KEEPING UP WITH THE NEIGHBORS? ANALYZING ARGENTINA’S ATTEMPTS TO CAPITALIZE UPON CHINA’S ECONOMIC GROWTH

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By

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ABSTRACT

China’s increasing economic and political weight present both opportunities and challenges to Latin America. The Southern Cone countries of Argentina, Brazil and Chile stand to benefit more than their neighbors in the rest of the region. While a substantial amount of literature has explored China’s increasing interest in Latin America, relatively little attention has been paid to what these countries are doing themselves to maximize their benefit from the opportunities presented by China’s growth. This thesis analyzes the tools which Argentina, Brazil and Chile are employing in order to position themselves to take advantage of the situation. A comparison of policy objectives, bilateral agreements, engagement in multilateral institutions, diplomatic relations and the institutional structures of policy-making reveals significant differences among the three countries. Chile is found to be the most strategically positioned to benefit from China’s growth in the long-term, with Brazil somewhat less so. A poorly defined policy toward China, exacerbated by miscoordination among relevant government agencies, means that Argentina is falling behind its neighbors in its ability to benefit from China’s growth.
The following people helped make this thesis a reality: María Matilde Ollier, Guillermo Rozenwurcel, Diana Tussie, Ricardo Rozemberg, Victoria Ballerini, Robin King, George Shambaugh and my parents, George and Sharon Bedsworth. Your guidance and encouragement were invaluable throughout this process. Thank you all.
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Introduction

The emergence of East Asia\(^1\) as a major pole of production, trade and finance has been one of the most significant changes to the global political economy over the past three decades. If the past century was largely dominated by the United States, it is now common knowledge that major global developments in the current one will be increasingly influenced by events on the other side of the Pacific. Even given East Asia’s overall impressive transformation since the 1960s from a largely poor region to an increasingly modern and prosperous pole of economic activity, China’s development stands out from the rest. Never in history has a country so large developed so quickly. At breakneck speed, China has become the motor for the overall East Asian economy, as well as a major driver of growth around the globe. China’s growth has also produced higher world savings, which in turn finances countries with external balance of payments deficits, such as those in Latin America. Whether as a flood of cheap manufactured exports in global markets, increased prices for primary materials, or easier access to capital, the effects of China’s growth have been felt in every region of the world.

Latin America is no exception. Though it was largely insignificant in the region until fairly recently, China’s increasing economic (and political) weight throughout the world has made it ever more important to countries in the Western Hemisphere for a

\(^1\)For the purposes of this paper, East Asia will be defined as Japan, South Korea, China, Taiwan
number of reasons. The People’s Republic represents a world of possibilities for Latin America, some good and some bad. It is at once a huge potential market as well as a formidable competitor for Latin American exports, affecting both external and intra-regional trade. It is a possibly major source of needed investment in the region. China’s surging domestic demand has the potential to indirectly help reduce or increase poverty in the region. Some in Latin America see the People’s Republic as a possibly important political partner on the global stage. China’s development may offer some policy lessons, and its growth may offer some countries in the region new tracks for their own development.

The past few years have seen the publication of an abundance of academic material and white papers exploring this evolving relationship. This body of literature has provided exhaustive analysis of the macroeconomic trends responsible for and resulting from China’s interest in Latin America. However, the picture they paint is at least somewhat incomplete. The vast majority of the literature on the developing China-Latin America relationship stays at the level of analysis of economic data. Furthermore, most work conceptualizes Latin America as a passive partner in this relationship. While it is far from being a relationship between equals, little attention has been paid to what Latin American nations are actively doing in response to and in anticipation of China’s growth. In the case of Argentina, Brazil and Chile, China’s growth presents more opportunities than it does for most of their neighbors in Latin
America. An examination of their varying strategies (or lack thereof) for engaging China will provide us with a more complete picture of this developing new relationship. It also may provide lessons for policy makers in these countries and their neighbors on positioning themselves strategically in a shifting global economy.

While information on the nature of the China-Latin America relationships is plentiful, what has been pointed out as lacking is actual field research within Latin America detailing the response of government and business leaders to the opportunities presented by Chinese growth. This paper will explore the issue by focusing on Brazil, Argentina and Chile, the largest economies in the Southern Cone, and among the biggest beneficiaries in the region of China’s growth. The primary research question seeks to answer how these three countries are positioning themselves to best capitalize on the opportunities presented by China’s economic expansion.

The hypothesis is that while Argentina is currently enjoying increasing trade with China, it is not positioned as well as its neighbors to deepen the relationship and make the most of its partner’s growth. This poor positioning is likely due to a variety of reasons, mainly poor institutional management and a lack of resources that hampers Argentina’s foreign policy in general. Its weak foreign policy, a lack of planning, poorly coordinated institutions, and a poorly executed export promotion policy mean that while Chile and Brazil are strategically positioning themselves to take advantage
of China’s growth, Argentina is not likely to see the same benefits from the relationship.

This thesis has three sections. The first looks at why China matters for Argentina, Brazil and Chile in the first place. This section explores the factors driving recent developments in China-Latin America relations, as well as the reasons why the Southern Cone stands to benefit more than the rest of the region. This section draws from the literature and considers trends in the overall relationship between the two regions. It pays particular attention to factors that make the relationship more beneficial for the major Southern Cone nations than for Latin America at large. It also considers how China’s growth will effect the region economically, politically and socially.

The second section contemplates why Argentina should be interested in expanding the commercial and economic relationship with China. It looks at the opportunities for growth that China presents to Argentina, specifically. This section highlights the fact that while Argentina has benefitted from trade with the People’s Republic, it is missing significant opportunities. Furthermore, it is falling behind its neighbors in terms of the growth of its exports to the PRC.

The third section compares the efforts of Argentina, Brazil and Chile to actively position themselves to benefit from China’s rapid growth. This section explores several
facets of these countries’ ability to skillfully engage their giant new partner: trade policy; institutional structure; bilateral and multilateral agreements; and diplomatic links with China.

The final section of the thesis reviews the findings of the previous sections. It offers assessments of Argentina’s ability to capitalize upon the opportunities presented by China’s rise relative to that of Brazil and Chile, and offers policy recommendations.
Chapter 1. China in Latin America

China’s evolving trade and growing demand for natural resources

The surge in economic activity between China and Latin America must be understood mainly as a byproduct of China’s own economic expansion rather than some innate interest that links the two regions. While much of China’s activity in the region is recent, it is the result of reform processes set in motion 30 years ago. Deng Xiaoping’s economic reforms of the late 1970s and early ‘80s, coupled with easing of tariffs, import quotas and other non-tariff barriers produced a surge in both exports (the intended consequence) and imports (the byproduct) in China by the mid-1980s (Devlin, Estevadeordal and Rodriguez-Clare 2006, 103). As these reforms were deepened and expanded over the course of the 1990s, and particularly as China entered the World Trade Organization in 2001, the upward trend in trade increased by exponential levels. By 2006 trade accounted for 70% of its GDP (World Bank World Development Indicators). China is now the world’s third largest trading economy, with its share of world trade having risen from 1% in 1980 to more than 6% in 2004 (Jenkins and Dussel Peters 2006, 6) In 2004 alone, the People’s Republic recorded $593.4 billion in exports and $560.7 billion in imports. Those numbers had increased to $969 billion and $791 billion, respectively by 2006. Because of imperfect data from China and alleged import smuggling in destination countries, actual figures may be significantly higher.
China’s exports consist mainly of manufactured products, of which its portfolio is increasingly diverse, ranging from textiles and labor-intensive manufactures to increasingly sophisticated electronics and machinery. Its traditional exports have included textiles, apparel, shoes, and toys, however recent growth has been concentrated in higher-value machinery and high-tech products. By mid-decade, China’s fastest growing exports included notebook computers, mobile phones, and liquid crystal displays (Chow 2007, 301).

Between 2002 and 2005 the total value of China’s exports climbed 143.8% from $325.6 billion to $761.9 billion. During this four-year period, exports in traditional sectors such as toys, footwear and apparel registered growth of 17%, 71.8% and 79.6%, respectively. However, exports from the machinery and transport equipment sector increased by 177.4% during the same period, reaching $352.2 billion by 2005. Within that sector, some specific sub-sectors saw even more impressive growth. Exports of digital automatic data processing machines climbed 830.5% during the same period to $32.7 billion in 2005. Telecommunications, sound recording and reproducing equipment was another important sector to experience stronger than average growth between 2002 and 2005, with exports climbing 196.3% to $94.9 billion.

China’s export boom is largely the result of policies promoting its processing trade, the buying of production inputs from abroad for assembly and export as finished
products. China is the final link in production chains that stretch throughout Asia, and increasingly, the rest of the world. As such, a significant portion of the country’s imports during the past 20 years has consisted of intermediate inputs from its Asian neighbors, destined for assembly and export to Hong Kong, the United States and Japan.

While much has been made of the rapid growth brought on by the development of China’s processing trade, it is worth noting that the picture may not be as rosy as it is often portrayed. Because of its fragmented production structure, and because component assembly is typically a low-value-added activity, bilateral trade figures may not adequately depict China’s (or any country’s) actual benefits from trade. Instead, examining value added at each stop in the production chain, as opposed to the nominal value of a finished good, would provide a more accurate picture of where the benefits of trade actually accrue (Breslin 2005, 353-53). Regardless, the processing trade has clearly led to growth in China, whether or not the exact amount is agreed upon.

As its export markets have expanded and its manufactures have become more sophisticated, the nature of China’s imports has changed. While intermediate inputs still account for a large portion of imports, China has developed a voracious appetite for raw materials. Surging domestic auto use is behind the country’s escalating thirst for oil. Industrial production and a booming domestic real estate market are fueling demand for iron ore and steel. Intensive manufacture of electronics has increased
demand for copper, used in electrical wiring. As incomes have risen, consumption
habits have changed. In particular, Chinese are eating more meat, increasing the
demand for soybeans, one of the main ingredients in livestock feed in China. The
increased demand for meat, combined with limited agricultural land and rural market
failures has necessitated increasing imports of the bean and its derivative products.

Internal shocks also bear some responsibility for increased demand for
commodities. A 2001 soybean crop failure in China helped drive up imports. An
energy crisis and demand for metallic commodities for use in new power plants has
added to the already surging demand for iron ore and steel (Gottschalk and Prates
2005, 9). These four commodities – petroleum, iron ore, copper and soybeans – are
China’s most significant imports from Latin America. With the exception of oil from
Venezuela, the majority of China’s imports in these materials originating in Latin
America come from Brazil, Chile and Argentina.

Graph 1 illustrates China’s growing demand for its four most important
commodity imports from Latin America during the opening years of the 21st Century,
although these figures represent total imports, regardless of their country of origin.
A significant increase in imports is visible after 2002, coinciding with an export boom pursuant to China’s accession to the World Trade Organization in 2001. Oil imports, driven by increasing domestic auto use, grew by 274% between 2002 and 2005. Between 2000 and 2005, the PRC’s imports of iron ore increased 888% to reach $18.38 billion. During the same time period, copper imports increased 177% to $12.9
billion, while soybean imports climbed 243% during the same period to $7.78 billion. China is now the world’s biggest consumer of both copper and soybeans.

Evolving trade patterns

China’s growth has clearly benefited the commodity producers of the Southern Cone in the short term. The surging demand illustrated above has driven up global prices for natural resources, while the flood of inexpensive Chinese exports has simultaneously driven prices down for many manufactured goods, thus improving the terms of trade for these countries since 2002. However, as a net oil importer until 2006, Brazil saw its terms of trade improve less than Chile and Argentina because of higher oil prices (Jenkins and Peters 2006, 26). A decline in steel prices in 2005, an appreciating real, and a generally more protected economy have not helped, either (Gottschalk and Prates 2005, 13).

The increased demand from China and the improving terms of trade for some South American countries have been accompanied by a boom in commodities exports to the PRC from Brazil, Chile and Argentina. Chile’s exports to China, dominated by copper and other mineral products, increased 536% between 2000 and 2006, to almost $5.74 billion, or roughly 10% of its total exports. Argentina saw its exports to the People’s Republic, concentrated largely in agricultural products, particularly soybeans and oils, increase 364% during the same period, reaching $3.7 billion, or roughly 8% of its total exports. Brazil’s basket of exports to China is much more diverse than that of
its neighbors, but is still largely concentrated in iron ore, steel, wood pulp and other natural resource-based commodities. Its exports to the PRC increased 674% between 2000 and 2006, to $8.4 billion or 6.1% of its total exports. While the major Southern Cone countries have been China’s most important suppliers in the region for the past several years, their respective percentages of its total imports from the region increased over the previous year. Imports from Brazil alone accounted for 41% of China’s imports from the region, while those from Chile accounted for 18% and those from Argentina for nearly 12%.

The figures above clearly illustrate that the Southern Cone countries have benefited to varying degrees from trade with China. Gottschalk and Prates note that greater commercial openness corresponds to greater potential export earnings from improved terms of trade. Diversification of a country’s export basket is also a determining factor in the extent to which it will benefit from trade. The greater the concentration of exports, the greater the variability in terms of trade, and thus the greater the potential benefits from higher commodity prices. As Chile is both the most open of the Southern Cone economies, and has the most concentrated exports (copper accounted for 56.57% of the value of Chile’s exports in 2006\textsuperscript{2}) this would seem to suggest that it would benefit most from current high commodity prices.

\footnote{Banco Central de Chile}
Aside from the obvious benefits in terms of increasing revenues for natural-resource-producing countries, this boom in Southern Cone commodity exports to China is significant because it signals a major change in the region’s trade patterns. The content of trade flows has stayed more or less the same since the early 1990s, with China trading manufactured products for mainly primary materials and low-value-added commodities from Latin America. However, the quantities and proportions have shown a dramatic shift. As recently as 1999, China boasted a $2.2 billion trade surplus with Latin America. By 2005 this was a $3.3 billion deficit, a swing driven largely by South American commodity producers (Hammer and Kilpatrick 2006, 1). Hammer and Kilpatrick found that Chinese imports from the region during the first half of the decade became increasingly concentrated in three commodities – iron ore, copper and soy, benefiting mainly Brazil, Chile and Argentina, respectively.

These trends are exactly the opposite of the prevailing tendencies in Latin America’s trade patterns. Driven by Mexico and Central America’s deepening commercial integration with the United States (NAFTA, CAFTA-DR), the majority of the region’s exports are now of manufactured goods. However, food products, metals, minerals and fuels dominate exports to China. The Mercosur countries lead this trend, and actually constitute the main driver in the reduction of manufactured exports to China and East Asia. While trade between the two regions increased between 1990 and 2003, it was due largely to strong growth in manufactured exports to Latin America.
from China. In fact, East Asia (including China) actually declined in importance as an export destination for the majority of Latin America. In a sign of increasing intra-regional trade divergence, Brazil, Chile and Argentina are heading in the opposite direction from their neighbors in the hemisphere in terms of trade with China and East Asia as they simultaneously increase and de-industrialize their exports to the region (Devlin et al 2005, 5). As of 2006, imports from the big Southern Cone countries, concentrated in minerals and agricultural products, accounted for nearly 72% (in dollar value) of China’s imports from all of Latin America.\textsuperscript{3} up from 55% in 2005.

**Unequal partners**

While the current export boom is being enjoyed by natural resources producers in South America and prospects for continued growth may seem good, it is important to note that this is far from a partnership between equals. China carries much more weight and importance in the relationship than do the Southern Cone countries. While trade between China and the Southern Cone has increased significantly in recent years, it still accounts for a small percentage of China’s trade worldwide. In 2006, China’s imports from the big Southern Cone countries reached nearly $22.35 billion, 2.8% of its total imports. China’s exports to Brazil, Chile and Argentina totaled $8.3 billion, just 1% of its global exports. The PRC figures among the top four export markets of all

\textsuperscript{3} Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Uruguay, Venezuela
three of these countries. However, the only Southern Cone country to place among China’s top 20 import markets in 2006 was Brazil, providing 1.63% of Chinese imports. No Latin American countries were among China’s top 20 export destinations in 2006. Mexico was the highest ranked, at 22, receiving 0.91% of its total exports. The highest-ranking Southern Cone country was Brazil, at number 24 and receiving 0.76% of Chinese exports.4

This trade imbalance, both in absolute terms and with regards to the individual Southern Cone nations’ disproportionate dependence on exports to China, means the South Americans are exposed to the bulk of the risk in the relationship. Overexposure and increasing specialization in natural resources, especially in Chile and Argentina, could leave these countries susceptible to external shocks from China. A serious economic slowdown for the PRC could conceivably produce losses for the Southern Cone countries that would be greater than the benefits they are currently enjoying from increased trade. Most importantly, a major contraction of economic activity in China would dampen demand for natural resources, leading to lower prices for these commodities worldwide. The Southern Cone countries would be doubly impacted from both a decrease in quantity (as exports to China fell) and value (as global commodity prices fell) of their commodity exports. Exports to countries integrated in production

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4 Chinese exports to Brazil and Mexico are increasingly concentrated in intermediate inputs for cell phone, computer and DVD production, a consequence of deepening integration between these countries in global production chains (Hammer and Kilpatrick 2006; 16).
chains with China could decrease, as well. With the most concentrated export basket of
the big Southern Cone countries and the highest percentage of its total exports going to
China, Chile would likely be affected most by a significant slowdown in China’s
economy.

Truly severe economic disruptions in China could also spell trouble for the
Southern Cone countries for reasons other than the obvious effects on global prices for
natural resource commodities. A major decline in China’s export earnings would affect
its ability to finance the United States current account deficit. If China’s purchase of
US assets were to significantly decrease, it could help drive down the (already
declining) value of the dollar, which could in turn increase inflation and interest rates
in the United States. This scenario could be bad for Latin America for a variety of
reasons. A weaker dollar could depress exports to the United States (still by far the
largest extra-regional trading partner for the Southern Cone countries), while higher
interest rates could increase debt payments for countries in the region, as well. A
retraction of Chinese capital from international markets could also simultaneously
make borrowing money even more expensive for Latin American debtor nations.
Although this scenario is admittedly unlikely, it underscores the asymmetric risks
faced by Chile, Argentina and Brazil in their relations with China. The threat of more

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5 As of March 2007, China was the second-largest holder of US Treasury Securities, behind
Japan, with $420.2 billion. This reflects an increase of 30% over its holdings from a year before (US
Department of the Treasury, 2007).
immediate trouble from decreased Chinese demand is much more realistic and should be taken into account by policy makers in the region as they formulate their countries’ trade stances with regards to China.

**Increasing competition**

As can be seen from the information presented above, China’s growth clearly presents benefits to certain Latin American countries in the form of higher commodity prices and increased exports. But this growth is also the cause of rising concern throughout the region as Latin American producers worry about competition from inexpensive Chinese exports in third country markets and at home. While China poses a much greater competitive threat to its neighbors in Asia, whose export portfolios are more closely related, many Latin American countries do indeed have cause for concern as well.

China has competitive advantages over Latin America as a region, as well as its individual countries, in several key areas. The most important is its abundant supply of cheap labor. Wages in China are a fraction of those in Latin America, making its products generally cheaper in international markets. China’s huge working age population means it will be able to increase productivity and maintain low wages for several decades to come (Lora 2007, 10-11). In Table 1, a comparison of recent wages in the Southern Cone countries, Mexico (the Latin American country facing the most direct competition from Chinese labor-intensive manufactured exports) and China
highlights the significance of China’s comparative advantage in labor.

