Lessons for Mexico: Chile and Brazil's Experience with China

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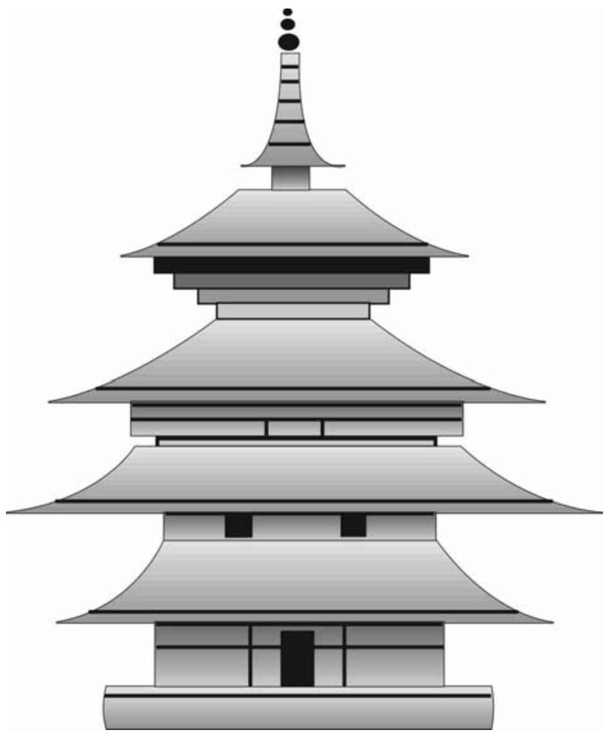
The Chinese government has diversified its foreign policy and trade relations to include all possible geographical regions and potential partners. It is common knowledge that China has increased its presence in Asian and African countries like North Korea, the Sudan, Zimbabwe, Iran and Myanmar. In fact, China has become the main trading partner of the first three, taking advantage of the bilateral relationships it had with their regimes. For instance, Iran is one of China's main oil suppliers and has consequently also become an observer state in the Shanghai Organization for Cooperation, which promotes military and security cooperation among six Asian states (the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan). This inclusion has given it better access to natural resources and a greater share of foreign direct investment (FDI), especially in the energy industry.

In addition to expanding its trade relations, China has lent strong support to these countries in international political negotiations. For instance it backed Sudan and Zimbabwe during the United Nations Security Council vote on resolutions including sanctions against both of them as a result of the Darfur conflict, the humanitarian crisis in Sudan and the condemnation of the crisis in Zimbabwe after Operation Drive Out Trash.

In this diversification effort, China has decided to expand its interests beyond Africa to Latin America. Here, the links with some countries like Mexico, Brazil and Chile, have been the result of different approaches. The love-hate relationship between Mexico and China is based on the perception that China has bumped Mexico down to second place among the United States' trade partners. For this reason, Mexico has had to redesign its foreign, economic and trade policy toward China, starting by banishing the belief that it is a threat because of its lead in trade with the U.S. and the reduction in the foreign direct investment Mexico used to receive that now has been re-directed to China.



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China's importance in the current international order makes it imperative for Mexico to carefully consider the opportunities a stronger bilateral relationship could offer. On the other hand, it would be very helpful to learn from other bilateral experiences with the Latin American countries to get more out of a renewed partnership between Mexico and China. In this regard, it is essential to study Chile and Brazil's involvement with the emerging Asian power and their focus areas of cooperation.

Chile-China: Allies, Not Enemies

Chile has paid special attention to its relations with Asian countries as shown by the free trade agreements it has signed with Singapore, New Zealand and even Brunei. China has not been the exception; in 2005 they signed a free trade agreement (FTA) that was an important step forward for both countries in achieving cooperation in trade and investment. Chile recognized China's market economy and was the first Latin American country to support its entry into the World Trade Organization, unlike Mexico, the last country of the region to acquiesce.

Since the signing of the Chile-China FTA, their total trade has increased by 65 percent. In 2007, Chile sent 8.8 percent of its total exports to China, the fourth largest destination country for its exports. By the end of the first half of 2008, exports to China increased from 8.8 percent to 14.7 percent, making it Chile's most important destination. Chile's biggest export to China is copper; China's are televisions, automobiles and fabric. Sino-Chilean relations also include tourism and entrepreneurial relations through different instruments like the Agreement on Cooperation in Tourism and the Agreement to Establish a Business Committee.

For China, Chile has become a great partner and ally in the international community; as mentioned before, during the negotiations of China's entry into the WTO, Chile was the country that thought it better to have it as a member and make China abide by international trade rules than to block its membership and deny it recognition as a market economy. In a nutshell, Chile decided to make China an ally instead of an enemy. This particular relationship has been key for China's getting closer to the rest of the South American countries, and is a landmark in bilateral partnership-building with Latin American countries.

China-Brazil, the Unstoppable Duo

Sino-Brazilian relations are a clear example of diversified cooperation, leaving behind the international trend of focusing only on bilateral trade opportunities. Although relations officially began in the 1980s, it was not until 1993 that China and Brazil signed a partnership agreement, making Brazil the first Latin American nation to do so. Since then, Brazil has become China's biggest partner in Latin America. The agreement covered different areas of mutual interest, not only economic and commercial exchange but also cooperation in science, culture and sports.

