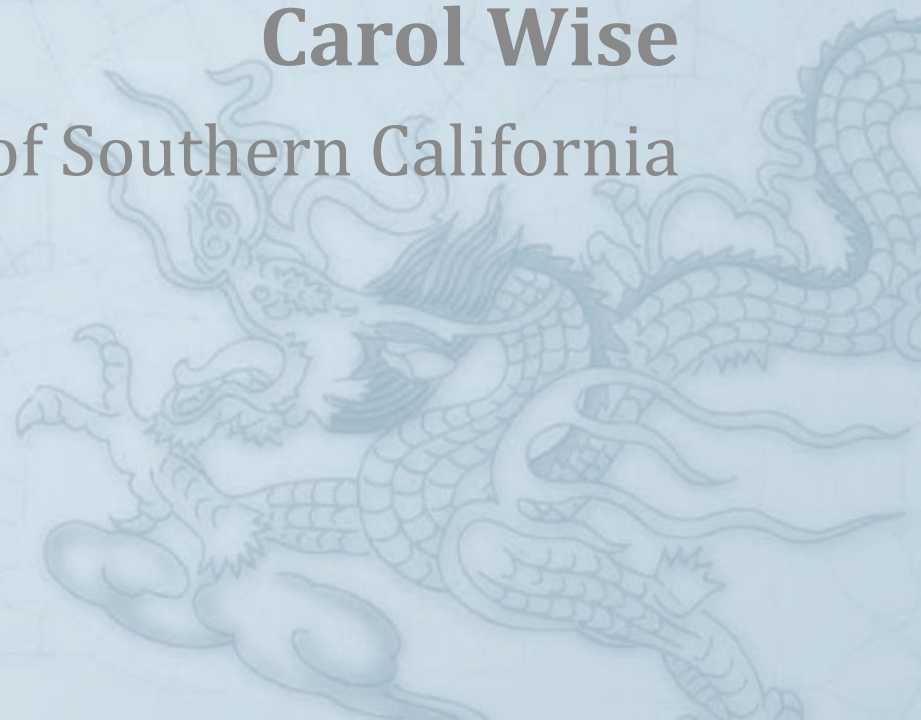


Playing Both Sides of the Pacific: Latin America's Free Trade Agreements with China

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Latin America in the 2000s

◆ Proliferation of bilateral **FTAs** across the Pacific basin

22 cross-Pacific accords in the last decade

◆ Phenomenal **rise of China** in Latin America

- China jumped on to the trend of cross-Pacific accords as well, concluded three bilateral FTAs
- Chile (2006), Peru (2009), and Costa Rica (2011)

Given the broader trend of cross-Pacific bilateral accords, what can we see from the three Latin America-China FTAs?

Three Latin America-China FTAs

Table 1. Asia-Latin American FTAs, 2004-2013

FTA	Level of Development	Tariff Liberalization	Services Coverage	Investment Chapter	Competition Policy	Intellectual Property Rights	Government Procurement
PRC-Chile FTA (2006)	Developing-developing	Relatively fast	Some	No provision	No provision	Above standard	No provision
PRC-Peru FTA (2010)	Developing-developing	Relatively fast	Some	Standard	Standard	Above standard	No provision
PRC- Costa Rica FTA (2011)	Developing-developing	Relatively fast	Some	Standard	Standard	Above standard	No provision

Source: Ganeshan Wignaraja, Dorothea Ramizo, and Luca Burmeister, "Assessing Liberalization and Deep Integration in FTAs: A Study of Asian-Latin American FTAs," *Journal of East Asian Economic Integration* 17, no. 4 (2013): annexes 1 and 2, 408-411.

What's unique with the three FTAs?

- ◆ The only “**south-south**” FTAs within the growing cross-Pacific accords
- ◆ But, they retain high standards vis-a-vis the WTO's new trade agenda
- ◆ Economic reforms in place before negotiations
 - Unlike other cases (e.g. Mexico), these three countries achieved institutional reform and had sound good macroeconomic performance before accords were negotiated
- ◆ Privileged access to both the US and China
 - These three are the only countries in Latin America to enjoy the access to the two largest markets in the world
- ◆ Learning curve for China
 - For China, these FTAs are first FTA venture into Latin America (just following an FTA with the ASEAN)



**Figure 1-1 Measures of Institutional Development
for Argentina, Brazil, Chile, China, Costa Rica, Mexico
and Peru: Rule of Law**