Table 1: Average net yearly wages in US dollars, December 2004*

<table>
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<tr>
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<th>Local currency equal to 1 USD</th>
<th>General Labor</th>
<th>Skilled Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2.97</td>
<td>5,792</td>
<td>8,931</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.66</td>
<td>5,679</td>
<td>8,915</td>
</tr>
<tr>
<td>Chile</td>
<td>555.75</td>
<td>7,899</td>
<td>13,129</td>
</tr>
<tr>
<td>China</td>
<td>8.28</td>
<td>3,575</td>
<td>5,840</td>
</tr>
<tr>
<td>Mexico</td>
<td>11.15</td>
<td>8,760</td>
<td>12,748</td>
</tr>
</tbody>
</table>

* Figures reflect nominal exchange rates at time of comparison


The massive size of its economy is another significant advantage for China. The PRC’s 1.3 billion consumers make it an irresistible destination for foreign direct investment aimed at the local market and production for export. Its superlative size permits for the development of economies of scale in production, transport and marketing, making both domestic and international commerce more efficient and profitable (Lora 2007, 7). There is nothing comparable in Latin America, even in Brazil or Mexico, the region’s two biggest markets. Latin America as a whole is home
to only 548 million people. Mercosur, its largest sub-regional trade bloc, comprises a market of only 266.5 million.

Other major advantages for China stem from its heavy investment in physical infrastructure in recent decades, especially in transportation, the electrical grid, ports and telecommunications, and innovation and R&D activities. These are investments that have been largely neglected in Latin America. For example, infrastructure investment in the region is actually less today (an average of 2% of GDP) than during the Lost Decade of the 1980s (3.7% of GDP) (Lora 2007, 12). Lagging investment in infrastructure has serious implications for the region’s competitiveness.

In theory, Latin America has one major comparative geographical advantage over China in its proximity to the North American market. Because shipping costs increase with distance\(^6\), exports from Latin America to the US should be protected from common Chinese exports at least to the degree of the difference between transport costs. However, this theoretical advantage for Latin America is largely negated due to a number of factors. China’s heavy investment in infrastructure (road, rails, river dredging and port construction) means that it can more efficiently get goods to port than is the case in most Latin American countries. Containerization of shipped materials substantially cuts the costs of loading and unloading, as well as transferring

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\(^6\) For ocean shipping, elasticity of shipping costs relative to distance is .2, while for air transport it is about .4. By doubling the distance traveled, ocean shipping costs increase by 20% and air transport costs increase by about 40% (Devlin, Estevadeordal and Rodriguez-Clare 2006, 97).
between different modes of transportation. By 2001 95% of exports shipped from China were containerized, while only 39% of those from South America were. Chinese exports also have the advantage of being higher in value and lighter than typical Latin American exports. Because shipping costs increase with a shipment’s weight-to-value ratio, this means China’s shipment cost per value is in some cases lower than Latin America’s (Devlin, Estevadeordal and Rodríguez-Clare 2006; 96-7).

Given the factor advantages listed above, China maintains a decisive advantage over Latin America in labor-intensive manufacturing and textiles, which it can produce more cheaply and efficiently for export to key markets such as North America. To date these advantages have translated into direct competition with exports from countries in the region with which China has a high degree of export overlap, both in types of products and in markets to which they are exported. Latin America faces competition from China in textiles, apparel and electronics, with Mexico and the Dominican Republic facing the most competition in third country markets, particularly the United States (Devlin, Estevadeordal, and Rodríguez-Clare 2006, 117). Mexico, whose export basket is more similar to China’s than any developing country outside Asia, also faces increasingly significant competition in machinery exports. Central American textiles and computer parts manufacturers face escalating competition, as well.

Effects of Chinese competition can be seen most acutely in the maquila manufacturing system in Mexico and the Caribbean basin. The system, which
developed during the 1970s and 80s, was a major engine for export growth and job creation in the region. Fostered by favorable US trade policies, the *maquilas*, labor-intensive manufacturing plants, developed essentially as extensions of US-based industries. American firms established the plants in Mexico and the Caribbean basin to capitalize on the region’s significantly lower wages in order to increase competitiveness against low-wage Asian manufacturers. While capital- and skill-intensive segments of production chains remain in the United States, intermediate inputs are shipped for assembly to factories in Mexico, Central America and the Caribbean, which then export finished products back to the US market under preferential trade policies. Textiles were originally the most important products in the *maquila* system, however electronics and auto parts manufacturing have developed into important sectors, as well.

The success of *maquila* manufacturing in Mexico and the Caribbean basin was such that it has changed the composition of Latin America’s overall export portfolio. As a whole, the majority of the region’s exports were concentrated in manufactured goods by the end of the 1990s (58.8% in 2000), the vast majority of these destined for the North American market (ECLAC 2007, 186). However, much of this growth in manufactured exports was stimulated by favorable US trade policies rather than some natural competitive advantage. The protection afforded by these trade policies had allowed labor-intensive manufacturing in Mexico and the Caribbean basin to specialize
in some of the key sectors in which China’s export basket is concentrated. China’s accession to the WTO, along with the phasing out of important US trade quotas such as the Multifiber Agreement pursuant to the Uruguay Round opened up manufacturing in the region to intense competition. Textile manufacturing, in particular, has been affected. Increased competition has led to the loss of thousands of manufacturing jobs in Mexico and Central America over the course of the decade as cheaper Chinese textiles and other manufactured exports penetrate the US market. The upward trend in US imports of Chinese textiles and electronics relative to those from Mexico and the Caribbean basin can be seen below in Tables 2 and 3. The data reflect not only the growth in Chinese textiles and electronics exports, but the rapid growth of China’s high-value-added technology exports, as well.

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<tr>
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<tbody>
<tr>
<td>World</td>
<td>89,831.8</td>
<td>95,571.5</td>
<td>99,196.7</td>
<td>10.4</td>
</tr>
<tr>
<td>China</td>
<td>18,242.2</td>
<td>26,017.5</td>
<td>30,119.1</td>
<td>65.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>8,208.1</td>
<td>7,627.1</td>
<td>6,846.2</td>
<td>-10.2</td>
</tr>
<tr>
<td>Honduras</td>
<td>2,751.7</td>
<td>2,697.8</td>
<td>2,528.6</td>
<td>-6.3</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1,971.8</td>
<td>1,844</td>
<td>1,697.9</td>
<td>-7.9</td>
</tr>
</tbody>
</table>
Table 2: \textit{Value of Textile Imports to the United States, 2001-2006 (millions of US dollars)}

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</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>1,754.5</td>
<td>1,644.7</td>
<td>1,432.4</td>
<td>-12.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>2,074.4</td>
<td>1,861.9</td>
<td>1,557.7</td>
<td>-16.3</td>
<td></td>
<td></td>
</tr>
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</table>

*All countries listed are among top 25 suppliers of textile imports to the United States, listed in order of descending importance according to year-to-date imports as of March 2007.

TABLE 2 source: US Census Bureau

Table 3: \textit{Value of US Advanced Technology Electronics* Imports From Selected Countries, 2002-2006 (millions of US dollars)}

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<tbody>
<tr>
<td>World</td>
<td>26,592</td>
<td>25,136.3</td>
<td>27,454</td>
<td>26,581.8</td>
<td>28,009</td>
<td>5.3</td>
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<tr>
<td>China</td>
<td>809.9</td>
<td>917.3</td>
<td>1,420.7</td>
<td>1,908</td>
<td>2,337.7</td>
<td>188.6</td>
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<tr>
<td>Mexico</td>
<td>1,117.1</td>
<td>1,089.2</td>
<td>1,109.6</td>
<td>991.8</td>
<td>1,131.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>452.1</td>
<td>629</td>
<td>492.5</td>
<td>331.4</td>
<td>247.6</td>
<td>-45.2</td>
</tr>
</tbody>
</table>

*Within the category of Advanced Technology Products, the US Census Bureau defines “electronics” as performance improving electronic components including integrated circuits, multi-layer printed circuit boards, and surface-mounted components such as capacitors and resistors.

TABLE 3 source: US Census Bureau

As mentioned earlier, the export baskets and trade structures of Mexico and the Caribbean basin countries are much more concentrated in manufactured exports for the North American market than are the major commodity producers of the Southern Cone. As such, the conventional wisdom has been that the competitive threat posed by
Chinese exports in third markets is largely contained to Mexico and the Caribbean basin. However, Jenkins and Peters (2006) argue that Brazil’s exports have also been undeniably affected. The authors found significant global market share losses to Chinese exports for various Brazilian products between 1990 and 2004. Low-tech Brazilian industries suffered the biggest market share losses, at 7.2% of 2004 exports. High tech industries faced losses of 2.1%, while medium-tech industries experienced losses of 1.4%. (Jenkins and Peters 2006, 19). Footwear was the Brazilian industry that faced by far the biggest losses to Chinese exports in 2004, at $506.7 million. Other major products to show significant market-share losses to Chinese exports in 2004 were pig iron ($79.6 million), ingots ($65.9 million), radio broadcast receivers ($40.7 million) and office machines ($24.9 million) (Jenkins and Peters 2006, 20). These findings underscore China’s increasing export diversity and competitiveness across a broad range of industries.

Jenkins and Dussel Peters warn that simply comparing export overlap and past export trends will not provide an accurate picture of China’s competitive threat since its exports are expanding and moving rapidly up the value chain. Manufacturing sectors that face little or no threat today may face significant competition down the road. China’s accession to the World Trade Organization in 2001 and the end of the

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7 Jenkins and Peters count a market share loss for Brazil as one in which its exports grew less than the world average because they were 1) less dynamic than those of China and/or 2) less dynamic than those of the rest of the world.
Agreement on Textiles and Clothing in 2005 mean that the landscape is very different today than even just a few years ago, limiting the relevance of China’s past commercial tendencies. As China’s exports evolve to take advantage of new opportunities, Brazil in particular could face more overlap and thus more competition in third country markets (Devlin, Estevadeordal, and Rodríguez-Clare 2006, 122).

If Brazil faces significant export competition from China (although still much less than Mexico), its neighbors in the Southern Cone face very little. With exports concentrated in natural resources and agricultural products, Chile and Argentina have very little export overlap with the People’s Republic. The growth of China’s exports has been mainly beneficial to these countries as the flood of cheap manufactured products have improved their terms of trade (Jenkins and Dussel Peters 2006, 25-6).

To date, competition from Chinese exports has been most pronounced in third country markets. However, anecdotal evidence is beginning to show increasing competition from Chinese apparel and electronic imports in Latin America’s domestic markets. This appears to be the case particularly in Brazil. At the same time that the market penetration of other international exporters was declining, Chinese manufactured imports increased their market share in Brazil by nearly three times between the real’s devaluation in 1999 and 2005. That year manufactured imports from China reached a high of nearly 1% of the value of domestic output and 7.2% of Brazil’s total imports (Jenkins and Dussel Peters 2006, 15).
China’s increasing competition with Brazilian producers in both international and domestic markets is indicative of a trend that may accelerate and affect current and potential producers. Altenburg, Schmitz and Stamm (2006) note that due to its huge advantages in labor and economies of scale, as the People’s Republic diversifies its exports and produces ever more sophisticated and higher-value-added products, crowding out and barriers to entry for producers in other developing countries will increase across a broad range of manufactured goods.

In a more stark assessment, Phillips (2007) sees a contraction of potential “development space” for Latin America as an indirect result of China’s rise. Its diversifying exports crowd out increasing numbers of more expensive Latin American manufactures in third country and domestic markets. China’s evolving export basket squeezes space available for Latin American producers to move up value chains in sectors into which it is expanding. Furthermore, Phillips says, because China’s imports of higher-value-added resource-based manufactures tend to come from its Asian neighbors, the growth in raw-materials imports from South America is likely to permanently relegate the region to the lower-value added ends of global commodity and production chains. While South American commodity exporters have undoubtedly benefited from China’s increased demand, Phillips notes that the boom has all but quieted the decades-old discourse in some parts of Latin America on how to break
dependency on primary resources. She describes the region as moving “forward to the past” (Phillips, 2007, 18).

In the case of the Southern Cone, Phillips admits that her general assessment may not be accurate. Brazil’s diversified economy makes it significantly different from the majority of the region, but competition from China in certain sectors may mean limited capacity for Brazilian firms to expand into global manufacturing chains. She classifies Chile as an “outlier” because of its competitiveness in natural resource-based manufactures.

As Phillips does not mention Argentina in her exceptions, one could assume that her primary assessment applies. However, to argue that China’s export boom implies a contraction of Argentina’s industrial capacity would be somewhat inaccurate, as Argentina’s process of deindustrialization has been ongoing for more than two decades. Recent competition from Chinese manufactures may mean a reduced capacity for the development of some Argentine manufacturing sectors that became newly viable after the country’s economic collapse and devaluation. However, this partially revived productive capacity could in a way be considered largely illusory, the side effect of a dramatic drop in imports, a severe contraction of domestic purchasing power, and the export-friendly effects of a devalued peso. As Argentina’s economy has rebounded and incomes have risen, the first two factors have been erased from the equation. Consumer demand has fueled increasing imports of inexpensive Chinese
manufactured goods. Simultaneously, energy shortages and a lack of investment in infrastructure mean many sectors of Argentina’s economy have reached productivity ceilings. Several parts of Argentina’s momentarily revived industrial sector are not competitive enough to compete with China globally or even domestically, as evidenced by the restrictions on Chinese imports that Argentina recently applied (to be discussed later).

The quieting of the natural resources vs. industrialization debate that Phillips notes may be the result of a realization that industrialization is neither a viable path, nor what is best for much of the region. The failure of import-substitution industrialization in most of Latin America, and China’s seemingly insurmountable comparative advantages in labor-intensive manufacturing and large-scale industrial production means that the debate has been quieted because there is no longer a debate. At this stage, Argentina would be best served by focusing on enhancing the competitiveness of those sectors in which it has clear comparative advantages: agriculture, agricultural-based manufactures and services. The substantial revenue to be earned by seizing upon China’s demand for commodities could be reinvested to help finance infrastructure improvements and education to increase the competitiveness of sectors which have performed weakly. As such, the debate does not have to be one of industrialization versus reliance on natural resources.
Prospects for growth

While dependence on primary materials and commodity exports has been historically associated with boom-bust cycles in Latin America, many observers see the case of Southern Cone commodity exports to China and Asia as distinct. Among them, Gottschalk and Prates say that the increasing weight of China’s and India’s huge markets in the global economy could signal a “major structural change,” creating the conditions for a long-term upward trend in prices for natural resources (Gottschalk and Prates 2005, 36). Likewise, Altenburg, Schmitz and Stamm (2006) predict that China and India’s industrial and commercial expansion, given the two countries’ positive prospects for growth in the long term, will stimulate natural resource exports for some time to come.

China’s effects on capital flows to the Southern Cone

Trade and investment are complementary drivers of economic integration. One typically begets the other. As commercial links between Latin American and China grew during the opening years of the decade, they brought attention to the possible effects of China on capital flows into the region. The issues raised most often among analysts and academics were the possibility of much needed foreign direct investment being diverted from Latin America in favor of greater returns in China, as well the possibility of China becoming a significant creditor for the region in its own right.
Latin America received historic inflows of foreign investment during the 1990s, peaking in 1999 with $88 billion, or nearly half of all FDI destined for developing countries that year. However, this dramatic surge was followed by a severe, four-year retraction beginning the following year. Yearly FDI inflows to the major Southern Cone countries dropped 73.5% from their peak of $61.3 billion in 1999 to their nadir of $16.1 billion in 2003.

**Graph 2: Inward FDI Flows to the Southern Cone and China, 1997-2005 (billions of US$)**

The contraction of FDI inflows was led by Argentina and Brazil and was not as severe in Chile. By 2006, FDI inflows to Chile had reached $8 billion, only slightly below their 1999 level of $8.7 billion. Although FDI flows to China dropped for the first time in seven years, the PRC still received more FDI than any other developing country (UNCTAD, 2007, 42).

Meanwhile, capital flows to much of the rest of the developing world, and particularly to China, continued to grow. Inward FDI flows to China grew steadily throughout the decade, increasing 79.6% from $40.3 billion in 1999 to $72.4 billion in 2005 (UNCTAD 2006). In this light, many observers expressed concern that booming FDI in China was linked to Latin America’s dwindling inbound capital flows. Several studies in recent years have found no evidence of FDI diversion from Latin America (as a region) to China, although the situation varies across countries.

The main argument against FDI diversion from Latin America to China is that there is minimal overlap in the sources and types of investment in the two regions. Most investment in Latin America has traditionally come from North America and Europe, and is directed at highly diverse sectors ranging from natural resources to telecommunications and services. Most FDI directed to China originates in Asia. While the United States does represent a significant source of FDI in China, the majority of this aimed at manufacturing activities (Jenkins and Dussel Peters 2006, 23). Devlin, Estevadeordal, and Rodríguez-Clare (2006) argue that the contraction in FDI in Latin
America during the first half of the decade is due largely to internal causes, in particular the slow recovery from Brazil’s 1998 crisis and subsequent currency devaluations, and Argentina’s recession at the end of the 1990s and 2002 economic collapse.

The types of FDI common to China and the Southern Cone are largely different, as well. Investment can be classified as efficiency-seeking, market-seeking or resource-seeking. Most investments in Latin America are of the resource- and market-seeking varieties, while most in China are of the efficiency- and market-seeking types. While efficiency due to labor market conditions, government regulations and other factors may migrate somewhat fluidly; market- and natural resource-seeking FDI tends to stay where the markets and resources are (Jenkins and Dussel Peters 2006, 23).

As with trade, countries that face the most competition from China in terms of allocation of FDI are those that have highest overlap in sources and types of investment. With its intensive manufacturing fueled by efficiency-seeking investment, Mexico has the highest FDI coincidence with China of any country in Latin America. Brazil has much less FDI overlap, but nevertheless runs the risk of losing international investment in key sectors such as its auto industry to China in the medium-term if it does not improve their competitiveness (Devlin, Estevadeordal, and Rodríguez-Clare 2006, 163). As with exports, Chile and Argentina show very little overlap with China
in sources and types of FDI, and as such are affected very little in terms of FDI
diversion.

While Mexico and Central America may be more concerned about China
attracting FDI away from their manufacturing sectors, the big Southern Cone
economies see in the People’s Republic a possibly significant new source of
investment. For the same resource-seeking motives that have driven the boom in trade
between the two regions, and spurred on by China’s Go Out policy\textsuperscript{8}, Chinese firms
have begun to venture into the region. Although it was widely reported in the press that
half of China’s outward FDI flows in 2004 were directed to Latin America, much of
this was placed in tax havens in the Caribbean. To be sure, some investment has
materialized, but it has been far from the $100 billion promised by Hu Jintao during his
2004 visit to the region.

Although China has become an increasingly important source of financing, it is
still a minor player. Between 2001 and 2005 China’s total outward foreign direct
investment stock grew 33.64% to $46.31 billion. But this upward trend belies
significant year-to-year variation. In 2003 Chinese FDI flows contracted by $152
million, while the following year they expanded by $1.81 billion. In 2006 alone
Chinese outward foreign direct investment flows were $16.13 billion. Even so, they

\textsuperscript{8} China’s Go Out policy, pronounced at the beginning of the decade, called for state-owned
enterprises to begin investing internationally in the interest of improving their global competitiveness
and to guarantee access to raw materials and foreign markets.
accounted for only 1.3% of world FDI flows that year. China’s total outward FDI stock of $73.33 billion accounted for only .59% of the global total.

The vast majority of China’s outward investment is directed toward Hong Kong and the United States, but increasingly toward the rest of Asia and Africa. In Latin America, FDI comes overwhelmingly from North America and the European Union. Most Chinese investment in the region is concentrated in Venezuela, Brazil, Chile, Argentina and Peru, not coincidentally China’s main source of imports from the region. The majority of this investment is of the resource-seeking variety, financing extractive activities and infrastructure improvements to facilitate those activities, largely through joint ventures with local firms or governments. Chinese firms are also involved in joint ventures throughout the region in other sectors such as manufacturing and telecommunications.

In the Southern Cone, Brazil hosts the most and most varied Chinese investment. However, even here the numbers are diminutive. From 2001 to 2004, total Chinese investment flows into the country were $58 million, out of inward FDI flows from all sources for the period totaling $78 billion (Jenkins and Dussel Peters 2006, 16). The majority of this was directed toward consumer electronics, reflecting the two countries’ increasing interconnectedness in global production chains.

