TRADE AND INVESTMENT RELATIONSHIPS BETWEEN CHINA AND LATIN AMERICA

OBSTACLES AND CHALLENGES TO SUSTAINABILITY

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SUMMARY

Latin America is an important provider of natural resources to China. Exports to China from this region increased fourteen-fold between 1990 and 2004, with exponential growth ocurring between 2000 and 2004, after China joined the WTO.

More than 70% of all Latin American exports to China are based on the extraction and intensive use of natural resources. In other words, they involve products with little or no added value produced by the mining, fishing and agro-forestry sectors.

The most important Latin American products for China's economy are copper, fish meal, soy, sugar and grapes, which represent between 40 and 80% of the nation's total imports of those items. Latin American nickel, tin, wood and pulp and iron represent 20 to 30% of the amounts imported by that nation.

The bilateral relationships that have developed between China and each Latin American country reproduce the tendency towards limited diversification. Most countries produce one or two products for China, with the exceptions of Brazil and Chile, which have slightly higher levels of diversification.

Almost 95% of Latin American exports to China come from seven countries: Brazil, Chile, Argentina, Mexico, Peru, Venezuela and Costa Rica. The impacts of the extraction and exportation of primary materials include strong pressure on ecosystems, local communities and the land. This is added to the pressure that has been generated by decades of exporting similar products to other industrialized nations.

Chinese investment in Latin America has increased in the form of joint ventures, long-term purchases and the purchase of companies. This investment activity is focused mainly on the metal and fuel mining industries. Eventually this activity may extend to all of the resources that China needs from the region. This tendency adds a new factor to the equation: Chinese control of Latin America's natural resources through access to ownership.

If the provision of natural resources to China intensifies with the current rate of need, Latin American nations may face the further degradation of said resources, increased environmental pollution, and decreased levels of economic sustainability.

Furthermore, if the current model of importing mostly manufactured and high tech items from China holds, and particularly in view of the goods' low prices, it will become more difficult to address the difficulties that Latin American economies face in regard to adding value to their natural resources and generating an adequate amount of employment.

The exponential increase in the importation of manufactured goods from China over the past five years already has had an impact on various countries' small and medium-sized busineses. This has occurred mainly in the areas of clothing and electronics and has led to the loss of jobs.

In addition, the negative trade balance that several Latin American countries face with China, may compromise their capacity to maintain and generate employment and could affect the national economies' ability to meet social objectives.

Finally, these factors, along with the increase in large Chinese investments in the extraction sector, may increase conflictivity in the regions and communities from which primary materials are extracted, thereby lowering levels of democratic governance.

INTRODUCTION

Over the past three decades, Latin America has established an economic development model based on three fundamental axes: the exportation of natural resources, the privatization of public companies, and the deregulation of markets and opening of trade and investments regimes.

Latin America has exported natural resources since its discovery and conquest, and this has been promoted as the key factor in its trade relationships with developed countries. The region's export portfolio, which is centered on natural resources (commodities), has been a key generator of macroeconomic growth. Over the past few decades the intensification of these tendencies has led to the reduction of the manufacturing sector in various countries in the region.

The second element that has characterized Latin America's economic strategy is the privatization of public companies and opening of service sectors, which has significantly weakened the State's role in national economic activity.

The third and final axis of the regional economic model, the opening of trade and investments regimes, began with structural reforms in the 1970s and 1980s and continued throughout the 1990s with the gradual reduction of duties and establishment of regional agreements. This process has culminated in the negotiation and signing of bilateral and multilateral free trade agreements between countries of the region and external blocks. This last stage began during the mid-1990s and has continued to develop. These tendencies have created highly deregulated and vulnerable national economies.

In the context of progressive economic globalization, the opening of trade, investments and services has contributed to a progressive weakening of the internal market and local industry in Latin America, with the attending social impacts. These include a lack of equitable income distribution, increased unemployment and instability in this area, limited access to basic goods and services, and increased poverty.

In addition, the intense use of natural resources for exportation has generated sustained and increasing environmental impacts including the loss of natural patrimony; water, soil and air pollution; loss of biodiversity; the deterioration of agricultural activities directed at internal consumption; and the weakening of economies and the role of local economic actors.

This situation is not readily apparent because the specific impacts of the main economic strategies are not reflected in indicators like GNP, which are the only expressions of regional economic performance. Without a distribution policy, an appropriate environmental protection system and public policies designed to protect the natural patrimony and well-being of the population, the goals of economic growth do not reflect the challenges of achieving political, economic and social sustainability in Latin America.

For many years the traditional destinations of Latin American exports have been Europe and the United States. These partners continue to play a key role in the region's macroeconomic growth and continue to exercise a great deal of pressure for increased opening and liberalization of trade, investments and services in the context of the World Trade Organization (WTO), regional trade agreements such as NAFTA and ALCA, and the bilateral agreements that have been established or are being negotiated. This opening also reflects the International Monetary Fund and World Bank's priorities for the region.

However, since the end of the 1990s, the Asian Pacific block, which is composed of China, India and Korea, has begun to weigh in more heavily as a new axis of commercial exchange for Latin America. Of these countries, China –which is governed by an authoritarian regime- presents one of the most successful cases for liberal economies at the global level, with a growing internal market and a sustained increase in GNP, which reached 9.3% in 2004. China signed the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (known as the Marrakech Act) in the mid-1990s, thus taking its first step towards participating in the international market. In December 2001, it officially joined the WTO, establishing its active participation in the globalized economy.[1] Following the signing of this agreement and bilateral negotiations with Latin American and the Caribbean, commercial exchange between China and the region has steadily increased.

China is one of the primary producers of manufactured items and is rapidly positioning itself as a key destination for exports of primary materials from Latin America. Meanwhile, the region is importing growing volumes of manufactured products from China and has a high level of direct foreign investment from that nation.

This document describes economic relationships between China and Latin America in the area of trade and investments, placing special emphasis on Latin American exports to China, Chinese exports to Latin America, and Chinese capital investment in Latin America.

The first chapter presents data on exports of natural resources from Latin America to China as well as information on the five countries responsible for 90% of region's exports to China and the thirteen "star" Latin American products that are exported to that nation. Special attention is paid to the most important countries and products. The authors also describe the impacts of sustaining this flow of natural resources to China, which come in addition to the high volume of commodities that the region already exports to the Northern hemisphere.

The second chapter presents exports from China to Latin America, the main products imported by the region, and the countries that handle the greatest flow of Chinese imports. The authors offer a very brief description of the impacts of said activity on the manufacturing sector in Latin America and its role in limiting the added value of exports of primary materials from the region and contributing to the destruction of chains of production, manufacturing sectors, and local economies.

Last, we present information on Chinese investment in Latin America, paying special attention to the main sectors and countries that receive said investment. We also analyze the implications of these activities for Latin American economies and decisions regarding the current and future management of natural resources.

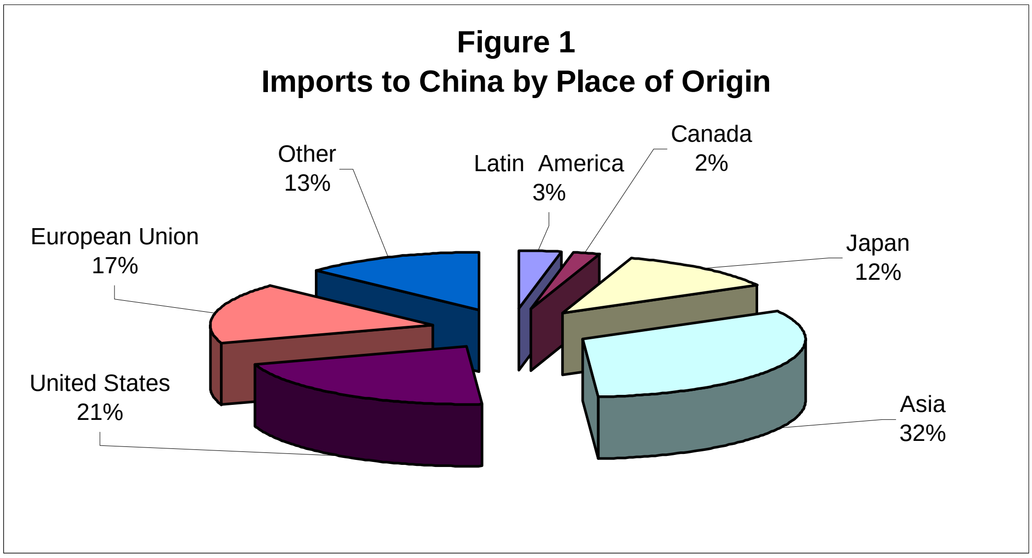
The purpose of this document is to contribute to the analysis of economic relations between Latin America and China, and particularly of China's role in promoting an increase in the intensive use and degradation of natural resources and the destruction of the region's manufacturing sector, which will intensify the tendency that has characterized the region's economic approach and its participation in the global context over the past few decades.

[1] Source: ECLAC, "Los efectos de la adhesión de China a la OMC en las relaciones económicas con América Latina y El Caribe." Capítulo IV de *Panorama de la Inserción Económica de América Latina y El Caribe, 2002-2003.*

CHAPTER I
LATIN AMERICAN EXPORTS TO CHINA

Over the past ten years and at the global level, China has demonstrated the largest amount of economic dynamism in terms of growth and the increase of internal demand. It is currently the sixth largest economy in the world, following the United States, Germany, Japan, the United Kingdom and France, with GNP growth rates of over 8%.[2] As a result, its demand for the primary materials that it needs to sustain its manufacturing industry (which represents 55% of the country's total production) has steadily increased. In 2004 China became the largest global consumer of copper, tin, zinc, platinum, steel and iron ore; the second largest consumer of aluminum, petroleum, lead and soy; the third largest consumer of nickel; and the fourth largest consumer of gold. Also during this period the country's participation in trade exchanges reached 6.5%, which represents a significant increase over its weak 0.6% participation in the late 1970s.[3]

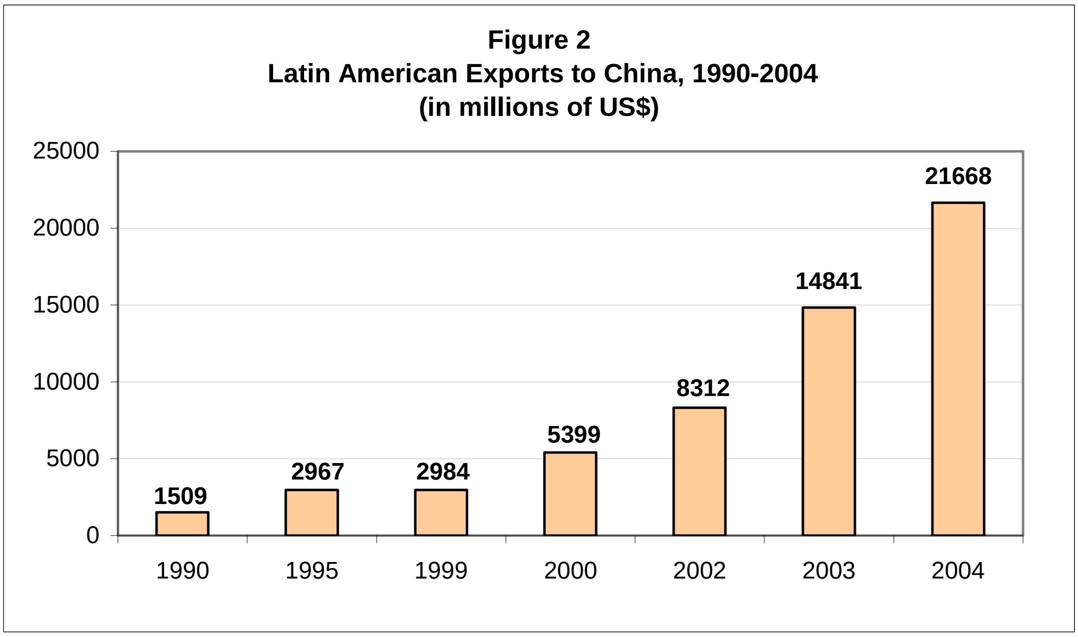
As the largest exporter of primary materials and commodities, Latin America has become a new source of resources for the Asian region in general and Japan and China in particular. By 2004, 37.6% of all Latin American exports to the Asia Pacific block went to China. Latin American exports represent about 3% of the country's total imports.



