such as fishing, energy, vegetable quarantine (there were problems with soybean exports from Argentina) and cargo transportation, as well as six bilateral contracts between Argentinean and Chinese businessmen in areas such as railway technology, railway electrification, transportation and related infrastructure. The Export and Import Bank of China opened a credit facility for suppliers for the sale of locomotives to Argentina.
- Brazil former President Luis Inácio Lula da Silva travelled to China for the third time in a State visit in Mayo 2009 to consolidate Sino-Brazilian political, economic and technological cooperation agreements.

[13] Because of the fact that Hong Kong – which since mid-1997 ceased to be a British colony and became part of China as a special administrative region – and Taiwan – under the name of Chinese Taipei – participate in APEC, the countries and territories that belong to this 21-member forum are called *economies* and their Heads of Government are called *economic leaders*.

- In 2009, Uruguayan President, Tabaré Vázquez (first time, President Hugo Chávez from Venezuela (sixth time) and President Michelle Bachelet from Chile also paid official visits to China.
- In addition to the visit of Michelle Bachelet to Beijing a few days before APEC summit meeting in Singapore mentioned above, the new Chilean Head of State, President Sebastián Piñeira travelled to China in November 2010.
- In 2010, the heads of government of Jamaica, Bruce Golding, and Bahamas, Hubert A. Ingraham, officially visited China in February and October, respectively.
- In April 2011, Dilma Rousseff, who had constitutionally been inaugurated as President of Brazil on 1 January of the same year, paid a six-day official visit to China, on the occasion of the BRICS meeting mentioned before, which contributed to consolidate multiple already existing Sino-Brazilian dialogue mechanisms. Brazil not only is the main trade partner of China in Latin America, but also the most significant political interlocutor in the region.

Some Chinese leaders also visited several LAC countries over the past three years:

- In February 2009, China's Vice-President, Xi Jinping, who presently holds the 6th place in the national leadership (Standing Committee of the Politburo of the Communist Party of China) and starting from that year was already identified as Hu Jintao's successor, made a work, or rather, a presentation trip to five Latin American and Caribbean countries, including Brazil, Colombia, Jamaica, Mexico and Venezuela. In April, Vice-President Xi visited Lima for the signing, together with his colleague Peru's Vice-President, Luis Gianpietri Rojas, of the "first bloc free trade agreement"[14] of China with a Latin American country, which would enter into effect in March 2010. In October 2009, the Chairman of the Standing Committee of the National People's Congress of the People's Republic of China and second in the hierarchy of the Chinese Communist Party, Wu Bangguo, visited Cuba and Bahamas, and in November Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference and fourth in the hierarchy of the Chinese leadership, traveled to Brazil, Ecuador and Peru.
- In 2010, China's President Hu Jintao travelled to Brazil in April and attended the 2nd Summit of the BRIC group, held in Brasilia. In July-August, the Minister of Foreign Affairs of China, Yang Jiechi, visited Mexico, Cuba and Brazil. Liang Guanlie, State Counselor and Minister of Defense of China visited Mexico, Colombia and Brazil, whereas Chen Bingde, Commanding General of the People's Liberation Army General Staff Department, visited Ecuador.

In general terms, it could be said that the global financial crisis in 2008 and the ensuing economic recession did not have a negative impact on the political and diplomatic cooperation between LAC and China. For the Asian giant, our region is clearly an important source of raw materials, oil, as well as an attractive market for Chinese manufacture and capital goods. LAC is also the region where a relatively significant number of countries (12 out of 23) still maintain diplomatic bonds with Taiwan; hence Beijing's persistence in its intention to convince the governments of those countries to break those links and establish new bonds with the People's Republic. However, persuasion is now much milder than a couple of decades ago, and even China has decided to help countries that, without maintaining diplomatic relations with China, have required international support due to natural disasters. This is the case of Haiti, which maintains diplomatic relations with Taiwan and received China's help on the occasion of

[14] See *China Hoy*, October 2009, pp. 29 and 32-35.

the earthquake, in which some Chinese citizens that belonged to the UN Peace Corps in the Caribbean country perished.

