

## INTERNATIONAL TRADE

# China's trade relations with the South: What can Africa learn from the Latin American case?

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- **China has played a decisive role in facilitating South-South cooperation.** In many cases, there have been ideological considerations for China's engagement in the South, however these vary across regions. For example, Africa's support was instrumental in granting China a permanent seat in the UN General Assembly in 1971, while Taipei and Beijing had competed for the allegiance of countries in Latin America (Latam) and the Caribbean. The nature of these relations, however, has radically changed in China's favor in the last years, following from its voracious appetite for raw materials.
- **Trade has grown exponentially between both regions and China but it is even more relevant for Africa.** In 2013, trade between China and Latin America reached a total of USD 237.7Bn, while trade between China and Africa reached USD 207.0Bn. Africa's relatively smaller GDP (USD 2.30Tn versus Latin America's USD 5.66Tn in 2013) and higher trade openness imply that China's demand is more important for Africa than for Latin America. In fact, Africa's total bilateral trade with the world accounts for approximately 50% of its GDP, while Latin America's is 38%.
- **Notwithstanding its commodity abundance, Latin America has already accrued a trade deficit with China, while Africa has a questionable surplus.** This can be explained by the relative Purchasing Power Parities (PPP) of both regions. Cheap Chinese imports may be adequate for the purchasing power of emerging economies in Latin America, but to some extent remain unaffordable for poorer African counterparts. The message may be bad news for Latin America. Relatively higher PPP levels hint towards a greater degree of substitution versus Africa. Excluding the surge in exports of unclassified goods from South Africa to China between 2010 and 2013, Africa would also have a trade deficit with China<sup>1</sup>.
- **Commodity exports accounted for the majority of exports to China in both cases; however some countries are more exposed than others.** On a per GDP basis, Chile and Venezuela emerge as Latin America's top exporters to China (Brazil falls in third position given its larger GDP), while Angola and Zambia head the list for Africa. Mineral products and base metals exports feature prominently for both regions. In addition, agricultural commodities accounted for 25% of Latin America's exports to China while unclassified goods accounted for 26% of Africa's exports to China in 2013.
- **Our findings reveal increasing dependence on China for virtually all countries and all types of commodities reviewed (mineral, base metal and agriculture products) from 2005 to 2013.** We

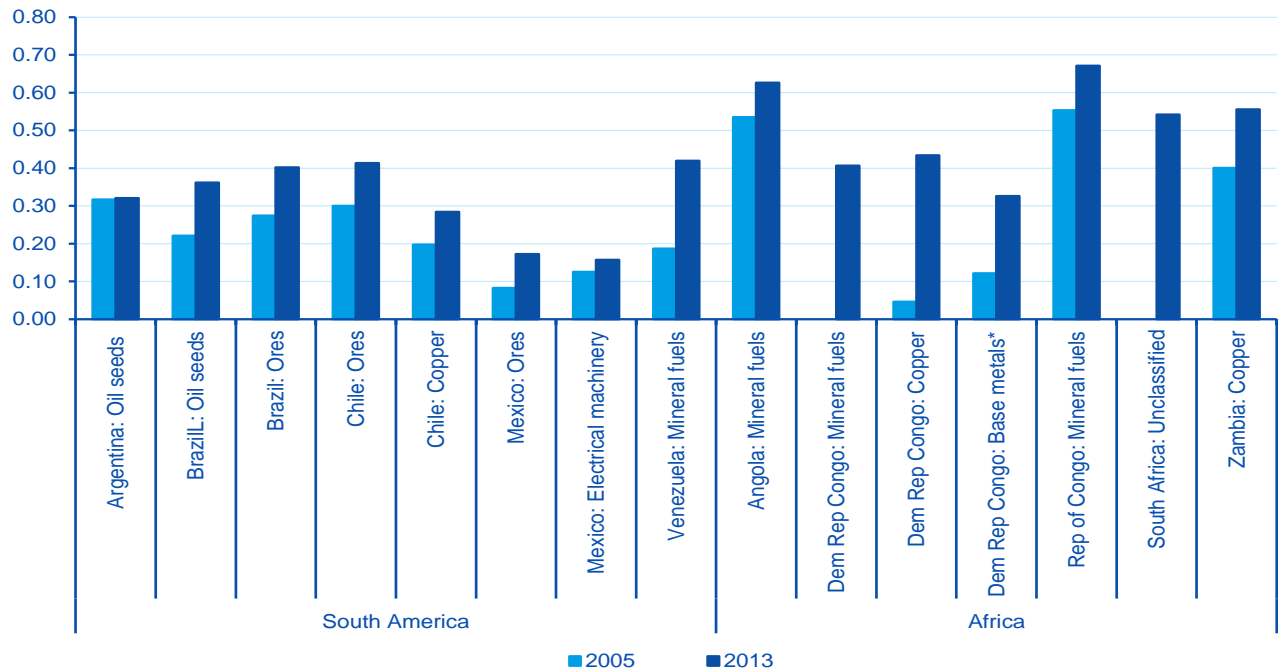
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<sup>1</sup> The large increases in South Africa's exports of unclassified goods (C98), also known as "commodities not elsewhere specified", are only reported on the Chinese customs side. Some exports claim that these flows could be composed of gold exports and/or re-exports of wildlife products from the East coast of Africa. Due to the nondescript nature of these flows, we have decided to exclude them from our textual analysis for the most part, although we have included them in all of our graphs.

use our own methodology to calculate an index of commodity dependence for major Latin American and African countries with relevant trade relations with China. Overall, Latin American dependence indexes were lower and featured less change between 2005 and 2013 than those of Africa. Dependence was led by 1) mineral fuels from Republic of Congo; 2) mineral fuels from Angola; 3) copper from Zambia; 4) copper from Democratic Republic of Congo; 5) mineral fuels from Venezuela; 6) ores from Chile; 7) mineral fuels from Democratic Republic of Congo; 8) ores from Brazil; 9) oil seeds from Brazil; 10) base metals from Democratic Republic of Congo. Trade with other regions as well as better regional trade stemming from superior infrastructure levels may have helped Latin America to limit its vulnerability to shifts in Chinese demand. Furthermore, the basket of commodities is more diversified in Latin America compared to Africa (3 as opposed to 2).

