# A strategic agenda for the Sino-South America relationship under China's "new normal"

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**Abstract**

This article analyzes from a strategic approach the relationship between South America and China, focusing on the current reform process in the largest Asian economy and its possible impacts on South American countries. It discusses the many changes that the Chinese economy has gone through in recent decades and also its most recent trends, characterized by a new era of slower growth, the so-called Chinese "new normal". Based on this perspective, the article studies China´s evolving relationship with Latin America, especially South America, and focuses on a closer examination of the Sino-Brazilian relationship as a case study to derive proposals for a strategic agenda for the coming years. After a brief introduction, the evolution of the economic and trade relations between China and South America in the first decade of the XXI century is analyzed. Another section discusses the current structural changes that the Chinese economy is facing under its reform process and its impacts on South America. The fourth part specifically studies the relationship between Brazil and China in the last years, as a case study to better understand the growing importance of China for South American countries. Finally, section five presents the concluding remarks.

**Keywords:** Latin America–China relationship; Brazil-China Relationship; South-South cooperation.

## 1. Introduction

The economic and political rise of the People's Republic of China over the past four decades has few parallels in world history. Particularly in the last ten years, from the acceptance of China into the WTO, the perception of the commercial importance of China for Latin America - especially South America - became increasingly evident.

From the changes in relative prices of natural resources and manufactured goods, to the presence of significant Chinese investments in strategic sectors, the "China effect" cannot be understood as a mere appearance of a new global competitor. The rise of China involves a significant change in the globalizing logic that has prevailed since the beginning of the 1990s, and the emergence of new "heavy trends" (Castro, 2011) within the global economy. Some

[1] The authors are very grateful for the comments and helpful suggestions from Luiz Pinto. The usual caveats apply
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countries benefited more than others. For instance, while commodity export countries experienced a boom in their exports due to the impact of China´s growth on commodity prices, others suffered from the rise of a new competitor in the manufacturing arena. In either case, the fundamental fact is that China poses a new test for national economies and companies worldwide. The challenge of strategic repositioning.

Regarding Latin American Economies, Barbosa (2011) divides the LAC countries into three groups according to their relationship with the Chinese economy. The first group is comprised of countries that are almost exclusively commodity exporters, such as Bolivia, Chile, Ecuador, and Peru. These countries benefit from a growth of the Chinese economy in the sense that it pushes the commodities prices up. The second group is formed by countries that have a more complicated relationship with the Chinese growth, since they are both commodity and manufacturer exporters, Brazil and Argentina, for example. In that sense, while Chinese manufactures compete with them in the global arena, the increase in commodity prices also brings some benefits for them. Finally, the third group is formed by countries from Central America and Mexico that do not have an abundance of exportable commodities to China and who face intense competitive pressure from Chinese exports. Hence, the paper focuses its analysis on the South American countries (members of groups 1 and 2 mentioned above), the ones that the relationship with China intensified in the recent past. Additionally, it presents Brazil as a case for study. The country, who is the region´s primary trade partner with China, can serve as a model case for the others in South America, especially because of its atypical situation of having domestic industries and being abundant in natural resources, which caused the Chinese effect on the economy to be twofold.

In the case of South America, it is undeniable that the cycle of economic growth that started in 2003 – deeply associated with the commodity boom – is related to China´s economic transformations. On trade, China surpassed the USA as the most important destination for South American exports. LAC exports to China grew, as a whole, to USD112 billion in 2013 (a record 2.0% of regional GDP (Ray and Gallagher, 2015). Besides, Chinese investment in the region ramped up, particularly after 2010. As an example, between 2007 and 2013, US $ 56.5 billion in Chinese investments in Brazil were announced, marking a new phase in the bilateral relationship, not only focused on trade, but also on direct investments. Chinese investments had a greater emphasis on natural resources in 2010, but started to diversify in the following years. Between

2011 and 2013, Chinese companies have found new opportunities in the industrial sector, especially in the machinery, equipment, electronics and automotive segments, with a considerable amount of the new inflows going into the service sector, particularly finance.

In this context, it is crucial to think, from a strategic approach, the possibilities to further expand the opportunities of having China as a leading economic partner for South America. This article aims at contributing with some insights that can help our continent to move in that direction. In this sense, it discusses the changes that the Chinese economy went through in recent decades. Later, the paper examines the latest trends in this relationship, in which the nations seem to be entering a new era of slower growth, the so-called Chinese "new normal". Finally, the paper discusses the Chinese evolving relationship with Latin America, especially South America, and makes a closer examination of the Sino-Brazilian relationship as a case of study to derive proposals for a strategic agenda for the new era. After this brief introduction, section two analyzes the evolution of the economic and trade relations between China and South America in the first decade of the XXI century. The third segment discusses the current structural changes that the Chinese economy is facing under its reform process and its impacts on South America. The fourth part specifically studies the relation between Brazil and China in the last years, as a case of study to better understand the growing importance of China for South American countries. Finally, section five presents the concluding remarks.

## 2. The recent evolution of China-Latin America relationship

This section is divided into two sub-sections. The first discusses the main changes that occurred in the Chinese economy in the recent decades, a period of fast growth and profound transformation. The objective is to present an overall picture of the country's economic performance over the last years, highlighting the sustainability of key indicators and the future trends for the Chinese economy. The other sub-section aims to analyze the change in the China-Latin America economic relationship during the same period, focusing mainly on trade and financing.

### 2.1 The recent evolution of the Chinese Economy

A nation of 1.3 billion people, China holds the largest population in the globe and has recently became the world´s largest economy (when measured in PPP terms), which pushes the country to increase its role in the global economy[4]. After almost three decades since the beginning of market-oriented reforms, China has been one of the world's fastest-growing economies, having more than quadrupled its per capita real incomes in the last two decades. To understand how the country achieved such remarkable numbers, it is necessary to understand and discuss the main characteristics of this evolution.

Despite still being one of the fastest growing economies in the world, the Chinese economy is experiencing a recent slowdown. Growth rates declined from almost 15% before 2008 to roughly 7% in the past few years. Is this China's "new normal" or should the country anticipate even slower growth in the coming years?

There are many factors behind this trend. First, a reduction in the demand for its exports from key markets such as the US and the European Union. Second, China is rebalancing, shifting from an investment-led growth model, with emphasis on exports competitiveness, to a model where the demand plays a more significant role – even though it cannot be characterized as demand-led growth. Third, China is experiencing a common challenge that faces most of the developing countries after they achieve a certain development stage, i. e., the so-called "middle-income trap"[5], which will likely pose a significant challenge for China moving forward. Hence, this slowdown, combined with the new pattern and dynamic of growth, can represent a watershed in the Chinese relationship with Brazil and other South American countries.

This sub-section will present and analyze the leading economic indicators of the Chinese economy over the last decades and compare it with i) United States of America (USA), ii) Eurozone Area (EA) and three developing regions, iii) Europe and Central Asia (ECA), iv) Sub-Saharan Africa (SSA) and v) Latin America and Caribbean (LAC). This is important to understand some key features of the impressive performance of the Chinese economy in the last couple of decades. For instance, table 1 shows the GDP growth rate for China and the others from 1990 to 2013. During this period, the Chinese economy grew, on average, at 9.9%. It is

[4] According to IMF data, in 2014 the Chinese economy surpassed the American economy when the GDP is measured in purchasing power parity (PPP) - which enables you to compare how much you can buy for your money in different countries. Without the PPP adjustment, the Chinese economy is still the second biggest, behind the United States of America.

[5] Experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income. This could be the case now for China. As argued by Eichengreen *et al*. (2013) "A number of emerging markets have grown rapidly at low income levels but were ultimately unable to move beyond middle income status. The troubled global outlook now poses a risk that even dynamic middle income economies like China that are unable to adapt may similarly find themselves trapped, as it were".

noteworthy that, even after the beginning of the international financial crisis of 2008, China was able to keep a high growth rate. However, the slowdown is clear. The more recent sub-period presented an 8.8% growth average in contrast to the 10.6% of the former sub-period. Additionally, in 2014, the Chinese economy advanced by 7.4%, the slowest pace in 24 years[6].