Source: ECLAC data from 2005 according to information from COMTRADE.

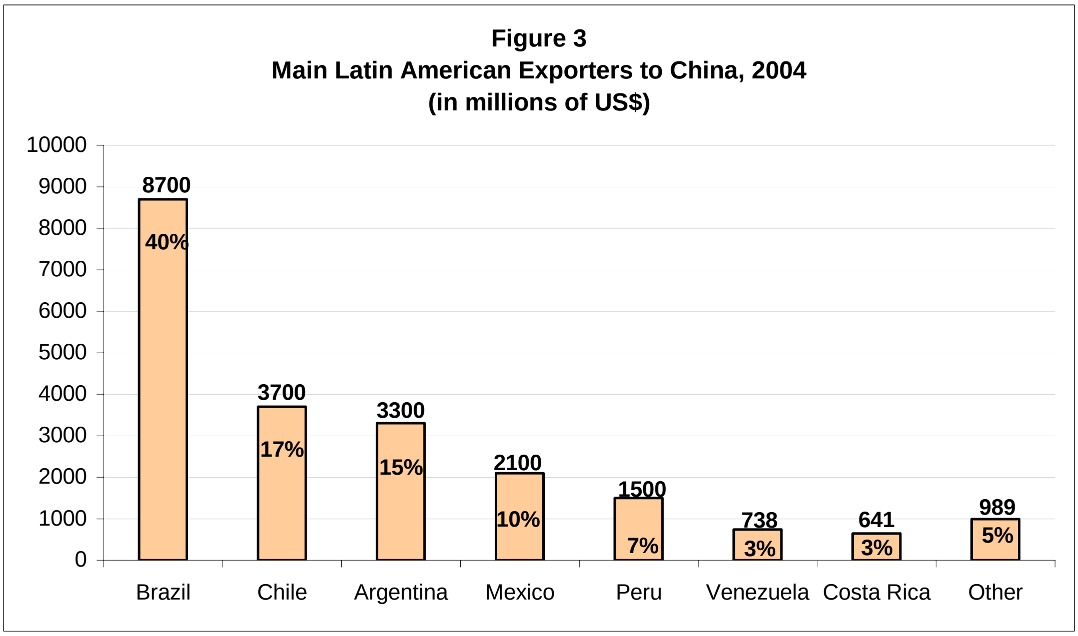
Latin American exports to China represented US$1.5 billion in 1990 and increased to $2.966 billion by 1995. Following a brief lull between 1995 and 1999, Chinese imports of Latin American products reached almost US$5.4 billion in 2002 and rose to over US$21.668 billion in 2004.[4] This means that in fourteen years the value of Latin American exports to China increased fourteen-fold.

[2] Source: ECLAC, "Panorama de la Inserción Internacional de América Latina y El Caribe 2004: Tendencias para el 2005." División de Comercio Internacional e Integración, con la colaboración de la División de Estadística y Proyecciones Económicas. 2005.
[3] Ibid.
[4] Ibid.



Source: ECLAC data from 2005 according to information from COMTRADE.

Ninety-five percent of these exports come from seven countries: Brazil (40%), Chile (17%), Argentina (15%), Mexico (10%), Peru (7%), Venezuela (3%) and Costa Rica (3%). Although some exports correspond to supplies for the automobile industry and the manufacturing of electrical appliances, this does not represent a general tendency towards the exchange of products with increased added value.



Source: ECLAC data from 2005 according to information from COMTRADE.

China has increased its participation in these countries' economies as a market for exported goods. Between 1990 and 2004 China was one of the top ten destinations for exports from Chile, Peru, Cuba, Argentina, Brazil, Uruguay and Paraguay.

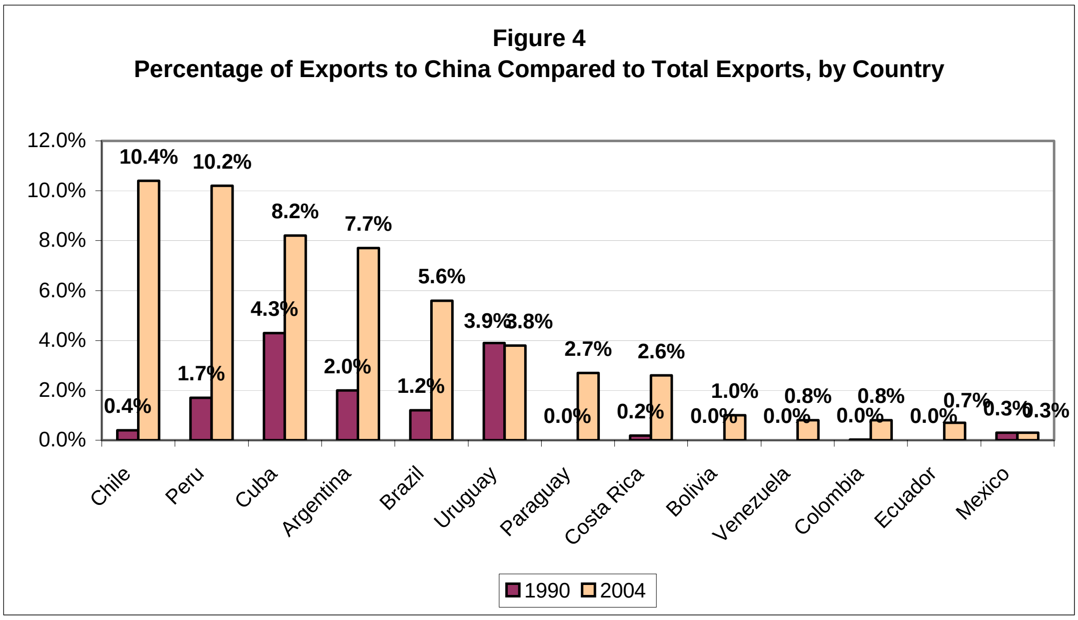
Table 1
Evolution of China's Participation in the Ranking of Main Trade Partners for Latin American and Caribbean Nations

Country	Position in 1990	Position in 2004
Peru	16	2
Chile	30	3
Cuba	5	4
Argentina	14	4
Brazil	18	4
Uruguay	8	6
Paraguay	46	7
Costa Rica	32	10
Venezuela	51	14
Mexico	27	15
Bolivia	52	15
Ecuador	81	19
Colombia	60	21

Source: Generated by the authors based on ECLAC data according to official figures from COMTRADE, Asociación Latinoamericana de Integración (ALADI), the International Monetary Fund (IMF), the Direction of Trade Statistics, and Promotora de Comercio Exterior de Costa Rica.
Note: Data for Bolivia and Costa Rica are from 1991 and 2004, respectively.

In the case of Chile, China rose from thirtieth place in export destinations in 1990 to third place in 2004. For Peru, it rose from sixteenth to second place; for Argentina from fourteenth to fourth; for Brazil from eighteenth to fourth; for Cuba from fifth to fourth; for Uruguay from eighth to sixth; and for Paraguay from forty-sixth to seventh. China also holds a privileged position as an export destination for Uruguay and Cuba, though it traditionally has been one of the top ten destinations for their products.

Figure 4 illustrates the growth of Latin American exports to China between 1994 and 2004 in terms of the total amount exported by its main trade partners in the region.



Source: Generated by the authors on the basis of ECLAC data from 2005, according to information from COMTRADE, Asociación Latinoamericana de Integración (ALADI), the International Monetary Fund (IMF), the Direction of Trade Statistics, and Promotora de Comercio Exterior de Costa Rica.
Note: Data for Bolivia and Costa Rica are from 1991 and 2004.

In short, in just fourteen years China has become one of the main destinations for Latin American exports, increasing its importance in the context of each country's total exports between two and twenty-five times. In terms of the total amount exported, Chile has achieved the largest increase in exports to China, which explains current negotiations between Chile and China to sign a free trade agreement in november 2005.

The following section presents the composition of each country's exports to China, and that of Latin America as a whole, the main products involved in this activity; and the impacts of this exchange on natural patrimony and the region's economic structure.

NATURAL RESOURCES EXPORTS TO CHINA

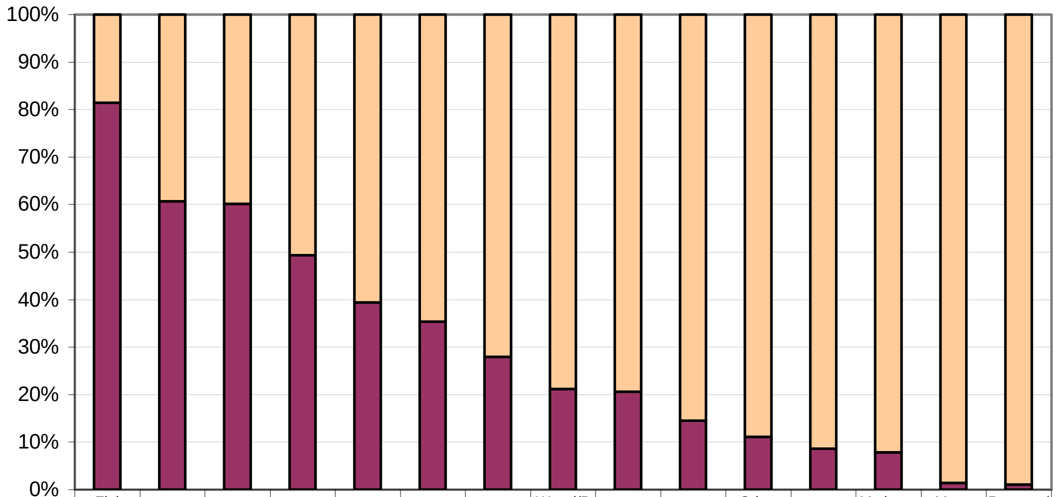
More than 70% of Latin American exports to China are natural resources (45.5%) and primary materials or commodities (25.7%).[5] The remaining 30% correspond to non-traditional products and low, medium and high tech products. High tech products represent just 0.1% of all Latin American exports to China.[6]

The main Latin American products that are exported to China are fish meal, soy, grapes, sugar and copper, which represent between 40 and 80% of the total imports of those products in China. The region's fifteen "star" exports to China come from five countries: Argentina, Brazil, Chile, Cuba and Peru. Of these main exporting countries, only two (Brazil and Argentina) export a medium technology product –motor parts-, which represents just 1.4% of the total exported by the five nations.