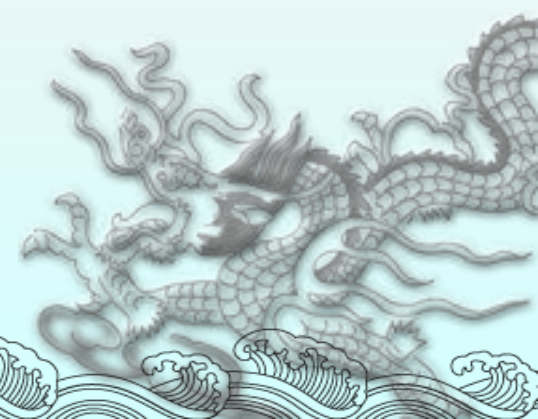
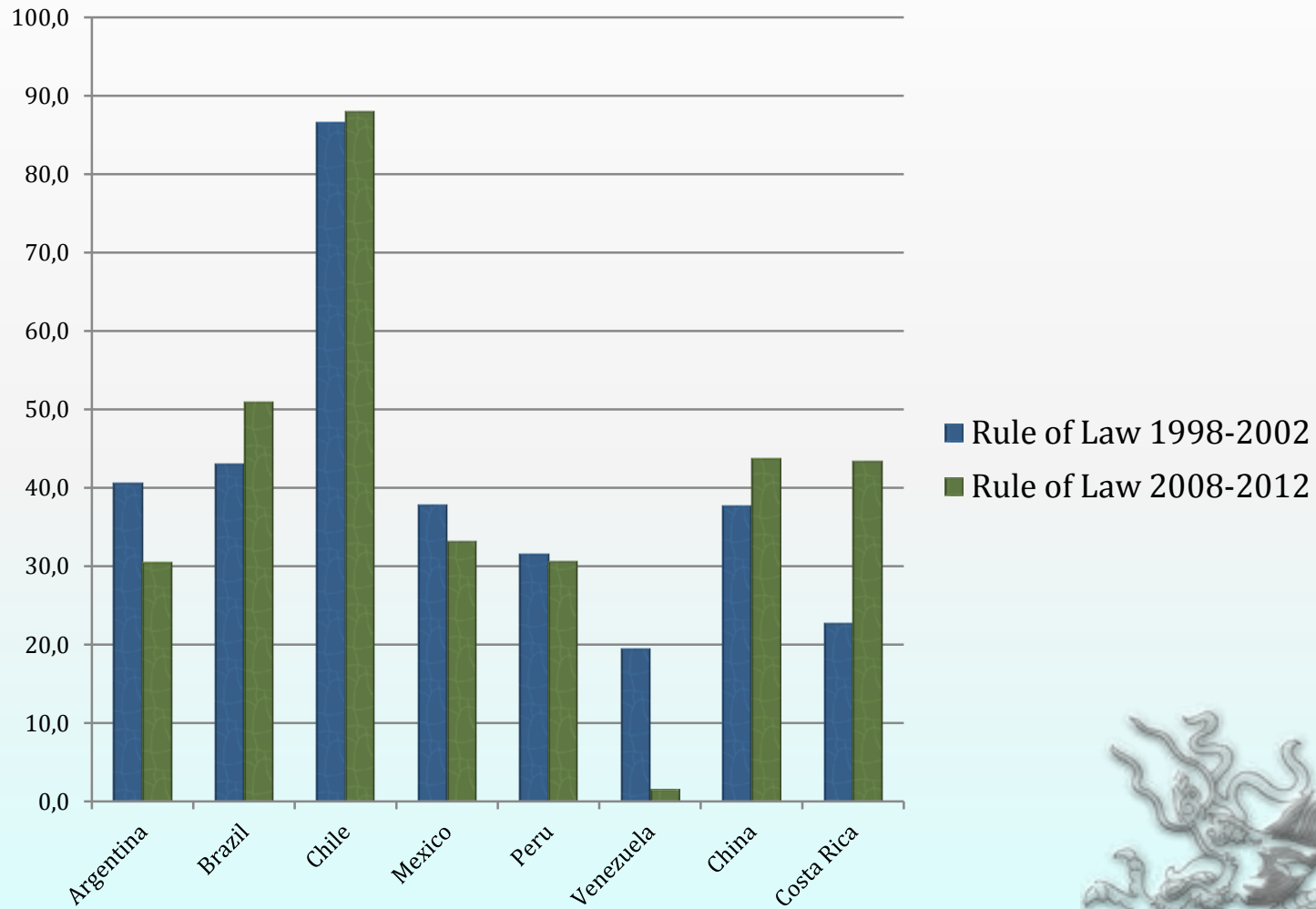