**Table 1. GDP Growth (averages for the periods)**

| | **1990-2000** | **2001-2008** | **2009-2013** | ***1990-2013*** |
|---|---|---|---|---|
| China | 9,8% | 10,6% | 8,8% | *9,9%* |
| Europe and Central Asia | 0,1% | 5,5% | 2,5% | *2,4%* |
| Euro Area | 2,3% | 1,8% | -0,4% | *1,6%* |
| Latin America and Caribbean | 3,0% | 3,4% | 2,7% | *3,0%* |
| Sub Saharan Africa | 1,9% | 5,5% | 3,8% | *3,5%* |
| United States | 3,3% | 2,1% | 1,2% | *2,4%* |

Source: Authors 'elaboration based on World Bank data

One of the most distinctive characteristics of the Chinese economic spur in recent decades is the country´s investment rate. In particular, countries that have not yet reached high levels of per capita income, such as emerging markets, require high levels of investment for infrastructure creation that will enable them to insert themselves in the international trade arena and enhance productivity. In regards to that, China presents notable results. As table 2 indicates, the country showed, on average, a 41.6% investment as a percentage of GDP in the period of 1990-20013. Additionally, it presented higher numbers in the most recent sub-period of the analysis (2009-2013). It is also noteworthy that the Chinese investment displays an upward trajectory, with the last sub-period of the sample being its peak (48.5%). Given the economic slowdown, this might reflect the exhaustion of the growth model. Since more investment is generating less growth, there is an indication that capital productivity is decreasing.

**Table 2. Gross Investment (% of GDP) (average for the periods)**

| | **1990-2000** | **2001-2008** | **2009-2013** | ***1990-2013*** |
|---|---|---|---|---|
| China | 38,7% | 41,1% | 48,5% | *41,6%* |
| Europe and Central Asia | 23,5% | 22,6% | 21,7% | *22,8%* |
| Euro Area | 22,6% | 22,6% | 20,4% | *22,1%* |
| Latin America and Caribbean | 19,6% | 20,0% | 20,8% | *20,0%* |
| Sub Saharan Africa | 16,7% | 18,0% | 20,6% | *17,9%* |
| United States | 22,1% | 22,4% | 18,7% | *21,5%* |

Source: Authors 'elaboration based on World Bank data

The very high investment rate is possible due to China's extraordinary internal rate of savings. Table 3 shows that, in 2013, China presented a savings rate of 51% of the GDP, while all the other regions/countries – with the exception of the EA (22%) – had results below 20%.

**[6] Data from National Bureau of Statistics of China. Available at: http://www.stats.gov.cn/english/**

Such outstanding savings rate brings a trade-off for the Chinese families. Household final consumption in China is still much below all the other regions/countries of our sample. As a percentage of GDP, American families consume, on average, twice as much as the Chinese families.

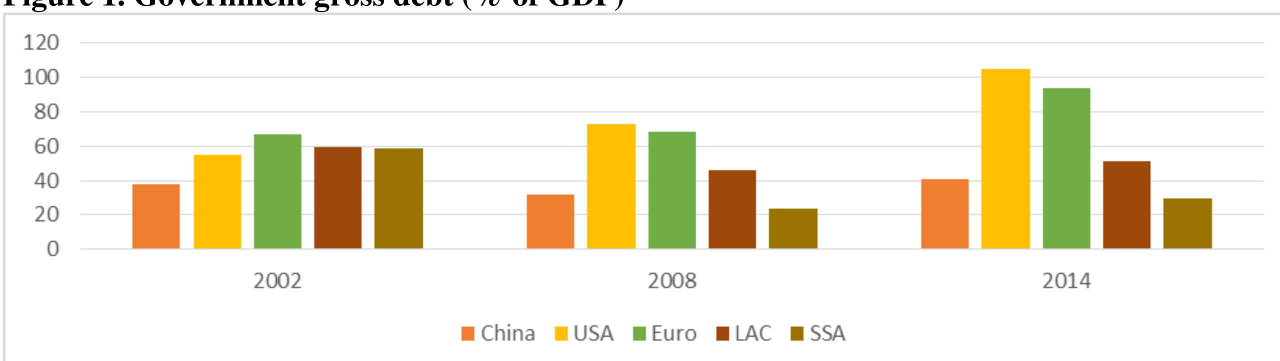
**Table 3. Savings and Household Consumption (2013) (% of GDP)**

| | Savings | Household Consumption |
|---|---|---|
| China | 51% | 34% |
| Europe and Central Asia | 17% | 67% |
| Euro Area | 22% | 56% |
| Latin America and Caribbean | 18% | 65% |
| Sub Saharan Africa | 19% | 67% |
| United States | 17% | 68% |

Source: Authors 'elaboration based on World Bank data

The Chinese government gross debt has remained stable and below 40% over the last decades. On the one hand, figure 1 shows that advanced countries, such as the US and the EA, experienced a surge in this indicator in recent years, accentuated in the aftermath of the global financial crisis. It is interesting to note, however, that the indicator for China grew from 32% to 41% during 2008-2014. This indicates that even though the level is not high the growth trajectory should be monitored.

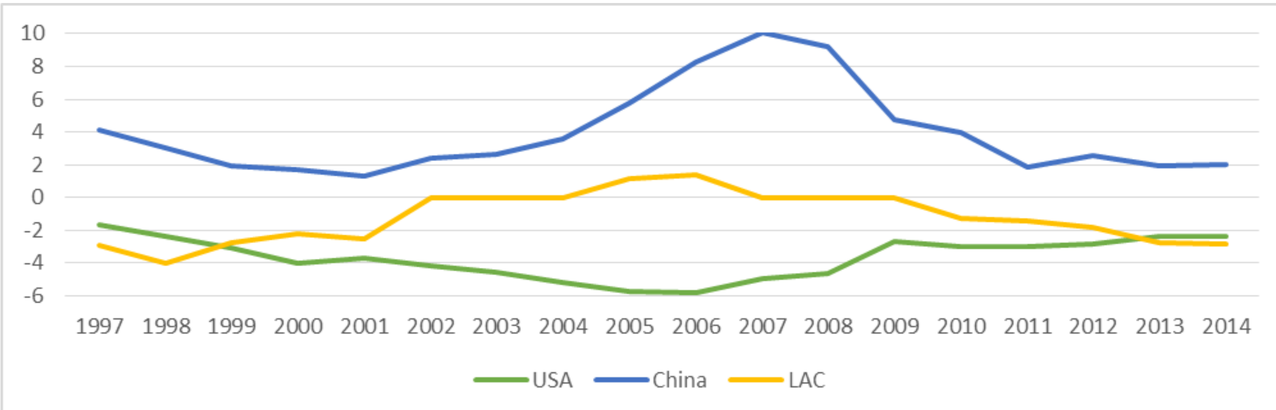
**Figure 1. Government gross debt (% of GDP)**




Source: Authors 'elaboration based on IMF data

Regarding the external sector, the Chinese performance was also remarkable. The current account balance was positive over the last decades, reaching its peak as 10% of the GDP in 2007. After the crisis, even though it remained positive, the surplus diminished considerably, mainly due to the rebalancing of the economies that were running huge current account deficits before the crisis, such as the US and some Eurozone countries (figure 2). Meanwhile, the US displayed a negative result during the whole period, despite a significant improvement after the beginning of the crisis. In that sense, China presented a structural current account surplus for the analyzed period, although the result shrank in the last few years, suggesting that the "new normal" for China will still be positive, but smaller than the one experienced in the mid-2000s. The smaller current account result indicates that the *bonanza* years, when China achieved a double-digit surplus, will not be experienced again because of the lack of big countries prone to run large deficits to balance it in a global scale.

**Figure 2. Current account (% of GDP) (1997-2014)**




Source: Authors 'elaboration based on World Bank data

The outstanding current account surplus experienced by China in the last decade – especially in the 2005-2008 period – resulted in a massive accumulation of international reserves. Table 4 lists the top 10 countries by foreign exchange reserves based on the last available data. While China (including Hong Kong) holds more than 4 trillion dollars in foreign reserves, the other eight countries combined do not achieve this number. This puts China in a unique position in the international scenario regarding financing capacity and access to currency reserves. In that sense, it should be expected that China would not face, at least in the short or medium-term scenarios, a balance of payment crisis. Also, China can increase its participation in the international economy by loaning to other emerging markets and by increasing its Foreign Direct Investment (FDI) participation. Lastly, the pool of foreign reserves allows China to pursue countercyclical economic policies when an international crisis hits, avoiding the economic slowdown through an injection of government spending in the economy. This happened, for instance, in the aftermath of the international financial crisis of 2008.