However, China and Brazil have a relatively long history of joint ventures, dating back more than 20 years. China’s investment portfolio in the country, if limited,
is fairly diverse. As of 2005 there were 50 companies financed at least in part by Chinese capital in Brazil, many of them among the country’s most important corporations and biggest exporters. One of the biggest is Companhia Vale do Rio Doce (CVRD), the second-largest mining company in the world, and one of the most important global iron ore producers. Chinese state-owned oil company Sinopec and Brazilian national oil giant Petrobras signed a $239 million contract in 2006 for the construction of a portion of a natural gas pipeline stretching from southeastern to northeastern Brazil (“Petrobras and Sinopec to build gas pipeline in Brazil.” ICIS Chemical Business. April 24, 2006).

Chinese companies have also bid on projects to modernize Brazil’s rail network, including the construction of a transcontinental line. Brazilian companies such as Petrobras, CVRD, Embraer (the world’s third-largest airplane manufacturer) and Embraco (a major refrigerator manufacturer) have all undertaken joint ventures with Chinese companies, either in Brazil or in China (Domínguez 2006, 28). Cooperation between the two countries extends to scientific endeavors, the most developed of which have been the design and production of imaging satellites. The first two China-Brazil Earth Resources Satellites were launched in 1999 and 2003 (Domínguez 2006, 8).

Chinese investment in Chile has not reached the levels or diversity of that in Brazil, but has increased significantly this decade as commercial ties between the two
countries have developed. The majority of Chinese investment activity in Chile is in the form of jointly financed trading companies, the most important of which are CITICFOR Chile S.A. and Intershang SMIEC S.A. (Oliva 2005, 221). China Minmetals and Chile’s national copper company, Codelco announced plans in 2005 to create a jointly managed company solely dedicated to supplying copper to the Chinese market for the next 20 years, with Chinese investment between $500 million and $2 billion (Gottschalk and Prates 2005, 33).

While Chinese trade with Argentina is concentrated in agricultural products, its investment in the country is spread throughout various sectors. Notable examples of Chinese-financed activities include the motorcycle manufacturer Jinarg and the telecommunications company Infracom (Oliva 2005, 224). Other important sectors of cooperation between Chinese and Argentine firms include electronics and textiles. Chinese firms have also invested in coal mining in Río Negro province and an Andean highway crossing in San Juan province (Dominguez 2006, 31).

As China’s growth necessitates continued commodities imports and as its commercial relationships with Brazil, Chile and Argentina continue to develop, the prospects for continued investment are good. Given China’s production trends and consumption demands, sectors that seem to be among the most likely targets of future Chinese investment in the Southern Cone are minerals, fuels and agricultural products. These could come in the form of joint ventures to increase production with state owned
commodities companies such as CODELCO, or in much needed infrastructure improvements such as Andean highway connections between Argentina and Chile or in Brazil’s rail network. More investment could be directed toward manufacturing, as well, as China and Brazil become increasingly connected in global production chains, and as Chinese firms begin to utilize Argentina as a production platform for better access to regional markets.

**Will more Chinese investment be good for the region?**

The effects of current and future Chinese investment on the Southern Cone countries depend as much on the type of investment as the policy framework in each host country. As trade and investment are complementary, increasing investment would most likely be accompanied by increasing trade. Therefore, increased investment from a growing partner with a voracious appetite for their products should then logically be seen as a good thing for the Southern Cone countries. However, review of the literature reveals ambiguity on the effects of FDI in host countries.

Carkovic and Levine (2005) find no causal link between FDI and host country economic growth, arguing rather that sound economic policies promote economic growth and simultaneously attract foreign investment. Lypsey and Sjoholm (2005) report similar findings. In their review, they find evidence for positive wage spillovers tended to come from FDI in developed countries, while some FDI in developing countries produced negative wage spillovers, which they say could be the result of
more restrictive host country labor policies. Evidence for positive productivity spillovers is likewise inconclusive, with results varying within countries and industries. Possible reasons could be displacement of domestic firms by foreign-owned enterprises, or that the domestically owned sector was too small to absorb potential spillovers.

In his review of FDI case studies in several developing countries, including the auto and electronics industries in Mexico and Brazil, Moran (2005) finds that in protected markets FDI failed to serve as an effective means of promoting the development of local industries or making them internationally competitive. In fact, he argues, the host economy’s ability to benefit from the presence of foreign ownership depends on its own level of development and openness. Heavily protected, inefficient firms could actually be harmed by the arrival of foreign-owned competition. Once ownership quota restrictions were removed from foreign invested enterprises in the cases reviewed, and the target of production shifted from the local to the global market, the degree of interconnectedness with local industry actually increased in several cases reviewed. This would seem to suggest that Chinese investment in Brazilian manufacturing of cell phone and computer parts as links in global production chains could be more beneficial, or at least create more positive spillovers in the host country, than motorcycle manufacturing in Argentina geared toward the local or sub-regional market.
Clearly research would need to be done to make such a specific conclusion. But this admission in itself raises concerns and interesting questions. It is very possible that Chinese FDI is significantly different than the FDI reviewed in most studies because Chinese firms themselves are significantly different. Most studies reviewing the effects of FDI on host countries review instances of developed country firms operating in other developed countries or in developing countries. However, China is itself a developing country, and one that is heavily dependent on foreign direct investment. Chinese policy on inbound FDI was formulated with the goal of maximizing productivity and technological spillovers in China, not always successfully. Furthermore, because of the extent of state involvement in China’s economy, large Chinese firms are significantly different from those in other developing countries such as Brazil, or Mexico, about which significant literature has been written. Would FDI from state-controlled firms which themselves may be in the process of “catching up” produce the same kinds of effects on the host country as would investment from leading developed country firms, or even those from other developed countries?

The literature seems to suggest that host country policies on foreign direct investment would be the most relevant factor here. This is likely the case, but the set of factors, and the potential scale of Chinese FDI in developing countries are so unique as to make the phenomenon worthy of further research.
Also worth noting in any discussion of the effects of Chinese investment in the Southern Cone are the possible negative environmental side effects of extractive activities. As has been amply covered in the press and written about in foreign policy literature, Chinese investment, loans and grants for infrastructure and extractive activities often come with few of the strict environmental conditionalities imposed by multilateral lenders or multinational corporations. The detrimental effects to host countries of environmental damage inflicted by extractive activities or infrastructure expansion could potentially be greater than the benefits of increased revenues brought in by such projects.

**Effects on poverty in the region**

Latin America is home to the most socioeconomic inequality of any region in the world. Despite strong economic growth over the past four years, nearly 40% of the region’s population still lives in poverty (ECLAC 2007, 74). Could increasing revenues from growing Chinese trade and investment in the region have an impact on poverty reduction efforts?

As with trade and investment, the possible effects of China’s growth on poverty alleviation in Latin America vary across the region and have to do largely with the degree of overlap between the economic activities of each specific country and China. The PRC’s economic expansion will likely have negative indirect effects on the poor in Mexico and some Central American countries. Increased export competition in third
country markets will affect the poor there through downward pressure on wages in labor-intensive manufacturing, as well as through plant closings in enterprises unable to compete with cheaper Chinese exports (Jenkins and Edwards 2004, 11-12).

These pressures will likely affect the poor in Brazil, as well, although to a much lesser extent. Chinese growth is more likely to affect the poor in the Southern Cone indirectly through increased revenues from booming commodity exports, which governments could use to address social problems. However, this scenario seems unlikely to produce positive effects for a number of reasons.

The biggest sources of commodity revenues in the region are generally large-scale commercial mining, agriculture and forestry. These are often capital-intensive rather than labor-intensive activities. Benefits would likely accrue to landowners, and positive effects on the poor through increased employment would be limited. While labor-intensive agriculture could benefit the poor through increased employment and higher wages, large-scale commercial soy farming is not such an enterprise. Furthermore, large-scale extractive and agricultural activities both have the potential to produce negative impacts on the poor through environmental degradation of their communities, displacement because of rising land values or outright appropriation of land for commercial use (Jenkins and Dussel Peters, 2006, 30).

Although capital-intensive extractive and agricultural production could benefit the poor through increased government spending, this has largely not been the case.
Gottschalk and Prates (2005) note that the current commodities boom has not been accompanied by increased public spending in South America\textsuperscript{9}. The authors also point out that regulation of privately owned extractive industries in the region is largely “too generous or too ineffective” (Gottschalk and Prate 2005, 25). Legal loopholes often facilitate tax evasion and profit remittances, diminishing the rents host governments are able to appropriate, and thus direct toward social programs or infrastructure improvements.

If the likelihood of Chinese growth benefiting the poor through increased public spending in the region seems questionable, the benefits to the poor as consumers seem more certain. As cheaper Chinese goods enter domestic markets in the Southern Cone, the poor could see real (if minor) declines in their cost of living. However, as China’s exports become increasingly sophisticated, this possible benefit is likely to diminish, as they will be goods less likely to be consumed by the poor (Jenkins and Edwards 2004, 22).

In sum, Chinese growth is likely to benefit the poor in the Southern Cone countries only indirectly, mainly through increased government spending and benefits of cheaper consumer goods. However, in order for these benefits to materialize, governments must more effectively regulate extractive industries like mining and

\textsuperscript{9} The notable exception is Venezuela, where oil revenues are financing mushrooming public spending under Hugo Chávez’s “Bolivarian Revolution.”
forestry in order to increase rent appropriations. While revenues generated from the commodities boom are being directed toward fiscal obligations (Chile and Brazil) or reserve accumulation (Argentina) more could be directed toward social programs and infrastructure.

**Political considerations**

The China-Latin America relationship is mainly economic, but there is a political element, as well. Many in the region see in China a possible counter-balance to what is perceived as US hegemony in Latin America. Structuralist sympathies, already present in much of the developing world, were largely exacerbated by the Washington Consensus policies applied during the 1990s in Latin America and Asia. In a prescient article from 2000, Higgot and Phillips describe the aftermath of neoliberal reforms in the two regions (financial crises and widening inequality) as stimulating a backlash against convergence along an Anglo-American neoliberal economic model. The authors foresee divergence from this model in Latin America and Asia characterized by a resurgence of mass politics, rejection of multilateral institutions, and the creation of a policy space that allows leaders to place more emphasis on social concerns.

Higgot and Phillips’ predictions have proven to be mainly accurate in the case of South America. The election of left and center-left governments throughout the continent, largely on platforms rejecting neoliberal reforms, is evidence to the point.
So, too, are Brazil and Argentina’s decisions to cancel their debts to the International Monetary Fund, Venezuela’s announcement that it will withdraw altogether from the IMF and World Bank, and the attempts to create the regionally managed Banco del Sur. Within this post-Washington Consensus context, China’s increased interest in the region is politically appealing for several reasons. China is seen as a competitor of the United States. It stands as a successful model of development that did not adhere to Washington Consensus policies. The PRC is also seen as an increasingly important promoter of a multi-polar world order and South-South cooperation.

Hugo Chávez, in particular, is eager to strengthen ties with China in his attempts to counter US influence in Latin America. The leader of the “Bolivarian Republic” of Venezuela has repeatedly emphasized China’s potential as an alternative market to the United States for Venezuela’s oil, as well as its role in an “anti-imperialist” bloc of developing countries. However, notions that the two countries could eventually form part of the same “anti-imperialist” pole of development demonstrate a profound misunderstanding of the realities of the global economy. While China is an increasingly important consumer of Venezuela’s oil, it values its relationship with the United States far more. The PRC would never jeopardize its access to the American market for greater access to Venezuelan oil. Furthermore, Phillips (2007) argues that portraying China as an example of development counter to the dictates of Washington ignores the fact that China’s rise has been largely financed
by investment from American companies, assuring that the fortunes of the People’s Republic are intimately tied to those of the US economy.

Of the big Southern Cone countries, Brazil has the most interest in promoting political cooperation with the People’s Republic. Both countries have shown leadership in articulating the interests of developing countries before multilateral institutions, particularly through the Group of 20 Developing Nations, which the two countries lead along with India and South Africa. However, after having received recognition as a market economy from Brazil in 2004, China blocked Brazil’s attempt (along with India, Germany, South Africa and Japan) to obtain a permanent seat on the UN Security Council in 2005. The excitement over political cooperation that characterized the relationship between Brazil and the PRC has cooled somewhat since then.

Policy lessons, new possibilities

As mentioned earlier, part of China’s appeal in South America, and the rest of the developing world, is that it offers an example of successful development achieved without following the prescriptions of the Washington Consensus. The scale and speed of China’s economic transformation, many times greater than anything achieved in the West, changes many fundamental conceptions about development. Schmitz (2004) argues that because of East Asia’s, particularly China’s success, development can no longer be studied through a Western lens, using Western democracies as the model to which developing countries should aspire without question. China’s economic
performance also refutes structuralist arguments and dependency theorists’ depiction of the West (core countries) as the oppressor of the periphery and thus an obstacle to development as China’s rise is directly related to its intensive, skillful interaction with the West. Schmitz claims that of all the major theoretical tendencies within the study of development, China’s transformation resoundingly validates the “find your own way” school of thought. It is through the successful design and implementation of an indigenous development model that China serves as an example to other developing countries around the world.

While China is an example, it cannot serve as a specific blueprint for other developing countries, the nations of the Southern Cone included. However, certain elements of the PRC’s strategy are transferable to other countries. Specifically, China’s success is the product of long-term planning and the skillful use of policy to guide development. The People’s Republic relied heavily on a variety of policy tools including tax incentives, the promotion of joint ventures, trade quotas and a host of other measures, many of which are now prohibited by the World Trade Organization (see Chang, *Kicking Away the Ladder*, 2002). China’s leaders used policy to guide foreign direct investment in order catch up to the technological frontier, all the while constructing the basis for an economy driven by manufacturing for export. The lesson for the Southern Cone nations is not in the specific policy mix employed by China, but in the integration of economic and political stability, long-term planning, targeted

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policy tools and institutional continuity in order to bring about clearly articulated objectives.

If anything, the success of China’s development model means that the one(s) employed by Brazil, Chile and Argentina must be very different. As has been discussed earlier in this essay, China’s competitive advantages in labor and market size mean that it will be very difficult for other nations to compete successfully in labor-intensive manufacturing. Phillips (2007) sees in this situation an erosion of the region’s “development space.” While much concern has been raised over the prospect of these competitive advantages and China’s growing demand for commodities causing de-industrialization in South America’s big economies, this does not have to be the case, nor is greater specialization in natural-resource based exports necessarily a bad thing.

The Southern Cone countries would be well served by developing long term strategies for taking advantage of China’s (and increasingly, India’s) growing demand for the products they already produce. They should use the fortuitous circumstances in which they now find themselves to add value to their natural resource-based exports, and exploit the footholds they already have in China’s domestic market to increase and diversify exports. Increased revenues from booming exports and higher prices for commodities could be used for badly needed investment in infrastructure, education, healthcare and other measures that would all help to add value to natural resources and improve the competitiveness of other exports.
Education and infrastructure should be the two key areas targeted by public spending. Major investment in all levels of education must be in made in all three countries. Taking a page from China’s book, more investment and emphasis should be placed upon science and engineering in tertiary education, with the long-term aim of fostering innovation in order to add value to natural-resource-based commodities. Policy makers should envision productive activities that build upon the resources available (both natural resources and human capital) to spur economic growth and address social issues by creating more profitable employment. Possibilities could include increased ethanol production in Brazil\textsuperscript{10} or the development of crop science or pharmaceutical industries in Argentina. As mentioned earlier in this paper, infrastructure spending has stagnated in Latin America over the past 20 years, and in many parts of the Southern Cone countries is in significant disrepair. Roads, rail and port facilities should be improved to facilitate the export of commodities in demand, and capitalize on high prices to increase revenues.

\textsuperscript{10} Ethanol production clearly engenders detrimental side effects along with its benefits, including potential environmental degradation and upward pressures on land and food prices resulting from the expansion of sugarcane (corn in the case of the U.S.) production. However, the point of this paper is not to discuss the merits or disadvantages of ethanol production. It is used solely as an example.
Chapter 2. China, Argentina and Missed Opportunities

Chapter 1 explored the various factors influencing the growing economic and commercial relationship between China and Argentina, Brazil and Chile. As discussed, China’s rise presents greater opportunities for the major Southern Cone countries than it does for the rest of Latin America. Section 2 will discuss the possibilities for growth in greater detail, particularly for Argentina. It will also illustrate how Argentina is falling behind its neighbors in its capacity to capitalize upon these opportunities. It will then examine the reasons why Argentina is lagging behind its neighbors. This analysis will take into account trade policy objectives, policy formulation and institutional structure, bilateral and multilateral agreements and diplomatic representation in China. It will draw on information from government ministries in Argentina, Brazil and Chile, international institutions and interviews with various authorities (from within and outside of government) familiar with the China-Southern Cone relationship.

As stated earlier in this paper, the most important factor driving China’s increasing trade with the Southern Cone countries is its own economic growth. China needs massive amounts of primary materials to maintain its export driven economy and fuel continued growth. Therein lies the main impetus for its increasing trade with the Southern Cone. However, as that same export-driven growth raises incomes and living
standards in China, it is creating new opportunities for the Southern Cone nations to increase their exports to the People’s Republic.

Since 1990 China has averaged annual GDP growth of 9.76%. After spiking in the early 1990s to a high of 14%, annual growth fluctuated between a more “moderate” 8% and 9% during the late 1990s. Since China’s accession to the WTO in 2001, growth has accelerated again, averaging 10.25% since 2003. Between 2001 and 2006 its economy grew more than 100%, reaching GDP of $2.67 trillion. By performing a simple linear regression on existing GDP data we can see that if current trends and

**Graph 3: China GDP 2000-2010**

GRAPH 3 source: Author’s elaboration with World Bank World Development Indicators
favorable conditions continued, China’s GDP would reach $3.98 trillion by 2010. It is possible that figure will be significantly higher (see Graph 3).

Graph 4: China GDP to Household Consumption Expenditures, 2000-2010

[Graph showing a trend line for GDP to household consumption expenditures from 2000 to 2010]

GRAPH 4 source: Author’s elaboration with World Bank World Development Indicators

Analyzing the relationship between China’s GDP and household final consumption expenditures between 2000 and 2005 reveals a very strong and statistically significant positive correlation. For every $1 increase in GDP, there was a $0.297 increase in consumption expenditures. In 2005 consumption expenditures totaled $865.31 billion. However, in 2006 household consumption expenditures experienced a sharp upswing, reaching nearly $1.19 trillion. This increase meant that between 2005 and 2006, every $1 increase in GDP implied an increase of $.746 in
household consumption expenditures. Assuming this new trend toward accelerated
consumption continued, consumption expenditures in China would reach roughly
$2.17 trillion by 2010 (see Graph 4).

China’s per capita gross national income as measured by the World Bank more
than doubled between 2000 and 2006, reaching $2,010\(^{11}\). However, significant regional
income disparity in China means that some areas boast considerably higher per capita
income levels. As China grows and living standards rise, Chinese are consuming more
and increasingly diverse products. This is particularly significant for Argentina as the
majority of commodities it currently exports to China are directly related to household
consumption. So, too are a host of other commodities (many of which are higher-
value-added agricultural manufactures) in which Argentina is internationally
competitive, but do not constitute a major percentage of its exports to China.

An examination of recent consumption trends in China reveals significant
opportunities for Southern Cone producers, particularly Argentina. For example, from
2000 to 2006 China’s imports of wine increased 388.1\% to more than $138 million.
During the same time period, Argentina’s wine exports to China rose from $185,454 to
$4.06 million. However, over the same time period, China’s wine imports from Chile
increased from $1.98 million to $21.31 million.

\(^{11}\) Atlas Method, measured in current US$
China’s imports of dairy products more than tripled between 2000 and 2006 to $565.24 million. Powdered milk and whey, products of which Argentina is a competitive producer, account for the majority of these imports. During the period in question China’s powdered milk imports increased nearly 152% to $291.47 million. Argentina’s exports of powdered milk to China fluctuated erratically during the same period between $0 and a peak $1.56 million, registering only $487,500 in 2006. China’s imports of whey increased from $79.96 million in 2000 to $194.55 million in 2006. While Argentina’s exports of whey to the People’s Republic have increased significantly since the beginning of the decade, as of 2006 they reached only $3 million.

