

# China and Latin America: Implications for Sustainable Development

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# Outline

- Background
- Project Description
- Preliminary Project Results

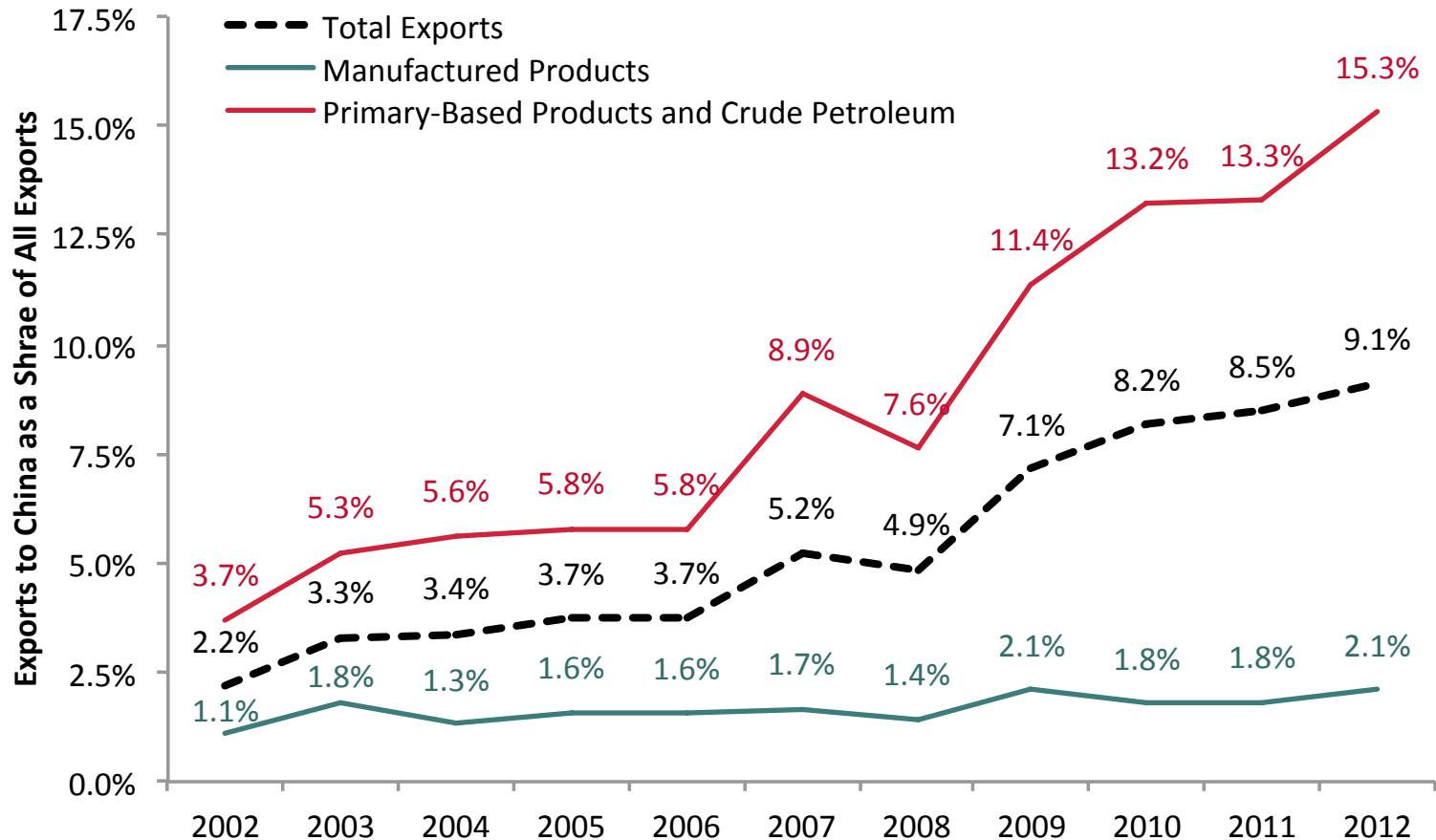
# LAC-China Economic Activity

## Major Benefits

- Increased trade—
  - large and growing with price impacts
- Increased FDI from China
  - large and growing
- Major source of finance

# LAC-China Exports: \$131B (2012)

*China's Importance as an Export Destination, by Commodity Sector*



Note: Categories are defined using Sanjaya Lall's "Technological Classification of Exports" (Lall, 2000).

Source: UN COMTRADE and authors' calculations.