**Table 4 –List of top 10 countries by Foreign Exchange Reserves (last available date)**

| Country | Foreign Exchange Reserves (Millions of US$) | Date |
|---|---|---|
| *China* | 3,771,347 | Jun/15 |
| Japan | 1,242,935 | Jun/15 |
| Saudi Arabia | 672,106 | Jun/15 |
| Switzerland | 600,180 | Jun/15 |
| Republic of China (Taiwan) | 426,398 | Jun/15 |
| South Korea | 374,749 | Jun/15 |

| | | |
|---|---|---|
| Brazil | 368,252 | Jul/15 |
| Russia | 368,000 | Aug/15 |
| India | 351,920 | Aug/15 |
| Hong Kong | 339,899 | Jul/15 |

Source: Author´s elaboration based on IMF and national Central Banks.

Presented the big picture of the Chinese economy and its main characteristics in the last decades, we will now discuss the changes in its relationship with Latin America – focusing on South America – on the last decade. This way, section 2.2 brings a short analysis of the recent China-Latin America relationship in trade and financing, focusing on South America.

**2.2 An analysis of the recent China-Latin America relationship**

China's exponential growth changed its relationship with Latin America in many spheres, including the economic. The beginning of this process started approximately ten years ago. In 2004, the former Chinese President, Hu Jintao, promised investments in Latin America over a 10-year period expecting a two-way trade of $100 billion by the end of 2010. Surprisingly, much earlier, in 2008, bilateral trade already reached $140 billion. Last year, the figure surged to $261.6 billion. In the last decade, China has gone from being a relatively insignificant economic partner in South America to the number-one trading partner of some of the largest economies in the region. China is expected to overtake the US and become Latin America's largest trade partner by 2030 (Hakim and Myers, 2014).

The vast majority of exports from Latin America – especially the South American commodity-producers countries – to China have been concentrated in three sectors: soybeans, metal ores, and oil. Indeed, cooper, iron and soy represent more than 50% of total exports. Driven by continued industrialization, China turned to SA in search of metal ores, with Brazil becoming China's third largest iron ore exporter, while Chile and Peru now supplying more than 50% of all Chinese copper imports. The reliance on commodity-based exporting to China has exacerbated the region´s vulnerability to price fluctuations. This lack of diversification is problematic, as copper and iron prices have both experienced a double-digit percentage global decline in recent years, while global soy prices have also begun to stagnate.

Conversely, Chinese exports to SA are growing in both volume and value, which is mostly a result of the diversity and relatively high-skilled nature of the exported goods. The majority of the Chinese exports to SA are from the manufacturing sector, with a heavy emphasis on electronics and vehicles. Such industries, when compared to raw materials, are much less prone to price volatility, thus preserving much of the overall value of Chinese exports. In other words, the China/SA relationship follows the traditional center-periphery model, with the former exporting commodities and importing high-added value products.

In fact, in 2013, China purchased 15% of LAC's agricultural and extractive exports, but only 2% of the region's manufactured exports. This imbalance between natural resources from one side and manufactures from the other is one of the main reasons for the trade deficit (around 0.5% of the GDP) that the region experienced in 2013 with China (Ray and Gallagher, 2015).

### 2.2.1 Trade between China and South America (2002-2014)

LAC exports to China have soared since 2000, but with the end of the commodity boom, the pace is changing. For instance, in 2012, the growth stalling to a 7.2% growth rate in real dollar terms, compared to an impressive average annual export growth to China at 23% from 2006 to 2011 (Ray and Gallagher, 2015). However, even though the pace of this transformation is diminished, the change that occurred in the last years is very remarkable. To visualize the fast change that took place in the region, in the last decade, concerning commercial partners, we will compare the Export-Import profiles of the seven biggest SA economies in 2002 and 2014, and verify the three top export and import partners for them in each period. Table 5 shows the Export-Import profile in 2002. The dominance of the U.S.A. is very clear. The nation is the primary export destination of all countries but Argentina. Regarding the imports, the U.S.A is the major partner of the LAC countries as well, always appearing in the first or second position. China appears only twice and, only in the third place.

**Table 5- South American Countries Export-Import profiles (2002)**

| | *Exports* | | | *Imports* | | |
|---|---|---|---|---|---|---|
| **Country** | **First** | **Second** | **Third** | **First** | **Second** | **Third** |
| **Argentina** | Brazil (18.2%) | USA (11.5%) | Chile (10.8%) | Brazil (27.7%) | USA (20.5%) | Germany (6.4%) |
| **Brazil** | USA (25.1%) | Germany (4.7%) | Netherlands (4.6%) | USA (22%) | Argentina (9.9%) | Germany (9.8%) |
| **Chile** | USA (19.2%) | Japan (11.2%) | China (7.1%) | Argentina (18.4%) | USA (16.3%) | Brazil (10%) |
| **Colombia** | USA (42.1%) | Venezuela (8.9%) | Ecuador (6.6%) | USA (32%) | Venezuela (6.3%) | Mexico (5.4%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Ecuador** | USA (38%) | Peru (7%) | Colombia (6.6%) | USA (23.11%) | Colombia (13%) | Brazil (6.3%) |
| **Peru** | USA (25%) | U.K. (12%) | China (7.5%) | USA (19.8%) | Argentina (7.2%) | Brazil (6.3%) |
| **Venezuela** | USA (63.9%) | Colombia (3.4%) | Canada (2.9%) | USA (30.1%) | Colombia (9%) | Brazil (6%) |

Source: UNCTAD

Table 6 depicts the Export-Import profile in 2014. The changes that happened in only twelve years are impressive. The USA hegemony disappears, and China appears in 2014 as a major partner in almost all countries. China appears in the top-three imports list for every country and is missing in only one in the exports, Ecuador. In four of the countries, China surfaces as the leading export destination and leads in imports in three of them, including Brazil.

**Table 6- South American Countries Export-Import profiles (2014)[1]**

| | *Exports* | | | *Imports* | | |
|---|---|---|---|---|---|---|
| **Country** | **First** | **Second** | **Third** | **First** | **Second** | **Third** |
| **Argentina** | Brazil (20.3%) | China (6.5%) | USA (5.9%) | Brazil (21.7%) | China (16.4%) | USA (13.5%) |
| **Brazil** | China (18%) | USA (12%) | Argentina (6.3%) | China (16.3%) | USA (15.4%) | Argentina (6.2%) |
| **Chile** | China (24.5%) | USA (12.1%) | Japan (10%) | China (20.8%) | USA (19.7%) | Brazil (7.8%) |
| **Colombia** | USA (26.4%) | China (10.5%) | Panama (6.6%) | USA (28.5%) | China (18.4%) | Mexico (8.2%) |
| **Ecuador** | USA (43.8%) | Chile (8.9%) | Peru (6.1%) | USA (28%) | China (16.7%) | Colombia (7.5%) |
| **Peru** | China (18.2%) | USA (16.2%) | Switzerland (6.9%) | China (21.1%) | USA (20.8%) | Brazil (4.7%) |
| **Venezuela** | China (31.8%) | India (26.3%) | Singapore (8.5%) | USA (23%) | China (17%) | Brazil (10%) |

Source: UNCTAD. Note: Data from 2012 for Venezuela.

As discussed before, it is important to note that the majority of the trade between South America and China is based on the exportation of natural resources from SA while the region imports manufactures from China, generating a structural trade deficit for the continent. According to Gallagher and Porzecanski (2010), China competition in manufactures in the last decade affected Latin American manufacturers in a significant way. The authors estimated that approximately 92% of the region´s manufacturing exports were under the threat of Chinese competition. Since the region was not able to compete with the cheap Chinese manufacture exports, the fact generated even the worry that the ability of the region to generate long-term economic growth would be impacted by the reprimarization of its productive structure due the "forced deindustrialization" posed by the Chinese competition.

### 2.2.2 China Financing in Latin America (2005-2014)

Chinese financing to Latin America in the period was formed both by loans and by direct investments. Regarding FDI, it is interesting to note that the Chinese FDI has been used to develop sectors that are heavily linked to growing export demands. The South American transportation industry, in particular, has benefited from substantial Chinese investments, especially rail networks (Chatterjee, 2014). Colombia, Argentina, and Venezuela received massive amounts of Chinese investment in these areas. The strategy is clear: China provides loans to foster their productivity in sectors that are of their interest. In this way, they can continue to trade and benefit from cheaper and faster raw materials due to productivity gains.

