China and Latin America: Building a Mutually Beneficial Strategic Alliance

Focus: China–Venezuela

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Abstract- **The economy of China has experienced considerable continued growth during the last few decades. It has reached a Real Gross Domestic Product (GDP) growth of 10,45% in average (Annual percent change - A%c) during the last 10 years, while the world has reached 3,83% in the same period of time. This is the reason that the economy of China is currently at the forefront of the Emerging Potential Group which is comprised by Brazil (the only Latin American Country), Russia, India, China, and South Africa (BRICS). Meanwhile, Latin America and the Caribbean (in this paper referred to as "Latin America" or "region"), is well-known for its huge economic potential and abundant supply of natural resources. These economies, China and Latin America, have been developing their commercial relations and increasing their level of investment during the last few years and are in fact set to make a qualitative leap towards a mutually beneficial strategic alliance in order to change the world´s economy. Latin America must double its efforts in order to build an equitable and commercially favorable environment that allows for its development. There are joint challenges to be faced, and China faces challenges of its own. This paper attempts to address different factors, gaps, and market opportunities that have to be attended to, with a special focus on Venezuela, one of the biggest potential economies in this region.**

Keywords: China, Latin America and the Caribbean; Mutually Beneficial Alliance; Trade; Venezuela.

I. INTRODUCTION

The rise of global GDP per capita over the past two centuries was largely driven by the industrial revolution in Western Europe and the United States (U.S) along with a few countries which managed to position themselves as strategic exporters [7]. The extraordinary increase in GDP among these countries enabled them to become hegemonic and therefore influence global policy in their favor [3]. In recent decades many developing countries did not grow as much as they could have grown [8]. It is worth mentioning that China, a "developing" country, has increased its importance in the global economy during recent years, in the last 10 years alone it has achieved an average of 10,45% GDP growth (A%c), becoming a sort of "main engine of the world" [10]. For the first time in many years, Latin America now has the distinct opportunity to leap forward and meet the group of emerging economies (BRICS), whose sole Latin American representative is Brazil, showing very good signs of growth. Brazil reached a GDP growth (A%c) of 3,67% in average during the last 10 years [6], and at the same time it has also managed to achieve considerable social improvements, for example, the Gini Index has descended 4,09 points during the same period [11].

The economies of China and those of the Latin American region are the world's current "poles of growth," and are expected to grow twice or three times as quickly as the industrialized economies during coming years. It is foreseen that the industrialized countries will have to adjust to a slower pace of growth and higher unemployment [10].

After analyzing data of trade between these economies in recent years, available on the web of: World Trade Organization [12]. It can be said that China and Latin America currently enjoy commercial relations that are mature enough but need more balance with in order to develop sustainability and a long-term strategy for mutually growth.

The present work provides: (i) Insights about China's Economy Growth. (ii) Insights on the actual investment situation between China and Latin America, (iii) Discusses some of the factors, gaps, and market opportunities that Latin America must work with in order to secure a mutually beneficial strategic alliance with China, and also in order to develop sustainability and a long-term strategy for growth. (iii) A specific analysis of the Venezuela-China investment situation. Facilitating an objective strategic management analysis, away from politician one whose are often to address these issues.

II. CHINA ECONOMIC GROWTH

The Asian giant has given much to talk about in recent years in terms of growth. China had a population of 1.344,1 million in 2011 [11], It is also the most populated country in the world. By 2012, it was the first exporter of merchandise (second one considering the European Union 27 countries – E.U), ahead of the U.S and the fifth exporter (sixth with the E.U) of Commercial Services [12].

Figure I shows the GDP growth of China compared with Advanced Economies and the world, from 1990 to 2017 (please note that the figures from 2013 to 2017 are projections). This graph (figure I) shows that: (i) Since the

years 2003 -2004, China marks the beginning of significant consolidated growth. (ii) In September of 2008, the outbreak of the global crisis affected everyone, it even affected China which fell to 9,2 (fell but remained in the positive range), the world economy shows: -0,6 and developing economies show: -3,5. (iii) After the global crisis, a very slow period of recovery is evidenced in the developed economies and a promising trend is evidenced in the economy of China.

