2010
Vol. 3 Nº 2

UNIVERSIDAD EAFIT
Abierta al mundo

Revista de Negocios Internacionales

DEPARTAMENTO DE NEGOCIOS INTERNACIONALES

Maria Alejandra Calle

A brief note about the China-Latin American Trade Partnership: an opportunity for trade diversification or a threat to a green agenda in the region?

Revista de Negocios Internacionales. Vol. 3 Nº 2 - Julio - Diciembre 2010 - Pp. 57 - 63

A brief note about the China-Latin American Trade Partnership: an opportunity for trade diversification or a threat to a green agenda in the region?

Maria Alejandra Calle [1]

Abstract

Bilateral trade relations between China and Latin American countries are often seen and exhibited as a strategic alliance. Nonetheless, China has its main trade and investment interests in natural resources extraction. In this sense, high stakes emerge when balancing trade patterns and welfare concerns for Latin American countries that also share the goal of attracting foreign direct investment, alternative initiatives derived from the sustainable use of biodiversity.

Brief Note

After years of economic crisis and political storms, China emerges as the so called "world factory" having the priority of recovering its domestic economy and regional influence by straightening its export platforms and maintaining its competitiveness in manufactured products. In doing so, China needs to forge trade alliances and ensure its supplier sources for raw materials, agricultural products and energy. The rapid growth of China, its involvement in the world trade scenario and its recent commitments with the WTO are posing a new myriad of opportunities and threats for developing countries, especially for Latin America, who seems to be an important ally for the Asian giant.

The possibility of Regional Trade Agreements (hereinafter RTA's) between China and Latin American countries is deeply rooted in the idea of important dynamic complementarities and cooperation. It is important to recall that with the publica-

1 Master in International Economic Law and Policy -IELPO (Universitat de Barcelona). Master in Administration Sciences (Universidad EAFIT). Assistant Professor at the International Business Department. Universidad EAFIT (Medellin- Colombia).

tion of the Ninth Five-Year Plan in 1996, China started its policy shift to “actively participate and develop regional economic cooperation”, as well “strengthen South-South Cooperation”, and promote and develop the economic and trade co-operation with developing countries. The same Plan, however, also calls for China to “actively participate and defend multilateral trading system, develop both bilateral and multilateral trade, so that they can promote each other and the market diversified” (Gao, 2008)

Nevertheless, since the main economic interests of China in Latin America are considerably focused in its natural resources extraction and natural resources-based manufactures (besides geo-political reasons), it is also important to identify possible non trade concerns for Latin American governments and other stakeholders lingering beyond such attractive investment negotiations. Food and environmental security are often concerns that gather the attention of NGO´s, both concepts enrooted in the goal of having a sustainable development that is also included in the Latin American trade agenda (specially for the Andean Community and its biotrade iniciative).

In this sense, for Latin American countries being a raw material supplier for China (for natural resources) could represent also a bundle of stakes for the sustainability of this trade/investment partnership due to the enormous pressure on the exuberant but no less fragile biodiversity, rural and aboriginal communities of Latin America (particularly in times of global warming). Hence, the risk for Latin America to become the new pantry for China is not negligible. This pattern of trade will emerge as a dilemma if the priorities on biodiversity as a strategic sector (for biotechnology, biotrade, environmental goods and services) are also part of the developing agenda of some Latin American countries

China is keen to explore new markets and increase its bargaining power in the multilateral trading system and especially in the Asian region. According to Henry Gao today it would be possible to say that while China could afford to ignore many world economies, none of them could afford to ignore China. In fact, “by focusing on RTAs with those economies which are of minor importance to China, China could divert some of the trade with its major trading partners, so that it could further balance and diversify its important sources and export markets and would not be over-reliant on one or several economies. At the same time, these RTA partners will have a lot of their trade diverted to China. This would further increase their reliance on China and further strengthen China’s bargaining power and political clout” (Gao, 2008)

On the other hand, China represents for Latin America an important source of manufactured products and Foreign Direct Investment. Even if China has been an important hub for FDI during the past twenty years, the increasing role of China as investor is easy to perceive, especially among developing countries (being the sixth-largest source of FDI in the world). According to According to Rosales, Chinese FDI abroad was valued at US $ 5.5 billion in 2004, of which 32% (1.76 billion) was invested in Latin America and the Caribbean. The presence of Lenovo in the Mexican state of Chihuahua is one example of Chinese FDI in the region. The firm has established four plants for the manufacture of spare parts and equipment in Chihuahua (Rosales, 2006)