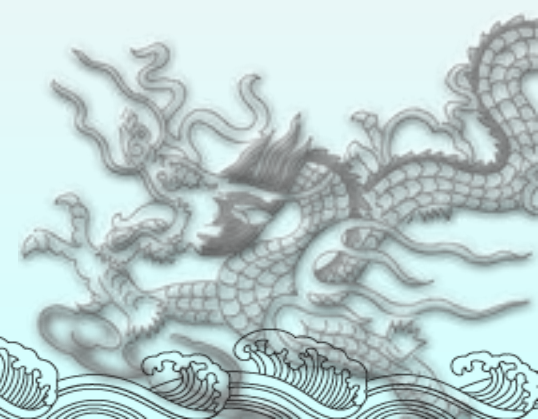
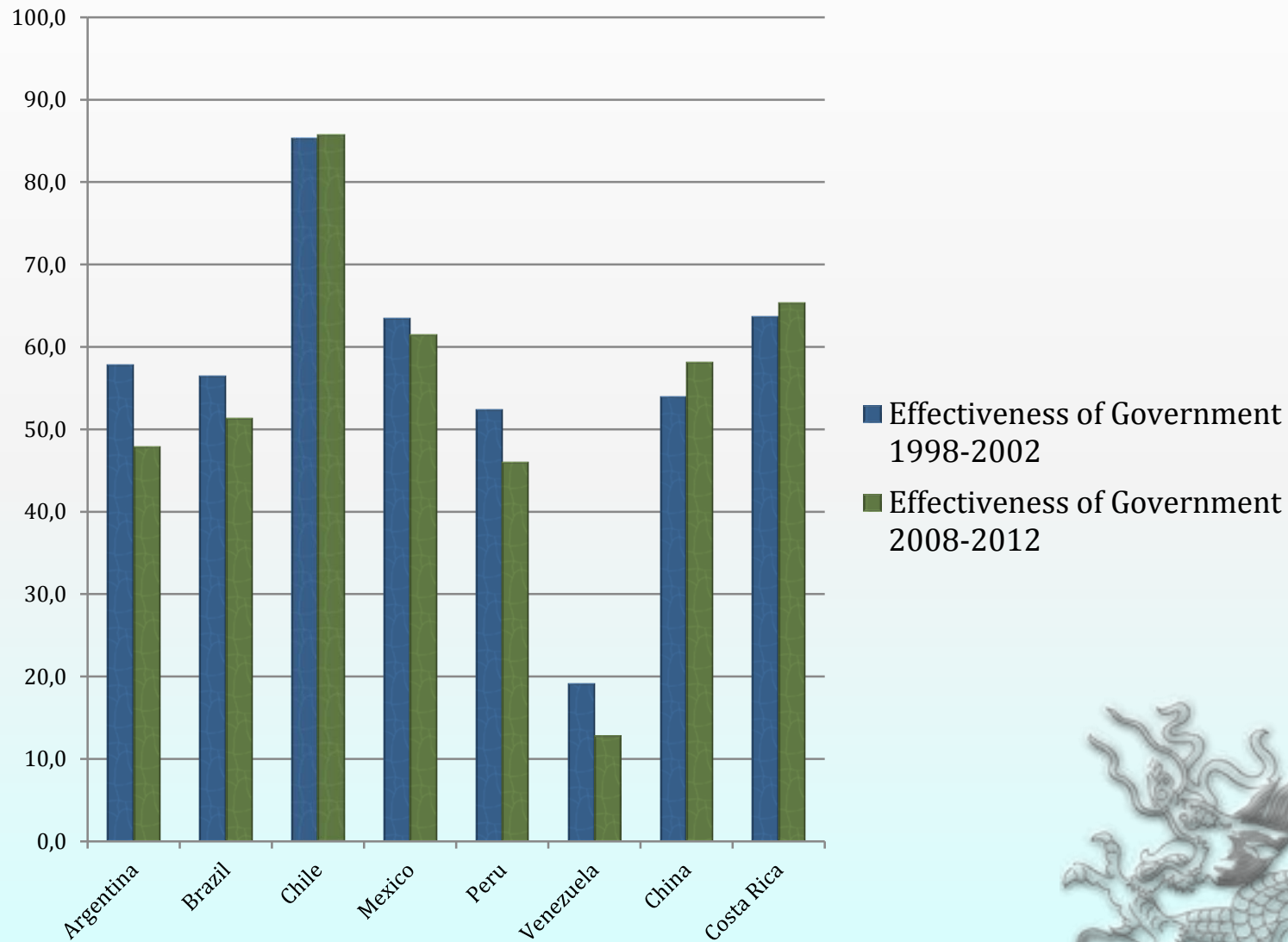