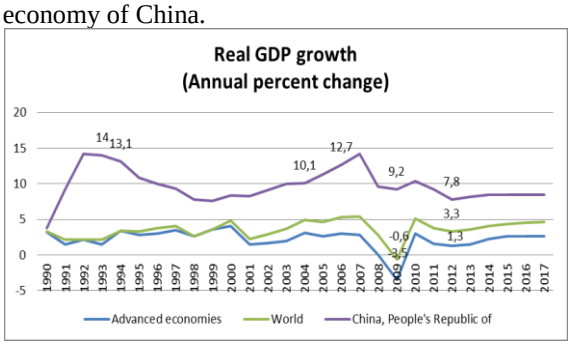

Figure 1. Real GDP Growth (Annual percent change) 1990 to 2017

China has grown. It has also lifted millions of people out of poverty. From 2005 to 2009 the percentage of the population living in poverty (less than $2 per day) decreased 2,6% (approximately. 34,8 million of people). However, worsened of the Gini Index: jumped by 10,5 during 1990 -2005, which reflects growing inequalities between the different regions of the country. By 2009 27,2% of its population was living in poverty (%Population below $2 a day), which is to say 365,6 millions of people [11].

China is a leading player, not only in the global production and trade fields, but also in international finances as well. China is playing an increasingly important role in maintaining the balance of the global economy. China is the largest creditor of the U.S; it has surpassed Japan (mid-2008). China owns about 2.6 trillions of US dollars in international reserves, equivalent to 27% of the global reserves (which now yield about 50 billions of US$ in interest per year) [10].

This is a big change for the country, and it brings with it major challenges as well. Higher income could raise the cost of labor, and this could have an impact on export-dependent sectors and cause inflationary pressures. Thus, it appears that China has major tasks: (i) to balance inflationary threats with a rising domestic demand, (ii) to preserve the dynamism of the export sectors without neglecting energy-saving practices, while respecting the environment and the need to step up the training of workers at the same time.

Table I shows the breakdown of imports and exports of China in 2011 (last year available). Based on this information one can identify opportunities to change the situation because there isn ́t any Latin American country in the forefront positions. China is fully aware of the many business opportunities that can be established with Latin America and has taken firm steps towards consolidating the same.

III. Trade between China and Latin America and the Caribbean

Latin America and the Caribbean, territory holders of:

(i) Third of the fresh water reserves and 12% of arable land. (ii) Third of the world production of bioethanol, nearly 25% biofuel and 13% petroleum. (iii) The following reserves: 65% lithium, 49% silver, 44% copper, 33% tin, 32% of molybdenum, 26% bauxite, 23% nickel, 22% iron and 22% zinc, etc. (iv) 48% of the global soybean production.(v) 21% of the area of natural forests and rich biodiversity.

TABLE I. BREAKDOWN IN ECONOMY'S TOTAL EXPORTS / IMPORTS OF CHINA (2011) - PERCENTAGE

Share in world total exports	10,38	**Share in world total imports**	9,43
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By main commodity group (ITS)		By main commodity group (ITS)	
Agricultural products	3,4	Agricultural products	8,3
Fuels and mining products	3,1	Fuels and mining products	29,6
Manufactures	93,3	Manufactures	59,2
By main destination		By main origin	
1. European Union (27)	18,8	1. European Union (27)	12,1
2. United States	17,1	2. Japan	11,2
3. Hong Kong, China	14,1	3. Korea, Republic of	9,3
4. Japan	7,8	4. Taipei, Chinese	7,2
5. Korea, Republic of	4,4	5. United States	7,1

Source: Statistic database, trade profile per Country. World Trade Organization, generated on: Jun 2013

It is important nonetheless to mention that the region still has weaknesses which are currently preventing them from moving to a better position: (i) a production and export structure that is based on static comparative advantages, (ii) low investment including delays in innovation, science, technology, education and infrastructure, (iii) an informal labor market, (iv) high cost of violence (7.7% of GDP in Central America), (v) political vulnerability in some countries, (vi) asymmetric vulnerability to climate change [2].

In 2012 this region Imported US$ 1.347,6 Million (considering merchandise and services) and exported US$ 1.136 million, this means 5% of the exports of the world [12]. ECLAC anticipates that China will displace the E.U as the region's second largest trading partner before 2015 [1].

