

China-Peru Economic Relations under China's New Economic Paradigm

Shi, Shuo

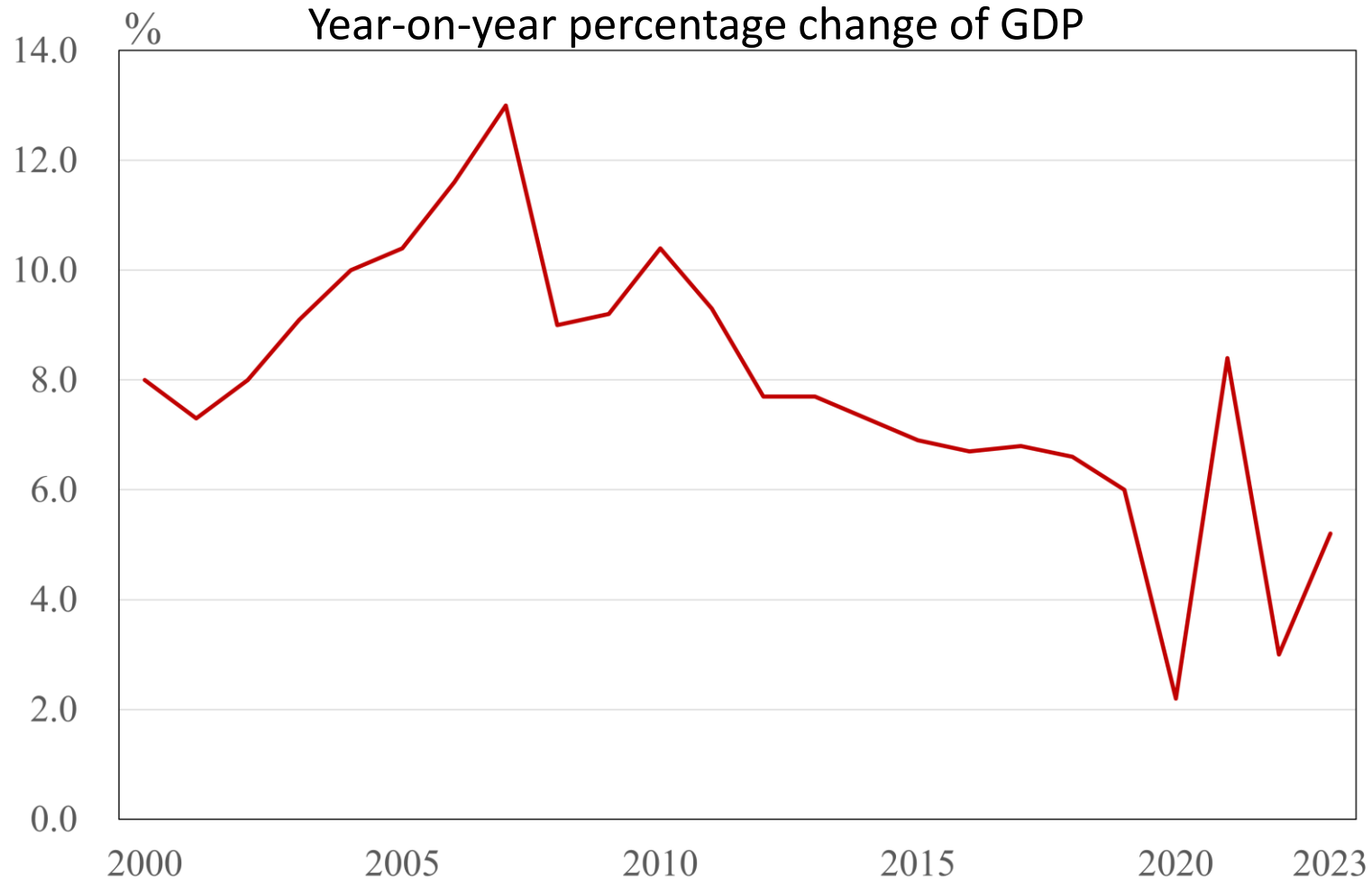
Fudan Development Institute

Lima

March 26th, 2024

Why is China's economic growth slowing down?