Besides being considered as an important foreign investor in Latin America, China also is perceived as buoyant trading partner and an important alternative for the objective of imports diversification of most of South American Countries[2] who have in the United States market the main source for exports and cooperation (frequently paying the onerous cost of political influence and inference in the case of Andean region). Hence, the Asian continent emerges as a challenge for Latin American countries, ASEAN and the APEC constitute strategically economic initiatives for trade creation, welfare enhancement, international cooperation and especially the improvement of the competitiveness of the Latino American region as a whole. In fact, “The recent trend toward the consolidation of trade between Latin America and the Asia Pacific region through various types of agreements may facilitate the inclusion of Latin American firms in Asian production chains revolving around China and India” (Rosales, 2006)

It is worthy to mention the fact that “South America enjoys trade surpluses with both countries-China and India-, while Mexico and Central America run growing deficits. The structure of the region’s exports to China and India is characterized by a predominance of natural resources and natural resource based manufactures. This stands in sharp contrast to the structure of intraregional Latin American trade, which is characterized by a high percentage of medium-technology products” (Rosales, 2006). In this scenario, another step in the process of building a promissory partnership will be the review (and even harmonization) of trade remedies, especially antidumping measures and countervailing duties and technical standards -including aspects related with the TBT and the SPS agreements- that would be imposed on Chinese imports.

2 “South America enjoys trade surpluses with both countries-China and India-, while Mexico and Central America run growing deficits. The structure of the region’s exports to China and India is characterized by a predominance of natural resources and natural-resource based manufactures. This stands in sharp contrast to the structure of intraregional Latin American trade, which is characterized by a high percentage of medium-technology products” (Rosales & Kuawayama, Pág 87)

The fear of jobs displacement generated by the import of work intensive products -in which China has a comparative advantages- and the environmental damages in terms of possible predation of the natural resources of Latin America are spreading rapidly (environmental negative externalities derived from Chinese investment in extractive industries located in Latin American countries). According to Sergio Amaral, former Brazilian ambassador to France for 2006:

> *"…China is as big an opportunity as it is a threat. He cites such unfair competitive practices as dumping in the textile sector, in which he says suits priced at just $1 are entering the Brazilian market. Amaral says the "big challenge" for the 21st century is "how countries will react to these dislocations — whether it will be possible to accommodate China or whether this emergence will bring about friction and conflict."*
>
> *Friction is already stirring. China imports far more raw materials from Brazil than manufactured products. In addition, China has not kept President Hu Jintao's promise to make sizable investments in South America, and attitudes are hardening. Soy farmer Erai Maggi says he is very keen to see China invest in Brazil's long-neglected roads and railways, which make transport costs five times what they are in the United States. But he's sceptical. "China investing in infrastructure here?" Maggi asks. "I haven't seen a cent of that. Who from China is going to invest? All I hear is talk — just like a parakeet."*
>
> *The China-driven soy boom also has alarmed environmentalists who say it has pushed farming northward into the Amazon rainforest and changed the quality of the region's rivers. "We are basically changing nature for money in Brazil," says conservationist Adalberto Eberhard. But the Chinese ambassador, Duqing, says China isn't Canada. He says developing economies that try to industrialize pollute and that every country must find its own way to reconcile development and damage to the environment…"*(PINR, 2006)

Undoubtedly, this growing relationship has not been perceived in a very positive way among the Latin American states and the various stakeholders involved in trade negotiations. As a matter of fact "in Latin America, China is viewed differently in different countries. Some Latin American countries see China's staggering economic development as a panacea or bonanza: Argentina, Peru, and Chile view China as an insatiable buyer of commodities and an engine of their economic growth; others see it as a threat: Mexico, Brazil, and the Central American republics fear losing jobs and investment; and a third group of countries consider China their ideological ally, like in the case of Bolivia, Cuba, and Venezuela (PINR, 2006)

In this context, China's appetite for natural resources is leading many trade initiatives all over the world in order to achieve its rapid economic expansion and specially its leadership in Asia (in order to counter balancing the traditional dominance of US and Japan). Thus, Latin America is about to become in one important market for Chinese manufactured goods as well an abundant source of energy, commodities and raw materials. The Chinese presence in the region through direct investment in the energy, education and tourism sectors (among others) of Latin America is also an efficient way to ensure in a long term basis, its market access and resources procurement.