- **When accounting for the value added in trade using trade in value added (TiVA) figures, China's rapidly increasing trade with the South slows down.** This is true both for Latin America and Africa. Value retention lies ahead as a big challenge for trade relations between these regions and China.

Commodity concentration index results (\*Base metals refers to other base metals excluding copper)



Source: BBVA Research, UN Comtrade and TRALAC

## China has played a decisive role in facilitating South-South cooperation

The idea that China would be a crucial to South-South development is neither new nor accidental. In fact, Chinese policymakers have been aware of this notion for quite some time. China's Ya-Fei-La Strategy (literally meaning "Asia-Africa-Latin America") was conceived during the Mao-era in an attempt to promote the advancement of developing country goals in a new world order. Consequently, China has played an active role in promoting South-South cooperation since the 1960's, albeit the nature of its relations with other economies in the South has changed markedly. Latin America (Latam) and Africa are good examples. The continents are vastly heterogeneous; fragmented both in economic and ideological terms. However, some common elements offer sufficient grounds for comparisons at an aggregate level.

China's modern economic relations with Africa started shortly after the founding of the People's Republic of China in 1949. During this period China pursued the advancement of communism in the region by supporting independent movements in Africa, primarily by providing military equipment. Later on, China also sent doctors, nurses and technicians to provide assistance to African nations and funded numerous infrastructure projects, including the draconian 1860km Tanzania-Zambia railway. At first, most of this aid was granted for free. Many considered this free aid to have come at a great cost for China, especially during the 1960s, when the country was experiencing a famine and domestic turmoil. However these efforts helped China to garner the support of African nations in multilateral forums. In 1971, the vote of African nations was instrumental in granting China a permanent seat in the United Nations (UN) General Assembly.

In the case of Latin America, most large countries established full diplomatic ties with China by the mid-late 1970s. This coincided with the visit of Kissinger to Beijing in 1971, after China was formally admitted into the UN. Contrary to popular belief, China engaged readily with both rightist and leftist regimes. Political ideology was not really a consideration for China when engaging with Latin America, although this is something that has started to change. Taiwan, on the other hand, has played a decisive role in defining relations. Taipei and Beijing compete for the allegiance of the small states of the Americas that sustain diplomatic relations with Taiwan, providing substantial grants and technical assistance in a stratagem that has been aptly named "checkerboard diplomacy". In 1985, 23 countries recognized Taiwan, 13 of which were in the Americas. This number currently stands at 23, 12 of which are still located in Latin America and the Caribbean (Costa Rica was the last country in the Americas to establish ties with Beijing in 2007).

During the 1980s, Deng Xiaoping's "opening and reform" process put relations with Africa on hold, following a more pragmatic tone to Chinese foreign diplomacy which shifted the focus to advanced economies. This would quickly change following the diplomatic vacuum left by the Tiananmen Square Protests of 1989, which drove China to seek political support from its African allies in multi-lateral forums, as well as new market opportunities. This new direction is exemplified by Jiang Zemin's "Five Points Proposal" for the development of a long term relationship between China and African Nations, announced in 1996. It was following this address that China's relations took a markedly commercial turn, focusing on trade and moving away from interest rate free loans.

China entered a period of unprecedented economic growth during the 2000s. During this time, economic relationships with Africa and Latin America intensified tremendously, as growing demand for resources drove China into relatively unexplored frontiers. This trend was further reinforced by China's "Going-out Policy", an initiative established in 1999 by the Chinese government to promote Chinese investments abroad. This was seen as a priority for China as it would enable it to tap into opportunities in the expanding local and international markets; securing access to resources and creating markets for its manufactured goods and services. Whatever pull diplomatic relations with Taiwan still had were quickly eroded by the appeal of China's double-digit growth rates and soaring demand for commodities. In fact, checkerboard diplomacy was put on hold after Taiwanese President Ma Ying-jeou was elected in 2008, epitomized by his strategy of "no reunification, no independence, and no war".

China is seen by ally regimes of both ends of the spectrum, on both sides of the Atlantic, as an emerging power in the South and therefore closer to the problems of the South. In this [China Economic Watch](#) we will focus on examining bilateral trade relations with Africa and Latin America.

## Trade has grown exponentially between both regions and China, but it is more relevant for Africa than Latin America

China's demand for resources took off a decade ago, as the country's economic model shifted toward heavy industrial production, the private property market exploded, and wealthier citizens demanded a richer diet. In line with this trend, bilateral trade between China and Africa/Latin America grew exponentially during this period. In 2013, trade between China and Latin America reached a total of USD 237.7Bn, while trade between China and Africa reached USD 207.0Bn (Figure 1). The rapid increase in trade relations with China is remarkably symmetrical across both regions in nominal terms; however bilateral trade on a Gross Domestic Product (GDP) basis reveals a different story. Trade with China seems to be more relevant for Africa than Latin America (Figure 2). Africa's relatively smaller GDP (USD 2.30Tn versus Latin America's USD 5.66Tn in 2013) and higher trade openness imply that China's demand is more important for Africa than for Latin America. In fact, Africa's total bilateral trade with the world accounts for approximately 50% of its GDP, while Latin America's is 38%.

Despite trade being an important growth driver for China's economy (45% of its GDP in 2013), Latin America and Africa only account for a small proportion of its total trade with the world (approximately 10% of the total during the same period). Furthermore, the surge in trade relations with both regions seems to have decelerated in 2013 (-6.0% y/y in the case of Latin America and -2.9% y/y in Africa), on the back of improving demand for Chinese goods from the U.S. and the E.U. In fact, 2013 was the second time that bilateral trade between China and both regions experienced negative growth rates since 1990<sup>2</sup>, the first time being 2009 (during the aftermath of the global financial crisis).

