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China - Latin America Economic Bulletin

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China – Latin America Economic Bulletin

RESEARCH FROM THE GLOBAL ECONOMIC GOVERNANCE INITIATIVE

2013 China – Latin America Economic Bulletin

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The China-Latin America Economic Bulletin is an annual note that summarizes and synthesizes trends in the burgeoning China-Latin America economic relationship. Research for the Bulletin is conducted by the Global Economic Governance Initiative (GEGI) at Boston University. GEGI partners with the Global Development and Environment Institute (GDAE) at Tufts University USA to translate and disseminate the bulletin in Latin America, China, and beyond.

In fifteen years China has gone from being a relatively insignificant economic partner in Latin America to the number one trading partner of some of the largest economies in the region. That said, there is a lack of reliable data on many aspects of the China-Latin America economic relationship—especially in the areas of investment and finance. The goal for this annual bulletin is to help fill this gap so that policy-makers, journalists, analysts, advocates, and others can have a more evidence-based understanding of this burgeoning economic relationship.

As the first in the series, this issue puts recent trends in historical context. Highlights from this year's report are:

- LAC exports to China have soared since 2000, but slowed in 2012, stalling to a 7.2 percent growth rate in real dollar terms, compared to average annual export growth to China at 23 percent from 2006 to 2011.
- Behind this slowdown are falling commodity prices. LAC exporters are “running in place” as exports to China have continued to grow in volume, but have fallen in price, leading to stagnant total export values.

- More than half of all LAC exports remain concentrated in three broad sectors related to copper, iron, and soy—with the majority of these exports concentrated in three countries: Brazil, Argentina, and Chile. These sectors are all prone to large price swings, contributing further to the slowdown in the value of exports to China.
- Chinese exports to LAC are diverse and mostly in manufacturing, with a heavy emphasis on electronics and vehicles. Their value has grown more quickly than LAC exports to China, opening an LAC trade deficit in goods with China in 2011 and 2012.
- Chinese FDI to LAC increased slightly but remains a relatively small percent of total FDI into LAC. Chinese FDI continues to be concentrated in a handful of sectors, such as food and tobacco, automobiles, energy and communications.
- Chinese finance to sovereign governments has slowed and become more discretionary in nature, rather than earmarked for particular industries and sectors.
- Based on preliminary commodity price values for 2013 and projections for 2014, it is reasonable to expect a growing LAC trade deficit in goods with China.

Exports: Growing in Quantity, but Slowing in Value

Latin America and the Caribbean (LAC) sent US\$130.9 billion in exports to China in 2012.¹ This represents a considerable slowdown between 2011 and 2012, growing by only 7.2 percent in real dollar terms. In contrast, the previous five years saw an annual average of 22.9 percent real growth, even though that period included an absolute decline in 2009.² LAC imports from China have grown at a slightly faster pace in the last few years, opening a small deficit in commodities trade with China.

FIGURE 1: LAC Trade in Goods with China, 2002-2012



Source: UN COMTRADE and authors' calculations. Includes Macao and Hong Kong

¹ The United Nations Commodity Trade Statistics Database (COMTRADE) reports trade data with a one-year delay. Figures for 2013 will be reported in a future update, although estimates for 2013 are reported at the end of this bulletin.

² These values are deflated into real terms using the World Bank GEMS commodity price database deflator.

This slowdown is largely due to falling commodity prices, and the related slowdown in economic growth in China. Whereas from 2006 to 2011 the IMF primary commodity price index soared by an average annual rate of 9.8 percent and the Chinese economy grew at an average annual rate of 10.5 percent, in 2012 commodity prices fell by 3.2 percent and the Chinese economy slowed to 7.7 percent.³

Over half of LAC exports to China are in four major commodity groups. Table 1 shows that each of these four groups (refined copper, copper ores and concentrates, iron ore and concentrates, and soybeans and other oilseeds) saw substantial growth in 2012 between six and 37 percent by weight. Considered as a single group, they grew by 11.4 percent: nearly identical to their average annual growth rate over the five-year period of 2007-2012, of 11.7 percent. But the revenue from their sale grew by much less than the quantity exported, and actually declined for iron and copper ores and concentrates. Export revenue for all four groups combined was essentially flat, growing only 1.8 percent. This is a huge drop from the 18.9 percent average annual growth rate over the last five years. Behind the increase in export quantity and flat export revenue is a drop in the price of each kilogram exported. Three of the four groups saw a price decline, and together they fell by nearly 11 percent. In effect, LAC exporters were running in place in 2012: selling more goods but not seeing more revenue from the sales.⁴

³ These figures are taken from IMF 2013a and 2013b, respectively.

⁴ Another possibility is worth mentioning: since each of these commodity groups contains several individual commodities, exports could also have shifted from more to less expensive items within each group.

TABLE 1: LAC-China Exports: Annual Growth in Weight and Value, Top Commodities

	Growth in:		
	Total Weight (kg)	Total Value	Price
<i>Annual Growth, 2012</i>			
Four Major Categories Combined:	11.4%	1.8%	-10.7%
Copper (Refined)	8.8%	-2.0%	-10.0%
Copper (Ores, Concentrates)	36.9%	23.5%	-9.8%
Iron (Ores, Concentrates)	11.9%	-13.6%	-22.8%
Soybeans, Other Oilseeds	6.2%	13.1%	6.5%
<i>Average Annual Growth, 2007-2012</i>			
Four Major Categories Combined:	11.7%	18.9%	6.4%
Copper (Refined)	15.2%	18.3%	2.7%
Copper (Ores, Concentrates)	10.3%	12.7%	2.2%
Iron (Ores, Concentrates)	11.9%	20.0%	7.2%
Soybeans, Other Oilseeds	10.5%	21.5%	10.0%