China's GDP growth rate has plunged since 2019

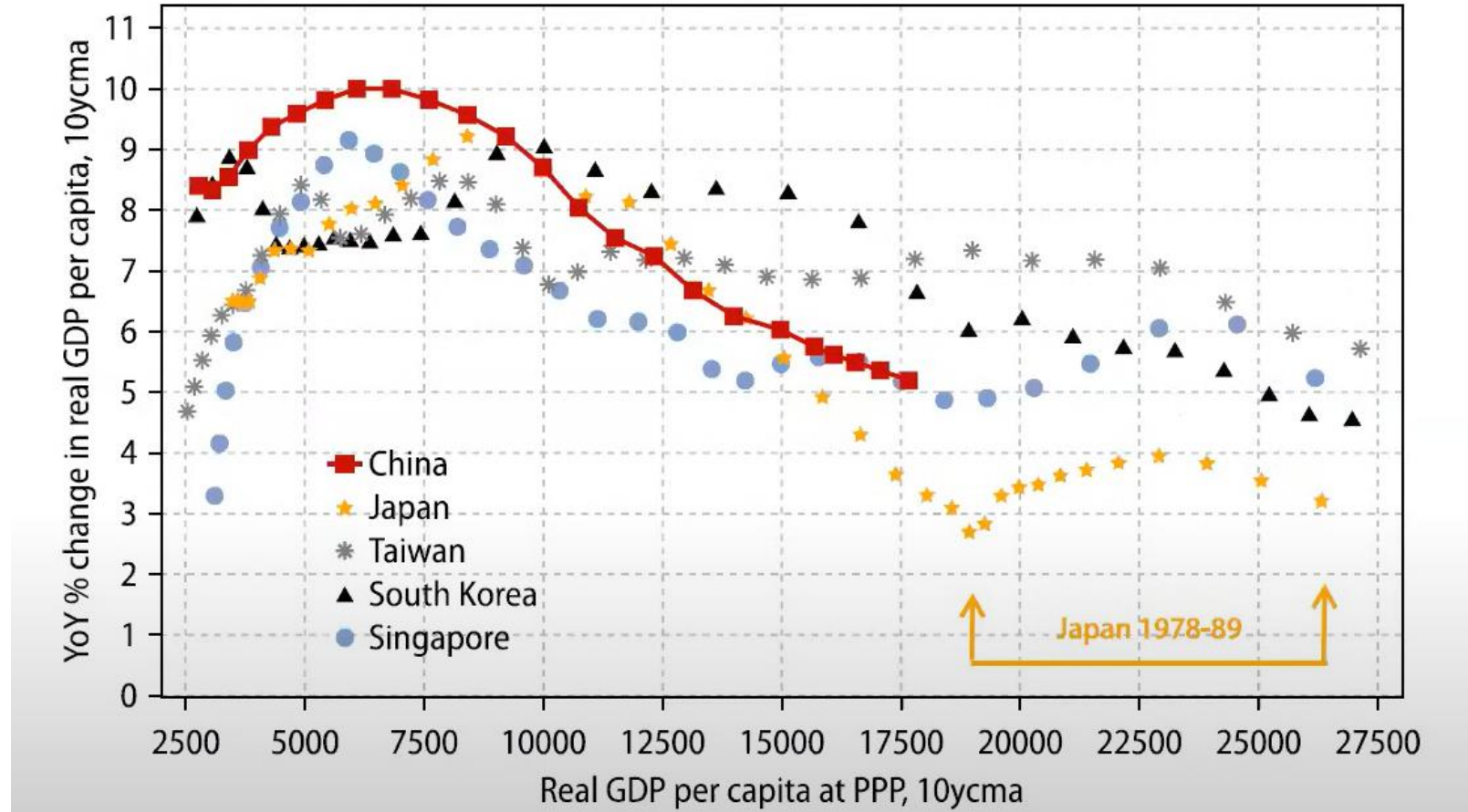


Source: National Bureau of Statistics of China.