One could, thus, argue that Latin America's and Africa's growth resilience during the global crisis put them in a position to act as a limited – but still welcome – spare wheel for China's huge export capacity. At the same time, they also benefited from China's huge stimulus package to buffer the economy from an ailing external demand during the global crisis. This investment-led growth model helped to fuel a commodity super-cycle, which inexorably favored exports from Latin America and Africa. At this juncture, though, China's growth momentum has begun to dwindle and, more importantly, the growth model is being geared away from investment towards consumption. It is unlikely that the pace of growth in bilateral trade can continue, at least as concerns Chinese commodity imports from Latin America and Africa.

## Notwithstanding its commodity abundance, Latin America already accrued a trade deficit with China, while Africa has a questionable surplus

The asymmetries between both regions don't stop there. Latin America has already accrued a trade deficit with China, while Africa enjoys a trade surplus (Figure 3). This pattern may be explained by different Purchasing Power Parity (PPP) levels between both regions. Cheap Chinese imports may be adequate for the purchasing power of emerging economies in Latin America, but to some extent remain unaffordable for poorer African counterparts. On that note, we would like to mention that Africa would have a trade deficit with China if we exclude South Africa's exports of unclassified goods to China<sup>3</sup>. Ultimately these constitute actual flows, meaning Africa still has a surplus with China on an aggregate level.

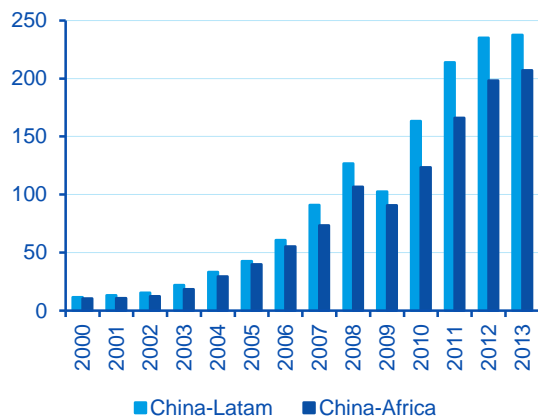
The message may be bad news for Latin America. Relatively higher PPP levels (Figure 4) hint towards a greater degree of substitution versus Africa. In other words, cheap Chinese imports of manufactured goods are used to substitute for (less competitive) domestic manufactures. Excluding exports of C98 reveals that a "substitution effect" may have already started to take place in Africa, particularly amongst the more advanced economies, despite having lower PPP levels than Latin America.

<sup>2</sup> This refers to a fall in China-Africa and China-Latin America trade as a percentage of China's total trade with the rest of the world.

<sup>3</sup> The large increases in South Africa's exports of unclassified goods (C98), also known as "commodities not elsewhere specified", are only reported on the Chinese customs side. Some exports claim that these flows could be composed of gold exports and/or re-exports of wildlife products from the East coast of Africa. Due to the nondescript nature of these flows, we have decided to exclude them from our textual analysis for the most part, although we have included them in all of our graphs.

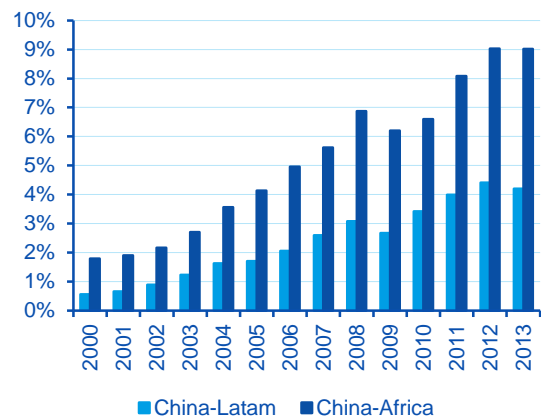
This is not favorable for countries trying to build up their manufacturing capacity, but it is especially worrisome for resource-rich economies, as it increases the risks of “Dutch Disease”. The Dutch Disease refers to a mechanism by which increases in revenues from natural resources make an economy’s currency stronger, resulting in the nation’s other exports becoming more expensive and imports becoming cheaper. The consequences include a less competitive manufacturing sector and increased exposure to commodity price volatility. In the absence of policies that generate employment, this could lead to higher income inequality and social unrest. Given Africa’s relatively low industrial base, there is room to develop policies that boost manufacturing and downstream processing capacity, whereas in the case of Latin America, it might be harder to overturn the trade deficit with China.

**Figure 1**  
Bilateral trade with China in nominal terms is similar for both regions... (USD Bn)



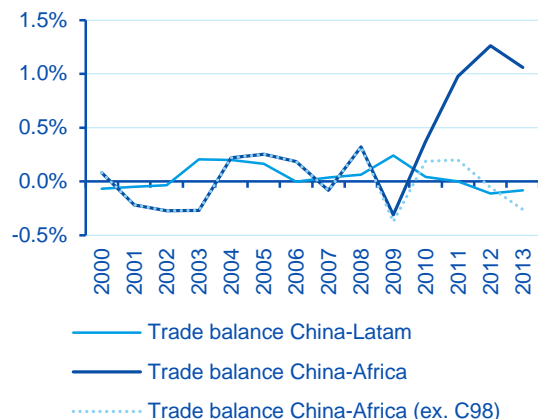
Source: IMF and BBVA Research

**Figure 2**  
...despite this is much more relevant for Africa than Latin America (% GDP)



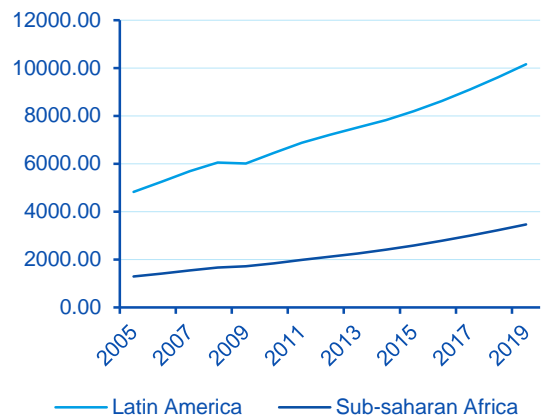
Source: IMF, World Bank and BBVA Research