# LAC-China Exports

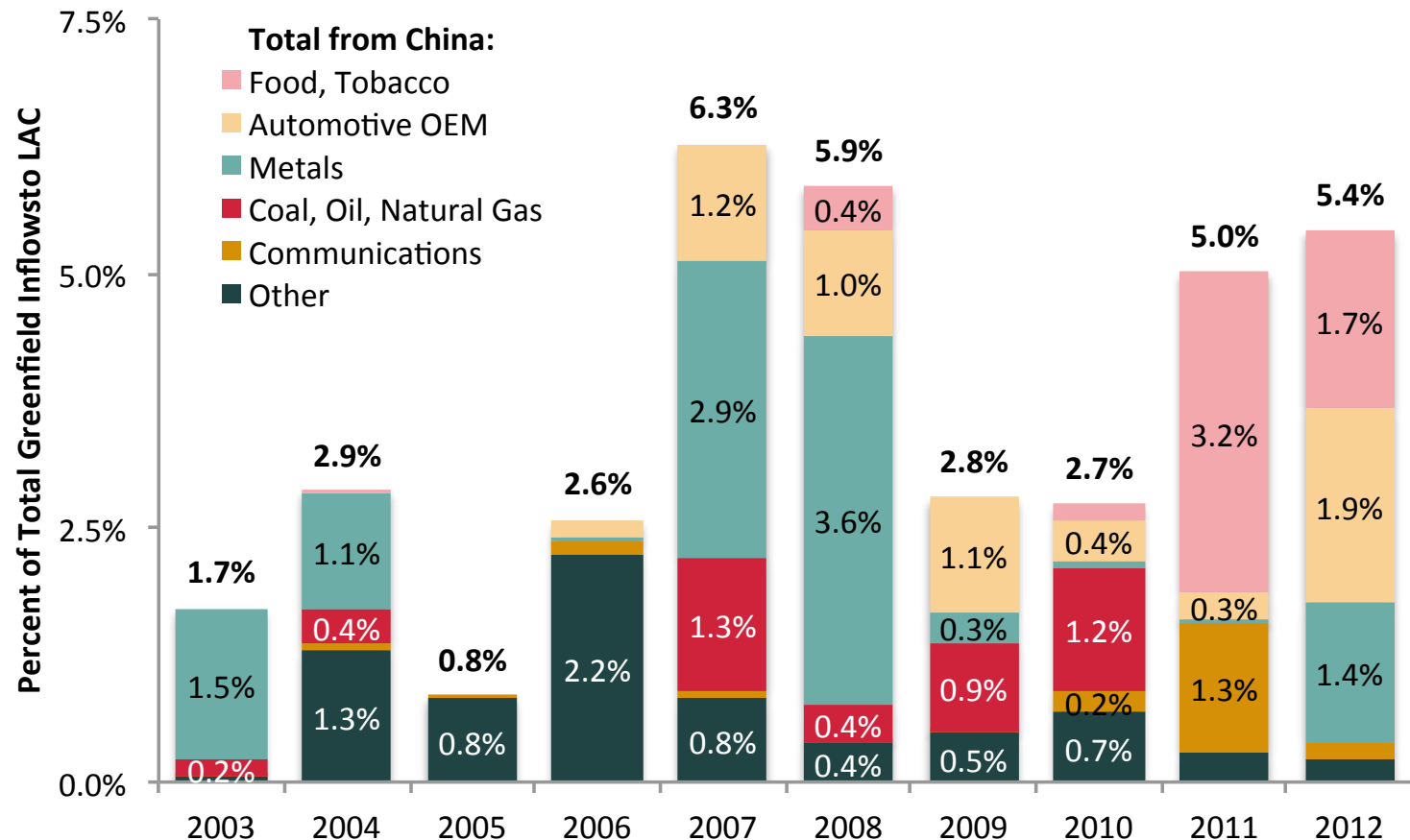
## *Top Commodities, 2008-2012*

Sector	Share	Country share of LAC-China exports, each sector
Iron ore, concentrates	22.1%	Brazil (86%)
Soybeans, other oilseeds	14.7%	Brazil (67%), Argentina (28%)
Crude petroleum	11.9%	Venezuela (46%), Brazil (29%), Colombia (10%)
Refined copper	10.9%	Chile (92%)
Copper ores, concentrates	6.9%	Chile (51%), Peru (32%), Mexico (13%)
Transistors and valves	5.1%	Costa Rica (82%), Mexico (17%)
<b>TOTAL:</b>	<b>71.6%</b>	

*Source:* UN COMTRADE and authors' calculations.