[5] Source: ECLAC, Ibid.
[6] ECLAC data does not include a detailed list of products exported by Latin America that have technology incorporated.

Figure 5 presents the percentage of products that China purchases from Latin America as compared to the total that it imports from other parts of the world.

Figure 5
Main Latin American Exports to China by Product Compared to Total (%)



	Fish Flour	Soy	Grapes	Sugar	Copper	Nickel	Tin	Wood/Pulp	Iron	Leather	Other Metals	Zinc	Methanol	Motor Parts	Propane/Butane
World Total	18,6%	39,3%	39,8%	50,7%	60,6%	64,6%	72,1%	78,8%	79,4%	85,5%	88,9%	91,4%	92,1%	98,6%	98,9%
5 Latin American countries	81,4%	60,7%	60,2%	49,3%	39,4%	35,4%	27,9%	21,2%	20,6%	14,5%	11,1%	8,6%	7,9%	1,4%	1,1%

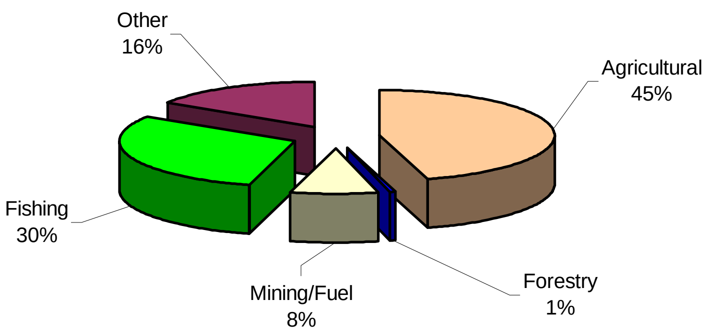
Source: Generated by the authors based on ECLAC data from 2005 according to information from COMTRADE.

This confirms that Latin American exports to China are almost exclusively based on the extraction and intensive use of natural resources that are exported with little or no processing. Examples include soy, fish meal, grapes, sugar and copper. This places a great deal of pressure on ecosystems: the removal of natural resources from Latin America (soil, agriculture, biodiversity, hydric resources, fishing resources and energy resources) weakens communities' sovereignty over natural resources and territories and the services that they provide (food, water, etc.). The effects of this practice are particularly permanent in the case of mining.

The products that China imports mainly come from five sectors: fishing (fish meal), agriculture (soy, grapes, sugar and leather goods), forestry (wood and pulp), and mining (copper, nickel, tin, iron, zinc and other heavy metals, and fuels such as methanol, propane and butane).

The composition of Latin American exports to China by productive sector is presented in Figure 6.

Figure 6
Main Latin American Exports to China by Sector



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

It is alarming to note that the fishing and agricultural sectors' exports represent 75% of Latin American exports to China and involve only five products (fish meal, soy, grapes, sugar and leather goods).

Copper represents 45% of the minerals and energy resources that are exported to China from Latin America. More than 81% of Latin American exports to China are based on six products,[7] two of which are not renewable. Table 2 presents the income that is generated for the region through the sale of the eight main products (in millions of dollars).

Table 2
Products Exported to China from Five Main Latin American Countries

Products	Value (millions of US$)	%	Sector
Fish Flour	5,174	29.9	Fishing
Grapes	3,604	20.8	Agricultural
Soy	3,349	19.4	Agricultural
Sugar	928	5.4	Agricultural
Copper	621	3.6	Mining
Nickel	404	2.3	Mining
Iron	122	0.7	Mining
Wood and Pulp	111	0.6	Forestry
Total 8 Main Star Products	**14,313**	**82.7**	
Other Main Products	244	1.4	
Total Main Products	**14,557**	**84.1**	
Other Products	2,756	15.9	
TOTAL	**17,313**	**100**	

Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

A review of the structure of the exchange of the region's five main trade partners with China (Argentina, Brazil, Chile, Cuba and Peru) demonstrates that these countries' exports are almost completely limited to one or two products per country with the exception of Brazil, where the export portfolio is a bit more diverse, though still dependent on extractive industry. The trade relationship that

[7] This percentage refers to the total of 90% of Latin American exports from the five countries mentioned above.

China has adopted with the region is based mainly on the “one country, one product” approach, which places a great deal of pressure on specific ecosystems and natural resources.

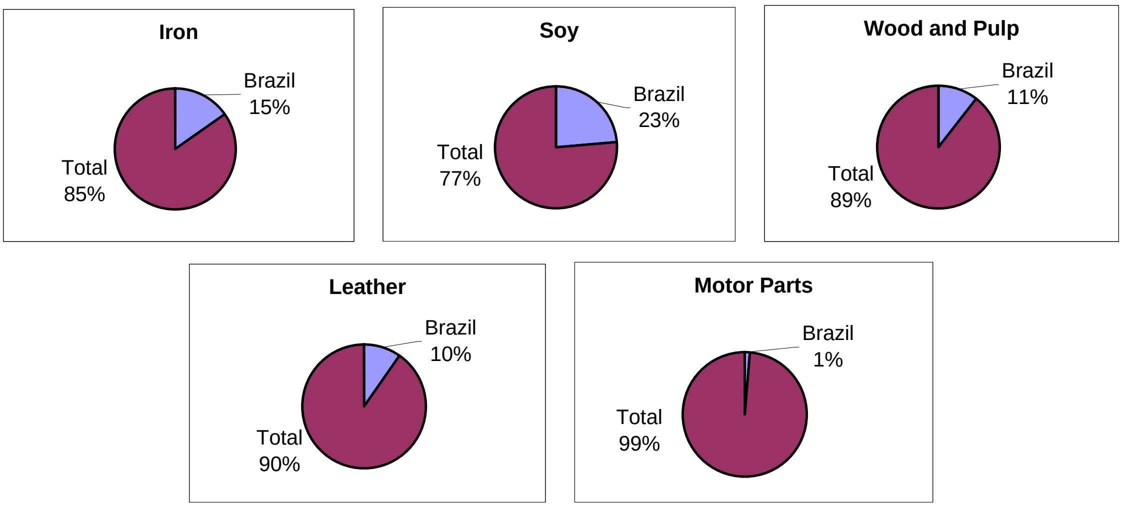
The following section presents each country’s export portfolio. In order to include the nations that form part of Programa Cono Sur Sustentable, we have added information on Uruguay, where the exchange regimen with China has been relatively constant (Appendix 1).

BRAZILIAN EXPORTS TO CHINA

Brazil is responsible for 40% of the region’s exports to China. It contributes seven products to the list of goods exported to China by the five main countries. Two of these products (iron and soy) represent 85.6% of Brazilian exports to China. The total income generated is US$5.7734 billion.

Brazil produces 23% of China’s soy imports, which positions it as one of the country’s main providers. Brazil also contributes 15% of iron imports and 11% of wood and pulp imports. Motor parts from this country represent just the 1% of that market, while Brazilian copper and fuel (propane and butane) represent less than 1% of the total imports of those products to China.

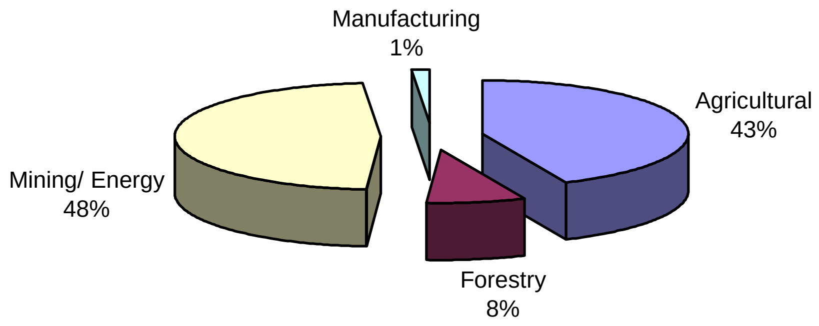
Graph 1
Main Products Exported by Brazil as Compared to Total Chinese Imports (in %)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Forty-eight percent of Brazilian exports to China come from the mining sector, and iron represents 98% of exports in this group. The agricultural sector produces 43% of Brazilian exports to China, 90% of which are soy. The fact that most Brazilian exports come from the mining, fishing and forestry industries results in severe impacts on ecosystems rich in biodiversity that represent that nation’s natural patrimony.

Figure 7
Brazilian Exports to China by Sector (%)

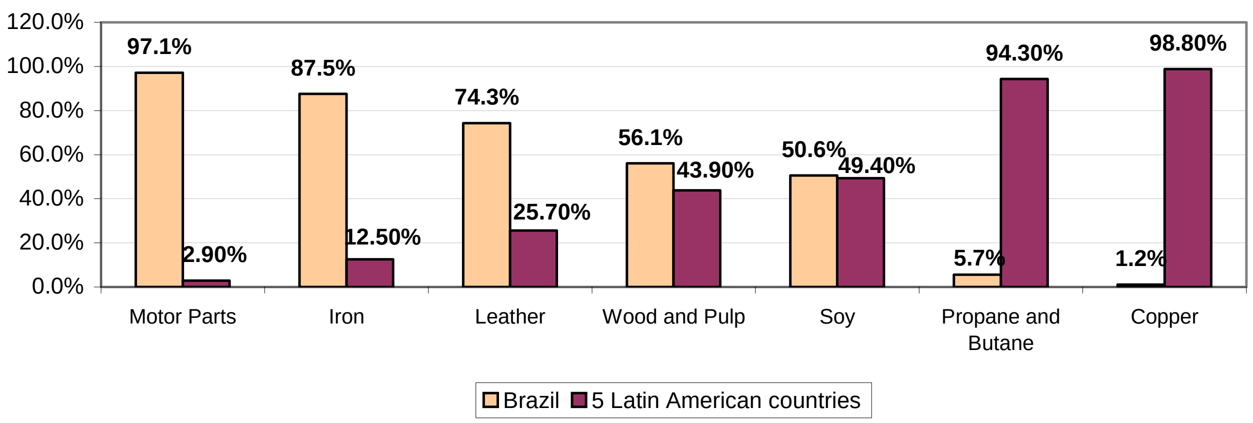


Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

China's high demand for iron and soy contributes to the mining and agro-industrial sectors' negative impacts on air quality, hydric resources, and soil in Brazil. The expansion of soy mono-cultivation limits rural communities' access to land, which is a critical obstacle to governance in Brazil.

In addition, the industrial cultivation of soy plays a role in deforestation and the intensive use of hydric resources. Soy production is increasingly a transgenic activity, which may have a negative effect on food safety and security by contaminating traditional non-transgenic activities, reducing resistance to plagues, and promoting dependence on agrotoxins and chemical fertilizers, which in turn generates pollution. The intensive mono-cultivation of soy has marginalized local production and led to the increased concentration of the property of seeds and supplies in the context of current patent and intellectual property systems. In addition, this activity presents a tendency towards increased concentration of land ownership.

