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Building the New Silk Road across the Pacific. Economic and trade relations between China and Latin America after the Financial Crisis in 2008

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Construcción de la Nueva Ruta de la Seda a través del Pacífico. Relaciones económicas y comerciales entre China y Latinoamérica después de la Crisis Financiera de 2008
Construir a Nova Rota da Seda no Pacífico. Relações económicas e comerciais entre China e América Latina depois da Crise Financeira de 2008

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China and Latin America have had a long history of trade relations since the Silk Road across the Pacific Ocean was explored in the 16th century. In the 21st century, trade between them has grown quickly, and China has become the second-biggest trade partner of Latin America. The financial crisis in 2008 slowed this trade growth somewhat, but continued growth makes bilateral trade more important for both sides. Some challenges have arisen, including the imbalance of trade, trade structure, and investment, but trade is the cornerstone of deeper cooperation and greater potential in the future. Promoting the export of high-tech and manufactured goods and creating a better investment environment were necessary for both sides in order to build better and closer economic relations. The Cooperation Forum and Summit Conference were good platforms for future deeper cooperation, although this will still require hard work and more time.

China y Latinoamérica han mantenido una larga historia de relaciones comerciales desde que la Ruta de la Seda a través del Océano Pacífico fuera explorada en el siglo XVI. En el siglo XXI, el comercio entre estas regiones ha crecido rápidamente y China se ha convertido en el segundo mayor socio comercial de Latinoamérica. La crisis financiera de 2008 ralentizó en cierto modo este crecimiento comercial, pero el crecimiento continuado hace que el comercio bilateral sea más importante para ambas partes. Han surgido algunos retos, como el desequilibrio del comercio, la estructura comercial y la inversión, pero el comercio es la piedra angular para una colaboración más estrecha y para un mayor potencial en el futuro. La promoción de las exportaciones de alta tecnología y de bienes manufacturados y la creación de un mejor entorno de inversión fueron necesarias para ambas partes al objeto de crear unas mejores y más estrechas relaciones económicas. El Foro de Cooperación y la Conferencia de la Cumbre constituyeron unas plataformas positivas para establecer una futura cooperación más estrecha, aunque esto todavía requerirá trabajar duro y más tiempo.

A China e a América Latina têm um longo historial de relações, desde que a Rota da Seda no Oceano Pacífico foi explorada no século XVI. No século XXI, o comércio entre ambas cresceu rapidamente, e a China tornou-se o segundo maior parceiro comercial da América Latina. A crise financeira de 2008 abrandou um pouco este crescimento comercial, mas o crescimento contínuo tornou o comércio bilateral mais importante para ambos os lados. Surgiram alguns desafios, incluindo o desequilíbrio do comércio, da estrutura comercial e do investimento, mas o comércio é o pilar da cooperação mais profunda e do maior potencial no futuro. Promover a exportação de alta tecnologia e manufactura, e criar um ambiente mais propício ao investimento foram necessários para ambas as partes, de forma a construir melhores e mais estreitas relações económicas. O Fórum da Cooperação e a Conferência da Cimeira foram boas plataformas para uma futura cooperação mais profunda, embora ainda vá requerer trabalho árduo e mais tempo.

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1. A Brief History of Economic relations between China and Latin America

1.1. Ancient Times

China and Latin America have a long history of friendly relations in term of economic, trade, and cultural exchange. Beginning in the 16th century, or the Ming dynasty in China, Chinese businessmen traded silk, china, tea, and other goods for silver, which was shipped across the Pacific Ocean from Mexico and Latin America to Manila City in the Philippines, a colony of Spain at that time. This was called the Silk Road of the Sea, or Trade of Silk for Silver. In colonial times, the production of silver in Latin America was about 100,000 -130,000 ton per year, 80% of silver was exported abroad and half of that went to China in exchange for Chinese silk and other goods, or for speculation[1]. The large amount of silver used as hard currency contributed significantly to Chinese economic development during the late Ming dynasty through the Qing Dynasty, from the 16th to 19th century[2].

Furthermore, corn, sweet potatoes, potatoes, and other vegetables were introduced to China due to the trade between China and Latin America in Manila. Instead of the traditional wheat and rice in China, which had low production, these new foods from America had higher production, which contributed to the fast growth of the Chinese population during the Qing Dynasty (from the 17th to early 20th century), from about 100 million at the end of the Ming Dynasty to more than 400 million by the end of the Qing dynasty.

Key Words

China, Latin America, Economic Relations, Silk Road, 21st century

Palabras Clave

China, Latinoamérica, Relaciones Económicas, Ruta de la Seda, siglo XXI

Palavras-chave

China, América Latina, Relações Econômicas, Rota da Seda, século XXI

1.2. The Cold War

Since the establishment of the People's Republic of China in 1949, China has had to adopt a "one-sided policy", that is, China joined the socialist camp headed by the Soviet Union and had no formal diplomatic relations with the western camp, including Latin American countries. In this context, the Chinese government adopted polices of "Developing unofficial Diplomacy between people, building up closer economic and cultural relations, and developing formal diplomatic relations step by step"[3].

China began trading with Latin America in the early 1950s, but with much difficulty. In

1. Han Qi, *The Relations between Latin American Silver and Chinese Economic development in Late Ming Dynasty and Qing Dynasty, Chinese Studies about Latin America in the 21st Century*, Edited by Zhu Hongbo, Jiang shixue and Cai Tognchang, Fudan University Publishing house, Shanghai, China, April, 2007 (only available in mandarin). At that time, silver was more expensive in China than in Latin America, Europe, and other parts of the world, so some scholars thought that European businessmen just traded silver for gold with China in order to make a profit.

2. The first paper currency in the world appeared in the Song Dynasty in China in roughly the 11th century. But in the Yuan dynasty (the Mongol dynasty, about 13th -14th century), the Mongol government issued too much paper currency to cover its huge deficit, and very high inflation lead to the disappearance of paper currency in China from then on. But gold and copper coin were not plentiful in China in term of resources, so silver from America was important for promoting the market economy at that time. The Mexican silver coin with an eagle had a very great influence on Chinese currency systems, economics, and social life. It was used until 1949, when the People's Republic was built.