Understanding China's economic slowdown

Rule of convergence : As China gets richer, its growth will keep slowing

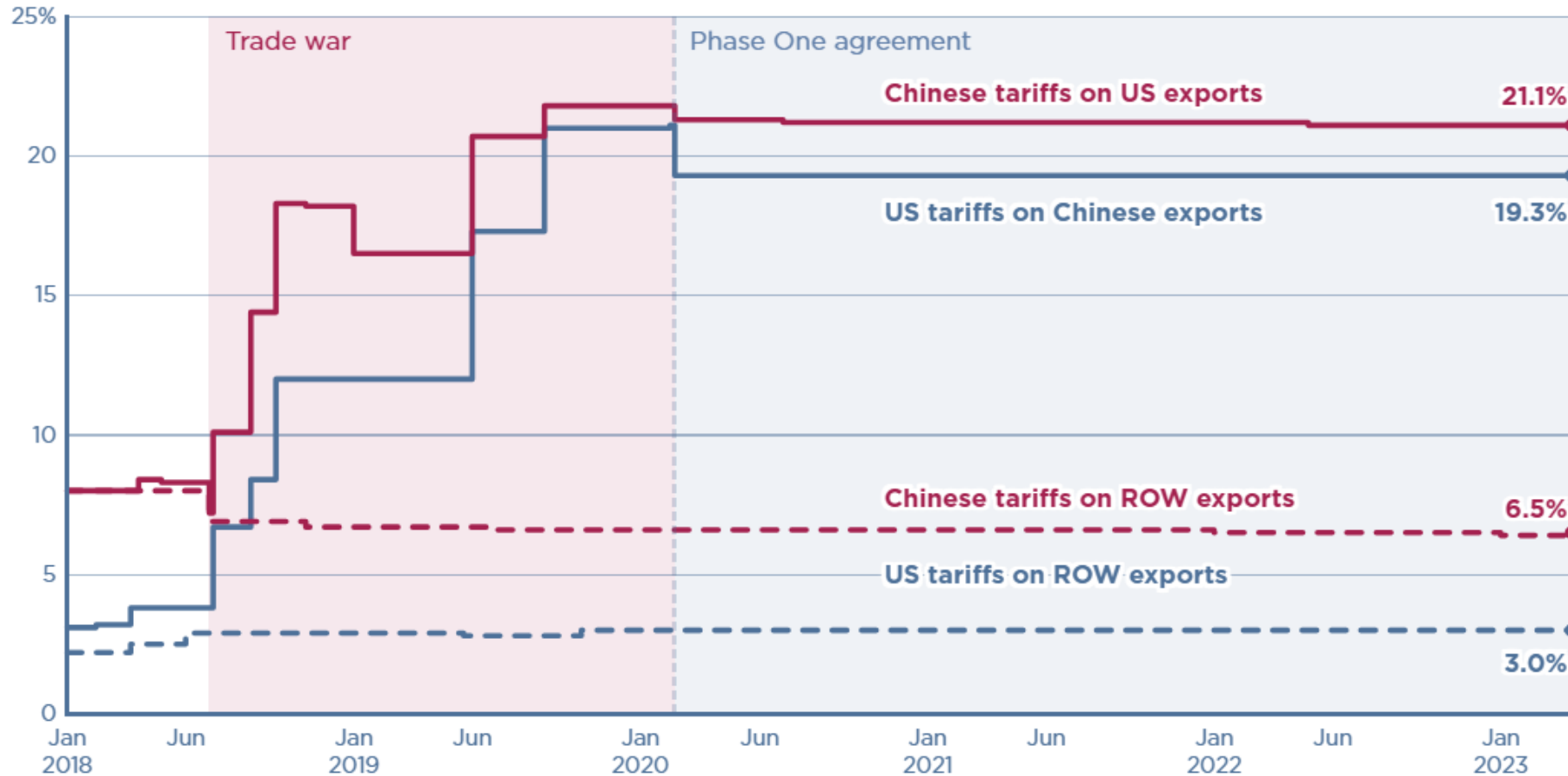
Trend growth rates and level of development for successful Asian economies



Source: Kroeber (2023).

Is the US-China trade “war” a stalemate?

Higher weighted average tariff rate by China
US-China tariff rates toward each other and rest of world (ROW)



Source: “Trump’s Trade War Timeline: An Up-to-Date Guide” by Bown and Kolb (2023)

Not just trade but also technology and investment

- US

- added **ZTE, Huawei, and SMIC**, Chinese telecommunications equipment and semiconductor manufacturers, to the Entity list (March 7, 2016, May 15, 2019, and December 18, 2020)
- imposed Section 301 tariffs on Chinese products including **machinery, mechanical appliances, and electrical equipment** (April 3, 2018)
- tightened **technology export** restrictions to China (April 27, 2020)
- forbade **advanced chip exports** to China (August 31, 2022)
- restricted new investments into China in **advanced chip manufacturing, Quantum, and Artificial Intelligence (AI)** (August 9, 2023)

China always retaliated ...

