

Exploring New Paths for Development: Experience from Latin America and China

August 28th, 2015

Opening and Welcome

Chen Yulu

China has become the second largest trade partner of Latin America. China and Latin America both face many global challenges, and we can learn from each other. Whether China's economy can surpass the middle class trap has gotten the attention of many Chinese economists. Latin American countries have gone through this as well. Latin America has many resources in terms of natural resources and commodities, and China's resources as well can be able to complement each other. Many problems like environmental pollution, economic disparity, etc. are many problems China is facing. Exchanging experience with Latin America will surely be mutually beneficial for both parties.

Joseph Stiglitz

IPD has been going on for 15 years, and it was created to facilitate the dialogue between emerging countries about policies that promote their growth. Speak about global governance to give these emerging countries a greater voice in the global economy. We have raised awareness about better managed global financial markets and IMF has recognized this. In September, China became the largest economy in the world in terms of PPP, it had already been the largest economy in terms of savings and trade. These have important lessons for Latin America. Latin America has emerged from a lost decade due to following the ideas of the Washington census, that did not work. Part of the success of Latin America is from the success of China: the increase demand for its commodities by China in recent decades. Successful development can't be named just by taking resources out of the country. Capital flows are also important, FDI's are about access to markets and access to technology. Successful FDI can be consistent with two way flows between countries. Two-way flow in FDIs between Latin America and China are successful economic interactions and investments that are based on mutual understanding. Mutual understanding may facilitate greater interaction and facilitate the basis for writing rules that are mutually advantageous. In the US, a lot of time has been spent trying to determine what the right rules for global governance are. TPP rules are the wrong rules, they will lead to slower economic growth, lower employment, will undermine the rules for protecting the environment, and safeguards for marginalized groups in society, and to protect health.

Keynote Speech

Yu Hong Jun

I come because I want to learn from you. I studied Russia, and international relations and politics. Due to my work reasons I am involved in Latin America and China relations. More than 10 years ago, I visited

Cuba and Mexico and a lot of changes have passed. I visited Ecuador and Colombia, at that time the drug situation in Colombia was very serious. They had social turmoil and opposition parties and a lot of activity. I feel like the Latin American area is a very remote area for China. It is a magic place and very friendly continent to China. It is also the continent with a dynamism for economic development. Ever since the founding of the new China, up until the start of the new culture revolution, there are 70 years in between, and only had one country that established diplomatic relations with China: Cuba. But these relations turned out to be really bad. So in Latin America, we had little friends and few relations until then. Relations with Cuba and Brazil also really undermined the relations and this caused no relations in Latin America for many years. Chile was the first country that established diplomatic ties with China in Latin America, but tried to attend the inauguration ceremony, but it was very difficult because the diplomatic ties were still not established. After the breakthrough with Chile, China established more relations with other Latin American countries in the late 1970's. At the time of China's opening up to the world, there were 8 countries in Latin America that had diplomatic ties with China. After the opening up, Chinese leaders began visiting Latin America. Now there are 21 countries in Latin America with diplomatic relations with China. This is the history, and so we need to explore the relations with Latin America and China. The Latin America situation is very complicated and a very important issue and believe that as time passes by, China and the Latin American continent will remain very friendly, and we will have more friends there. From history and reality, we are moving in a very positive way. Our political basis are very solid with Latin America, many visits from Chinese officials including the president to the Latin American continent. We have really good prospects to further economic cooperation with Latin America. Latin America has greater expectations for us and we have greater potential for economic cooperation with them. In terms of bilateral trade and overseas investment, it is a very big and disposable market for China, we have a very good and solid economic cooperation foundation. In Mexico, there are about 80,000 Chinese people, and in Costa Rica it is 1% of the population. By use of traditional relations and the Chinese people in these countries, we can use this for a bilateral agreement, but this isn't as fast as economic and political exchanges. In terms of cooperation, we have some ideas. We will have the forum for the president of universities in Latin America, and we will invite more Latin American people to come to China and offer them scholarships, to further boost China-Latin America relations. The challenge is that the competition in Latin America is fierce since it is the backyard of the US. US and Europe do not want to be the second in that region. As far as we are concerned in China, we do not have sufficient experience, technology and capital and we need to fill in this gap and take the opportunity to address these challenges. This is something we need to focus on.

Daniel Titelman

Latin America (LA) and China have been increasing their economic relationship in the last 14-20 years. But China has also been strengthening its relationship with ECLA. We are very pleased to observe that not only China, Latin America, and the Caribbean are strengthening their relations, but also that ECLA has been part of that movement. China's economy has been increasingly more important in the world economy, In 2013, China reflected more than 70% of total world investment, LA was only 5%. In terms of import of food, China was about 10% of the world's share, while LA was 4.7% of the world's share. In private consumption, China is about 5.4% of total private consumption, while LA is about 5.7%. In terms of investment export and import, China has a bigger share however. China has become of larger significance to LA. LA has gained ground as the trading partner of China, in 2000 it got 3% of exports and was 2% of China's import. In 2013, the equivalent was 6% and 7%. China was the region's second largest exporting source, and in some countries China is the largest trading partner. Trade relations are very

highly concentrated in a few countries and a few provinces. In terms of trade concentration, in 2013, 73% of exports from LA to China, were basically primary products. Only 3% were considered high technology. The exports of China to LA are mostly manufactured goods. In 2014, between Chile and Brazil, they took about 58% of the total exports of LA to China. Similarly, Brazil and Mexico, represented about 60% of all Chinese exports to LA region. In terms of exports and imports, it is highly concentrated in terms of 2-3 countries. There are some other countries, Peru and Colombia with 6% of exports each, and Mexico with around 6% of exports. Trade relations have increased significantly but these are highly concentrated in a few countries. The main export goods LA is sending to China are commodity and primary goods: oil, copper, refined copper, agro-industrial products. LA is then receiving manufactured goods. A promising sector for diversifying LA exports is agriculture and agro-industrial sector. In 2000, LA exported around 1 billion dollars; in 2013 now around 25 billion dollars. This trade dynamic is hard due to the economic cycle in China and LA. ECLA has found that the region will grow at about 0.5%, and the contraction in South America will be of 0.4%, mainly in Brazil and Venezuela. This is mostly due to the commodity price drop and the change in global economic conditions, where China is very important in the demand of commodities from LA. China has become a very important economic player in the region, not only as an importer, but also as part of aggregate demand for LA products. With China's changing economy, we have to see how this will affect the LA continent. We have to recognize that the dynamics of China's growth, but also the composition of this growth is important in determining the relations with LA. In 2000, there are about 7 billion FDI from China into LA, by 2010, the FDI from China to LA it reached around 13-14 billion dollars. Then it moved to about 9-10 billion dollars till 2013. FDI from Latin America to China is very low. So FDI is basically a one way direction. China has become a very important provider of funding for many LA countries. For Ecuador, the China FDI is around 50% of FDI total. Loans to LA have increased from 2000 to 2013, so there is also a strong financial relationship between China and LA, particularly between a few LA countries. FDI and loans are highly concentrated in a few countries, and Chinese FDI in LA are highly concentrated in commodity and mineral producers. The goal is to increase the level of bilateral trade to over 500 billion in 5 years. But it is also to improve the quality of export and import baskets in both sides. Trying to move LA to export more than just commodities and start exporting value goods such as manufactured goods, and China to export a more diversified variety of products. How to diversity Chinese FDI in non-extractive industries, and how to manage the outward FDI from LA to China that is very low. In terms of infrastructure and energy, a lot of initiatives have been put on the table. 31 strategic projects were posited by UNASUR for infrastructure and energy production. The China- ECLAC cooperation plan provides a very strong framework for all of these areas, and can be a good road map to deepen China and LAC economic interactions between these countries.