Figure 8
Brazilian Exports to China as Compared to Peers in the Region, by Product (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

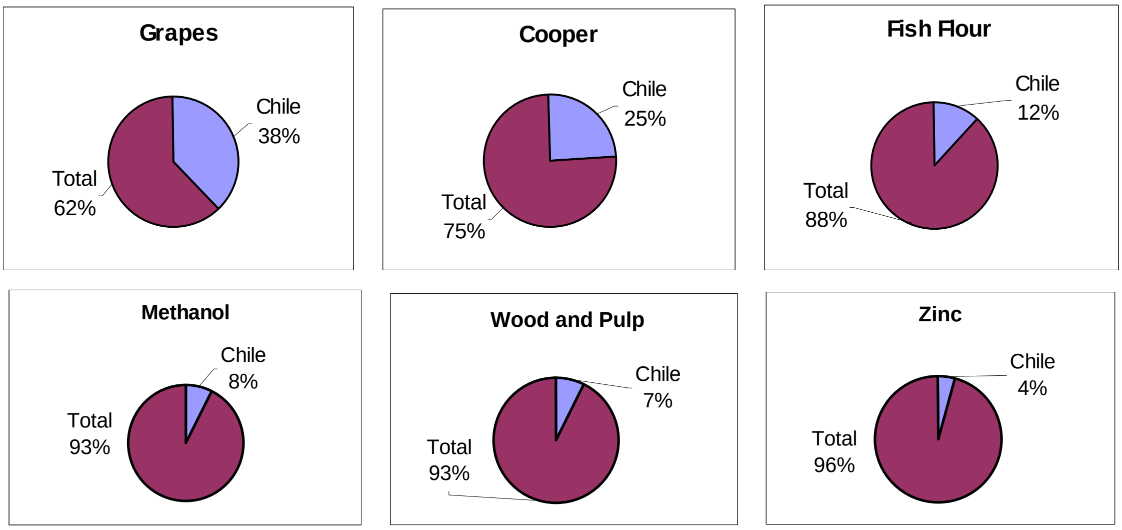
Brazil represents 87.5% of Latin American iron exports, 74.3% of leather exports, and more than half of wood and pulp exports.

Brazil is practically the only Latin American exporter of higher technology products to China, contributing 97.1% of the region's motor parts exports, though this is not significant in the context of total Chinese imports.

CHILEAN EXPORTS TO CHINA

Chile is one of the main exporters of grapes (38%), copper (25%) and fish meal (12%) to China. The products that follow in order of importance are methanol (8%), wood and pulp (7%), zinc (4%) and iron (1%). This is reflective of the Chilean export portfolio, in which grapes and copper represent Chile's "star" exports to the world. Graph 2 demonstrates the percentage of Chilean exports to China in regard to overall totals.

Graph 2
Main Products Exported by Chile Compared to Total Chinese Imports (%)



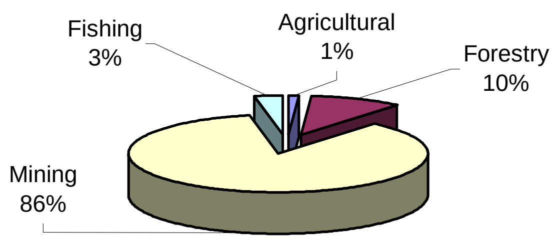
Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

In terms of income, Chile's most important exports to China are related to the mining sector. In fact, 86%, or US$2.991 billion, comes from this sector. Of this, 93% is generated through the sale of copper (US$2.787 billion), which is responsible for Chile's greatest earnings in its dealings with China.

Most of the grapes that China imports are Chilean, but this product does not generate a great deal of income. Sales of this product generated only US$41 million in 2004 and represented all of Chile's agricultural exports to China. It is important to note that Chile maintains the export of only one agricultural product that generates limited benefits rather than opting for alternatives with greater added value, such as wine, which would allow it to improve its strategic use of grape production.

Chilean fishing exports to China are entirely focused on fish meal, which generates US$103 million of income. Forestry exports pertain to wood and pulp and led to income of US$349 million. These four products represent scant diversification and an almost complete absence of processing of Chilean export products.

Figure 9
Chilean Exports to China by Sector (%)

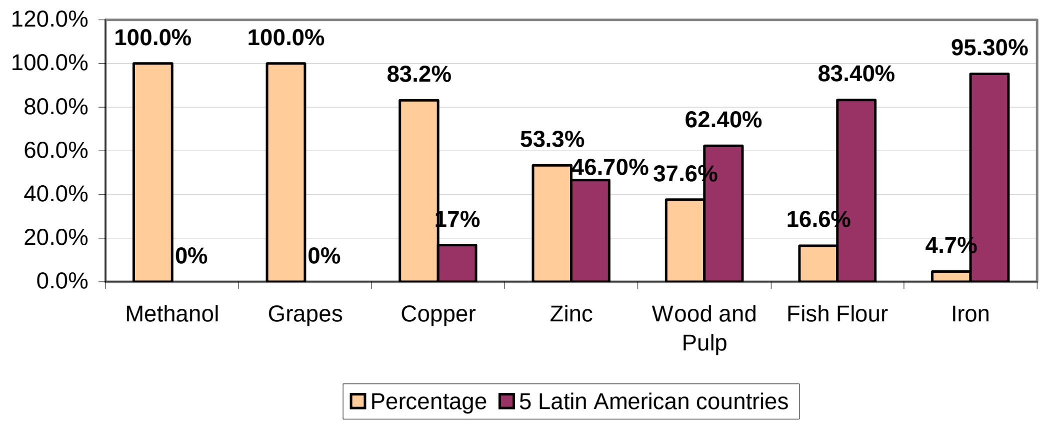


Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

In terms of composition by sector, 86% of Chilean exports to China come from the mining sector, 10% from the forestry industry, 3% from the fishing sector, and only 1% from the agricultural sector.

Chile is responsible for 100% of Latin American grape and methanol exports to China and 85% of the region's copper exports to that nation. It also places well in zinc exports, with 53.3%, and wood and pulp exports, with 37.6%. Less significant at the regional level are Chilean fish flour exports, which represent 16.6%; iron exports, 4.7%; and exports of other concentrated minerals, which represent 3.4% of Latin American exports to China.

Figure 10
Chilean Exports to China Compared to Regional Peers, by Product (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

The main impacts of activities associated with Chilean exports to China involve the mining sector, which causes irreversible degradation of ecosystems by removing the land surface and destroying biodiversity. Mining activities generate severe air and water pollution in basins, which puts the population's health at risk. Significant levels of pollution has overpass environmental standards in mining areas in Chile, which oblied the governement to design and implement Decontamination Plans in several mining sites.

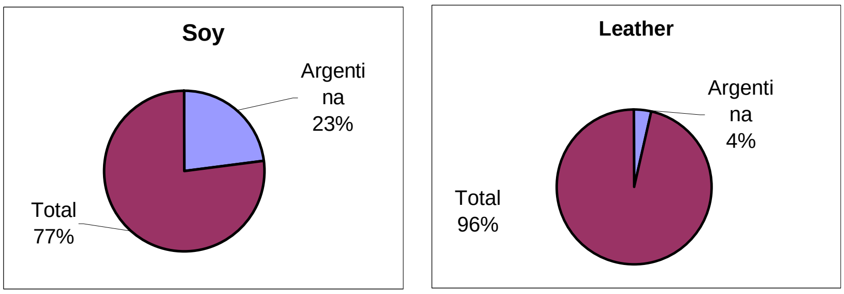
Mining also places an enormous amount of pressure on hydric resources in arid and semi-arid areas, affecting local economies and cultures, particularly those of indigenous populations in the north of the country. In addition, the mining sector generates significant environmental liabilities (toxic waste, tailings dams, etc.) in the regions in which it operates, compromising the development of future activities.

ARGENTINEAN EXPORTS TO CHINA

Argentina's main export to China is soy, most of which is transgenic. Argentine produces 23% of all Chinese soy imports. Brazil contributes an additional 23%, which means that these two countries provide 46% of China's soy imports.

The distant second in Argentinean exports to China is leather goods, which represent 4% of the total imported by that nation. Other products represent a lower percentage of the global amounts: fish meal (2%), wood and pulp (1%), propane/butane (1% of the total), copper (0.02%), iron (0.01%) and motor parts (0.01%).

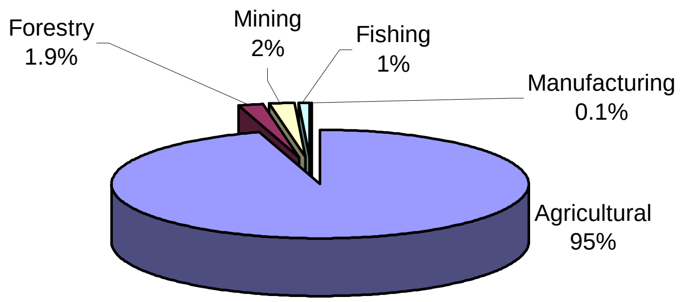
Graph 3
Main Argentinean Exports to China Compared to Total Imported by China (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Argentina is mainly a soy provider for China. Its agricultural exports represent an income of US$2.658 billion, 96% (US$2.555 billion) of which come from the sale of soy. The production of transgenic soy in Argentina for export to China has increased the degradation of ecosystems in the country's northern and central regions, leading to the loss of agriculture productive diversity, the concentration of land ownership, and competition over hydric resources. It also negatively affects food safety and the development of local economies. Increased mechanization of the soy agro industry has limited the number of jobs created by this sector.

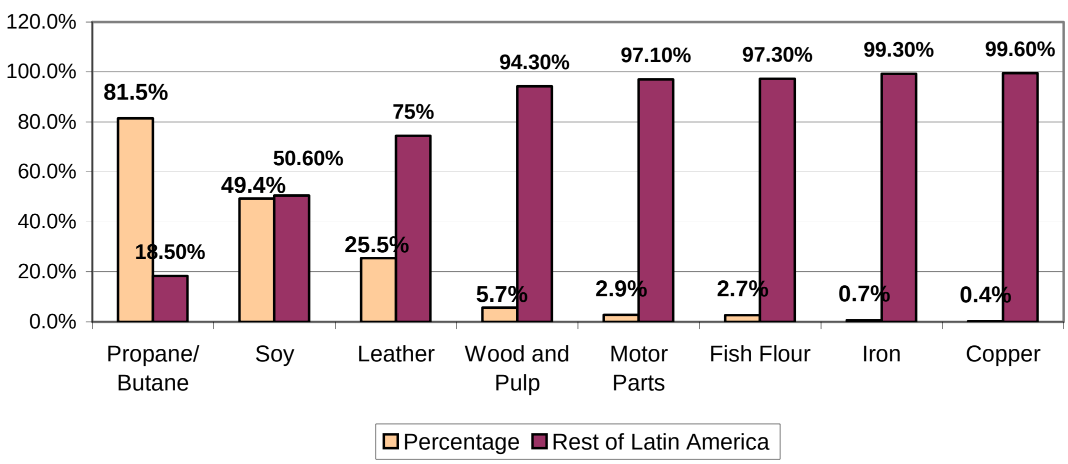
Figure 11
Argentinean Exports to China by Sector (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Argentina is the region's main exporter of propane and butane to China. It competes with Brazil in soy and leather exports, and has very limited participation in wood and pulp, motor parts, fish meal, iron and copper exports.

