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"China and Latin America in 2022:

Envisioning the future of a strategic relationship"

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1. The next chapter

I believe historians will come to see the past decade as a pivotal chapter in the relationship between China and Latin America.

In the space of just 12 years, the rise of China realigned Latin America´s trade patterns and permanently changed the structure of global markets for many of its key products.

China's emergence has had an impact on regional commerce as well. Since 2000, trade between Latin America and Asia as a whole has grown at the extraordinary rate of 20.5% per year, reaching an estimated US$442 billion in 2011.

Today, in addition to China and Japan, Asian countries such as Korea and India are rapidly expanding their engagement with Latin America. In fact, Asia now accounts for 21% of Latin America's total trade, second only to the United States.

This unprecedented expansion in commerce has not just been good for economic growth. It has also helped to create tens of millions of new jobs, lifting hundreds of millions of people out of poverty.

For both China and Latin America, rising trade has translated into rising opportunity, improved social welfare, and an expanding middle class.

This is truly a cause for celebration!

But I also think that we find ourselves at an ideal moment to pause and reflect on what the next chapter in this relationship should be about.

Today I invite you to look forward to the year 2022.

I would like us to imagine what kind of opportunities our people will expect to have 10 years from now. And finally, I want to suggest ways in which our economic relationship can evolve in order to help us reach those social objectives.

1. Adapting to a new reality

This has been another difficult year for the global economy. In different ways both China and Latin America continue to suffer the repercussions of the financial crisis in Europe and weak recovery in the United States.

Although I remain optimistic, it is now reasonable to expect that a full return to growth in the industrialized world will take several years.

So how do we adapt to this scenario of sustained slower growth?

In China, the government has already begun a comprehensive revision of its economic strategy to reflect this external reality, and to anticipate the profound changes taking place within China as well.

China's 12th Five-Year Plan calls for a shift from the export-led growth model to a greater reliance on domestic demand and household consumption, for example. China is also moving rapidly up the value chain, building on its strength in manufacturing to expand into services.

These shifts will complement other trends in Chinese society, such as rising wages and impressive gains in the coverage and quality of higher education. By 2020, student enrollment in China´s universities is expected to increase by 65%, and some 200 million young people in China will earn university degrees by 2030.

Combined with massive investments in science, research and technology, these rising education levels will accelerate China´s transition to a creative, knowledge-based economy in which design and innovation become the drivers of growth.

At the same time, China will continue its evolution from a rural to a primarily urban society. With rural-to-urban migration averaging 20 to 30 million people per year, China's cities will expand by an estimated 300 million people by 2030.

Higher incomes and higher education will mean rising expectations, of course. People moving into these new cities will want comfortable housing, clean air and green spaces, good schools for their children, affordable healthcare, and reliable safety nets for the elderly.

Latin America is very different from China, of course.

But in the coming decade we will face many of the same challenges.

The IDB recently published the Chinese edition of "*The decade of Latin America and the Caribbean: A real opportunity,"* an important study that we are distributing here today. In this book I pointed out that in an optimistic scenario, with annual growth averaging around 4.8% per year, Latin America's per capita income will double by 2030, and the middle class will expand to 75% of the population.

That would mean that 500 million people in Latin America would have the means to achieve an improved quality of life.

Like China, Latin America is also under intense pressure to diversify its productive model. But our challenge is to expand manufacturing while simultaneously moving into higher value services.

In order to do so we will have to make vast improvements in productivity, while investing much more heavily in education and technology.

Latin America is already 80% urban. But in addition to improving the infrastructure and services of our megacities, we also are struggling to provide clean, safe and sustainable living conditions in more than 500 "emerging cities" with populations below 2 million.

Latin America is still a comparatively young region. Nevertheless, several of our countries face the demographic reality of aging populations. In fact, by 2050, more than one-fourth of our population will be more than 60 years old. Like China, we must find ways to guarantee healthcare and adequate pensions for these citizens in the years ahead.

2. The need for a new commercial relationship

Clearly then, both China and Latin America will face a new set of challenges in the coming decade. And I believe our economic relationship will also have to change if we are to help each other meet our citizen's expectations.

As many others have already observed, we need to achieve a more balanced commercial relationship.

Trade during the past decade has been dominated by a one-way commodity-for-manufacturing pattern, and by trade imbalances that have clearly favored Asia.

The imbalance amounted to 30% of total trade in 2010, or the equivalent of a US$96 billion deficit. Although trade does not need to be always balanced, we all know that large imbalances can create tensions and generate public resistance.

So how can we improve this balance?

I believe the best way is to encourage more diversified opportunities for direct investment in each other's economies. Opportunities that enable our most innovative companies to set up local manufacturing operations and introduce new products and services into each other's markets.

The good news is that this is already happening. Let me give you just a few examples.

Direct investments by China in Latin America have grown from virtually nothing in 2004 to more than US$1 billion a year in 2010.

For its part, between 2003 and 2009 Latin America announced cumulative greenfield investments in Asia of around US$18 billion, with China accounting for nearly a third of the total.

3. The first wave of direct investment and local manufacturing

What do we know about this first wave of direct investment, and what does it tell us about the coming decade?

Not surprisingly, most of the capital invested so far has gone to natural resource sectors such as mining, energy and metals. Since 2005, Chinese multinationals such as Sinopec, CNOOC and Chinalco have been among the top Asian investors in the Latin American market.

In turn, several multilatinas including Petrobras, Vale and CEMEX have made substantial commitments to China.

These investments are critical to deepening the foundation of our trade relationship.