Panama is a very important country for China, because although both countries do not maintain diplomatic relations (Panamá has relations with Taiwan), China's trade and political interests in Panama are very significant. The Panama Canal is a vital route for the movement of Chinese goods between the Pacific and Atlantic Oceans and there are Chinese investment on the ports on both sides of the Canal to guarantee storage and subsequent distribution of Chinese exports and imports to and from other countries of the American continent.

Finally, China moves important capital flows toward economies in the Caribbean, which are considered "tax havens". For instance, according to Chinese statistical data (NBS, *2011*: 247), China's cumulative direct investment in LAC as of late 2010 amounted US$ 54.87 billion, of which 92% (US$ 40.49 billion) were placed in the Cayman Island and the Virgin Islands, which are Britain overseas territories associated with LAC (see Table 13).

Notwithstanding, rapprochement between LAC and China has remarkably intensified in the 21st century, measured from three perspectives: the yearly total trade flow (exports plus imports) between both parties; the flow of Chinese direct investment to LAC; and the incidence of exchange of top level governmental visits plus the signing of multiple cooperation agreements and instruments. This growing footprint of China in Latin America is a cause for concern in some U.S. think tanks (Johnson 2005) and among politicians, which perceive it as a potential threat for the U.S. hemispheric interests: Chinese products are flowing at a very fast pace to the south of the U.S. borders and Chinese investments are competing with those from the U.S. in the Latin American region, above all those intended to guarantee supply sources of strategic raw materials. After all, the story of the Cold War and the stigma that Washington diplomacy had imposed on the "Red China" throughout the American continent, from which Cuba got free when established relations with the People's Republic of China in September 1960,[15] after the Island political regime defined its ideology and became an enemy of the U.S. administrations, is still very recent.

Nevertheless, "on 11 June 2008, the U.S. Congress held a hearing on China-Latin America relations, which concluded that, eventually, China come to be a potential rival of the U.S. worldwide and that these relations cannot be merely considered a threat against U.S. interests."[16] On the side of the U.S. government (under George W. Bush's administration), starting from April 2006, Department of State officials have maintained talks with Chinese representatives on the U.S.-China-LAC bilateral relation. On that occasion, Thomas A. Shannon Jr., then Deputy Assistant Secretary of Western Hemisphere Affairs, travelled to Beijing invited by the director general for LAC of the Chinese Foreign Ministry, Zeng Gang (current ambassador of China to Mexico), for a bilateral consultation on Latin American affairs. "That was the first time that the U.S. held a meeting on Latin America with a country outside the usual circle of allies."[17] Since then, four exercises have taken place, the first in April 2006, in something that will possible become a regular practice in the Sino-U.S. political-diplomatic affairs. The fourth consultation meeting took place in August 2010, when Arturo Valenzuela, Deputy Assistant Secretary of Western Hemisphere Affairs from November 2009 to August 2011(Barack Obama's administration), visited China.

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[15] More than 10 years would have to elapse for the next Latin American country to do the same – Chile in December 1970 – although after China recovered its seat at the UN through the People's Republic (October 1971), other 10 LAC countries would establish diplomatic relations with People's China. At the end of the 1970s, 12 LAC countries maintained diplomatic relations with the People's Republic of China. In the subsequent three decades, that number would increase to 21where it has remained since then.

[16] Xu Shicheng. "Relaciones entre China, U.S. y América Latina (II)". *China hoy.* September 2011, p. 14.

[17] *Ibid*, p. 15.

Even though Latin America and the Caribbean as a region is less important to China from the strategic point of view than, for instance, East and Central Asia, the region is evidently positioning itself as an area with great potential for the expansion of trade, investment and business in general with the People's Republic. From the Latin American perspective, China represents a true opportunity for diversification of its economic interests. Furthermore, in the political sphere, opportunities have emerged for the countries of our region to find support and effective associations with China in fundamental international subjects. The time when the U.S. ceases to be the traditional attraction focus for LAC is still far, but it is clear that the U.S. lacks a strategic view of the region (ECLAC, Mach 2011), whereas Chinese leaders have developed, still at the level of discourse, an action project in Latin America (China, Ministry of Foreign Affairs, 11.2008). China's quick growth has meant a significant growing demand for Latin American products, even with 2009 recession (ECLAC, May 2010).