3. Zhang Xichang, *Three Tides of Chinese diplomatic relations with the world*, published by World Vision Publisher, 1998 (only available in mandarin).

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1950, the trade volume was less than $2 million[4]. In 1952, China negotiated a trade agreement with Chile, the first Latin American country that did such a trade deal with the P.R.C. In 1953, Mexico formed the Promotion Commission of Mexico-China Economic Relations. In 1959, the trade volume between China and Latin America reached $7.69 million. In the1950s as a whole, the total trade volume was about $30 million. This was very small, but it was a good beginning.

Against the backdrop of the Cold War, it was understandable that China focused on its relations with Cuba. In 1960, Che Guevara visited China and was able to strike an economic agreement. From 1961-1962, the trade volume between China and Cuba reached about $900 million. With other Latin American countries, the economic relations developed very fast. In 1960, the trade volume between China and Latin America reached $31 million, and in 1965, it exceeded $340 million. From 1960 to 1965, the total trade volume was $1.3 billion.

1.3. The Late Cold War and Deng Xiaoping's Reform and Openness Period

In 1972, President Nixon visited China, and good relations with the U.S. then opened the door to Latin America as well. China began to ally from a geopolitical perspective with the West in the 1970s, although not from an ideological perspective. The 1970s also saw a rising tide in the building of formal diplomatic relations between China and Latin American countries. After Cuba, Chile formed formal diplomatic relations with China in 1970, and China quickly established diplomatic relations with eleven Latin American countries, including Peru, Mexico, Argentina, Brazil, and Venezuela.

During this period, official Chinese trade delegations began to visit Latin America. From 1971 to 1979, more than fifty Chinese delegations went to Latin America, and negotiated eighteen trade agreements. By 1979, China had established trade relations with thirty-six Latin America countries, compared with only seventeen countries in 1971. The trade volume had reached $1.26 billion, compared with $130 million in 1969. From 1970 to 1979, the total trade volume reached about $5 billion[5].

In 1978, China adopted the "Reform and Open Policy", and Chinese foreign policy was changed. Deng Xiaoping, the designer of the Reform and Open Policy, stressed that Chinese foreign policy should be based on two points: supporting world peace, and developing economic relations all over the world, including the Third World[6]. In the 1980s, trade relations between China and Latin America grew steadily and quickly. In 1980, the trade volume was $1.36 billion, and in 1989, the number reached about $3 billion. Through the 1980s, the total trade volume reached $20 billion, three times of the trade volume of the 1970s.

4. All monetary amounts are in US dollars unless otherwise specified.

5. Sha Ding, *A Brief History of China and Latin America relations*, Henan People's publisher, 1986. p.282 (only available in mandarin).

6. Deng Xiaoping, *Maintaining World Peace and Developing Our National Economics, May 29, 1984,* Deng Xiaoping's Collections, Volume 3, Renmin Publisher. 1993. p.56 (only available in mandarin).

From the 1980s on, China began to cooperate with Latin America in more economic areas, including investment, cooperation of technology, and labor. In 1983, the Chinese Mechanics import and export company established Chinese Mechanics Limited Corporation in Santiago, Chile. This was the first Chinese company established in Latin America, but by 1987 there were more than a dozen Chinese companies in eight Latin American countries, and the total investment reached $36 million.

At the same time, more and more Latin American companies began to invest in China. In 1987, Chile's copper company cooperated with Beijing Copper Company and established the Jiangsheng Copper Limited corporation, which was the first Latin American investment in China.

After the end of the Cold War, the relations between China and Latin America grew more quickly. In 1997, the Bahamas and Saint Lucia established diplomacy with China, and by the end of 1998, nineteen Latin American countries had diplomatic relations with China. Taiwan was therefore in a difficult situation in Latin America because previously relations were between Taiwan and Latin America.

In the 1990s, the economic relations between China and Latin America grew at an increasingly faster pace. In 1990, the trade volume was about $1.8 billion; in 1995, it was $6 billion; in 2000, the number reached $12.5 billion. Before 1995, China had trade deficits with Latin America, but after that year it had small surpluses. The trade between China and Latin America remained balanced throughout most of the 1990s.

By 1998, China had invested about $1 billion in Latin America. China established more than 200 companies in more than twenty countries, including an iron and steel factory in Peru, a steel mine in Brazil, a fishmeal company in Chile, an oil company in Venezuela, a textile and garment company in Mexico, and an agricultural joint venture in Argentina. Meanwhile, Latin American countries including Brazil, Chile, Argentina, and Cuba invested about $3.7 billion in China.

1.4. The 21st century

In the 21st century, China began to build strategic partnerships with Latin American countries including Brazil, Mexico, Argentina, Chile, and Venezuela. These strategic partnerships were designed to build closer relations, especially closer economic relations, with regional powers in Latin America.

Chinese policy towards Latin America is focused on trade as well. Compared with the 1990s, Chinese trade with Latin America grew even more quickly, and in 2000, the trade volume reached $12.5 billion. In 2003, this number reached $26.8 billion.

In 2004, President Hu Jintao visited Brazil, Argentina, Chile and Cuba. During these visits, China signed several agreements with these four countries and delivered a speech in the Brazilian Congress titled "*Work together for friendlier and fresher China-Latin American Relations*". In this speech, President Jintao proposed that China would cooperate more in high technology with Latin America in order to change the existing trade structure, which is characterized by China importing raw materials and exporting labor-intensive products. More investment in each other would be a focus for the future, and China aimed to build more free trade areas with Latin America when the conditions were right. China would deal with trade frictions in reasonable ways, and trade retaliation measures would be avoided in order to maintain good economic relations[7]. President Jintao also proposed that the trade volume reach $100 billion in 2010. After only 3 years, this goal was achieved in 2007. The main reason why there was such a fast development of trade was the booming Chinese economy, which has needed more and more raw materials, such as iron ore, copper, oil, gas, beans, corn, timber and so on. Latin America can provide all these raw materials to China.