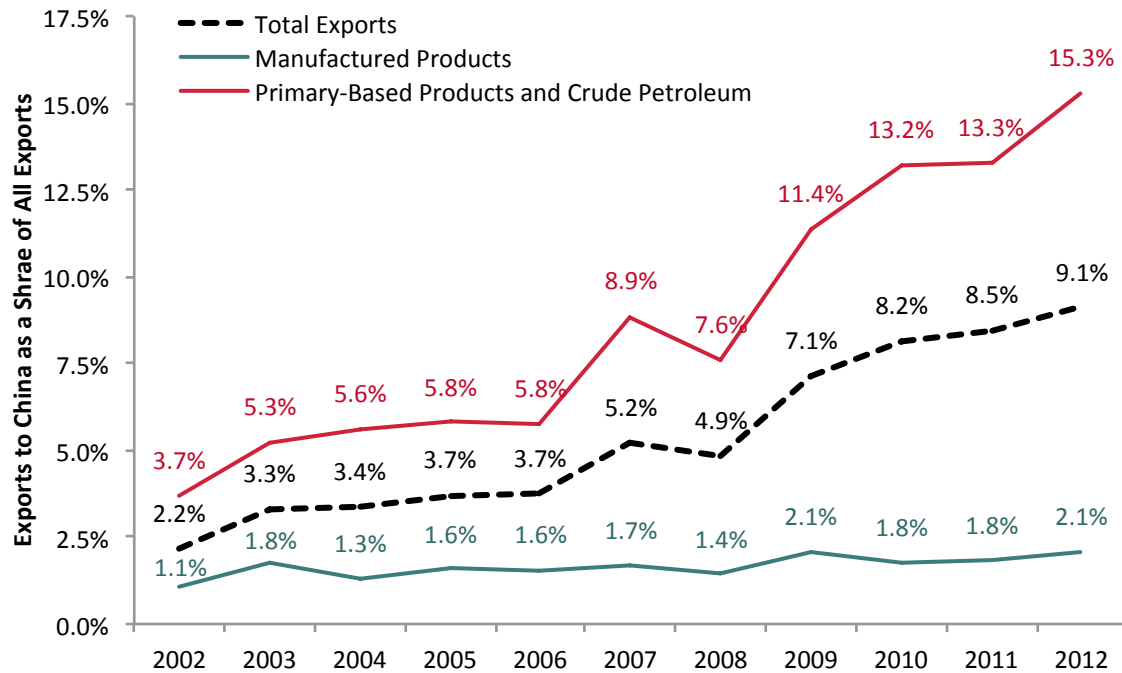
Note: Price data are the change in weighted average price of LAC exports to China in a particular commodity category. They are not global commodity price changes. Source: UN COMTRADE and authors' calculations.

An Increasingly Important Export Market

China continues to grow in importance as an export market for LAC, even as LAC exports to China are slowing in absolute terms. Five years ago, China consumed about five percent of LAC exports, but by 2012 that figure nearly doubled to 9.1 percent. As Figure 2 shows, that increase is due almost entirely to China's increased

demand for raw materials from LAC. Since 2008, China has more than doubled its share of LAC exports of primary-based products, from 7.6 to 15.3 percent.⁵

FIGURE 2: Importance of China as an Export Destination for LAC Exports, by Category



Note: Categories are defined using Sanjaya Lall's "Technological Classification of Exports" developed in Lall (2000). Source: UN COMTRADE and authors' calculations.

China's increasing importance as an export market for primary-based products is particularly visible for the region's major exporters of metals: Brazil, Chile, and Peru. China imported about one-fourth of each of these countries' total primary-based exports in 2012, up from between 14 and 17 percent in 2008. Because the primary-based category represents over half of each of these countries' exports, China has become a particularly important overall export market for them.

⁵ Categories are defined using Sanjaya Lall's "Technological Classification of Exports" developed in (Lall 2000). In addition to Lall's definition of primary-based products (processed and unprocessed mining and agricultural products) we have included crude petroleum oil.

TABLE 2: China's Share of LAC Primary-Based and Petroleum Exports, 2008-2012

	2008	2009	2010	2011	2012
<i>LAC Region</i>					
All Exports	4.9%	7.1%	8.2%	8.5%	9.1%
PRBP + Crude Oil	7.6%	11.4%	13.2%	13.3%	15.3%
<i>Brazil</i>					
All Exports	9.2%	14.4%	16.5%	18.2%	18.0%
PRBP + Crude Oil	14.2%	20.3%	22.9%	25.2%	25.0%
<i>Chile</i>					
All Exports	13.5%	24.2%	24.8%	23.3%	23.6%
PRBP + Crude Oil	15.1%	26.9%	27.3%	25.9%	26.3%
<i>Peru</i>					
All Exports	12.1%	15.5%	15.7%	15.5%	17.3%
PRBP + Crude Oil	17.0%	24.1%	22.5%	22.1%	24.9%

Note: Categories are defined using Sanjaya Lall's "Technological Classification of Exports" developed in (Lall 2000). Source: UN COMTRADE and authors' calculations.

Concentrated Among a Few Commodities and Countries

As noted above, a few commodities dominate LAC exports to China. In turn, a few countries dominate the export market to China for each of these commodities. Table 3 shows that since 2008, 70 percent of LAC exports to China have come from just six sectors in two or three countries each. This concentration in a few, mostly unrefined exports, exposes the region to global commodity price swings like the ones mentioned above.