Concerning Sino-Latin American cooperation on all areas, although understanding and harmony prevail, at the level of individual countries, friction with China has emerged. For instance, in the case of Mexico, it can be said that in the past two years, the level of the political relation with China has reached its lowest level in the 40 years of diplomatic relations between Mexico and China. The background is that essentially, both countries are competitors on international markets and Mexico is experiencing a huge trade deficit vis-à-vis China in terms of bilateral trade, and in the political arena, there is the case of the A/H1N1 epidemics that broke out in Mexico, which for the Mexican foreign ministry represented a discriminatory health quarantine against Mexican citizens or people travelling from Mexico to China, whereas the Chinese government energetically protested in 2011 because President Felipe Calderón received Dalai Lama privately when this latter visited Mexico invited by nongovernmental organizations. Similar episodes or episodes related to topics of human rights and organization like Falun Gong have occurred in other countries like Argentina, etc., but essentially, political relations between those countries and China are good, beyond the lawsuits that groups of private producers from some Latin American countries have lately bought to the WTO against alleged unfair trade practices by Chinese exporters.

CONCLUSIONS AND RECOMMENDATIONS

China's significance to the international economic relations of Latin America and the Caribbean has been steadily increasing since at least the second half of the first decade of the XXI century to date. Even during the Great Recession, which started in 2008 and is still hovering over the world economy, commercial and financial exchanges and the overall cooperation between China and Latin America continued to rise, notwithstanding a slowdown in 2009 as regards China's exports to our region and a relatively minor decline in purchases from the region, particularly from South America, made by the Asian nation. This was due to the fact that, thanks to the counter-cyclical policy implemented by the Chinese Government, China's GDP growth for the year in which the global economy collapsed was 9.2% and therefore its demand for raw materials and oil managed to maintain its dynamism.

The economic relationship that China has built with LAC is the traditional relationship between a developed country and the periphery, consisting of the import of commodities and hydrocarbons and the export of manufactured goods and direct investment to help develop sources for the supply of such strategic raw materials. The difference here is that China is still a developing country, or an emerging economy, that boosted by its sheer size and its rapid growth–largely based on the export of manufactures for intermediate and final consumption abroad–has become a key player in global trade in goods and services and a growing exporter of capital, even though it continues to be a net capital receiver.

While it is true that China has a holistic view of LAC and a short- and long-term strategy to strengthen links to it, our region as a whole lacks a similar policy towards China. Some countries, more than others, have the strategic vision required to take advantage of the opportunities offered by China's development and overcome or modify the challenges it poses.

LAC and the rest of the world will most likely face a new reality in the medium term: a slowdown in the pace of growth of China and a rebalancing of its current growth model. The latest data and forecasts from the International Monetary Fund show the following scenario:

TABLE 14
GDP Performance at Constant Prices in the Medium-Term

			Predicted	
	2011	**2012**	**2013**	**2017**
Global	3.9	3.5	4.1	4.7
Advanced Economies	1.6	1.4	2.0	2.7
Developing Asia	7.8	7.3	7.9	7.9
China	9.2	8.2	8.8	8.5
Latin America and the Caribbean	4.5	3.7	4.1	4.0

Source: IMF, *World Economic Outlook, April 2012*, pp. 190 y 195

Slow global growth has not been reflected by Asian developing countries, let alone by China, but the predicted slowdown in the particular case of China is important when compared to the pre-Great Recession period. The People's Republic of China would be moving from an average growth of 10.8% in 2001-2007 to a growth rate of about 8.5% for the period 2013-2017. This would mean a lower demand for strategic raw materials, many of which come from LAC.

Another change that seems to be on the horizon is a shrinking surplus in China's current account with the outside world, falling from 10.7% of GDP in 2007 to an estimated 2.9% in 2011 and a projected 0.4% in 2016.[18] According to a preliminary analysis performed by the IMF (IMF: April 2012: 43-46), the factors that would lead to the virtual disappearance of the traditionally high surplus in China’s current account with rest of the world include, in order of importance, the deterioration of terms of trade, the high rate of domestic investment that leads to increased imports, a weak external demand and an appreciation of the real effective exchange rate of the RMB against major international currencies. This structural change in the economic exchange of China with the rest of the world will definitely have both negative and positive effects on China’s main economic partners in LAC.

