By the end of 2015, it is expected that China will supplant the EU as LAC’s number-two trade partner.
We hear it a lot: China is now Brazil’s top trade partner; it’s on pace to surpass the EU as Latin America and the Caribbean’s second biggest trade partner; trade flows are in China’s favor as a consumer of primary products and exporter of finished products. Some are sounding alarm bells; others insist this is simply globalization. Here are some of the raw numbers.

**Products**

The terms of trade differ. Raw materials account for nearly 60 percent of LAC exports to China, followed by natural-resource-based manufactures, processed mineral products and agro-industrial products. Nonetheless, these percentages vary by country. For instance, Costa Rica, El Salvador and Mexico export substantial percentages of high-tech manufactures to China.

**LAC TOP THREE EXPORTS TO CHINA BY PRODUCT TYPE, 2007–2009 (IN PERCENTAGES)**

- **Argentina**
  - Crude Petroleum 8%
  - Soybeans 27%
- **Bolivia**
  - Crude Petroleum 13%
  - Tin Concentrate 22%
  - Tin and Tin Alloys 24%
- **Brazil**
  - Crude Petroleum 6%
  - Soybeans 24%
- **Caricom**
  - Monohydric Alcohols 15%
  - Non-Coniferous Wood 13%
- **Chile**
  - Chemical Wood Pulp 7%
  - Copper Concentrate 24%
  - Copper 15%

- **Colombia**
  - Nonferrous Base Metal Waste/Scrap 4%
  - Other Ferro-Alloys 37%
  - Crude Petroleum 54%
- **Costa Rica**
  - Semiconductor Devices 1%
  - Piezoelectric Crystals 1%
  - Other Common Metals 7%
- **Cuba**
  - Electric Micro-Assemblies 96%
  - Nickel Mattes 72%
- **Dominican Republic**
  - Nonferrous Waste/Scrap 2%
  - Other Ferro-Alloys 51%
  - Crude Petroleum 95%
- **Ecuador**
  - T-shirts 4%
  - Nonferrous Waste/Scrap 36%
  - Electrical Capacitors 54%
  - Zinc Concentrate 14%
- **El Salvador**
  - Waste, Pairings and Scrap Plastics 10%
  - Zinc Concentrate 14%
  - Sugar 60%
- **Guatemala**
  - Zinc Concentrate 36%
  - Lead Concentrate 27%
- **Honduras**
  - Electric Micro-Assemblies 14%
  - Copper Concentrate 10%
  - Telecom Equipment Parts 5%
- **Mexico**
  - Nonferrous Waste/Scrap 34%
  - Waste, Pairings and Scrap Plastics 22%
  - Copper Concentrate 10%
  - T-shirts 13%
- **Nicaragua**
  - Sponge Iron Products 15%
  - Iron Concentrate 14%
- **Panama**
  - Flours, Not For Human Consumption 13%
  - Bovine Hides 32%
  - Non-Coniferous Wood 29%
- **Paraguay**
  - Waste, Pairings and Scrap Plastics 10%
  - Bovine Hides 32%
  - Copper Concentrate 39%
  - Carded Wool 8%
- **Peru**
  - Flours, Not For Human Consumption 16%
  - Chemical Wood Pulp 23%
- **Uruguay**
  - Carded Wool 8%
  - Chemical Wood Pulp 23%
Products

While Latin America and Caribbean countries export mostly primary products to China, they mostly import higher-end manufacturing or tech goods from China. Those products compete with local industries and producers in domestic markets and internationally. Will the competition over these goods choke off the ability of Latin American and Caribbean countries to move up the value chain to more manufactured, higher-end goods that are key to development?