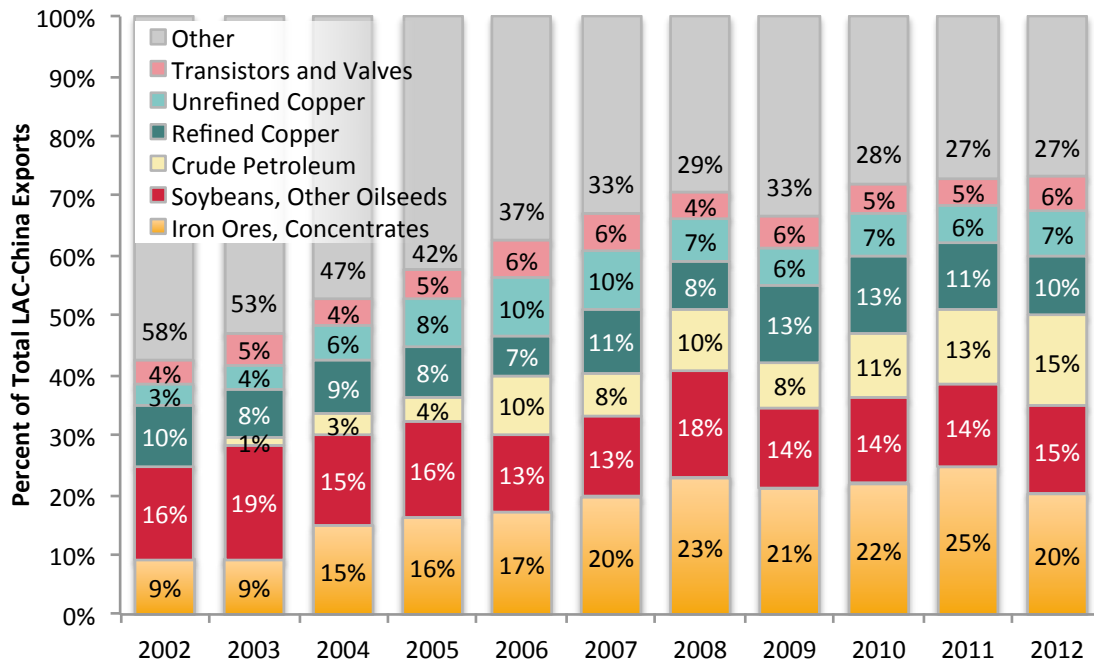
TABLE 3: LAC Exports to China by Commodity for the 2008-2012 Period

Sector	Share	Country Share of LAC-Exports in 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%)
TOTAL	71.6%	

Source: UN COMTRADE and authors' calculations.

Over the last 10 years, these six commodities have grown in importance among LAC-China exports. As Figure 3 shows, they have expanded from less than half of regional exports to China in 2002 to nearly three-fourths in 2012. They have made up over 70 percent of total exports to China for four of the past five years.

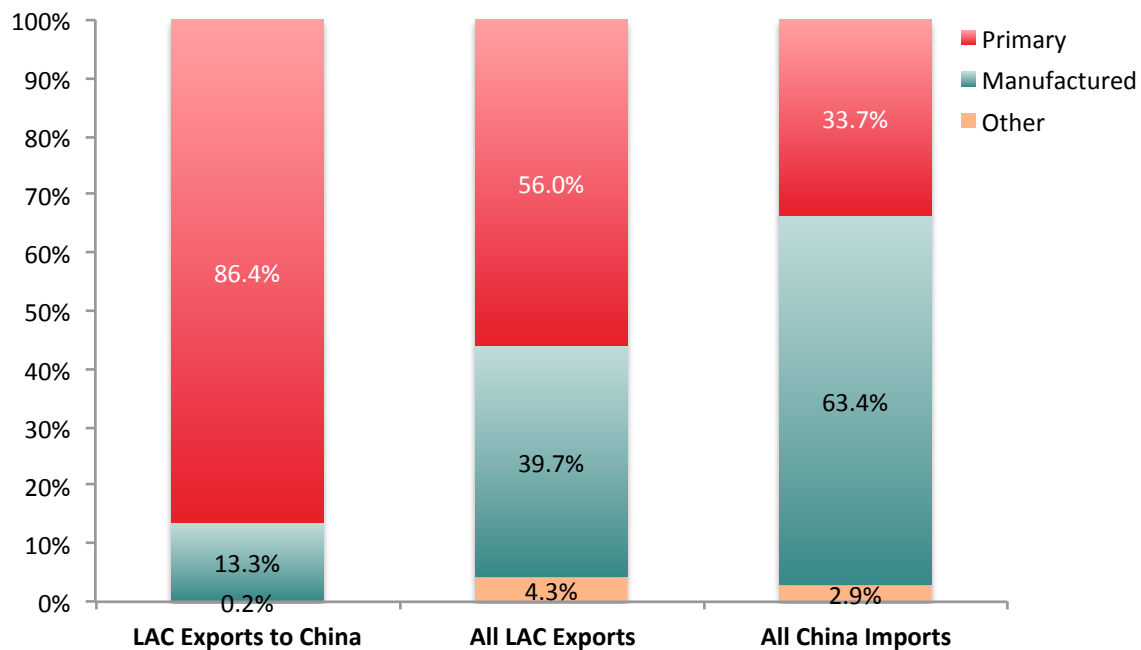
FIGURE 3: Distribution of LAC-China Exports Among Major Commodities, 2002-2012



Source: UN COMTRADE and authors' calculations.

This heavy emphasis on primary materials is not reflected in LAC exports overall. In fact, from 2008 to 2012 manufactured goods made up about 40 percent of LAC's exports to the world, as Figure 5 shows. Nor is it reflected in China's overall imports, which are mostly manufactured. So the importance of primary materials in LAC exports to China is especially notable, because it is unique for both parties.

FIGURE 4: LAC exports of goods to China compared to all LAC exports of goods and all China imports of goods, by Category (2008-2012)



Source: UN COMTRADE and authors' calculations.

In fact, as China has grown in importance as an LAC export market, manufactured goods have fallen in importance, as shown in Figure 5. LAC exports have gone increasingly to China, from 3.3 percent of LAC exports in 2002 to 9.1 percent in 2012, and have simultaneously become more concentrated in primary goods. In 2002, manufactured goods made up a small majority of LAC exports; by 2011 they had fallen to about one-third, before rising slightly in 2012 to 38 percent.

FIGURE 5: Manufactured Exports and Exports to China as a Share of Total LAC Exports



Note: Manufactured exports are defined using Sanjaya Lall's "Technological Classification of Exports" developed in (Lall 2000). Source: COMTRADE and authors' calculations.

LAC Imports from China: Industrial and Diverse

In stark contrast with the discussion of primary commodities above, LAC's imports from China are overwhelmingly industrial in nature. As Table 4 shows, nine of the top ten imports are manufactured. The one primary-based product, petroleum, is in a processed state – in contrast to the crude petroleum listed in LAC's top exports to China.