Long Guo Qiang

China and Latin America have the farthest distance between, so this distance may have played a role in the lack of trade. However, our exports, imports, and investments have been growing quickly. The global economy is in adjustment for China and LAC. Though China is in the new normal era, there is much opportunity in this new normal economy for cooperation between LA and China. Though in the future Chinese economic growth will slow down, 7% of GDP is still huge. So if we can maintain these economic growth rates, we can continue to drive the LA exports to China. Our major demand for consumption is international tourism, there are a lot of Chinese tourists in the world, and can give many opportunities to the world. In the future, more and more Chinese travelers may travel to LA instead of Southeast Asia and Europe. Tourism can also boost other industries. Brazil is the third biggest producer of passenger airplanes, they are number one in production of feeder airplanes. So a boost in tourism to western

China, will increase demand for the feeder airplane made in Brazil. For LA, it not only has natural resources and minerals, it also have very strong international competitiveness in things like the feeder airplanes. So this growth can produce new opportunities for non-commodity industries in LA. Infrastructure building is also very important for growth. In China, we are now in a new normal phase, and we have to find a new driving force for economic growth. New opportunities found by new technologies, and how we can use this to better the emerging economies and better cooperation. The Chinese government proposed the internet plus and the new industrial road. Internet plus made in China in 2025, we have a lot of internet companies like Baidu, Alibaba. China's international investment is another opportunity for cooperation and relations with LA. So we can have cooperation with trade and investment as well. China and LA are faced with the task to get over the middle income trap, and some LA have the experience in getting over this trap, and China is currently tasked with overcoming it now, so there is a lot we can learn from them.

Wang Bao Dong

From a microeconomics perspective, I will seek to explain Latin America and China relations. LA's political situation is very stable, its political and economic development has made much progress. As the world economy is in recession, the Latin American economies are faced with downside pressure and social problems are on the rise. But LA has abundant resources and a vast market, it has huge dividends and tremendous potential for economic growth. Countries are accumulating experience with overcoming problems. Both China and Latin America are growing economies in the world. Political mutual trust has deepened greatly. Almost all the leaders for LA countries with diplomatic ties with China have visited China. China and LA hold a similar position and have maintained good relations. The economic and trade cooperation, China and LA has increased 26 billion US dollars, China's FDI is very large, but LA's FDI is also increasing. China and LA relations have entered into a new stage. The model of current export and import between China and LA is no longer sustainable. Need to further strengthen the complementarities of trade, and upgrade the competition between us. We would like to help LA to grow in international competitiveness and increase jobs in the region. The first innovation forum between China and LAC will be held in October. These forums are all within the framework of China and LA to achieve more positive results. At the same time, China is willing to further strengthen the cooperation and dialogue with other regional organizations within LA. Let's take hands to be both the thinkers and the doers to achieve world peace and growth.

Wang Jian Ya

Recently the exchange rate in the emerging markets has experienced large volatility. Whether the emerging economies are faced with another round of financial crisis, if for the price of the commodities drops continuously, and the US dollar exchange rate is expected to appreciate. This situation is similar to the 1980's. In LA, these happened and there was a lost decade. Emerging markets have faced an economic slowdown since 2012. There are also issues of super cycles of commodities driven by China's globalization. There is no data showing that there is a financial crisis looming ahead for emerging markets. The largest reason is that the world economy for emerging markets has changed, and results in these markets having a stronger capacity to resist these crises. After the 2008 financial crisis, LA deleveraged and China increased its leverage. But emerging markets GDP percentage, is still far lower than developed countries. Emerging markets will have a big room for maneuvering, since their interest rates are high. Of the past six years, the balance sheet has been modified. Chinese and Latin American business are deleveraging for governance, finance, and taxation. In the financial sector, China needs to

have a fundamental change, but the reform is going to be very difficult, especially the implementation of the reform measures. The opening of the capital account is not going to be that easy either. China has many friends, some friends are especially targeting LA. In China import and export bank, I am responsible for investment, LA and China have many investment opportunities, especially FDI. So long as we implement reform in the sector for economic trade, emerging countries are able to embark on the path for a sustainable development.

Huang Wei Ping

Chinese don't really know about Bolivar and the book "Hundred Years of Loneliness", and likewise LA people don't know much about China. The most successful cooperation was the China-LA forum held in January 2015, attended by LA leaders of more than 30 countries. They developed the cooperation work plan ranging from 2016-2030. By the end of May 2014, China opened 21 Confucius institutes in about 31 LA countries. Some countries have diplomatic relations with China, some others don't. We feel that the LA people really would like to know about China which is very mysterious and far away. Trade is the foundation of economic relations. The investment in LA has exceeded more than 10 billion US dollars. Gradually, the cooperation between China and LA has begun to be further expanded, and Latin American products are having a bigger market in China. Like feeder planes and agricultural products, China imports 60 million soy beans from Latin America, since it is necessary to have for the oils and for food. The oil content of the soy bean in China is very low, but the soy bean in LA the soy bean oil content is very high. So, LA is leading the world in certain varieties. The cooperation between China and LA have problems, like the trade structure imbalance and national structure imbalance. Also, the one-way investment in terms of China. We have already gotten the priority and attention from decision-makers and high level leaders. The visits between the two sides are frequent, and the Chinese president visited LA for 12 days and then in 2013 visited it for 13 days. This shows that China has forward-looking planning for China-LAC cooperation. We need to have mutual confidence in politics, and cooperation in terms of economy and trade, and need to learn from each other in terms of humanity. The trade scale or size will reach about 500 billion dollars in ten years. The trade is imbalanced, so with the six major areas: energy resources, infrastructure, construction, agriculture, manufacturing, technology. The three multiplies three refers to, we shall establish logistics and information panels and the interactions between societies and governments. The China-LA cooperation has a very huge potential and a very pragmatic foundation. In the new model, there is one project that is the Pacific and Atlantic Railway. It has been proposed a long time ago, but the studies were delayed. With further increase in China and LA economies, it is very important for both sides. For 5000km of railway across the ocean, some people in LA mention that this is the land panama canal, and that it breaks the monopoly of the US on the Panama canal. We do not consider this railway from these perspectives, but look at this railway from the economic perspective. This railway can link up the two big oceans, it is of top priority for China. The railway links up the two oceans and if we build this railway, it can help China expand its cooperation with Latin America. Two ways of increasing wealth: innovation and productivity. You cannot expand the size of the economy endlessly, so therefore innovation becomes very important.

Jose Antonio Ocampo

There are three main points for the new normal of the world economy. 1) We have entered an era of low economic growth. The world economy will not grow more than 2.5% per year. There is a low growth of international trade. We experienced two high growth periods after WWII, in these periods it grew more than 7% per year, that's over. Since 2007, the growth of international trade has been about 3%. 2)

We have new financial difficulties. For emerging markets, the capital account volatility, there are outflows of about 1 trillion dollars from emerging markets themselves. There is no crisis for the emerging world, but it is a problem. But also, the uncertainty of the monetary policies for advanced countries, which will have low interest rates for a long period of time, an unprecedented occurrence in history. 3) The global imbalances, we overcame some but created new ones. The new global imbalances are the instability of the exchange rates. It is a major issue. Large discussion of the Chinese officials to let the RMB devalue, but also emphasize that the Japanese Yen and the Euro have devalued much more in recent years. Recommends that they should leave the parity with the US dollar forever, the LA countries that are doing that are doing very badly. There are many imbalances between the developed countries. There is a very weak recovery of the Eurozone and Japan. The Eurozone has huge imbalances and shows no signs of change. This panorama underscores the fact that China plays a fundamental role in the world economy, not only in the past 20 years, but also in the recovery in the North Atlantic global financial crisis. Played a major role in the recovery of the crisis, and the reason why the economy recovered so quickly. Now it is clear that there are many problems in the way that the Chinese economy behaves. First, the slowdown of the economy after a very rapid economic growth: involves major structural changes itself. Second, the imbalances which are typical of developing countries, but also the particular Chinese imbalances like that of investment and consumption. Third, are the expansionary policies of 2008-2009, we see today associated with the rapid increase in debt ratios and the financial volatility that it generates. There is no question that China created many new opportunities for developing countries, like that of trade. It has become a really major partner, and in many cases it is the #1 partner in trade for LA. The commodity price boom from 2004-2013, was essentially due to the increase in Chinese demand. FDI is growing, it is still not too large, and it is still going in one direction. Large imbalances of the composition of trade between China and LA. China exports large amounts of manufactured goods, but imports very few of these. Because of the slowdown in China, the commodities boom is over, and has had large effects on LA. LA will have a recession this year, but some of this contraction is due in part to the policies of specific countries. Some important issues going forward. First, structural change and technological upgrades. LA has a lot to learn from China. LA has problems of how to reindustrialize. For China, it is also how to upgrade into highest levels of technology in its new stage of development. LA is still stuck in the middle income trap, because Latin America is the worst case in history of the middle income trap. How to develop new forms of technological cooperation, there are many areas where this may be important. New areas of investment, but the issue of how to improve infrastructure in LA is a huge problem. This creates a large place for cooperation. In the new normal, the developed countries are not going to be very dynamic. Intra-LA trade is something that is very important, and how China can participate in this is also something very important to consider.