Figure 12
Argentinean Exports to China Compared to Peers in Region, by Product (%)

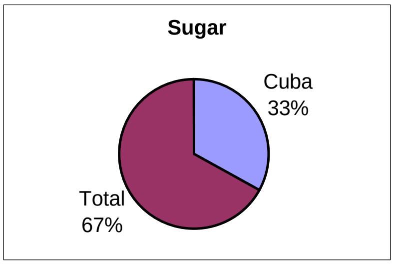


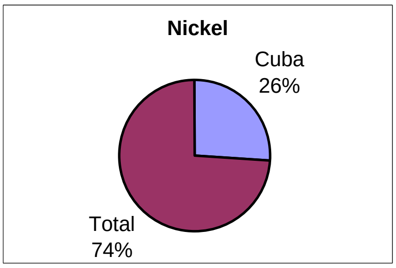
Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

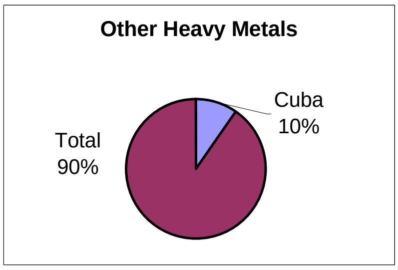
CUBAN EXPORTS TO CHINA

Cuba is basically a provider of sugar and nickel to China, responsible for 33% and 26% of the sales of sugar and nickel respectively followed by the sale of concentrated metals, which represent 10% of the total of those products imported by China.

Table 4
Main Cuban Exports Compared to Chinese Imports (%)





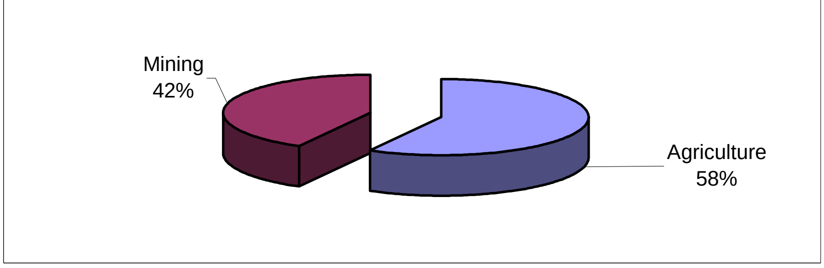


Source: Generated by the authors on the basis of ECLAC data from 2005, according to information from COMTRADE.

In regard to income based on exports to China, the sale of sugar, which represents all of the country's agricultural exports, generates US$111 million while the exportation of mining products creates US$80 million of income.

Although Cuban production is mainly oriented towards the internal market, its exports follow Latin American tendencies in the sale of primary materials and natural resources with little or no processing.

Figure 13
Cuban Exports to China by Sector (%)

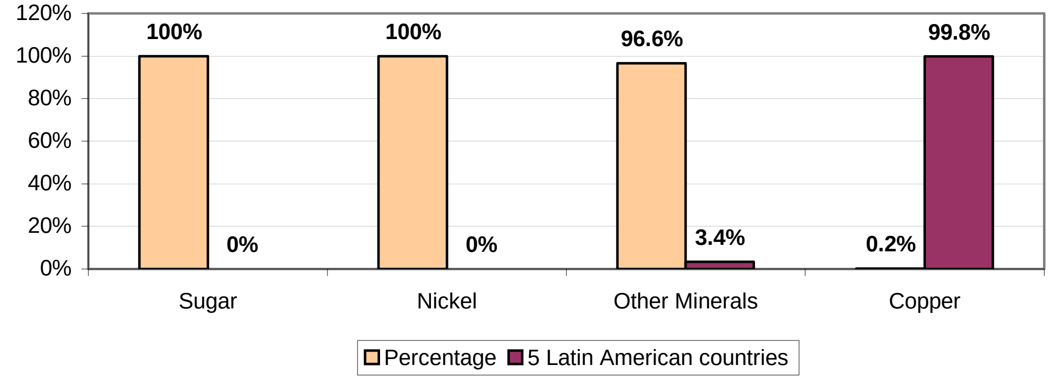


Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Cuban agricultural and mining exports represent 58% and 42% of Cuban exports to China, respectively.

In the context of China's main Latin American trade partners, Cuba produces 100% of sugar and nickel exports to China and practically all of the exports of "other heavy metals" (96.6%), competing only with Chile in the sale of these products. Cuba contributes 0.2% of Latin American copper exports to China.

Figure 14
Cuban Exports to China Compared to Peers in the Region, by Product
(%)



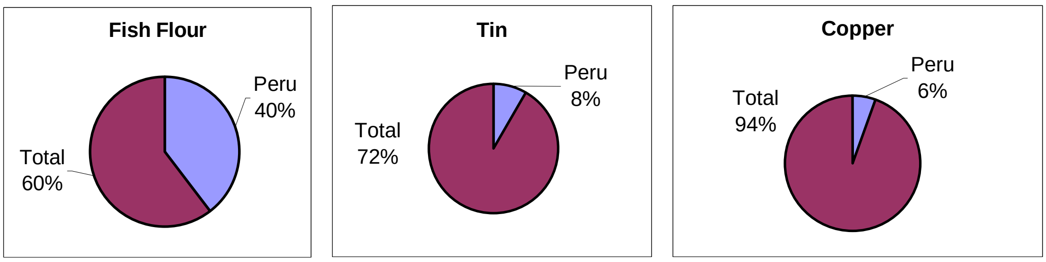
Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Although Cuba is the main provider of sugar to China, given its tropical climate and lower use of agroxoxins, this commodity has fewer environmental impacts than it does in other Latin American countries. In addition, the lower levels of mechanization of sugar production imply a greater rate of employment generation. However, no specific information is available regarding the impacts of the mining of nickel and other minerals on the island's ecosystems and the Cuban population.

PERUVIAN EXPORTS TO CHINA

Peru is the main exporter of fish meal to China, generating 40% of the fish meal that this nation purchases. This product greatly outperforms other Peruvian exports, such as tin, with 8%; copper, with 6%; zinc, with 4%; and iron with 1% of the total imported by China, respectively. Peru's total exports to China represent US$1.392 billion in income.

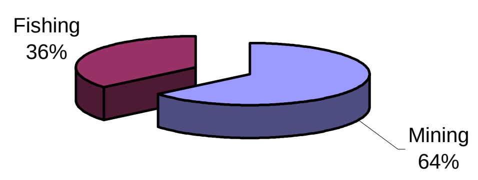
Graph 5
Main Peruvian Exports Compared to Total Amounts Imported by China (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Most of Peru's exports to China are produced by the mining industry, which generates income in the amount of US$890 million (64% of the total). Fifty-seven percent of the income generated by this sector corresponds to the sale of copper (US$505 million) and 29% corresponds to iron (US$256 million). This demonstrates that mining products such as copper and iron are always highly profitable for Latin American countries, even when they are not the products that are most desired by the importing country. Fish flour exports generated $502 million for Peru in 2004, which was equivalent to 36% of the income reported for exports to China.

Figure 15
Main Peruvian Exports to China by Sector

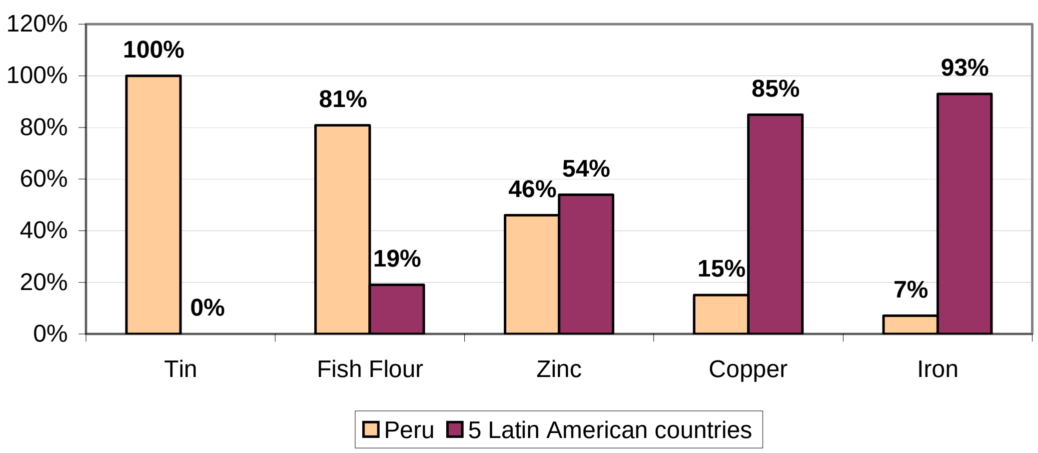


Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

The significant environmental impacts of mining and fishing activities are now widely known in Latin America. In the case of mining, the main areas affected in Peru are the Amazon region, the mountains and northern and central regions, and the arid southern regions, where there are conflicts over competition for water resources and pollution, as well as serious impacts on local economies, cultures and communities.

The use of inadequate and intensive fishing practices has led to a lack of availability of various pelagic species and has harmed marine ecosystems. The production of fish meal and oil, also is associated with serious coastal pollution problems in various regions of Peru.

Figure 16
Peruvian Exports to China Compared to Peers in the Region, by Product (%)



Source: Generated by the authors on the basis of ECLAC data from 2005 according to information from COMTRADE.

Peru is the only Latin American country that exports tin. It is the main provider of fish meal to China, with 81% of regional exports, followed by Chile (16.6%) and Argentina (2.7%). Last, Peru contributes 46% of the zinc, 15% of the copper and 7% of the iron exported from Latin America to China.

CHAPTER II

CHINESE EXPORTS TO LATIN AMERICA

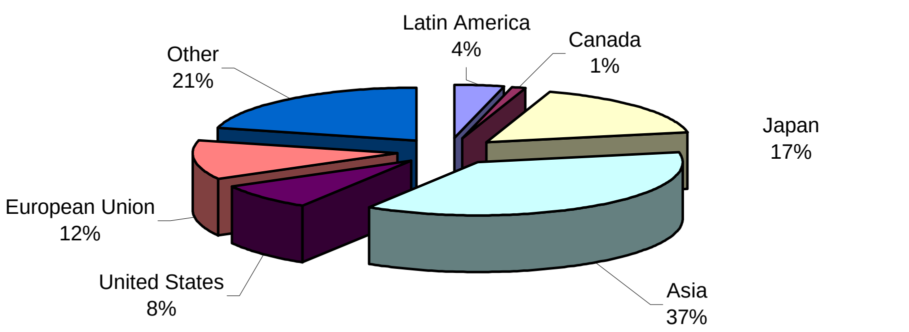
As has been the traditional tendency of exports from industrialized nations to Latin America, exports from China to the region are centered on manufactured and high tech products.

The main difference between this relationship and the ones that Latin America has had with other trade blocks, mainly Europe and the United States, is most likely the low price of Chinese products. This factor places the production of manufactured products in Latin American nations at risk, particularly that of small and medium sized companies, which are the region's main sources of employment.

There is already evidence to suggest that trade with China is having a severe social impact in Latin America due to the destruction of local companies and the loss of jobs. This phenomenon has tended to intensify in countries with high levels of industrialization, such as Mexico.

These social impacts are combined with environmental problems caused by increased exports of natural resources. They mainly affect the local communities and economies in areas that experience intensive extraction of natural resources. This situation has made it even more difficult to add value to Latin American products.

Figure 17
Chinese Exports to the World by Receiver (%)



Source: ECLAC, 2005 based on information from COMTRADE.

Though the Latin American region is not yet a significant destination for Chinese exports at the global level –it represents just 4% of the total-, its weak manufacturing structure has begun to suffer, particularly in the clothing (shoes and textiles), electronics and machinery sectors.