It is clear that governments in Latin America and the Caribbean need to cooperate with each other to help develop at least a shared vision of China’s significance for the future development of the region. In this regard, the Permanent Secretariat of SELA could play

[18] Taken from Economic Intelligence Unit, *Country Report China*, December 2008, p. 10, and December 2011, p. 11.

an important role should its Latin American Council mandate that the Secretariat's regular activities include reporting on the development of relations between the various subregions of LAC and China. Rather than conducting comprehensive economic surveys – for which other regional bodies should be responsible – SELA could instead provide analyses on the political and economic changes that occur in both sides and their effects on the commercial, financial and cooperation links between China and LAC. Such an effort should identify potential areas in LAC for eventually moving towards common basic positions in its relationship with China. In South America, it is clear that two schemes seem to be prepared to move in that direction, MERCOSUR and the Andean Group. Mexico and Central America should work together in identifying shared interests vis-à-vis China, given that five countries in this area are still to establish diplomatic relations with the People's Republic. The third area is without doubt the Caribbean Community, where there are six other countries that persist in their diplomatic links with Taiwan. A first key objective would be to reach subregional consensuses towards developing a comprehensive programme based on the common interests and intentions of the countries in the region in relation to China, similar – though with a different approach due to its multilateral nature – to the document defining the political position of China towards LAC as issued by the Chinese Ministry of Foreign Affairs in November 2008.

S T A T I S T I C A L A N N E X

TABLE 1-A
EXPORTS FROM CHINA,
millions of U.S. dollars (estimates by China)

	2006	2007	2008	2009	2010
LAC	36,027.950	51,539.400	71,762.040	57,094.260	91,798.030
Argentina	2,003.896	3,581.131	5,054.733	3,482.893	6,115.764
Brazil	7,380.106	11,398.472	18,807.457	14,118.518	24,460.652
Chile	3,109.030	4,432.221	6,186.804	4,928.470	8,024.930
Colombia	1,496.274	2,270.851	2,987.931	2,396.433	3,819.950
Costa Rica	408.749	568.232	619.158	537.823	688.035
Cuba	1,264.373	1,170.736	1,354.796	972.162	1,066.898
Ecuador	714.346	946.205	1,547.008	1,003.564	1,495.612
Mexico	8,823.554	11,717.655	13,866.488	12,298.991	17,872.653
Panama	3,867.163	5,647.806	7,893.907	6,522.357	11,967.279
Peru	1,008.535	1,683.201	2,774.372	2,098.874	3,549.668
Venezuela	1,698.021	2,838.505	3,365.981	2,811.265	3,648.587

Source: UN COMTRADE in http://comtrade.un.org/db.

TABLE 1-B
IMPORTS TO CHINA,
millions of U.S. dollars (estimates by China)

	2006	2007	2008	2009	2010
LAC	34,175.190	51,110.900	71,643.950	64,768.790	91,841.640
Argentina	3,700.185	6,334.230	9,361.350	4,306.017	6,804.128
Brazil	12,909.495	18,342.071	29,863.443	28,280.983	38,099.447
Chile	5,735.872	10,280.372	11,172.814	12,790.521	17,935.193
Colombia	263.817	1,095.796	1,125.408	974.821	2,103.363
Costa Rica	1,747.274	2,306.640	2,270.521	2,646.447	3,106.845
Cuba	528.313	1,115.463	903.057	574.439	764.609
Ecuador	87.202	141.191	849.023	763.157	507.159
Mexico	2,607.103	3,265.310	3,690.255	3,881.899	6,875.188
Panama	14.302	7.888	49.744	28.809	25.287
Peru	2,907.850	4,337.890	4,492.113	4,323.889	6,368.186
Venezuela	2,637.956	3,052.881	6,567.059	4,340.905	6,698.878

Source: UN COMTRADE in http://comtrade.un.org/db.