CHINA–LAC TRADE BALANCE, 2008–2010 (IN US$ MILLIONS)

<table>
<thead>
<tr>
<th>EXPORTS</th>
<th>IMPORTS</th>
<th>TRADE BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>218,493</td>
<td>226,031</td>
<td>-7,538</td>
</tr>
<tr>
<td>128,829</td>
<td>200,255</td>
<td>-71,426</td>
</tr>
<tr>
<td>77,488</td>
<td>12,176</td>
<td>9,161</td>
</tr>
</tbody>
</table>

Foreign Direct Investment

Chinese outward FDI has displayed a consistent upward trajectory globally in the past five years. Latin America has received a greater absolute amount of those investments, though not as much in relative terms. For example, although Chinese FDI flows to Latin America increased by 97.3 percent in 2009 from the year before and another 43.8 percent in 2010, Chinese FDI flows to LAC in 2010 represented only 15 percent of the country’s FDI globally.

CHINA’S OUTWARD FDI FLOWS–LAC

- 2006: $8.5 BILLION
- 2007: $4.9 BILLION
- 2008: $3.7 BILLION
- 2009: $7.3 BILLION
- 2010: $10.5 BILLION

CHINA’S OUTWARD FDI STOCK–LAC

- 2006: $19.7 BILLION
- 2007: $24.7 BILLION
- 2008: $32.2 BILLION
- 2009: $30.6 BILLION
- 2010: $43.9 BILLION

As a result of this activity, in 2010 China became the third-largest foreign investor in Latin America, after the U.S. and the Netherlands.
Where Does It All Go?

Many of the largest overseas acquisitions ever undertaken by Chinese state-owned enterprises (SOE) occurred in 2010. Of the 22 most expensive overseas SOE acquisitions, four were in Latin America, four were in Canada—all in the oil sector—and one was in the U.S. (Lenovo purchased IBM’s personal computing division in 2005.)

#3 (2010, BRAZIL):
Sinopec acquired a 40% stake of Repsol YPF Brasil S.A. (oil) for $7.1 billion

#9 (2010, ARGENTINA):
China National Offshore Oil Corporation acquired a 50% stake of Bridas Corporation (oil) for $3.1 billion

#19 (2010, BRAZIL):
State Grid acquired Expansión Transmisión Itumbiara (electricity) for $1.7 billion

#21 (2006, ECUADOR):
Sinopec acquired the Ecuadorian assets of EnCana Corporation (oil) for $1.4 billion

The UN Economic Commission for Latin America and the Caribbean (ECLAC) cautions that country destination of FDI is difficult to determine from official Chinese data, since the bulk of FDI tends to be channeled through third countries. In the Western Hemisphere those third countries were two tax-friendly territories: the Cayman Islands and the British Virgin Islands. According to data from China’s Ministry of Commerce (MOFCOM), over five years, 94.5 percent of Chinese outward FDI stock directed to LAC ended up in these two countries combined, and then on to other countries. In terms of the final destinations of Chinese FDI, ECLAC estimates that 90 percent of Chinese investments in LAC went to natural-resource companies (oil, gas, mining); other key sectors were telecommunications and automobiles.

Complaints

But it’s not all sweetness and light. Concerns about unfair trade practices have increased, in some cases leading to anti-dumping cases and complaints before the World Trade Organization (WTO) lodged by LAC countries.

In the WTO, Latin American and Caribbean countries have brought four unfair trade cases against China (out of a total of 23 against China). These are:

1. Granting of Refunds, Reductions and Exemptions from Taxes and Other Payments, brought by Mexico (settled in 2008)
2. Grants, Loans and Other Incentives, brought by Mexico (in consultations)
3. Grants, Loans and Other Incentives, brought by Guatemala (in consultations)
4. Export of Raw Materials, brought by Mexico (on appeal)

We would like especially to thank Mariano Alvarez and Osvaldo Rosales from ECLAC for their assistance. Sources: “The People’s Republic of China and Latin America and the Caribbean: Towards a strategic relationship” (ECLAC, April 2010); “2010 Statistical Bulletin of China’s Outward Foreign Direct Investment” (MOFCOM, April 2011); “Foreign Direct Investment in Latin America and the Caribbean, 2010” (ECLAC, May 2011); and “People’s Republic of China and Latin America and the Caribbean: Ushering in a new era in the economic and trade relationship” (ECLAC, June 2011).