**Figure 3**  
Latam has accrued a small deficit with China while Africa has a surplus (% GDP)...



Source: IMF DOT, Haver, TRALAC and BBVA Research

**Figure 4**  
...as Latam’s relatively higher GDP in PPP favor Chinese imports of manufactured goods (Bn CID)



Source: IMF WEO and BBVA Research

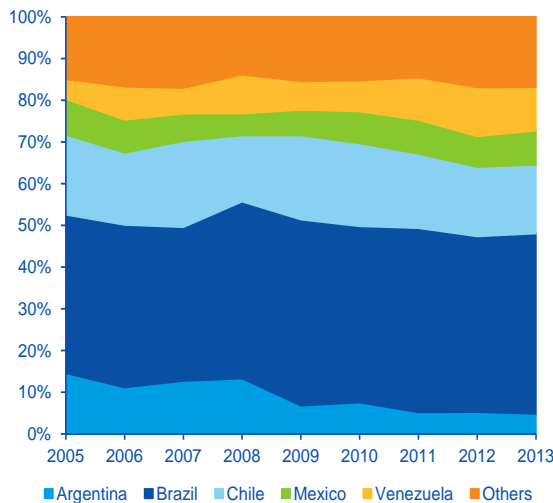
**Commodity exports accounted for the majority of exports to China in both cases; however some countries are more exposed than others**

A reduced number of countries account for the bulk of total exports to China in Africa and Latin America (Figure 5 and Figure 6). In the case of Africa, Angola and South Africa are the most important exporters to China, followed by Republic of Congo (Congo-Brazzaville). Brazil was the largest exporter to China in Latin America, followed by Chile and Venezuela.

However, it is in fact the smaller, export-oriented economies that are the most exposed to China. On a per GDP basis, Chile and Venezuela emerge as Latin America’s top exporters to China (Brazil falls in third position given its larger GDP), while Angola and Zambia head the list for Africa. Furthermore, exports to China are more significant for African countries than for Latin American countries on a per GDP basis (Figures 7 and 8).

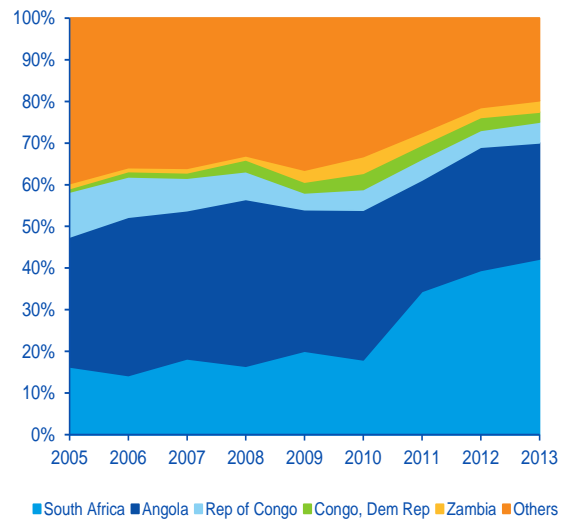
This detail reveals an important underlying theme in trade relations between China and both regions: China imports primarily raw materials from Africa and Latin America, and exports manufactured goods. Exports are remarkably concentrated around a number of commodities in both cases, but this is more striking for Africa than Latin America (Figures 9 and 10). In line with the extractive nature of China’s trade links with Africa and Latin America, mineral products and base metals feature prominently for both regions. In addition to mineral products and base metals, agricultural commodities accounted for 25% of Latin America’s exports to China while other unclassified goods accounted for 26% of Africa’s exports to China in 2013.