In further contrast with the discussion of exports, LAC's imports from China are quite diverse across commodities, and becoming even more so. Table 2, above, shows that in the last five years over 70 percent of LAC exports to China have been concentrated in just six commodities. But as Table 4 shows, the top ten categories combined of LAC imports *from* China have comprised just over one-third the total in the same time period. In 2012, that share actually diminished further, albeit slightly. So while LAC exporters are dependent on a few commodities prone to large price swings, Chinese exporters do not have that same vulnerability in their relationship with Latin America and the Caribbean. Moreover, in years like 2012 where the prices of LAC export to China dip, the prices of Chinese exports to LAC are not likely

to dip with them, leading to the creation of trade deficits like the one shown in Figure 1.

TABLE 4: Chinese Exports to LAC by Commodity, 2002 and the 2008-2012 Period.

	Share of LAC Imports from China	
	Share, 2012	Share, 2008-2012
Telecommunications equipment and parts	8.8%	9.3%
Automatic data processing machines, equipment	3.5%	3.8%
Ships, boats, and floating structures	3.4%	4.0%
Optical instruments and apparatus	3.3%	3.3%
Petroleum products	2.8%	2.7%
Footwear	2.7%	2.5%
Electrical machinery and apparatus	2.2%	2.3%
Motorcycles, mopeds, cycles, and carriages	1.8%	2.0%
Parts for office machines	1.9%	2.1%
Baby carriages, toys, games and sporting goods	1.9%	2.0%
TOTAL	32.2%	34.0%

Source: UN COMTRADE and authors' calculations.

Investment: China Shifts Gears toward Agriculture

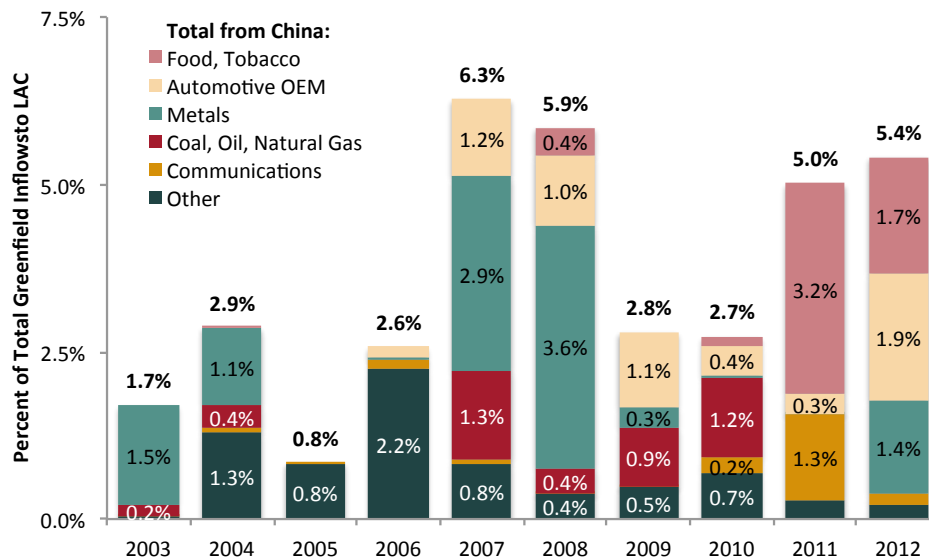
The LAC region received US\$174.5 billion in foreign direct investment (FDI) flows in 2012; of that, China accounted for US\$9.2 billion, or 5.3 percent of the total.⁶ Foreign direct investment contains two major components: new “greenfield” projects and mergers and acquisitions (M&A) flows. Greenfield projects make up slightly less than half of total FDI flows, but are arguably more important, as they involve growing the region’s capital stock. Both types of Chinese investment in LAC,

⁶ These figures come from ECLAC 2013b and 2013a, respectively.

discussed in detail below, show the same concentration among sectors and countries as LAC exports to China.

Greenfield FDI flows from China to LAC have grown recently, but remain relatively small and are very concentrated. They amounted to US\$3.7 billion in 2012, or about 5.4 percent of all greenfield inflows (US\$68.3 billion). As figure 6 shows, their distribution across sectors changed dramatically between 2010 and 2012. Between 2010 and 2011 agriculture went from a minor category to the most important FDI target, due to a US\$2.5 billion project by the Chongqing Grain Group growing and processing soybeans in Bahia, Brazil and a separate agreement of over US\$1 billion by Heilongjiang Beidahuang raising grain and oilseeds in Rio Negro, Argentina. In 2012 automotive replacement parts (OEM, for “original equipment manufacturer”) took the top place, spread across five smaller projects in Brazil and Paraguay. Nonetheless, agriculture continued to be an important sector in 2012, with another deal by the Chongqing Grain Group of over US\$1 billion in Argentina. Of course, it is still too early to determine whether either of these changes will become a trend. But the suddenness with which Chinese food and tobacco investments overtook other sectors is certainly noteworthy and capable of changing the FDI landscape.⁷

FIGURE 6: Chinese Greenfield FDI in LAC, by Sector, as a Share of Total LAC Greenfield Inflows



Source: FDI Markets and authors' calculations.

⁷ For more on the developing importance of agricultural FDI from China to LAC, see Myers (forthcoming).

This new Chinese investment in the food and tobacco sector has all gone to two countries: Argentina and Brazil. China has invested nearly the same amount of money in the sector in both Argentina and Brazil (49 and 51 percent of the total, respectively) since 2008, though this figure is a much larger portion of Argentina's total FDI. In fact, China has been responsible for over three-fourths of all agricultural greenfields inflows into Argentina since 2008, and in Brazil it has been responsible for slightly less than half.

Overall, Chinese greenfield FDI has become increasingly concentrated among the five major industries shown in Figure 6 (food and tobacco; automotive OEM; metals; coal, oil and natural gas; and communications), regardless of shifts between them. These five sectors made up over 95 percent of all Chinese greenfield inflows in 2012, up from an average of 89 percent over the previous five years and 83 percent since 2003.⁸ In contrast, global greenfield inflows to the LAC region has gotten slightly more diversified over the same period. The five major industries in Figure 6 represented 65 percent of total FDI inflows in 2012, down from an average of 68 percent during the previous five years and 70 percent since 2003.