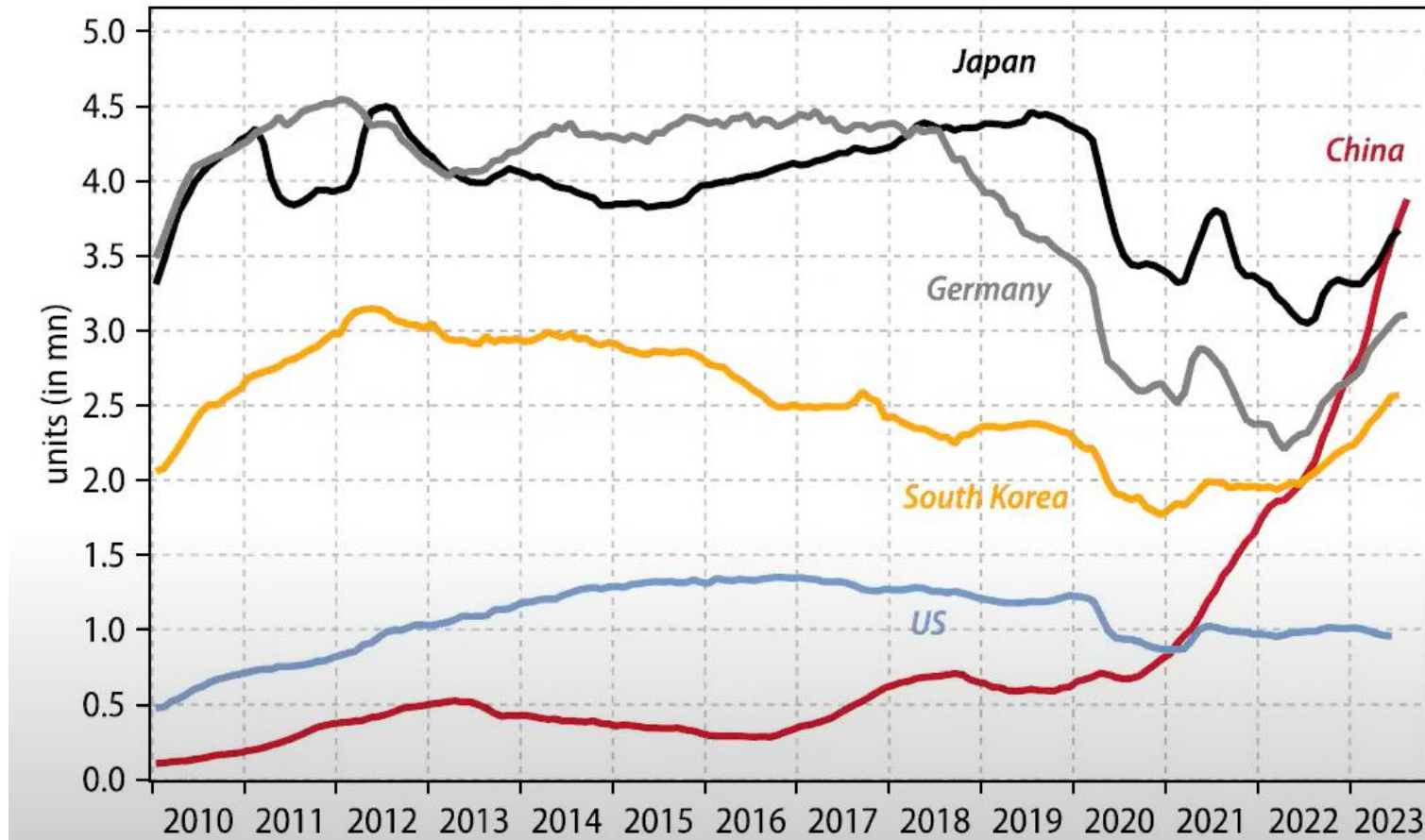
- China

- imposed retaliation tariffs on US products including **autos, aircraft, and agriculture** (April 4, 2018)
- banned **rare extraction and separation technologies** (December 21, 2023)
- banned **chip** purchases from **Micron**, a US chip manufacturer (May 21, 2023)