The Brazilian mining industry is set to receive $5 billion over the next three years, and Argentina signed a $4.4 billion agreement, in 2007, to develop two hydroelectric dams. Venezuela also agreed to a $6-billion joint investment fund for infrastructure projects in addition to a $16-billion investment deal with the CNPC (Chinese National Petroleum Corporation) for oil exploration in the Orinoco River.

In fact, China's policy banks have become the largest annual public creditors to LAC governments. Chinese finance to the LAC region have risen sharply in the last few years, from US $4.8 billion in 2007 to $22.1 billion in 2014. In 2014, for instance, Chinese finance to the region was more than finance to the region provided by the World Bank and the Inter-American Development Bank combined (Ray and Gallagher, 2015).

Table 7 presents an overview of the Chinese loans in Latin America during the period 2005-2014 and divided by country. Venezuela is by far the country that received the higher sum in the region, being responsible for almost half of the total amount received by the region. In sequence, we have Brazil, Argentina, and Ecuador. These four countries together received 48 loans out of 76 for the region.

**Table 7- Chinese loans in Latin America per country (2005-2014)**

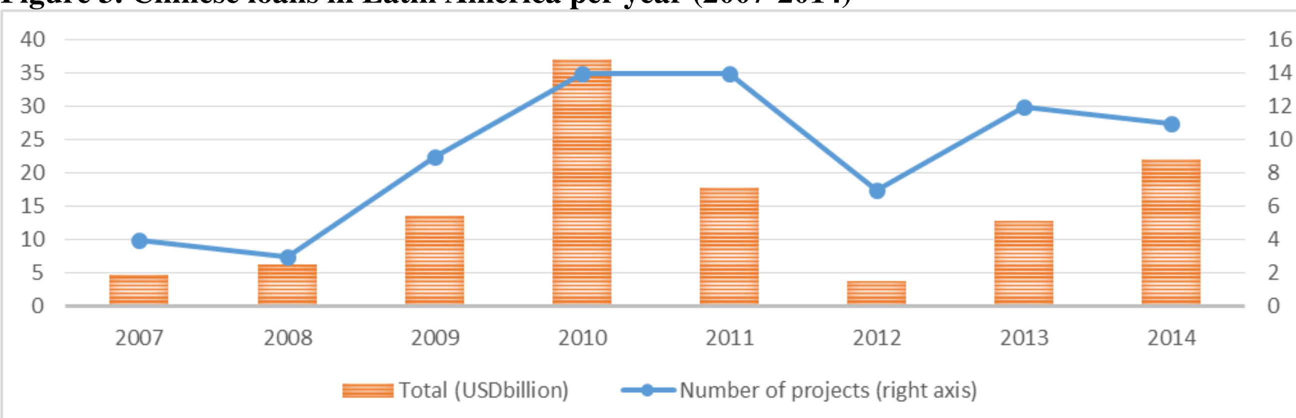
| Country | Number of Loans | Amount |
|---|---|---|
| **Venezuela** | 16 | $56.3B |
| **Brazil** | 10 | $22B |
| **Argentina** | 10 | $19B |
| **Ecuador** | 12 | $10.8B |
| **Bahamas** | 3 | $2.9B |
| **Mexico** | 3 | $2.4B |
| **Peru** | 4 | $2.3B |
| **Jamaica** | 8 | $1.4B |

| | | |
|---|---|---|
| **Bolivia** | 3 | $611M |
| **Costa Rica** | 2 | $401M |
| **Honduras** | 1 | $298M |
| **Chile** | 1 | $150M |
| **Guyana** | 1 | $130M |
| **Colombia** | 1 | $75M |
| **Uruguay** | 1 | $10M |
| **Total** | **76** | **$118.7B** |

Source: China-Latin America Finance Database

Figure 3 presents how Chinese loans for Latin America evolved through the years. After the beginning of the 2008 international financial crisis, Chinese loans in Latin America skyrocketed. In 2009, they reached $13.6 billion, a 115% increase from 2008. Then, in 2010, the amount arrived at $37 billion, an impressive 172% increase from the previous year. However, after that, the flow of investments starts to decrease, declining to approximately $16 billion in 2011 and 2013, while reaching a low record of $3.5 billion in 2012. In 2014, signs of a recovery started to appear.

**Figure 3. Chinese loans in Latin America per year (2007-2014)**




Source: Authors' elaboration based on data from China-Latin America Finance Database

For what sectors is China loans going? Table 9 divides the loans by sectors funded. Infrastructure is the area that has received the largest amount, while energy and mining appear in second and third position, respectively. In addition, the category "other", which includes many different financial arrangements such as government bonds, trade financing, small and medium-sized business development loans in Uruguay, satellite development in Bolivia, loans by the China-Venezuela Joint Financing Fund, and home construction in Venezuela, received eighteen loans, totaling $30.1 billion.

**Table 8- Chinese loans in Latin America per type (2005-2014)**

| Type | Number of Loans | Amount |
|---|---|---|
| **Infrastructure** | 31 | $49.9B |
| **Energy** | 21 | $32.9B |
| **Other*** | 18 | $30.1B |

| | | |
|---|---|---|
| **Mining** | 6 | $5.8B |

Source: China-Latin America Finance Database

What are the primary sources of the Chinese loans to Latin America? Table 9 shows that almost half of the loans, representing more than 60% of the total amount, are made through the Chinese Development Bank. Also, the Export-Import Bank of China (Ex-Im Bank) is one of the primary sources, responsible for approximately 15% of the total amount of loans. Chinese commercial banks, PetroChina, Bank of China and others combined represent the rest of the total amount.

**Table 9- Chinese Lenders (2005-2014)**

| Lender | Number of Loans | Amount |
|---|---|---|
| **Chinese Development Bank** | 36 | $83B |
| **Other*** | 22 | $33.6B |
| **Ex-Im Bank** | 25 | $20.9B |

Source: China-Latin America Finance Database
*Other lenders include the State Administration of Foreign Exchange (SAFE), the state-owned investment company CITIC Group, PetroChina, Sinopec, and Chinese commercial banks ICBC, Bank of China, and China Construction Bank. HSBC teamed up with CDB on an infrastructure loan to Chile. Portugal's BES and the Centro Andino de Fomento (CAF) paired with CAF to lend in the region.

After examining the recent changes in the relationship between China and SA, the next section analyses some characteristics of the Chinese economy that help us understand the structural change and economic slowdown that the country is currently facing and that is likely to expand in the short-term.

## 3. The Chinese Economy Slowdown

Section 2.2 presented the main characteristics of the Chinese economy in the recent decades. However, the impressive pace of growth that China showed in the recent past will not be seen again. This section discusses some of the factors that will contribute to that. It is important to note that the slowdown should not seem as surprising. It is natural for countries that achieve a middle-income level to diminish its pace of growth. When this occurs, the countries face two different futures. The first is to make reforms, change its development strategy and keep growing to reach the rich countries' per capita income, in a traditional catching-up story. The other, and, unfortunately, more frequent is to remain in the "middle-income trap", a situation where the country is not able to continue its process of catching up and remains in a stop-and-go growth pattern, stopping its catching up process for years, and even decades.

As presented in section two, China faced its smallest growth rate in the last 24 years, 7.4%. Additionally, according to IMF data[7], China's growth is expected to be 6.8 percent in 2015 and to average 6.2 percent per year between 2016 and 2020. Prompted by the slowdown, China has been trying to boost domestic consumption to sustain its expansion and to rebalance its growth model that, as observed in the last section, is heavily dependent on investment. As Yang (2014) notes, this rebalancing has the potential to improve China's income distribution. The investment-led model will be slowly replaced by a more balanced model, in which household consumption and domestic demand play greater roles. This translates to a decrease in profits and an increase in wages, which will benefit the middle class.

Indeed, in recent years, the labor share of national income has been on the rise – a direct reflection of the decline in manufacturing and the expansion of services. Moreover, manufacturing employment and output, as a share of the total indicator, began to fall in 2013. In fact, in the first half of this year, services accounted for more than half of the overall economic growth. It is no surprise, then, that China's current-account surplus has shrunk rapidly (as shown in figure 2), from its 2007 peak of more than 10% of GDP to approximately 2% of GDP in 2015 (Yang, 2014).