Yu Yong Ding

Wu Bai Yi

Happy to see many young faces here. Because many people think that LA is a very far and remote place to go to. The people in LA do not know about the Chinese situation. I will summarize my limited views based on LA. First, LA is a dynamic continent with very rich natural resources. Last year, I visited Argentina, the agriculture of Argentina is very different than that of China's, and the agricultural endowment of Argentina can provide food for 600 million people for 30 years. This excited us and want to emphasize that LA has huge potential for growth and economic development. Since the early 1980's, there is not a

single severe war event in the continent, a very good development. In LA, there is one more thing that deserves our attention which is the diversity in culture. There are many fossils like the Indian culture, it is very well protected and represents the pre-modern history, and LA was also 100 years earlier in entering the modern world. LA culture is affected by the European and US culture, so it has the post-modern features. The civil society in LA has the full participation for the general public, this is something we need to stress, in terms of building modern governance capacity. This is something that China can learn from LA. In terms of development pathway, we used to be the country that used to leap forward, and in this system we had some duplications, and we were blind in borrowing the experiences of the US and Europe. We cannot totally depend on the planned economy, and the placement of this in LA failed. This wrong choice caused a lot of problem including the benchmarking of the industries within the two sides. In order to realize the full benchmarks of the industries like the high-tech industries. But in LA and Caribbean structures, some of them are the modern ones, but are very simple. So some of the China and LA trade balance is determined by the market: part of natural competition and not fair trade rules. Some potential investment, and potential industrial transfer are faced with potential investment risk. China and LA, need to pay attention to what they need to do together to improve the labor productivity. Increasing budget into research and development has been successful. However, for the major technology breakthroughs China still has a long way to go, but we are still in the difficult situations of a new normal development stage for China. The next round of global competition is that of technology, whoever can't get out of the technology trap, can't also get out of the middle income trap. China can't depend on the labor-intensive low technology development patterns, so hope that with LA can cooperate to find new breakthroughs for this. China and LA in the future need to have more cooperation.

Chu Xu Ping

In China, the state owned enterprises (SOE) began to emerge when new China emerged in 1949. The Chinese economy has had a breath-taking growth rate since 1949. After 1949, as the SOE are growing, China is able to develop a relatively large economic structure. A lot of landmark achievements are made by SOE in China. In 1978, a third recession, at that time the mistake was corrected and the old way of production was corrected. The mistake of getting to high speed was corrected. Can still say that SOE are playing a very important role, and play a very important contribution to the taxation contributions for China. Can say that SOE have 102 trillion in assets in China, growing by 16.8% at a yearly basis. The growth is really fast. SOE profits have an annual increase of about 20%. There are about 608 SOE in mainland China, and are many of the leading forces. At the present China is well-known for its high-speed rail. The high-speed rail can also serve the LA people. Another factor is the smart grade of technology; they are unique in the world it is even appreciated by GE in the US. Why do the SOE in China, have such achievements? First, the reform, reforming over the past 30 years. The only thing which does not change in the world is change itself. Second, management of the system, have established a new management system that causes diversity of ownership including IPO and share-holding system. Established a very scientific way for business management. Third, allow market to play a larger role in the allocation of resources. We will continue to explore standardized board of director's development strategies to better serve the investors and the world. The market should be allowed to play a decisive role in allocation of market resources. SOEs should not enjoy any privilege over any players in the market. SOEs should better implement their social responsibilities to further protect resources and the employee interests. This year is the year of the sheep in the Chinese culture it is a very auspicious sign and the cooperation of the LA and China has very good prospects. The two sides should be able to play a very important role of guiding development to achieve a promising future.

Jun Yi Xing

Should China accelerate the opening of the Capital accounts?

Before discussing this question, look at the history. More than 15 years ago, China began opening up the capital accounts. Only 3 of the capital accounts are closed, the rest are open to some degree. The current situation of the opening is as follows. FDI is partially liberalized. ODI is liberalized but the scale is limited. The investment in the stock market is partially opened. International loans and bonds are roughly partly open, and in many cases examination is required. Some laws, foreign investment law. China's FDI will no longer have to receive the approval and the QDII is to be set up and is to allow more individuals to procure the assets abroad. The issue is whether or not China is to open up the capital account in a very fast manner. Two opinions. First, is that China has already conditioned to open its accounts and that China will be in a few years open fully. It will increase domestic reform, and help RMB. Second, some say that China needs more time to reach the goal to opening capital accounts. I think that China needs to be prudent in the opening. Six reasons to be cautious: 1) the liberalizations between capital markets and free growth. Much discussion whether these are correlated, and in which direction they are. Empirical studies say that there is no relevance, or say that they are negatively correlated. The cost of liberalization is much bigger than the potential benefits. At the same time, the IMF attitude of capital control has changed. Before, IMF was active in promoting the liberalization of capital accounts. But after, the East Asia financial crisis in 1997, the IMF changed its policies. When China tried to see whether China has to liberalize its capital account, and the IMF has made it clear that the opening needs to be prudent. The liberalization of international trade is very important. The capital account is the last thing to do if other things are to be done. There are a lot of reasons for the financial crisis in 1997. A lot of these regions were speculative in financial attacks. 2) China's regulation for the stock market is not very sophisticated, so full liberalization may cause problems that it cannot solve. 3) The current macroeconomic deceleration is going to cause massive problems. The many short-term problems, the unstable domestic financial system, and the expectation of the US to increase its interest rates are many problems. If we fully open the capital accounts, they will all flow out. Decelerating the capital account opening and strengthening capital control if necessary should be an important part of the policy mix in the recent time. The decrease of the investment rate in China will cause the outflow of the capital if the capital accounts are fully open. The opening of the capital accounts is not the only factor to affect the international global process of the RMB. Whether or not we can promote the internationalization of the RMB, we do not know. The development process of the US reminds us that internationalization of currency can also occur with capital control. We need to be prudent in the opening of the capital accounts.

Session 1: The Modern Landscape of LAC-China Economic Relations: Exploration of the different opportunities with a mutually beneficial relationship

Kevin Gallagher

- Main points
 - 1) China really triggered a surge in trade, investment, and finance that contributed to the region's best growth periods in decades.
 - 2) the new China-Lac has also accentuated some of the decade old problems: deindustrialization and environmental degradation

- The large share in trade between China and LA has been of commodity
 - Trade has been imbalanced like has been mentioned previously
- For South America, China has become their largest trading partner.
- Chinese FDI has been the fastest growing but it isn't still that large
 - Largely concentrated in infrastructure strategy and commodities.
- Chinese Finance
 - China Development bank lent 22 billion dollars to Latin America
 - Very important source for development finance for the region: mainly to Argentina, Brazil, Ecuador and Venezuela
- Increase in trade, FDI, and finance, is a key reason why the region has grown so quickly in the past years.
- Were able to reduce the amount of inequality since the Washington consensus period. Still present but it was reduced.
- There are two problems:
 - Commodity boom accentuated two problems that region continues to struggle to combat. There is a lack of capacity for endogenous economic manufacturing capacity and environmental degradation.
- There is a significant decline in manufacturing capacity in LA in relation to China
 - Due to exchange rate appreciation, and also a failure to reinvest money from commodity boom into manufacturing industries.
 - Manufacturing enterprises have lost market share to their Chinese counterparts.
- Commodity production is endemic to environmental degradation and instability.
 - The economic cost of environmental degradation is huge.
- Very excited because of a number of new initiatives to increase infrastructure spending in the region
- The private sector is not moving quickly in the region, and with the expectation of US interest rate increase there is a lot of flight of investments and capital from the region.
- Investment of China development bank are very good, western companies are not investing, they have taken on too much debt and are leaving and going back to the US.
- One of the key challenges for the problems is that the Latin Americans need to focus on infrastructure and structural change and need to place environmental regulations
 - But with the landscape, the officials are side-stepping any regulations in order to get any investors.
- Chinese Growth is shifting its composition
 - It is accentuating capital outflows from LA.
- There is a lot of corporate debt in LA, and 85% of it is denominated in dollars.
- Such little investment in manufacturing that it is not clear that these have anything to offer to the world economy.
- Countries need to invest some of the proceeds into innovation.
- While western capital is leaving the region, China is increasing its investments in the region, FDIs are increasing to gain market share.
- CELAC-China is the first opportunity for the entire region to figure out where its priorities are and negotiate bilaterally with China

- There is a work stream on industrialization to build industrial parks all over LA like in Africa, and also a work stream for environmental protection

Chen Yan Bin

- China's economy is slowing down, so what is the new model for macro-economy in China?
- New normal of China, and trying to make the currency policy more effective.
- In China, currently with very high debt, monetary policies are having bigger roles than expected.
- When China got into the new normal period, China's microeconomic control policy did not work very well. In the new normal we have very different kinds of situations than we had in the past. The economic rate slowed down, and more importantly the new normal period is a recession period
 - Two important indicators:
 - Whether the GDP growth rate is negative.
 - In 1998 and 1999, the GDP growth rate was negative, but then had a short recession, and currently we are having the signs of the recession once again, and whether the recession of China will turn into that of the US is the question.
 - No, because the US recession was due to the human mistakes of fiscal and monetary policies and they did not want to take microeconomic control like in China.
 - The CPI
 - The CPI in July is negative.
- Fiscal policy is not very proactive because China's debt is too high.
- In China, investment is not very sensitive to the interest rate.
- With his calculations, if China can have a moderately loose monetary policy, they can further increase China's growth rate of fiscal expenditure, to get the China economy out of recession quickly.