Like export revenue, greenfield flows from China to LAC are highly concentrated among countries as well as sectors. Table 5 shows the geographical distribution since 2008 for the five major industries of greenfield flows listed above: food and tobacco; automotive OEM; metals; coal, oil and natural gas; and communications. These five sectors have comprised over 90 percent of flows for the last five years, and are focused in a handful of countries each. Most of the information in Table 5 will not be surprising to Latin America observers, but a few points merit highlighting. Among metals investment, the Chinese firm Bosai Minerals has invested US\$1.3 billion in Guyana's aluminum industry since 2008 – about twice as much as Chinese inflows to Brazil's metals sectors (US\$650 million from the Anshan Iron and Steel Group), even though the latter may be better known. Second, China's oil and natural gas investments in the LAC region are all under the auspices of the China National Petroleum Corporation (CNPC), but are differentiated by country: petroleum extraction in Venezuela and refining in Costa Rica, and natural, liquefied, and compressed gas manufacturing in Cuba. Finally, the automotive sector has a strong showing as Chery, Changan, and other Chinese companies have begun vying for the South American market.

⁸ These findings are largely in line with those by Dussel Peters (2012), who finds that from 2000 to 2011, roughly two-thirds of Chinese OFDI (greenfields and M&A together) were in raw materials sectors.

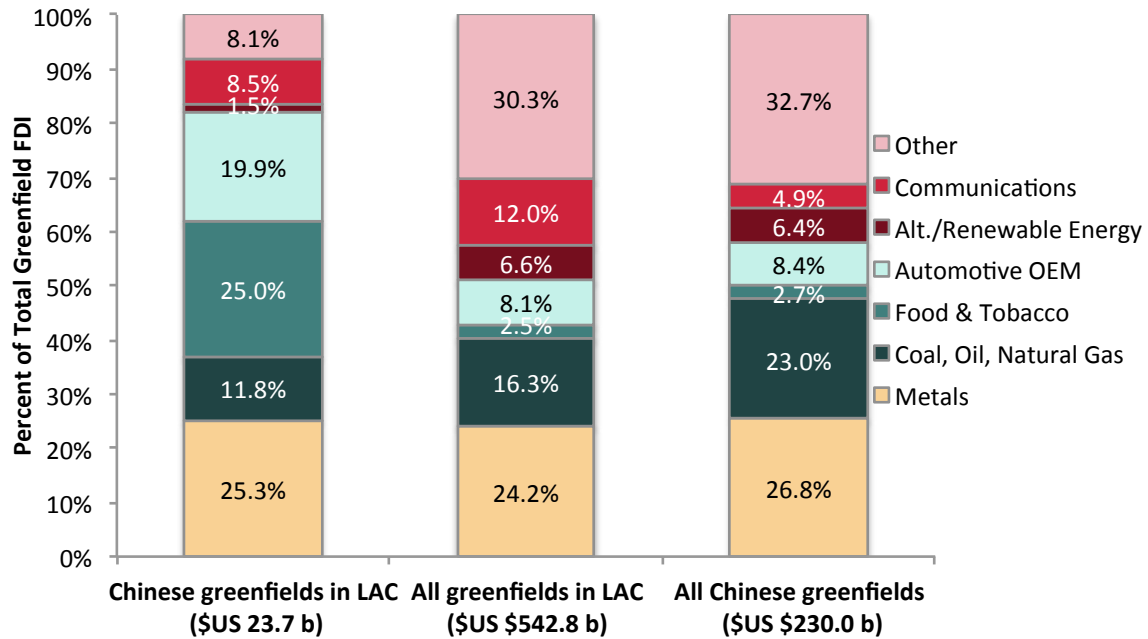
TABLE 5: Distribution of China-LAC Greenfield FDI Flows among Industries, 2008-2012

Industry	% of China-LAC FDI	Country Share of Industry FDI
Metals	25.3%	Peru (65%), Guyana (22%), Brazil (11%)
Food & Tobacco	25.0%	Argentina (50%), Brazil (50%)
Automotive OEM	19.9%	Brazil (56%), Mexico (18%), Argentina (14%)
Coal, Oil, Nat. Gas	11.8%	Cuba (47%), Costa Rica (36%), Venezuela (17%)
Communications	8.5%	Brazil (84%), Colombia (10%)
TOTAL:	90.4%	

Source: FDI Markets and authors' calculations.

As with exports, the concentration of Chinese greenfield investment is unique to the China-LAC relationship. Overall greenfield inflows to LAC are much more diverse, as are overall greenfield *outflows* from China. Specifically, Chinese LAC investment is notable for its concentration in agriculture and automotive OEM. In other words, Chinese investors approach LAC not only as a potential provider of resources (as in agriculture) or as a potential market (as in the automotive sector), but as a more complex mix of the two.

Figure 7: Sector shares of Chinese greenfields in LAC, all greenfields in LAC, and all Chinese greenfields, 2008-2012