**Table 4: China Imports of Selected Agricultural, Agro-industrial Commodities, 2000-2006**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2000 (millions of US$)</th>
<th>2006 (millions of US$)</th>
<th>% change</th>
<th>% of imports from Argentina 2006</th>
<th>% of Argentina’s exports to PRC, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>28.31</td>
<td>138.18</td>
<td>388.1</td>
<td>2.94</td>
<td>.11</td>
</tr>
<tr>
<td>Preparations of fruits, nuts and vegetables</td>
<td>59.78</td>
<td>198.21</td>
<td>231.57</td>
<td>.13</td>
<td>.00007</td>
</tr>
<tr>
<td>Dairy produce (including powdered milk and whey)</td>
<td>187.88</td>
<td>565.24</td>
<td>200.85</td>
<td>.62</td>
<td>.09</td>
</tr>
<tr>
<td>Fish, crustaceans, mollusks, aquatic invertebrates</td>
<td>1,212.28</td>
<td>3,155.13</td>
<td>160.26</td>
<td>.91</td>
<td>.77</td>
</tr>
<tr>
<td>Edible fruits and nuts</td>
<td>368.41</td>
<td>738.56</td>
<td>100.47</td>
<td>.62</td>
<td>.12</td>
</tr>
<tr>
<td>Wool, animal hair, fabric thereof</td>
<td>1831.38</td>
<td>2140.94</td>
<td>16.9</td>
<td>1.04</td>
<td>.60</td>
</tr>
<tr>
<td>Meat and edible meat offal</td>
<td>636.99</td>
<td>685.74</td>
<td>7.65</td>
<td>3.9</td>
<td>.69</td>
</tr>
</tbody>
</table>

TABLE 4 source: United Nations Commodity Trade Database

Table 4 illustrates the growth in Chinese imports of selected agricultural commodities. Despite Argentina’s increased exports of these commodities to the PRC, the figures show that they still account for diminutive percentages of China’s total imports, as well as Argentina’s total exports to China. These are all commodities of which Argentina is a significant international producer. While the actual dollar amounts imported are in some cases still relatively small, it is clear that demand is rapidly increasing.

However, even if China’s growth presents clear opportunities, Argentina faces significant obstacles to increasing exports of many of these commodities to China. Reasons include competition from other producers (such as Australia and New Zealand) that have been more proactive in consolidating commercial ties with the PRC and have “locked in” to the Chinese market. Infrastructure problems that hinder the
rapid shipment of perishable goods are only compounded by the significant
gеographical distance between Argentina and China. Added to this is the discrepancy
between the scale of quantities demanded by the Chinese market and Argentina’s
productive capacities.

The example of Argentine wool and animal hair exports to China listed in
Table 4 is telling in this regard. China’s wool and animal hair imports grew nearly 17%
to $2.14 billion between 2000 and 2006. Over the same time period Argentina’s share
of these imports actually declined roughly 25% from $29.1 million to $22.32 million.
However, during the same period Argentina’s total wool and animal hair exports
increased 26% to $169.3 million.

The decline in Argentina’s share of China’s wool imports is largely a product
of the PRC’s deepening trade relations with other partners, particularly Australia and
New Zealand. Both are major wool and animal hair exporters, and both are negotiating
free trade agreements with the People’s Republic. Australia has been China’s most
important supplier of wool and animal hair for the duration of the decade. Even so, its
exports to China in this commodity group rose nearly 35% between to 2000 and 2006
to $1.01 billion, almost half of the PRC’s imports. Over the same period New Zealand
increased wool and animal hair exports to China by more than 45%, reaching $117.32
million in 2006. Uruguay, also a major wool producer but not party to any bilateral
agreement with the PRC, has outperformed Argentina, as well. Although its wool and
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animal hair exports to China fluctuated over the early part of the decade, since 2003 Uruguay’s exports have risen steadily. Between 2002 and 2006 they grew by 127.66% to $72.87 million.

The case of China’s market for wool, animal hair and fabrics thereof is emblematic of some of the PRC’s relatively established commodity markets, dominated by major producers who have tended to “lock in” their market shares over the course of the decade. Argentina is not among that group, and has seen its share of Chinese imports in this commodity group decline as those from other producers have increased.

While the figures in Table 4 illustrate the potential for future growth, they also signify missed opportunities for Argentine producers, as well as lost government revenues. Export tariffs are a major source of revenue for Argentina, and have become even more important as heightened demand (largely from China) has fueled increased exports and higher prices for many of the primary materials and agro-industrial commodities that the country produces. According to Argentina’s Federal Administration of Public Revenue, export tariffs brought in $28.65 billion to federal coffers in 2005, the last year for which total export revenue data was available. Graph 5 below illustrates the dramatic increase of revenues from export tariffs over the course of the decade. In 2001, the first year for which data was available, the elevated value of the peso and internal problems stemming from Argentina’s severe recession kept
export revenues low, totaling only $52 million. However, after the peso’s devaluation the following year, revenue from exports rocketed to $5.02 billion. Government revenue from export tariffs continued to escalate throughout the decade as exports increased. In 2005 they accounted for 8.6% of total government revenues.

**Graph 5: Argentina Total Export Tariff Revenue, 2000-2005**

![Graph 5](image.png)

GRAPH 5 source: Federal Administration of Public Revenue of the Argentine Republic

Argentina’s average tariff on exports in 2006 was 13%, with significant variation according to commodity. Recognizing the potential for greater revenue collection given booming exports and record prices for grains, in November the federal
government increased export tariffs on soybeans and soy oils and flour. The current export tariff on soybeans is 35%, while the rate for soy oil and flour is 32%. The rates had been set at 27.5% and 24% since January of 2007. Prior to that, the export tariff for soybeans was 23.5%, while the rate for soy oils and flours was 20%. At these rates, government revenues just from export tariffs on soy and its derivatives to China for 2006 would total $380.52 million. However, as export tariffs are just one source of tax revenue generated by exports, total revenues are even more significant. Exports are subject to taxation on the income they generate, as well as at various other points in their production. While it would be difficult to extrapolate the amount of possible revenues from increased exports to China given the variation of tariffs according to commodity, as well as the change in tariffs over time, these figures serve to show what kinds of revenues are at stake. Obviously it is in Argentina’s interest to increase exports overall, not only to China. However, for the reasons outlined above, China’s market presents significant opportunities to develop exports. The higher revenues brought in from increased exports could then be reinvested in education, infrastructure, worker training, health and social programs, all of which would help further increase Argentina’s competitiveness.
Although Argentina’s soy exports to China (and the revenues they produce) increased over the course of the decade, they have not kept pace with those of Brazil. Brazil’s soy exports to China increased by more than 230% between 2000 and 2006, when they reached $3.02 billion. Argentina’s soy exports to China increased even more as a percentage, reaching $2.18 billion in 2005. However, whereas Brazil’s soy exports to the People’s Republic continued to grow in 2006, Argentina’s declined by nearly 26% to $1.62 billion.

**Graph 6: China Imports of Soybeans From Brazil and Argentina, 2000-2006**

GRAPH 6 source: United Nations Commodity Trade Database

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While Argentina is not necessarily being crowded out of the Chinese market by its major Southern Cone neighbors, it is falling behind their capacity to increase exports to the People’s Republic. Graph 7 compares exports to China from Argentina, Brazil and Chile. While all three countries started the decade with fairly similar levels of exports to the PRC, after 2003 Brazil and Chile’s exports began a period of rapid growth, while Argentina’s experienced much slower growth. Like the figures mentioned above, these illustrate missed opportunities and lost revenue for Argentina. If Argentina’s exports to China had grown at the same pace as Chile’s, they would have reached $4.27 billion in 2006. Keeping pace with Brazil, that figure would be $5.37 billion.

Argentina has fallen behind its neighbors in its growth of exports to China. Furthermore, other producers that have secured preferential trade agreements or have advantages in scale or distance mean that Argentina faces obstacles to significantly increasing exports of some of its major agro-industrial commodities to the PRC. However, it is important to note that some of China’s markets for other commodities that Argentina produces are still very young, and will only grow as living standards in China continue to rise and consumption habits conform to more “Western” standards. Various authorities interviewed for this paper emphasized that because of the obstacles mentioned above, it may be more feasible and beneficial for Argentina to promote specific niche-market exports to China. Possibilities mentioned include high-end
garments produced by Argentine designers, prepared foods, pharmaceutical products and crop-science technology. Argentina needs to analyze these and other possibilities, capitalize upon its comparative advantages and aggressively maneuver to secure its place as a significant supplier in developing Chinese markets.

Graph 7 Exports to China 2000-2006

GRAPH 7 source: United Nations Commodity Trade Database
Chapter 3. Keeping Up With the Neighbors

Argentina, Brazil and Chile have significantly increased their exports to China over the course of the current decade. Their ability to do so has distinguished them from the majority of Latin American nations and has helped fuel fiscal surpluses in all three countries. However, as noted in the previous section, Argentina’s performance has not kept pace with that of Chile and Brazil.

Why is Argentina lagging behind its neighbors? The hypothesis is that Argentina lacks clear policy objectives with regards to China. This lack of a clearly articulated policy is likely due to poor institutional coordination and is compounded by insufficient resources. As a result Argentina is likely less prepared than its neighbors to take advantage the opportunities presented by China’s growth.

To prove this hypothesis I compared various aspects of the three countries’ trade policies, bilateral agreements, participation in multilateral institutions, diplomatic representation in China, and institutional structures. Generally, I looked for evidence of a defined policy toward China. More specifically, I looked at a set of indicators that served as a measure of each country’s ability to increase exports to and investment from China.

- **Policy objectives:** Does each country’s foreign trade policy in general give any indication as to its ability to position itself advantageously with regards to
China? Is enhancing the relationship with the PRC a clearly defined policy objective? For the purposes of this paper “policy objective” is defined as a desired outcome either articulated explicitly or inferable from the sum of foreign trade policy decisions and actions taken.

- **Bilateral agreements:** Bilateral agreements are one of the easiest measures of the extent of official, state-level relations. How many and what type of agreements does each country have with the People’s Republic? Only agreements signed in 2004 (the year of Hu’s visit, and when the commercial relationship between China and the Southern Cone began a period of marked acceleration) or beyond will be included.

- **Multilateral institutions:** Cooperation with China in multilateral institutions also reflects on each of these countries’ policy priorities. How does each country participate with China in multilateral forums? What and how many grievances has it brought against China in these forums?

- **Diplomatic relations:** Effectively promoting bilateral trade and investment with China requires skillful diplomacy supported by sufficient human resources. How do the countries compare in their diplomatic representation within the PRC? How many and what types of offices do they have on the ground in China? How many diplomats and other officials do they have
working in the country? Of these, how many are able to speak Mandarin Chinese?

- **Institutional structure:** What is the institutional structure in which these countries’ trade policy is formulated? Are there differences in this structure that would account for the differences in their capacities to benefit from China’s growth?

Clearly, some of these indicators are quantifiable while others are not. As such, the comparative analysis undertaken was both quantitative and qualitative in nature. The indicators listed above were applied to information from the various ministries of economy and foreign relations in Argentina, Brazil and Chile. Government documents and databases as well as World Trade Organization reports also contributed to the analysis. Lastly, a series of interviews with authorities on the China-Southern Cone relationship provided invaluable information. Interviewees included sources from the United Nations Economic Commission for Latin America and the Caribbean; The Inter-American Development Bank; The Ministry of Economy and Production of the Argentine Republic; The Ministry of Foreign Relations, Commerce and Worship of the Argentine Republic; as well as outside consultants and academic authorities. In the interest of protecting interview subjects, many of whom provided what their respective
employers could consider sensitive information, none will be cited in this text unless having given written permission to the contrary.

The information provided from the sources listed above was synthesized and analyzed using the mentioned indicators. The following section discusses the results. The first subsection looks at the indicators in the individual countries. It begins with Chile, the Southern Cone nation that is most closely connected with and has benefited most from the relationship with China. Brazil, somewhat of an intermediate case, is next. Argentina is the last country analyzed.

The next subsection compares the countries’ indicators. The comparative analysis of the indicators is supplemented by information provided in interviews.
**Chile**

Of the three large Southern Cone economies, Chile has by far the strongest economic and commercial ties to China. Taking advantage of its strategic position on the Pacific, Chile has made increasing links with Asia one of its top policy priorities in the current decade. In 2005 it became the first Latin American nation to sign a free trade agreement with the People’s Republic. The agreement took effect in October 2006. During the first semester of 2007, Chile saw its exports to China increase by 140% over the same period in 2006. Total bilateral trade between Chile and China has increased 98% relative to the first half of 2006. These figures mean China is now Chile’s most important trade partner and export destination, receiving more exports (in dollar value) from Chile than both the United States and Japan. This significant increase in trade is the result of several factors: a clearly articulated policy objective of increasing commercial and economic links to Asia; Chile’s overall pro-trade stance; and a relatively centralized bureaucratic structure that facilitates policy design and implementation.

**Policy Objectives**

According to Chile’s Directorate of International Economic Affairs (DIRECON, by its Spanish initials), part of the Ministry of Foreign Relations, Chile’s main trade policy objectives include developing the country’s exports; promoting and
protecting investments; stimulating competitiveness of and technology transfer to
domestic producers; and promoting regional economic cooperation. It aims to achieve
these objectives through a three-level policy of commercial liberalization, active
pursuit of bilateral trade agreements and participation in multilateral trade bodies, and
export promotion. Within this larger trade policy framework, Chile’s Ministry of
Foreign Relations explains that the “extension and intensification of links with Asian
nations has become a policy of state”.¹² The ministry’s specific policy objectives with
respect to the region include promoting trade, investment and mutual understanding.

Trade promotion has been a central pillar of Chile’s economic policy for the
past three decades. As a small economy with a limited pool of consumers, the country
lacks the means to generate economies of scale necessary for large-scale industrial
production. Starting in the early 1980s under the right-wing military dictatorship of
General Augusto Pinochet, Chile’s policy makers sought to compensate for these
shortcomings by setting in motion a reform agenda of trade liberalization. Reforms
such as tariff reductions have continued since the country’s transition to civilian-
controlled democracy in 1990, including over the past seven years of government
under the Socialist Party. Authorities in DIRECON view trade, and particularly export
promotion, as the motor upon which Chile’s growth depends.

¹² http://www.minrel.gov.cl/webMinRel/home.do?sitio=1
Over the course of the 1990s and the current decade, Chile has signed increasing numbers of bilateral trade agreements. The rapid proliferation of its bilateral agreements is emblematic of Chile’s larger objective of positioning itself as one of the world’s premier trading states. As noted above and outlined by DIRECON, the structural limitations on Chile’s capacity to develop globally competitive large-scale industry have led policy makers to see increasing trade as the key to fueling economic growth and employment. As such, for the duration of the current decade trade has accounted for a significant majority of GDP in Chile. The percentage of Chile’s GDP accounted for by trade has increased over the course of the decade, as well.

**Table 5: Trade as Percentage of GDP, 2000-2006**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>22</td>
<td>22</td>
<td>40</td>
<td>39</td>
<td>43</td>
<td>44</td>
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<tr>
<td>Brazil</td>
<td>22</td>
<td>26</td>
<td>27</td>
<td>27</td>
<td>29</td>
<td>27</td>
<td>26</td>
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<tr>
<td>Chile</td>
<td>61</td>
<td>65</td>
<td>66</td>
<td>69</td>
<td>72</td>
<td>74</td>
<td>**</td>
</tr>
<tr>
<td>China</td>
<td>44</td>
<td>43</td>
<td>48</td>
<td>57</td>
<td>65</td>
<td>69</td>
<td>70</td>
</tr>
<tr>
<td>Mexico</td>
<td>64</td>
<td>57</td>
<td>55</td>
<td>57</td>
<td>61</td>
<td>62</td>
<td>65</td>
</tr>
</tbody>
</table>

TABLE 5 source: World Bank World Development Indicators Online. ** Data unavailable.

Table 5 illustrates Chile’s increasing openness to trade over the course of the decade. While trade accounted for an already significant majority of the country’s GDP
in 2000, by 2005 it accounted for 74%. By mid-decade Chile was substantially more open to trade than either of its large Southern Cone neighbors, as well as Mexico, Latin America’s other major trading state. Chile’s trade to GDP ratio was even greater than that of China. According to DIRECON, upon signing the free trade agreement with China in 2005 Chile had preferential commercial access to 75% of the world’s GDP, making it the most commercially integrated country in the world (DIRECON, 2006, 9).

Within this strategy of trade liberalization, increasing formal trade links to Asian markets has been one of Chile’s key objectives. The extent of its commercial links with Asian economies is evidence to the point. Chile is the Latin American nation most commercially integrated with the Asia-Pacific region. Over the course of the current decade the share of Chile’s total trade with its most significant Asian trading partners has increased significantly. At the start of the decade, exports to Japan, China, South Korea, India, Malaysia, Thailand and the Philippines accounted for 24.05% of its total exports, or nearly $4.4 billion. By mid-decade, as Chile actively pursued bilateral agreements with Asian nations, that figure had reached $13.9 billion, or 36.06% of its total exports (see Graph 8).

Chile’s expansion in trade with Asia is part of a larger objective of positioning the country as a bridge between the markets Asia and Latin America. As outlined by DIRECON, policy makers envision the country as a hub in which countries from both regions can take advantage of rules of origin clauses in Chile’s numerous bilateral
preferential trade agreements (DIRECON, 2006, 8). Asian firms have preferential access to Latin American markets through Chile, while the same is true for Latin American firms seeking access to Asian markets.

**Graph 8: Chile Exports to Asia* 2000-2005**

GRAPH 8 source: United Nations Commodity Trade Database. *Asia = Japan, China, South Korea, India, Thailand, Malaysia, Philippines

**Bilateral Agreements**

Since the mid-1990s the pace of Chile’s trade liberalization has quickened. The country has signed 22 trade agreements since 1993. As can be seen in Table 6 below, greater emphasis was originally given to Chile’s more traditional trade partners in the
Americas and Europe. However, in the current decade, Chile has undertaken a sustained effort to increase access to markets in the Asia-Pacific region. In 2003 it signed the first trans-Pacific free trade agreement, with South Korea. The agreement, notably, was also the first FTA for South Korea. This was followed by a more limited agreement with New Zealand, Singapore and Brunei and a free trade agreement with China in 2005. In 2006 Chile signed a partial scope agreement with India. The latest in the wave of bilateral agreements with Asian partners was the free trade agreement with Japan, signed in 2007. Chile is currently negotiating trade agreements with Australia, Malaysia, Ecuador and Turkey.