Matt Ferchen

- One main point: Up until now neither side in China-LAC relations has had enough thinking about what development might actually mean in that relationship.
- The first decade of china-lac relationship: "the easy phase"
 - The sense of something natural and explosive in the trade relations that brought such booming trade due to complementarity in both economies.
- Commercial relationship has really been dominated by the trade relationship.
- There was a lot of anxiety on part of LA about growing dependence on China in this easy phase.
- Now that the commodity boom is over it calls into question what some of the new drivers are.
- Within China, there has been a lot of thought in terms of development and environmental impact.
- International level, new peaceful development
- New relationship with China based on raw material exports.
- We have come to a very interesting point where we should consider what the drivers of the relationship will be after the end of the commodity boom.
- LA is a region of the world that has had a century plus of what development should be.

- On the Chinese side, taking this experience from the region seriously is important
- There has been a tendency in China to see LA as a case of failed development, and that's the wrong direction to go. Should try to increase dialogue about development.
- China has been successful in development today, but this has created its own problems
 - Understanding the challenges of each side is very valuable.
- As the relationship of China and Venezuela becomes more and more fraught, China will have to have greater stake into the political and economic development in Venezuela.
- How can the China-LAC relations move beyond trade complementarity, and will this be in the interest of China?
- The challenge of dealing with the middle income trap is about having dialogue on the ideas of how they dealt with the middle income trap.
 - There is real room for more discussion into this to have fruitful ideas in terms of development.

Lu Di

- Central message: look into the future prospects of development and the possibility of the formation of the complements of a China related productive economy and liberalization.
- China prior to the great recession, China has been following a path of capital dependent growth, clearly indicated by the persistent rise of investment to GDP ratio.
 - Exceptional to have such high persistent levels of Investment to GDP ratios
- Annual growth rate consumption actually accelerated since the 1990's up until the recent periods
 - Led to an improvement in living standards.
- Productivity has been accelerating in its growth.
- There is also a very fast growth of the wage rate
- ALMOST parallel growth of consumption and investment, and the growth rate of productivity is almost a defining characteristic of the golden age model.
 - This model allows continuous productivity growth.
- The financialization turn
- Question as to why China followed this path
 - The Chinese economy has been held hostage by speculating finance
- China has become a top trading economy in the world, but at the same time the RMB has valued a small amount in the monetary system, and has had the cost of holding the accumulation of external reserves, but it is not only costly and risky for the Chinese economy
 - Finding a way to internationalize the Yuan, would be one way to move the economy forward
- Question is whether the LA region can use the profit and revenue from China for development of the country.

Commentator: Santiago Bustelo

- 1) Idea of Brazilian Economy
 - a. The emergence of China can't be seen as the appearance of a new competitor in the global economy

- b. The emergence of new trends, like importance of Chinese investments in specific industries
 - c. Strategic repositioning, LA countries must think to find a way to reposition themselves into the standards of China to take advantage of the investments
- 2) Trade relations will not remain dynamic, they won't have the same dynamism as the in the last years.
 - a. Think of China as a new important investor.
 - b. Setting a new main priority for LAC is important: infrastructure
- 3) The actual reform process in China, if it succeeds will open a new window of opportunity into a consumption growth model and the emergence of a new Chinese middle class of consumers that will open new markets for export in LA region not only in commodity but in other goods
 - a. LA should strategically reposition to take advantage of the demands of the new Chinese economy
 - b. Try to think strategically of new cooperation.
- 4) It is up to us to consider the possibilities to enhance cooperation between China and LAC

Session 2

Daniel Titelman

- There are increasing concerns that capital flows are increasingly volatile
- There is an increasing consensus on the volatility of financial markets.
- Basically there is an increasing body of evidence showing the volatility of capital flows going into the emerging markets.
 - Even the IMF has been opening up its perspective that there should be measures to defend the economy from this capital volatility.
 - Can observe that during the 90's there are strong correlations between GDP and the volatility of net portfolios
 - In the 2000's the correlation is not as strong, but the relationship between these two is still very important
- During the 2000's, trade fluctuations have a lot of impact in the dynamics of LA.
 - Reflects the supercycle of commodity prices.
- Two strategies
 - One during the 1990's, Chile and Colombia specifically
 - Capital flow management was aimed to achieve three objectives: 1) to protect the economy from capital flow volatility, 2) to enhance the ability of monetary policy to act in a countercyclical way. 3) to act as a liability policy to change the maturity structure of capital inflow.
 - Volatility was responding to short-term capital flows.
 - The strategy was to change the maturity of the inflows, to avoid short-term capital, and to open up policy space
 - In the 90's Colombia and Peru to deal with short-term capital flow used Unremunerated Reserved Requirements (URR)
 - Had two scopes to have a mechanism to which for every dollar borrowed, a certain fraction of the dollar had to be deposited in the

central bank for some time. Essentially a tax on short-term capital inflow.

- Affected capital inflow but not capital outflow.
 - Chile started with a 20% URR requirement depending on maturity of the flow
 - URRs have very good effects on changing the maturity of capital flows, and showed that they had very good results.
- Now in 2000, after 2008, Brazil and Peru
 - In Brazil and Peru, use instruments to regulate certain parts of this
 - Using taxes to direct capital flow
 - Also have foreign exchange related measurements, try to regulate not only capital flows but also the link to the domestic markets.
 - Peru has also been managing capital outflows not just inflows.
 - These regulations have been accompanied by regulating the income of domestic markets
- Now there is a big difference between how LA is regulating capital accounts in the 90's and how they are doing it now
 - Now it is recognized that financial volatility responds to more factors than just short-term capital, regulation of capital account and financial domestic markets, and the linkage between these markets.

Hao Qi

- Secular stagnation has a similar meaning to the “new normal”
 - But the new normal in China has a different meaning
- Using Marxian key variables of profitability
- One way to understand the China new normal is that it is facing a falling rate of surplus value and the decline in profitability
- Despite the “new normal” the profitability of China is still higher than that of the US and many other countries.
- For the profit share, China has a greater profit share, but in the rate of surplus value the US has a higher one. The US has a higher gross rate of profit, but China has a greater net rate of profit China which means that China can obtain much more surplus value to accumulate capital.
- China's new normal is different than that of other countries, because it has a higher net rate of profit than other countries even after the crisis.
- China after the crisis is facing a rising wage share and a falling profit share
 - Downside, since the profit share is declining the profitability is also declining.
 - Upside, the rise in wage share will result in rise in consumption share in the economy.
- China's new normal is not a secular stagnation, it still has a high rate of profit, and the new normal is not a passive factor, but it is one that China is actively facing.
- How to maintain growth if rising wage share and lower profit share?
 - Use consumption led growth instead of the investment led growth
 - Perhaps its too early because the profit share is still high.
 - Invest more
 - Because China has a declining rate of profit, this is a declining incentive for investments, so they wont invest as much as before.

- Bubble-led growth
 - The larger part of the surplus value will be absorbed by the financial sector, and in the long-run it will worsen the problem.
- China has a large state-owned sector, and state-owned sectors can overcome the problem of uncertainty in terms of investment.
 - In the past few decades, state-owned enterprises have played an important part in the growth of investment in China.

