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China and Latin America: Connected and Competing

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By Kayla Chen & Xiangming Chen

The Global Rise of China

The rise of China has stolen more headlines than any other global issue these days, stirring up questions about what China's growing prominence really means, and how – more than why – it affects the world. While the rise of previous global powers took decades, if not centuries, China's rise has been spectacularly fast and furious, considering the tremendous economic prowess it has gained over a relatively short period of time. Accounting for approximately 2 percent of the world's total GDP around 1980, China holds almost 15 percent of world GDP in purchasing power parity today. From a longer historical perspective, however, China has yet to regain its dominant status in the world economy back in 1840 when it accounted for about a third of world GDP – the largest among all countries at the time – before its protracted economic decline in the aftermath of the two Opium Wars.

As China's share of the world economy has grown larger, its integration with global trade has also accelerated. According to the Chinese government's statistics,[1] China's share of global trade rose from 4.7 percent in 2002 to 10.2 percent in 2011, with its export share of the global total growing from 5 percent to 10.4 percent. This rapid ascent has moved China from fourth to first on the list of top trading nations. With an annual growth rate of 21.8 percent since 2002, China moved up from being the sixth largest importer in 2002 to the second in 2009, and stayed there through 2012, only behind the United States. Because China's speed and intensity of economic growth and global integration over the last three decades is historically unprecedented, it is expected to encounter both concerns and competition from other emerging economies, mainly in Asia and Latin America.

From Old Allies to New Partners

Looking from the 1960s to the present, there has been both continuity and change in China's relations and position with other developing countries. As a member of the old Third World camp, China preached and practiced the ideology of socialist, independent development with very limited international trade. At the same time, China provided development assistance to a number of African and Latin American countries that shared that ideology, such as Tanzania and Chile, whose socialist government under Allende was the first in Latin America to recognize China in 1970 (although trade between the two countries began as early as 1961). Between 1970 and 1975, China put up $500 million to build the Tanzania-Zambia Railway, the largest single foreign-aid project undertaken by China at the time. As part of this largely ideologically driven project, China invited hundreds of railroad engineers from

both countries to Beijing for training. The irony at the time was that many of these engineers were the sons of government elites whom China treated as its "socialist brethren."

Fast-forward to the first decade of the 21st century, and China has expanded its small and ideologically imbued presence into considerably larger and market-oriented developing economies in Asia, Africa and Latin America. China not only has expanded trade and investment ties with many of these economies, but also intensified efforts to target valuable commodities like oil, gas, metals and minerals. While continuing to provide development assistance, often involving a larger amount of resources to poor developing countries, China has become a more powerful trader and investor, with a voracious appetite for natural resources that are in short supply at home. Relative to its interests in acquiring oil and gas in Central Asia and parts of Africa, China's economic relations with, and interests in, Latin America are more varied and complex.

The Emerging China-Latin America Nexus

Trade between China and Latin American countries has grown exponentially over the past decade. Although Sino-Latin American trade continues to remain a relatively small share of their respective global trade, growth has exceeded many expectations. From 2000 to 2009, annual trade between China and Latin American countries grew more than 1,200 percent, from $10 billion to $130 billion, according to United Nations statistics.[2]

China has emerged as the largest export destination for Brazil, Chile and Peru and the second largest export destination for Argentina, Costa Rica and Cuba. Overall trade with Latin America is mainly driven by China's need to fuel its expanding economy and to feed its 1.34 billion people. Brazil, Chile, Peru and Argentina – more than half of the Mercosur group – are tremendously resource-rich. For example, agricultural and mining goods accounted for 83 percent of Latin American exports to China between 2008 and 2009.[3] Based on a recent World Bank assessment of China's impact on Latin American economies, China's growing demand for South America's leading exports – copper, iron ore, oil and soybeans – has had an undeniably positive impact on the region's export growth. Nonetheless, growth has been quite uneven across different countries in Latin America. The Andean and Southern Cone nations have reported increases ranging from 9 to 14 percent of their total exports, respectively. In the case of Central American products, China's imports accounted for only 2 percent of Central America's total exports in 2004.[4]

The composition of Latin America's main exports to China – copper, iron ore, oil and soybeans – reflects China's goal to strengthen its "strategic partnerships" with Argentina, Brazil and Chile, due to the value of trade and their regional influence. Economic ties between these countries and China have continued to deepen since China became Chile's largest export consumer in 2007 and Brazil's largest trading partner in 2009.[5] China's rapid growth in trade and investment in Brazil has helped to fuel the Brazilian economy in a sluggish global market. Yet, similar to the rest of the region, Brazil exports primarily raw commodities and imports manufactured goods from China. In 2009, 77 percent of Brazil's exports to China consisted of raw materials, mainly iron ore, soybeans and soy oil, while industrial products made up only 23 percent.[6] In 2011, Brazilian President Dilma Rousseff remarked, "There is a misbalance on our relations with China. Brazil exports commodities and imports too many knick-knacks. I'm told that 80 percent of this year's Carnival costumes came from China."[7]

Argentina, which maintains a trade surplus with China, exported a total value of $5.15 billion to China in 2009.[8] The surplus is mainly driven by its heavy export of soy products. Between 2000 and 2009, 55 percent of Argentina's exports to China were soybeans, and another 23 percent soy oil.[9] Argentina has also been a regional leader in forging investment and technological cooperation with China. The establishment of the Argentine-China debt swap in February 2009, worth $10.2 billion, was the first such deal in the region. China's investment in private Argentine companies has also grown. The China National Offshore Oil Corporation's purchase of a $3.1 billion interest in Argentina's Bridas, and Sinopec's $2.4 billion purchase of Occidental's Argentine holdings put Argentina on par with Brazil, Ecuador, Peru and Venezuela with respect to China's investment deals in the region.[10] Additional areas of cooperation between China and Argentina are evident in military and space. Argentina is one of only four Latin American countries to have purchased military vehicles from China, and one of the few countries to cooperate with China in space exploration. Argentina's nuclear agency, CONEA, has also discussed joint projects with major Chinese telecommunications companies such as Huawei and ZTE, which have a significant presence in Argentina.