Sino-Latin American trade relations have been increasing considerably, trade reached $50 billion in 2005, with China emerging as the region's third largest trading partner. Latin American exports to China are growing at a brisk 47 percent a year, with Mercosur countries such as Argentina, Brazil, Uruguay and Paraguay accounting for 85 percent of the total, according to data from the Inter-American Development Bank. China's trade volume surpassed Japan's total trade with the region in 2004, and is moving up the lists of major trading partners for a number of regional countries. China is now the second largest trading partner for Peru and Brazil; the third largest for Chile; the fourth largest for Argentina; and trade with China now falls within the top ten for Paraguay and Uruguay. Significantly, China is investing more in Latin America than any region outside Asia (PINR, 2006).

During his November 2004 visit to Argentina, Brazil, Chile, and Cuba, President Hu Jintao pledged that China would invest more than $100 billion in Latin America over a decade. Chinese investment and purchases are seen as vital for economies short on capital and struggling to emerge from a long recession. In Argentina, for example, Hu Jintao announced nearly $20 billion in new investment in railways, oil and gas exploration, construction and communications satellites, a huge boost for a country whose economic vitality has been sapped since a financial collapse in December 2001. China is busy buying huge quantities of iron ore, bauxite, soybeans, timber, zinc and manganese in Brazil. It is buying tin from Bolivia, oil from Venezuela, and copper from Chile where it has displaced the United States as the leading market for Chilean exports"(PINR, 2006).

It is also worthy to mention that in its relations with Latin American countries, the Chinese government, unlike the United States, has not posed political conditions nor a trade related concerns as possible burdens for trade negotiations. This is particularly true for the case of issues related to human rights, democratic practice, respect for the rule of law, good governance, labour and environmental standards and the war against drugs. In this context, the "sovereignty costs" and the traditional dependency tides between Latin America and the United States could be reduced by allowing trade creation and by favouring the conditions for capital flows (FDI) between Asia and Latin America.

Nevertheless, besides the aforementioned efforts on harmonization of TBT/SPS measures and tax codes (legal certainty and predictability for Sino-Latin partnership) this possible robust trade relation have merits and demerits that are prudent to identify in order to build a sustainable, stable and fruitful trade partnerships. In this sense, the cooperation links and strategic alliances between Chinese and Latin American companies should be strengthening. The possibility of joint ventures, strategic alliances and the intra-industry trade would be crucial for the access to global and regional supply chains, leading to sophisticated and high value partnerships in a variety of strategic sectors (specially for developing countries). This sort of alliance should more easily make the technological transfer and the capacity building in terms of innovation and efficiency, especially in sensible sectors for Latin America and the environmental impact when satisfying the Chinese demand of natural resources

According to Rosales & Kuawayama (2006), the best approach on this regard would be to build those partnerships around chains in order to increase the sophistication of the natural resource based manufactures the region exports to Asia. Latin America should make optimal use of its natural resources, promoting long term contracts, investment agreements and technological partnerships in the natural resources sector, as well a strategic production cluster in Asia. Strategic alliances would increase value added throughout the production and marketing chain, and mutually beneficial technological – biotechnology, agro industry, mining, forestry and fishery (Rosales, 2006).

Nonetheless, a strategic trade/investment relation will emphasise the importance of enhancing positive externalities trough a susceptible use of natural resources by means of technology transfer, capacity building, best practices and due compensation for the caused damages. If not, Latin American countries may be sacrificing in a long run its own biodiversity (a non renewal resource) susceptible of being used for alternative industries (*e.g* biotrade, biotechnology, environmental goods and services) for an ephemeral “mine of gold” and therefore, it is possible to ask if this strategic relation will be nothing but the wall’s shadow over our garden or an opportunity for trade diversification.

References

Gao,Henry. 2008. The RTA Strategy of China: A Critical Visit. In Buckley, Ross et al (Ed*), Challenges To Multilateral Trade: The Impact of Bilateral, Preferential and Regional Agreements*: 55-66. Netherlands. Published by Kluwer Law International.

PINR.2006. Electronic Document ''China's Growing Involvement in Latin America''. http://www.pinr.com/report.php?ac=view_report&report_id=508&language_id=1 Accessed on October 30 2009.

Rosales, O. et al. 2007. Latin America meets China and India: prospects and challenges for trade and investment*. CEPAL Review* , 93 (4) : 82-102.

The National Public Radio. 2008. McCARTY, Julie. *"Growing Trade Ties China to Latin America.* : http://www.npr.org/templates/story/story.php?storyId=89275971. Accessed October 30 2009.