Capital Reallocation in China: From Traditional to High-tech

China is the largest car exporter in the world

Exports of passenger cars; rolling 12m sum



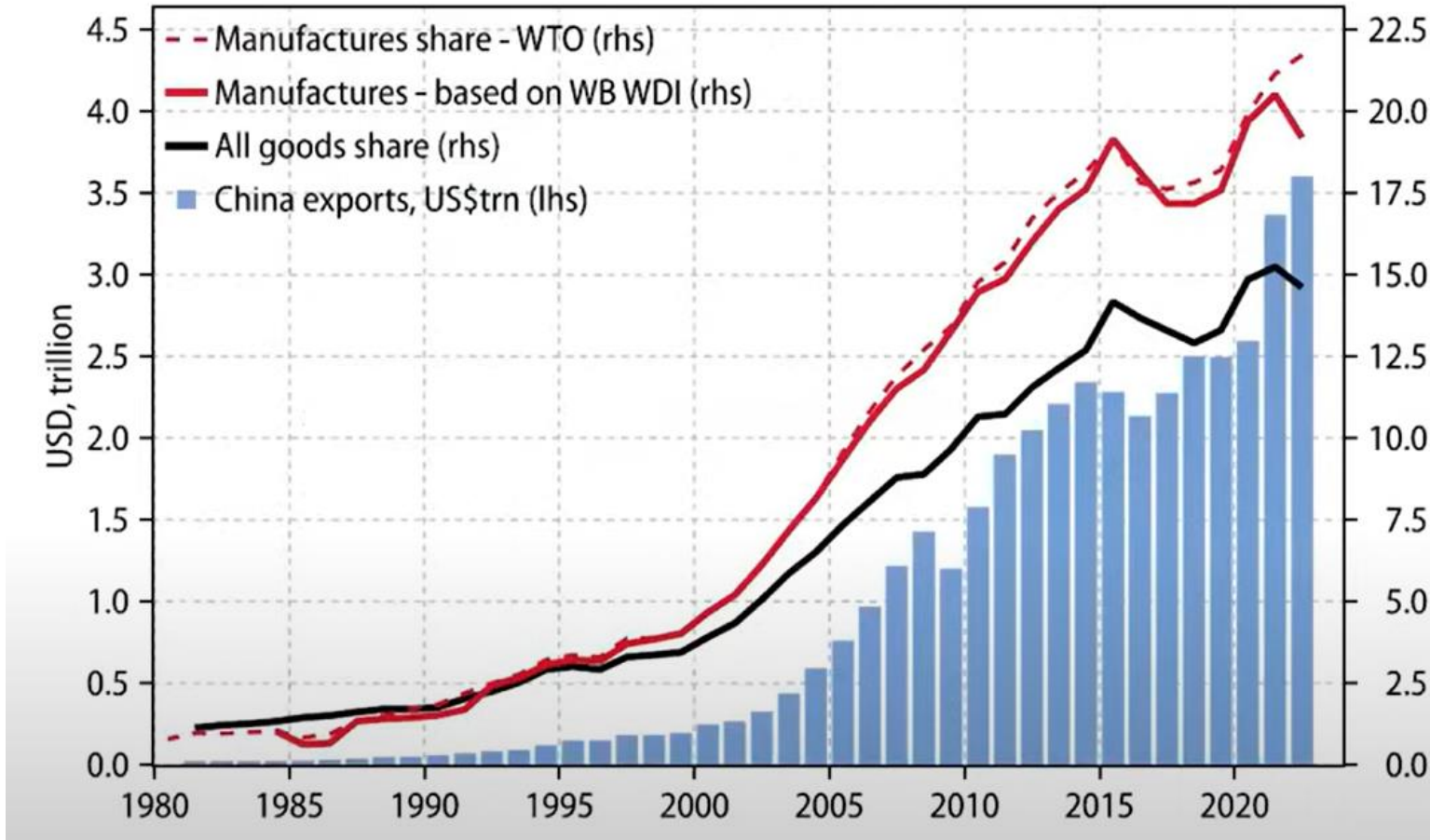
However, China has squeezed out debt risks in the real estate sector by tightening regulations on major property developers, such as Evergrande and Country Garden.

Source: Kroeber (2023).

China is a strong and dynamic exporter

China's total exports have skyrocketed despite US tariffs

Trend growth rates and level of development for successful Asian economies



FIE share of China's exports	
2005	58%
2010	55%
2015	45%
2023 (H1)	30%

Top regions in Chinese exports	
East Asia	36.7%
Europe	22.6%
North America	18.7%
Latin America	6.8%

Source: Kroeber (2023).