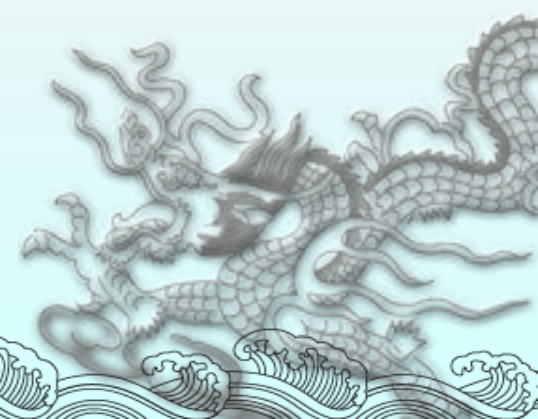
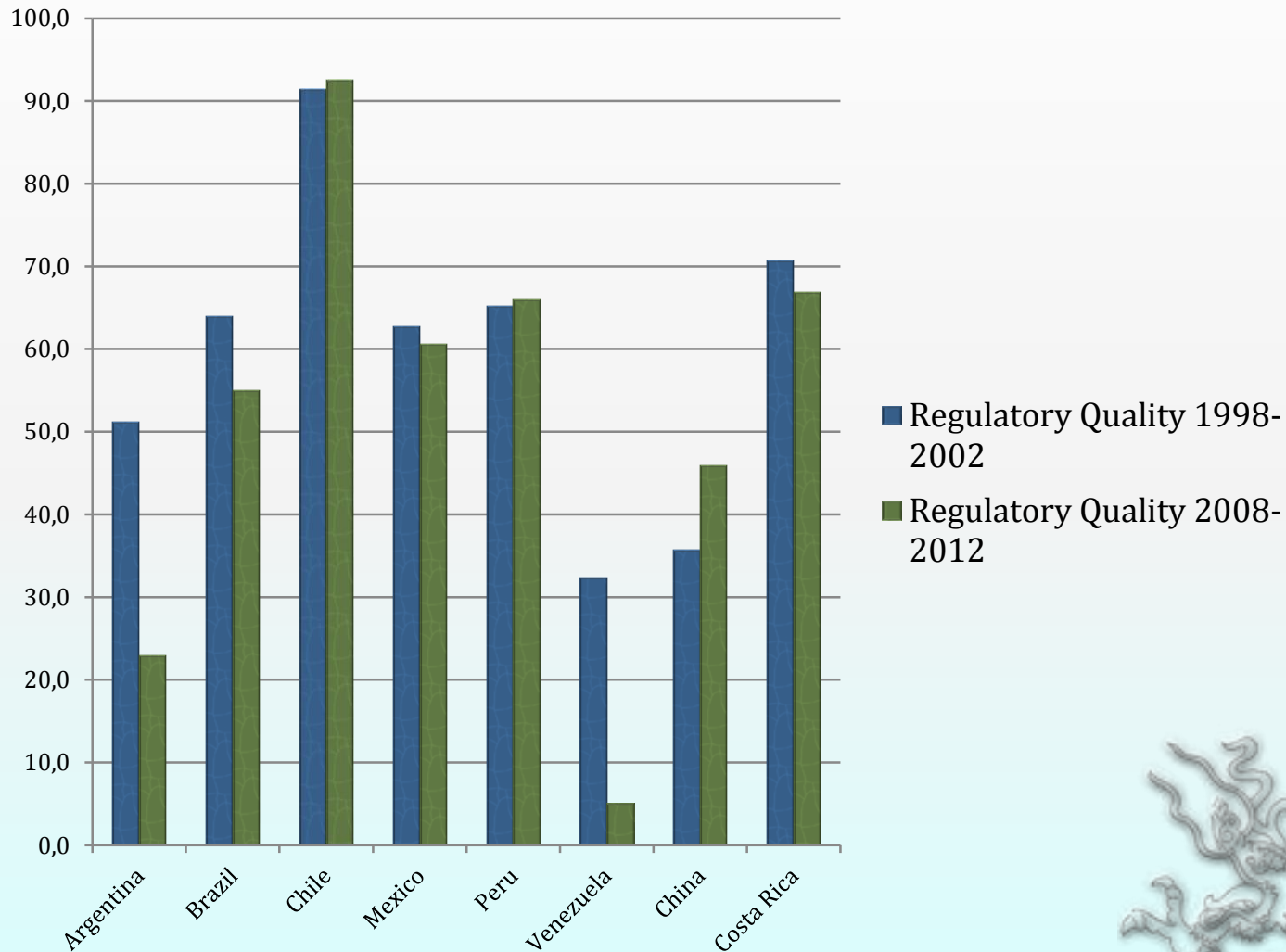


