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## The Two Faces of China

The current global boom in commodity prices, driven principally by China's surging demand for energy, raw materials and agricultural products, is benefiting Latin America. It has produced a significant increase in Latin America's exports to China, as well as important growth in Chinese investment in the region. It remains an open question, however, whether the wealth being generated by Latin America's new relationship with China will allow the region to become more economically competitive and politically stable and developed.

The growth in Latin America's exports to China over the past few years has been extremely impressive. In 1999, China imported \$3 billion worth of goods from Latin America. By 2004, the figure was \$22 billion. Furthermore, between 1999 and 2004, Latin America transformed a trade deficit of \$2 billion with China into a trade surplus of \$4 billion. Chinese investments in Latin America have paralleled the growth in its trade with the region. According to preliminary estimates of China's Ministry of Commerce, China's investments in Latin America equaled 46% of China's total foreign investment in 2004. Most of this investment has focused on infrastructure projects to facilitate the extraction and shipment of Latin American exports to China. By 2015, the Chinese expect their investments in Latin America to exceed \$100 billion.

China's trade and investment with Latin America has so far been concentrated in those countries, mainly in South America, that are rich in energy and mineral resources and are large producers of agricultural commodities. These include Brazil (soya, iron ore), Argentina (wheat), Chile (copper), Venezuela (oil) and Peru (minerals). Most of these countries will also benefit in the near future from significant increases in Chinese tourism, in return for having granted China "market economy status".

Not all of Latin America, however, is benefiting from the new relationship with China. Approximately 90% of China's exports to the region are manufactures, many of which are labor intensive and compete directly with similar products produced at higher cost by Latin America. Mexico, for example, whose labor costs are three times those of China, is estimated to have lost about 300,000 jobs in its "maquila" industry, even before the quotas against Chinese imports were lifted this year. Central America's textile industry has also seen significant numbers of jobs migrate to China. Labor-intensive manufacturing jobs have also been lost in countries that are benefiting from the commodity boom, such as Brazil and Argentina. In the latter case, although exports to China have increased, imports from China have increased even faster. Furthermore, those Latin American countries that granted China "market economy status" now cannot use anti-dumping legislation to slow the influx of inexpensive Chinese imports.

There are other potential risks for Latin America inherent in its new relationship with China. It is not clear that China will be able to sustain its current rate of growth, and, by extension, its current demand for energy, minerals and agricultural commodities. In addition, commodity prices are notorious for their volatility. And at some point, China could begin to use its dominant position in the market to demand or create conditions that will lower prices for what it buys, much like Wal-Mart is able to do because of the large volumes of its purchases.

Perhaps most important, however, is what the various Latin American countries will decide to do with the windfall profits they are earning from their exports. Will they use them to develop more competitive, value-added types of industries and improve the education and health of their populations, or will the money mainly benefit a small number of government officials and large private exporters? Will the windfall profits fuel corruption and wasteful populist policies or be used to significantly reduce the big gap between the rich and the poor in Latin America? And particularly in the oil-rich countries, will the new income produce a more authoritarian state and undermine democratic development or will the oil wealth be used to diversify the economy in order to produce more and better jobs for the population? These are all questions that need to be widely discussed and addressed in Latin America now, before it is too late.