### Table 6: Chile Trade Agreements

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of Agreement</th>
<th>Date of Signature</th>
<th>Entry Into Force</th>
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</thead>
<tbody>
<tr>
<td>European Union</td>
<td>Economic Association Agreement</td>
<td>November 18, 2002</td>
<td>February 1, 2003</td>
</tr>
<tr>
<td>Pacific-4 (Chile, New Zealand, Singapore, Brunei)</td>
<td>Economic Association Agreement</td>
<td>July 18, 2005</td>
<td>November 8, 2006</td>
</tr>
<tr>
<td>Canada</td>
<td>Free Trade Agreement</td>
<td>December 5, 1996</td>
<td>July 5, 1997</td>
</tr>
<tr>
<td>Mexico</td>
<td>Free Trade Agreement</td>
<td>April 17, 1998</td>
<td>August 1, 1999</td>
</tr>
<tr>
<td>Costa Rica (part of Chile-Central America FTA)</td>
<td>Free Trade Agreement</td>
<td>October 18, 1999</td>
<td>February 14, 2002</td>
</tr>
<tr>
<td>El Salvador (part of Chile-Central America FTA)</td>
<td>Free Trade Agreement</td>
<td>October 18, 1999</td>
<td>June 3, 2002</td>
</tr>
<tr>
<td>Guatemala (part of Chile-Central America FTA)</td>
<td>Free Trade Agreement</td>
<td>October 18, 1999</td>
<td>Negotiations ongoing</td>
</tr>
<tr>
<td>Honduras (part of Chile-Central America FTA)</td>
<td>Free Trade Agreement</td>
<td>October 18, 1999</td>
<td>Awaiting parliamentary approval</td>
</tr>
<tr>
<td>Nicaragua (part of Chile-Central America</td>
<td>Free Trade Agreement</td>
<td>October 18, 1999</td>
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<td>Country/Region</td>
<td>Agreement Type</td>
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<td>Date Ent into Force</td>
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<td>South Korea</td>
<td>Free Trade Agreement</td>
<td>February 15, 2003</td>
<td>April 1, 2004</td>
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<td>United States</td>
<td>Free Trade Agreement</td>
<td>June 6, 2003</td>
<td>January 1, 2004</td>
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<td>European Free Trade Association</td>
<td>Free Trade Agreement</td>
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<td>December 1, 2004</td>
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<td>(Iceland, Lichtenstein, Norway and Sweden)</td>
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<td>China</td>
<td>Free Trade Agreement</td>
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<td>Peru</td>
<td>Free Trade Agreement</td>
<td>August 22, 2006</td>
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<td>Colombia</td>
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<td>Japan</td>
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<td>Bolivía</td>
<td>Economic Complementation Agreement No. 22</td>
<td>April 6, 1993</td>
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<td>Argentina, Brazil, Paraguay, and Uruguay)</td>
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<td>India</td>
<td>Partial Scope Agreement</td>
<td>March 8, 2006</td>
<td>August 16, 2007</td>
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**TABLE 6** source: Dirección General de Relaciones Económicas Internacionales de Chile. [www.direcon.cl](http://www.direcon.cl)

Chile’s 2005 free trade agreement with China was the first such agreement between the PRC and a Latin America country. The first part of the treaty, focusing on trade in goods, took effect October 1, 2006. It immediately eliminated tariffs on 92% of Chilean exports to China and 50% of Chinese exports to Chile. By 2015 further
tariff reductions will be phased in, affecting all but 1% of Chilean exports to China and 3% of Chinese exports to Chile. At the time of signing, Chinese tariffs averaged 9.9%, but with peaks of 65% for certain agricultural and industrial products.

Chilean products that benefited from immediate tariff reduction included copper and other minerals; vegetables; fish oil; poultry; various fruits including cherries, peaches and nectarines; wood paneling; smoked salmon, cheese; chocolate and tomato paste. Chinese products granted immediate tariff reduction in Chile included video cameras, computers, printers, CD players, televisions and toys. Tariff reductions on Chinese-produced textiles will be phased in by 2015. The next round of negotiations, focusing on trade in services and investment is ongoing.

The agreement has significantly increased trade between the two countries since taking effect last year. In the fist semester of 2007, Chilean exports to China totaled $5.052 billion¹³, up 140% relative to the same period in 2006. Imports from China rose 40% relative to the first semester of 2006, reaching $2.079 billion. While the agreement will facilitate access to China’s internal market for a wide variety of Chilean products, it does not appear to have substantially changed the predominant trade pattern between the two countries. The mining sector, dominated by copper, accounted for 85% of Chilean exports to China in the first semester of 2007 (‘Hoy se cumple un año de entrada en vigencia del TLC Chile-China: En 140% aumentaron las


Table 7: Chile-China Bilateral Agreements Since 2004

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Date/Signatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accord Establishing Mixed Mining Commission</td>
<td>Signed: May 25, 2004</td>
</tr>
<tr>
<td>Framework Agreement on Cooperation in Health and Medicine.</td>
<td>Signed: November 18, 2004</td>
</tr>
<tr>
<td>Memorandum of Understanding on the Promotion of Economic and Commercial</td>
<td>November 18, 2004</td>
</tr>
<tr>
<td>Cooperation Between the Chinese Ministry of Commerce and the Chilean</td>
<td></td>
</tr>
<tr>
<td>Ministry of Foreign Relations</td>
<td></td>
</tr>
<tr>
<td>Cooperation Agreement Between Chiledeportes and the General Administration</td>
<td>November 18, 2004</td>
</tr>
<tr>
<td>of the PRC</td>
<td></td>
</tr>
<tr>
<td>Accord Establishing the Bi-national Business Committee</td>
<td>May, 2005 (no specific date given)</td>
</tr>
<tr>
<td>Mining Accord.</td>
<td>September 6, 2006</td>
</tr>
</tbody>
</table>

TABLE 7 source: Chilean Ministry of Foreign Relations

Aside from the free trade agreement, Chile has entered into six bilateral agreements with China since 2004. Half of these were signed during Hu’s visit in 2004, which corresponded with the leadership meeting of the Asia Pacific Economic Cooperation (APEC) forum in Santiago. Most deal with promoting cooperation in key sectors of the relationship and facilitating further consolidation of commercial ties
between the two countries. The 2004 accord include the establishment of Chile as an official destination for Chinese tourists, as well as sanitary guidelines for the import of Chilean poultry to China.

**Multilateral Institutions, Agreements**

Chile is an original member of the World Trade Organization, in which it has been a partner of China since that country’s accession in 2001. While China has not received recognition from the WTO at large as a market economy, Chile was the first Latin American nation to recognize it as such, in 2004. Between 1995 and 2006 Chile launched no formal complaints through the WTO’s trade dispute settlement instrument against the PRC. During the same period it brought one antidumping suit against China.

Chile shares membership with China in the Asia-Pacific Economic Cooperation forum, or APEC. The People’s Republic joined APEC in 1991, three years prior to Chile’s accession. The goals of the 21-member forum include fostering the expansion of free trade and investment among the bloc, which comprise approximately 41% of the world’s population and 56% of its GDP. The Bogor Goals, outlined by the forum’s leaders in 1994, seek to achieve free trade and investment among industrialized APEC member economies by 2010. Developing economies within the forum have until 2020 to implement free trade and investment regimes. Chile has committed itself to achieving free trade within the bloc by 2010. (WTO, 2003, 27).
Chile and China are both full members of the Pacific Economic Cooperation Council. The tripartite forum brings together representative committees of its 26 member countries composed of government, industry and academic leaders. The council aims to promote regional cooperation and policy coordination in the interest of economic development in the Asia-Pacific region. Chile officially joined PECC in 1991.

Chile and China are also partners in the Forum for East Asia-Latin America Cooperation. The forum, composed of 33 member-nations, is dedicated to enhancing understanding and cooperation between the two regions. Areas of focus include trade, investment, finance, science and technology. The forum’s inaugural ministerial-level meeting was held in Santiago in 2001.

**Diplomatic representation**

Chile maintains three representative offices in China. Its embassy in Beijing includes commercial, consular and defense sections, and an office of ProChile, the national export promotion agency. Six Chilean diplomats plus Chinese administrative personnel work in the embassy and its dependent offices. The General Consulate in Shanghai is home to a consular and a commercial section, which houses the ProChile Business Center in Shanghai. One Chilean diplomat and one ProChile official work in the Shanghai offices. The Chilean consulate in Hong Kong also houses a commercial section and an office of ProChile. Chile’s consulate in Hong Kong normally is lead by
one diplomat. However that position is currently vacant as the former consul was promoted to the post of Ambassador to Indonesia. The Ministry of Foreign Affairs is discussing the opening of a new consulate in Guangzhou, but no date has been set.

In total, Chile has nine diplomatic officials working in China, plus the local administrative staff in its offices, including secretaries and translators. According to the Ministry of Foreign Relations, none of the Chilean officials in China speak Mandarin fluently, although some are taking language classes.

**Institutional Structure**

Chile’s trade policy is handled mainly under the direction of the Ministry of Foreign Affairs. The ministries of Economy Agriculture, Treasury and the General
Secretariat of the Presidency also participate in policy formulation, largely through the Interministerial Committee for International Economic Relations. The Directorate of International Economic Affairs (DIRECON), part of the Ministry of Foreign Affairs, is the organism most directly responsible for policy formulation and implementation, as well as negotiation of trade agreements. Within DIRECON, trade policy is divided into three main pillars: bilateral relations, multilateral relations, and export promotion, each with its own directorate.
Brazil

As noted earlier in this paper, Brazil is the Southern Cone country of greatest significance for China. The relationship is multifaceted. Both leaders of the developing world, these two nations view each other as key economic and political partners. Brazil was the first Latin American nation to receive official recognition from Beijing as one of China’s “strategic partners” (Dominguez, 2004, 27). Brazil is China’s most important trade partner in South America. Between 2000 and 2006, bilateral trade between the two nations grew 610% to $16.39 billion. Since 2002 China has been one of Brazil’s four principal export destinations. Since 2005 only the United States and Argentina have received more Brazilian exports. In 2006 China overtook Germany as Brazil’s third most important source of imports.

The growth in trade between Brazil and the PRC is primarily a function of the growth in China’s global trade and increasing demand for primary materials, particularly soy and iron ore. However, it is also a result of Brazil’s own impressive export growth and concerted efforts on the part of the Lula administration to increase and consolidate ties with the People’s Republic. Even given the limitations on Brazil’s ability to enter into bilateral trade agreements because of its membership in MERCOSUR, increasing trade and cooperation with China has been a policy objective pursued by its executive branch agencies.
Policy Objectives

According to Brazil’s Ministry of Development, Industry and Foreign Trade (MDIC, by its initials in Portuguese), trade policy is a tool with which Brazil aims to foster growth and reduce vulnerability to external financial shocks. Its main policy objectives include promoting regional economic integration; export promotion and diversification; obtaining greater market access for its agricultural exports through multilateral trade negotiations; and promoting further development in manufacturing. While Brazil makes no specific policy statements regarding China or even Asia, promoting greater South-South trade and cooperation is a pillar of its foreign and trade polices. It is under this banner that much Brazil-China cooperation, trade and mutual investment has been promoted.

Brazil’s trade policy is widely viewed to be in large part driven by political considerations. Da Motta Veiga notes that Brazil’s trade policy stance vis-à-vis developed countries is often derived from a cost-benefit analysis based on its foreign policy objectives more so than on actual commercial or economic benefits (Da Motta Veiga, 2005, 222). This logic would seem to apply at least in part to its trade relations with China, as well. Despite significantly heightened competition both at home and abroad from Chinese manufactured goods, Brazil’s South-South discourse remains intact. Furthermore, Brazilian policy makers view China to a certain extent as a commercial and political counterweight to the United States.
One Brazilian economist interviewed for this paper echoed this sentiment, saying that China’s growing political and commercial weight make the United States less necessary (although clearly not unimportant) for Brazil, and allows it more room to maneuver in international negotiations. He went on to posit that China’s rise was at least in part indirectly responsible for the failure of the US-led Free Trade Area of the Americas. Because trade with China (and to a lesser extent the rest of Asia) has grown to such extent for Brazil and its partners in the Southern Common Market (Mercosur), it was easier to walk away from the FTAA. This obviously fits well with Brazil’s foreign policy objectives of strengthening its own position within the region, as well as those of promoting South American integration and a multi-polar world order. Those considerations, along with the opportunities of expanded exports to the PRC have helped ensure that despite the growing commercial disagreements, the relationship with Beijing is a valuable one for Brasilia.

**Bilateral Agreements, Mercosur Obligations**

Brazil’s ability to enter into bilateral commercial agreements is restricted by its membership in Mercosur. South America’s largest customs union acts as one entity in trade negotiations with non-member states. Membership in the bloc precludes commercial agreements between member states and extra-Mercosur countries. As such, although China has become one of Brazil’s most important trade partners over the past decade, there is no formal commercial agreement between the two nations
other than their mutual membership in the World Trade Organization. Mercosur has signed free trade agreements with the bloc’s two associate members, Chile and Bolivia, as well as with the Andean Community customs union and Peru. Negotiations between the European Union and Mercosur to develop an interregional political and economic association have been ongoing since 1995. The bloc has only recently begun trade negotiations with fast-growing Asian economies, having initiated a free trade agreement with India in 2004 that is currently awaiting parliamentary approval from both parties. In 2005 a feasibility study on a Mercosur-South Korea free trade agreement was undertaken, but an agreement has yet to be formally designed.

**Table 8: Mercosur Trade Agreements**

<table>
<thead>
<tr>
<th>Free Trade Agreements</th>
<th>Date of Initiation</th>
<th>Entry Into Force, Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERCOSUR-Chile (Economic Complementation Agreement No. 35)</td>
<td>1996</td>
<td>1996. Elimination of all tariffs by 2014.</td>
</tr>
<tr>
<td>Mercosur-Bolivia (ECA No. 36)</td>
<td>1996</td>
<td>1997</td>
</tr>
<tr>
<td>MERCOSUR-Mexico (ECA No. 54)</td>
<td>2002</td>
<td>2006. Gradual establishment of free trade area</td>
</tr>
<tr>
<td>MERCOSUR-Andean Community (Bolivia, Colombia, Ecuador, Peru, Venezuela*) (ECA No. 59)</td>
<td>1998</td>
<td>Argentina signed preferential trade agreement with Colombia, Ecuador, Peru and Venezuela in 2000. Brazil signed preferential trade agreement with Colombia, Ecuador, Peru and Venezuela in 2005. Gradual establishment of free trade area over maximum period of 15 years.</td>
</tr>
</tbody>
</table>

* Venezuela withdrew from Andean Community upon joining Mercosur in 2006
<table>
<thead>
<tr>
<th>Agreement</th>
<th>Year</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERCOSUR-Peru</td>
<td>2003</td>
<td>2005. Establishment of free trade area over maximum period of 15 years.</td>
</tr>
<tr>
<td>MERCOSUR-Cuba</td>
<td>2006</td>
<td>Not in force. Calls for establishment of free trade area over course of five years for limited number of goods.</td>
</tr>
<tr>
<td><strong>Extra-Regional Agreements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MERCOSUR-India</td>
<td>2004</td>
<td>Awaiting parliamentary approval. Covers limited number of goods.</td>
</tr>
<tr>
<td><strong>Framework Agreements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MERCOSUR-Egypt</td>
<td>2004</td>
<td>--</td>
</tr>
<tr>
<td>MERCOSUR-Morocco</td>
<td>2004</td>
<td>--</td>
</tr>
<tr>
<td>MERCOSUR-Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland)</td>
<td>2004</td>
<td>--</td>
</tr>
<tr>
<td>MERCOSUR-Israel</td>
<td>2005</td>
<td>--</td>
</tr>
<tr>
<td>MERCOSUR-Pakistan</td>
<td>2006</td>
<td>--</td>
</tr>
</tbody>
</table>


As can be seen in the table above, Mercosur has exhibited a clear preference for trade agreements with its neighbors in Latin America. China is conspicuously absent from even framework agreements with the bloc. The absence is even more notable considering that the PRC is one of the most important trade partners of Mercosur’s two largest members, Brazil and Argentina. The reasons for this are several. The most immediate explanation is also the simplest. Paraguay maintains diplomatic relations with Taiwan. As trade agreements with Mercosur must be negotiated between the whole bloc as one entity and the partner nation or bloc, China cannot enter into a formal agreement with Mercosur. Doing so would violate its own One China policy.
Beyond diplomatic formalities, Mercosur has been slow to seize on the idea of a bilateral agreement with the People’s Republic for other, internal reasons. The most important of these, as pointed out in interviews with several authorities familiar with Mercosur, is a lack of coordination within the bloc. As evidenced by the lack of formal agreements, no bloc-wide initiative has been made to consolidate ties with China. The Mercosur-China relationship is actually more characterized by uncoordinated or even divergent policy objectives among member states. Brazil and Argentina in particular exhibit a lack of coordination their bilateral interactions with the PRC. Brazil, as discussed in this section, has made a high-level policy objective of consolidating ties with China, entering into a series of bilateral accords and maintaining regular contact between the executives of both nations. Argentina, however, has been considerably less proactive and more defensive towards the PRC (to be discussed at greater length later).

Another fairly simple reason for a lack of a Mercosur-China agreement is that for many policy makers in Brazil and Argentina, such an agreement is viewed as unnecessary. The bulk of China’s purchases from Mercosur are composed of primary materials, mainly soy and soy products, iron ore and petroleum. These are commodities China would be buying anyway, without any added effort on the part of Brazil and Argentina. Furthermore, any agreement would include concessions on manufactured goods, further increasing already rapidly rising levels of Chinese imports within the
bloc. Opening the door to even more imports from China would imply an even more severe fall in the balance of trade with the People’s Republic for both Brazil and Argentina. This issue has gained political traction in both countries as both expect to run a commercial deficit with the PRC this year for the first time in years.

While Brazil may be content to let Mercosur-China relations remain on the backburner, bilateral relations with the People’s Republic have been a major policy priority for Brazil since the mid 1990s. As such, Brazil was the first Latin American nation that Beijing awarded the status of “strategic partnership,” in 1994 (Domínguez, 2004, 29). Lula and Hu’s reciprocal visits in 2004 marked a new milestone in Sino-Brazilian relations. Brazil recognized China as a market economy, and in return the PRC signed a host of accords promising significant investment in infrastructure, scientific cooperation and establishing mechanisms for ensuring sanitary and phytosanitary safety, important for Brazil’s agro-industrial exports to China. Since 2004 Brazil and the People’s Republic have signed 22 bilateral agreements, detailed below in Table 9.

**Table 9: Brazil-China Bilateral Agreements Since 2004**

- **Complementary Addendum on Health and Medical Sciences to the Agreement on Scientific and Technological Cooperation**  
  *Signed: May 24, 2004*

- **Agreement on Athletic Cooperation**  
  *Signed: May 24, 2004*
• Memorandum of Understanding on “Hydro-Railway” Cooperation  
  Signed: May 24, 2004

• Memorandum of Understanding on Cooperation for the Development of a System of 
  Applications for the Sino-Brazilian Earth Resource Satellite Program  
  Signed: May 24, 2004

• Memorandum of Understanding in the Area of Sanitary and Phytosanitary Security of 
  Food Products  
  Signed: May 24, 2004

• Complementary Addendum on Control of Medicines and Health-Related Products (to the 
  Agreement on Scientific and Technological Cooperation)  
  Signed: May 24, 2004

• Memorandum of Understanding on the Establishment of a High-Level Sino-Brazilian 
  Commission on Agreement and Cooperation  
  Signed: May 24, 2004

• Agreement for the Flexibilization of the Concession of Visas for Businessmen  
  Signed: May 24, 2004

• Agreement on the Exemption of Visas for Holders of Official Diplomatic Passports  
  Signed: May 24, 2004

• Protocol on Quarantine and Sanitary and Veterinary Conditions of Poultry to be 
  Exported From Brazil to the People’s Republic of China  
  Signed: November 12, 2004

• Protocol on Quarantine and Sanitary and Veterinary Conditions of Poultry Thermally 
  Processed to be Exported to the People’s Republic of China from the Federative Republic 
  of Brazil  
  Signed: November 12, 2004

• Complementary Protocol to the Agreement on Cooperation in Peaceful Applications of 
  Science and Technology in Outer Space for Cooperation on the System of Applications for 
  the China-Brazil Earth Resources Satellite  
  Signed: November 12, 2004

• Memorandum of Understanding on Cooperation in Trade and Investment  
  Signed: November 12, 2004

• Complementary Protocol to the Agreement on Cooperation in Peaceful Applications of 
  Science and Technology in Outer Space for Cooperation on the System of Applications for 
  the China-Brazil Earth Resources Satellite-2B  
  Signed: November 12, 2004
- Memorandum of Understanding on the Facilitation of Travel for Chinese Tourist Groups in Brazil
  
  Signed: November 12, 2004

- Protocol on Quarantine and Sanitary and Veterinary Conditions for Bovine Meat to be Exported From Brazil to the People’s Republic of China
  
  Signed: November 12, 2004

- Protocol on Quarantine and Sanitary and Veterinary Conditions for Thermally Processed Porcine Meat to be Exported From Brazil to the People’s Republic of China
  
  Signed: November 12, 2004

- Memorandum of Understanding on Cooperation in Environmental Protection
  
  Signed: August 17, 2005

- Memorandum of Understanding in Industrial Cooperation
  
  Signed: September 30, 2005

- Memorandum of Understanding on Cooperation in Conservation of Forest Biodiversity
  
  Signed: October 13, 2005

- Executive Program in Educational Cooperation for 2006 to 2008
  
  Signed: November 30, 2005

- Agreement Between the Government of the Federative Republic of Brazil and the Government of the People’s Republic of China on Strengthening Cooperation in the Implementation of Infrastructure Construction
  
  Signed: June 5, 2006

TABLE 9 source: Ministry of Foreign Relations. www.mre.gov.br

**Multilateral Institutions, Agreements**

Brazil is an original member of the World Trade Organization. Since China’s accession in 2001, the PRC and Brazil have actively cooperated as leaders of developing nations in the global trade forum. Brazil has never been involved in an appeal to the WTO dispute settlement mechanism with China as a complainant or respondent. Brazil did, however, initiate 26 antidumping claims against the People’s
Republic between 1995 and 2006. Of those, 12 produced actual antidumping measures. Brazil initiated more antidumping suits against China than it did against any other country, 19.4% of its 134 total claims over the period in question.