# Chinese Greenfield FDI in LAC-\$30-50B

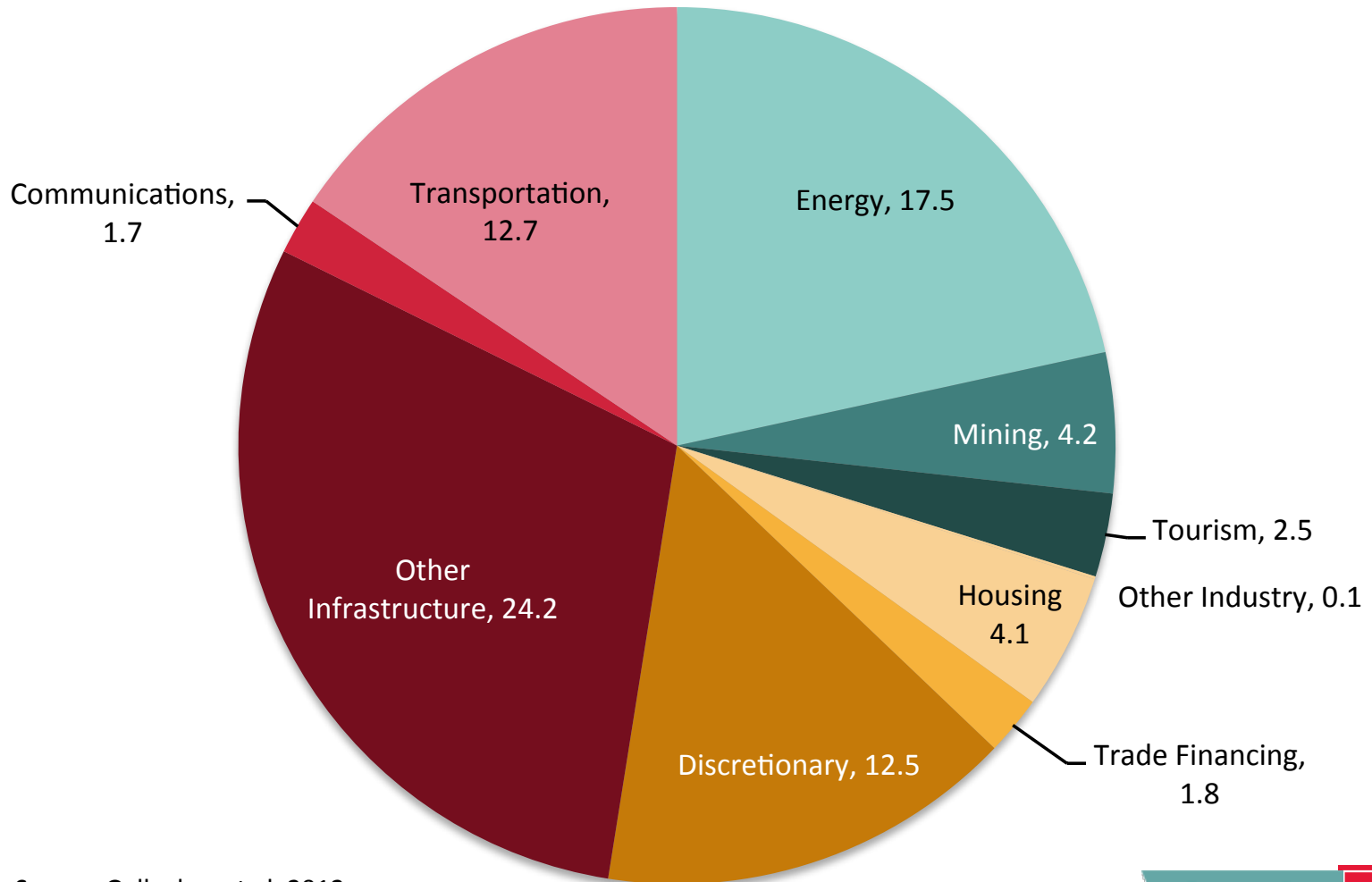
*Share of all GFDI inflows to LAC, by sector*



Source: FDI Markets and authors' calculations.

# Chinese Financing: \$100b (2003-2013)

*Distribution by sector, 2008-2013*



Source: Gallagher et al, 2012

# Working Group on Development and Environment

- To what extent is Chinese trade, investment and finance a driver of environment and social change in Latin America?
- To what extent are Chinese actors in LAC different in their environmental and social behavior than other foreign and domestic firms?
- What policies can LAC governments engage at the national, bi-lateral, and regional levels to mitigate the costs of commodity-led growth.



# Country Studies

## Trade and finance

- Brazil--soy
- Colombia—coal
- Bolivia—tin, lithium?
- Argentina—oil, shale?

## Investment, trade, finance

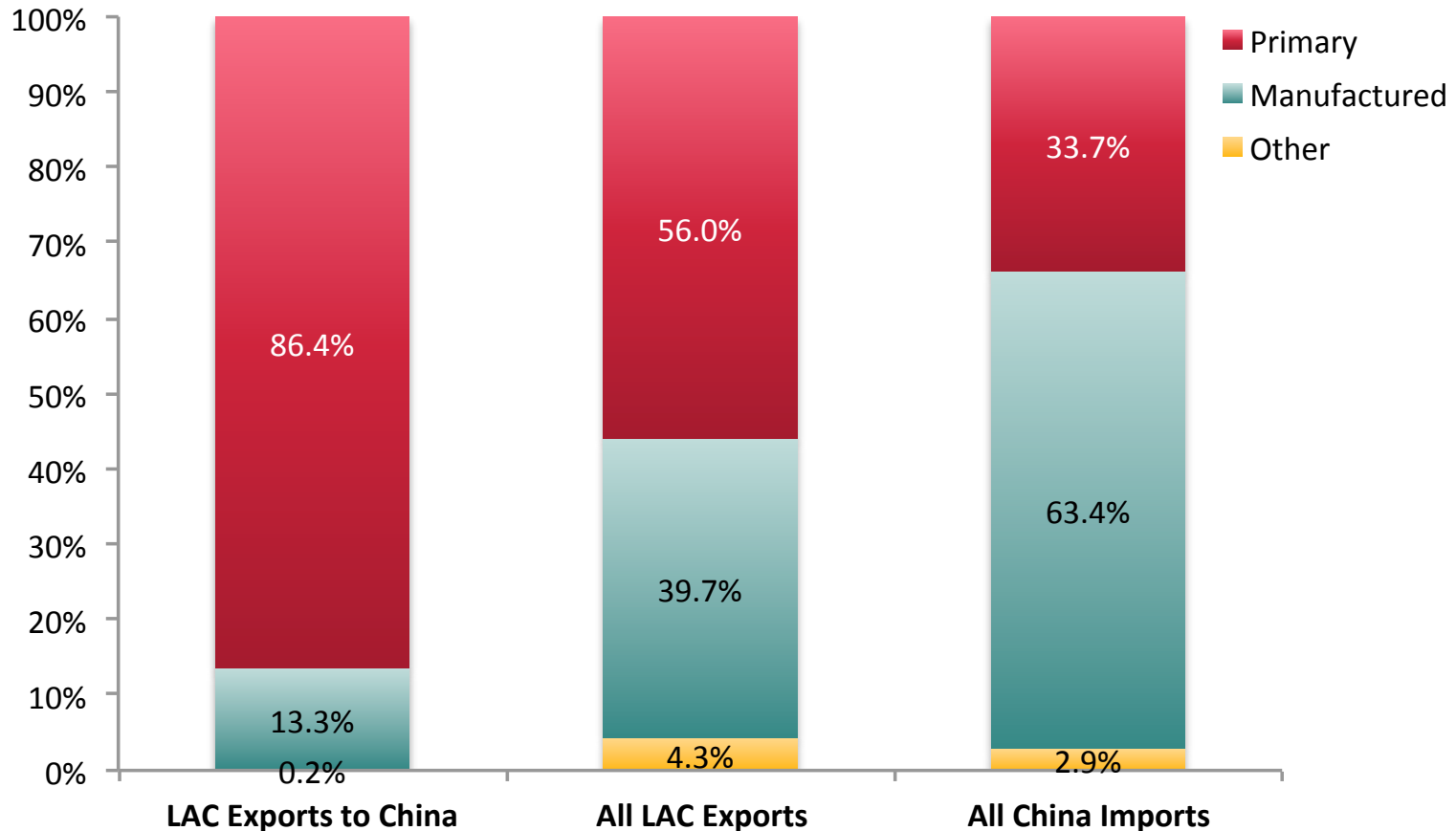
- Peru—copper, iron
- Ecuador—oil, hydro
- Mexico—  
manufacturing, oil?