However a lot of problems in China and Latin America's economic relations emerged at the same time. Latin America was not satisfied with the structure of the trade and wanted to export more industrial products to China. In addition, Latin America was afraid of Chinese competition in both domestic as well as international markets, such as in the US market. After Brazil and Argentina accepted the market economy status of China in 2004, they began to complain about the dumping of Chinese goods in their domestic markets. Mexico complained about large trade deficits with China and the smuggling of Chinese goods into its domestic markets.

2. The Financial Crisis and its effects on the Chinese economy and foreign trade

During the three decades after 1978, the Chinese economy grew at a two-digit rate, but in 2008, with the deepening world financial crisis, the economic growth rate fell below 10%. At the same time, the Chinese government tried to achieve an 8% growth rate in 2009. This was considered a hard and ambitious plan with the background of the financial crisis.

The Chinese economy is driven mainly by investment, exports, and domestic consumption, the Troika of Chinese Economy. But during the past 5 years, this Troika has become greatly out of balance. Investment increased from 36% to 44%, import and export volume in national GDP increased from 44% to 60%, and the rate of domestic consumption is down from 61% to 50.7%. With the financial crisis getting worse, Chinese exports were decreasing sharply. According to data from Chinese Customs, Chinese foreign trade volume in the first month in 2009 was only $140 billion, 29% lower than in the same month in 2008.

On November 11, 2008, the Chinese government presented an Economic Stimulus Plan worth 4 trillion Chinese dollars, (about US$580 billion), focused mainly on infrastructure, especially the national railroad network. This will stimulate Chinese steel, cement, and electronics industries.

In October 2008, China planned to invest 2 trillion Renminbi in railroads: 30,000 kilometers of railroad would be building by 2010, and 12,000 kilometers of express passenger railroad

7. Hu Jintao, President of People's republic of China, *Work together for a more friendly and fresher China-Latin American Relations*, speech in Brazil Congress on November 12, 2004 Renmin Daily, November 14, 2004.

would be building by 2020. China also provided subsides for consumers to buy cars, TV sets, washing machines, ice boxes, and other appliances. These measures will benefit Chinese manufacturing industries and help them overcome the challenges of the smaller market abroad.

In the first two months of 2009, Chinese car sales began to grow, reaching 1.56 million. If this growth continues, China will overtake the US as the number one car market. China has also reformed its medical and other welfare systems, providing more financial support to these programs, especially to rural people who have less social security, medical welfare, and so on.

The recent financial crisis dealt a big blow to trade between China and Latin America. The export volume in 2009 was $90 billion, down 17.5%, and import volume was $513 billion, down 47.1%. Imports decreased faster than exports.

At the same time, the price of iron ore, oil, and other natural resource imported into China decreased sharply. In January 2009, China imported $13.8 billion, decreasing more than 50%. For example, China imported 32.6 million tons of iron ore, down 11.2%. Its importing price is $81 per ton, down 37%. China imported 12.8 million tons of oil, down 8%. The price of import is $340.9 per ton, down 53.3%. Chinese imports from Latin America mainly consisted of iron ore, copper, oil, gas, beans, corn, and timber; the lower price and rate of import will greatly affect trade relations between China and Latin America. Furthermore, some Latin American countries, such as Argentina, began to have a trade deficit with China in 2008. This will give rise to more protectionism in these countries.

Chinese businessmen are trying their best to look for new markets, while US, EU, and Japanese market are smaller and more difficult. The exchange rate is also not so good for Chinese companies, because in 2008, US and EU currencies depreciated against the Chinese Renminbi. The Latin American market is considered a potential and attractive market for Chinese businessmen.

With the stimulus plan working, the Chinese economy was recovering faster. In 2009, China achieved a growth rate of 9.1%[8], and in the first half of 2010, the growth rate was about 11.4 %[9], well above the growth aim of 8%. This is considered the bottom line by the Chinese government, because if growth is below this rate, it will be very difficult to absorb the more than five million college graduates every year, as well as the country workers who go to cities to look for jobs. China now had about 100 million migrant workers, according to a national survey in 2006.

Foreign trade was also recovering quickly. In the first half year of 2010 (from January to June), Chinese foreign trade volume reached $1354.88 trillion, increasing by 43.1%. Exports reached $705 trillion, increasing by 52.7%, and imports reached $649.8 trillion. The trade surplus was $55.3 trillion, decreasing by 42.5%[10].

8. National bureau of statistics of China, http://www.stats.gov.cn/tjdt/zygg/sjxdtzgg/t20100702_402654527.htm

9. National bureau of statistics of China, http://www.stats.gov.cn/

10. Resources, Chinese Customs website: http://www.customs.gov.cn/publish/portal

In terms of exports, the mechanics and electronics industries kept growing fast, as did traditional exports such as garments, cotton, textiles, furniture, shoes, and so on. In the first half of 2010, mechanics and electronics exports reached $417 trillion, increasing by 35.9%; this was 0.7% higher than the total export growth rate and accounted for 59.1% of total exports. Electronics exports reached $168.7 trillion, growing by 35.7%. Mechanics exports reached $141.9 trillion, growing by 36.5%. Garment exports reached $53.2 trillion, growing by 16%, 2.9 % higher than the previous five months. Textile exports reached $35.6 trillion, growing by 32.3%, 2.6 % higher than the previous five months. Furniture exports reached $15.6 trillion, growing by 33%, 6.4 % higher than the previous five months. Shoe exports reached $15.6 trillion, growing by 20.8%, 2.6 % higher than the previous five months[11].

In terms of Import, the volume and price increased together. The iron ore import reached 310 million ton, increasing by 4.1% and the price reached 111.5 US dollar per ton, increasing by 47%. Soybean import reached 25.8 million tons, increasing by 16.8 % and the price reached $442.4 per ton, increasing by 7.4 %. Mechanics import reached $302.6 trillion, increasing by 45.5%. China also imported 380 thousand cars, increasing by 45.5%[12].

In term of main trade partner of China, the first one was E.U., the trade volume of both export and import reached 219.4 trillion US dollar in the first half of 2010, growing by 37.2%. The second was U.S., reaching 172 trillion US dollar, growing by 30.2%. The third was Japan, reaching 136.5 trillion US dollar, growing by 30.2%, with a deficit 26.3 trillion US dollar and growing by 130 %. The fourth was ASEAN[13], reaching 136.49 trillion US dollar, almost the same as Japan, growing by 30.2%, with a deficit 7.3 trillion US dollar but in the previous year of 2009 China had a surplus of 0.6 trillion US dollar[14].