By 2009, exports from Latin America and the Caribbean to Asia were US$ 103 billion, equivalent to 15% of the region's total exports. Imports are an even greater component of the trading relationship with Asia and China in particular, and this has led to a growing trade deficit with that region. Asia's share of imports into Latin America and the Caribbean continued to climb strongly over the past decade, rising to 25% of the total. Half of this (12%) came from China, which thus became one of Latin America's main suppliers, easily surpassing the E.U and the Latin American region [10]. (See table II).

Since 2009, China had already established itself as a trading partner with Brazil, an important country, not only

demographically, but also in various aspects. It had also established itself as a trading partner with Chile, Peru, Argentina's and Venezuela, where is between the first three positions sharing with U.S and E.U.

TABLE II. LATIN AMERICA AND THE CARIBBEAN: TRADE BY DESTINATION AND ORIGIN, 2000- 2010 (PERCENTAGE)

Trade By:	2000	2006	2007	2008	2009	2010
Destination			**Export**			
Latin America & C	19	17,2	18,2	19,6	18,9	18,9
Asia	5	9,7	11,5	12,2	15,2	16,6
China	1,1	3,4	4,7	4,9	7,1	8,3
Other countries of Asia	3,9	6,4	6,8	7,2	8,1	8,3
United States	61	50	46,2	43,3	41,5	41
European Union	11,8	14,2	15	15,2	13,9	13,1
Rest of world	3,2	8,9	9,2	9,8	10,5	10,5
Origin			**Import**			
Latin America & C	15,1	20,5	20,5	21,2	20,7	19,7
Asia	5	9,7	11,5	12,2	15,2	16,6
China	1,1	3,4	4,7	4,9	7,1	8,3
Other countries of Asia	3,9	6,4	6,8	7,2	8,1	8,3
United States	61	50	46,2	43,3	41,5	41
European Union	11,8	14,2	15	15,2	13,9	13,1
Rest of world	3,2	8,9	9,2	9,8	10,5	10,5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries; Statistical Office of the European Communities (EUROSTAT); United States International Trade Commission (USITC); and International Monetary Fund (IMF), Department of Trade Statistics (DOTS).

IV. CHALLENGES OF LATIN AMERICA AND THE CARIBBEAN: ACTUAL ALLIANCE WITH CHINA

This growth in the commercial and investment relationship has also brought forth some concerns about the consequences of the large volume of imports from Asia, owing to their effect on the competitiveness of industries in the region's own countries. In this regard, the following factors are important:

A. Errors of the past (Export Structure):

The history of the economy shows us that there is no previous experience of countries that have managed to develop without diversification of their export production base…" [9].This situation is explained in the table III. There are many opportunities for improvement. There is a higher growth in products exported from China to Latin America than from Latin America to China, just 4 products with a growth of more than 1% and also few countries (only 5 in the entire table III). Latin America must not make the same mistakes of the past in what concern its export structure. The error resides in the decline of the production of the region, reduced by a process of "deindustrialization." Latin America must endeavor to aim towards an industrial export specialization based on integrated local production; furthermore, this process would bring to an end the dependent semi-industrialization initiated in the early 1950s, which is not convenient for the region anymore.

It is vital that the diversification occur, and it is also crucial that the exchanges include both, raw materials, and manufactured goods in the coming years. For example: Table I shows that China imports a significant amount of agricultural products, fuels, mining products, and manufactures, is there the first opportunity, to concentrate efforts. The generation of production chains is of paramount importance, specially if it is done with clear coordination between countries, exploiting the competitive advantages of each other.