# Preliminary Findings

- Chinese trade and investment is a strong new source of trade, finance, and growth for LAC
- Concentrated in primary commodity sectors
  - susceptible to boom and bust cycles
  - endemic to environmental degradation
  - (often) geographically located in indigenous areas
- Key challenge is for LAC to maximize the benefits of booms mitigate associated risks.

# LAC-China Trade is Different

*More Primary-based than all LAC exports, all China imports*

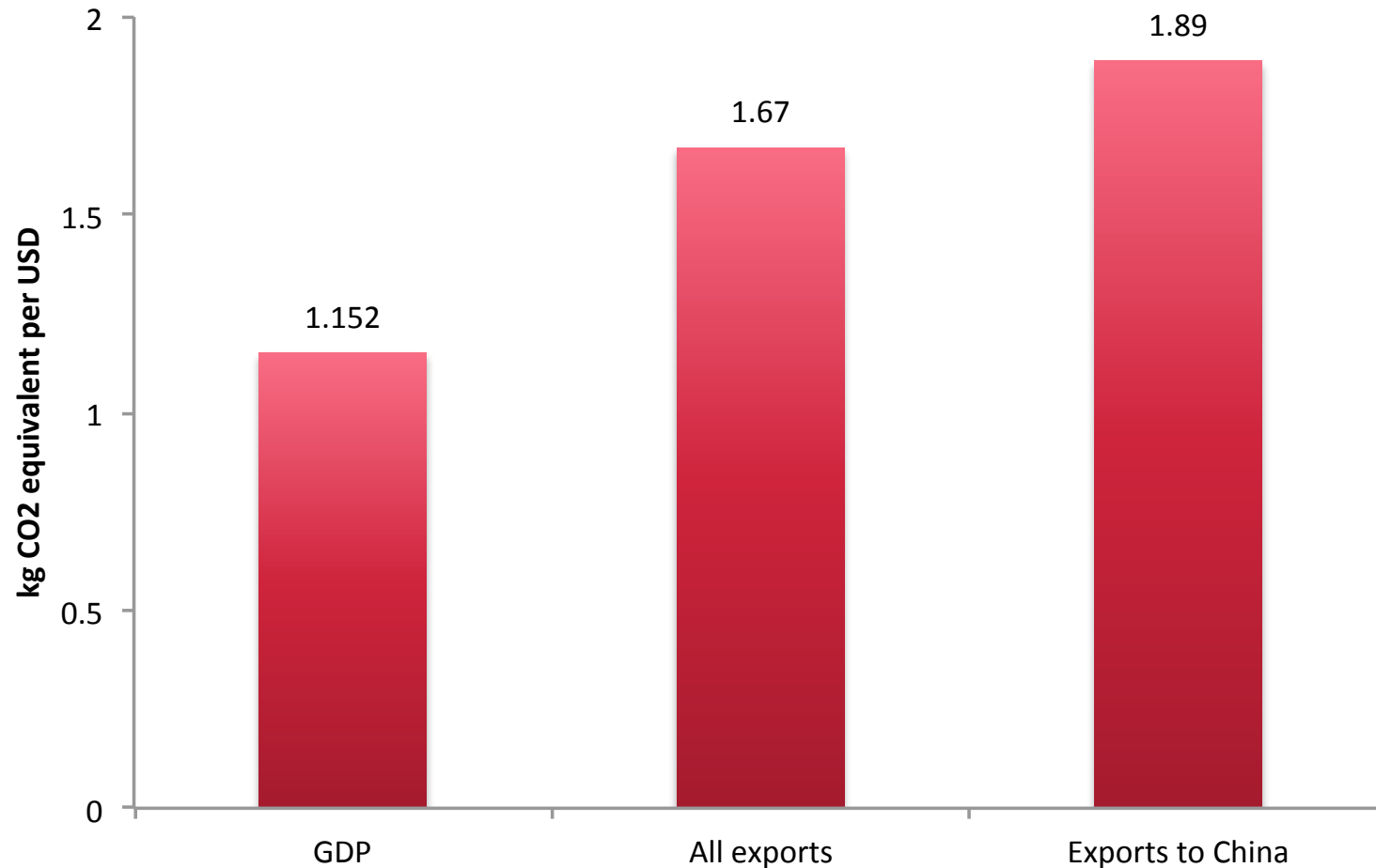


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*Source:* UN COMTRADE and authors' calculations.