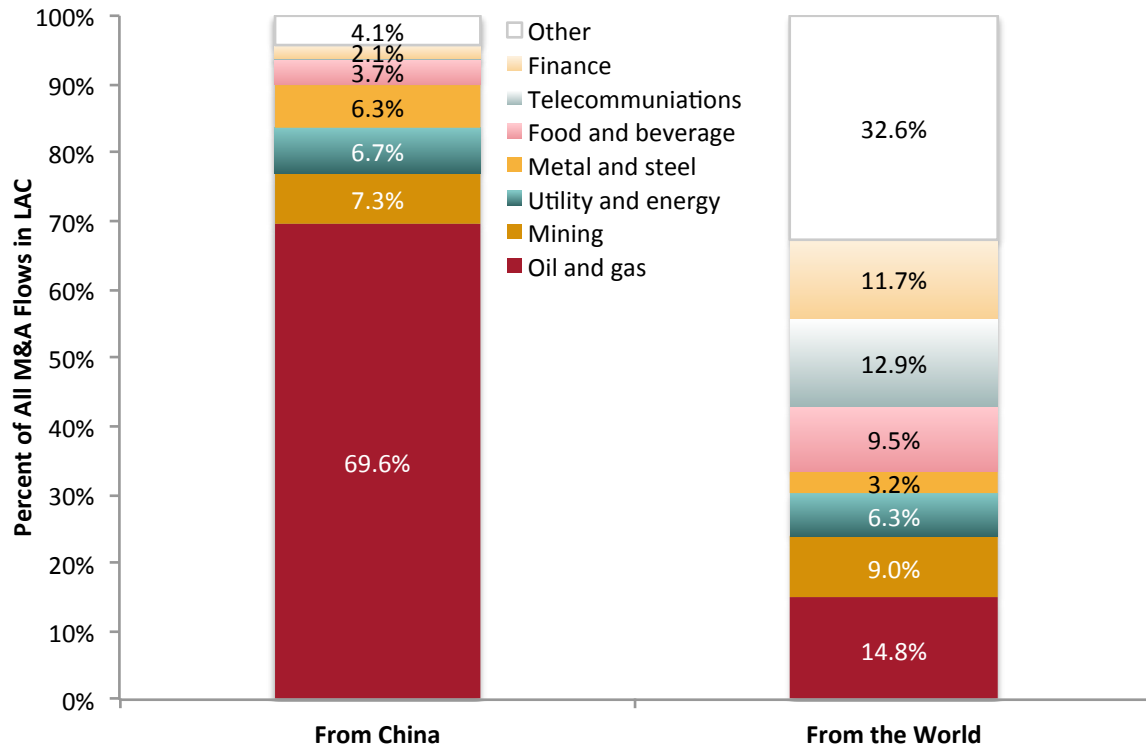


Source: FDI Markets and authors' calculations.

The other major component of FDI, mergers and acquisitions, are notoriously difficult to measure in total scope (as many of the agreements occur in private, and payments can be made over several years) but it is still possible to look at the sector composition.

Mergers and acquisitions (M&A) inflows are distributed among the same major industries as greenfield FDI, but with an even greater concentration in the production of a few commodities. In this regard, Chinese M&A inflows are strikingly different from other M&A inflows to LAC, as Figure 8 shows. While five sectors comprise over 95 percent of M&A inflows from China (and the overwhelming majority is concentrated in oil and gas), the same is not true of overall inbound M&A flows, in which the top seven industries make up only about two-thirds of the total.

FIGURE 8: Inflows from mergers and acquisitions, by Industry, 2008-2012.



Source: DeaLogic

Table 6 shows the largest 10 Chinese M&A deals in the 2008 - 2012 period, all of which occurred in Argentina and Brazil. Of the 14 Chinese firms involved in these purchases, 12 are state-owned, which shows the strategic importance that the Chinese government places on entering these LAC sectors. The four largest deals, worth at least US\$2.5 billion each, were all in the oil and gas sector. It is also worth noting that seven of the ten deals involved purchasing LAC assets from other foreign firms, mostly based in Europe. So the overarching story of large Chinese M&A deals in LAC is one of Chinese firms buying out other foreign firms in the region, rather than local firms selling out to China.

Table 6: Ten Largest Chinese M&A Deals in LAC, 2008-2012

Chinese Firm	Country	Purchase	Year	\$USDb
CNPC ¹	Brazil	40% stake, Repsol Brazil (Spanish-owned oil and gas company)	2010	7.1
CNOOC ²	Argentina	50% stake, Bridas Corp. (oil and gas)	2010	3.1
Sinochem Corp.	Brazil	Oil and gas assets, Peregrino Field, from Statoil (Norwegian-owned)	2010	2.5
Sinopec ³	Argentina	Oil and gas operations, Occidental Petroleum Corp (US-owned)	2010	2.5
Five mining investment SOEs ⁴	Brazil	15% stake, Companhia Brasileira de Metalurgia e Mineracao	2011	2.0
ECE ⁵	Brazil	Itaminas Comercio de Minerai SA	2010	1.2
State Grid Corp.	Brazil	Seven Spanish-owned power transmissions companies	2010	1.0
State Grid Corp.	Brazil	Power station, from ACS Actividades de Construccion y Servicios (Spanish-owned)	2012	0.9
ICBC ⁶	Argentina	80% stake, Standard Bank Argentina and affiliates (South African-owned)	2011	0.7

Notes: ¹ China National Petroleum Corp.; ² China National Offshore Oil Corp.; ³ China Petrochemical Corp.; ⁴ CITIC Group, Shougang Corp., Baosteel Group Corp., Taiyuan Iron and Steel (Group) Co. Ltd., Anshan Iron and Steel Group Corp.; ⁵ East China Mineral Exploration and Development Bureau; ⁶ Industrial and Commercial Bank of China. Source: Dealogic.

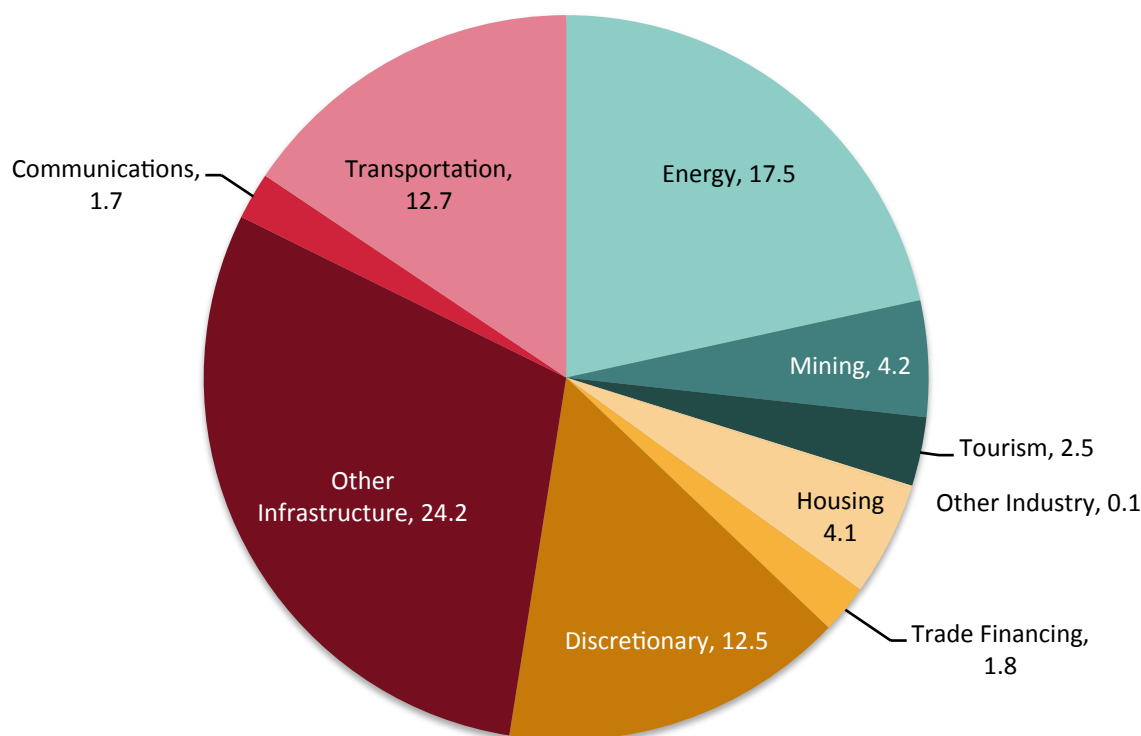
Sinopec, listed above for its purchase of the Argentine operations of Occidental Petroleum, has participated in several M&A deals in three separate LAC countries since 2008: the Occidental purchase as well as three related oil companies in Colombia (all part of the Hupecol Group) and oil and gas assets from Petrobras in Brazil. Another firm with a large number of M&A deals is the privately-owned, publicly-traded China Fishery Group, although they are not listed in Table 6 because of the relatively small size of their individual purchases (six fisheries in Peru, totaling US\$150 million).