**Figure 5**  
**Top-5 countries in Latam accounted for 83% of the region’s total exports to China**



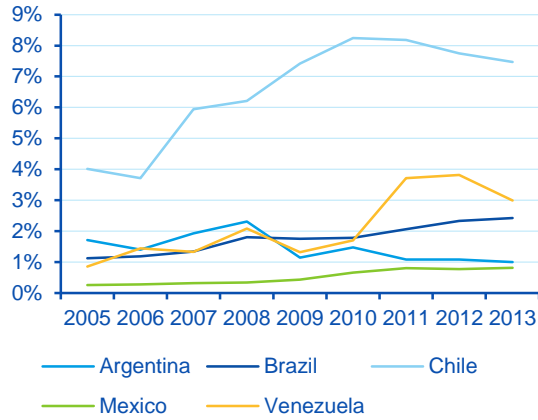
Source: UN Comtrade and BBVA Research

**Figure 6**  
**Top-5 countries in Africa accounted for 80% of the region’s total exports to China**



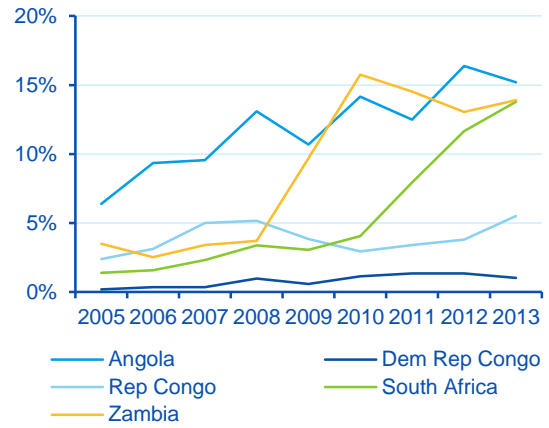
Source: TRALAC and BBVA Research

**Figure 7**  
**Latam exports to China as a percentage of GDP**



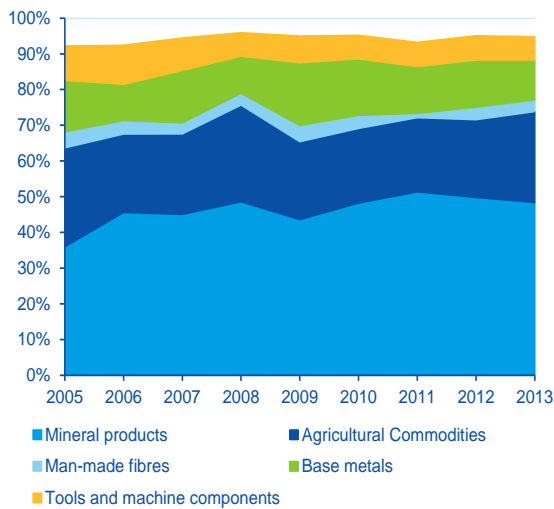
Source: UN Comtrade, World Bank and BBVA Research

**Figure 8**  
**African exports to China as a percentage of GDP**



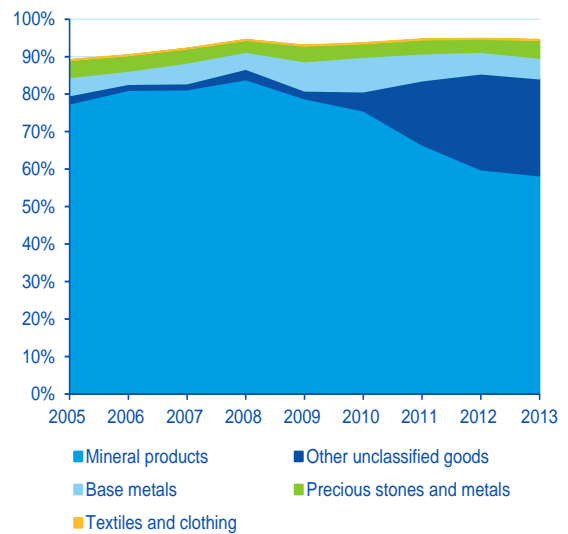
Source: TRALAC, World Bank and BBVA Research

**Figure 9**  
**3 commodities accounted for 80% of Latam's total exports to China...**



Source: UN Comtrade and BBVA Research

**Figure 10**  
**... while only 2 commodities accounted for 80% of Africa's total exports to China**



Source: TRALAC and BBVA Research

## Calculating commodity dependence on China

The question remains, how vulnerable are these commodities to shifts in Chinese demand? To measure this, we have deployed the use of our "China export dependence index" (See Box 1). To select the commodities in the sample, we focused on the exports that constituted circa 90% of Latin America and Africa's top 5 exporters to China (see Table 1 below). Our analysis is based on HS-2 Digit commodity codes.

Table 1

**Latin America and Africa's main commodity exports to China in nominal terms**

Latin America		Africa	
Country	Commodity code and name	Country	Commodity code and name
Argentina	C12: Oil seeds	Angola	C27: Mineral fuels
Brazil	C12: Oil seeds	Dem. Rep. Congo	C27: Mineral fuels
Brazil	C26: Ores and slag	Dem. Rep. Congo	C74: Copper
Chile	C74: Copper	Dem. Rep. Congo	C81: Other base metals
Mexico	C26: Ores and slag	Rep. Congo	C27: Mineral fuels
Mexico	C85: Electrical machinery	South Africa	C98: Unclassified
Venezuela	C27: Mineral fuels	Zambia	C74: Copper

Source: UN Comtrade, TRALAC and BBVA Research

## Commodity dependence on China relatively higher for Africa than Latin America, with sharper increases

The index shows broad based increases in commodity dependence on China for all commodities considered in the sample in 2013 compared to 2005 (Figure 10). This result is not surprising giving China's size and fast pace of growth. The trend is more pronounced for Africa than Latin America. Furthermore, Latin American dependence indexes were lower and featured less change between 2005 and 2013 than those of Africa.

Commodity dependence was led by 1) mineral fuel from Republic of Congo; 2) mineral fuels from Angola; 3) copper from Zambia; 4) copper from Democratic Republic of Congo; 5) mineral fuels from Venezuela; 6) ores from Chile; 7) mineral fuels from Democratic Republic of Congo; 8) ores from Brazil; 9) oil seeds from Brazil; 10) base metals from Democratic Republic of Congo (Figure 10 and Table 2).

In Latin America, commodity dependence on China was led by Chile, Venezuela, Argentina and Brazil. However, the increase in dependence between 2005 and 2013 was most stark in the cases of Venezuelan mineral fuel exports (121%) and Brazilian ore exports (48%). In terms of absolute levels of dependence, the story in Africa is really about Angola, Republic of Congo (Congo-Brazzaville) and Zambia. However, the largest increases in dependence between 2005 and 2013 can be observed in Democratic Republic of Congo's, copper (760%), base metal (175%) and mineral fuel<sup>4</sup> exports.

On a commodity basis, dependence is largest in the case of mineral fuels. Some parallels exist between both continents, as are the cases of Venezuela and Angola. In both cases, mineral fuels account for a very significant proportion of the countries' total exports (95% and 98% respectively). Despite China has a relatively modest market share of Angola and Venezuela's mineral exports (47% and 15% respectively), its sheer size and the fact that these countries focus on one type of commodity exports have translated as high dependence (Figures 11 and 12).

<sup>4</sup> DRC did not export mineral fuels to China in 2005 according to UN Comtrade data.



**BOX 1: China export dependence Index:**

Our Index (Ferchen, Garcia-Herrero and Nigrinis, 2013) measures commodity dependence of exports to China. The index is scaled from 0 (no dependence) to 1 (complete dependence). The index is a relative measure of export dependence on China for each country and its particular commodity. The higher the score, the more vulnerable any exporter will be to any disruption of trade with China.