# LAC-China Trade & GHG Emissions

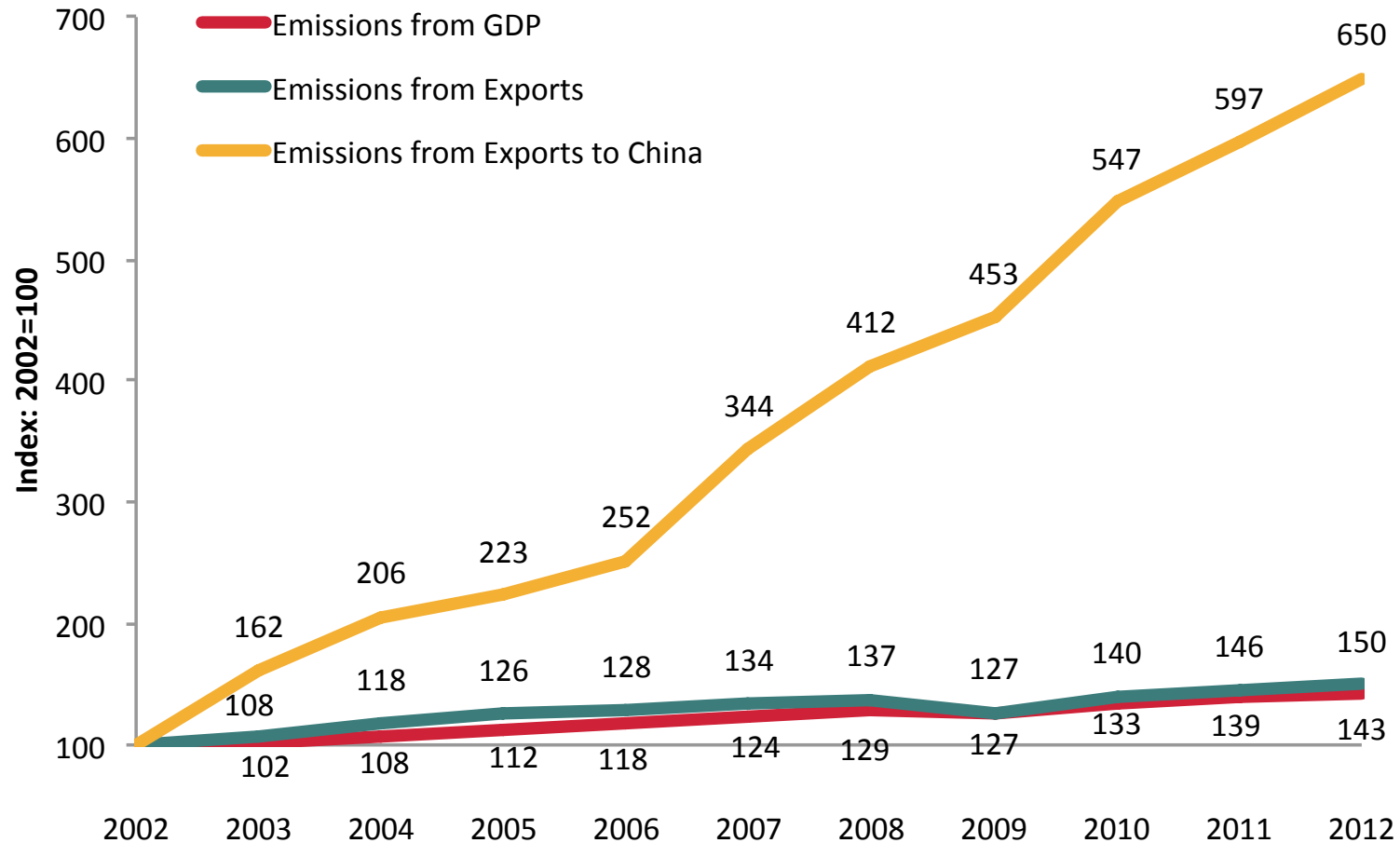
*LAC-China exports are more GHG emissions-intensive*



Source: Peters et al 2011, UN Comtrade, authors' calculations.

# LAC-China Trade & GHG Emissions

## *Growth in LAC GHG Emissions, by Source*



Source: Peters et al 2011, UN Comtrade, authors' calculations.