The rise in the income inequality in China is one of the main challenges for the country. According to the official numbers from the National Bureau of Statistics, China's Gini coefficient stood at 0.47 in 2012, down from 0.47 in 2011 and from a peak of 0,49 in 2008. However, independent researchers find other results. For instance, Xie and Zhou (2014) use several newly available surveys, including a large-scale NBS survey and six independent surveys conducted by university-affiliated organizations, to estimate China's Gini coefficients for recent years and concludes that from 1980 to 2012, China's Gini coefficient increased from 0.30 to 0.55, surpassing the U.S. coefficient of 0.45. Lastly, Gun (2013) estimates that in 2010 China's overall Gini coefficient was 0.61. This is an indicator that China should seek a more balanced growth, not only with the functional income distribution (more wage and less profit) but also with less income inequality among the workers.

Heavily dependent on the external sector, due to the lack of domestic demand, the Chinese economy slowdown is related to the decline of the global demand in the wake of the

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[7] The *World Economic Outlook* (WEO). Database from April 2015. Retrieved from: http://www.imf.org/external/pubs/ft/weo/2015/01/. Accessed on 10/05/2015.

2008 financial crisis, which has forced China to adjust its growth model sooner than anticipated. As Yang (2014) pointed out, China's rebalancing is apparent, first, in the export sector. Export growth has slowed down from an average of 29% per year during 2001-2008 to less than 10% annually, making foreign demand a far less critical engine of growth. The next sub-sections discuss two important points to understand the Chinese slowdown: the demographic changes and the role of the financial sector.

### 3.1 Demographics changes in the Chinese economy

One of the factors responsible for the slowdown of the Chinese economy is the aging population. There is demographic transformation going on in China. The share of working-age people (16-65 years old) in the total population has been declining since its 2010 peak of 72%. Moreover, the absolute number of working-age people has been falling since 2012. For instance, the population within working age shrank by 2.44 million in 2013.

Not only the share of working-age people is declining, but also the pace in which population is growing is rapidly diminishing too. Table 10 presents a comparison between the population growth rate in China and other selected developing markets. During the period of 1908-2013, only China and Russia presented a population growth below 1%. Moreover, the Chinese pace is quickly diminishing. In the last sub-period, 2000-13, the Chinese population grew only 0.53%.

**Table 10. Population growth (averages for the periods)**

| Country | 1980-1989 | 1990-1999 | 2000-2013 | *1980-2013* |
|---|---|---|---|---|
| Nigeria | 2.63% | 2.51% | 2.65% | 2.60% |
| South Africa | 2.47% | 2.18% | 1.52% | 1.99% |
| India | 2.20% | 1.85% | 1.43% | 1.78% |
| Mexico | 2.04% | 1.93% | 1.27% | 1.69% |
| Indonesia | 2.10% | 1.60% | 1.38% | 1.65% |
| Turkey | 2.12% | 1.59% | 1.32% | 1.64% |
| Brazil | 2.12% | 1.56% | 1.08% | 1.53% |
| ***China*** | ***1.43%*** | ***1.13%*** | ***0.57%*** | ***0.99%*** |
| Russia | 0.67% | -0.03% | -0.18% | 0.11% |

Source: Authors 'elaboration based on World Bank data

At the same time, China is undergoing rapid urbanization, with some 200 million people having left the agricultural sector, in 2001-2008, to seek urban manufacturing jobs. More recently, however, the pace of migration has slowed substantially. However, rural areas still retains 35% of China's total labor force. In development literature, this migration from rural to urban areas is frequently considered one of the main factors that explain the high growth rates of developing countries in its early stages of development.

As in many developing countries when the transition from rural to urban area starts, China's large pool of surplus rural labor has played a key role in maintaining low inflation and supporting China's extensive growth model. However, the pace experienced in the recent past will not be seen again. From 1980 until 2014, the rural population in China dropped from 80% to 45.5% of the total population[8]. With less than 60% living in urban areas, the migration process is unlikely to be over but it can be said that the most dynamic phase of China's transformation to an urban society is complete.

What the end of massive surplus rural labor can represent for China´s economy? As the flow of low-paid migrants into Chinese factories slows, workers demand higher pay, affecting the real costs. This is a well-known problem among middle-income developing countries and is refereed as Lewis Turning Point (LTP). According to the seminal work from Sir Arthur Lewis, an economy with excess labor in a low productivity sector (agriculture, in this case), wage increases in the most productive sector (industry) are limited by wages in the less productive sector, as labor moves from the farms to industry (Lewis, 1954). The productivity gains experienced by the most productive sector generates an investment higher than it would be expected in a scenario with full employment. However, when the surplus labor is diminished, the wages rise faster, catching up with the expected wages in full employment, resulting in falling investments and reduced profits. At this point, the economy is said to have crossed the LTP.

Does China already crossed the LTP? Das and N´Diaye (2013) estimate that China is very close to it and will reach the LTP between 2020 and 2025. Others, as Jan and Wilmaz (2010), believe that China has already passed its 'Lewis Point' and the main indicator is the fast increase in real wages. Namely, if China just crossed the LTP or will do it in the very near future, we can expect that this trend will bring deep changes in its productive structure. China will evolve from an exporter of manufacturing deflation to an exporter of manufacturing inflation.

The small growth rate of the population and the slowdown of the rural-urban migration indicate that, for the next decades, the large surplus of rural workers with very low productivity is diminishing, making more difficult to increase labor productivity. In this sense, the Chinese economy will not achieve the growth rates experienced before the crisis. The global implications

[8] World Bank Development Indicators. Data accessed at 10/05/2015

of a Chinese economy growing at a moderate pace are enormous, especially for *commodities-exporting* countries, because prices are unlikely to increase in the same way with a weaker appetite for commodities from China.

In addition, there is a shift in production. In 2013, China's output of services, which contributed with 46% to total GDP, finally eclipsed the output of its industry (44%). An economy based predominantly on making things for people now gets more out of doing things for them. Indeed, China's fastest-growing sector last year was wholesaling and retailing, which expanded at a double-digit rate. In the workshop of the world, growing numbers now work in shops. This indicates that the rebalancing between consumption and investment is happening slowly, but this might keep occurring in the next years and decades. Due to the slowdown, the Chinese government is trying to use the credit channel to give a push to the economy. The next section will briefly discuss it.

### 3.2 The role of the financial system and credit in the Chinese growth

To combat the slowdown of the economy and keep China growing at a high pace, the government also relaxed credit conditions. According to a study by the Chinese Academy of Social Sciences (CASS), the debt/GDP ratio for China's nonfinancial corporations was 113% by the end of 2012. Standard & Poor's found out that, a year later, these firms' total debt amounted to $14.2 trillion, eclipsing the $13.1 trillion of outstanding debt in the USA and making China the world's largest issuer of corporate debt. China's credit-to-GDP ratio had risen by 58% in the period of 2009-2013, when banks pumped out a torrent of loans to fund the government's gargantuan stimulus program. In recent years, the government has tried several times to rein in debt, only to back down when it became apparent that deleveraging would be painful.

The stock of outstanding financing for the private sector grew by approximately 20% in 2013, according to the central bank's broad measure (which includes corporate bonds, equity issuance and a variety of loans by banks and other lenders), even as nominal GDP grew by only 9.5%.In 2014, total credit (as a percentage of GDP) in China was around 200%. In June 2014, the Chinese central bank cut the reserve requirement ratio (RRR) – the amount of cash banks needs to keep in reserve – for banks engaged in lending to agriculture-related businesses and small companies in order to make more money available for lending. This was considered a necessary step for the country to achieve its annual growth target of 7%.

As credit rises to 200% of GDP and average financing costs nearing 7%, Chinese borrowers now need to generate cash-flow growth of 14% to cover their interest payments without eroding their profitability or being forced to borrow even more. Credit-to-GDP levels were stable in the second half of 2013 at about 190%, but a very bumpy start to this year – the country's first bond default and stress in shadow banks – prompted the government to reverse its stance. A series of loosening measures, including a re-lending facility by the central bank that some analysts likened to quantitative easing, helped put growth back on track.

Although this should be examined more carefully, it does not mean that China will necessarily face a debt crisis anytime soon. The aggregate credit-to-GDP ratio covers government, corporate and household debt. Even though 200% is at the high end for developing nations, it still is below debt levels for more mature economies. For instance, data from 2011 published by the McKinsey Global Institute (excluding borrowing by financial institutions) shows that countries that were faced with crisis in the euro-area had far higher debt-to-GDP ratios, from 260% for Greece to more than 400% for Ireland.