The most important bilateral achievement is that they have become close allies. This alliance has been tested at different international negotiations, especially in the heart of the World Trade Organization, where they agree on agricultural policies, and within the G-20, where they have coincided on issues like intellectual property rights and foreign direct investment patterns, among others. It should be highlighted that most of the cooperation involves energy and technology. Brazilian and Chinese enterprises have achieved agreements on these matters; some of the companies have decided to establish branches in the other country or start

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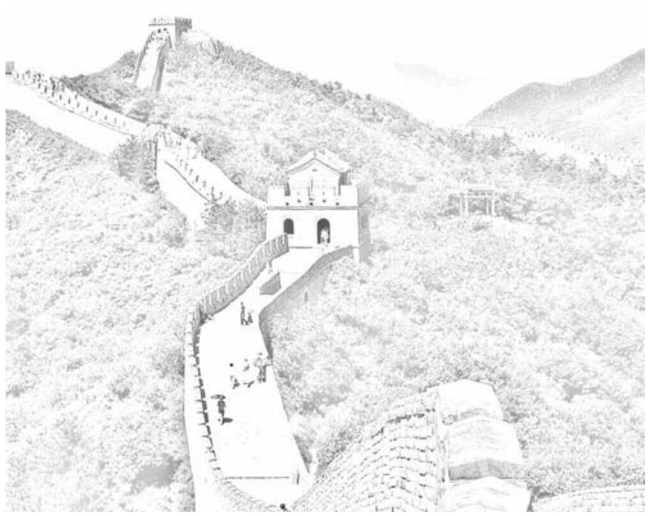


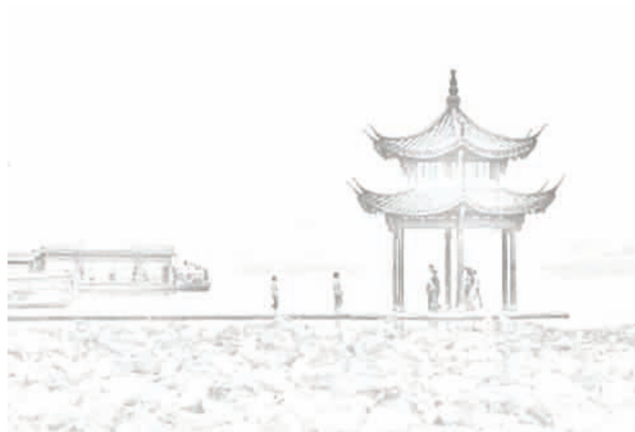
joint ventures like the one created between the Companhia Vale do Rio Doce (CVRD) and the Shanghai Baosteel Group Corporation to produce steel in Brazil, and the agreement between Petrobras and Sinopec to explore for oil in different countries.

The Brazilian-Chinese relationship is more diversified than any other bilateral arrangement between Latin American countries and China. Regardless of the importance of the commercial exchanges —Brazilian exports to China enjoy the first place in the Latin American ranking, at US$12 billion— the partnership goes beyond this. China takes advantage of the Brazilian position in the hemisphere and its access to natural resources, while Brazil gets know-how from the Chinese and promotes diversified Brazilian investment in China.

Mexico-China: a Relationship Under Construction

China's rapid growth produced discomfort and anxiety in many countries, and Mexico was no exception. It was the last country to accept China in the WTO. Today, it understands the benefits of having China as a member; however in the very beginning, apprehension about a growing trade power created serious concerns. Thanks to China's participation in multilateral organizations, Mexico has been able to initiate several complaint processes against Chinese dumping practices, like the claim presented two years ago regarding the steel industry. Despite these complaints, China is Mexico's second trade partner, right after the U.S. Nevertheless, this bilateral trade is tremendously asymmetrical: while Mexico exports only 0.7 percent to China, Chinese products represent 9.5 percent of its total imports; as a result, the trade deficit skyrocketed in 2007 to US$28 billion.

It is significant for trade relations that Mexican companies have set up shop inside China. Mexican direct investment in China includes companies from different industries, like food (Bimbo, Gruma and El Fogoncito). Conversely, Chinese FDI in Mexico is clear in the auto and copper industries (by the Chinese Giant Engine Company and the Huaxi Group, respectively). Continuing in this same vein, after three years of negotiations, both countries finally signed an Agreement on Reciprocal Promotion and Protection of Investment on July 11, 2008. It is important to recall that Mexico has already signed 24 agreements of this kind, three of them with Asian economies. This particular agreement is a turning point in bilateral relations because it will definitely help protect Mexican entrepreneurs as well as to create an environment of confidence and security for Chinese investors.



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Just like with the other Latin American countries, Mexico and China are growing closer in alternative areas of cooperation such as culture and education. However it will take a long time to reach even what China and Brazil have already achieved. Mexico must learn from the Brazilian and Chilean experiences, two clear examples of the potential that a strategic partnership with China can produce. From Brazil, Mexico should take note of the exchange in cooperation in technology and joint research on new ways to exploit natural resources. From Chile, Mexico should learn how to better analyze its competitors instead of being reticent just as a result of being left behind in the commercial race. Chile works as a platform for China to have a smoother entry to the rest of the region; likewise, Mexico can make use of its natural competitive advantages: first, the border it shares with the United States, which is China's main target market, and secondly, the availability of inadequately exploited natural resources —a condition it shares with Brazil— is a carrot for attracting the Asian dragon. VM