Our index does not include non-commodity exports or exports to countries other than China. A wider index, however, would probably show that Brazil, Chile, Peru and Argentina's trade dependence on China is less startling than it appears. For instance, emerging Asian economies rely heavily on external demand. China, Korea and Taiwan are cases in point where exports to GDP share ranges from 30% up to 50%. Another interesting case is Mexico where the share has been increasing in the last 10 years, reaching almost 30%.

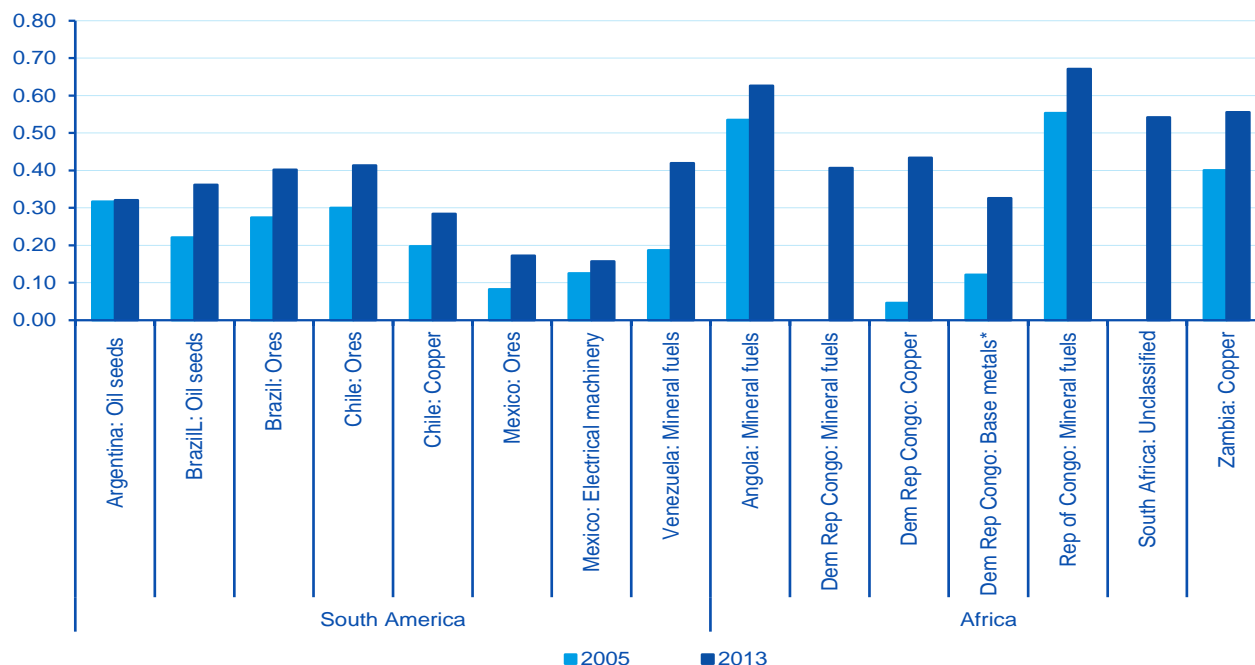
At the same time, any given country's concentration of trade flows with a specific partner depends on many factors, of which geography is often the key. The cases of Canada and Mexico where trade flows with the US are almost 80% of their total exports provide a clear demonstration. The recent global crisis has shown the risks associated with concentrating almost all trade flows in one partner. Nevertheless, there are also big advantages when the most important partner is the largest or second largest economy in the world.

$$Index_{i,j} = \sqrt[3]{\frac{EXP_{i,j}}{EXP_j}} \times \frac{EXP\ to\ China_{i,j}}{EXP_{i,j}} \times avg \left[ 1 - \frac{EXP_{i,j}}{EXP_i} \right]$$

The Index is the geometric mean of three components:

- $\frac{EXP_{i,j}}{EXP_j}$  = Country *j*'s exports of commodity *i* as a share of its total exports. This shows how concentrated are a country exports into one commodity (*i*).
  - $\frac{EXP\ to\ China_{i,j}}{EXP_{i,j}}$  = Country *j*'s exports of commodity *i* to China divided by its total export of that commodity. This shows how dependent the world is on China to sell a particular commodity relative to other export markets.
  - $avg \left[ \frac{IMP_{i,China}}{IMP_i}, \left( 1 - \frac{EXP_{i,j}}{EXP_i} \right) \right]$  = The average of 2 components:
    - $\frac{IMP_{i,China}}{IMP_i}$  The share of China's imports of commodity *i* in the global market.
    - $\left( 1 - \frac{EXP_{i,j}}{EXP_i} \right)$  1 minus country *j*'s export market share of commodity *i*.
- This provides a measure of China's strength as a buyer or pricing power compared to the exporting country's strength as a seller.

Figure 10

**Commodity concentration index results (\*Base metals refers to other base metals excluding copper)**


Source: BBVA Research, UN Comtrade and TRALAC

Table 2

**Commodity concentration index ranking**

Ranking	Country	Commodity	2013 Dependence Index
1	Rep of Congo	Mineral fuels	0.67
2	Angola	Mineral fuels	0.63
3	Zambia	Copper	0.56
4	South Africa	Unclassified	0.54
5	Dem Rep Congo	Copper	0.43
6	Venezuela	Mineral fuels	0.42
7	Chile	Ores	0.41
8	Dem Rep Congo	Mineral fuels	0.41
9	Brazil	Ores	0.40
10	Brazil	Oil seeds	0.36
11	Dem Rep Congo	Base metals	0.33
12	Argentina	Oil seeds	0.32
13	Chile	Copper	0.28
14	Mexico	Ores	0.17
15	Mexico	Electrical machinery	0.16

Source: UN Comtrade, Tralac and BBVA Research

Democratic Republic of Congo is a different story. Mineral fuels account for 15% of its total exports, which makes sense as the country (unlike Angola and Venezuela) is not an established producer. However, China is Democratic Republic of Congo's top buyer, accounting for 90% total mineral fuel exports, which explains the high dependence. Sharp increases in dependence on China can also be observed in Democratic Republic of Congo's exports of copper and base metals to China. China takes pride in maintaining a "non-interference" policy with its commercial partners. This dependence is therefore not surprising given that the country is not favored by international investors for political and risk reasons.