One of the reasons for this credit spike in China during the last period is the decrease in profits experienced by the Chinese economy in face of the slowdown of the global economy after the beginning of the international crisis. Nonfinancial corporations will become increasingly dependent on domestic and foreign finance as profits become less accessible to use for investment. As their leverage ratios increase, so will their risk premiums, causing their borrowing costs to rise and to undermine their profitability even further.

Although bank loans still account for the majority of credit provided to China's real sector, other channels of credit extension are growing rapidly. Credit extension activities outside commercial banks' balance sheets are referred to as shadow banking. The Shadow Banking System (SBS) operates at the margins of the financial regulation and tends to involve to complex and thick chains of intermediation. Indeed, Shadow banking is increasingly important in China, especially as a source of funding to small and medium-sized enterprises ("SME"s), including entrepreneurial start-up companies (Schwarcz, 2013). The rapid growth of the SBS in China presents a challenge for the regulators. On this point, it is interesting to note that Mark Carney, the governor of the Bank of England, identified the shadow banking in the emerging markets as the greatest challenge to the world economy (The Economist 2014: 9). Elliott and Qiao (2015) observe that even though the current size of the SBS in China depends on the definition of shadow banking and estimates of important statistics, some estimations in the recent past produced figures ranging from about RMB 5 trillion to RMB 46 trillion, or roughly 8 to 80 percent of the size of China's GDP.

Another point that raises concerns is the Chinese stock market. After experience a robust increase in the recent years, the stock market adjusted very sharply in mid-2015. The Chinese stock market crash began with the popping of the stock market bubble on 12 June 2015. By 8-9 July 2015, the Shanghai stock market had fallen 30 percent over three weeks as 1,400 companies, or more than half of listed companies, filed for a trading halt in an attempt to prevent further losses (Duggan, 2015). Hence, after years of enthusiastic individual investors and the own government heavily putting money in the stock market – consequently exceeding the rate of economic growth and profits of the companies they were investing in –, the market indicated its exhaustion.

Moreover, external financing is often the trigger for debt repayment trouble. The Lost Decade of Latin America in the 1980s was mainly due to the huge devaluation of their currencies after developed countries increased their interest rates in response to the second oil shock. In this respect, to have debt denominated in domestic or foreign currencies makes a huge difference. China´s situation is different. The vast majority of its debt is held domestically. External debt has risen sharply, to approximately $1 trillion, but that is still just a little over 10% of GDP, and foreign exchange reserves are nearly four-fold higher, providing ample coverage. Furthermore, much of the domestic debt comes in the form of loans by state-owned banks to state-owned companies. The risk of banks calling in the loans and, in doing so, causing a wave of defaults is small. In this way, the government would be forced to rescue companies that might face a currency-mismatching problem. However, the probability of a widespread event is limited. Lastly, the maturity mismatch risk cannot be neglected. Liquidity problems can pose a challenge even for solvent agents. A close monitoring by the Chinese authorities is necessary to keep the system less prone to face a sudden liquidity crisis.

Hence, a debt increase in the Chinese economy is a double-edged sword. It enables companies and households to boost their consumption and investments, but makes them to spend more paying interest and repaying their debts in the future and, in the case of the external debt, it is also susceptible to currency fluctuations. However, since foreign debt still represents a small part of the total debt, and foreign reserves remain at a very high level, the Chinese economy can keep using the credit channel to boost its growth. However, in order to avoid credit crises in the future, the growth pace of the credit needs to *be drastically reduced.*

*Summing up, there are many indicators that show that the financial system in China can pose some difficult threats for the economy. The stock market, the shadow banking system and the fast pace of credit growth are some of the issues that should be addressed by the government in order to avoid a deep financial crisis that can spur Chinese growth. The necessity of adjustments meant a slowdown in the financial sector growth in China that will affect real economic growth, bringing down the potential growth of the country in the short and medium run.*

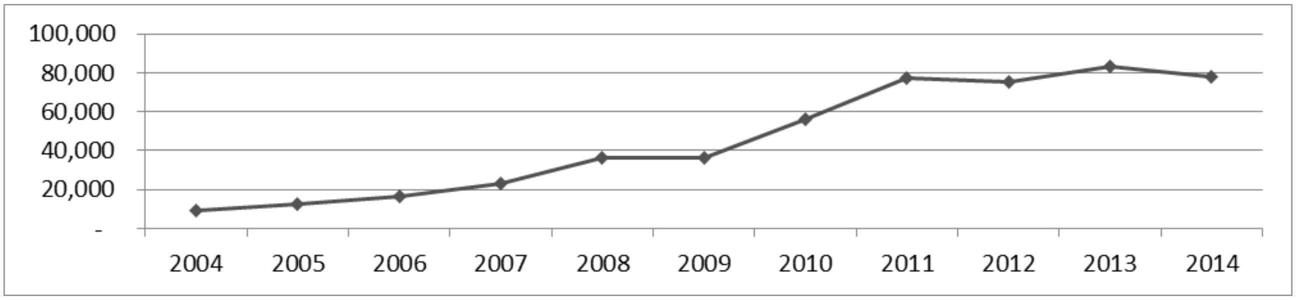
## 4. A case study: the Chinese-Brazil relationship

### 4.1 The Recent Development of Sino-Brazilian Relationship

The decade that covers the period of 2004 to 2014 inaugurates a time in which the Sino-Brazilian relationship reached a new phase and bilateral exchanges in political and economic fields acquired more relevance. Since the early 2000s, the two countries have gone through different stages, considering the direction of their economic growth models. Brazil's guidelines were macroeconomic stability and social gains, stimulating domestic consumption, especially in the post-crisis period. China, especially after its entry into the World Trade Organization (WTO) in 2001, experienced the consolidation of its economic reforms, with the expansion of market mechanisms in its economy, providing high growth rates – which sometimes exceeded 10% per year. It was during these years that China invested significantly in infrastructure and urbanization and obtained constant trade surpluses with the world and accumulated a considerable amount of foreign reserves.

The current Chinese growth model, particularly over the last decade, has created a large window of opportunity for Brazil, highlighting a strong complementarity between the two economies. Bilateral trade soared from the early years of 2000s, reaching new records, with an average growth rate of 30% per year and totaling $ 83.3 billion in 2013.

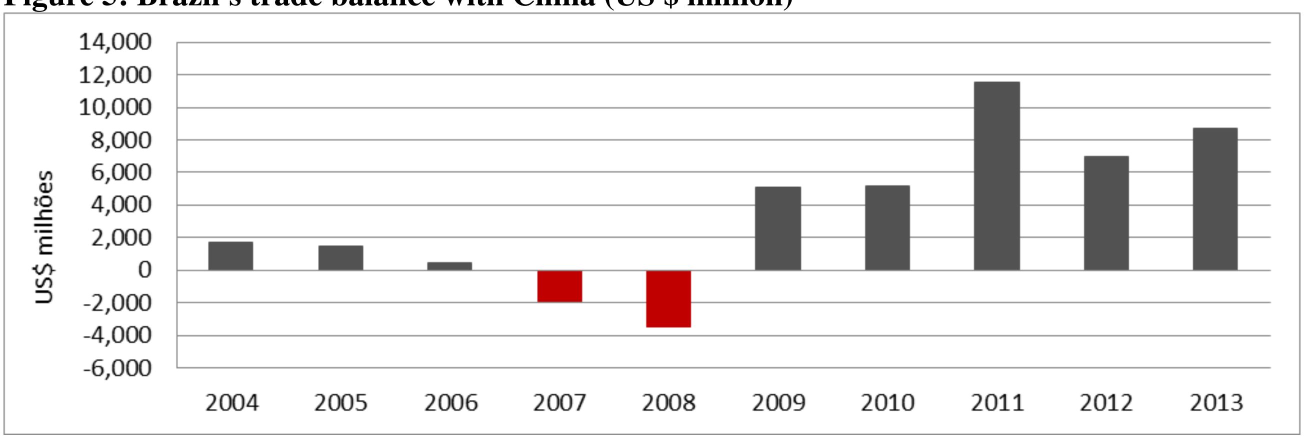
**Figure 4: Total Trade, Brazil – China, 2000-2014 (US$ million)**




Source: Ministry of Development, Industry and Foreign Trade (MDIC - Brazil)
Elaboration: China-Brazil Business Council

The high demand for food and natural resources from China provided a surge in Brazilian exports of commodities, particularly iron ore, soybeans, meat, oil and pulp. The good trade results between the two countries made China the largest trading partner of Brazil since 2009. During this period, Brazil – differently from other countries in the region – accumulated a significant bilateral trade surplus with China, reaching its peak of $ 11.5 billion in 2011, only achieving unfavorable results in 2007 and 2008, years that preceded the international financial crisis.