TABLE III. CHINA: MOST DYNAMIC PRODUCTS IN TRADE WITH LATIN AMERICA AND THE CARIBBEAN, 2005-2011. (GROWTH RATES AND PERCENTAGES OF TOTAL EXPORTS AND IMPORTS)

	Description (CUCI)	Growth	Share of total exports or imports	Main trading partner and share
Exports	Fabrics, knitted or crocheted	43,6	1,1	Brazil (28,7)
	Aluminum and aluminum alloys	74,3	1,7	Mexico (74,0)
	Air conditioners	35,3	1,5	Brazil (28,3)
	Digital data processing machines	66,1	3	Mexico (39,8)
	Color television receivers	40,3	1,4	Brazil (21,1)
	Radio and telephone transmitters	45,1	2,6	Mexico (33,4)
	Passenger vehicles	86	1	Brazil (40,0)
	Motor vehicle parts and acc.	36,6	1,2	Mexico (36,0)
	Ships and boats	47,9	3,5	Panama (74,5)
	Trunks, suitcases and the like	31	1,1	Brazil (34,9)
	Clothing	48,2	1,1	Panama (51,3)
	Shoes	32,7	1,5	Panama (39,6)
	Liquid crystal devices	69,2	3,6	Mexico (59,0)
Imports	Sugar	38,1	1,3	Brazil (79,9)
	Iron ore and its concentrates	40,2	24,7	Brazil (84,2)
	Petroleum, crude	53,5	13,6	Venezuela (46,7)
	Copper, refined and unrefined	34	11,7	Chile (92.4)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE). Important Note: A product is considered dynamic if it is exported or imported value during the period 2005-2011 grew at a faster rate than total exports or imports and if its share of total exports and imports in 2011 was more than 1%.

B. Reprimarisation, (return to a production of primary goods)

This has already created some misunderstandings. It has confused the specialization of the region in the lower segments of the international division of labor with simple restoration of a productive model centered on raw materials. The above-explained matter tends to limit development. The region should avoid any agreement that makes its industrialization impossible. The negotiations should seek to strategically create balance in the medium to the long term, and it should also be the responsibility of its own players, in order to avoid repeating models or theories such as imperialism, among others.

C. Vulnerabilities of Latin America:

Gaps that never quite close. It is important to learn how to close negotiations that are more balanced, sustainable and prosperous for both. In this regard the following must be considered: (i) True integration of the region, an almost

rhetorical topic that fails to consolidate. We must respond as a consolidated block to changing global demands, (ii) production and export structure based on static comparative advantages, and very few dynamic competitive advantages, (iii) low investment and delays in innovation, science, technology, education, and infrastructures, (iv) political vulnerability (presidential cultures).

V. CHINA AND VENEZUELA

Venezuela, well known for its wealth and its most well-known product: Petroleum. It had a population 29.278 million by 2011 [11]. During the last 10 years (2003- 2012), it registered a GDP growth average (A%c) of 5% [6], and also evidenced some improvement in the social area. The Gini Index, has descended 3,33 points. Even, there is some improvement in the level of poverty, from 34,76% to 21,93% (%Population below $2 a day), since 2003 to 2005 [11]. However, it is in the third position among the TOP 100 with highest inflation rates (customer prices): 26,1% in 2011 [5], when in 2012 (approx.): world average is: aprox 4%, developed countries: aprox. 2.2%, developing countries aprox. 5.3%.

This country remains highly dependent on revenues from its petroleum, which accounts for roughly 95% of the export earnings, about 45% of federal budget revenues, and around 12% of GDP [4]. In fact, it held the third place, after Brazil and Mexico, as the biggest exporter of merchandise in the region (in value) by 2012; US$ 97.340,3 Million, mainly attributable to petroleum (no diversification of products), as shown in table II and table IV. By 2011, Venezuela did not evidence diversification in its exports (See table IV), 93,1% mainly oil, the second main destination is China and the third one origin. The U.S kept its positions as the first one origin (27,9%) with a considerable difference between the next ones (13,93% E.U and 12,06 China). This is a good example to remind us that we all need each other, despite any political differences, and despite any differences in thought.

It is worth mentioning that there are still challenges in the mutually beneficial strategic alliance between China and Venezuela, some of which are:

A. *Overcoming the Current Cycle: Oil - Financing,*

This alliance needs to include diversification, investment in production chains, technological cooperation, good environmental practices and policies, and also detection of additional joint opportunities beyond the current cycle of Oil-Financing. We noticed before that Venezuela is not the only country that financed China, but the financing cannot remain as the core of the negotiations.