In the case of copper, Chilean exports have the advantage of holding the largest market power, with a relatively small demand from China. China buys less than 20% of Chile's total copper exports, offsetting the importance this commodity for the Austral economy (30% of total exports in 2013). This situation is analogous in Zambia, only more pronounced. Higher levels of copper export concentrations (circa 60% of total exports in 2013) coupled with a big Chinese market share (over 40%) means that Zambian copper exports are almost twice as vulnerable to shifts in Chinese demand compared to those of Chile.

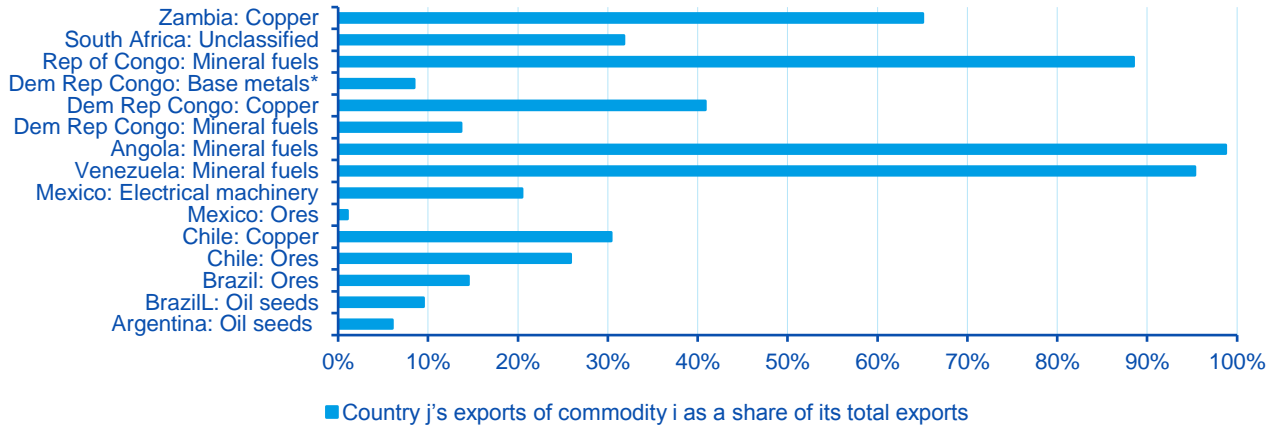
Ores are also relatively dependent on Chinese demand, especially for Brazil and Chile. Ores account for less than 30% of total exports for both countries, but demand from China is significant enough to offset the lessening effects. We can see this mechanism in action for Mexican ore exports to China. They account for a very small proportion of Mexico's total exports (circa 2%) but go predominantly to China (circa 65%).

Similarly, even though oil seeds only account for less than 10% of Brazil's and Argentina's total exports, China has a huge market share (80% and 83% respectively). This gives China significant leverage over oil seed exports from Brazil and also Argentina. Intuitively, this makes sense as China is the world's largest consumer of soy and has a growing demand for meat products (soy is commonly used as feed for livestock). Argentina's dependence on Chinese demand was dramatically exposed in 2009 when China cut off all imports of Argentinean soy in a bilateral trade dispute. China's position as the dominant importer meant that it enjoyed a great deal of leverage through imposing the block on soy imports from Argentina. Brazil's soybean producers remain highly dependent on China, but slightly less so than their Argentinean competitors, thanks to their stronger market position.

Lastly, Latin American commodities may have weathered Chinese dependence better than those of Africa for a number of reasons. First of all, in most cases Latin America already has close trade links with the United States. This makes sense given its geographical proximity. Dependence on demand from the United States may have therefore played a role in muting the impacts of growth in Chinese demand. Furthermore, Latin America has better infrastructure levels than Africa in general terms, enabling more inclusive regional trade. Improved regional trade patterns may play a role in limiting a country's dependence on China (Table 3).

Figure 11

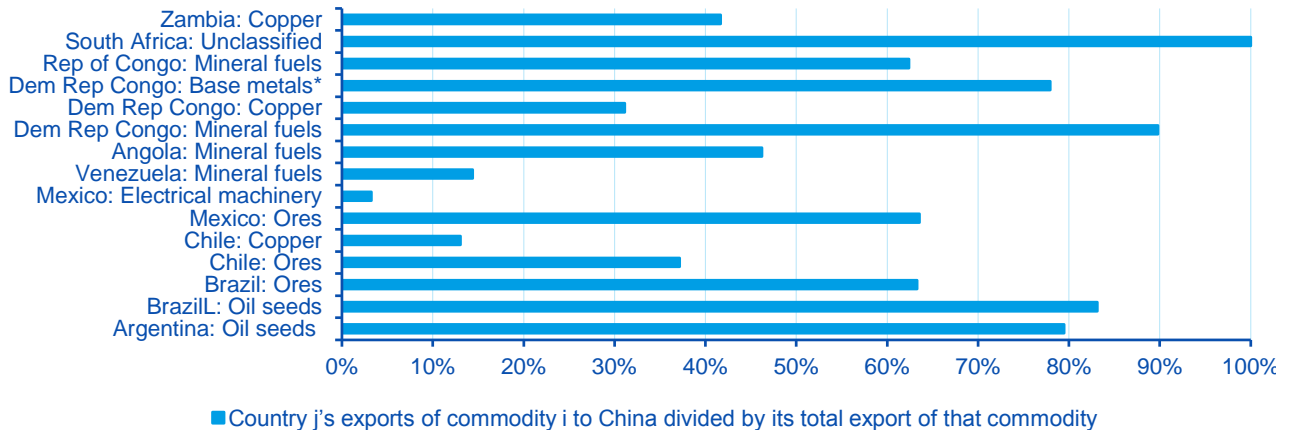
**A number of countries in Africa and Latin America focus on one type of commodity export...**