Stephany Griffith Jones

- The problem of controlling capital flows is not just a problem of emerging markets, it is also a problem of developed economies.
- The dramatic increase in derivatives and flows from offshore markets, and both these are extremely volatile and difficult for these to manage.
 - Derivative money is extremely volatile and destabilizing.
- How much does a country need for capital flows?
 - Important question
- In poor countries, there is a temptation to get money from other places to grow, but these Asian countries like China have the luxury to determine whether they truly need it, because they have very high savings rates.
- Capital flows can help deepen domestic demands and liquidity
 - This is valuable in good times, because increase liquidity can help in capital accumulation
 - But liquidity is slippery
 - If markets are very liquid it becomes easy for capital to flow out of the countries.
- In the case of China, liberalizing capital accounts may facilitate the growing role of the RMB internationally.
- When the SDR was constituted no currency in the basket was fully liberalized.
- The process of capital account liberalization was extremely slow for the developed countries after the Second World War.
- China has the luxury of saying that they should be cautious of the liberalization of capital accounts
- There should be a battery of measures to manage the capital accounts once it has been more liberalized.
- Emphasize that managing capital flows from the spectrum of the recipient/demanding countries, but should be made complimentary action on the supply side.
- Good for the developed countries that are the source of capital flows, and should manage their supplies
 - Should place URR or taxes on capital outflows in times when capital is leaving quickly out of the country.
- The country to best take this position to take it into a global agenda is China.

Chai Yu

- Colombia is a brand new picture.

- The percentage of trade is about 44%.
- China has chosen several countries to develop an FTA
 - Such as Colombia
- The significance of an FTA with Colombia
 - Colombia can be an FDI investment destination, and can also be one of the basis of China for overseas energy diversity
 - China mainly imports oil and anico from Colombia
 - And export electronics and mechanical machinery to Colombia.
 - Colombia has many energy resources, and it is possible for it to become China's partner in global governance.
- China and Colombia
 - Investment in Colombia is very critical to China, and LA nowadays are dividing into two models
 - The pacific area have formed a new pacific alliance
 - The pacific alliance is more open for investors than the Southern alliance.
 - The southern area of America, they have formed a southern consensus.
 - China is a gateway for Colombia to strengthen its cooperation with Asia.
 - We believe that the FTA will be a major benefit
- Panama, Mexico have larger trade diversification than Colombia, so Colombia needs to fix this with an FTA.
- In Colombia, agriculture makes up 18% of GDP, Service industry makes up about 70% of GDP
 - To increase cooperation with Colombia, it is critical to create jobs and increase their incomes there.
- For China, recognize the market economy status. China needs to supply energy and can help expand the use of RMB
- The expansion of RMB in Latin America, more places using RMB will help the internationalization of RMB.
- Bilateral trade has been growing very fast, but the overall percentage of the trade is still very small.
- The influence of the FTA may be greater on Colombia than on China.
 - Colombia's tariff has been very high (~12%), and on agricultural products they are even higher.
 - Also on apparel the tariff is very high.
- The impact on China's real GDP is about 0.021%, it is very small
 - The imports will increase by 0.13% and export by 0.14%, and these are the results of the preliminary studies
 - The agriculture products exports also increased, which is higher than the increase of imports.
 - The impact on China is not very big
- The impact of Colombia is about 0.546%
 - Big one considering that Colombia is not a very big country in the Latin American continent.
 - The import and export will all increase

- The impact on Colombia is bigger than the impact on China.
- The FTA further helped Japan and South Korea
 - But other countries also have had a negative value.
- The industrial structure of Colombia is not good enough, and thus can use investment
 - Need to promote development in the country.
- Colombia's tariff is relatively high, but this is something common in LA countries.
- Colombia is a very small case
 - From this we can see the future cooperative potential of China and LA.
 - Development is very important in LA, for the construction of industrial complex and system.
 - This not only guarantees development but could reduce the transaction cost.
-

Commentator: German Reyes

- Argentina has had numerous economic problems over the years.
 - Very volatile capital flows
- It is the example of what not to do to manage capital flows.
- How effective are the different tools to manage capital flows?
- What can be said about a policy hierarchy among these tools?
- What can be said about the different policy stances from the IMF, World Bank, etc?

Session 3

Oswaldo Rosales

- In just one decade, China has become a key trade partner for LAC
 - In conjunction with the declining position of the US both in exports and imports.
- In 2013 and 2014, ran a trade surplus with China
 - Just three countries, Venezuela, Peru, and Brazil
- Commodities dominate LAC exports to China
- By contrast, manufacturers dominate LAC imports from China.
 - LAC export few products to China
 - There is an increase in products to China, but there is a huge difference between this and the number exported to the rest of the world
- The 5 leading products account for 75% of value of LAC exports to China
 - Oil, iron ore, copper, soy bean, and pulp
- The trade composition with China
 - LA has large and growing surplus in agriculture
 - Highly concentrated in origin and products
 - Brazil 75% of these exports, and soy bean is 77%
- The percent of Chinese imports in apparent consumption
- All LAC, show trade deficits of manufacturing with China, and only Brazil, Chile, and Venezuela compensate for this with surpluses in commodities trade with China.
- Almost all LAC countries run a deficit

- Trade is strongly concentrated by countries and products
 - China's is more diversified.
- High commodity bias in exports, does not help in moving towards diversifying trade and environmental protection
- Almost 90% of Chinese FDI is concentrated in natural resources.
- The net effect is positive for LAC
- The key challenge for LA is how to consolidate a trading relationship with advances in exporting sophistication, and regional policy
- The last 2015-2019, cooperation plan opens a lot of doors into this area.
 - But CELACs reaction is slow, incomplete, and uncoordinated.
 - Losing an important opportunity

Zheng Xin Ye

- LA has a very good period in history, and the US has always been in a leading position in the years.
- China has also had several costs
 - Trading for global competitiveness for low costs, has loose regulations and no standards.
 - Need to focus on the interests of the workers
- Income Inequality in China
 - This is very serious, and has been deteriorating in a long time
 - China is still a developing country though in aggregate and PPP its economy is number one.
 - The Chinese GINI coefficient is very high, about 0.47.
 - Professor calculates GINI at 0.61, and divides China into East, West, South and North
 - In most provinces, income distribution has further deteriorated.
 - In Shanghai, the GINI coefficient in here increased by 0.12
 - Global comparison of income inequality
 - If compare with the major developed countries, it is a very serious problem in China.
- Understanding China Income Inequality
 - No access of people to high profit industries
 - There is a big gap between construction industry and finance industry.
 - Can't be explained by education
 - The fastest growing industry and slowest industry have great gaps.
 - Labor discrimination
 - Labor standards and environmental standards
 - Damage labor protective standards for the future
 - WITHOUT PROTECTION PEOPLE MAY GET sick and not be able to work in the future.
 - Property ownership protections
 - Taxes and expenditures

- In most countries, government revenue and expenditure can help improve the labor income inequality.
 - But in China, there is no tax, and the per-capita revenue tax is very low.
 - In a lot of the provinces, the government expenditure further worsened income inequality.
 - Unemployment insurance share of GDP is much lower in China than in the US.
 - China is the only country in the world, whose policies further deteriorate income inequality in the country.
 - Welfare programs in China
 - Taxation has played a very small role
- How to mitigate income inequality in China
 - Need to protect property rights
 - Increase labor mobility
 - Practice incremental taxation rate so that the welfare system can be more generous for the poor
 - From the development perspective, to help the poor will help them to accumulate their capability for the future.

Cynthia Ann Sanborn

- Study with 2 questions:
 - To what extent is a China driver for social, economic, and environmental change in each country?
- China's demand for primary commodities has helped LA, but it also has many costs social and environmental
- Chinese firms have found it difficult in coping with the uncertain regulatory environments as LA try to mitigate the costs of commodity –led growth.
- Mining in Peru will speak about this.
 - Peru has historically been dependent on its mining for its economy
 - China is a big part of this story, since it is a major market for these mineral exports
 - Concerns in Peruvian policymakers whether trade with China needs to be sustained.
 - Looked at 5 areas of reform
 - Transparency of revenue and firm distribution
 - Chinese firms have been historically closed and difficult to engage with.
 - Changes in 2014, 3 Chinese firms have been involved in a transparency reform
 - Voluntary Social Investment
 - The level of social investment has been very large in China
 - Multitaskholder Fora
 - Labor rights
 - Chinese firm leads in poor labor conditions and labor strikes.
 - But most Chinese firms have had good standards and even better than the western firms in treating labor.

- Environmental fines
 - Chinese firms are around the average, and have generally had fewer fines and findings than the whole in contrast to western, and Peruvian companies.