# LAC-China Trade & GHG Emissions

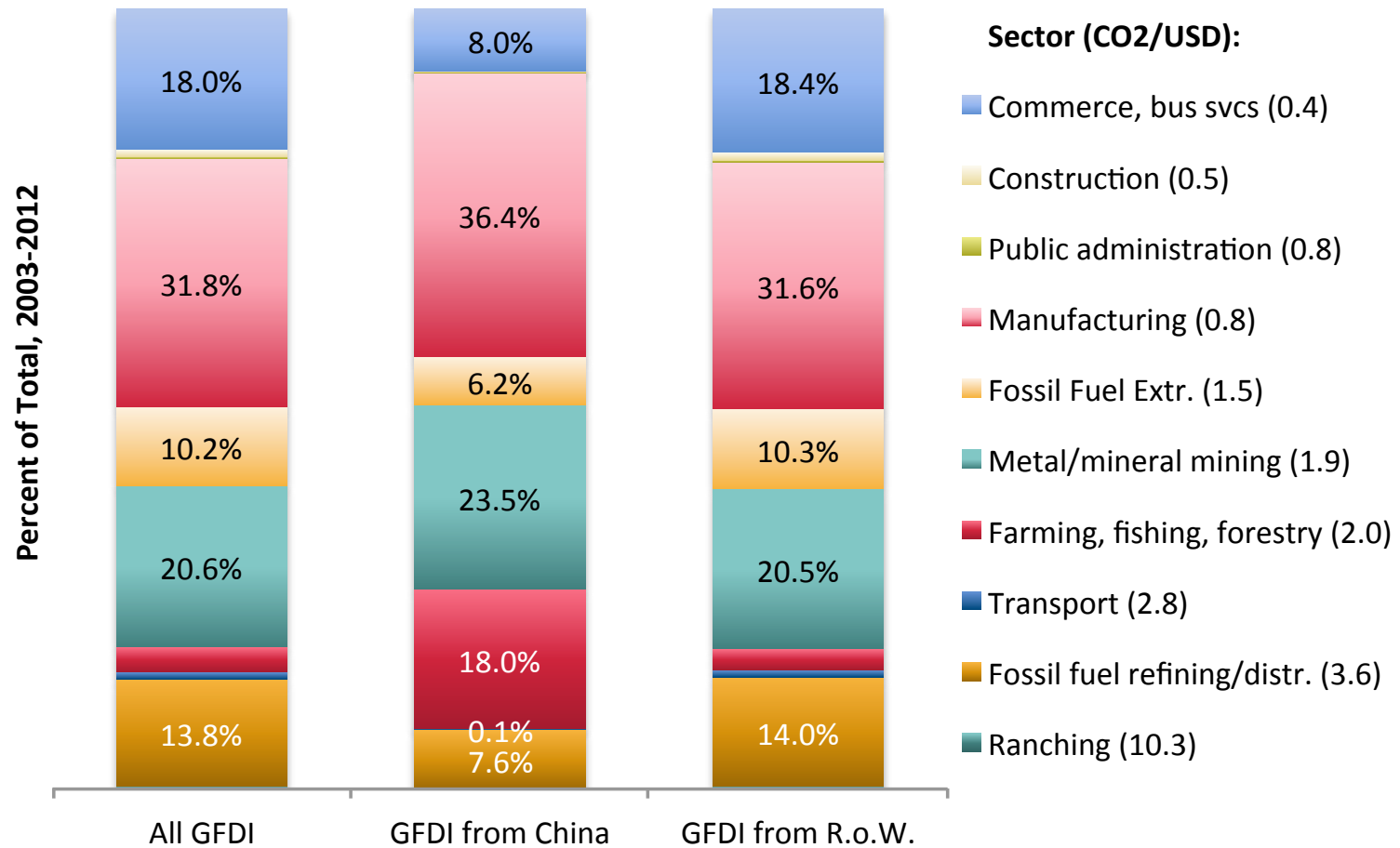
## Export Sectors, by GHG Intensity

	<u>All Exports</u>		<u>Exports to China</u>		<u>Exports to R.o.W.</u>	
	2002	2012	2002	2012	2002	2012
Ranching (10.3)	1.8%	4.1%	4.4%	5.3%	1.8%	4.0%
Fossil Fuel refining /dist. (3.6)	4.7%	4.0%	0.4%	2.9%	4.8%	4.1%
Farming, forestry, fishing (2.0)	14.9%	22.3%	33.9%	27.4%	14.5%	21.9%
Metal/mineral mining (1.9)	11.0%	14.2%	30.5%	35.7%	10.6%	12.5%
Fossil fuel extraction (1.5)	14.2%	14.6%	0.1%	14.4%	14.5%	14.6%
Manufacturing (0.8)	52.1%	39.3%	30.3%	14.0%	52.5%	41.3%
Not specified	1.2%	1.5%	0.5%	0.3%	1.3%	1.6%
<i>Most GHG - intensive</i>	32.5%	44.6%	69.1%	71.3%	31.7%	42.5%