However, many companies are now looking past natural resources to explore opportunities in manufacturing, infrastructure, agriculture and even consumer goods.

- From its regional headquarters in Mexico City, for example, Huawei has established 19 offices across Latin America, which along with 3 software R&D centers and 3 training centers employ more than 4,500 people.
- ZTE has announced plans to build Brazil's biggest telecommunications research, production and training center in São Paulo, where it will also be manufacturing tablets, mobile phones and telecoms infrastructure.
- In Argentina, the Chinese chemicals firm Shaanxi has opened a facility to produce fertilizers.
- In Mexico, Lenovo is manufacturing computers, Golden Dragon is producing parts for U.S. appliance makers, and Sinotex is making textiles.
- Chinese automobile makers such as Chery, Foton Motors, JAC and Hebei Zhongxing have opened plants in Brazil, Mexico, Venezuela and Uruguay, with a view to supplying local markets and export to neighboring countries.

I could mention many other examples of investments by companies such as SANY, Envision and CITIC, of course. But what I really want to emphasize is the multiple benefits that these types of investments will have for both China and Latina America:

By establishing a local manufacturing presence, Chinese companies will lower their transportation costs to markets in North, Central and South America, of course.

And as wages in China and Latin America continue to converge in the years ahead, this local presence will offer even greater advantages to Chinese manufacturers.

For Latin America, these investments generate local jobs, and they offer an opportunity to learn from China's tremendous technologic and management skills.

My message to you today is that China should not underestimate the goodwill that this local manufacturing presence can generate, particularly in countries that are anxious about their current trade imbalance

These new factories offer strong evidence that China is committed to fostering prosperity on both sides of the Pacific.

Now let me briefly consider Latin America's direct investments in China.

Over the past five years, Latin American companies have shown a growing commitment to bring capital and productive capacity to China.

The IDB has just published a study entitled *"Pathways to China: The Story of Latin Firms in the Chinese Market."* Our specialists examined 86 companies that have established a presence in your country, with the goal of deriving broad lessons from their experience.

In addition to multinationals I mentioned earlier, such as Brazil's Vale and Embraer, Mexico's Cemex and Chile Sigdo Koppers, a variety of service, food and manufacturing companies from Latin America are betting on China.

Mexico's Grupo Bimbo, for example, has acquired several local firms and is now among the 10 most important bakery companies in China. In fact, Bimbo's growth rate in China outpaces that in the U.S. and many other countries where it does business.

Last year Marfrig, Latin America's second-largest beef producer, formed two new joint ventures in China with a total investment worth US$309 million. Its goal is to position itself with vertically integrated operations to meet the rising demand for food in the Chinese market.

Argentina's Tenaris, the world's leading supplier of tubular products, now produces 40,000 tons of premium joints at its factory in Quingdao, supplying customers in China and around the world.

Brazil's WEG, an important producer of electrical motors and industrial equipment, employs 620 people at its factory in Nantong and has become one of the leading producers of high-efficiency motors in China.

Another Brazilian firm, Stefanini, is building a presence in Jilin province to provide software development and BPO services to clients in the automotive industries.

Dozens of other Latin American companies in the food, logistics, and professional services sectors are working to expand their presence in China.

Like Chinese firms in Latin America, they offer unique expertise and talented people who can enrich China's economy and create new opportunities for future market development in both directions.

4. The next chapter

In conclusion, we have ample evidence today that companies from China and Latin America are capable of bringing factories, jobs and higher-value products and services to each other's markets.

These are the kinds of jobs and services that our increasingly affluent societies will demand in the coming decade.

The problem is that these investments are still too small in proportion to the size of our trade relationship.

While China accounts for less than 1% of all FDI flows into Latin America, for example, China's trade with our region amounts to more than 11% of Latin America's total foreign trade.

And Latin America's direct investments in China are also very modest.

In order to generate prosperity for our people, we need to vastly expand the scale and variety of FDI.

This will require a much more aggressive effort to eliminate lingering tariffs, non-tariff barriers, and regulations that unfairly protect some industries from competition.

It will also require a much more ambitious program of cooperation in areas where we have complementary strengths.

But above all, it will require the vision to see that **the greatest opportunities for growth in the coming decade will come not from the industrialized North, but rather from this vast new current of South-South investment and cooperation.**

This is why the IDB has made an institutional priority of promoting the relationship between China and Latin America.

We co-organized this Business Summit to build on the momentum that began two years ago in Chengdu, when hundreds of companies established productive contacts in areas including clean energy, logistics and transportation.

In the lead-up to today's event more than 50 investors from China have met with Latin American trade promotion agencies to explore opportunities, and 26 national and subnational Trade Promotion Organizations from across our region have established working relationships with 5 counterparts from China.

This year's Summit features panels on Services and on Small and Medium-sized Enterprises. In fact, we have invited more than 100 SME exporters from Latin America to this event, because we are convinced that their overseas expansion is critical to our region's future.

Yesterday the IDB also signed an MOU with the PBOC with the goal of co-investing in development projects in Latin America.

We are developing a China-LAC equity investment platform to further strengthen the commercial links. And we are deepening our partnership with the CCPIT to promote trade and investment through matchmaking events like the one that has brought us to beautiful Hangzhou today.

When historians eventually consider this second decade in the relationship between China and Latin America, I am confident that they will describe a period of sustained and fruitful integration.

A period of growing trust, deeper cultural understanding, and a rich cross-pollination of ideas.

And above all, a period of harmony, in which people on both sides of the Pacific enjoy happier, healthier and more productive lives.

Let's work together to write this new chapter, and to write it well.

Thank you.