Introduction

China: A Helping Hand for Latin America?

by Javier Santiso

China's economic boom represents a major global change. Over the last few years, China has expanded by leaps and bounds and become both a threat to and an opportunity for emerging markets. Its growing demand for raw materials is at the same time a bonanza and a challenge for developing countries.

The Chinese boom brings a positive windfall boosting trade exports of countries whose endowments are commodity related. This appetite for raw materials is, however, also contributing to nominal and real exchange rate appreciations in most Latin American countries leading to lower competitiveness in manufacturing sectors. At the same time, China has emerged as a major exporter at both the labour-intensive, low technology and, increasingly, at the knowledge-intensive, higher technology end of the product spectrum. It is presenting challenges to most developing countries, and particularly other global trade champions like Mexico in nearly all sectors, from textiles to most industrial products with higher value-added.

Should Latin America fear the emergence of this new global economic player? This question is the basis of Eduardo Lora's Chapter 1, which compares the respective strengths of the Chinese economy relative to Latin America; these or such strengths include size, macroeconomic stability, abundant low-cost labour, rapidly expanding physical infrastructure, ability to innovate and massive ratios of investments and savings. This is also the central question posed by all other contributing experts and scholars from leading international institutions and academia, including the Inter-American Development Bank, the Asian Development Bank, the OECD Development Centre, the Central Bank of Spain, the Central Bank of Chile, Oxford University, and private banks such as BBVA (Banco Bilbao Vizcaya Argentaria), one of the leading European banks that is also the major financial player in Latin America.

China's trade impact on Latin America is mostly positive, both directly, through an export boom, and indirectly, through better terms of trade. China looks like a "trade angel" and a "helping hand" as well as being an outlet for commodities from the region. With galloping GDP growth and a scarcity of arable land, China's appetite for natural resources and farm products seems good news for Latin America. With $50 billion worth of trade and investments in Latin America in 2005, China is already a major partner.

To analyse China's trade impact on the rest of the world, Blázquez, Rodríguez and Santiso look at the export and import structure of the country in Chapter 2. They use a database of 620 different goods and build two indexes of trade competition in the US market in order to compare the Chinese impact over the period 1998-2004 on 34 different economies, of which 15 are in Latin America. This shows that Venezuela, Bolivia and Chile are those with the lowest indexes among the 34 and thus, those that suffer least from Chinese trade competition. Brazil, Colombia and Peru are in an intermediate position. The countries that are most exposed to Chinese competition in the United States are Central American countries and Mexico.

Sanjaya Lall and John Weiss reach similar conclusions in Chapter 3, which analyses and compares China's and Latin America's export performance and specialisation patterns in the world as a whole, including the United States, the main market for both. They show that the trade structure of most Latin American countries is generally more complementary than competitive with China's. Lall and Weiss join the earlier authors, however, in underlining the point that if China represents a unique trade opportunity for Latin America, it may nonetheless pose a serious threat to its long-term development: heavy reliance on resource-based products is not conducive to technological upgrading and diversification. A potential revaluation of the *renmimbi* could enhance competitiveness of Latin American products in US markets, as stressed by López-Córdova *et al.* in Chapter 4. This issue is likely to remain a major structural challenge.

China's emergence is a wake-up call for Latin America. Countries like Mexico will have to boost reforms in order to remain in the competitiveness race. Labour costs will clearly no longer offer a competitive advantage, at least in the medium term. A better way to deal with the Chinese challenge will be to push ahead the agenda of reforms, particularly in the area of infrastructures. For Mexico and Central America, proximity to the United States is a major strategic asset on which to capitalise. The best way of doing this is to improve the efficiency of roads, ports, railways and airports in order to lower transaction and transportation costs.

For other Latin American countries, China is likely to remain a trade angel. Not surprisingly, the countries that mainly export raw materials face lower competition. This is only to be expected, bearing in mind that China is a net importer of such commodities. In 2003, Chinese imports of nickel doubled, its copper imports grew by 15 per cent, oil by 30 per cent and soy beans by 70 per cent. China has become the world's leading consumer of copper, zinc, platinum, iron and steel.

Most Latin American countries are thus witnessing a tremendous increase in their exports. The region's commodity-specialising exporters are well able to fulfil the needs of growing Chinese demand contributing 47 per cent of world exports of soy beans and 40 per cent of world exports of copper. Latin American exports towards China jumped by impressive numbers in nominal terms. From 2000 to 2003, Brazil's exports increased by 500 per cent, Argentina's by 360 per cent and Chile's by 240 per cent. Even Mexico, a global trader in manufactures, saw its exports towards China increasing by 1000 per cent over the period.

China has become Brazil's second and fastest-growing export market but these exports are concentrated on five commodities that account for 75 per cent of Brazil's exports to China. Soy beans are the major commodity exported towards China, both for Brazil and Argentina. For Chile and Peru, the bulk of exports towards China are concentrated on a single commodity, namely copper.