Despite concerns over dumping, Brazil and China together with India and South Africa, have used the Doha Round of WTO negotiations to lobby for greater access in developed-country markets for developing-country agricultural products. The Group of 20 Developing Nations is a bloc within the WTO that serves as the forum through which the developing nations’ agricultural agenda has been pushed. China and Brazil have actively led the G20 along with India and South Africa since its creation in 2003.

Brazil also participates with China as a member of the Forum for East Asia-Latin America Cooperation. Brasilia hosted the forum’s third ministerial meeting in August 2007.

Diplomatic Representation

Brazil maintains three representative offices in China. Its embassy in Beijing houses a consulate and commercial, cultural and educational, political, and press sections. A corps of 18 diplomats manages the embassy’s operations, assisted by about twice as many local administrative staff members. Brazil’s consulate in Shanghai also houses a trade promotion section and a cultural section. Five Brazilian diplomats, plus local administrative staff manage the consulate’s operations. In Hong Kong, four
diplomats and additional local staff manage Brazil’s consulate. As in Shanghai, the consulate in Hong Kong includes a trade promotion section and a cultural section. The Ministry of External Relations plans to open a new consulate in Guangzhou, but has not publicly specified a date.

Of Brazil’s 27 diplomats in China, most, according to MDIC, are at least able to communicate in Mandarin. In 2004 the Ministry instituted a Mandarin language-training program for diplomats stationed in China. The Ministry also offers courses in Mandarin at its Rio Branco Institute for diplomats in training.

**Institutional Structure**

Trade policy in Brazil mainly falls under the auspices of the Ministry of Development, Industry and Foreign Trade (MDIC, by its initials in Portuguese). Within the Ministry, the Chamber of Foreign Trade (CAMEX) is responsible for the formulation, coordination and implementation of foreign trade policy. While MDIC presides over CAMEX’s operations, the Chamber also receives input from the Ministers of the Civil House; Finance; Foreign Affairs; Planning, Budget and Administration; and Agriculture and Supply. The Chamber is responsible for Brazil’s customs procedures, rules of origin, labeling, tariff policy, and export financing and promotion. While it coordinates policy implementation, each of the ministries represented within CAMEX are responsible for matters that fall within their individual jurisdiction (World Trade Organization, 2004, 21). The Secretariat of Foreign Trade is
the organism within MDIC most directly responsible for trade policy implementation. Its four departments handle various aspects of policy implementation, including planning and international trade negotiations.
Argentina

Although Argentina’s international trade has traditionally been oriented toward Europe, North America and the rest of Latin America, China has figured as one of its top four trade partners since 2003. In 2006 China was Argentina’s third most important trade partner, behind Brazil and the United States.

The increase in trade with China over the past decade is largely the result of Chinese demand for primary materials to meet the consumption needs of its population, and to help fuel the manufacturing export activities that have fueled its growth. Soybeans and soybean oil accounted for more than 60% of Argentina’s exports to the PRC in 2006, nearly $2.3 billion. Petroleum accounted for another 20%, or roughly $754.6 million. While soy and petroleum exports to China are a significant source of revenue for Argentina, these are commodities that largely sell themselves. Compared with its neighbors, Argentina has exhibited little in the way of defined initiatives to diversify exports or broaden the relationship.

Policy Objectives

According to Ministry of Economy and Production (MECON, by its Spanish initials), Argentina’s external trade strategy is based on a concept it calls “productive integration,” or giving priority to increasing commerce with complementary economies. This would seem to imply increasing trade with countries such as China.
As noted earlier, the PRC imports primary materials and primary material-based manufactures of which Argentina is a major producer, while exporting manufactured goods. Furthermore, the PRC and Argentina exhibit very little export overlap.

Among Argentina’s top foreign trade policy objectives, as outlined by MECON, is the diversification of its export markets. The ministry refers to a “multipolar” strategy for negotiations and opening new markets as central to this objective, citing Argentina’s actions with China, India and South Africa as examples (Ministerio de Economía y Producción de la República Argentina, 2004, 1).

For its part, the Ministry of Foreign Relations, International Trade and Worship (MRECIC) lists among its “strategic objectives” the diversification of export destination markets. Among what the ministry describes as “specific objectives,” it lists “institutional actions” to promote the expansion of exports; analysis of commercial intelligence evaluating foreign markets, and the promotion of foreign direct investment in Argentina (http://www.mrecic.gov.ar/).

**Bilateral Agreements**

While Argentina maintains an autonomous trade policy, it must operate within the framework of Mercosur, which precludes commercial agreements between member states and extra-bloc countries. Although China is one of Argentina’s most important trade partners, there is no formal trade agreement between the two nations, other than their mutual membership in the World Trade Organization.
While Argentina is restricted in its ability to sign trade agreements with non-Mercosur countries, it is free to sign other bilateral agreements. In the interest of protecting and promoting foreign investment in Argentina and Argentine investments in other countries, Argentina has signed bilateral investment treaties with 50 countries. The first of these agreements took effect in 1992. Argentina’s agreement with China, signed in 1992 and in force by 1994, is one of the earliest.

Argentina’s other bilateral agreements include memorandums of understanding or cooperation in specific sectors, investment deals or regulatory agreements with non-member states. Since 2004 Argentina has signed 17 such agreements with China. They include agreements on investment and joint ventures in sectors such as transport, medical sciences, and an Andean highway tunnel at the Agua Negra pass.

**Table 10: Argentina-China Bilateral Agreements Since 2004**

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Signed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement between the government of the Argentine Republic and the government of the Special Administrative Region of Hong Kong on suppression of visas.</td>
<td>Hong Kong, January 14, 2004</td>
</tr>
<tr>
<td>Agreement between the government of the Argentine Republic and the government of the Special Administrative Region of Hong Kong on suppression of visas.</td>
<td>Hong Kong, January 14, 2004</td>
</tr>
<tr>
<td>Memorandum of understanding on investment between the Ministry of Economy and Production of the Argentine Republic and the Ministry of Trade of the People’s Republic of China</td>
<td>Beijing, June 28, 2004</td>
</tr>
<tr>
<td>Cooperation framework between the government of the Argentine Republic and the government of the People’s Republic of China on health and medical sciences</td>
<td>Beijing, June 28, 2004</td>
</tr>
</tbody>
</table>
• Program of cultural cooperation between the government of the Argentine Republic and the government of the People’s Republic of China  
  Signed: Beijing, June 28, 2004

• Letter of intention on cooperation between the government of the Argentine Republic and the government of the People’s Republic of China in highway works and on the tunnel at the Agua Negra pass  
  Signed: Beijing, June 29, 2004

• Memorandum of understanding on cooperation in railroad activities between the Ministry of Trade of the People’s Republic of China and the Ministry of Federal Planning, Public Investment and Services of Argentina  
  Signed: Buenos Aires, November 16, 2004

• Agreement on the exchange of notes between the Minister of Trade of the People’s Republic of China and the Minister of External Relations, International Trade and Worship of the Argentine Republic, establishing a Working Group for the Study of Bilateral Economic and Commercial Complementation  
  Signed: Buenos Aires, November 16, 2004

• Framework agreement on technical cooperation for the peaceful use of space between the National Comission of Space Activities of the Argentine Republic and the National Space Administration of the People’s Republic of China  
  Signed: Buenos Aires, November 16, 2004

• Memorandum of understanding between the Secretariat of Tourism of the Argentine Republic and the National Tourism Administration of the People’s Republic of China on the facilitation of trips by Chinese citizens to the Argentine Republic  
  Signed: Buenos Aires, November 16, 2004

• Letter of intention between the Ministry of Federal Planning, Public Investment and Services of the Argentine Republic and China Beiya Escom International Limited/China Unicom/Hong Kong New World Group in the area of satellite communications technology  
  Signed: Buenos Aires, November 16, 2004

• Letter of intention between the Ministry of Federal Planning, Public Investment and Services of the Argentine Republic and New World Property Development Limited and China Construction Bureau/China Railway 20th Century Bureau Construction for the construction of public housing and infrastructure works  
  Signed: Buenos Aires, November 16, 2004

• Letter of intention between the Ministry of Federal Planning, Public Investment and
Services of the Argentine Republic and China Beiya Excomo International Limited and China Railway 20th Century Bureau Group on urban and interurban passenger (transport) services

Signed: Buenos Aires, November 16, 2004

• Letter of intention between the Ministry of Federal Planning, Public Investment and Services of the Argentine Republic and China Beiya Excomo International Limited/China Unicom/Hong Kong New World Group in the area of communications

Signed: Buenos Aires, November 16, 2004

• Letter of intention between Energía Argentina S.A. and China Sonangol International Holding Limited on hydrocarbon activities

Signed: Buenos Aires, November 16, 2004

• Memorandum of Understanding between the Argentine Republic and the People’s Republic of China on cooperation in trade and investment

Signed: Buenos Aires, November 16, 2004

• Memorandum of cooperation between the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China and the Secretariat of Agriculture, Livestock, Fishing and Food of the Argentine Republic on food security and sanitary and phytosanitary issues.

Signed: Buenos Aires, October 3, 2006


All but one of these agreements were signed in 2004, during Néstor Kirchner’s visit to Beijing or Hu Jintao’s visit to Buenos Aires, both at the height of excitement over what seemed to be a flourishing relationship. The package of agreements signed in 2004 was to total $20 billion in Chinese investment in Argentina over the following 10 years. However, by all accounts enthusiasm has waned and follow-through has been lacking on both sides. The majority of these agreements have produced few, if any tangible results.
Multilateral Institutions, Agreements

Argentina is an original member of the World Trade Organization, where it has been a partner of China since that country’s accession in 2001. Although China has not yet received recognition as a market economy from the WTO, Argentina recognized it as such in 2004. In compensation, Argentina’s status in Beijing’s hierarchy of international relations was upgraded, at least officially, to that of “strategic partnership.”

Argentina has been active in bringing commercial grievances against China. The two countries have never been involved as complainant or respondent in a suit brought before the WTO’s dispute settlement body. However, between 1995 and 2006 Argentina initiated 50 antidumping complaints against China, 35 of which produced punitive measures. Argentina has brought more antidumping measures against China than it has against any other country, 22.83% of its 219 claims over the period. It has also brought more against China than has any other Latin American nation. Only three WTO members brought more antidumping claims against China than did Argentina between 1995 and 2006: India (93), the European Community (72) and the United States (64).

Despite the antidumping measures, China and Argentina are also partners in the Group of 20 Developing Nations. Both countries have been vocal in calling for the elimination of agricultural subsidies in the United States and European Union.
Argentina and China also participate together as members of the Forum for East Asia-Latin America Cooperation.

**Diplomatic Representation**

A significant part of the responsibility for execution of Argentina’s foreign trade policy falls upon the country’s representations abroad, its embassies, consulates and promotion centers. In China, these include the Argentine Embassy in Beijing, which houses the consulate, the commercial section and the agricultural office. Typically, the embassy is managed by the ambassador, four career diplomats, four Argentine administrative officials and local personnel. Authorities interviewed within the Ministry of Foreign Relations said that at the moment, due to rotations within Argentina’s diplomatic corps, various posts remain unfilled in Beijing, including that of the ambassador and two other diplomats.

In Shanghai, Argentina operates a consulate and Trade Promotion Center, which is charged with promoting mutual business and investment between the two nations from its seat in China’s business and financial capital. Three diplomatic officials and one local administrative staff member manage the consulate and Promotion Center’s operations Argentina’s consulate in Hong Kong is managed by two diplomats, an Argentine administrative official, and local personnel. While these are currently the only official Argentine representations in the country, MRECIC plans to
open a new consulate in Guangdong Province some time in 2008. Of the 10 Argentine diplomatic officials stationed in China, none speak Mandarin with proficiency.

**Institutional Structure**

Formulation and implementation of Argentina’s international trade policy is divided between the Ministry of Economy and Production (MECON by its Spanish initials) and the Ministry of External Relations, International Trade and Worship (MRECID by its Spanish initials). Articulation of foreign trade policy and the foreign
investment regime, as well as design, implementation and control of Argentina’s customs system are handled by MECON. The National Directorate of External Commercial Policy is the unit most directly responsible for trade policy. Implementation of trade policy, economic and trade negotiations and export promotion are handled by MRECIC.
**Comparative Analysis**

Examination of the indicators outlined in the previous section reveals some glaring differences, as well as apparent similarities among Chile, Brazil and Argentina in their attempts to capitalize upon the opportunities presented by China’s growth. Going through the indicators one by one, comparing the individual countries and incorporating information provided by interview subjects will help us complete our understanding of how these countries are positioning themselves, relative to one another, to benefit from China’s growth.

**Policy Objectives**

Of the three countries examined, Chile exhibits by far the most clearly defined and articulated policy objectives with regards to China. In official statements issued by both the Ministry of Foreign Relations and the Directorate of International Economic Affairs, Chilean authorities clearly articulate the country’s overall trade policy objectives, namely to increase trade in order to fuel economic growth and job creation, simultaneously positioning Chile as one of the world’s leading trading states through the aggressive pursuit of bilateral trade agreements.

Within this broad framework, Chilean authorities give Asian economies special importance, going so far as to describe the consolidation of ties with the region as “a policy of state.” They explicitly express their objective for positioning Chile as a
commercial bridge between Asia and Latin America, exploiting their country’s numerous bilateral agreements in both regions. Chile’s active efforts to strengthen commercial ties with China, particularly its free trade agreement with the PRC, conform precisely to these stated objectives.

Brazil’s policy objectives are less explicit in relation to China than are Chile’s, but do not necessarily represent a lack of strategy or policy objectives. Increasing commercial and political ties with the People’s Republic has been a major objective for Brazil since the mid-1990s, repeatedly declared by Lula during his presidency. If Brazil’s formally stated policy objectives make no mention of either China or Asia, they do include a clear preference for the promotion of South-South trade and cooperation. Brazil’s vastly increased trade with the People’s Republic, mutual investment and scientific cooperation programs are evidence to these objectives.

As noted earlier, Brazil’s trade policy is in part intended to help shield the country from external shocks by maintaining diversity in its export markets. It also is formulated with significant attention to Brazil’s foreign policy objectives. These include strengthening Brazil’s position as a leader of both Latin America and the greater developing world, as well as fostering the development of a multi-polar world order. Increasing commercial and political ties to Beijing falls in line with all of these objectives.
Brazil has managed to increase its trade with the People’s Republic without significantly altering the diversity of its export markets. Chile serves as an example of the opposite trend. Its surging trade with China has made it the most vulnerable to shocks of the three countries in question, with 9.86% of its total exports going to the People’s Republic in 2006. Brazil, however, has managed to maintain relative stability in the percentage of its total exports that goes to China. Between 2003 and 2006 this percentage fluctuated between 5 and 6%, ending 2006 at 6.1%. This conforms to Brazil’s trade policy objectives of both increasing South-South trade and keeping export markets diversified.

At the same time, Brazil’s leadership alongside China, India and South Africa of the G20 is a clear product of its stated ambitions to position itself as a leader among developing countries. Likewise, if one agrees with the notion that China’s indirect influence is at least partly responsible for Brazil’s leadership in dismantling the FTAA, then increasing ties with China could be seen as compatible with Brazil’s objective of exercising greater leadership within Latin America, as well. As such, although its policy objectives vis-à-vis China are not as explicitly stated as those of Chile, it is clear that nurturing the commercial, economic and political relationship with Beijing is indeed a policy objective for Brasília, and complements its more global policy goals.

If Chile’s policy objectives with regards to China are clearly defined, and Brazil’s at least inferable within the context of its broader objectives, Argentina’s are
at best ambiguous. There is no specific mention of China or Asia in the stated policy objectives of either the Ministry of Economy or the Ministry of Foreign Relations. Furthermore, Argentina’s mishandling of Hu’s 2004 visit and inability to consolidate what gains were produced at the time, its relative inactivity compared with the proactive efforts of its neighbors, and at times conflictive declarations from the executive branch mean that its true policy objectives vis-à-vis China are difficult to discern if not contradictory. In interviews, authorities from within both the ministries of Foreign Relations and Economy, as well as representatives of the private sector and academics all confirmed this analysis. Every subject interviewed stated emphatically that Argentina has no defined policy toward China.

For an example of some of the contradictions, recall the Ministry of Economy’s international trade strategy based on “productive integration,” the promotion of trade with those economies complementary to Argentina’s. This would clearly include China, as Argentina sells primary materials to the PRC and buys its manufactured goods. There are few economies in the world that could be said to be more complementary to Argentina’s than is China’s. However, the very same Ministry of Economy, in the name of protecting Argentine manufacturing and breaking the country’s dependence on natural resources, has been one of the most vocal critics of the rising tide of Chinese imports.
Upon replacing Felisa Miceli as Economy Minister in July 2007, Miguel Peirano very publicly and repeatedly declared that stemming Chinese imports would be a top priority of his administration. To that effect, on August 17 Argentina’s General Directorate of Customs (overseen by the Ministry of Economy) announced measures to slow the flow of Chinese imports and protect domestic manufacturing by increasing penalties for under-billing by importers, as well as non-tariff barriers on the import of certain goods. The measures nominally affected goods from China, South Korea, the Philippines, Hong Kong, India, Indonesia, Malaysia, Pakistan, Taiwan, Thailand, Singapore and Vietnam, although the intended target was clearly China.

The Customs Directorate established a list of 5,000 references prices on products including textiles, shoes, toys, electronics, tools and tires. Products found to be priced below the established references prices face additional tariffs. However, the non-tariff barriers present an even greater obstacle. For goods found to be priced below the reference price established by Argentina’s customs, importers must present a commercial receipt “and all complementary documentation in its totality” validated by the customs of the country of origin, as well as by the Argentine consulate in the corresponding jurisdiction. Documentation must be written in Spanish or “another language of frequent international use.”

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The response from China was almost immediate. The Chinese Ministry of Commerce called the measures “irrational and unacceptable” in statements to the press. More significantly, Chinese customs applied stricter than usual phytosanitary controls to three large shipments, totaling 150,000 tons, of soy, by far Argentina’s most important export to China. After the extra inspections, the shipments were eventually allowed on their way. However, the message to Argentina was clear. Furthermore, attempts to secure an interview for this thesis shortly thereafter with officials in the Chinese Office of the Economic-Commercial Counselor in Buenos Aires were greeted with the response that, “due to the recent commercial measures taken” no interviews were currently being granted to the public.

The Chinese were not the only ones to express confusion and displeasure at the protective measures. Several Argentine academic and private sector sources interviewed expressed dismay at Argentina’s actions. An economist with the Inter-American Development Bank based in Buenos Aires who has written about the China-Latin America commercial relationship said that protective measures showed “not even a little strategic thinking.”