Chinese Auto Parts Companies Want to Settle in Mexico: Santander

Chinese firms to invest nearly \$1 bln in northern Mexico -state officials



REUTERS®

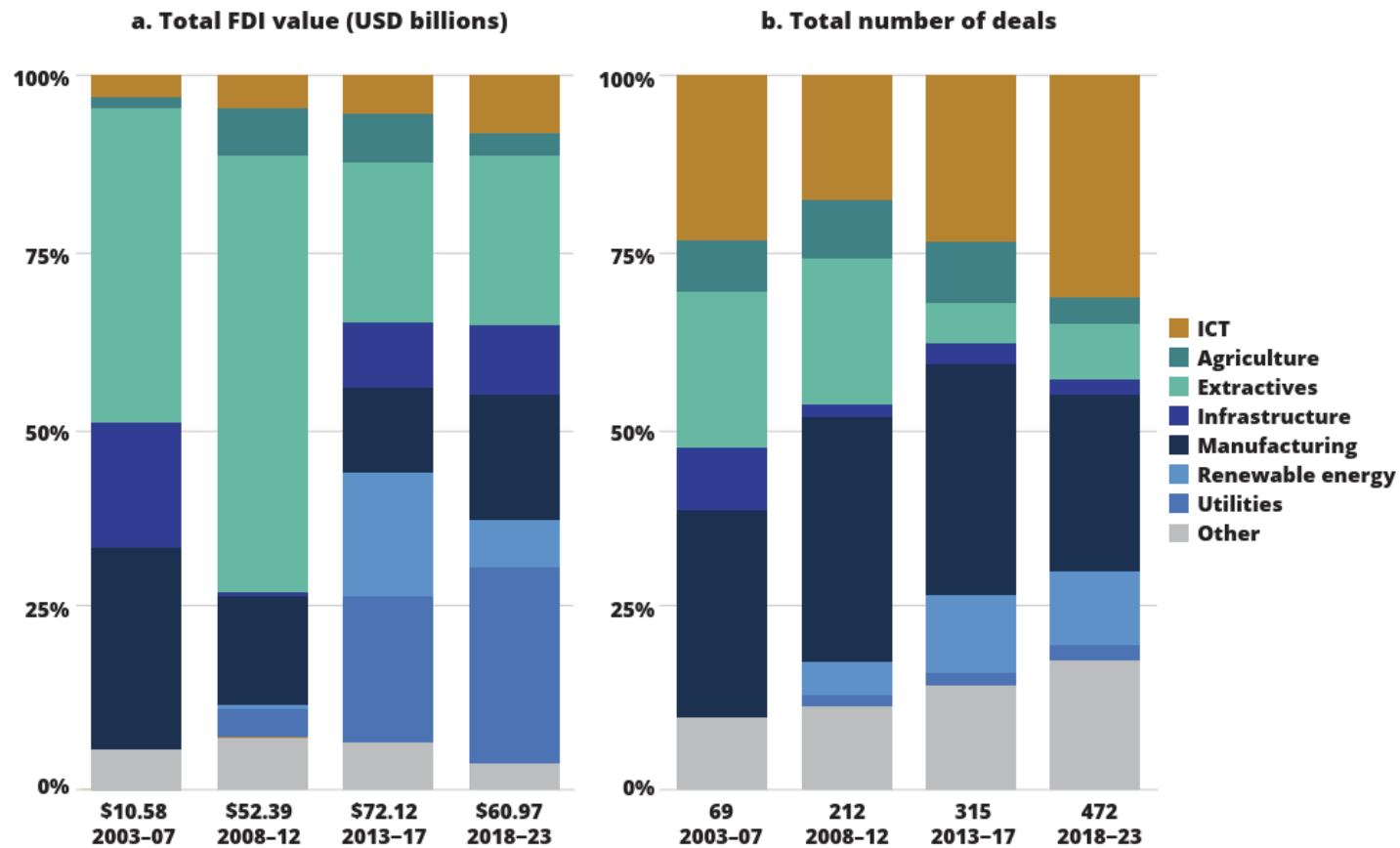
South China Morning Post

China has made Mexico a premier investment destination. Is it a US detour, or something more?

Big Shift in Chinese FDI to Latin-America

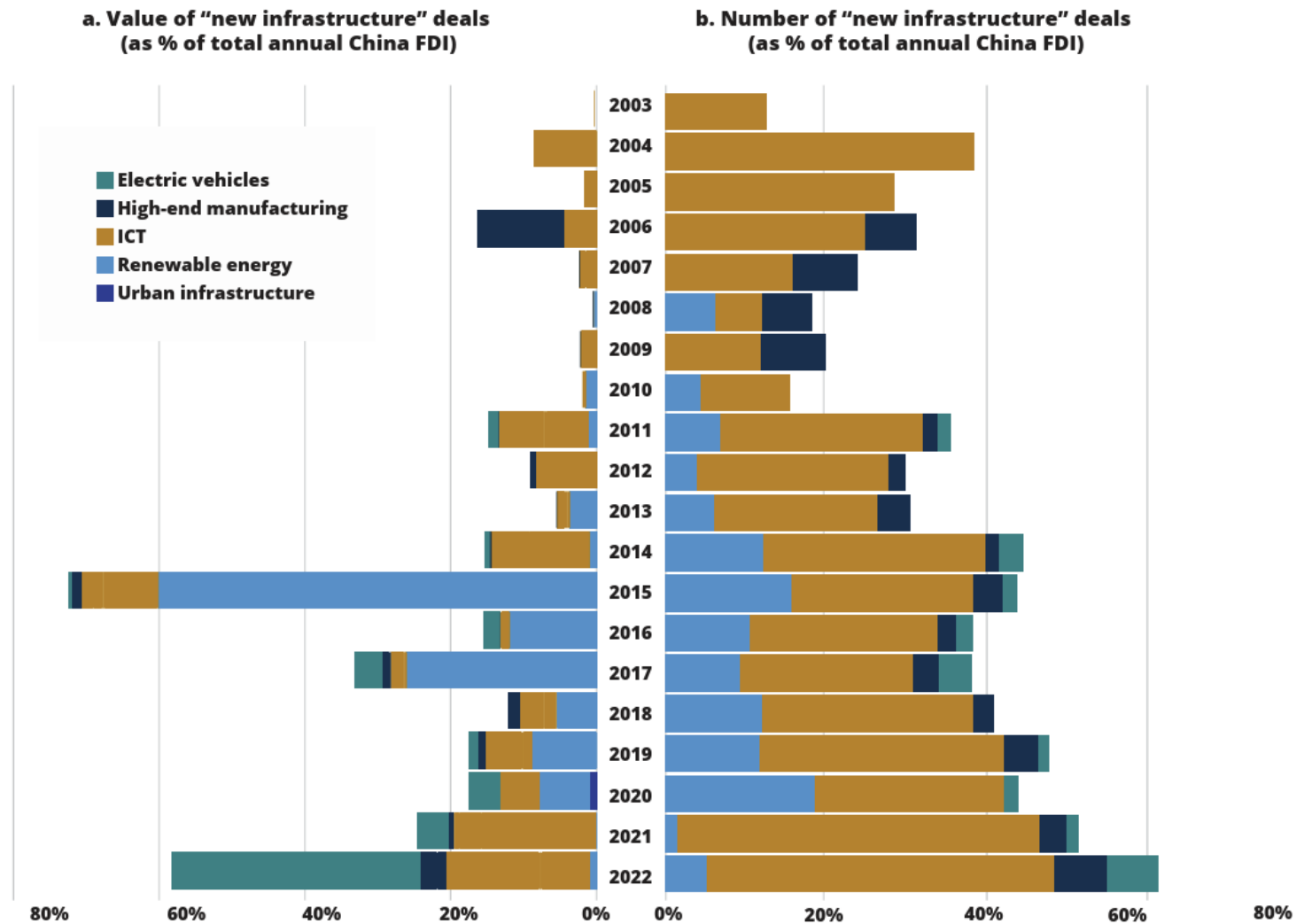
China reduces traditional investments in Latin-America