TABLE IV. BREAKDOWN IN ECONOMY'S TOTAL EXPORTS / IMPORTS OF VENEZUELA (2011) – PERCENTAGE

Share in world total exports	0,51	**Share in world total imports**	0,26
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By main commodity group (ITS)		By main commodity group (ITS)	
Agricultural products	0,1	Agricultural products	16
Fuels and mining products	93,1	Fuels and mining products	2,1
Manufactures	2,3	Manufactures	81,2
By main destination		**By main origin**	
1. European Union	0,6	1. United States	27,9
2. China	0,5	2. European Union	13,8
3. United States	0,5	3. China	12
4. Colombia	0,5	4. Brazil	8,6
5. Brazil	0,4	5. Colombia	4,2

Source: Statistic database, trade profile per Country. World Trade Organization, generated on: Jun 2013

B. *Improve Strategic Management (Strategic Thinking),*

Venezuela must be strategically aware of the current global reality and act accordingly. Openness and trade with the rest of the world is the key, as is strategic thinking, exploring partnerships, searching for knowledge and technology, encourage and promote the emergence and success of Venezuelan Multinationals, "Translatinas", (New Multinationals that come from Latin America). Unlike others Latin American countries such as Brazil, Chile, Argentina, etc. This country is far behind in the field, there is not, until now, any promised Venezuelan Transnational. And the recent success of China and other BRICS members, indicated are key

China itself understood, after some mistakes, doubts, and discussion, that openness was required and imminent. In the 1980s, it started to build special zones in the economy, windows to the outside world in order to attract foreign investment. At present, the goals of the state-owned enterprise reform and development are based on the requirements of the market's economy. Establishing: (i) the right to private property needs to be clear, (ii) explicit power, (iii) the separation of governmental functions and enterprise management, (iv) scientific management of the modern enterprise system [13].

Today we can see the results. Granted, there are still challenges ahead, but we can see some results in terms of growth.

C. *Learning from the Past, Behaving in a Responsible Manner, and Looking Towards the Future*

Moving forward, respecting differences, and separating the overall development agenda from any other issues that might derail its progress.

There are well-known stories of excesses attributable to the powers that stood for many years and influenced global decisions after the industrial revolution. Today we need to learn and move on. Today we need to be aware that each participant must be accountable and responsible in order to manage to achieve a true win-win situation.

VI. CONCLUSION

Every potential emerging economy must endeavor to aim towards an industrial export specialization based on integrated local production; furthermore, this process would bring to an end the dependent semi-industrialization initiated in the early 1950s, which enabled to some countries to become hegemonic and therefore influence global policy in their favor. It is not convenient for anyone anymore.

Surely this alliance, China – Latin America and the Caribbean, is inevitable and will become an important chapter in the global economy during the coming year; however, we must be aware that there are some specific challenges that need to be faced [2].

A. Challenges of Latin America:

To diversify and increase the volume of exports, to increase the investment portfolio in China, to participate in Asian value chains ("Translatinas", can be engine for many of these changes), to define a coordinated and integrated plan facing China and seek a "China - Latin America Summit" as soon as possible.

Latin America must multiply its efforts; it must be ready as a team and Venezuela is one of the major economies of the region which can help to make this happen**;** once improve its Strategic Management.

B. Challenges of China:

To raise the direct foreign investment in Latin America, to establish a fund to support SMEs or technological cooperation, to understand political spaces and Latin American institutions, to balance inflationary threats with a rising domestic demand, to preserve the dynamism of the export sectors (without neglecting energy-saving practices), to reduce pollution, to balance the development of their areas and the need to step up the training of workers at the same time.

C. Joint Challenges:

To improve the dialogue with the Chambers of Commerce in order to detect market opportunities in China, Asia, and Latin America, including alliances of trade, and investment and technology businesses. To maintain a permanent dialogue in order to improve in the area of social politics, environment, and climate change.

Well could apply China ́s strategy to this alliance, just as Deng Xiao Ping stated: "cross the river by feeling the stones". Carefully but we must to cross.

There is no doubt that this alliance currently presents one of the best opportunities there is and that will continue to be in the next few decades, but we must also be aware, recognize, and work towards lessening any structural weaknesses that might there still remain in these alliances. Also, in order to allow other developing countries to join better economy situations.

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