The actions taken by Argentine customs, and the repeated public statements by Peirano, would seem to contradict the Ministry’s own stated policy objective of promoting Argentina’s “productive integration.” Furthermore, as the quote above from the IDB economist pointed out, they are telling of a larger underlying problem.
Argentina’s confusing and contradictory stance toward China is the product of a lack of strategic vision in its foreign political, commercial and economic relations, rather a symptom of Argentina’s poorly defined foreign policy.

Néstor Kirchner’s dislike for foreign policy is widely acknowledged. As his administration has focused intensely on implementing his domestic agenda, Argentina’s wider international relations have withered. One long-time economic advisor to the government offered his assessment of the situation: “Argentina does not have international relations. It has no policy of international relations. That is clear enough. With the exception of Brazil and (Kirchner’s) friend Chávez… there is no vision on international relations.”

A comparison of Argentina’s bilateral agreements in the periods 2000-2003 and 2004-2007 illustrates the point. From 2000 to 2003, at the height of its economic turmoil, during recession, default and a succession of 14 presidents, Argentina entered into 407 bilateral agreements (of any type) with other nations. From 2003 to October 2007, a period of stability and robust economic growth, Argentina entered into 340 bilateral agreements. Of these, the majority was with other South American nations, particularly Mercosur members and associate partners. From 2000 to 2003, roughly 33% of Argentina’s bilateral agreements were with these regional partners (Bolivia, Brazil, Chile, Paraguay, Uruguay and Venezuela). In the period between 2004 and 2007 that percentage increased to nearly 48%. Relationships that showed the most

Over the same two periods bilateral agreements between Argentina and its traditional North American and European political allies and commercial partners saw a significant decline. Accords with the United States, Spain, Germany and Italy fell from 67 in the 2000-2003 period to 26 in the 2004-2007 period. Argentina’s bilateral agreements with East Asian nations (China, Japan and South Korea) did increase significantly over the two time periods, but this was due to a doubling of agreements with China, from 8 to 17. As mentioned previously, most of these agreements with the PRC produced little in the way of tangible results. Despite the increase, agreements with East Asian nations still accounted for just 6.4% of all Argentina’s bilateral agreements between 2004 and 2007.

The atrophy of Argentina’s extra-Mercosur foreign policy, and the lack of strategic vision it implies, is one of the major underlying reasons for the country’s confusing and unclear policy objectives in relation to China. Chile and Brazil, in comparison, have much more clearly defined policy objectives in general, both in trade
policy and foreign policy. This strategic vision is reflected in their policy objectives toward the People’s Republic.

In sum, while Chile’s policy objectives toward China are specifically stated and clearly defined, and Brazil’s are less so, Argentina’s are highly ambiguous. The few vague policy objectives stated by Argentina’s Ministry of Economy and Ministry of Foreign Relations regarding foreign trade seem to contradict the Ministry of Economy’s recent statements and actions regarding imports from the People’s Republic. Furthermore, this ambiguity and inconsistency are symptoms of Argentina’s poorly defined foreign policy in general.

**Table 11: ABC Policy Objectives Toward China**

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly defined</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Inferable from actions</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>In agreement with other stated policy objectives</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*TABLE 11 source: Author’s elaboration based on documents from the Ministry of Economy and Production of the Argentine Republic; the Ministry of Foreign Relations, International Commerce and Worship of the Argentine Republic; the General Directorate of International Economic Affairs of Chile; the Ministry of Development, Industry and Foreign Trade of Brazil; interviews with outside authorities.*
**Bilateral Agreements**

Bilateral agreements are one of the most visible indicators of the extent of official, state-level association between two nations. They also reflect the policy objectives and preferences of both parties at the time of signing. As such, comparing the bilateral agreements that Argentina, Brazil and Chile have entered into with China can provide both quantitative and qualitative measures of the degrees to which these governments have pursued closer commercial, economic and political ties with Beijing. This comparison will focus only on those agreements signed beginning in 2004, the year of Hu’s visit to the region and in which China-Latin American trade witnessed a marked acceleration.

Of the three countries, Chile’s bilateral agreements with China have been the fewest, and arguably the most productive. Including the two phases of the free trade agreement, Chile has entered into only eight bilateral agreements with the People’s Republic since 2004. As noted in the previous section, the first part of the free trade agreement, which went into effect last year, spurred a 98% increase in bilateral trade between the countries in the first semester of 2007 relative to the same period in 2006. The other agreements, few in number and limited in scope, served to further consolidate commercial ties and cooperation in key sectors.

While Brazil is limited in its ability to enter into bilateral commercial agreements, it has signed several agreements of other types with the People’s Republic
that have nonetheless had impact on trade and investment between the two countries. These include measures such as the easing of visa requirements for business travelers from both countries and the establishment of sanitary guidelines for the import of Brazilian meat and agricultural products. Another major agreement in 2004 was that of the continuation of the China-Brazil Earth Resources Satellite System in which the two countries have jointly financed, designed, constructed and launched satellites to monitor their vast national territories.

Like Brazil, Argentina is limited in its ability to enter into bilateral commercial agreements with non-Mercosur members. Also like Brazil, Argentina signed a series of non-commercial bilateral agreements with China during the period in question in the hopes of promoting increased trade and investment between the two countries. However, in contrast to Brazil’s experience, the 17 bilateral agreements that Argentina signed with the PRC between 2004 and 2007 have produced relatively little in the way of results. It is worth noting that almost all of these agreements were signed in 2004, coinciding with the reciprocal state visits of Kirchner and Hu, and characterized by a lack of follow-up on both sides. Furthermore, the manner in which the majority of these agreements were designed may actually have damaged Argentina’s prospects for increasing trade and investment with China.

Argentina’s welcoming of Hu’s delegation in 2004 is widely regarded as having been significantly less professional than that of Brazil or Chile. The planning
and implementation of the visit were handled largely by Néstor and Cristina Kirchner themselves, along with Planning Minister Julio de Vido (Domínguez, 2006, 32). A combination of this monopolization, poor coordination among ministries within the Argentine government, profound misunderstandings and wildly different expectations of what was to be achieved by the visit led to a series of agreements that were unrealistic in their reach, according to several authorities interviewed.

China’s main goals for Hu’s 2004 visit to the region were to shore up access to natural resources and obtain recognition as a market economy, both of which it was able to accomplish. The perception on the Argentine side was somewhat different. In an interview for this thesis Sergio Cesarin, one of the most widely recognized Argentine academic authorities on China-Argentina relations, characterized the agreements as those designed by an Argentina still recovering from its 2002 economic collapse and eager to find alternative sources of financing. The Kirchner administration’s enthusiasm for the possibilities represented by Hu’s visit (realistic or not) was amplified in the local press. “There were hopes in a China that came practically like Papa Noel, like a Santa Clause who came to invest,” said Cesarin.

These expectations, however, proved to be largely inflated. While it was widely reported in the local media that China would invest nearly $20 billion in Argentina over the following ten years, little of that investment has actually
materialized. Cesarin credits this to various factors, including primarily, unrealistic expectations on the part of Argentina.

The embarrassing misunderstandings of 2004 have led to a degree of mutual disillusionment on both sides, which could hurt Argentina’s chances to substantially increase and diversify its exports to and investment from China in the future. To date Cristina Kirchner, one of the principal architects of the Hu visit and subsequent agreements, and Argentina’s next president, has not given any public indications that her administration will work to reestablish ties that have withered since 2004. Cesarin says, “Lamentably, I think that because of errors committed and situations that produced mistakes in 2004… there is not much sympathy for the case of China within the conception of the new government (in reference to Cristina Kirchner). I believe that China will continue being an important partner, obviously, and will be a market that (Argentina) will have to treat carefully. But this type of flash, of enamorment that there was in 2004 will not return.”

As such, Argentina’s 17 bilateral agreements with China since 2004, for the reasons outlined above, have produced relatively few tangible results other than a corrosion of relations between Argentina and the People’s Republic. It remains to be seen whether the next government can reconstruct the good will and mutual expectations that led to the signing of these agreements amidst such excitement in 2004. In contrast, Brazil’s bilateral agreements with China reflect a more pragmatic
understanding of the realities of its relationship and have led to important advances in the facilitation of exports to the PRC, as well as scientific cooperation. Chile’s free trade agreement with the PRC has clearly produced the most in the way of tangible results. It also set the stage for a new round of negotiations on trade in services and investment that will likely produce a similar increase in both areas.

**Table 12: ABC Bilateral Agreements with China, 2004-2007**

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of agreements</td>
<td>17</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Type of agreements</td>
<td>Memorandums of understanding, letters of intention, cooperation frameworks</td>
<td>Memorandums of understanding, protocols, letters of intention, cooperation agreements</td>
<td>Free trade agreement</td>
</tr>
</tbody>
</table>

TABLE 12 source: Author’s elaboration from documents from the Ministry of Foreign Relations, International Commerce, and Worship of the Argentine Republic; the Ministry of Development, Industry and Foreign Trade of Brazil; the General Directorate of International Economic Affairs of Chile

**Multilateral Institutions, Agreements**

Multilateral institutions offer another forum in which the behavior of the three major Southern Cone nations vis-à-vis China can be compared and analyzed. The most important of these is the World Trade Organization. Argentina, Brazil and Chile are all original, active members of the WTO, where they have been partners with China since that country’s accession in 2001. All three of these Southern Cone nations granted China market economy status in 2004 (Chile being the first in Latin America to do so), a recognition that the People’s Republic has still not received from some key members of the WTO.
The granting of market economy status was largely a product of strategic calculations on the part of the Southern Cone nations in the hopes of securing access to China’s market for their exports, as well as what at the time promised to be significant investment from the PRC. Recognition of China as a market economy implies restrictions on the types of anti-dumping measures these countries may take against China. The recognition of market economy status has been of particular sensitivity to Argentina, and to a lesser extent Brazil, recently as Chinese manufactured imports have risen sharply in these markets, along with accusations of widespread under-billing. Some officials in these countries resent having limited their own ability to protect domestic manufacturers against what many see as unfair competition from China in exchange for what was perceived as promised investment that has not materialized.

Aside from generating grumblings over the concession of market economy status, the WTO has also provided a venue in which these countries may bring forth international commercial grievances. It is in the use of such mechanisms that the WTO serves as a type of barometer for measuring how these countries are positioning themselves relative to China. The WTO also tracks the use of anti-dumping actions initiated by member governments, as membership carries with it rules on what types of actions are permissible. While Argentina, Brazil and Chile have not made use of the WTO’s official dispute resolution mechanism against China, the three countries
demonstrate considerable differences in their use of anti-dumping actions. Table 13 below illustrates the employment of antidumping claims in the WTO by Argentina, Brazil and Chile against China from 1995 to 2006. The table measures the number of claims, or initiations, brought before the body, their relative percentage of each country’s total initiations, and the number of actual punitive measures produced as a result.

**TABLE 13: Antidumping Claims Against China, 1995-2006**

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of AD Initiations Against China</th>
<th>Total AD Initiations</th>
<th>% of Country’s Total AD Initiations</th>
<th>No. of Resultant AD Measures Against China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>50</td>
<td>219</td>
<td>22.83</td>
<td>35</td>
</tr>
<tr>
<td>Brazil</td>
<td>26</td>
<td>134</td>
<td>19.4</td>
<td>12</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
<td>14</td>
<td>7.14</td>
<td>1</td>
</tr>
</tbody>
</table>

TABLE 13 source: World Trade Organization

As can be seen in Table 13, Argentina has been by far the most active of the three major Southern Cone countries in bringing antidumping claims against China. It initiated not only the highest absolute number of claims against the PRC of the three countries, but the highest percentage of total claims, as well. In fact, Argentina is among the WTO members to have produced the most antidumping claims against China. Only three members initiated more claims against China between 1995 and 2006: The United States (64), the European Community (72) and India (93). During the period in question, 42 members brought a total of 3,044 antidumping claims before
the WTO. Of those, 536, or 17.61% were brought against China. The average number of initiations against China for each claimant member was 13.

The figures in Table 13 and those mentioned directly above show that Argentina has been particularly active in bringing antidumping claims against China, much more so than have been its neighbors. Argentina is by far the most active of the major Southern Cone countries in this respect, and one of the more active members of the WTO at large. It has brought more claims against China than all but three other members. Furthermore, its antidumping initiations have surpassed not only the average number of initiations for claimant members, but as a percentage of total claims, it is significantly above the WTO average, as well.

While Argentina has made active use of protective measures against Chinese imports, Chile has actively used other multilateral institutions to promote even greater trade with China and its neighbors in Asia. Its membership in the Asia Pacific Economic Cooperation forum is the most important example. As noted earlier, Chile’s membership in APEC corresponds with its larger strategy of employing bilateral agreements to position itself as a commercial and economic bridge between Asia and Latin America. As such, it has committed itself to free trade within the forum by 2010. Chile’s proactive use of APEC to facilitate the realization of its larger trade policy objectives in Asia is in essence the opposite of Argentina’s experience with the WTO, which it has used largely to protect its domestic industries. These two are the most
divergent examples of the use of multilateral institutions by countries in the region and reflect Chile and Argentina’s profoundly different stances toward China.

**Diplomatic Representation**

Given China’s vast size and complex society, as well as the equally large geographic and cultural differences that separate it from Latin America, any attempt by the Southern Cone countries to promote increased exports and investment requires a variety of undertakings that imply significant effort and strategic planning. These include the skillful and efficient gathering of intelligence regarding market conditions in China to be disseminated to domestic exporters; the dissemination of information about the domestic market to Chinese producers; marketing campaigns to promote the “country brand” in the Chinese market; promoting cultural understanding between two very different societies; and forging strong personal contacts with government and business leaders. All of these efforts require significant resources and personnel on the ground in China.

Comparison of Argentina, Brazil and Chile’s diplomatic representation in China reveals more similarities than differences on the surface. All three countries currently operate three representative offices in the country. All maintain an embassy in Beijing, a general consulate and business promotion center in Shanghai, and another general consulate in Hong Kong. All three countries are planning a new consulate in
Guangzhou, although Argentina is the only one to have given any indication as to when it would be open, in 2008.

While all three countries may have the same number of representative offices in China, in the same key cities, there are differences in the functions carried out by these offices. Chile’s embassy houses commercial, consular and defense sections, plus an office of ProChile, the national export promotion agency. Notably, ProChile is also present in both the Shanghai business promotion center and the Hong Kong consulate. Neither Brazil’s export promotion agency (APEX) or Argentina’s (Fundación ExportAr) maintain a permanent presence in their countries’ representative offices in China.

Brazil’s embassy features the most diversified division of labor among the three embassies in question. It houses consular, commercial, cultural and educational, political and press sections. It also boasts the most personnel, with 18 Brazilian officials (both diplomatic and administrative) managing operations, as compared with six in Chile’s embassy and nine in Argentina’s.

Argentina’s embassy houses a consulate and commercial section, as well as an agricultural promotion office. This is the only such office maintained in China by any of the three countries, and reflects the importance of agricultural and agro-industrial exports for Argentina and the potential for their growth in the Chinese market.
While Argentina stands out from its neighbors in this respect, Brazil is the standout in terms of the Mandarin language capabilities of its personnel in China. In 2004 Brazil began a Mandarin instruction program for all newly stationed diplomats in China. As such, according to the Brazilian Ministry of Foreign Relations, 90% of those diplomats who have been in China for one year are able to communicate at a basic level in Mandarin.

While all representative offices of all three countries are staffed with a corps of Chinese administrative employees and translators, officials from all countries in question recognized the importance of Mandarin language abilities for diplomats and other officials stationed in China. A high-level official in the Argentine Ministry of Economy who analyzes trade and economic issues in Asia lamented Argentina’s lack of personnel with Mandarin language capabilities stationed in China, noting the particular importance in Chinese business culture of establishing strong personal connections. She expressed her belief that the Mandarin capabilities of Brazilian diplomats, even if limited, represented a significant advantage in promotion of business and investment. A senior Argentine diplomat who had spent several years stationed in the People’s Republic and is himself not proficient in Mandarin, stated that Argentine officials in China, even if not required to study Mandarin “know that it is a convenience.”
Of greater concern to this official was what he characterized as a serious lack
resources designated to Argentina’s representations in China from within the
Chancellery. Like the official in the Ministry of Economy, he said the importance of
face-to-face contact and forging strong personal connections with Chinese business
leaders and political officials could not be overemphasized. Key, he said to
strengthening these relationships were exchanges, both sending Argentine business
representatives and government officials to China as well as bringing their counterparts
to Argentina. However, he said, the financial resources to maintain such exchanges
were simply not available. He attributed this lack of resources to misguided priorities
within the Chancellery, suggesting that divisions responsible for some other regions
had access to greater resources.

Interviewees in both the Ministry of Economy and the Ministry of Foreign
Relations expressed concern over the limited number of personnel in Argentina’s
representations in China, saying that effectively promoting Argentine interests in a
country as massive as the People’s Republic required a much larger number of people.
However, officials in the Ministry of Foreign Relations said that, due to the region’s
growing importance, the Ministry planned on significantly increasing the corps of
diplomatic and administrative officials in Argentina’s representative offices throughout
Asia and Oceania, including China. They could not specify a time frame for this
expansion, nor give an estimate as to its magnitude.

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While it is true that limited personnel in each of Argentina’s representative offices in China are responsible for covering vast geographical areas that are highly populated, it is worth considering the example of Chile’s representations. Chile manages the same number of representative offices in the same cities, but with fewer diplomatic and administrative officials. There are clearly much more significant reasons for why Chile has been able to increase its exports to China at a much faster pace than Argentina. Even so, an in-depth comparison of the two countries’ diplomatic and business promotion efforts within the People’s Republic could reveal helpful insights for Argentina.

Another characteristic distinguishing the three countries’ diplomatic and promotion efforts in China that was not originally considered, but whose importance became increasingly clear over the course of this investigation, was the quality of information available on their respective Web sites. This is particularly the case for the three countries’ business promotion centers in Shanghai. One of the main responsibilities of these centers, located in China’s business and financial capital, is to disseminate information about their home countries to the Chinese business community, facilitating connections with domestic exporters and promoting opportunities for investment. They are also intended to provide information on export and investment opportunities in China to domestic producers. The promotion centers of both Brazil and Chile feature Web sites that provide ample information about their
domestic markets to Chinese exporters, as well as current data about Chinese consumption trends and market access for domestic producers. Both sites (www.consbraxangai.com and http://chileinshanghaichina.126.com) are attractive and well designed, easily navigable and easy to read. The same holds true for the Web sites of both Brazil’s and Chile’s Hong Kong consulates (www.cghile.org.hk and www.brazilianconsulate.org.hk), which both house commercial sections. Information about Argentina’s business promotion and consular services in China, however, is much more limited and poorly presented. The Web sites of the General Consulate and Trade Promotion Center in Shanghai (www.consuargensh.com), as well as the General Consulate in Hong Kong (http://home.netvigator.com/~consarhk/) are crudely designed and contained outdated information and dead links. The Shanghai Trade Promotion Center site featured economic indicators from 2002 and a China business guide dating from 1998. These sites should be easy-to-use and reliable sources of information for possible importers and investors in China and exporters in Argentina. In their current state they are unable to complete either role. They also stand in stark contrast to the sophisticated information resources made available by both Chile and Brazil.

In sum, comparing Argentina, Brazil and Chile’s diplomatic representations in China reveals mixed conclusions. Brazil clearly has dedicated the most resources to its embassy and consulates, with the most specialized sections and by far the most
diplomats and administrative officials on the ground. Its Mandarin language training program also sets its diplomats apart from their Chilean and Argentine counterparts.

Chile is notable for the permanent presence of its export promotion agency, ProChile, in its embassy and both consulates in China. These three offices are connected with several throughout Chile, bringing market intelligence and valuable contacts directly to Chilean producers. The same cannot be said for the export promotion agencies of either Brazil or Argentina.

At first glance Argentina may seem to be similarly situated to Chile in the People’s Republic, with the same number offices and slightly more personnel in the country. However according to officials within the Ministry of Foreign Affairs a lack of resources means that Argentina’s embassy, consulates and business promotion center are unable to competitively promote increased exports to and investment from China to their fullest ability. The information resources made available by Argentina’s consulates and Trade Promotion Center are of significantly lower quality than those of Chile and Brazil.