In the first half of 2010, Brazil became a top-10 trade partner for the first time. The total trade between China and Brazil reached $26.4 trillion, increasing by 60.3%. It ranked 10, after the US ($172 trillion), Japan ($136.5 trillion), Hong Kong ($99 trillion), Korea ($97.9 trillion), Taiwan ($69.3 trillion), Germany ($65.3 trillion), Malaysia ($35 trillion), India ($30.4 trillion), and Singapore ($27.6 trillion). Exports to Brazil reached $10.3 trillion, increasing by 100%, and imports reached $16.1 trillion, increasing by 41.1%, with a deficit of $5.75 trillion[15].

11. Resources, Chinese Customs, http://www.customs.gov.cn/publish/portal

12. Ibid.

13. ASEAN, including 10 nations in Southeast Asia such as Vietnam, Laos, Cambodia, Burma, Thailand, Malaysia, Singapore, Indonesia, Philippines, Brunei.

14. On January 2010, the free trade agreement between China and ASEAN official came into effect.

15. 中国海关统计：Resources, General Administration of Customs of the people's republic of China, http://www.customs.gov.cn/publish/portal0/tab1/info229530.htm

3. Economic and Trade relations between China and Latina America Since Financial Crisis in 2008

The financial crisis dealt a big blow to trade between China and Latin America, but not a fatal one. In fact, trade between them became more important than before.

3.1. First, better trade between China and Latin America than others

For China, from 2005 to 2009, exports to Latin America increased by 26.1%. Meanwhile, exports to Asia Pacific only increased by 11.6%, to the US by 10.2%, to the E.U. by 14.9%, and to the rest of the world by 14.3%; the global average 13.4%.Latin America was also increasingly important in terms of Chinese imports. From 2005 to 2009, imports from Latin America increased by 22.8%. Meanwhile, imports from Asia Pacific only increased by 7.1%, from the US by 10.2%, from the E.U. by 14.4%, and from the rest of the world by 14.5%; the global average was 11.7%[16].

For Latin America, exports to every part of the world except China decreased. Exports to the US decreased by 26%, to the E.U. by 25%, and to Asia only by 5%, while exports to China increased by 5%. Latin America imports from the world in general decreased by 25%, from the U.S. by 25%, from the E.U. by 23%, and from Asia by 21%, but imports from China only decreased by 16%.

3.2. Second, greater importance of China in Latin American foreign trade

Among the 17 big countries of Latin America, China ranked in the top five export markets for nine countries, including Argentina, Brazil, Columbia, Costa Rica, Chile, Mexico, Panama, Peru, and Venezuela. In terms of imports, China ranked in the top five for almost all 17 countries, except Bolivia and Honduras.

In terms of regional influence of import and export, Mexican trade with China was affected less, but trade with countries in Central America and the Andes Region was affected more. Exports from Mexico to China increased by 8%, from South America increased by 5%, and from MERCOSUR by 5%, but exports from Central America decreased by 21%, and exports from the Andes Region decreased by 24%. Chile is an exception, only decreasing 9%. Imports to Latin America from China decreased by 16% overall, and specifically to MERCOSUR by 22%, to Chile by 23%, to the Andes region and Central America by 19%, and to Mexico only by 6%[17].

In terms of share of Latin American Foreign Trade, China played a more and more important role. In 2009, Latin American exports to Asia accounted for 15% of the region's total exports, while exports to the US accounted for 40%, to the EU (27 countries) 14%, and to

16. Osvaldo Rosales, la *Republica Popular China y America Latina y el Caribe: Hacia una Relación Estratégica*, Comisión Económica para America Latina y el Caribe (CEPAL), Naciones Unidas, Santiago de Chile, Mayo de 2010.

17. Osvaldo Rosales, la *Republica Popular China y America Latina y el Caribe: Hacia una Relación Estratégica*, Comisión Económica para America Latina y el Caribe (CEPAL), Naciones Unidas, Santiago de Chile, Mayo de 2010.

China 7%. If this growth rateis maintained, China will become the second-largest export market of Latin America in 2014, and the second-largest import market in 2015.

In terms of share and ranking of exports for different countries in Latin America, China became more and more important in the last 10 years, especially for South American countries. In 2009, Brazil's exports to China accounted for 13.2% of its total export, ranking first; the US, ranking second, accounting for 10.2%;Asia Pacific accounted for 26.1%; the EU for 22.2%; and Latin America for 20.1%[18].

The situation was the same for Chile and Argentina. In 2009, Chile's exports to China accounted for 23.2% of its total export, ranking first; the US accounted for 11.3%, Asia Pacific accounted for 46.1%, the EU for 19.6%, and Latin America for 19.1%. Chile exported more to China and Asia Pacific than any other Latin American country, and the historically first US became the second trade partner in recent decades. Argentina's exports to China for the same year accounted for 6.6% of its total exports, ranking second. The US, ranking first, accounted for 15.3%; Asia Pacific accounted for 15.3%; the EU for 18.6%; and Latin America for 42.2%.

For most Central American and Caribbean countries, however, the US remained the most important trade partner, and China ranked a distant second. For example, Honduras' exports to China accounted for only 1.6% of its total, but exports to U.S. accounted for 40.7%. Costa Rica was one exception in Central America: its exports to China accounted for 8.8% of its total, higher than for other Central American countries.

Mexico was a special case. Its exports to China accounted for only 0.6% of total exports, while the US accounted for 87.6%, far higher than any other country in the world. For Mexican exports, Asia Pacific accounted for 2.4%, the EU for 3.8 %, and Latin America for 3.2%.

South America also imported more from China as well. Paraguay's imports from China accounted for 27% of its total imports; Chile's 11%; Argentina's 11%; and Brazil, Mexico, and Columbia's 10% each[19].

The reasons for the differences in trade situation may be derived from the differences in the countries' scenarios. Mexico's exports to China were mainly manufactured goods, as were its imports. All of these goods were focused mainly on electronics, so Mexico was less affected by the financial crisis. Mexico's exports mainly depended on the US market, and depended less on the Chinese market.