Over the last few years the main products imported by Latin America from China have comprised a highly diverse set of manufactured items. Table 3 presents the main Chinese products exported to the region according to statistics from ECLAC.

Table 3
Main Exports from China to Latin America

Product	Millions of dollars	%
Clothing and textiles	1,741	22.33
Manufacturing parts and accessories	344	4.3
Shoes	301	3.76
Electric filaments and conductors	196	2.45
Travel items, bags and suitcases	189	2.36
Peripherals (including adaptors and remote controls)	147	1.84
Bathroom, kitchen and bedroom items	140	1.8
Radio receivers	139	1.7
Carbon derivatives (carbon and semi-carbon lignite)	100	1.3
Stereos and recording devices	78	1.0
Petroleum derivatives	83	1.0
Herbicides	79	1.0
Air conditioning units	69	0.9
Lighting accessories and decorations	68	0.8
New and used tires	66	0.8
Other	280	3.4
Subtotal of main exports	**4,020**	**50.7**

Source: Generated by the authors on the basis of ECLAC statistics from "Oportunidades y Desafíos de los vínculos económicos de China y América Latina y El Caribe," 2003.

Chinese products represent about 4% of the items imported by Latin America, a number which has tended to increse. In the first eleven months of 2004, Chinese exports to Latin America generated US$16.36 billion, which represents a 52.7% increase over the same period in 2003 (International China Radio, 2005).

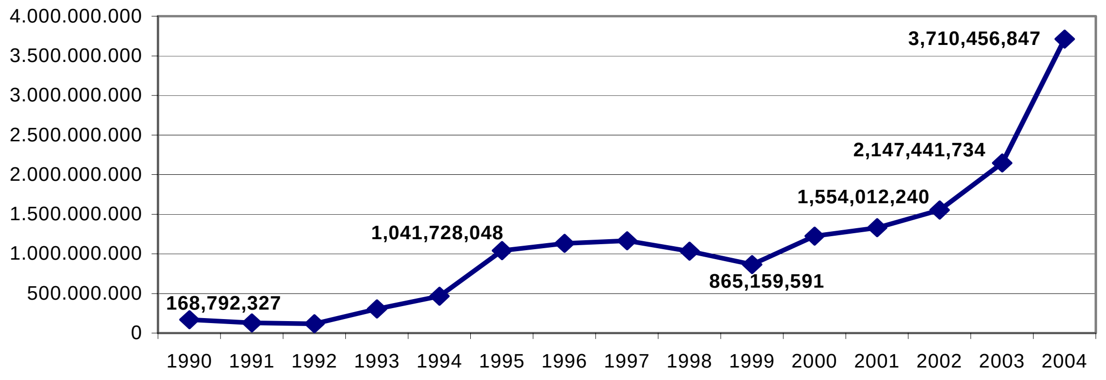
Within the Asia Pacific block, China was responsible for an increasing percentage of Latin American imports, moving from 16.2% in 1999 to 30.6% in 2003, at which point it surpassed Japan and the Republic of Korea (ECLAC, 2005).

The following sections describe the structure of Chinese exports to the main commercial destinations in the region: Brazil, Argentina, Chile, Mexico and Peru.

CHINESE PRODUCTS IMPORTED BY BRAZIL

Following a brief lull between 1994 and 1999, Chinese imports in Brazil increased steadily beginning in 2000 and jumped by 71% between 2003 and 2004.

Figure 18
Evolution of Chinese Imports to Brazil, 1990-2004 (in US$)



Source: Generated by the authors on the basis of data from the Brazilian Ministry of Development, Industry and Foreign Trade (www.desenvolvimento.gov.br), 2005.

By 2004 the total value of Chinese imports to Brazil was over US$3.71 billion, which is twenty-two times higher than the 1990 amount. Between 1999 and 2004, Chinese imports increased by 400% with a difference of over US$2.845 billion.

Most products imported from China are electronic manufactured goods; iron and steel products; chemicals; and industrial, electric and clothing items, which together represent 73.3% of the total imports of Chinese products in Brazil. The largest increases were observed in imports of television parts and components, liquid crystal sets and integrated circuits, and other electric and electronic products. The increase in the internal demand in Brazil has led to a rise in the production of electronic goods and in the importation of electric/electronic parts and components from China (Boletín Informativo JETRO, 2005).

Table 4
Main Chinese Products Imported by Brazil, 2004

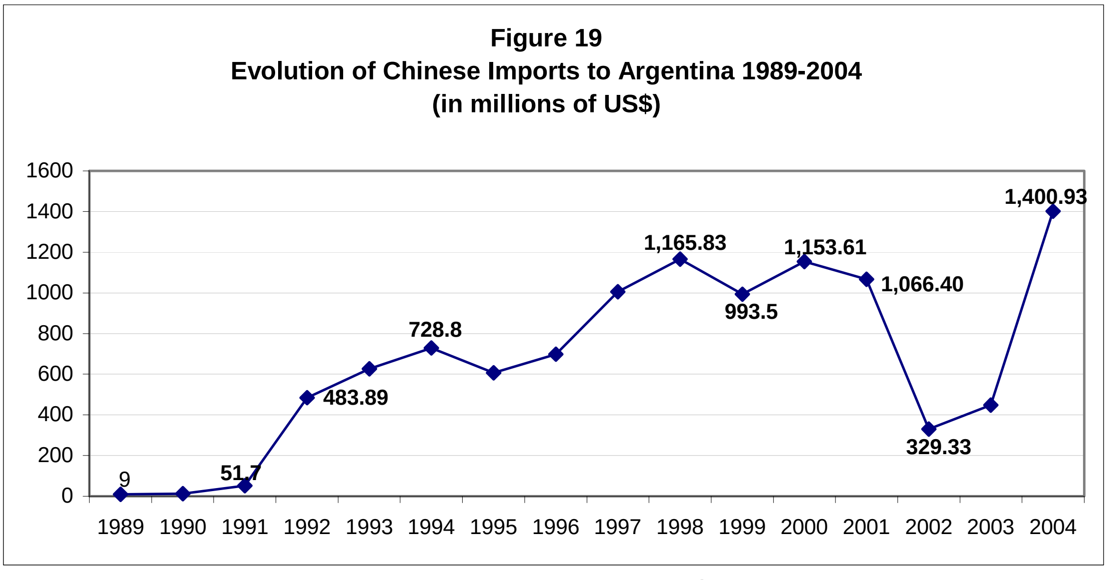
Product	**Value in millions of US$**	**%**
Electronics	631.2	30
Iron and steel	225.9	10.7
Chemical products	196.9	9.3
Industrial products	193.7	9.2
Electric products	186.6	8.7
Textile products	113.1	5.4
Petroleum	90.5	4.3
Machinery and tractors	77.7	3.7
Parts for vehicles	61.5	2.9
Pharmaceutical products	58.4	2.8
Shoes	40.7	2
Other metallurgical products	40	2
Clothing	37	1.8
Other	151.2	7.2
Total	2104.4	100

Source: ECLAC, 2005, based on information from FUNCEX, Brazil.

Observing the trade balance between Brazil and China and comparing the volume of Chinese products imported by Brazil to Brazilian products exported to China, the results for 2004 present a positive outcome of US$1.73 billion for Brazil.

CHINESE PRODUCTS IMPORTED BY ARGENTINA

In the 1980s, Chinese imports to Argentina were practically non-existent. Beginning in 1991, there was increased activity in imports from China, which grew to represent approximately 6% of the total purchases abroad in 2004. The amount of products imported from China increased 94.4% between 2003 and 2004, significantly exceeding the increase in exports of Argentine goods to China, which grew by only 6.4%. This increase in Argentine purchases is probably due to the country's economic recovery following the 2001-2002 economic crisis. Recent statistics show that Chinese imports to Argentina totaled US$271 million during January and February 2005, which represents in increase of 79% over the same period of 2004.[8]



Source: Generated by the authors on the basis of statistics from the Cámara de Comercio Argentino-China, 2005 (www.argenchina.org).

If Argentina's economic situation continues to improve, one can assume that imports from China also will continue to grow steadily, which may increase difficulties associated with the recovery and reactivation of the Argentinean industrial sector following the economic crisis.

The main products imported by Argentina from China are machines and electronics (43% of imports), chemicals (22%), mechanical products and related items (7%), and common and manufactured metals (6%). Purchases of machinery, chemical products and iron and steel products increased by 83%, 36% and 284%, respectively. It is important to note that the largest increase in imports from China was appreciated in fuel, which reached US$15 million in absolute terms (no purchases of this item were reported during the first few months of 2004).

[8] **Source: Cámara de Comercio Argentino-China, 2005 (www.argenchina.org).**

Table 5
Main Chinese Products Imported by Argentina, 2004

Product	Value in millions of US$	%
Machinery and electric goods	351.31	43
Chemical products	187.91	23
Mechanics and various products	57.19	7
Common and manufactured metals	49.02	6
Plastic and rubber	32.68	4
Optical goods	32.68	4
Shoes	16.34	2
Transportation materials	16.34	2
Minerals	16.34	2
Furs and leather goods	16.34	2
Other	40.85	5
Total	**817**	**100**

Source: Generated by the authors using information from the Ministerio de Relaciones Exteriores de Argentina and the Centro de Economía Internacional, 2005 (www.consuargench.com).

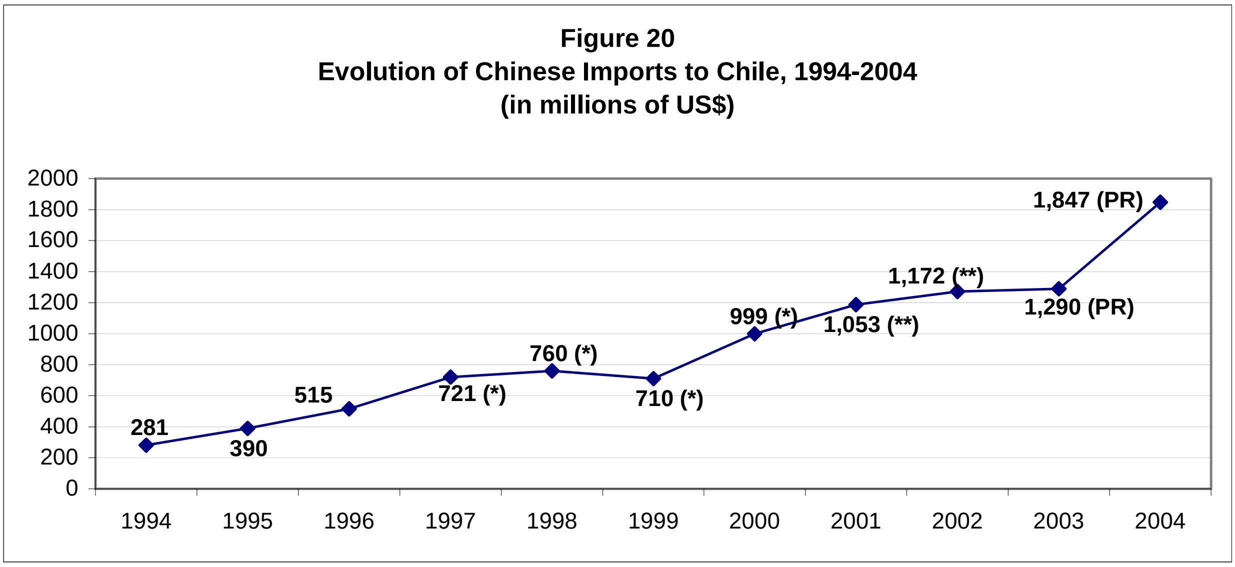
If we compare the values of these imports to the exports realized from Argentina to China during the same period –which total US$167 million- the trade balance is US$107 million against Argentina. This negative trade balance works to the direct detriment of the Argentinean economy.