Rebecca Ray

- Case studies in the Oil sector
 - Colombia
 - Sinopec has faced many social and environmental challenges, due to the governments inability to enforce its own standards
 - There are major environmental and labor problems, despite SINOPEC being in an area where that is not sensitive to the environment.
 - Citizens sued for incompleteness of the area, and the attorney general found that both SINOPEC and the government were responsible for the problem.
 - Ecuador
 - SINOPEC has had better performance here, because Ecuador is generally better than Colombia in enforcing environmental regulations.
 - Important because it shows LAC don't have to be scared of enforcing environmental regulations that might scare Chinese investors.
 - In Ecuador, most SINOPEC activity is in sensitive areas in terms of biodiversity, yet usually there has never been any social or environmental problems.
 - However, Ecuador has recently been slipping in enforcement, and thus there have been problems there and many social protests have occurred.
 - These show that strong standards and safeguards are good, and actually protect Chinese investors from risk due to problems that may arise from lax enforcement.
 - Policy recommendations
 - LAC should not be scared to have and enforce high standards for environmental regulations.
 - China should disseminate its own environmental standards which are high, and let its Chinese investors know of this, so that they can act upon it.

Humberto Campodonico

- In general Chinese oil companies pursue FDI through mergers and acquisitions.
 - Some greenfield investments such as in Brazil
- Trade
 - Chinese governments have contracts with all countries in the regions, and long-term contracts are preferred.
- Concerning oil, there are FDI in Argentina, Colombia, Peru, and Brazil
- In gas, there is investment in Argentina, Peru, and Venezuela.
- In mining, there is no FDI but in Peru
- In trade, there is a lot of it in mining, and gas
- Loans are also important in some of these countries.
- Super-cycle

- Some say it has been an opportunity to diversify
- Some others say that low oil prices are not good promoters for finding alternative energy sources.
- The Hub and Spoke approach
 - 30 years ago, OXY, now SINOPEC, was negotiating oil and gas investments in Colombia, Ecuador, Peru, and Bolivia.
 - Latin American countries lack a common vision in hydrocarbons and mining industries in order to negotiate agreements and contracts with third countries, including China.
- CELAC had first ministerial meeting in Beijing last January
 - Important because it can provide that framework to discuss collectively
- Economic growth promoted by natural resources has not helped productive diversification.
- There have been significant government and SOE rents coming from natural resources.
- China has the tools and the productive apparatus, so it has better opportunities to go into its domestic market
 - LAC lack this, and the domestic market is very shallow and informal and lacks a productive base.
 - So when try to go into this and grow it, it becomes really hard.
- Oil and gas revenues should foster alternative and cleaner energies in collaboration with China
- Three cases:
 - Bolivia
 - After the negotiation in 2007, government entered the industrialization of natural resources. Now there is an ammonia and urea plant by Samsung
 - Ecuador
 - Has allocated one billion dollars for a new hub of education in Quechua (language indigenous to Ecuador, Peru, and Bolivia)
 - China has committed to the building of these centers
 - Peru
 - The case here is the reverse
 - CNPC bought the assets of Petrobras in Peru, in 2013.
 - Now CNPC has the rights to the natural gas here.
 - This natural gas is usually sent in a pipeline to power poor communities in Peru, but now CNPC has no commitment in sending the gas to the communities.
 - Argentina, Peru, Mexico, and Venezuela are strategic partners with China.
 - The new agenda
 - Do we need a trans-Amazonian railroad? Should we make other plans?
 - The model of growing with natural resources is broken
 - But many governments say that this model is still working.

Commentator: Yuan Fei

- China-LAC both face the topic of bringing in development
 - One of the most important of future developments
 - From the Chinese side, the blue sky of Beijing is one of most popular topics of the people

- But for LAC, the use of natural resources also poses a lot of environmental challenges in these regions
- China has become one of the largest sectors in renewable energies.
- The great finance has become a new source of global development, which has drawn international attention.
 - China has also taken the initiative to start new multilateral procedures in financial institutions.
- One lesson for Chinese enterprises is that we need to talk about our experiences, and to tell our stories and tell good stories.
 - Very hard for some LANS to learn about China.

August 29th, 2015

Session 4

Guillermo Eduardo Perry Rubio

- A major issue for LA is whether they will continue to diverge from the US as in recent years.
- A long term view of world economies
 - At one time Europe was 10 times richer than China
- China still has a huge potential for high-growth because it has not finished its rural-urban migration which is a process that is occurring everywhere
- Contrary to LA, China does not have the problem of extremely high inequality
 - One of the reasons LA grows very slowly is because of high inequality
- China has little inequality, however the inequality is growing and China needs to take care of this.
- Savings and investment ratios in LA are much lower than in China
 - China has had a 50% savings/investment ratio
 - This in itself is a problem, too much investment you begin to do bad investments.
- Financial depth is much higher in China, there are exceptions in LA like Chile
- On the other hand, access to Chinese bank accounts for households is very low.
 - Paradoxical problem for China. Corporate firms and large businesses have access to credit, but small firms and households do not.
- Since 2009, growth was done only through investment and not through consumption
 - Financed by a huge unregulated credit boom
 - If China wasn't such a regulated economy this would've resulted in a financial crisis.
- "It would be a major mistake to do capital account opening at this time."
- China has been growing its enrollment in secondary education, but tertiary education is still lower in China than LA
 - But quality of education is much higher in China

- Even being a country with lower income per capita than LA, China is investing much more in R&D than LA.
 - Strength of China, and weakness of LA
- Quality of Internet
 - China needs to improve this
- Quality of institutions: a long way for both, especially for China.
 - This is an area where both LA and China have a long way to go, but especially China
 - If China wants to get as rich as Europe and the US, it will have to do major work in improving the quality of institutions
- In the Short-term, China should struggle to keep growth at 6% and avoiding a financial crisis
 - LAC should try to recover to 3-4% growth
- Trade with China is almost as important as with Europe, still lower than the US average except in some countries.
- Composition of trade of China-LAC, is disappointing
 - But not the case with the US,
 - Much more diversified, do export commodities and manufactured good as well
 - So the problem is not only the fault of LA, but also a big part of China
 - It shows it is very difficult to export manufactured goods to China
- Concentration of FDI and financing from China
 - From the point of view of China, is it a good idea to concentrate financial assets in LA in the slowest growing countries?
 - China's investments are concentrated in Venezuela, Argentina, Brazil the slowest growing countries in LA

Song Li Fang

- Anti-dumping is one of the measures for trade relief
- Ever since WTO was established in 1995, all across the world we have had over 1000 dumping cases.
- Anti-dumping is one of the largest economic problems in the world.
- Argentina ranks #4 in anti-dumping(AD) cases
- Argentina's trade volume with China is much smaller than that of Brazil and Mexico
 - Yet it has the largest number of anti-dumping cases with China from 1995-2014
- The success rate of Argentina's AD rate is high at 72.1%
- China's exports to Argentina have been heavily impacted by this.
- China, Brazil, South Korea, Japan and US are the top targets of Argentina for anti-dumping cases
 - A lot more are targeted towards China; it is the primary target for these cases
- Has very high success rate in its cases
- Primary metals are the target of its cases
 - Steel manufacturing sector.
- Reasons for Anti-dumping (AD) cases by Argentina
 - It has very low economic growth and its unemployment rate is high
 - Argentina's trade liberalization reform has intensified the pressure of international competition for domestic firms
 - Randomness

- Why is China a target?
 - China has rapid export to Argentina
 - China's status of nonmarket economy
 - In 2014, Argentina finally recognized the market status of China's economy.
 - China has no anti-dumping cases
 - China imports primary minerals and commodities which are needed by China, so no cases brought by China
 - So no deterrent for Argentina to launch AD cases.
- China should take Argentina's cases of AD against them seriously.
- Use more FDI to promote development in Argentina, might help improve relationships between the two countries
- In September 2009, Argentina and Brazil signed an agreement that in products by China, if Argentina launches an AD case Brazil will also do so.
- Should increase the value added of China's own steel products.
- Discuss an FTA possibility with Argentina, if this can be established it can help address the trade conflicts between the two countries.