**Figure 5: Brazil's trade balance with China (US $ million)**

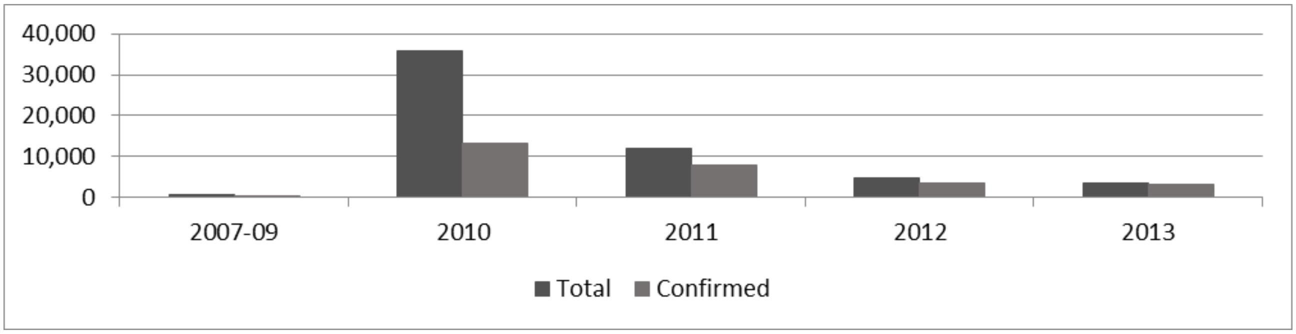



Source: Ministry of Development, Industry and Foreign Trade (MDIC - Brazil)
Elaboration: China-Brazil Business Council

A significant rise in the presence of Chinese investments in Brazil was also noticeable, reflecting in part the Chinese government's strategy of encouraging the process of internationalization of its companies, especially from 2007 and onwards. Very limited until the beginning of 2000s, Chinese investments now have more relevance on the international scene, particularly since 2010, the year that marks the discovery of Brazil by the Chinese business community as a potential destination for foreign investment.

As a result of this expansion, Chine invested a total amount of USD 56.5 billion in Brazil in the period of 2007-2013. This marked a new phase of the bilateral relationship that was, until that moment, focused almost exclusively on trade. Between 2011 and 2013, Chinese companies have found new opportunities in the industrial sector, especially in the machinery, equipment, electronics and automotive segments, and recent inflows in the service sector, particularly in finance. Infrastructure is also one promising area that has already begun to show results.

**Figure 6: Chinese investments in Brazil (2007 - 2013) – (US $ million)**




Source: China – Brazil Business Council

In the same period, Brazilian investments were also present in China, although relatively timid compared to the incoming of Chinese companies to Brazil. Companies such as Vale, Petrobras and Embraco were pioneers in the development of the Asian country. On the other hand, there is a new movement of Brazilian investments in China, highlighting the increasing diversification of sectors, such as the presence of BRF and Suzano in agribusiness, Weg in the machinery arena, and Bank of Brazil, the first Latin America financial institution to open a branch in China.

Just as the presence of Chinese investments in Brazil and the strength of the commercial partnership showed significant strides, political dialogue also intensified between the countries, generating greater commitment to the strengthening of diplomatic ties and contributing to the solidification of interactions in more comprehensive spheres.

In this sense, the Sino-Brazilian Commission for High-Level Coordination and Cooperation (COSBAN) was established in 2004 in order to monitor and implement the bilateral agenda. Consisting of eleven subcommittees and six working groups dedicated to the primary sectors of mutual interest, the High-level Committee is also responsible for monitoring the Joint Action Plan 2010-2014, signed in 2010 by Presidents Lula and Hu Jintao.

Clearly, in the last decade the strengthening of Sino-Brazilian relations has gained amplitude on a global scale, and the rapprochement between the two partners already exceeds the bilateral scope. Brazil and China have expanded convergent dialogues in the context of the G-20, which reflects the reorientation of the division of world GDP with a noticeable presence of developing countries, as well as in BASIC, which combines the diplomatic clout of Brazil and China with India and South Africa in discussions about climate change. It is also in the context of the BRICS group that Brazil and China share similar views on the role of emerging economies, especially regarding the reform of global governance in the political and economic spheres.

In general, what has been observed over the last ten years is a greater dynamism in Sino-Brazilian relations, with qualitative and quantitative changes. In the economic field, there was a significant increase in trade and Chinese investments in Brazil. Similarly, in political terms, it was noticeable the strengthening of the bilateral dialogue - with the creation of an institutional machinery within the context of the COSBAN - as well as political convergence at a global level, with both countries represented in the G20 and the BRICS. Particular attention must be placed on the significance of the last Chinese commitments to Brazil (2014-2015), regarding finance and infrastructure.[9]

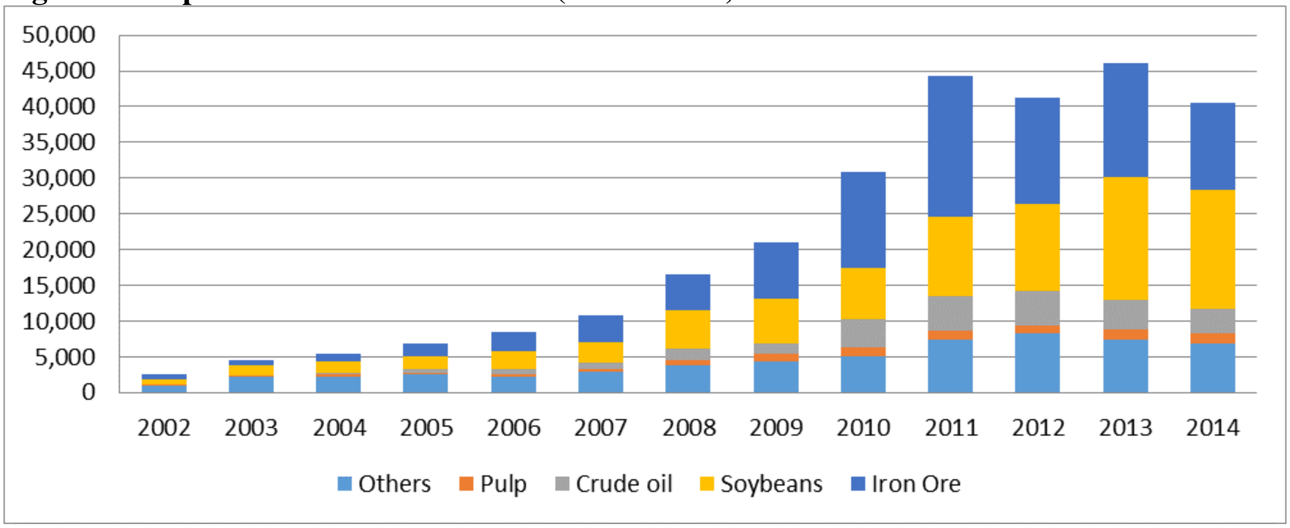
**4.1.2 Most recent commercial trends**

In 2014, the Brazil-China trade flow totaled $ 77.9 billion (Figure 4). The number reflects a decrease of 6% over the previous year, even though it represents the second best result of the entire series. Exports totaled US $ 40.6 billion, a 12% decline compared to 2013. Imports coming from the Asian country totaled $ 37.3 billion, reflecting a slight increase of 0.1%. With these results, the trade balance between the two nations finished 2014 with a balance of $ 3.2 billion in favor of Brazil.

The reduction in the value of Brazil's exports to China in 2014 took place mainly because of the downward trend in international prices of major commodities exported by the country. Therefore, it is possible to observe that soy and iron ore, products that account for 71.2% of Brazil’s total exports, grew in an amount of 1% and 5%, respectively. However, despite the increase in volume exported, the two products finished the year with declines of 3.1% and 22.8% in total value.

[9] For more information on that, see Pinto (2015).