Central American countries had similar trade structures to Mexico in terms of trade with China, but Central and Latin American countries were also more vulnerable to Chinese competition than Mexico, especially in the manufacturing industry. Therefore, they were more influenced by China during the Financial Crisis.

18. Osvaldo Rosales, la *Republica Popular China y America Latina y el Caribe: Hacia una Relación Estratégica*, Comisión Económica para America Latina y el Caribe (CEPAL), Naciones Unidas, Santiago de Chile, Mayo de 2010.

19. Osvaldo Rosales, la *Republica Popular China y America Latina y el Caribe: Hacia una Relación Estratégica*, Comisión Económica para America Latina y el Caribe (CEPAL), Naciones Unidas, Santiago de Chile, Mayo de 2010.

South America also benefited from China's booming economy and increasing need for oil, iron ore, copper, and other resources. So when China recovered from the Financial Crisis, most South American countries could also expand their export market in China quickly. But they also met similar import competition from China to other Latin American countries, even if they had better trade balance with more trade surplus form China.

For Brazil and Argentina, which had both benefited from the export of materials and agricultural produce, and dealt with the competition for manufactured goods imported to China, interests of different groups should be balanced.

But for Chile and other economies that could export energy and materials, and had less industry to be influenced by Chinese imports, could enjoy the complementary trade structure and profitable exports to China. Furthermore, Chile also achieved diversified exports to China, which included not only copper, but also promoted fish, flowers, and fruit in the Chinese market.

Table 1: Comparison of Ranking of China in Latin American Export and Import between 2000 and 2008[20]

Countries	Export 2008	Export 2000	Import 2008	Import 2000
Brazil	1	12	2	11
Chile	1	5	2	4
Argentina	2	6	3	4
Costa Rica	2	26	3	16
Peru	2	4	2	13
Venezuela	3	37	3	18
Columbia	4	35	2	15
Panama	4	22	4	17
Mexico	5	25	3	6
Uruguay	8	5	3	6
Paraguay	9	11	1	4
Ecuador	9	13	2	10
Bolivia	10	12	6	8
Honduras	11	35	7	18
Nicaragua	14	19	4	17
Salvador	16	35	5	18
Guatemala	18	30	4	15

20. Ibid, the country order was arranged by the author.

3.3. Third, better prices for South American exports

When the financial crisis deepened, the prices of energy, materials, and agricultural produce decreased sharply. South America, which exported most of them, met great challenge. In 1929, the economic depression that derived from the US caused a sharp decrease in prices, and a big shrinking of the export market for most Latin American countries. Most of them sank into economic depression and political chaos. Would history repeat itself?

Fortunately, this second financial crisis was controllable and manageable, and most countries recovered quickly, including China. When the Chinese economy got better, more goods were imported, such as iron ore, oil, soybeans, and copper. The natural resource price increased at the same time, and South American countries that exported such goods benefited a lot from both the higher prices and increased imports to China. Since the 21st century began, South American economies grew more quickly than before, partly due to this price increase of natural resources, which was mainly driven by Chinese needs[21].

Argentina exported most of soybeans to China, Brazil exported iron ore, Venezuela exported oil, and Chile exported copper. The prices of these good all increased very quickly from their low points during the financial crisis. For example, the price of copper decreased sharply from about $4 per pound to about $2 per pound during the crisis. At the end of 2009, the price had rebounded to about $3 per pound. Most of the outcome of Chilean foreign trade was from copper exports, and about 20% of those copper exports in 2008 went to China[22].

In terms of the increased rate of volume and price for Chinese imports, the price rate was far higher than volume rate, especially for mine resources and energy, which were the main exports of South America to China. For example, the import of copper and iron ore increased only about 8% in volume, but their prices increased by 93.1% and 48.1%, respectively, from January to May in 2010.

Table 2: Volume and Price of Chinese import from January to May in 2010[23]

Commodity	Volume in million tons	Increase rate	Trade sum in billion dollars	Increase rate
Crude oil	95.7	29.3%	54.28	122.3%
Iron ore	260	8.4%	27.8	48.1%
Copper	1.9	8.2%	14.2	93.1%
Waste metal	5.59	-34%	7.67	99.7%

21. *Chinese economy helping Latin America out of financial crisis*, October 22, 2009, Economic office of Consulate General of China to Sao Paulo, Brazil (only available in mandarin). http://stpaul.mofcom.gov.cn/aarticle/ztdy/200810/20081005844237.html

22. *China playing the key role in Chilean economic recovery*, report from newspaper *Strategy* of Chile, October 26, 2009, Economic office of Embassy of China to Chile (only available in mandarin). http://cl.mofcom.gov.cn/aarticle/jmxw/200910/20091006584746.html

23. Chinese Customs website: http://www.customs.gov.cn/publish/portal0/tab1/info229530.htm.

4. Challenges for trade relations between China and Latin America

At the same time, there were some big challenges for trade relations between China and Latin America, including trade balance and trade conflicts, trade structure, and investment.

4.1. First, the imbalance between Latin American countries for the trade balance

Generally speaking, China and Latin America had a balanced trade, with neither too much deficit nor surplus between them. In 2008, Latin America was in deficit, and then had a surplus in 2009. But in terms of the regional trade balance, there were big difference between Mexico and Central America, which had deficits with China, and South America, which had a surplus.

With the financial crisis getting deeper, more trade conflicts arose. From 2008 to 2009, 58 anti-dumping cases were filed by Latin American countries against China. Brazil and Argentina filed the most: Argentina initiated 33 cases total, including 20 against China, while Mexico only initiated 2 anti-dumping cases total, both against China. Among these cases, most were against the import of iron and steel, textiles, shoes, electronics, cars, and tires – both labor-intensive and high-tech products.

Table 3: Number of Anti-dumping cases filed by Latin American countries from the fourth quarter of 2008 to the fourth quarter of 2009[24]

Country	Argentina	Brazil	Columbia	Mexico	Peru
Total	33	11	7	2	5
Against China	20	6	5	2	1

On September 11, 2009, the Argentinan and Brazilian governments began anti-dumping measures for shoes and tires from China. Brazil put a $0.75 tax per kilogram on Chinese tires, and put a limited price of $12.47 on shoes from China[25]. In the first half of 2009, Peruvian businessmen complained that the men's suits from China flooded its domestic market with very low prices, which were about six times lower than the domestic market prices[26].