Figure 1-2 Measures of Institutional Development for Argentina, Brazil, Chile, China, Costa Rica, Mexico and Peru: Effectiveness of Government



**Figure 1-3 Measures of Institutional Development
for Argentina, Brazil, Chile, China, Costa Rica,
Mexico and Peru: Regulatory Quality**



Macroeconomic performance of smaller countries has surpassed that of the larger LAC emerging economies

Table 2. Comparative Macroeconomic Performance for LAC-6, 2001-2014 Averages

Country	GDP (% Annual Growth)	GDP per Capita (% Annual Growth)	GCF (% of GDP)
Argentina	3.80%	2.71%	18.06%
Brazil	3.24%	2.07%	19.46%
Chile	4.00%	2.84%	22.52%
Costa Rica	4.32%	2.90%	22.16%
Peru	5.48%	4.14%	21.98%
Mexico	2.13%	0.69%	22.35%

Source: World Bank, World Development Indicators. All values in current \$US. Accessed 29 October 2015.

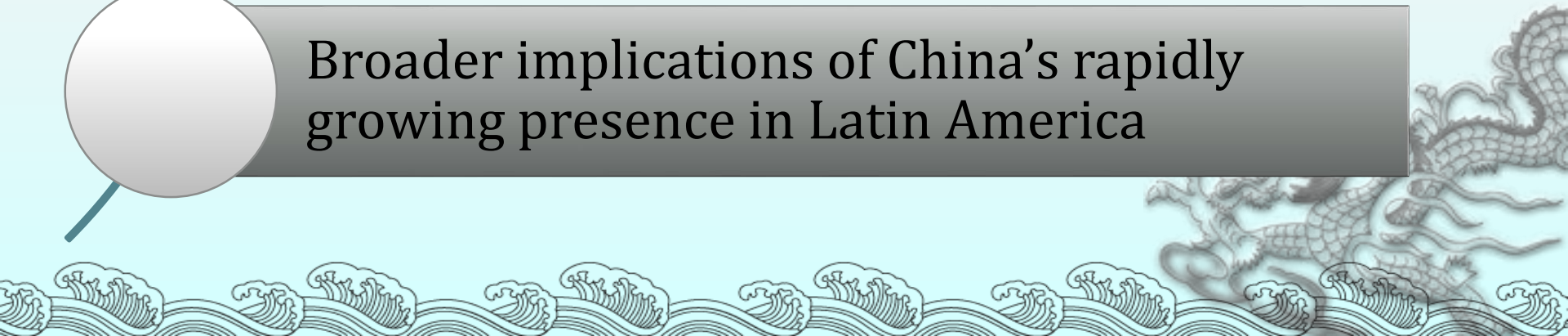
Three Main Themes



Framework: FTA and regionalism
(origins and contents of the three FTAs)

Preliminary outcomes of the FTAs

Broader implications of China's rapidly growing presence in Latin America



Conceptualizing FTAs in the 21st century

Departure from **multilateralism**
WTO's Doha round is basically over

Regionalism?

Increasing diversity in development levels and economic goals amongst the WTO membership makes multilateralism difficult



Majority of FTAs are between “North and South”

...Why?

◆ Three explanations

- Developing countries seek FTAs with the US and EU in order to lock in **liberalizing economic reforms**

1

- Impact of **cross-border lobbies** (e.g. intra-industry producers promoting economies of scale)

2

- Private investors want to utilize FTAs as a way of capturing investment opportunities (**efficiency-seeking**)

3



These arguments cannot explain the China-Latin America FTAs

- ◆ How might we account for the three cross-Pacific FTAs?