**Figure 7 - Exports from Brazil to China (2002 – 2014)**



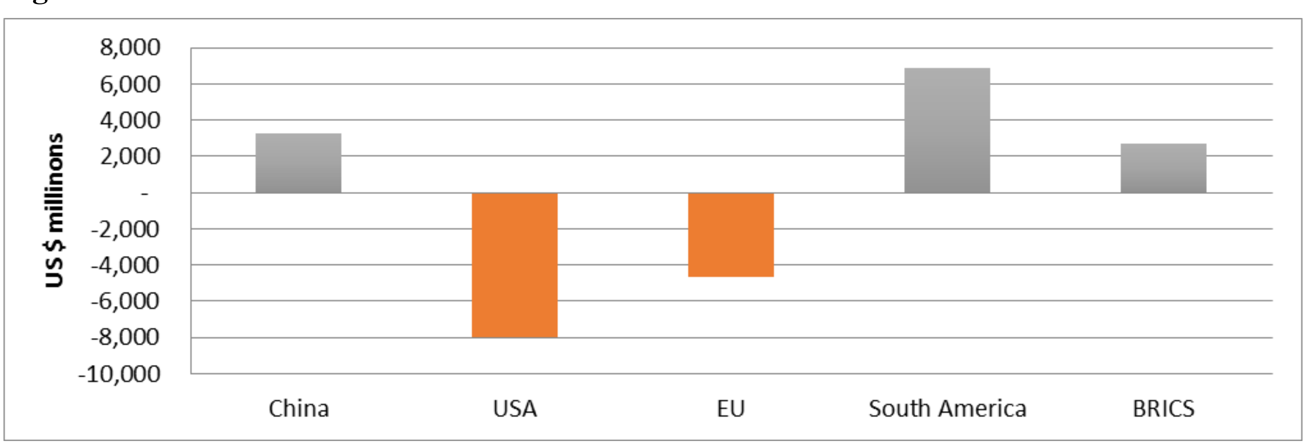

Source: Ministry of Development, Industry and Foreign Trade (MDIC - Brazil)
Elaboration: China-Brazil Business Council

In general, the pattern of Brazilian exports to the Asian country in 2014 remained the same as in previous years, since sales to China are concentrated in soybeans, iron ore and raw oil, which together represent 79.8% of total exports. It is worth noting the strong growth trend of some products from the agribusiness. There was a sharp increase in the export value of items such as unprepared hides and skins (29.1%), poultry (17.7%) and cotton (75.8%). Emphasis should also be given to exports of pulp, which increased by 5.7% in value and 14% in the volume exported.

In 2014, Brazilian exports to China represented 18% of all the country's foreign exports (Table 6). There was a slight decrease from the previous year, in which the output of Brazilian products to the Asian partner accounted for 19% of these transactions.

Even with the recent price drop of Brazil´s main export commodities, Brazilian exports to China are still maintaining the strong positive trade balance with China, offsetting the trade deficit with other jurisdictions, such as the US and the European Union, markets in which Brazil closed 2014 with negatives trade results of US $ 7.9 billion and $ 4.6 billion, respectively.

**Figure 8: Trade balance between Brazil and selected countries in 2014.**



Source: Ministry of Development, Industry and Foreign Trade (MDIC)

In 2014, Brazilian imports from China remained concentrated in three main sectors: machinery and electrical and mechanical equipment, which together accounted for 48.4% of the total amount of such operations. However, it can be observed that purchases of machinery and electrical appliances finished the year with a modest increase of only 0.3%, while industrial production in the same sectors declined 12.1% in US $.

## 5. Concluding remarks: A strategic approach for the future of the South America-China relationship

In recent years, the relationship between South American countries and China has undergone profound changes that led the Asian giant to become a leading economic partner for the continent. In this sense, the success of current Chinese transformations and structural reforms can further highlight the importance of the Chinese growth for South America, as the ongoing changes should open new possibilities for growth and diversification of relations in the coming decades.

Even though the analysis in this paper focused on the possibilities for South American countries given the changes in the Chinese economy, it is important to note that the relationship is not one-sided. The mutual interest is apparent and declared. China's Policy Paper on Latin America and the Caribbean, published in November 2008, announced that, "The Chinese Government views its relations with Latin America and the Caribbean from a strategic plan and seeks to build and develop a comprehensive and cooperative partnership featuring equality, mutual benefit and common development with Latin American and Caribbean countries"[10].

Current reforms in China, if successful, will also require a new perspective for global integration. These changes reflect the results obtained in four decades of rapid growth, which made China the second largest economy in the world, and mark the recognition that future development should have a distinct dynamics and rely on other engines. Even under its "new normal", with lower growth rates, China´s influence in the global economy is unlikely to diminish. First, the country is expected to keep growing more than developed countries – other players who contribute a significant share – in global output for the next years. Secondly, by being a much bigger economy now, even a slower rate of growth will make a significant impact on global output. As an example, in 1994, China had a GDP slightly higher than half trillion

[10] "China's Policy Paper on Latin America and the Caribbean". Available at: http://www.gov.cn/english/official/2008-11/05/content_1140347.htm

dollars in current USD. Ten years later, it reached 1.94 trillion. A Chinese GDP growth of 10% at that time would add USD194 billion to the global economy. However, in 2014, the Chinese GDP reached 10.36 trillion American dollars. A more modest growth in 2014, 5% of GDP, for example, would add more than half a trillion USD to the global economy. In this sense, the Chinese contribution to world output and, consequently, global demand, can be higher even with a slower pace of growth than the one experienced in the last two decades.

In the case of Brazil, some indications of the particularities of this new China and its implications for Sino-Brazilian relations are presented in a recent World Bank study entitled "Implications of a changing China: opportunities for Brazil" (World Bank; 2014). Two general principles guide the work: the possible scenarios for the Chinese economy and the significant changes taking place in terms of rebalancing and structural reforms, and the consequences of these changes for Brazil and how the country should position itself to fully enjoy the opportunities posed by a new China. These two main analytical principles can be applied to understand the future trends in China – South America relations.

From a general point of view, the reforms are essential to ensure a new cycle of growth and openness in the Asian country. Although growing at a lower rate, China should maintain a central role in the recovery of the world economy and increasing global trade. The expansion of the already high degree of openness and changes in its production structure will make China an even more significant partner for countries such as Brazil, which already have a significant economic relationship with the Asian power.

In this sense, the rebalancing of the Chinese economy, raising domestic consumption, will open new opportunities for South American exports and investments. Rapid urbanization will continue to demand natural resources and foster integration between the economies of both countries. In addition to the expansion of large cities, the internal migration coming from the countryside will cause medium-sized cities to grow and the further advance the integration of vast areas of the interior to the most dynamic sectors of the Chinese economy. South America, providing that the necessary conditions to explore the changes under way are met, should maintain its growing exports trend to the country, and also try to diversify them.

In the food sector, it is expected that the emergence of a new Chinese middle class will bring gains for agribusiness exports, following not only the increased demand but also the rise of the Chinese consumer expectations for quality standards and health food products. The growth of the Chinese population of upper-middle-income highlights the enormous potential of new areas in which South American countries can be inserted competitively. Quality items in traditional consumer sectors, such as shoes, furniture, clothing and cosmetics, will present opportunities of new market niches for Brazil and Argentina, China may be positioned as an important alternative to increase exports diversification. Also, one of the areas in which new opportunities can be realized is infrastructure.I Investments from Chinese companies can contribute to the modernization of the sector in many South American countries.

All these possibilities are, nevertheless, in the realm of mere possibilities. It depends on South American countries being prepared for the potential benefits that the new Sino-centric configuration of the global economy can provide. There is clear evidence that the present context is characterized by enormous possibilities and opportunities that are typical of times of crisis and paradigms shifts. Creativity and use of windows of opportunity can potentially give rise to new scenarios for individual countries in the global capitalistic system. It is up to the countries themselves to be pro-active and establish a strategy that considers the windows of opportunities and productive niches that are appearing in the new global economic architecture.

Summing up, the paper concludes that the Chinese rapid growth of the last decades profoundly changed the relationship between this nation and Latin American countries, especially commodity exporters, which were mainly located in South America. The new growth perspectives for China – slower and more demand driven – can represent a watershed in this relationship and it is mandatory that the countries in South America prepare themselves for this new phase in order to strengthen the partnership with the Asian giant. A failure to understand these changes and reliance on the path-dependence established in the last decade can be harmful. However, by starting now a strategic agenda for economic cooperation considering the Chinese new growth scenario can reinforce the partnership and advance the perspectives of sustainable and fruitful South-South partnership between China and South America.

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