4.2. Second, unbalanced trade structure

In terms of trade structure, China mainly imported from Latin America iron ore, soybeans, copper, crude oil, pulp, timber, waste metal, meat, and hide; it mainly exported manufactured goods such as electronics, mechanics, garments, and textiles.

But in terms of countries and regions, the trade structure was very different. Most South

24. Bown, Chad P. "Global Antidumping Database", www.brandeis.edu/chown /global-ad/

25. http://ar.mofcom.gov.cn/aarticle/jmxw/200909/20090906516162.html (only available in mandarin)

26. http://pe.mofcom.gov.cn/aarticle/ztdy/200909/20090906518644.html (only available in mandarin)

American countries exported mine resources, energy, and agricultural produce. Mexico and some Central American countries exported manufactured goods and high-tech goods, such as integrated circuits and office equipment.

Table 4: Top 5 exports of Latin American countries from 2006 to 2008[27]

Country	Top 5 exports and their ratio to total	First export and its ratio to total	Second export and its ratio to total	Third export and its ratio to total	Fourth export and its ratio to total	Fifth export and its ratio to total
Brazil	81%	Iron ore 44	Soybean 23	Crude oil 6	Iron 5	Pulp 3
Chile	93%	Copper 50	Copper ore 31	Pulp 6	Iron ore 3	Meat 2
Argentina	93%	Soybean 55	Oil soybean 24	Crude oil 10	Hide 3	Poultry 2
Peru	83%	Copper ore 39	Meat 16	Crude oil 10	Lead ore 9	Iron ore 8
Costa Rica	99%	Integrated circuit 96	Electronics parts 1	Semi-conductor 1	electrical resis-tor 0.3	Electronics 0.2
Columbia	97%	Crude oil 50	Metal alloy 40	Waste metal 5	Hide 3	Dairy 0.5
Panama	78%	Shipping 39	Hide 16	Meat 13	Fish 5	Waste plastics 4
Mexico	37%	Integrated circuit 13	Copper ore 8	Office equip-ment 7	Compressor 5	Semi-conductor 5
Uruguay	81%	Soybean 46	Pulp 13	Wool 9	Tallow 8	Hide 9
Paraguay	81%	Cotton 31	Wood 26	Hide 24	Waste plastics 7	Waste non – metal 5
Ecuador	98%	Crude oil 94	Waste non – metal 3	Timber 1	Cosmetics 0.5	Meat 0.5
Bolivia	82%	Tin ore 27	Zinc ore 19	Crude oil 17	Timber 12	Metal ore 7
Honduras	92%	Tin ore 34	Waste non – metal 33	Lead ore 10	Plastic scrap 8	Underwear 7
Nicaragua	85%	Waste non – metal 41	Plastic scrap 19	Fish 9	Underwear 8	Hide 7
El Salvador	96%	Compressor 54	Waste non – metal 38	Under wear 2	Textiles 2	Plastic scrap 1
Guatemala	94%	Sugar 42	Crude oil 23	Tin ore 14	Waste non – metal 8	Plastic scrap 6
Caribbean	89%	Aluminum 65	Timber 9	Waste non – metal 7	Metal ore 4	Shipping 4
Dominican Republic	87%	Iron 68	Waste non – metal 11	Electronics 8	Office equip-ment 2	Electronics parts 2
Cuba	100%	Nickel 71	Sugar 20	Metal ore 1	Crude oil 1	Waste non – metal 1

27. Comisión Económica para America Latina y el Caribe (CEPAL), sobre la base de Nacional Unidas, Base de datos estadísticos sobre comercio de mercaderias (COMTRADE).

4.3. Third, the imbalance of investment from China to Latin America

Until 2009, Chinese investments to Latin American and Caribbean countries amounted to $41 billion and accounted for 157% of the total investment abroad. But almost 95% of that investment went to two small islands in the Caribbean: the Cayman Islands and the British Virgin Islands, both famous tax havens.

In contrast, investments to most Latin American countries were only a very small part. For example, investments to Brazil, Peru, Argentina, and Venezuela accounted for less than 1% each.

In terms of investment structure, most investment went to automobile, mine, iron, office equipment, commercial, and paper industries. There were no large investments in infrastructure, high-tech industries, or others that could improve the industries and create more employment. China tended to invest in mine and other industries that could expand their market in Latin America.

Table 5: Investment of China to Latin America by countries 2008-2009[28]
(Top 10 countries, by million US dollars)

Country and Region	Total investment before 2009	Investment in 2009	Percentage
Total of world	220,000	43,000	
Latin America and Caribbean	41,179	8,000	100%
Cayman Island	27,682	7,354	67.2%
British Virgin Islands	11,807	1,330	28.7%
Brazil	289	72	0.7%
Peru	279	85	0.7%
Argentina	213	39	0.5%
Venezuela	176	20	0.4%
Mexico	175	2	0.4%
Ecuador	90	1	0.2%
Panama	77	10	0.2%
Cuba	72	0	0.2%

28. http://www.mofcom.gov.cn/ (only available in mandarin)

Table 6: Investment of sector for China to Latin America[29]
(Investment by million US dollars; employment by person)

Country	Main Sectors of investment	2003-2008 Total investment	Investment in 2009	2003-2008 Total employment	Employment in 2009
Argentina	Automobile, whole-sale and retail	519	0	2142	0
Brazil	Automobile, iron, mine, office equip-ment, oil and gas, paper, wholesale	8,548	5,137	27,695	7,352
Mexico	Automobile, electro-nics, office equip-ment, tele-communi-cation	1,079	48	5,842	175
Chile	Financial service, iron, Manufacture	37	0	81	0
Peru	iron, Manufacture, whole sale and retail	4,555	279	6,391	304
Columbia	Automobile, Timber, tele-communication	242	4	1,231	20
Bolivia	Metal, wholesale	2	0	13	0
Venezuela	office equipment, oil, Tele-communication, Information service, financial service	715	31	1,241	44
Cuba	Home electronics, Manufacture	0	52	0	694

All three issues – balances of trade, trade structure, and investment –had big impacts on bilateral relations between China and Latin America.