<table>
<thead>
<tr>
<th>TABLE 14: ABC Diplomatic Representation in China</th>
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</thead>
<tbody>
<tr>
<td><strong>No. of representative offices in China</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>No. of diplomats and administrative officials in China</td>
</tr>
<tr>
<td>Personnel that speak Mandarin</td>
</tr>
<tr>
<td>Mandarin language instruction required</td>
</tr>
<tr>
<td>Permanent presence of export promotion agency</td>
</tr>
</tbody>
</table>

**TABLE 14** source: Author’s elaboration with documents and interviews from the Ministry of Foreign Relations, International Commerce and Worship of the Argentine Republic; Brazilian Ministry of Foreign Relations; Chilean Ministry of Foreign Relations

**Institutional Structure**

At the start of this investigation institutional structure was not among the original criteria to be examined. However, after researching policy objectives and the other indicators detailed above, and after numerous interviews with authorities both within and outside of government, it became clear that the structure in which trade and foreign policy is formulated and implemented has a great deal to do with how those policies eventually look. Comparing the institutional structures responsible for the formulation and implementation of trade policy in particular in Argentina, Brazil and Chile revealed significant differences. These structural differences have much to do with the three countries’ differing stances toward China, and as such, their abilities to benefit in the long term from the opportunities presented by the PRC’s growth.
The major difference that sets Argentina apart from its neighbors when evaluating this institutional framework is the division of labor, so to speak. In both Chile and Brazil, the formulation and coordination of trade policy is largely centralized. In Chile, trade policy formulation and implementation are managed by Directorate of International Economic Affairs (DIRECON). Input from the various other ministries, including Economy, relevant to trade policy is provided via an institutionalized structure, the Inter-Ministerial Committee on International Economic Relations. Even so, DIRECON’s operations fall squarely under the mandate of a single ministry, the Ministry of Foreign Relations.

Brazil’s institutional structure is similarly centralized within the Ministry of Development, Industry and Foreign Commerce. The Chamber of Foreign Commerce (CAMEX) provides a means of input for other relevant ministries in the formulation of trade policy, while implementation is coordinated by the Secretariat of Foreign Commerce (SECEX). As in Chile, the key structures in the formulation and coordination of trade policy fall under a single ministry.

The structure in which Argentina’s trade policy is formulated and coordinated is significantly different, with key tasks divided between two separate ministries. The National Directorate of External Commercial Policy, part of the Ministry of Economy and Production (MECON), is largely responsible for the formulation of Argentina’s trade policy. The Sub-Secretariat for International Commerce, part of the Ministry of
Foreign Relations, International Trade and Worship (MRECIC), is the entity most directly responsible for the coordination and implementation of trade policy.

This division of key aspects of trade policy between two distinct ministries creates opportunities for miscommunication, faulty coordination or even the development of conflicting objectives. This appears to be the case in regards to Argentina’s trade stance vis-à-vis China. In interview after interview, subjects referred to the disconnect between MECON and MRECIC as major hindrance in the development of a coherent policy toward China. Interview subjects both within and from outside government said that MECON and MRECIC had distinct, at times conflicting visions of China’s significance for Argentina, and as to whether it presented greater challenges or opportunities

The harshest criticisms of this structure came from the private sector, which is keenly aware of the opportunities being missed in China as well as Argentina’s incoherent policy. The Argentina-China Chamber of Commerce and Production represents the interests of a diverse collection of more than 250 domestic businesses ranging from agro-industrial producers to light manufacturers to garment producers that wish to expand their exports to China. A high-level official from the Chamber described MRECIC and MECON as having two completely different visions regarding China.
The Chancellery, responsible for diplomatic relations with China as well as oversight of Argentina’s export promotion agency, Fundación ExportAr, is more intent on consolidating ties with the PRC and promoting increasing exports. Meanwhile, according to the Chamber’s assessment of the situation, the political posts within the Ministry of Economy are in greater contact with domestic industrial interests that feel threatened by Chinese imports, notably textile producers, and are susceptible to lobbying and pressure from these groups. The official from the Chamber said, “Lamentably, the Ministry of Economy is worried more about defending Argentine textile companies that are fairly inefficient, and imposing obstacles to importing Chinese products which will not supplant Argentine industry, but complement it.”

The view from sources within government was somewhat more subdued, but reflected the perceptions of the private sector. An official in MECON’s National Directorate of Foreign Commercial Policy admitted that, at times there were significant differences of opinion on policy objectives between the two ministries, and affirmed the ministry’s more defensive stance. “Internally, (the Ministry of) Economy is always more prone to apply commercial sanctions, or restrictions or tariffs than is the Chancellery.”

Regardless of the differences in vision, officials within the Ministry of Economy said that these did not materialize into a lack of consensus and coordination. Although there is currently no formal institutional mechanism that could bring together
input from the two ministries in the formulation or implementation of policy, the
official in the Directorate of Foreign Commercial Policy assured that there were
regular “horizontal” meetings between complementary entities within MECON and
MRECIC when important decisions needed to be made, and thus consensus was
assured.

That point of view was not shared within the Chancellery. One high-level
official very diplomatically disagreed with the assessment, saying that although “total
un-coordination” would not be an accurate description of the situation, there were
definitely points on which the two ministries maintained very different ideas that did
not always arrive at consensus. Another high-level official within the Chancellery had
a harsher assessment, saying that compartmentalization of tasks at the level of
ministerial agencies and departments, as well as what he classified as the ministries’
“dichotomous, different visions” produced serious obstacles. “On occasion,” he said,
“the lack of coordination is clearly evident. And that exposes shortages (in institutional
capacities) that produce weaknesses in negotiations (with China).”

Regardless of the degree of differences between MECON and MRECIC, it is
clear that there is a certain level of disconnect between the two ministries with respect
to Argentina’s stance vis-à-vis China. This disconnect stems largely from distinct
visions held within the ministries as to what exactly China means for Argentina, as
well as the very missions of those ministries. While it is the Chancellery’s job to
strengthen political, cultural and commercial links with the People’s Republic, the Ministry of Economy and Production is charged with promoting and stimulating domestic production.

While these objectives need not be mutually exclusive, the two ministries are each in close contact with, and thus likely influenced to some degree by, domestic producers who have conflicting interests. The Chancellery works in close collaboration with a wide variety of small and medium-sized businesses to help increase their exports to China, particularly through Fundación ExportAr. Many of these businesses are represented through the Argentina-China Chamber of Commerce and Production. They have a clear interest in accessing the vast potential that China’s domestic market represents, but lack the financial and technical resources to successfully bring their products to market in China without outside assistance.

Meanwhile, the Ministry of Economy is in much closer contact with textile producers and various other manufacturers, represented by organizations such as the Fundación Pro Tejer, that face increasing competition from cheaper Chinese imports. As openly admitted by the MECON official quoted earlier, the ministry’s natural reaction is to apply tariffs or other measures to protect these domestic producers rather than to stimulate their competitiveness.

The distance between MECON and MRECIC’s understandings of the Argentina-China relationship is exacerbated by the lack of a permanent institutional
link that would centralize decision-making on commercial policy and mandate consensus among the various conflicting interests involved. As stated repeatedly in interviews, the lack of coordination and consensus (regardless of the degree) between the two ministries is perhaps the principal reason for Argentina’s fragmented and confusing policy towards China. This lack of a clearly articulated policy is itself one of the principle reasons why Argentina has not kept up with Brazil and Chile in its ability to diversify and increase exports to the People’s Republic.
Chapter 4. Conclusions

Argentina, Brazil and Chile are among the largest beneficiaries in Latin America of China’s growth. The PRC’s insatiable appetite for primary materials has simultaneously increased both the quantity and price of these countries’ exports. It is likely these favorable conditions will continue for the medium term. Furthermore, rising living standards and rapidly changing consumption habits in the People’s Republic present additional opportunities for the Southern Cone nations to increase and diversify their exports. As such, China’s growth could conceivably serve as a motor (at least an auxiliary one) for development in Argentina, Chile and Brazil.

However, the asymmetrical nature of the relationship means that the burden of ensuring that growth in China helps produce sustainable growth in the Southern Cone falls squarely upon the shoulders of policy makers on this side of the Pacific. China (and India) will likely continue to demand primary materials such as soy, iron ore and copper regardless of what Argentina, Brazil and Chile might do to promote their exports of these commodities. But in order to capitalize upon the other opportunities that the relationship presents, such as a rapidly growing market for their other exports and the possibility of badly needed investment, these countries will have to strategically position themselves. This undertaking will require concerted, proactive efforts and clearly defined, long-term policy objectives.
A comparison of the major Southern Cone countries’ abilities to position themselves to best capitalize upon the opportunities presented by China’s growth revealed significant differences among the three. While Chile and Brazil are both fairly strategically positioned (Chile much more so) to increase and diversify their commercial and economic links to the People’s Republic, Argentina appears significantly less able to do so. An analysis of documents from Argentina’s ministries of Economy and Production (MECON) and of Foreign Relations, International Commerce and Worship (MRECIC), data from the World Trade Organization and interviews of government, private sector and academic officials found Argentina to be at significant disadvantage relative to its neighbors for a variety of reasons.

The most salient problem is that, unlike its neighbors, Argentina has no defined policy vis-à-vis China. Policy objectives from MECON and MRECIC, public comments from executive branch officials, and recent protective measures taken against Chinese imports are often conflicting hints at a commercial and economic stance that, four years into a period of booming trade with the People’s Republic, remains ambiguous.

This lack of definition in Argentina’s policy toward China is itself the product of two major underlying problems. The first is the withering of Argentina’s foreign policy in general under four years of Néstor Kirchner’s presidency. Since 2003 Argentina’s foreign and trade policy priorities have emphasized strengthening ties with
its Mercosur partners and other neighbors in Latin America to the detriment of its relations with the wider world. This lack of attention to international affairs has meant that while Chile and Brazil have proactively promoted increased trade with and investment from China, Argentina has remained a much more passive partner in the relationship.

Argentina’s relative inattention to China is compounded by an institutional structure that impedes the development of a defined policy toward the People’s Republic. While in both Brazil and Chile the formulation and coordination of trade policy is largely centralized under the auspices of a single ministry, in Argentina responsibility for these tasks is divided between MECON and MRECIC. By all accounts, the two ministries have significantly different views as to what China means for Argentina, with the Ministry of Economy advocating a more protective stance. Domestic business groups with conflicting interests in relation to China have direct contact with the two ministries, heightening the differences in their respective points of view: small and medium-sized businesses wishing to increase their capacity to export to China with MRECIC, and textile producers and other manufacturers threatened by Chinese imports with MECON.

Furthermore, no permanent institutional structure similar to those found in Brazil and Chile mandates that the two ministries reconcile their differences to articulate a clearly defined policy. The lack of coordination between MECON and
MRECIC has produced a series of confusing and unpredictable statements by public
officials, and actions including heightened customs controls for Chinese imports and
generous use of WTO antidumping measures toward China that have very likely
damaged Argentina’s ability to benefit from the relationship to the same extent as
Chile or Brazil.

Argentina’s lack of a clearly defined policy toward China is compounded by
what sources within the Ministry of Foreign Relations described as insufficient
financial and human resources dedicated to its diplomatic and trade promotion
operations within the People’s Republic. Brazil has more than twice as many diplomats
and administrative officials posted in its embassy and consulates in China than does
Argentina. Furthermore, Brazilian diplomats newly posted in China are heavily
encouraged to take advantage of an official Mandarin-language study program
implemented by Brazil’s foreign service. Argentine (and surprisingly, Chilean)
diplomats in China have no similar requirements or resources.

While Argentina may have (on paper, at least) more diplomats stationed in
China than does Chile, it is worth noting the permanent presence of that country’s
export promotion agency, ProChile, in its embassy and both consulates in the People’s
Republic. ProChile’s presence is important since breaking into the Chinese market
requires market intelligence, financing and logistical capabilities that many small and
medium-sized firms, which constitute the bulk of producers in the Southern Cone

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nations, simply do not have. As such, the permanent presence of an internationally lauded organization such as ProChile, in contrast to the absence of Fundación ExportAr (or Brasil’s APEX, for that matter) is a major advantage for Chile.

A well-designed export promotion policy for China and an effective export promotion agency with presence in the country should be fundamental elements in these countries’ overall policies toward China. They will be necessary to diversify exports to the PRC and capitalize upon the opportunities presented by its rapidly changing consumption trends. Argentina’s lack of a defined policy toward China is exacerbated by the relative weakness of Fundación ExportAr. An exhaustive analysis undertaken in 2001 by the Foundation for Sustainable Development in Latin America found ExportAr and Argentina’s export promotion policy in general to be characterized by poor coordination among different institutions and between levels of government, services that were largely inaccessible to their target beneficiaries, and severely insufficient financial and human resources. While the analysis may be dated, conversations with authorities familiar with Argentina’s export promotion policy reveal that most of these issues are still problems today. One official from the United Nations Economic Commission for Latin America and the Caribbean who researches export promotion policies, when interviewed for this paper said flatly, “It would be a mistake to call ExportAr a real export promotion agency.”
It is beyond the scope of this paper to analyze Argentina’s export promotion capabilities. However, it should be a high priority for the Ministry of Foreign Relations, International Commerce and Worship. A comparative analysis of ProChile, Fundación ExportAr and APEX could reveal useful insights for Argentine policy makers. Diversifying exports to the People’s Republic by proactively seizing upon rapidly developing market conditions in China will be key to maximizing Argentina’s benefit from the relationship.

Improving the effectiveness of its export promotion policy would benefit Argentina overall, not just in its relationship with China. Really, all the problems outlined in this paper that have hindered Argentina’s ability to capitalize upon the opportunities presented by China’s growth are problems that affect its foreign and trade policy in general. Poor institutional coordination and misappropriated resources affect Argentina’s commercial, economic and political relationships around the world. The special nature and importance of the relationship with China only bring these problems into greater focus. Addressing these issues will help Argentina keep up with its neighbors in the Chinese market, and improve its competitiveness globally.

The most important step for improving its position vis-à-vis China specifically will be developing a coherent national policy toward the People’s Republic. For that,

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15 See Castello and Ferraro (2001), “Promoción de exportaciones y sistemas de apoyo al comercio. La experiencia internacional.”
Argentine policy makers must arrive at some consensus between the two distinct visions of China that are dominant in the country’s institutions – that of China as commercial predator and source of competition, and that of China as a huge market for exports and possible source of investment. The truth is somewhere between these two extremes, and as such requires a comprehensive policy that reflects these complexities.

One first step toward achieving this goal could be the restructuring of the institutions responsible for the formulation and coordination of trade policy. The centralization of these activities under one roof, most likely that of MRECIC, would be a good first step. A permanent, institutionalized mechanism for input from MECON and other ministries by means of a body along the lines of Chile’s Inter-Ministerial Committee for International Economic Relations would help ensure that the various relevant interests are taken into account and synthesized into a coherent policy stance. The centralization of activities under one ministry would limit the opportunities for miscommunication and un-coordination that characterize Argentina’s current ambiguous policy stance toward China.

Also important will be the revitalization of Argentina’s foreign policy. Luckily, incoming president Cristina Kirchner has made it clear that reestablishing Argentina’s links with the international community will be a priority for her administration. She would be well advised to include China in this strategy. The disillusionment produced by the mismanagement of Hu’s 2004 visit and the resulting agreements has diminished
expectations on both sides of the relationship. Reestablishing the warm relations that Argentina maintained with China at the beginning of the decade should be a priority for Mrs. Kirchner’s administration. As the new president has demonstrated her predilection for international travel, a trip to Beijing should be in order.

Much as she has sought to regain the confidence of investors in Europe, the United States and Mexico, Mrs. Kirchner should do the same with investors in China. As with the other measures mentioned above, improving Argentina’s ability to attract investment from China really has to do with improving its attractiveness to investors in general. Chinese investors are like all others in that they want assurance that their investments are sound and subject to clearly defined rules of the game. Ensuring the respect of contracts, institutional continuity and rule of law will go a long way to attracting investment from China and around the world.

This is a lesson from China itself. One of the PRC’s most important factor endowments that helped attract the foreign investors that have fueled its growth has been its stability. Although corruption and institutional weakness are serious problems in China, the People’s Republic is considered a relatively safe bet by international investors, not prone to severe or unexpected economic or political shifts. This stability offers reassurance that there will be no unexpected disruptions to business, and thus attracts more investment. This is not the case in much of Latin America, the region of the world with the highest frequency of economic crises (Santiso, 2006, 59). Instability
is one reason for which investment has been slower to fuel export growth in Latin America than in Asia.

However, Santiso finds evidence of what he calls Latin America’s new “political economy of the possible” in two Southern Cone countries. He cites Chile and Brazil as examples of countries in the region that have set aside ideologies on both the left and the right to employ pragmatic policies with an eye toward long-term stability and growth. Both countries have simultaneously embraced the market and greater institutionalization, which Santiso argues will help foster development in the long term.

This institutional stability and strategic, long-term planning has been missing, to a large extent, in Argentina over the course of the decade. Keeping up with the neighbors will imply not only addressing the issues that have caused Argentina to fall behind Brazil and Chile in exports to China, but formulating a long-term strategy that capitalizes upon the opportunities presented by the PRC.

The best example of this in the region is found in Chile. Its exports are the most concentrated of the Southern Cone economies (30% in copper alone). In recognition that its mineral wealth is finite, Chile has placed the promotion of innovation among its top priorities in the hopes of diversifying the country’s economic base. In 2005 the government implemented a tax on mining companies – 3% of sales on metallic minerals and 1% on non-metallic minerals – with the aim of financing its Innovation
Fund for Competitiveness. The Fund will help promote private-sector innovation, research & development initiatives and the development of productive clusters, focused on areas that currently depend heavily on mining as a source of income. While not directly a tax on trade with China, the move coincides with the increase in mineral exports, particularly copper, and the boom in prices associated with Chile’s increased trade with the PRC.

The Innovation Fund for Competitiveness is just one example of the type of long-term strategic planning that the Southern Cone nations will need in order to effectively take advantage of the opportunities they are presented with today from high Chinese demand for their commodities. As such, if Argentina is successfully able to define clear policy objectives toward China, improve its export and investment promotion activities within the country, and reestablish the warm relations it had with the People’s Republic, it must also envision its policy stance toward its Asian partner as part of a larger, long-term model for development.

While China is an increasingly important partner to Brazil, Chile and Argentina, it is obviously one of many. The Southern Cone countries must formulate their trade stances and policy tools targeted toward the People’s Republic within the context of their overall external commercial, economic and political relations. However, for the reasons outlined here, these countries should approach China differently than they would most other nations. Their giant new partner presents both
significant opportunities and challenges that policy makers in Brazil, Chile and Argentina should take into account in long-term planning. Unfortunately, Argentina has not proved as adept as Chile and Brazil at strategically positioning itself to capitalize upon these opportunities. However, the change in administration presents opportunities of its own to correct some of the problems outlined in this paper and catch up with its neighbors. Skillful planning supported by institutional continuity could allow the countries of the Southern Cone to ride the dragon, so to speak. This could help ensure that the current commodity boom fueled by Asian growth does not, like so many others in the region’s history, lead to bust.
Annex

Graph A.1: Argentina Trade With China, 2000-2006

GRAPH A.1 source: United Nations Commodity Trade
Graph A.2: Composition of Argentine Exports to China, 2006

Graph A.3: China-Argentina Trade, Jan.-June 2007

Graph A.2 source: United Nations Commodity Trade

Graph A.3 source: Center for International Economics, Ministry of Foreign Relations, International Commerce and Worship of the Argentine Republic
Graph A.4: Brazil-China Trade, 2000-2006

GRAPH A.4 source: United Nations Commodity Trade Database
Graph A.5: Chile-China Trade, 2006-2007

GRAPH A.5 source: United Nations Commodity Trade Database
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