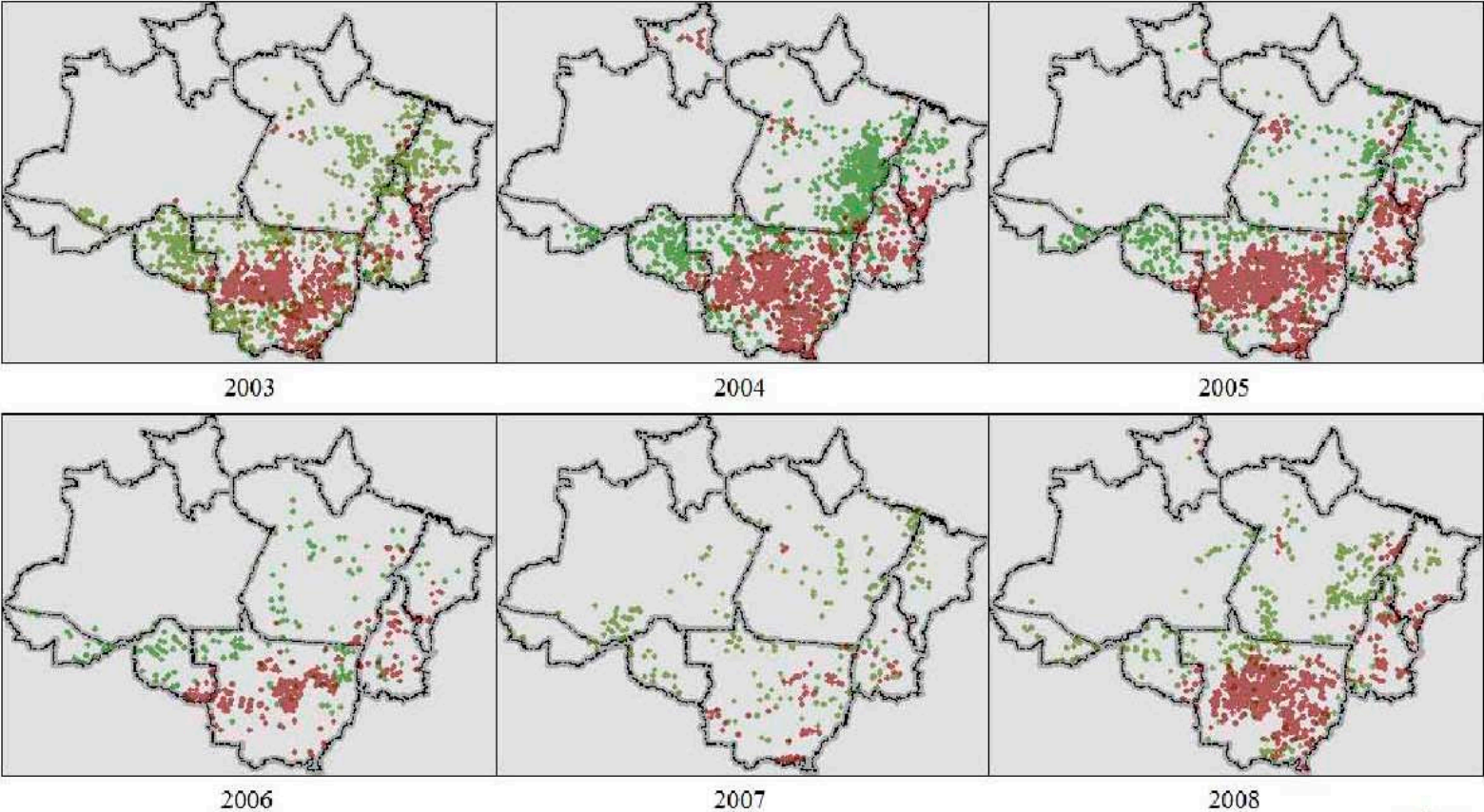
Source: Peters et Al 2011, UN Comtrade, authors' calculations.


# China-LAC GFDI & GHG Emissions

*By sectors (and GHG Intensity)*



Source: Peters et Al 2011, FDI Markets, authors' calculations.