First, more protectionism for domestic markets was emerging in Latin American countries. Some countries, such as Mexico, Brazil, and Argentina, wanted to protect their labor-intensive industries from Chinese competition in order to secure jobs and get political support from both industry and laborers. Brazil, Mexico, and others were adopting harder and harder policies against Chinese goods, such as higher tariffs, anti-dumping measures, and other limitations, Conflicts thus increased in recent years.

Second, these imbalances gave rise to difficulties in financial and monetary cooperation. In order to balance these imbalances, Brazil and other countries began to doubt the policy of the Chinese exchange rate and want to increase investments from China in high-tech industries. Argentina and others cooperated with China in local currency agreements, which will impact future international and financial systems.

29. División de Desarrollo Productivo y Empresarial de la CEPAL.

Third, these kinds of trade issues had become politically thorny problems for some Latin American politicians. The kind of policy that should be applied to China became both an international and domestic issue, and politicians had to find a balance between the different political groups.

Furthermore, Latin America had to meet the challenges of international cooperation. Traditionally, Latin America was connected more with Europe and North America politically, economically and culturally. But now, influence from the East and Asia-Pacific has become more powerful than ever, especially in the economic dimension. How to deal with it was a big challenge all over the continent.

5. The Future of relations between China and Latin America: Strategic partnership?

From 2000 on, trade between China and Latin America witnessed the most rapid development for 10 years in the history. Even during the financial crisis period, it still went on to grow with a faster pace than other regions. There were two reasons for this development, that is, China's booming economy and the complementary structure of trade between China and Latin America. It is time to ask, what kind of future partnership will there be?

In November 2008, the Chinese government released the white book *Chinese Policy towards Latin America and Caribbean.* In this book, the Chinese government proposed that cooperation with developing countries is the cornerstone of Chinese diplomacy, and the Chinese government will develop an all-round partnership of equality, benefiting each other and developing together with a strategic perspective[30].

President Hu Jintao also stressed during his visit to Latin America in 2008 that economic development is the most important challenge for both China and Latin America, so they should deepen the business and trade cooperation, focus on better trade structure, find a balance between trade volume and quality, promote investment on both sides, and make better policy to support cooperation[31].

In May 2010, a report was given by CEPAL, and it was proposed that it is the right time to make progress in the relations between China, and Latin America and the Caribbean region. The proposal called for higher quality relations and strategic partnerships. First, Latin America should diversify its exports with more high-tech manufactured goods, rather than just energy, natural resources, and foods. Second, both countries should promote investments, especially for China taking advantage of its huge foreign currency reserve to invest in the

30. Xinhua Net, Reports on November 5, 2008, (available only in mandarin) http://news.xinhuanet.com/newscenter/2008-11/05/content_10308177.htm

31. Hu Jintao, *Building together all-round cooperation partnership between China and Latin America in the new era,* Speech in Congress of Peru, Lima, Peru, November 20, 2008 (only available in mandarin) http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/nmz/1206_7/1209/

technology development, modern industry, and export of Latin America. Third, the Latin American and Caribbean region should develop relations with China with concerted policy and actions, as in the Chinese government released white book *Chinese Policy towards Latin America and Carrie* in 2008. Last, it was proposed that leaders should prepare for an Summit conference between China and Latin America, with technical dialogue to promote trade and investment between them[32].

Compared to the policy of China, the proposition of CEPAL was similar in that it focused on better trade structure, more investment, government policy support, and strategic partnership. Both sides had come to some consensus that it was time to push the relations quicker and better, especially during a period of such financial crisis and newly transformed world economic and trade structure.

In my views, cooperation between China and Latin America faces both opportunities and challenges; we should take full advantage of this historic time to build a new Silk Road across the Pacific Ocean. The following points would be the foci in our future relations.

5.1. First, economic and trade cooperation was the cornerstone of bilateral relation that was pushing the development of political, cultural, and international cooperation

For China, its booming economy, scarce resources, and limited market drove the government and businessmen to look for more energy, mines, agricultural produce, and markets all over the world, including in Latin America, Africa, and other regions. In Latin American and the Caribbean, there were different governments – rightist, central-leftist, and leftist – with different foreign policy. The Chinese government tried to keep good relations with all these countries despite the range of ideology, culture, and diplomacy.

For Latin America, China was very far away both physically and culturally, and it was a complete newcomer in only one decade's time. But China quickly became one of the most important trade partners, well above the traditional partners such as Japan, the EU, and the US. This was a historical change and gave rise to more political cooperation, cultural exchanges, and more trade frictions as well.

Recently, top leaders from China and Latin America visited each other more frequently than any other period. Each year several presidents from this region visited China, and the Chinese president, vice president, premier, and other top leaders visited several Latin America countries nearly every year. Chinese presidents have visited almost every main power in the region since this century began, including Mexico, Columbia, Peru, Chile, Argentina, Brazil, Venezuela, and Cuba. In contrast, former US President Bush only visited Latin America a few times in his administration of eight years, mostly to attend the APEC summits hosted by Latin American countries.

32. Osvaldo Rosales, *La República Popular China y América Latina y el Caribe : Hacia una Relación Estratégica,* Comisión Económica para América Latina y el Caribe (CEPAL), Impreso en Naciones Unidas, Santiago de Chile, Mayo de 2010.

5.2. Second, recent relations were only the beginning; deeper and closer cooperation will be on the horizon soon

The financial crisis in 2008 slowed the development of trade on both sides, but the importance of trade partners for either side was bigger than before. Brazil became a top-ten trade partner for China for the first time in history during the first two quarters of 2010. China became the second trade partner for Latin America after only the US in terms of single-country trade, and first export market for Brazil and Chile in 2009.

With Chinese and Latin American economies recovering quickly from the financial crisis, the trade relations will develop faster, with bigger share in both markets, more investment in each other, and closer political, cultural, and international cooperation.

