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China and Latin America: Diversification is the Key Word

By Alicia Bárcena*

The visit that Chinese Premier Li Keqiang begins this week to Brazil, Chile, Colombia and Peru marks a new milestone in the deepening of economic, political and cooperation ties between Latin America and the Caribbean and China.

Premier Li's visit and the speech he will give to the region from ECLAC's headquarters on May 25th are part of China's sustained effort to forge a joint path since that country recognized in 2008 the strategic nature of relations with our region in its White Paper (the formal document where it states official policy in that regard).

These bilateral economic relations face many challenges, but there is a key word: diversification. In the last 15 years, ties have been highly dynamic. The value of bilateral trade grew 22 times greater between 2000 and 2014, and China is already the region's second most important trading partner.

Foreign Direct Investment flows, and overall Chinese capital coming into Latin America and the Caribbean, have also expanded significantly. This process took place in a context in which the Chinese economy grew 10% annually between 2000 and 2011, stoking a commodities "supercycle" that benefited much of the region, particularly South American countries.

But since 2012, during an economic slowdown that has also affected the region, China has sought to grow at a pace that is compatible with its ambitious reform plan while trying to prevent a negative impact on job creation. For now, its annual growth is expected to be between 6% and 7% during the remainder of the current decade, meaning it will still have one of the world's best rates. Meanwhile, in Latin America and the Caribbean, growth has fallen abruptly, due to internal factors—such as the stagnation of investment and weakening consumption—and external causes, including low growth in the euro zone and the deceleration of China itself, with the resulting decline in demand for commodities.

From a Latin American perspective, export diversification and increased productivity constitute the main pending issues: just five single products, all of them commodities, represented 75% of the value of regional shipments to China in 2013. Chinese investment in the region reinforces this pattern, considering that between 2010 and 2013 almost 90% of it was directed at extractive activities, particularly mining and hydrocarbons.

To advance towards more prosperous and less unequal societies, the region must overcome its excessive dependence on commodities exports. Therefore, while the expansion of trade and investment flows with China is key, it is equally important to develop actions aimed at modifying their structure.

If Chinese investment grows and diversifies in the coming years, it will be possible to promote not only export diversification towards that country, but also productive integration within the region. Additionally, if cooperation with China helps bridge our well-known gaps in infrastructure, logistics and connectivity, we can stimulate intraregional trade and the development of regional value chains.

Our countries' rich accumulated experience with innovative social policies, urbanization, environmental protection and other matters can be useful for China as it addresses the major challenges that lie along its path to development. The China-Community of Latin American and Caribbean States (CELAC) Cooperation Plan 2015-2019, launched last January in Beijing, provides an appropriate institutional framework for advancing in all of these areas. Now both parties must agree to mutually beneficial actions to make that cooperation a concrete reality.

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