**Soy Expansion**      **Cattle Expansion**       **State Boundaries**

• 1 Dot = 1,000      • 1 Dot = 10,000

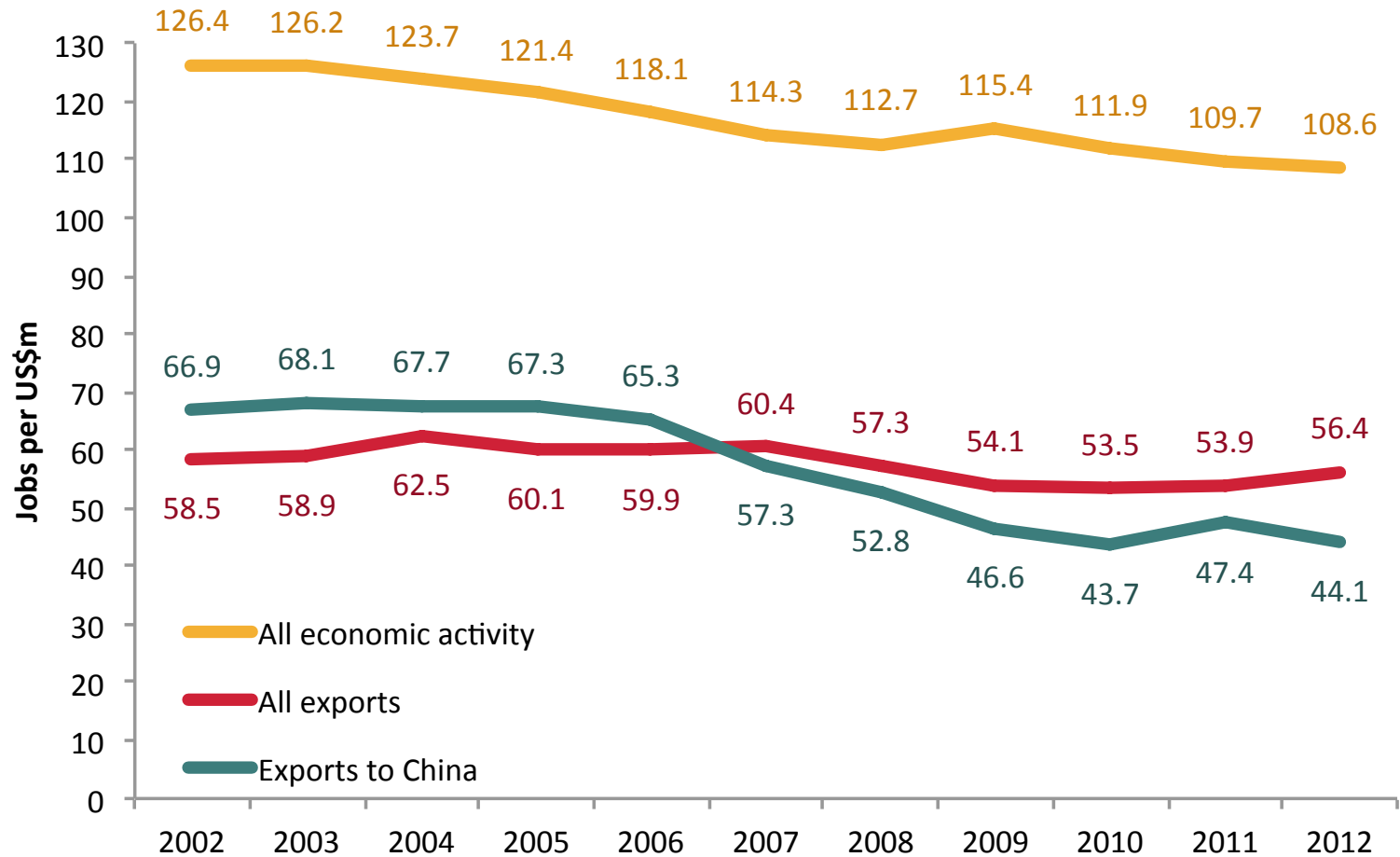
• Change in Soy      • Change in Cattle





# LatAm-China Trade & Jobs

*LAC-China exports are low in labor intensity – and falling*



Source: CEPAL, WDI, UN COMTRADE, and authors' calculations.

# LatAm-China Trade & Jobs

*Extraction supports far fewer jobs than other sectors per million USD*

Jobs Supported by Each Real (2002) US\$1 Million in Exports:			
	Agriculture	Extraction	Manufacturing
Argentina	30.3	9.8	66.8
Bolivia	153.2	89.2	366.5
Brazil	76.1	0.0	146.6
Chile	57.5	30.0	59.7
Colombia	48.6	33.9	142.4
Ecuador	48.8	21.8	110.9
Mexico	70.6	1.5	54.2
Peru	80.3	36.7	113.7
<b>Latin America</b>	<b>60.1</b>	<b>11.6</b>	<b>71.8</b>

Source: CEPAL, WDI, UN COMTRADE, and authors' calculations.

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Peru	80.3	36.7	113.7
<b>Latin America</b>	<b>60.1</b>	<b>11.6</b>	<b>71.8</b>

Source: CEPAL, WDI, UN COMTRADE, and authors' calculations.

# LatAm-China Trade & Jobs

*Source of new export-related jobs, 2002-2012, by sector and export market*

	World	China	Rest of World
<b>Millions of Jobs:</b>			
Agriculture	0.96	0.33	0.64
Mining, Extraction	0.63	0.19	0.44
Manufacturing	5.18	0.29	4.88
Other	-0.02	0.00	-0.02
<b>Total:</b>	<b>6.75</b>	<b>0.81</b>	<b>5.95</b>
<b>Percent of New Export-Related Jobs:</b>			
Agriculture	14.3%	4.8%	9.5%
Mining, Extraction	9.3%	2.7%	6.6%
Manufacturing	76.7%	4.4%	72.3%
Other	-0.3%	0.0%	-0.3%
<b>Total:</b>	<b>100.0%</b>	<b>11.9%</b>	<b>88.1%</b>

*Source:* CEPAL, WDI, UN COMTRADE, and authors' calculations.

# Are Chinese firms different?

- Invest in different basket of commodities
- Different and more favorable sources of finance
- Finance has weaker social and environmental norms
- May be faster learners than their counterparts in the past...

# Shougang - Marcona



秘魯铁矿采矿场局部

View of partial mining bed of Shougang Hierro Peru S. A. A

# Old and New Morococha



# Burden to balance risk and reward: LAC States

- **LAC nations have significant leverage**
  - location specific assets
  - China's concern about its brand and image.
  - Not as much for nations without alternatives.
- **LAC are struggling with the balance between growth, social concerns, and environment.**
  - CSOs can often help identify risk and pressure governments and firms by agenda setting and holding actors accountable.
  - Commodity booms also empower 'extractivist' interest groups that can pressure government to ignore risks—busts harder to regulate.



# Chinese firms/state has a role too

- China also has a role to play in meeting global norms for sustainability.
- Chinese state is developing guidelines for firms and finance.
- China is already engaging in many JVs to 'learn' on logistics and perhaps environmental and social issues can be an area for cooperation as well.
- Despite weaker regulations and institutional capacity in mainland China, ***with proper incentives*** Chinese firms prove they can climb the learning curve quickly to meet norms.
- States and CSOs need to set the incentives right and hold the private sector accountable.

# Plurilateral forums?

- Many countries are developing strong bilateral relationships with China and these issues need to 'rise' to that level.
- China has begun to engage with the BID, CELAC, CEPAL and other sub-regional forums such as Mercosur. Are these 'entry points' for policy dialogue?
- Transnational CSO advocacy networks

# Peru as Laboratory

## Peru is ahead

- EITI
- EIAs with community
- ILO 169
- CSO accountability and transnational networks
- Chinalco model?
- UP Centro Estudios Peru-China

## Peru is Behind

- Managing booms and busts
  - Stabilization funds, SWF?
- Incentivizing complimentary economic activity to mining
  - Development banking?
  - Trade agreements
- Building human capital
  - China experts, cooperation with Chinese firms and government on education

**THANK YOU**