Financing: Slowing, Broadening in Scope

Another major aspect of China-LAC Economic Relations is that China continues to provide sovereign lending to Latin American governments. GEGI and the Inter-American Dialogue publish the annual “China-Latin America Finance Database” (IAD 2013) that seeks to estimate annual inflows of Chinese sovereign lending to LAC governments on an annual basis. Largely provided by the China Development Bank (CDB) and the China Export-Import Bank (Ex-Im), estimates of 2012 lending are US \$6.8 billion in 2012, down from over twice that amount in 2011. It has fallen by over 80 percent since their peak in 2010, when it hit US\$37 billion. However, CDB and Ex-Im loans to LAC governments tend to be lines of credit and thus a fall in new lines or loans may not necessarily represent a slowdown in new debt but rather that nations may need time to draw on existing lines of credit.

Because of the importance of multi-year lines of credit, it is more useful to look at the sector concentrations of earmarked lending over the entire five-year period rather than year-to-year changes. Figure 9 shows that infrastructure (shown in shades of red) has accounted for nearly half of Chinese lending to the LAC region since 2008: US \$38.6 billion. Energy and mining-related lending may have received more attention, but it represents a much smaller amount: just over a quarter of the total. Finally, discretionary finance has grown in importance, as will be discussed in more detail below.

**FIGURE 9: Chinese Lending to LAC, by Target Sector, 2008-2012
(Billions of USD)**



Source: Inter-American Dialogue (2013) and authors' calculations.

Table 7 shows each sector's distribution among countries. A few countries, and a few sectors, dominate the picture. Most importantly, Venezuelan infrastructure loans amounted to US\$24 billion: nearly two-thirds of the all infrastructure financing from China to LAC. Argentina also saw important infrastructure funding, with four loans totaling US\$11.8 billion for train systems, including high-speed rail and the Buenos Aires subway system. Among energy loans, Brazil borrowed much more than any other LAC country: two loans totaling US\$10.4 billion, both for pre-salt oil projects. Ecuador is next in the energy sector, borrowing US\$5.1 billion, split nearly evenly between oil and hydropower projects.⁹

⁹ It bears noting that Ecuador and Venezuela both took out loans in which part was earmarked for oil and the remainder was discretionary. Only the earmarked portion is listed as energy-related here. As a result, these category distributions differ from those in IAD (2013).

Table 7: Chinese Lending to LAC, by Borrower and Target Sector, 2008-2012 (Billions of USD)

	Infrastructure			Industry				Other			Total
	Transp	Commun	Other	Energy	Mining	Tourism	Other	Housing	Trade	Discret	
Argentina	\$11.8										\$11.8
Bahamas	\$0.1		\$0.04			\$2.5					\$2.6
Bolivia	\$0.3	\$0.3		\$0.1							\$0.7
Brazil		\$0.3		\$10.4	\$1.2						\$11.9
Chile		\$0.2									\$0.2
Colombia							\$0.1				\$0.1
Costa Rica									\$0.3		\$0.3
Ecuador	\$0.1			\$5.1					\$4.2		\$9.4
Guyana	\$0.1										\$0.1
Jamaica	\$0.3		\$0.1					\$0.1	\$0.1		\$0.6
Mexico		\$1.0									\$1.0
Peru			\$0.1		\$2.0				\$0.2		\$2.3
Uruguay							\$0.01				\$0.0
Venezuela			\$24.0	\$2.0	\$1.0			\$4.0	\$1.5	\$8.0	\$40.5
Total	\$12.7	\$1.7	\$24.2	\$17.5	\$4.2	\$2.5	\$0.1	\$4.1	\$1.8	\$12.5	\$81.3

Source: Inter-American Dialogue 2013 and authors' calculations.

As mentioned above, the most recent agreements have shown a trend toward discretionary loans borrowers can use as they see fit, rather than earmarking the money specifically for infrastructure or industrial development. Of US\$6.8 billion lent in 2012, US\$6.0 billion was discretionary. In contrast, China has not made any loans specifically for mining since 2010.

However, Chinese loans are increasingly concentrated among borrowers. The only countries to take out more than US\$1 billion in new Chinese loans in 2012 were Venezuela and Ecuador. They were also the most heavily represented among 2011 borrowers. This concentration is to be expected, given that these countries enjoy lower interest rates and more favorable terms in borrowing from China than from global bond markets.¹⁰ China is increasingly providing Ecuador with public finance for its annual budget. Interestingly, citing this finance, Moody's has upgraded Ecuador's bond ratings two times and Ecuador may re-enter global capital markets in 2014. Another characteristic of Chinese finance is fairly unique: more than half of Chinese financing to LAC is to be repaid in oil, even if the funds themselves are not earmarked for that sector's development. However, in 2012 there does not appear to be any commodity-backed financing.