Despite concentration in a small basket of commodities, China's strong demand for raw materials is, nevertheless, good news for Latin America. From 2000 to 2005, China represented nearly 40 per cent of the total growth in world oil demand. China's growing thirst for oil has been driving oil prices up and boosting trade surpluses of oil exporters such as Venezuela, Ecuador and Colombia. The surge of Chinese imports of copper over the last few years also caused prices to rise and has been a boost for Chile and Peru, two other economies that have registered record trade surpluses in 2004 and 2005.

China is not only a major trade partner for Latin America. During the coming decade, it might well offer a helping and visible hand in terms of capital flows. China does not seem to compete with Latin America for foreign direct investment. It attracted as much FDI as the whole of Latin America over the past years, but this does not seem to have been at the expense of Latin American countries. As underlined by Alicia García-Herrero and Daniel Santabárbara in Chapter 5, there is no substitution from Latin American inward FDI to China for the period analysed, namely from 1984 to 2001. However, when assessing the impact country by country and for the more recent period 1995-2001, the picture changes a little as China's inward FDI appears to have hampered that of some countries in the region, namely Mexico and Colombia.

In fact, instead of fearing increasing competition from China for capturing FDI, Latin America may once again be well placed to attract Chinese interests. The region has a surplus commodity endowment that boosts synergies with China's need and strategy to secure food and energy imports in order to avoid shortages. Chinese investments can and will be channelled not only in agri-business and commodity-related industries but also in infrastructures, roads and ports.

In 2003, China's outward investment more than doubled in the course of a year (although it is still at a low level) and Latin America received one third of world Chinese FDI. The following year, nearly 50 per cent of Chinese FDI went to Latin America (16 per cent in 2005, of a total record of 7 billion of dollars invested overseas). The need to secure food and commodities is boosting FDI through strategic international partnerships. In Mexico, China is already setting up manufacturing companies and Chinese interests in Argentina's railway construction or agribusiness-related projects are also on the rise. Some of the biggest investments carried out abroad by Chinese companies are already located in Latin America, namely in Brazil in the steel and iron industry. In 2004, The Chinese state oil company Sinopec invested $1 billion in a joint venture with Petrobras for the construction of a gas pipeline linking south to northeast Brazil. Other deals the Chinese have recently signed included iron ore shipments from Companhia Vale do Rio Doce (CVRD), one of the world's largest mining concerns, for Shanghai's famous Baoshan Steel Mill. In 2005, Codelco, the Chilean copper giant signed an historic trade contract with Chinese Minmetals.

It is not only Chinese companies that are interested in coming to Latin America; Brazilian ones for example are also looking to opportunities in China, the most active being companies like jet maker Embraer or Marcopolo, Brazil's and South America's largest bus producer. While there are only 15 Brazilian companies active in China, there are already 4 000 from Canada.

It is clear that Latin America is looking towards China and Asia — and this is reciprocal (Santiso, 2005*a*). This is a major shift: for the first time in its history Latin America can benefit from not one but three major world engines of growth. Until the 1980s, the United States was the major trade partner of the region. During the 1990s, the boom in European investments provided a second engine of growth. Today, in this new decade and century, the emergence of China, and above all Asia, is proving to be a third engine of growth for Latin America. The Asian demand for commodities offers Latin America a unique historic opportunity but for that the region will have to do more than simply surfing the wave.

Even for those Latin American surfers that are benefiting from the Chinese windfall, the major policy issue will be not only to capitalise on this *bonanza* but above all to avoid the risk of being pushed into a raw materials corner and to remain integrated into the value chain of global production.

Beyond the trade and financial impacts of China on Latin America, there might be a more subtle effect that could be labelled a "cognitive impact". China symbolises a success story, catching the attention of development economists, policy makers and firm managers in both developed and developing countries. If the Chinese success story is striking, it is because this development trajectory testifies to the impressive economic pragmatism of China's policy makers who apply marketfriendly policies, driven by the state, to promote reforms and productive restructuring. This capitalist *bricolage* is unique, even if it is similar to previous Asian experiences, notably those of Japan, Singapore or Malaysia. What remains different is that in the case of China it is driven by a Communist Party.

The political economy of pragmatism is more prevalent today around the world than was the case a few years ago. Without any reference to a macro paradigm or a text-book model, China pushed ahead with its own trajectory. There were no "Chicago Boys", or "Money Doctors" landing in Beijing to advise what to do or not to do. In Latin America, this pragmatism has also been at work in countries like Chile, Mexico and Brazil (Santiso, 2006). All in all, these experiences, though each very different and unique, are pointing to the fact that there is no magic formula or magic key that opens the box of development.

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