Chinese FDI by sector and time period



Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

China invests in “new infrastructure” in Latin-America

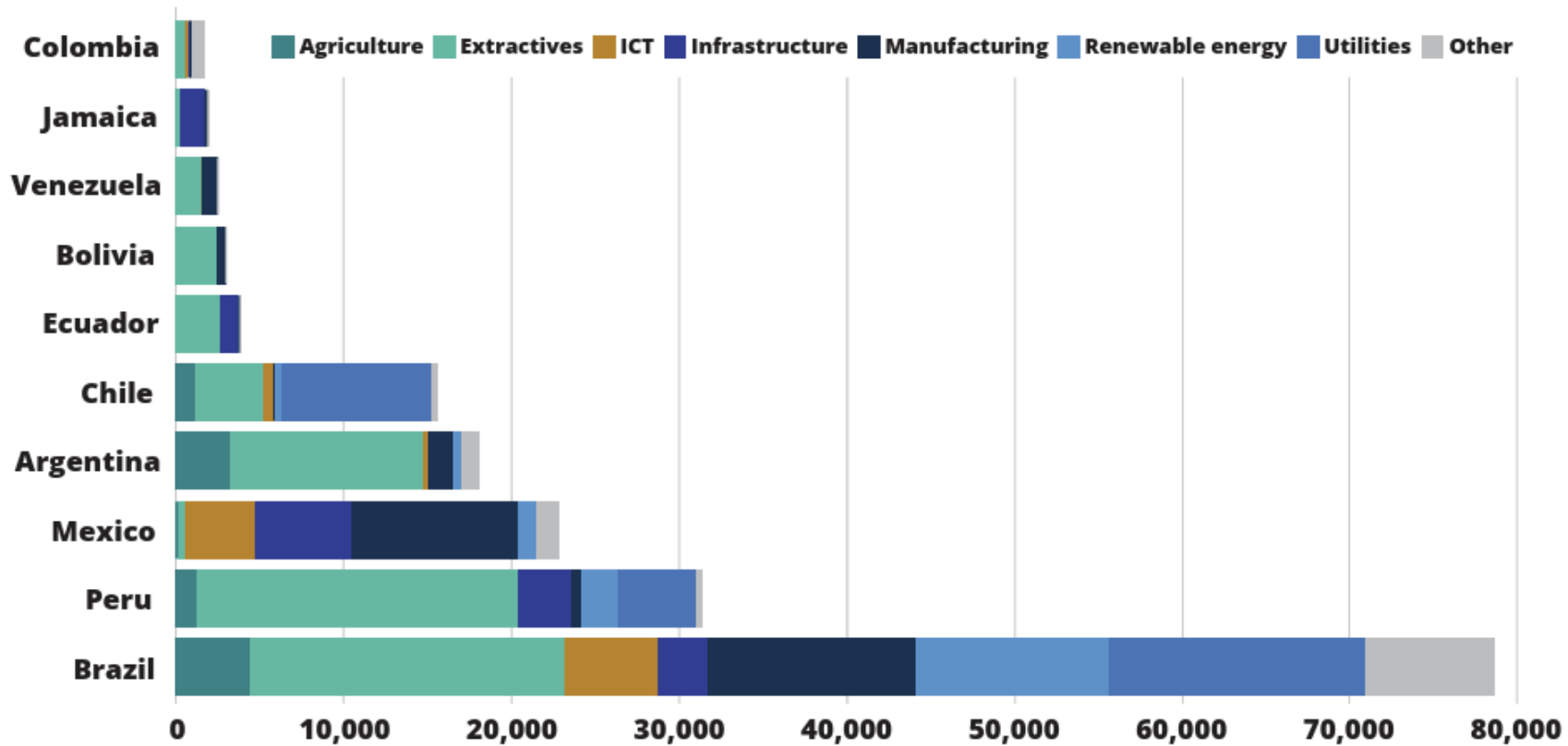


Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

Is Peru missing Chinese FDI in new infrastructure?