Source: UN Comtrade, Tralac and BBVA Research \*Refers to all base metals except copper

Figure 12

**... with China as the main consumer of these exports**



Source: UN Comtrade, Tralac and BBVA Research \*Refers to all base metals except copper

## Trade disequilibrium through TiVA goggles offers a more nuanced reading

Trade in Value-Added (TiVA) describes a statistical approach developed by the OECD in conjunction with the WTO that is used to estimate the source of value that is added in producing goods and services for export and import. Both trade in nominal terms and TiVA have grown significantly between 2000 and 2009. However, growth rates seem smaller when looking at value added data than raw data (Figure 13), indicating that bilateral trade flows may have been overestimated. Notwithstanding fast growth patterns in nominal terms and somewhat humble growth rates in TiVA, the ratio of exported value added relative to gross exports is lower in 2009 compared to 2000 (Figure 14). This hints towards a more complex

pattern, namely that China has shifted from importing commodities to meet domestic demand to exporting value added via global value chains. Value retention lies ahead as a big challenge for trade relations between these regions and China.

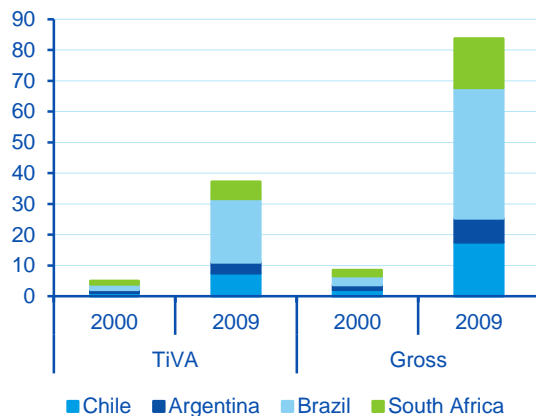
An example of how China can export low value-added manufacturing in sectors with overcapacity can be seen in Africa's textile industry. This industry remains very fragmented and has experienced significant losses stemming from intense competition from cheaper Chinese manufactures. However, there is recent evidence that points towards an inflow of Chinese investment into the sector, as Chinese companies try to take advantage of preferential trade agreements between Africa and the United States/Europe, such as AGOA and the European Neighborhood Policy (Tang, 2014).

Table 3  
**Intraregional exports and imports (% of total exports or imports)**

	Exports			Imports		
	1996-2000	2001-2006	2007-2011	1996-2000	2001-2006	2007-2011
Developing Africa	9.7	9.8	10.9	13.3	13.5	12.7
Eastern Africa	12.4	14.1	13.9	8.8	9.3	7.1
Middle Africa	1.2	1	1.3	2.6	2.5	3.1
Northern Africa	3.2	2.9	3.9	2.8	3.7	3.8
Southern Africa	4.4	2.1	2.1	11.9	10.7	7.9
Western Africa	10.2	10	9	11.3	12.5	10.2
Developing America	19.1	17.6	20.6	17.6	19	21.1
Developing Asia	41.5	45.1	50.1	40.6	49.3	53
Developing Oceania	1.3	3	3.3	0.9	2.3	2.7
Europe	67.3	71.4	70	68.3	67	64.4

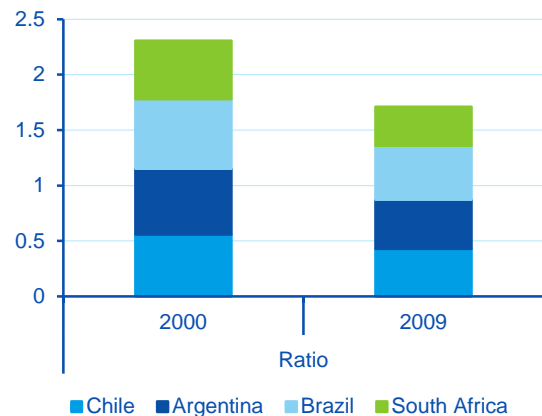
Source: UNCTAD Statistical database and BBVA Research

Figure 13  
**TiVA has not grown as fast as gross trade...**



Source: OECD and BBVA Research

Figure 14  
**... while the ratio of TiVA/Gross fell significantly**



Source: OECD and BBVA Research

## Looking ahead: Less dependence and more value added?

Latin American and African commodity exports are both very dependent on China. This dependence increased overboard since 2005, with Africa featuring sharper, more prominent increases. This is not surprising given the size of China's economy as well as its fast rates of growth in the past decade. China has been one of the key engines of economic growth in the past decade, and its thirst for natural resources was bound to impact resource rich economies in the developing world, elevating South-South trade links to a new level.

As China's economy starts to slow, following its restructuring away from investments towards more domestic consumption, we expect the pace of bilateral trade with both regions to moderate, on the back of falling commodity exports to China. This will impact African countries more than Latin American countries, as they are more exposed to China (higher dependence) and growth is more reliant on external demand (Africa's total bilateral trade with the world accounts for approximately 50% of its GDP, while Latin America's is 38%). However, Latin American nations should also be concerned. In particular, the impact will be felt most strongly amongst exporters of metals (not so much mineral fuels or agricultural commodities), as increases in these flows have been for the most part associated with China's investment binge.

Trade patterns also becoming increasingly unbalanced. Latin America already has a trade deficit with China, and some evidence points towards a substitution effect with cheap Chinese manufacturing. As Africa's average income levels increase, it is likely that the region will follow suit and develop a deficit with China as well, provided this has not started to happen already. It remains unclear whether this scenario will be sustainable for Africa unless they do more to boost their exports to other regions. This could be done via implementing policies that facilitate the integration of regional trade, for example by increasing investments in transportation infrastructure. Another option would be to implement policies that enable the region to move up the global value chains (GVCs), retaining more value added by promoting downstream refining and processing capacity.

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