Preview of 2013 Data and Outlook for 2014

LAC trade with China in 2013 appears to have followed the pattern of 2012. Commodity prices continue their decline, suggesting that the growth in value of LAC exports to China will continue to lag behind the growth in their volume, potentially widening the goods trade deficit in Figure 1. Meanwhile, mergers and acquisitions continue to hold an important place in Chinese investment in the region, with several 2013 deals larger than any in 2012.

Of the four major commodities in LAC-China exports (copper, iron, soybeans, and crude oil), three saw continued declines in 2013. Soybean prices fell by nine percent, and copper prices fell by about eight percent. Crude oil prices were essentially flat, falling by 0.9 percent. Only iron prices rose, by 5.4 percent. Table 8 computes the effect of these price changes on the price of the overall basket of LAC-China exports, assuming that 2013 saw no change in basket composition. The result is a decline in basket price of 1.6 percent.

¹⁰ For more on China's interest rate advantage for countries with less access to private bond markets, see Gallagher et Al. 2012.

Table 8: Commodity Price Changes and their Contribution to 2013 LAC-China Export Price Changes

	Price Change, 2012-13	Share of LAC-China Exports, 2012	Contribution to Total Basket Price Change (pp)
Copper	-7.9%	17.8%	-1.4
Crude Oil	-0.9%	11.9%	-0.1
Iron	5.4%	22.1%	1.2
Soybeans	-9.0%	14.7%	-1.3
Total			-1.6%

Source: World Bank (2014), UN COMTRADE, and authors' calculations.

As Table 1 (above) shows, export volume in basic commodities grew at a fairly constant rate of 11 to 12 percent annually between 2007 and 2012, even as Chinese GDP slowed. If LAC exports to China grew by 11.5 percent in 2013 but lost 1.6 percent of their average price, it would mean that total export value to China rose by only 9.7 percent. If this is the case, it will be a continuation of the recent pattern of LAC-China exports growing in volume but not rising proportionately in total value.

Chinese investments in the LAC region appear to have grown in 2013, especially in the form of mergers and acquisitions. Major 2013 M&A deals include:

- Sinochem purchased US\$1.5 billion in oil and gas assets in Brazil from Petrobras.
- CNPC became a third partner in Ecuador and Venezuela's joint Refinería del Pacífico project.
- Yunnan Chihong Zinc & Germanium Co. Ltd. purchased a 61 percent stake in Compañía Minera Amazona Bolivia - Comaból SA for US\$1 billion.
- China Fishery Group took over Copeinca ASA in Peru for US\$858 million.

As the list above shows, Chinese M&A deals continue their emphasis on extractive industries, but fisheries also join the list. Also, they have expanded geographically from their focus on Argentina and Brazil to include several other countries: Ecuador, Bolivia and Peru. Sinochem continues to pursue large deals, as does the China Fishery Group.

The 2014 edition of the GEGI-IAD “China-Latin America Finance Database” will cover in detail China’s 2013 finance deals with the LAC region, but a few preliminary notes merit mentioning here. New loans and lines of credit appear to have returned to their pre-2012 pattern of focusing on infrastructure and energy, and have expanded beyond Ecuador and Venezuela. A few reported deals (which will be verified for the forthcoming database) include:

- Commitments to eight Caribbean countries totaling US\$3 billion for infrastructure and energy.
- Loans and lines of credit to Costa Rica totaling US\$1.3 billion, including a US\$900 million loan from the CDB for upgrading a petroleum refinery and a line of credit for US\$400 million for road infrastructure from the Chinese Ex-Im Bank.
- A line of credit of US\$1 billion to Mexico from the China Ex-Im Bank for its state-owned oil company PEMEX.

The outlook for trade in 2014 depends on commodity price forecasts, which can vary dramatically between sources. This bulletin relies on three widely-used, freely-available data sources: the World Bank, the IMF, and the Economist Intelligence Unit Global Forecasting Service. Table 9 uses an average of these three sources’ projected price changes to compute the effect of commodity price changes on the total basket price of LAC-China exports for 2014, using the same method as Table 8, above. The result of their projections, a 3.1 percent price decline in the LAC-China export basket, is nearly twice as deep as the 2013 price decline in Table 8, which implies a growing LAC-China trade deficit in goods for 2014.

Table 9: Commodity Price Projections and their Contribution to 2014 LAC-China Export Price Changes

	Price Change, 2012-13	Share of LAC-China Exports, 2012	Contribution to Total Basket Price Change (pp)
Copper	-1.3%	17.8%	-0.2
Crude Oil	-1.8%	11.9%	-0.2
Iron	-7.6%	22.1%	-1.7
Soybeans	-6.7%	14.7%	-1.0
Total			-3.1%

Note: Price changes reflect an average of projections from the EIU (no date), IMF (2013a), and World Bank (2013). Other sources: UN COMTRADE and authors' calculations.

It is important to note that this projection assumes no change in the composition of the export basket between 2012 and 2014.¹¹ It is entirely possible that declining prices may increase China's demand for these products. If that happens, the impact on the overall basket price will be even stronger, as the products with the largest price declines may become more important. But the effect on the overall trade balance would be ambiguous, as the rising quantity would partially offset falling prices. On the other hand, if prices are projected to decline because of *softening* Chinese demand for these commodities, then 2014 will see both prices and quantity of these exports decline. In this latter scenario, the LAC-China trade deficit in goods would expand more rapidly in 2014.

If the falling basket price described in Tables 8 and 9 were to both occur, it would imply a total drop in the LAC-China export basket price of 4.7 percent between 2012 and 2014. These falling prices would exacerbate the "running in place" effect described above, in which LAC exporters' earnings do not keep up with their growing sales. If these exports continue to grow at an 11 to 12 percent annual rate in volume in 2013 and 2014, but their prices fall by 4.7 percent overall, it will mean a two-year increase of 21 to 23 percent in volume but only 15 to 17 percent in value. Under these conditions, it is reasonable to expect continued, expanding LAC trade deficits in goods with China.

¹¹ Of course, these projections also assume no change in China's willingness to extend the trade-financing loans described in the financing section above.

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