TABLE 2-A
EXPORTS FROM CHINA,
millions of U.S. dollars (estimates by LAC countries)

Years/countries	2006	2007	2008	2009	2010
Argentina	3,121.708	5,092.954	7,103.891	4,822.599	7,648.820
Brazil	12,617.755	20,040.022	15,911.145	25,535.684	32,788.425
Chile	3,357.914	4,746.821	8,173.028	6,160.384	9,889.079
Colombia	2,219.273	3,326.574	4,548.798	3,715.170	5,477.428
Costa Rica	550.652	758.444	865.438	699.564	990.685
Cuba	1,362.405	n. a.	n. a.	n. a.	n. a.
Ecuador	828.182	1,121.735	1,636.363	1,100.283	1,606.562
Mexico	24,438.280	29,743.657	34,690.315	32,528.972	45,607.548
Panama	2,102.233	2,626.350	2,424.350	2,133.796	4,172.706
Peru	1,583.656	2,462.958	4,069.490	3,268.830	5,115.341
Venezuela	1,652.369	2,076.292	4,527.517	4,034.462	3,593.328

Source: UN COMTRADE in http://comtrade.un.org/db.

TABLE 2-B
IMPORTS TO CHINA, millions of U.S. dollars (estimates by LAC countries)

Years/countries	2006	2007	2008	2009	2010
Argentina	3,475.853	5,166.609	6,354.957	3,666.461	5,798.775
Brazil	10,748.814	16,403.039	20,190.831	30,752.356	44,314.595
Chile	5,139.972	10,202.804	9,042.568	12,490.746	17,355.433
Colombia	452.420	784.758	442.953	949.726	1,966.624
Costa Rica	556.924	835.078	612.972	765.505	268.829
Cuba	22.853	n. a.	n. a.	n. a.	n. a.
Ecuador	194.728	36.550	387.466	124.208	328.738
Mexico	1,688.112	1,895.016	2,044.757	2,207.793	4,195.900
Panama	16.049	71.988	52.102	22.515	38.037
Peru	2,268.655	3,040.489	3,734.995	4,077.957	5,425.931
Venezuela	119.252	n. a.	270.302	304.009	719.398

Source: UN COMTRADE in http://comtrade.un.org/db.

TABLE 3-A
Trade balance of some LAC countries with China, millions of U.S. dollars (estimates by China)

Years/countries	2006	2007	2008	2009	2010
World	177,474.733	263,944.220	298,130.905	195,688.740	181,762.186
LAC	-1,852.760	-428.500	-118.090	7,674.530	43.610
Argentina	1,696.289	2,753.099	4,306.617	823.124	688.364
Brazil	5,529.389	6,943.599	11,055.986	14,162.465	13,638.795
Chile	2,626.842	5,848.151	4,986.010	7,862.051	9,910.263
Colombia	-1,232.457	-1,175.055	-1,862.523	-1,421.612	-1,716.587
Costa Rica	1,338.525	1,738.408	1,651.363	2,108.624	2,418.810
Cuba	-736.060	-55.273	-451.739	-397.723	-302.289
Ecuador	-627.144	-805.014	-697.985	-240.407	-988.453
Mexico	-6,216.451	-8,452.345	-10,176.233	-8,417.092	-10,997.465
Panama	-3,852.861	-5,639.918	-7,844.163	-6,493.550	-11,941.992
Peru	1,899.315	2,654.689	1,717.741	2,225.015	2,818.518
Venezuela	939.935	214.376	3,201.078	1,529.640	3,050.291

Source: Based on data from UN COMTRADE in http://comtrade.un.org/db.

TABLE 3-B
Trade balance of some LAC countries with China, millions of U.S. dollars (estimates by LAC countries)

Years/countries	2006	2007	2008	2009	2010
World					
LAC					
Argentina	354.145	73.655	-74.934	-1,156.138	-1,850.045
Brazil	-1,868.941	-3,636.983	4,279.686	5,216.672	11,526.170
Chile	1,782.058	5,455.983	869.540	6,330.362	7,466.354
Colombia	-1,766.853	-2,541.816	-4,105.845	-2,765.444	-3,510.804
Costa Rica	6.272	76.634	-252.466	65.941	-721.856
Cuba	-1,339.552	n. a.	n. a.	n. a.	n. a.
Ecuador	-633.454	-1,085.185	-1,248.897	-976.075	-1,277.824
Mexico	-22,750.168	-27,848.641	-32,645.558	-30,321.179	-41,411.648
Panama	-2,086.184	-2,554.362	-2,372.248	-2,111.281	-4,134.669
Peru	684.999	577.531	-334.495	809.127	310.590
Venezuela	-1,533.117	n. a.	-4,257.215	-3,730.453	-2,873.930

Source: Based on data from UN COMTRADE in http://comtrade.un.org/db.

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