CHINESE PRODUCTS IMPORTED BY CHILE

By 2005 imports from the Asian Pacific including China represented 19.2% of Chilean imports. Imports from the Asian block grew by 31.6% between 2004 and 2005.

Chinese products currently represent 8% of the total imports made by Chile.[9] This flow of imported goods has increased steadily since the second half of the 1990s, almost tripling between 1999 (US$710 million) and 2004 (US$1.847 billion), as the following figure shows.

[9] Source: Departamento de Estudios de la Dirección Nacional Económica, according to statistics from the Banco Central, “Comercio Exterior de Chile- Cuarto Trimestre de 2004,” January 2005.



Source: International trade reports generated by the Dirección Económica Nacional (DIRECON) based on Banco Central statistics, respective years.
(*) Includes Hong Kong.
(**) Includes Continental China and Taipei.
(PR) People's Republic of China

If we review this data more carefully and compare trade between Chile and China during the first semester of 2004 and the first semester of 2005, without including Hong Kong, we see that imports increased from US$732.7 million in 2004 to US$1.0482 billion in 2005. This represents an increase of 44.8%.

The main Chinese products imported by Chile are clothing and textiles (11.8%), electronics (10.3%), shoes (4.2%), and plastic goods, rubber and toys (3.3%).

Table 6 presents the main Chinese products imported by China during 2004, demonstrating the diversity of the Chinese export porfolio, in which the four main areas represent 29.9% of the total exported to Chile.

Table 6
Main Chinese Products Imported by Chile, 2004

Product	Value in millions of US$	%
Clothing and textiles	219,681	11.89%
Electronics, including computers and components	191,727	10.38%
Shoes	78,992	4.28%
Plastic, rubber and toys	61,895	3.35%
Steel and plumbing articles and bicycles	31,286	1.69%
Machine parts	10,017	0.54%
Ceramic goods	9,384	0.51%
Bags and suitcases	9,015	0.49%
Other	1,235,303	66.87%
Total	1847,3	100.00%

Source: Generated by the authors on the basis of the Chilean Central Bank publication "Indicadores de comercio exterior, IV trimestre 2004."

China's export porfolio may have a negative impact on the already weakened Chilean industrial sector, particularly the clothing and shoe industries, which are currently in a critical situation due to the policies of extreme trade openness that have been implemented over the past few decades. Although Chile has not developed an electronics or machinery industry, the greatest impacts in the manufacturing sector will be increased difficulty generating production chains in this area due to the low cost of Chinese products.

Finally, if we observe the trade balance between Chilean exports to China (US$3.484 billion according to ECLAC figures) and the Chinese products imported by Chile (US$1.847 billion, according to DIRECON figures), the balance favors Chile in the amount of US$1.637 billion, which could be considered a positive economic result. However, this does not reflect the environmental and social cost of the expansion of Chilean exports to China; nor does it show the impact of Chinese imports on the reduced national industry.

CHINESE PRODUCTS IMPORTED BY MEXICO

Exports of Chinese products to Mexico reached US$14.457 billion in 2004 (Boletín Informativo JETRO, 2005), which represents a 54% increase over Chinese imports in 2003. During this period the most representative products were computers and computer components, integrated circuits and converters, and other electronic products.

During the first quarter of 2005, imports tended to be focused on electric and computer supplies (22.1%), communication devices (18.9%), machinery parts and modular equipment (8.5%), circuits and telephone products (8%), and derivatives from the mining-energy sector (1.3%). These products represent 58.8% of the Chinese products imported by Mexico (Secretaria de Economía de México, 2005).

A large portion of these imported supplies are sent to the *maquiladora* industry, which produces articles for export, mainly to the U.S. However, the higher levels of added value of imports from China, where the assembly sector plays an important role, have begun to have an impact on employment in the Mexican *maquila* sector. This is one of the most dynamic sectors, though it has the worst work conditions. If Chinese imports to Mexico were to intensify, there may also be an impact on the Mexican textile and clothing industries.

Table 7

Main Chinese Products Imported by Mexico, January- April 2005

Product	Value in dollars	%
Electronic and computer items, video cameras, printers and supplies	1,049,897,520	22.1
Communication devices	903,596,210	18.9
Machinery parts and modular equipment	405,205,980	8.5
Various circuits	360,766,337	7.6
Iron molybdenum, paraffin, carbon derivatives	61,416,606	1.3
Hands-free phone units with microphone	17,121,435	0.4
Subtotal of main products	**2,798,004,088**	**58.8**
Other products	1,958,850,211	41.1
Total	**4,756,854,299**	**100**

Source: Secretaría de Economía de México, based on data from the Banco de México (www.economia.org.mx).

Over US$14.4 billion was exchanged between China and Mexico with a negative outcome for Mexico.

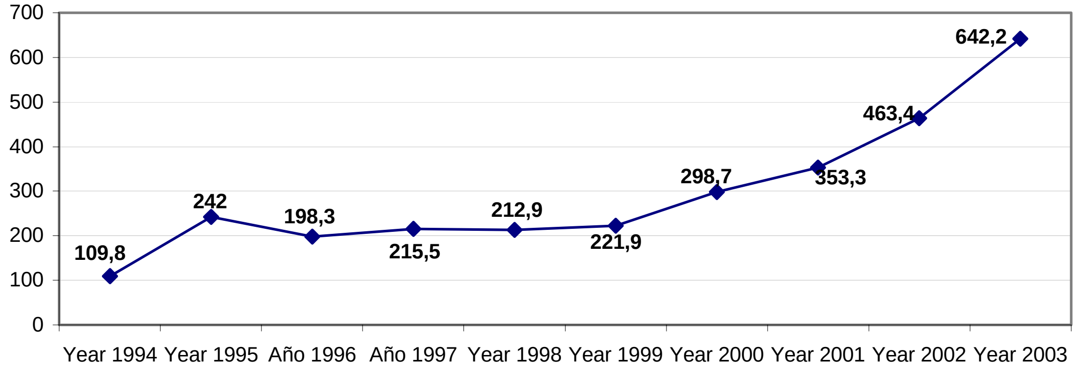
CHINESE PRODUCTS IMPORTED BY PERU

Following an increase in 1994 and stability between 1995 and 1998, Chinese imports to Peru have increased steadily.

According to information from the Comunidad Andina de Naciones (CAN), US$448 million in Chinese products were imported by Peru between January and August of 2004, which represents a 15% increase over the same period in 2003 (with US$390 million). In general, imports from China have increased at an average annual accumulated rate of 22% over the past six years.[10]

In January of 2005, imports of Chinese products to Peru represented a total of US$63.4 million,[11] which is equivalent to 8.9% of the total imported by that country (US$942.3 million). This represents a 15% increase over the same period in 2004.

Figure 21
Evaluation of Chinese Imports to Peru, 1994-2003
(in millions of US$)



Source: Generated by the authors on the basis of the publication "Intercambio comercial de la comunidad andina y China, 1994-2004." See http://www.comunidadandina.org/estadisticas/can_china.pdf.

As is the case of its exports to most other countries, China exports a diverse array of products to Peru; in fact, no one product represents more than 4% of the total.

By 2004, the main products purchased by Peru were high tech items, particularly in the field of telecommunications: sound and image recording and reproduction devices (3.8%), radio receivers (3.6%), radiotelephony transmitters with receivers incorporated (2.4%); accessories for machines (1.7%), digital processing units (1.7%), memory units (1.6%), and a large variety of chemical products,

[10] Source: Secretaría General de la Comunidad Andina, "Intercambio Comercial de la Comunidad Andina y China, 1993-2004." January 2005.
[11] Source: Ministerio de Comercio Exterior y Turismo de Perú, "Boletín Mensual de Comercio Exterior, Nº 24." January 2005.

toys, clothing and plastic products, none of which represents more than 1.4% of Peruvian imports from China.

The fifteen main Chinese products imported in Peru do not represent more than 26% of the products purchased from that country. Overall, practically all of the imports are electric and digital items and products related to high tech development in general.

Table 8
Main Chinese Products Imported by Peru, 2004

Product	**Value in millions of US$**	**%**
Image and sound recording and reproduction devices	24.6	3.8%
Other radio transmission devices	22.9	3.6%
Radiotelephony and radiotelegraphy transmitters with receivers incorporated	15.1	2.4%
Machine parts and accessories	11.2	1.7%
Digital processing accessories	10.8	1.7%
Memory units	10.5	1.6%
Urea, included in aqueous dissolution	9.3	1.4%
Sodium triphosphate (sodium tripolifosphate)	9.1	1.4%
Toys	8.1	1.3%
Other input and output units	8.1	1.3%
Coal carbon and semi-carbon	7.9	1.2%
Shoes	7.7	1.2%
Motorcycles and cycles with auxiliary motors	7.5	1.2%
Plastic products	6.5	1.0%
Clothing	6.4	1.0%
Total 15 main products	**165.7**	**25.8%**
Other products (individual contribution of less than 5%)	476.5	74.2%
Total imports	**642.2**	**100%**

Source: Generated by the authors on the basis of “"Intercambio comercial de la comunidad andina y China, 1994-2004." Available online at http://www.comunidadandina.org/estadisticas/can_china.pdf.

According to ECLAC and CAN statistics, the trade balance between Peru and China presents a balance of US$1.33 billion in favor of Peru. As is the case of Chile, this is a positive result in macroeconomic terms but hides the environmental and social cost of the extraction of natural resources that sustains Peruvian exports.

CHAPTER III
CHINESE INVESTMENT IN LATIN AMERICA

China has taken on a very active role in direct investment in recent years, and Latin America has become an important destination for the funds that are channeled into that area.

Chinese direct investments in Latin America in 2004 totaled US$4.62 billion, which represents 14% of the total amount invested by that nation (ECLAC, 2005). Chinese investments are focused on countries that guarantee access to natural resources and primary materials, the main supplies that it needs to steadily increase its industrial production, which is mainly oriented towards growing internal consumption and infrastructure.

In 2002 direct investment by Chinese companies in Latin America increased in an accelerated manner through the signing of agreements, establishment of joint ventures, long-term purchases of natural resources, associations with Latin American government companies, direct purchases of existing private companies, and the creation of national companies using Chinese capital.

Direct investments from China have focused on strategic areas related to the current structure of the purchase of natural resources in the region. In other words, they are focused on the country's areas of dependence with each trade partner. Thus, China has tended to use capital investments and associations with companies in Latin America to ensure the supply of raw materials for its economy.