• Chile, Peru, and Costa Rica have already advanced on their respective **reform agendas prior to trade negotiation**

1

• Small size of the industrial sector and **low levels of intra-industry trade** in these countries

2

• large part of Chinese investment in these countries is **“resource-seeking”**

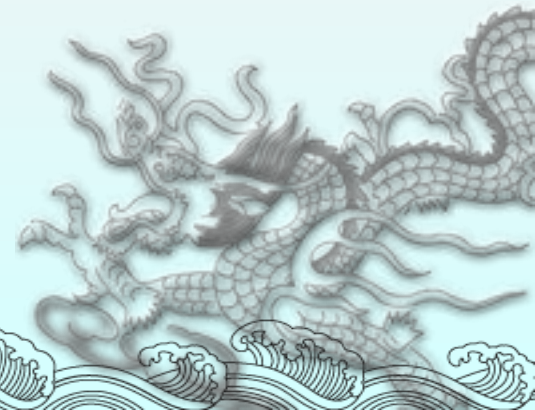
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China's Side

- ❖ Resource security and need for raw materials
- ❖ Pursuit of the “One-China” principles



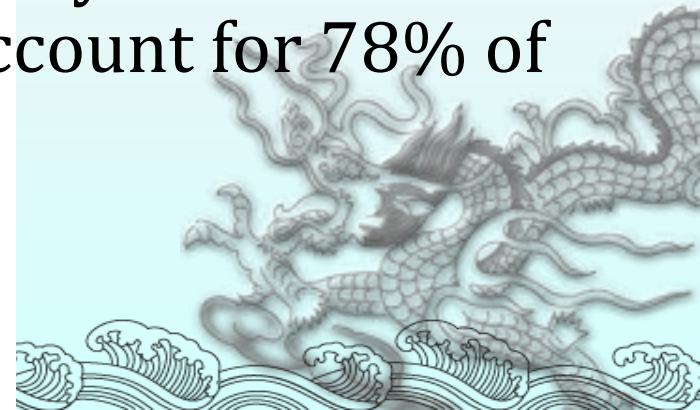
Latin American Side

- ◆ Comparative advantage
- ◆ Goal of attracting Chinese FDI into efficiency and market-seeking investments
- ◆ Promote links to Asia
 - Access to both the US and China's market
 - Literally play both sides of the Pacific



Altogether...

- ◆ Although these FTAs achieved WTO + standards, a country's **endowment factors** and **institutional landscape** still matter
- ◆ Enormous asymmetries between China and LAC countries
 - For China, Chile accounts for only 0.79% of trade, while for Chile, China account for 78% of its copper exports



Contents of the FTAs: Chile and Peru

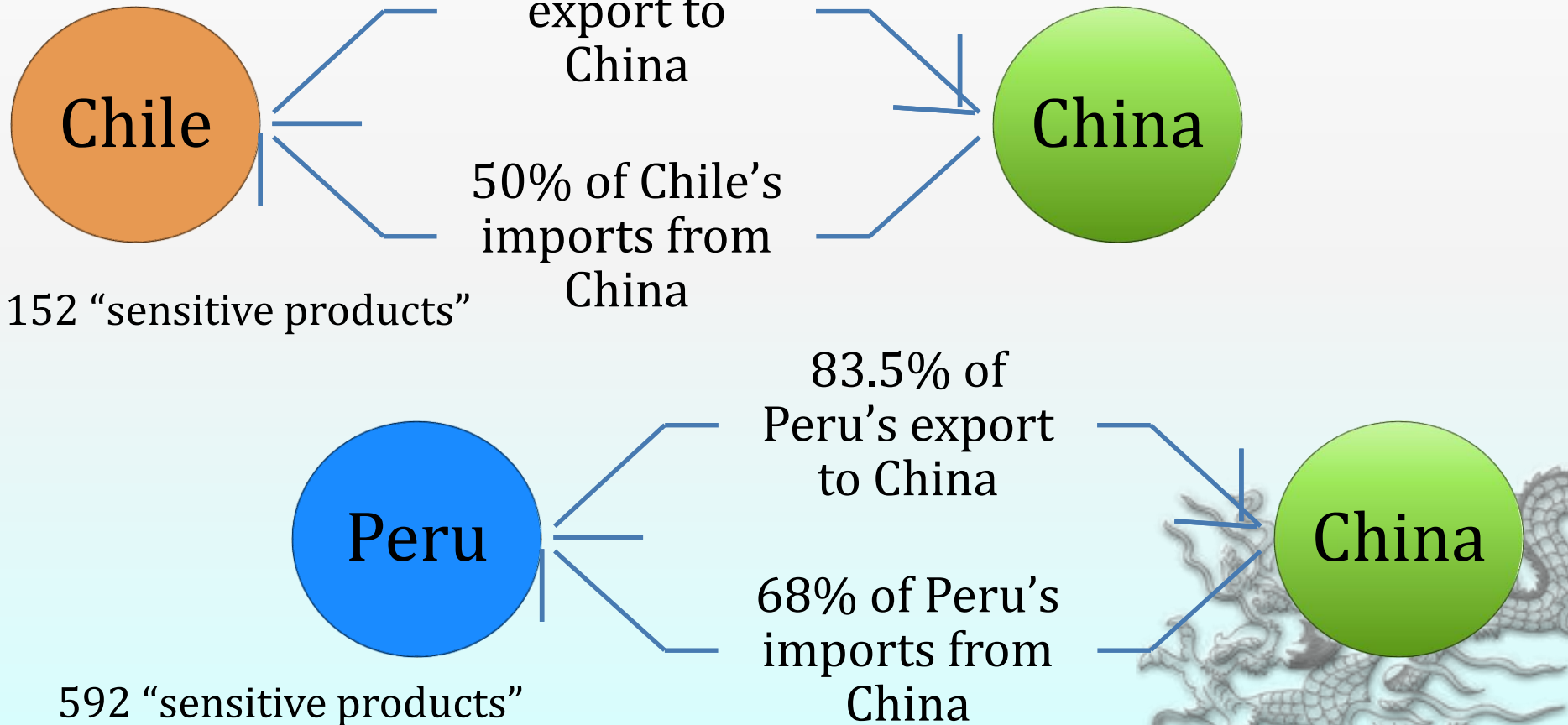
- ◆ Pattern of economic exchange still rests on market access in traditional goods
- ◆ Chinese FDI remains heavily concentrated in resource seeking ventures
- ◆ But, the market access achieved by Chile and Peru was considerable