Juan Carlos Moreno-Brid

- Three ideas he heard yesterday:
 - Stiglitz: objective of public policies is to achieve inclusive development with high and sustained economic explanations.
 - The trade relations of LA of essentially just commodities is not sustainable
- LA to diversify the trade basket: not shy away from commodity but also trade other manufactured goods.
- Top level political will is necessary and indispensable, but not sufficient
- LA and China have common ground
 - Have a new normal that is shared, and the LA growth rate is so slow that it is lagging behind in GDP per capita vs the US.
 - It can't produce enough quality jobs, poverty is now increasing
- Trade has been a main element in policy matters in both countries.
 - But in LA it has weak linkages.
- The rate of growth of LA are both downward sloping over time.
- There is a lack of dynamic investments and a weak net exports in LA
 - Constrain more and more the growth path.
- Poverty has stopped declining and extreme poverty is actually on the rise in LA
- Fiscal policy has little counter-cyclical capacity, and does little in reducing inequality in LA
- How can fiscal policy be progressive with such pathetic income tax rates on the rich?
- Trade pattern with China
 - Diversifying the export quality of LA requires a new agenda for development
 - Have to put structural transformation and reduction of inequality as important
 - Increase public investment and its counter cyclical impact
 - Have to build a long term social pact with this agenda.
- Lack of trust in key political actors in the region is a problem.
- A final question

- How many economic teams do you need to design and implement this agenda?

Cui Shou Jun

- China's New Commitments to LAC, and political implications
- LAC is an emerging priority to the new leadership in Beijing
 - President visited LA in 2013 and 2014.
 - Also formulated the China-LAC cooperation plan
- China has formed many bilateral to multilateral platforms with developing countries.
 - China has had many forums with Africa, Asia, and Arab countries
 - Did not have with LA, because thought it was too far to interact
 - Also thought that LA is the backyard of the US, so that China has to be careful with its interactions.
- China and LA are in a strategic transition period
 - China's "going out" strategy matches LA goal of trade diversification, FDI inflow and infrastructure finance in a globalization era.
- In the future, we may see that China's investment in LA will not just be restricted to commodities like energy and minerals.
- Might see LA diversify its agenda to remove US influence, and China will exercise its economic power to facilitate a better relationship with these countries.
- The World Bank says that in the future the emerging countries will be a very important driving force of the world economy.
- The ROI in LA is 4x higher than the investment in developed countries by China.
- Generally speaking China and LA are at the best timing in terms of their relationship with each other.
- The China-CELAC forum
 - The China-Africa forum was established 15 years ago.
 - Established the first China-LAC forum last year, and met this year, and already the trade volume has already been very high.
- China's increasing economic power and capacity will be a very strong agent for development of economic relationship with LA
- Challenges Ahead
 - China's understanding of LA needs to deepen, especially the general public understanding of LA is limited
 - The challenges from within LA, especially LA integration.
 - Mexico and Brazil would be the two engines for the integration of LA
 - However the two countries are different from each other.
 - Mexico is in NA, and part of NAFTA but also a Latin America
 - Brazil is a leading country in Latin American economy
 - Focuses on strengthening relations with other LA countries.
 - Latin American community does not have a secretariat or budget
 - China-US relations
 - For China-LA relations, needs to recognize that the US have big influence in LA
 - China and Venezuela have big relations but Venezuela is still the largest importers of oil to the US

- China has a small role in Latin America, less political and more about economy.
 - China basically has no military presence there.
- China is more welcome in LA, but Brazil welcomes the US more than China.
 - Even Venezuela has a 50-50 attitude towards US and China
- Global Threats
 - China and US comparison
 - LA countries are somehow worried about China's rise.

Commentator: Ivanova Reyes

- Long term growth in LA
 - Concerned about region focusing on natural resources, and the possibility of stagnation.
 - Want region to focus on other areas, and focus on manufacturing with more value added
 - How can LA achieve Long-term growth
 - Need incentives for high-end technology
 - Need to foster FDI from China into areas that are more sophisticated in the production base.
 - Build research and development funds
 - Avoid the strong brain drain the region has.
 - Improve human capital that has a labor force to work on high-end technology
- Efficiency gains from Trade in LA-China
 - China gains from Long-term growth in LA,
 - gains a partner with increasing consumption of Chinese goods
 - A larger economic market in LA, means more competition, more diversification, and more product variety. This means that we can consume more.

Session 5

Eva Paus

- China and LA are both middle income countries
 - In 1990, China GDP per Capita was 15% of that in LA, now they are roughly equal with LA higher, in the future China's will surpass LA.
- Problem of middle income countries
 - How to change from factor-based growth to the knowledge-based growth.
- Globalization process increases urgency for Systemic innovation
 - More intense competition in product and factor markets
 - Almost every developed market has a plan to increase technology and R&D.
- Systemic approach to innovation
 - Market failure
 - Capability failure- the inability of companies to produce
 - When this is the case, need incentives for firm learning
 - This takes time and doesn't happen overnight. Need to give time.
 - Don't want an overvalued exchange rate.
 - Network failure

- Catalyst function
 - Government itself needs to set up a catalyst function that sets up innovation labs that will eventually spill over into the private sector.
- Need horizon policy, but also need targeted support for the industries that are favorable to help
- There is a complexity to this
 - Need to tackle many of these things at the same time.
 - Once you've tackled one you need to tackle them all
- LA is not well positioned for this systemic approach
 - Due to primarily to the policies that were adopted in the past 30 years, policies that China did not do.
 - China had a very strategic state interactions and strategic liberalization as opposed to across the board liberalization like LA due to the Washington consensus.
- Results of Washington consensus
 - Seen an ongoing deindustrialization in LA in the recent years.
 - LA 15% and China has 30%
- Innovation, R&D traditionally happens in the manufacturing sector
 - So since LA has a very small manufacturing sector
- There is low public investment and low investment ratio overall
- There is no overall strategy and very limited financial support for innovation.
- Latin America in terms of productivity growth is that in terms of Sub-Saharan Africa
 - There is very poor productivity growth
- LA is not well-positioned to adopt systemic innovation policies
 - The most common one is the ratio of R&D to GDP
 - China has increased from less than 1% to more than 2%-- unprecedented
- Can increased cooperation between China and LAC contribute to innovation
 - The main obstacle is 20 years of re-specialization in natural resources instead of developing innovation and manufacturing capabilities.
 - The main helpers are opportunities for Chinese funding and investment in infrastructure, collaborative projects, spillovers from Chinese FDI
- Two scenarios:
 - Optimistic Scenario
 - Need a change in policy and strategy. Need systemic innovation and structure transformation at the core of a new alternative strategy.
 - Need to commit the resources to fund it.
 - Need to be strategic in how to use FDI to upgrading rather than being reactive and passive.
 - Pessimistic Scenario
 - Middle income straightens
 - There is little change in strategy and policies.
 - Transcontinental railway will accelerate the penetration from Chinese imports.
 - Help, but only if there is a capacity to compete
 - Limited spillovers from Chinese FDI due to lack of domestic productive capabilities.

- I lean more towards the pessimistic scenario at the moment
- Questions to ask?
 - Why is it that LA governments have not adopted the systemic innovation strategy? What is the political economy behind it?
- The problems are not only for LA
- Two big challenges for China and LAC
 - The first one is that innovation and productivity growth has to come from the service sector.
 - Second one is super important, and having the next industrial revolution.
 - The job replacement that it implies very much of inclusivity that we want.

Wang Jin Bin

- Exchange rate policy is not only an economic issue but also a political issue
- Why we fear appreciation of RMB?
 - Import prices will eventually fall and the CPI will fall
 - Will drop the demands for exports and salaries will decrease
 - China's products will become more expensive.
 - Financial effects lead to short-term capital moving or in-flow
- Why do we prefer depreciation rather than appreciation?
 - Appreciation only has one benefit which is that import prices will drop
- The central bank prefers to have a depreciation of 10 rather than appreciation because that might have more benefits
- Depreciation can bring more benefits than appreciation, but continuous depreciation will not happen because this would be a crisis.
- Exchange rate policy is endogenous to export-led growth paradigm.
 - Have to adjust structure, and China has to export products because can't consume all the products made within China itself.
- Don't agree with reducing the surplus by reducing the RMB
- China has a huge foreign exchange reserve
 - China will not intervene in the foreign exchange rate market but US and Japan all intervene
- Very successful in China's defensive exchange rate policy

Martin Guzman

- Two big issues:
 - How can natural resource rich economies achieve diversification?
- The optimal policies to implement stable and competitive exchange rates
 - Role of RER policies in economic development.
- Sectors with learning spillovers
 - Here there is a role for macro-policy in restructuring prices.
- SCRER policy can enhance economic diversification through two main channels.
- Optimal policies entail taxing those sectors with less learning spillovers or less negative externalities
 - As such can have resources to implement the policies that are needed