In the area of mining and energy, the main Chinese companies involved in direct foreign investment initiatives in Latin America are:

- **China National Petroleum Corp** (CNPC), with investments and projects in Argentina, Brazil Ecuador, Peru and Venezuela.
- **China National Oil & Gas Exploration & Development Corporation** (CNODC), an international branch of CNPC, with investments and projects in Colombia.
- **Petro China**, with investments in Venezuela.
- **China Petroleum Corp** (SINOPEC), with investments and projects in Brazil, Colombia, Cuba, Ecuador, Peru and Venezuela
- **Shengli International**, international branch of SINOPEC, with investments and projects in Bolvia
- **China International Offshore Oil Corp** (CNOOC), with investments and projects in Argentina and Colombia.
- **China Minmetals Nonferrus Metales Co** (Minmetals), with investments in and the purchase of companies and projects in Chile
- **Baoshan Iron and Steel**, with investments and projects in Brazil
- **Exim Bank**, with investment projects in Brazil

Three of the six main mining-energy investments made by these companies in Latin Amerca between 2004 and 2005 correspond to the copper and steel mining sector (two companies in Chile and one in Brazil) and three involve the energy sector: oil, gas and petrochemicals (two in Brazil and one in Venezuela).

Table 9
Direct Foreign Investment by China in Latin America: Alliances and Cooperation in Sectors Related to Primary Materials. 2004-2005

Chinese Company	Foreign Company	Type	Sector	Country/ Region	Project	Amount (in US$)
China Minmetals Nonferrus Metales Co.	Noranda (Yacimientos Doña Inés de Collahuasi and Loma Bayas)	Fusions and acquisitions	Mining (Copper)	Canada/Chile	Joint exploitation of copper mines	5 billion*
China Minmetals Nonferrus Metales Co.	CODELCO	Alliance	Mining (Copper)	Chile	Investment agreement and copper supply	2 billion
Baoshan Iron and Steel	Compañía Vale do Rio Doce	Alliance	Mining (Steel)	Brazil	Construction of new plant	1.4 billion
SINOPEC	PETROBRAS	Alliance	Energy (Petroleum)	Brazil, Chile, others	Exploitation of petroleum in various countries	No data
Chinese Government (2004-2006)	No data	Loans	Infrastructure	Brazil	A gas duct and export corridor	No data
Chinese Government (CNOOC**)	No data	Credit	Energy (Petroleum and gas)	Venezuela	Exploitation and development of gas and crude reserves	400 million

Source: ECLAC, 2005, based on information from the United Nations Conferences on Trade and Development (UNCTAD).
(**) According to information from Minería Chilena (www.editec.cl) and *Diario Estrategia,* September 30, 2004 (www.estrategia.cl).
(*) CNOOC is the acronym of the China National Offshore Oil Corporation

In the case of **Chile,** the Chinese company Minmetals purchased 44% of Noranda (stock worth US$5 billion), including the Altonorte foundry and participation in 44% of the operations of the Collahuasi and Lomas Bayas mining companies and the El Morro Chile project. In addition, Minmetals signed an agreement with CODELCO for long range stock of 2.5 million tons of copper per year and investments in the amount of US$550 million to develop the Gaby Project together in the copper mine.[12] Minmetals also projects operations in Fortuna del Cobre, West Wall and El Pachón (a Chilean-Argentine project).[13]

In **Brazil,** Chinese companies are participating in the exploitation and sale of petroleum, gas and steel. In February 2005, China National Petroleum Corp (CNPC) signed an agreement with the Brazilian federal energy company PETROBRAS to work on joint petrochemical exploration and production, refining and technology projects.[14] The Chinese company Baoshan Iron and Steel allied itself with Compañía Vale do Rio Doce for the construction of a new steel production plant.

Also in Brazil, the government company China Petroleum Corp (SINOPEC), China's main petrochemical refiner and producer, signed contracts for the construction of a 1,335-kilometer natural gas duct, Gasene, with PETROBRAS.

[12] Source: Minería Chilena (*www.editec.cl*).
[13] Ibid.
[14] Source: "Inversiones chinas en el sector energético latinoamericano," *Business News Americas,* August 2005.

In addition, Exim Bank is close to closing a credit of between US$1.3 and 1.4 billion that PETROBRAS will use to build the Gasene duct.

Finally, SINOPEC could join PETROBRAS to adjudicate the construction of a petrochemical and oil refinery complex valued at US$3 billion, which would be built in the state of Río de Janeiro. The Brazilian and Chinese governments have signed an agreement to modernize and expand Brazil's train network (project valued at US$3.846 billion).[15]

In **Venezuela**, the main interest of Chinese companies comes from the state-run China National Offshore (CNOOC), which is looking to participate in exploration of petroleum in Venezuelan reserves and deposits through credit. In addition, China National Petroleum Corp (CNPC) signed five energy agreements to develop petroleum reserves, study projects to improve extra-heavy crude, explore in search of national gas off-shore and provide crude and orimulsion.

Also, with affiliate Petro China, CNPC (which forms part of the shared venture company SINOVENSA) has created an association with the state-run Petróleos de Venezuela S.A. (PDVSA) to build an orimulsion plant with a production capacity of 7.25 million tons per year that would send all of its production to the Chinese market. In addition, CNPC purchased the bases for the bidding on the Venezuelan natural gas program "Rafael Urdaneta,"[16] to be developed off-shore in the Atlantic.

In April 2005, SINOPEC also signed an understanding agreement with PEQUIVEN*, an affiliate of Venezuelan state petrochemicals organization PDVSA for the production of petrochemicals and fertilizers in the CIGMA natural gas industrial complex.

Finally, Petro China, the largest Chinese producer of petroleum and gas, signed a one-year agreement (June 2005- June 2006) with PDVSA for the purchase of 300,000 barrels of residual fuel per day. In Venezuela this initiative forms part of the SINOVENSA orimulsion project.

China is also making direct investments in other Latin American countries. There is a general tendency to increase direct foreign investment (DFI) in countries with which China has a strong trade relationship in strategic areas, such as Mexico, Argentina and Peru.

In the case of **Mexico,** by mid-2005 364 Mexican companies had received Chinese investments. This is equivalent to 1.1% of all companies with DFI in Mexico (33,076 companies). Between January 1998 and June 2005 DFI from China was mainly focused on the manufacturing sector, which received 51.3% of the funds; the service sector, with 25%; trade, with 23.3%; and the building sector, with 0.3%.

The strong participation of Chinese companies in the Mexican manufacturing sector is due to the presence of international countries in Mexico given the lower production costs. The products made there are then re-exported.

Table 10

[15] Source: C. Bermeo, "La Cumbre Asia Pacífico," www.uce.es/DEVERDAD/ARCHIVO_2004/21_04/DV21_04_24cumbreAsiaPacif.html
[16] Source: *Business News*, *Op. cit.*

Direct Foreign Investment by China in Mexico, by Sector

Sector	Millions of US$	%
Agriculture and fishing	0.005	0.01%
Manufacturing industry	21.476	51.34%
Construction	0.145	0.35%
Trade	9.748	22.66%
Financial services	9.315	22.27%
Other services	1.14	2.73%
Total	**41.829**	**100.00%**

Source: Generated by the authors on the basis of the general director of foreign trade in Mexico. See http://www.economia.gob.mx.

In **Argentina**, both CNPC and the CNODC have manifested interest in participating in products with ENARSA, Argentina's federal energy company. There is also talk of a US$6.154 billion investment in trains following the signing of an agreement through which Argentina will recognize China as a "market economy."[17]

In **Peru**, DFI from China totals US$122.7 million and represents 0.95% of the total DFI in that country. 99.9% of the investments made by China in Peru are oriented towards the mining industry. In addition, the China National Petroleum Corp. has 45% participation in the nº 1ª-A-B and nº 8 petroleum blocks. Finally, SINOPEC may invest in the modernization of a refinery in Talara and is interested in exploring and producing in Peru.[18]

In **Ecuador**, the local affiliate of CNPC (CNPC Amazonas) has a strategic operational alliance with the Ecuadorean petroleum services firm DYGOIL in the Atacapi-Parahuacu field. It also has struck a shared production agreement for 200,000 hectares called Block 11 in the country's eastern basin. CNPC and SINOPEC also bought the bidding requirements for a concession of Auca, Culebra-Yulebra and ITT fields.

In **Colombia**, in April 2005 the international branch of CNPC, which is known as China National Oil & Gas Exploration & Development Corporation (CNODC), signed an agreement with ANH hydro-carbon regulator in order to develop exploration activities. CNOOC and SINOPEC also met with ANH to initiate negotiations.

In **Bolivia**, the international branch of SINOPEC, Shengli International, agreed to form a joint venture company with the state oil company YPFB for a series of megaprojects that could duplicate the total investment, which was initially estimated at US$1.5 billion. This includes a 1,500 MW thermoelectric plant, a polyethylene plant with a production capacity of 600,000 tons per year, two natural gas refineries, conversion of vehicles and implementation of residential natural gas connections, the launching of a network of YPFB gas stations trough the country, and an investment in ten upstream concessions.

In Cuba, SINOPEC signed a shared production contract with the Cuban state oil company CUPET in January 2005.

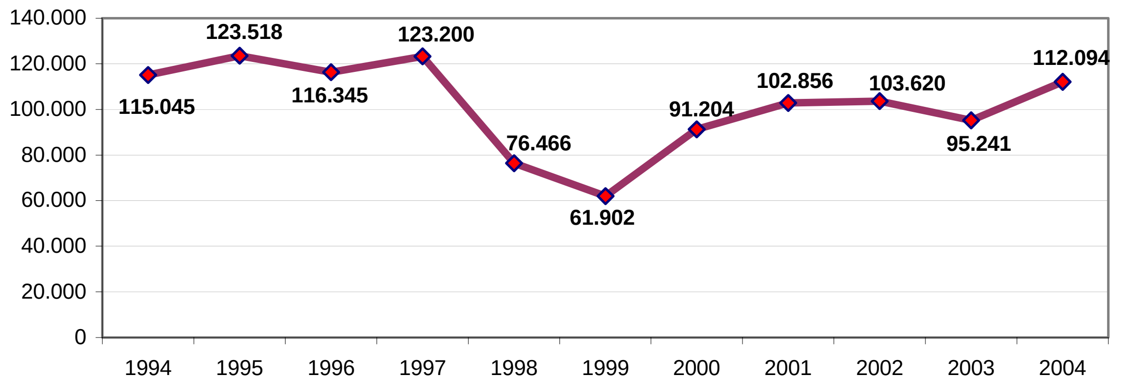
[17] Source: C. Bermeo, *Op. cit*.
[18] Source*: Business News*, *Op. cit.*

APPENDIX 1

Uruguayan Exports to China

Although Uruguay does not form part of the group of five countries responsible for 95% of Latin American exports to China, its exports to that country have been steady. China has been one of the ten main destinations or Uruguayan exports since 1990. However, the flow of goods to Uruguay through this exchange has been irregular. Following a peak of US$1.24 billion in 1995, imports dropped between 1998 and 1999 and again in 2003. This changed in 2004, when China went from eighth to sixth place in regard to its importance as a destination for exported goods.

Figure 22
Tendencies in Uruguayan Exports to China, 1994-2003 (in millions of US$)



Source: Generated by the authors on the basis of data from the Instituto Nacional de Estadísticas de Uruguay, www.ine.gub.uy; and statistics from the Dirección General de Aduanas, cited by Uruguay XXI, Promoción de Exportaciones e Importaciones, www.uruguayxxi.gub.uy.

As is the case in other Latin American countries, the tendency in Chinese exports remains similar to the national export scenario. In this case there is a concentration of fishing and agricultural products. In addition, Uruguay has begun to produce soy and it is likely that it will begin to export that product to China.