Contents of the FTAs: Chile and Peru

◆ **Duty Free**

◆ **"sensitive products"**



Contents of the FTAs: Costa Rica

- ◆ One-China Policy



But, not a mere diplomatic fluff



- ◆ Immediate tariff reduction on 60% of all goods traded between the two countries
- ◆ Opening services trade



Preliminary Outcomes

- ◆ Although the motives for negotiations varied, this did not disrupt the march toward WTO + status
 - All three of the China- Latin America FTAs are in line with 21st-century standards
- ◆ Trade data are on track to confirm the prediction that FTA is trade creating



Trade Patterns: Chile

Table 3. Chile Trade Patterns with China 2001 – 2014 (millions. \$US)

Year	Exports
2001	1,015
2002	1,233
2003	1,909
2004	3,442
2005	4,895
2006	5,255
2007	10,505
2008	8,519
2009	13,028
2010	17,324
2011	18,629
2012	18,079
2013	19,088
2014	18,438
Totals:	141,359

Top Products Traded Between Chile and China 2001-2014

Exports to China:	\$US	% of Total
Copper and articles thereof	77,228.39	54.43%
Ores, slag and ash	44,667.29	31.48%
Pulp of wood or of other fibrous cellulosic material	8,636.56	6.09%

13,090	55,554
102,276	243,635

Trade Patterns: Peru

Table 4. Peru Trade Patterns with China
2001 – 2014 (millions, \$US)

Year	Exports	Imports	Total
Totals:	52		

Top Products Traded Between Peru and China 2001-2014		
Exports to China:	\$US	% of Total
Ores, slag and ash	34,657.21	65.96%
Residues and waste from the food industries; prepared animal fodder	8,516.29	16.21%
Copper and articles thereof	5,403.65	10.28%

Trade Patterns: Costa Rica

Table 6. Costa Rica Trade Patterns with China 2001 – 2014 (millions, \$US)

Year	Exports	Imports	Total
Totals:			

Top Products Traded Between Costa Rica and China 2001-2013		
Exports to China:	\$US	% of Total
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, etc.	3,343.30	78.07%
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	622.10	14.53%
Copper and articles thereof	48.69	1.14%

Two Cautionary Tales

Backdoor Industrial Policy

Avoiding competition with China, by exempting a considerable chunk of the domestic manufacturing sector from the FTAs

... no efficient industrial restructuring

Exports and FDI

Need to diversity into higher value-added exports to China and to attract non-resource-related FDI from Chinese investors