Both sides are benefiting from this cooperation. China is securing its provisions of energy, foods, and mine resources, as well as finding new markets. Most Latin American countries, especially those in South America, keep their financial and foreign reserve sound with more exports to China and better trade conditions in this financial crisis.

5.3. Third, the trade structure was complementary and beneficial for both sides, but unsustainable for some Latin American countries and will take some time to improve

Generally speaking, the trade structure is complementary, such that Latin America exported natural resources, energy, and food, and imported electronics and other manufactured goods. In my view, exporting these products was not the main reason for their underdevelopment.

Looking back in history, Argentina had a similar trade relation with Britain, in which Argentina exported beef, wheat, wool, and hide to Britain, and imported manufactured goods with large investments in infrastructure from Britain in the late 19th and early 20th centuries. This period was the best time for Argentina's economy, when it was the richest country in the world and had a higher GDP per capita than most European countries. Then after the Second World War, most European agriculture recovered quickly, and Argentina lost its traditional export market.

Until now, Canada, Australia, and the US export their mine resources and foods to the world, and Arab gulf countries became rich nations with export of oil. In the case of trade structure between China and Australia and the US, the Chinese import of mine resources and food accounted for a very large share.

But for some large countries in this region, this contracture is unsustainable. Even though the exports stimulated economic development, the incomes from the export of oil, iron ore, copper, and soybeans went to big companies, big farm owners, and their shareholders; the common people benefited much less. These exports also brought less employment to the most needy and vulnerable social classes.

In fact, some Latin American countries were not satisfied with these exports, or with the import of labor-intensive goods such as shoes, garments, and textiles, which could have provided a lot of jobs. This was not a trade issue, but also a political and social issue, especially for votes and elections.

For China, the most important goal was to improve its export structure, producing fewer labor-intensive goods and more high-tech manufactured goods. They should compete with Japan, the EU, and the US in Latin American markets and world high-tech markets, but not compete with Latin American in its domestic labor-intensive market.

But this process will take some time to improve the trade structure for both sides. Latin America, especially South America, will continue to take advantage of the growing Chinese market for energy, food, and mine resources. China will take a lot of time to improve its export structure, not only to export more high-tech goods, but also to absorb the abundant domestic labor force, which consisted of more than 100 million migrant workers, the same as the population of Mexico.

With economic development and more labor needs, there have not been enough laborers in China since 2008. The salaries of workers are increasing, and some of the factories that need large number of labors are moving away from China. This will influence the trade between China and Latin America in the future.

5.4. Fourth, more investments from both sides should be the focus

Except for investments to Caribbean tax havens, investments have been very small for both sides. The Chinese government encouraged investments from the world, which were mainly from Hong Kong, Taiwan, Singapore, Japan, South Korea, Southeast Asia, the US, the EU, and other regions and countries. Latin American investment was welcomed as well.

In the late 1990s, the Chinese government began to urge Chinese companies both public and private to "go out", that is, invest abroad and pursue internationalization. The public companies usually invested in energy, mine resources, and infrastructure; and the private companies focused on the manufacturing sector, such as electronics, automobile, office equipment, and so on.

Chinese companies met lots of challenges in Latin America, including the business environment, cultural difference, and political and legal stability. For example, some businessmen in Latin America paid more attention to higher taxes, less tax reduction, the high cost of water and electricity, the legal difference between national level and government level, the difficulty of getting visas for employees, the unskilled and unstable employment force, complicated customs procedures, corruptions of local officials, and local securities[33].

33. Consulate-General of the People's Republic of China Tijuana, Seminar of Chinese Businessmen and companies hosted by Consulate-General Tijuana, April 19, 2010 (only available in mandarin) http://tijuana.chineseconsulate.org/chn/hqhr/t683316.htm

Pubic companies from China faced different environments and challenges, especially due to the influence of the political relations between China and Latin America. Large public companies played a very important role in investment abroad, with more government support and more financial resources, especially in infrastructure, mine resources, and energy. But at the same time, they were also put into an unfavorable position because of their government background. More cooperation and trust were badly needed between Chinese and Latin American governments.

5.5. Fifth, a Summit conference between China and the Latin America and Caribbean region is necessary and possible, but more effort and time are needed

In 2000, the China-Africa Cooperation Forum was built, and the China-Africa Summit was held in Beijing in 2006; this is a good example of such cooperation.

As said above, government cooperation was necessary for more investment and better trade relations. Why not have a China-Latin America Cooperation Forum and a China-Latin America Summit?

In February, 2010, the Latin American and Caribbean Unity Summit was held in Cancun, Mexico, and proposed that the Latin America and the Caribbean Community would be formed. This will lay a good foundation for future cooperation between China and this region.

But we also should face the reality that there are lots of political, economic, and international factors that will influence future cooperation. Latin American and Caribbean countries have different national interests, political situations, ideologies, economies, trade relations with China, and diplomatic relations. More efforts and time are needed in the future for the concerted policy and actions that are necessary in foreign relations.

At the same time, the Chinese government should also have a different policy towards different Latin American and Caribbean countries. South America, Mexico, Central America, and the Caribbean have totally different trade models and interests with China, and no single policy is enough to deal with the increasingly complicated relations between them.

Last but not least, the triangle relations between China, Latin America, and the US should be put into consideration, since the cooperation of the US is necessary and inevitable in this region. A successful trade and investment cooperation will bring prosperity, peace, and better welfare for both Chinese and Latin American people, which will consolidate the new democracy in this region. It is in the national interest of the US, and helps with its diplomatic aims in this region as well.

5. Conclusions

China and Latin America have had a long history of trade relations since the Silk Road across the Pacific Ocean was explored in the 16th century. In the 21st century, the trade between them grew quickly and China became the second trade partner of Latin America. In 2008, the financial crisis slowed the trade growth, but continued growth makes bilateral trade more important for both sides. Some challenges were faced, including the imbalance of trade, trade structure, and investment. Trade is the cornerstone for deeper cooperation and great potential is foreseeable in the future. Promoting high-tech and manufactured goods exports and a better investment environment is necessary for both sides in order to build better and closer economic relations. A cooperation forum and Summit conference would be good platforms for future deeper cooperation, although they need hard effort and more time.