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China's growing economic influence in Argentina and the region may become a concern to the receiving parties. However, it will have no real impact on the larger and more significant reality, which is that the Chinese and Latin American economies are already strongly connected, and will become even more so through this decade and beyond.

Competing from Afar

China's stronger economic ties with Latin America are generating concerns in some Latin American countries that the Asian superpower is quickly outcompeting them. In the short term though, China's demand for raw materials helps to raise direct exports from Latin America. Since Latin American countries and China have different export structures, the former is not as threatened by China's rapid market penetration as assumed, with the clear exception of Mexico. According to Kevin Gallagher, a specialist on international economic development, "Mexico is the only country in Latin America whose comparative advantage has been moving in the same direction as the comparative advantage of [India and China]," and faces strong commercial competition.[11] Interestingly though, the head-to-head economic competition between China and Mexico has shifted around to either's favor in turns.

Once upon a time, Mexico saw China as a seemingly unmatchable competitor in producing the same kinds of cheap manufactured goods at a fraction of the cost. Now, for the first time in a decade, Latin America's second largest economy has become a credible challenger to China in manufacturing. According to figures from the United Nations Commodity Trade Statistics Database, Mexico accounted for 12.3 percent of all US non-oil imports in 2010. In 1999, prior to China's emergence as the "world's factory," its share was just 10.6 percent.[12] The result of this shifting landscape can seem counter-intuitive. Today, Chrysler is using Mexico as a base to supply some of its Fiat 500s to the Chinese market. To mark the company's $500 million investment in Mexico last year, former president, Felipe Calderon, remarked, "I think it is the first time that a Mexican vehicle, at least in recent times, is to be exported to China…we always thought it was going to be the other way around."[13]

Other changes have taken place and paved the way for Mexico's new important role as a global manufacturer. Its free trade agreements with 44 countries – more than twice as many as China, and four times as many as Brazil – have allowed companies based in Mexico to source external inputs, often duty-free. Another significant shift improving Mexico's competitive status is China's rising labor costs. For example, wages in southern China have gone up by 20 percent a year over the last four years, and up 14 percent annually in Shanghai from 2002 to 2009, relative to increases of 8 percent in the Philippines and only 1 percent in Mexico.[14] As a result, Mexican wages, which were 2.4 times those of China in 2002, are 14 percent higher now, and will be lower than China's faster rising wages in five more years.[15] Mexico is clearly back in the game of labor-intensive competition with China.

Competing from across the Pacific Ocean for exports to the United States, China certainly does not have Mexico's unique geographic advantage as a next-door neighbor. According to Lorenza Martínez, Mexico's Undersecretary of the Economies Ministry, it takes between 20 days and two months to ship goods from China to the United States, whereas Mexican goods can reach their cross-border destinations between two to seven days. This makes a huge difference in cost savings and inventory reduction as just-in-time manufacturing has become more popular with American companies, especially since the 2008 economic recession.[16] Distance matters a great deal to the overall competition between China and Mexico for the United States, their most important common market. However, it may not be sufficient to offset China's greater advantages against Mexico in its volume of exports and its spread and depth of global supply chains.

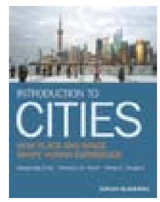
A Win-Win Prospect?

With strong economic ties to multiple Latin American countries and direct competition with Mexico, China has growing interests and stakes in the region today. Does this create the impression of a hegemonic or even colonializing China, like that of the Old World in Latin America? Challenging this perception, Jiang Shixue, an influential Chinese scholar on Latin America, has portrayed the bilateral relationship as South-South cooperation. He cites China National Petroleum Corporation (CNPC), which constructed a school in the city of Talala, Peru as an example of China taking up local corporate social responsibility.[17] One could also point to the generally favorable terms of trade for both sides and China's absence of political intervention in Latin America as additional evidence for a mutually beneficial relationship. Against this larger picture, China-Mexico's export competition seems to be an outlier.

Moving forward, there may be some uncertainty in Sino-Latin American relations given the internal and external challenges surrounding China's transition to more balanced and sustainable economic growth, a more egalitarian society and the development of a more consistent foreign policy. Potential slower economic growth will weaken China's demand for commodities from Latin America and reduce the latter's vulnerability to export price volatility, although it will experience a slowdown in export growth. Achieving higher levels of domestic consumption will lighten China's burden to compete with a country like Mexico for manufactured exports. If China can be convinced to be more flexible regarding territorial disputes (e.g. the Diaoyu/Senkaku Islands) and long-distance fishing off South America's coast, then China could be seen by Latin American countries as the "soft power" on the peaceful rise that it claims.

About the Authors

Xiangming Chen has since 2007 been the founding Dean and Director of the Center for Urban and Global Studies and Paul Raether Distinguished Professor of Global Urban Studies and Sociology at Trinity College in Hartford, Connecticut and Distinguished Guest Professor in the School of Social Development and Public Policy at Fudan University in Shanghai, China. He has published extensively on urbanization in and globalization of China. His most recent book is *Introduction to Cities: How Place and Space Shape Human Experience* (with Anthony Orum and Krista Paulsen, Wiley-Blackwell, 2012).



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