It is doubtful that Chile and Peru will achieve them

... direction might be conquering new **niches** in the Chinese market

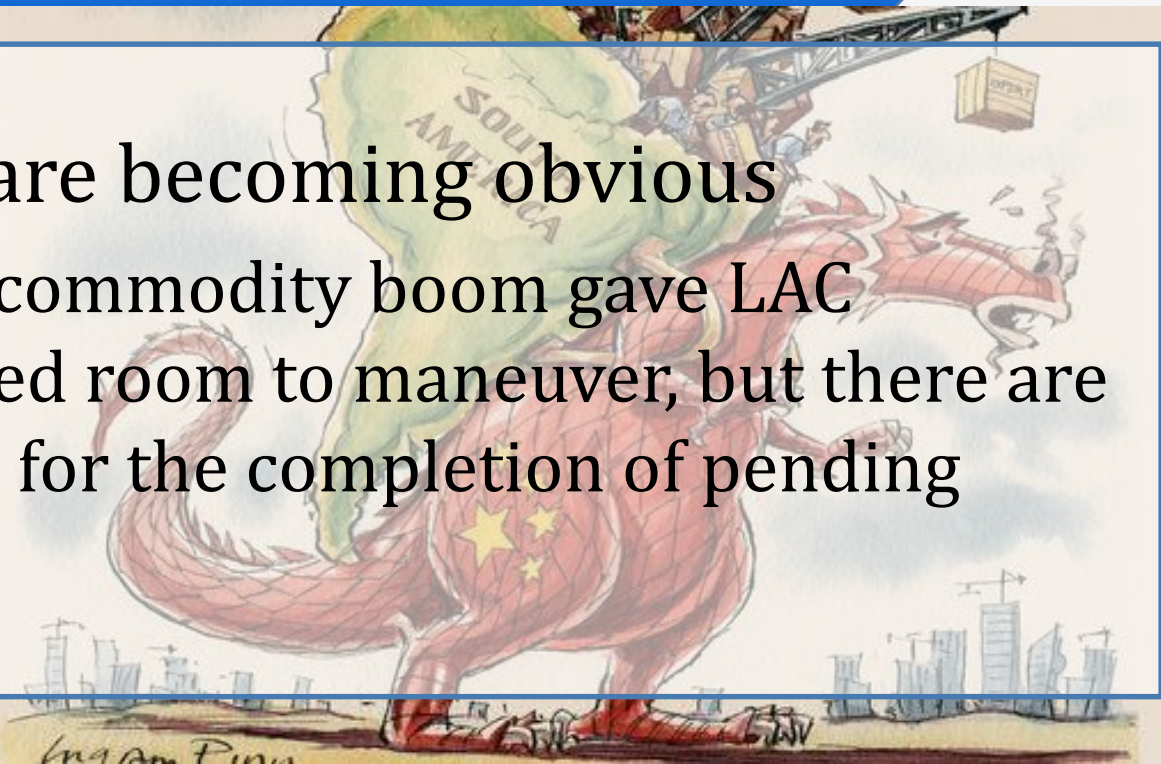


Broader Implications

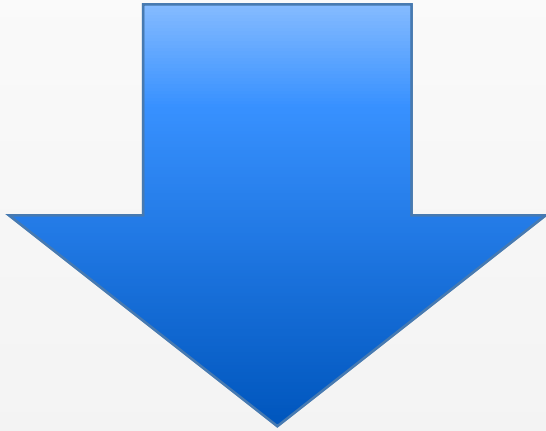
- ◆ China-Latin America relationship is now a permanent feature of the LAC region

But, the boom is now over

- ◆ **Reform gaps** are becoming obvious
 - decade-long commodity boom gave LAC unprecedented room to maneuver, but there are no short cuts for the completion of pending reforms



Broader Implications



Boom itself was a **distraction**
(reform backsliding and a lapse in
efforts at economic restructuring)



But still, Chile, Costa Rica, and
Peru are showing that there is
**considerable room for
policy innovation and
human agency**



Conclusion

Bilateral FTAs can be trade creating

Developing-developing bilateral accords can make progress in adopting items on the WTO's new trade agenda

Despite the widely varying motives, the outcomes for all three were still WTO +

These three small economies will be the only LAC countries to enjoy privileged access to both the Chinese and the US markets for some years to come