- SCRRER → makes prices of imported goods
 - The real wage in terms of foreign goods decreases
 - Need to convince public that consuming less today for consuming more today is in their best interest
- The path of consumption and investment is consistent with that of policy
- Argentina in 2003-2014
 - From 2003-2007
 - Competitive RER was effective in boosting exports, boosted employment, and led to a re-industrialization process.
 - Demand-led growth strategy
 - Because of a large excessive supply.
 - 2008-2011
 - Some sectors that weren't reactive in the demand
 - Global financial crisis decreased demand
 - Persistence of demand-led strategy
 - 2012-onward
 - Inconsistencies reveal at increasing pace
 - And process of re-industrialization began to reverse
- Throughout this period, investment stays stable while consumption increases
 - "Chinese growth rate, but without any Chinese strategy or Chinese savings rate"
- Argentina has moderate to high inflation
- Investment stays the same
 - "expensive to save" In Argentina
- Evolution of Foreign Reserves
 - Increasing then stabilize, and now are decreasing, and continue to decrease now

Zhu An Dong

- Innovation and SOE
- New liberalism: Ownership of enterprises affects the innovation of enterprises
 - Private enterprises are good for innovation, public ones are bad.
- However, a study in Germany found that the basic technology in Samsung and Iphone were from DARPA (Pentagon-owned technologies)
 - Innovation of enterprises is based on national support.
- Example, State Grid Corporation of China (SGCC) and ultra-high voltage direct current power transmission
 - Renewable electricity superhighways.
 - IMF and World Bank says that SOE don't innovate, but I think that they do, as can be seen with this one example. I have also visited many other SOE that are innovating.
- In private sector, we do not have many enterprises that have made innovation
- For innovation:
 - Risk
 - Capital
 - Social responsibility
- Private sectors want fast and huge profits

- First need to survive, and if they want to survive they will not take a lot of risk.
- Need a lot of capital, and private companies don't want to get involved in this, so government can do this however.
- SOE have advantages: have huge capital, and strong man power, and have incentive for innovation
- Have to reflect on the economics, especially the Neo-liberalism of economics
 - Neo-liberalism of economics may damage the fame of economics

Commentator: Zhou Jian Jun

- Innovation, Industrialization, and the Role of the State
- China R&D is now 2% of GDP
 - Big gap with other countries
- Middle income gap of China
 - Need to consider what policies to use to face this

Session 6

Jose Antonio Ocampo

- In global governance there are three distinct gaps
 - International regulation
 - Sovereign debt structure
 - International tax corporations
 - OECD has a role but in the recent UN summit, they blocked the role of the UN in this regard.
 - Issues of unfinished governance
 - Climate change
 - Global macroeconomic cooperation
- Structure of governance
 - The traditional problem is the control over some institutions by the developed countries.
 - In general, the fact that the UN is essentially controlled by the General Assembly, and the developed countries, they don't want to talk about development issues.
 - Sometimes they prefer using their own institutions for these issues.
- What is the force for change?
 - There are two types of possibilities:
 - Preferred one: to create new institutions parallel to old institutions
 - New institutions are quite good. Contribute to dense international protection.
 - Rather than changing the old institutions
- Case studies:
 - Reform of the IMF position of capital account regulations:
 - Pressure by emerging countries within the IMF made it take this seriously.
 - Finally saw that there are some cases where capital account regulations can be beneficial

- When SDR was created every single currency had capital account regulations.
- When the crisis came, the governor of the People's Bank of China made a very good proposal.

Dai Peng

- China has had very quick economic growth. At the beginning of 2000, it was ranked 7th. Now in 2014, it is the 2nd largest in the world.
- Although it has had very fast economic development in the past years, if we look at other wealth creation there are still very large gaps with the top countries and other developed countries.
- China's noteworthy experiences
 - There are many important ones
 - Consumption guided by income
 - Consumption has to be guided by the people with income, and not through credit.
 - Investment supported by savings
 - If increase 1% of GDP, then can create 1.3 billion jobs in China, but to do this need to increase investment 2-3%
 - Growing labor productivity that is driven by investment
 - Priority on infrastructure development that is backed by the user-reimbursement model and government investment and financing model
 - A relatively stable financial environment.
 - Management and regulation of capital account
 - Local government policies that are driven by job creation
 - Active involvement in international industrial restructuring
- LA's major problem is development, after you help solve this then you can help solve the other problems.

Marcos Troyjo

- Deep globalization was very good for China and LA
- The spirit of the times from end of Cold War-2008, was interrupted and ever since we have a different spirit of the times.
 - Moved from deep globalization to de-globalization
- De-globalization
 - Trade is more restricted and investment is more limited
 - The capacity of global governance institutions to reform from within is questioned
 - Protectionism is on the rise
 - It is an era of nationalistic individualization
 - Cost of this: the performance of global economy is very disappointing
- De-globalization of LA
 - Led to the rebirth of ISI particularly in Brazil
- Both de-globalization and deep globalization are roads that have led us from past to present
 - The one where China-LAC governance has to be determined is under a new era of re-globalization.
- Re-globalization
 - Subject of new trade and investment geometries

- Like TPP
 - Shaped by China and LAC
 - Witnessing the rebirth of geopolitics
 - Greatly influenced by China 2.0
 - Will become more of an exporter of investment capital, and more FDI, and portfolio investment
 - Especially in LAC and Africa
 - New governance institutions
- Big questions:
 - 1. Can these relations become more diversified and sophisticated?
 - Major concentration of flows in trade
 - China has not been a major investment source of FDI, Portfolio, and a partner in Joint-venture companies
 - 2. Are LA and China working towards reforming current global governance institutions or will they make their own?
- Big challenge here is what is the degree of sophistication?
 - To determine the degree of relations and what they want for the world.

Commentator: Wang Wen Song

- Development should be the core of global governance
- UN, New Millennium Plan is to eliminate extreme poverty
 - Both China and LA are developing countries with a lot of poverty, so this is a place where there can be much cooperation between the two.
- 1+3+ 6 cooperation model
- Financial cooperation has been promoted by economic and trade cooperation
 - This cooperation focuses mainly on supporting the LA infrastructure, oil trade, commodities.
- China Development Bank
 - One of the largest
 - Has a number of products in LA,
 - Follow market operation, international financial rules, the international laws and regulations in project development, and loan repayment and risk management
- Challenges
 - Unequal development, and imbalanced trade structure
 - Business environment is very complicated in LA
 - Trade protections in LA
 - Chinese investors do not know the local laws and culture
 - Very difficult to get the financing
- Solution:
 - Need to address the problems in development
 - Strengthen infrastructure, and labor training
 - Improve the trade volume, and reduce the interest rate ratio of the debt in LA, so they can repay it.
 - Strengthen communication, enhance mutual trust, and establish new relations.

- “One belt, One road” initiative

Marcos Reis

- A new motor of the development bank
- The bank of South
 - Initiative of Latin American countries proposed in 2007, but still the bank is not operational
 - It is facing problems of governance, political coordination,
 - Lack of reserves especially in Venezuela and Argentina
- Can make a point with the failure of this experience
 - Shows an attempt to make a new driving force for the development in LA
 - Shows a desire to improve conditions, and complacency of the people there about current conditions

Q&A

- Dai
 - Latin America has a complete culture
 - There are a lot of places for cooperation
 - For manufacturing for 2025, the robots will do a lot, and people will be available for other things.
 - If liberalize labor force, if we have further productivity, the unemployment and labor force can be further released
- Wang Ju Bin
 - Brain Drain
 - After the development of China, a lot of talent is coming back from China
 - Need to improve your economy to let talent come back, for LA
 - For Silk Road initiative, first start with neighboring countries, but definitely this is open to Africa and LA
- Marcos
 - LA is very important for China as China displaces an important part of its industrial hub.
 - LA will continue to be very attractive to China, as part of the concept of strategic partnerships are concerned.
 - LA has very low levels of domestic saving and endogenous investment.
- Jose Antonio Ocampo
 - Everyone in Latin America wants to have alternatives, and the China alternative is quite important and impressive in terms of trade
 - SOE-
 - Latin America doesn't have that many today, it used to have more in the past.
 - Many countries do have some SOE in the oil and mining sectors, but very few in manufacturing.
 - There are good, bad and horrible SOE in LA
 - Examples, Colombia kept several SOE and are generally very good.
 - Bad one, examples, Venezuela's oil company
 - The governance of SOE is absolutely critical to guarantee well-run ones.
 - Brain Drain

- Many scholarships given to the students to the US have a requirement that they return.
- Big issue is the appeal of the global networks, and that the feeling that there is a loss of these networks if they go back to their countries.

Closing Remarks

Jose Antonio Ocampo

Zhang Yu