

d.i.e

Deutsches Institut für  
Entwicklungspolitik



German Development  
Institute

# China and Latin America – A partnership of equals or the one-sided securing of access to raw materials?

By Dr. Christian von Haldenwang,  
*German Development Institute /  
Deutsches Institut für Entwicklungspolitik (DIE)*

# The Current Column

*of 4 October 2010*

## China and Latin America – A partnership of equals or the one-sided securing of access to raw materials?

Bonn, 4 October 2010. The rapid rise of the People's Republic of China to its current status as a global superpower is also reflected in its relations with Latin America. Just two decades ago neither their mutual economic interests nor political ties were particularly significant. But the situation has now fundamentally changed. Economic relations are the key driving force. Latin America will no doubt continue to become even more attractive for China over the next few years, because the region produces strategic primary goods, and its importance as a sales market for Chinese products will also continue to grow. At the same time, Latin America's traditional position on the global market, which is based on the region's raw material wealth, will be further consolidated on account of these developments. The Economic Commission for Latin America and the Caribbean (ECLAC), for instance, points out that the share of raw material exports from Latin America rose from 26.7% to 38.8% of overall exports between 1999 and 2009.

### **Political relations: development policy lacks leverage**

China regards itself as on a par with Latin America when it comes to level of development. In its "White Paper on China's Relations with Latin America and the Caribbean" published in 2008, China invited the countries in the region to step up relations with the People's Republic on all levels and to cooperate on finding answers to international problems. The number of official contacts has increased considerably over the past 15 years.

In addition, several Latin American countries have over the past few decades established diplomatic relations with China while at the same time breaking off ties with Taiwan. Costa Rica was the most recent country to do so in 2007. Often this was linked to increased economic and development policy activities on the part of China. Of the 23 countries that still recognise Taiwan under international law, 12 (mostly smaller) countries are in Latin America or the Caribbean. Nevertheless, there is at present no ongoing donor competition in the region with Taiwan, something that was still in evidence in the 1990s.

China's role as a development policy donor is definitely a controversial issue, particularly in regard to sub-Saharan Africa. The People's Republic is less active in Latin America than in Africa, albeit with a similar focus: The vast majority of funding goes to business-oriented cooperation (especially the exploitation of non-renewable resources) and to infrastructure measures. It is difficult to gauge the level of these activities since China (like other big donors) intermixes development policy goals with economic, security and geostrategic goals in its foreign policy. China has so far refused to apply the guidelines established by the OECD's Development Assistance Committee (DAC) to the classification of official development assistance (ODA).

### **Focus on economic relations**

In recent years China's economic relations with Latin America have developed more rapidly than with any other region in the world. Bilateral trade has increased at double the rate since 2005 than China's overall foreign trade, namely by 26.1% per year when it comes to Chinese exports to Latin America and by 22.8% when it comes to imports from the region. If one projects recent trends into the future, then China will supersede the EU as Latin America's second biggest trading partner in only a few years' time.

In the period 2008-09 China's practically unfettered growth helped soften the impacts of the global economic and financial crisis on Latin America, because China was the only market that imported more goods from Latin America in 2009 than in the previous year (+ 5%). And the Chinese market is proving to have the largest growth rates in terms of exports from Latin America during the current economic upswing.

**South America** in particular is benefiting from this development. Today, China is an important demander of South American primary goods and foodstuffs (soya, meat, oil, copper, iron ore). Imports from China to practically all countries have, however, increased even more. The focus has gradually shifted from labour-intensive low-tech goods (shoes, textiles, toys) to more high-tech products (cars, computers, telephones, household appliances).

Trade relations are dynamic as well as conflict-laden. Last year Argentina, Brazil and Columbia instituted more than 30 anti-dumping investigations against China (especially in the iron and steel, textiles, shoe and household appliances sectors). In some manufacturing sectors, particularly automobile manufacturing, China's rise is also weakening South American countries' position on the global market.

Chinese investments in South America are still unsubstantial – at least in comparison to the high-flown expectations. According to ECLAC estimates, China invested a total of US\$ 24 billion in Latin America in the period between 2003 and 2009. Brazil and Peru were the most important target countries, but in none of the countries in the region does the total stock exceed 1.0% of all foreign direct investments. Nevertheless, that tide is also about to turn, because the volume of planned investments, especially in the primary sector, is growing rapidly.

Given that **Mexico and Central America** are to all intents and purposes integrated into the North American market, they suffered considerably more on account of the global economic crisis than their South American neighbours. Their trade relations with China have also developed more slowly than South America's. The sub-region's balance of

trade with China is clearly in deficit, while South America even had a slight surplus in 2009. Added to that, China has also gained large market shares in a few sectors on the North American market (particularly textiles, shoes and leather goods) – to the detriment of countries in Central America. China is proving to be a serious threat especially for Mexico, because it is to be expected that Chinese products will in future be more present in other sectors too in which Mexico has traditionally supplied the North American market (e.g. automobile manufacturing and parts).

The overall picture is a mixed one. A partnership of equals with China appears most likely for larger countries, particularly those in South America. On condition, however, that China's attention can be directed towards activities other than raw materials and infrastructure. Smaller countries, especially those in Central America, have hardly any scope to actively shape relations with China. The opposite is in fact the case: If the global competition for raw materials continues to intensify as is expected, these countries – as net importers of raw materials – are more likely to feel the negative effects.

*A more detailed analysis of this topic has been published in the October 2010 edition of KfW's "Focus on Development Policy" series.*



Dr. Christian von Haldenwang  
German Development Institute /  
Deutsches Institut für Entwicklungspolitik (DIE)