Peru is the second largest LAC recipient of Chinese FDI, but...

Top 10 LAC recipient of Chinese FDI by sector, 2003=2022 (millions of USD)



Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

Chancay: For Trading or Manufacturing?



Chancay: Still unclear about manufacturing abilities

Sharing Chinese and Peruvian Visions about the Future Chancay Port: Exploring Opportunities under the Belt and Road

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Working Paper Series

N° 3

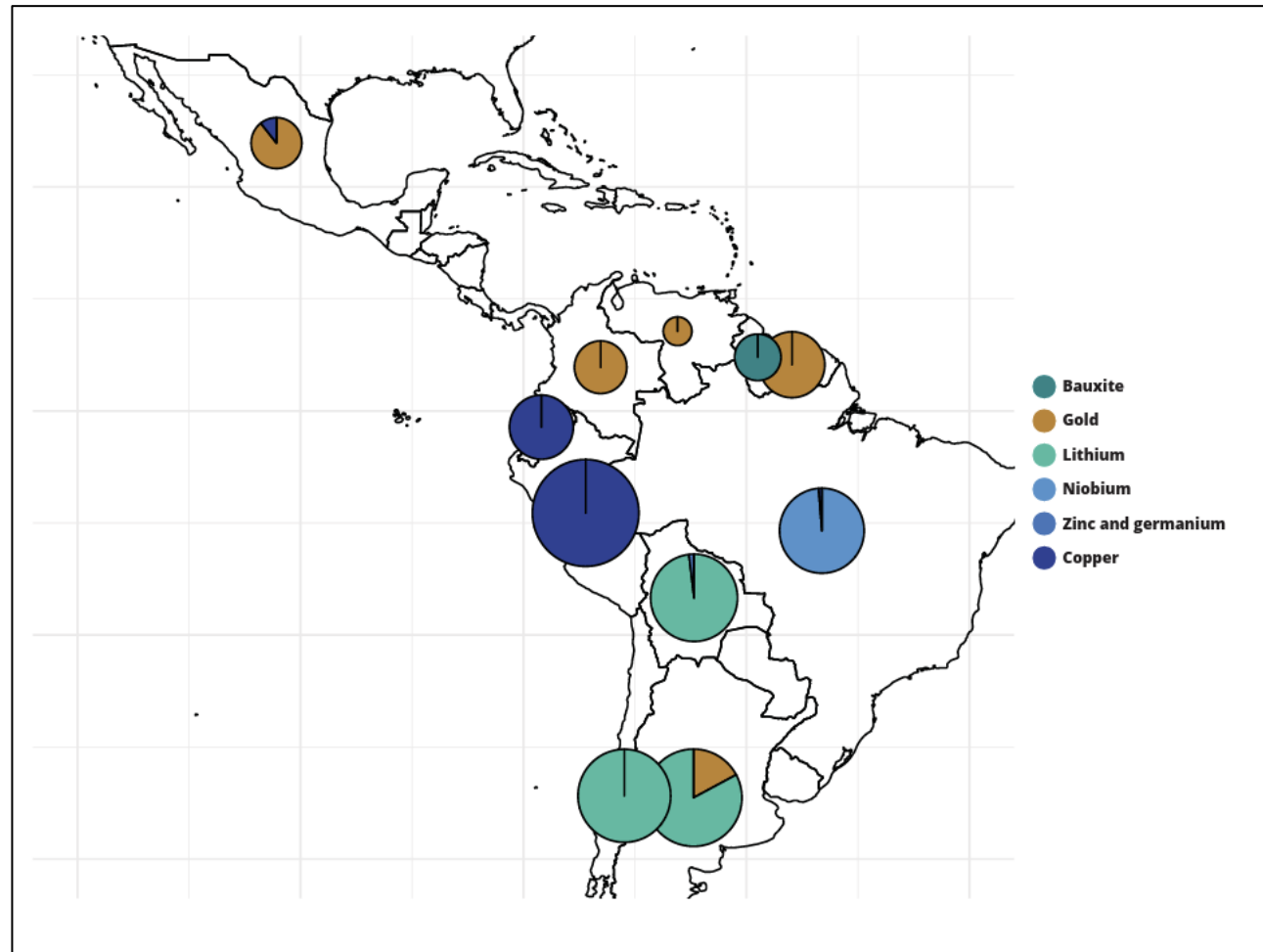
October 2022

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Building manufacturing abilities based on endowments

Chinese FDI in critical metals and minerals by sector and type, 2003-2022

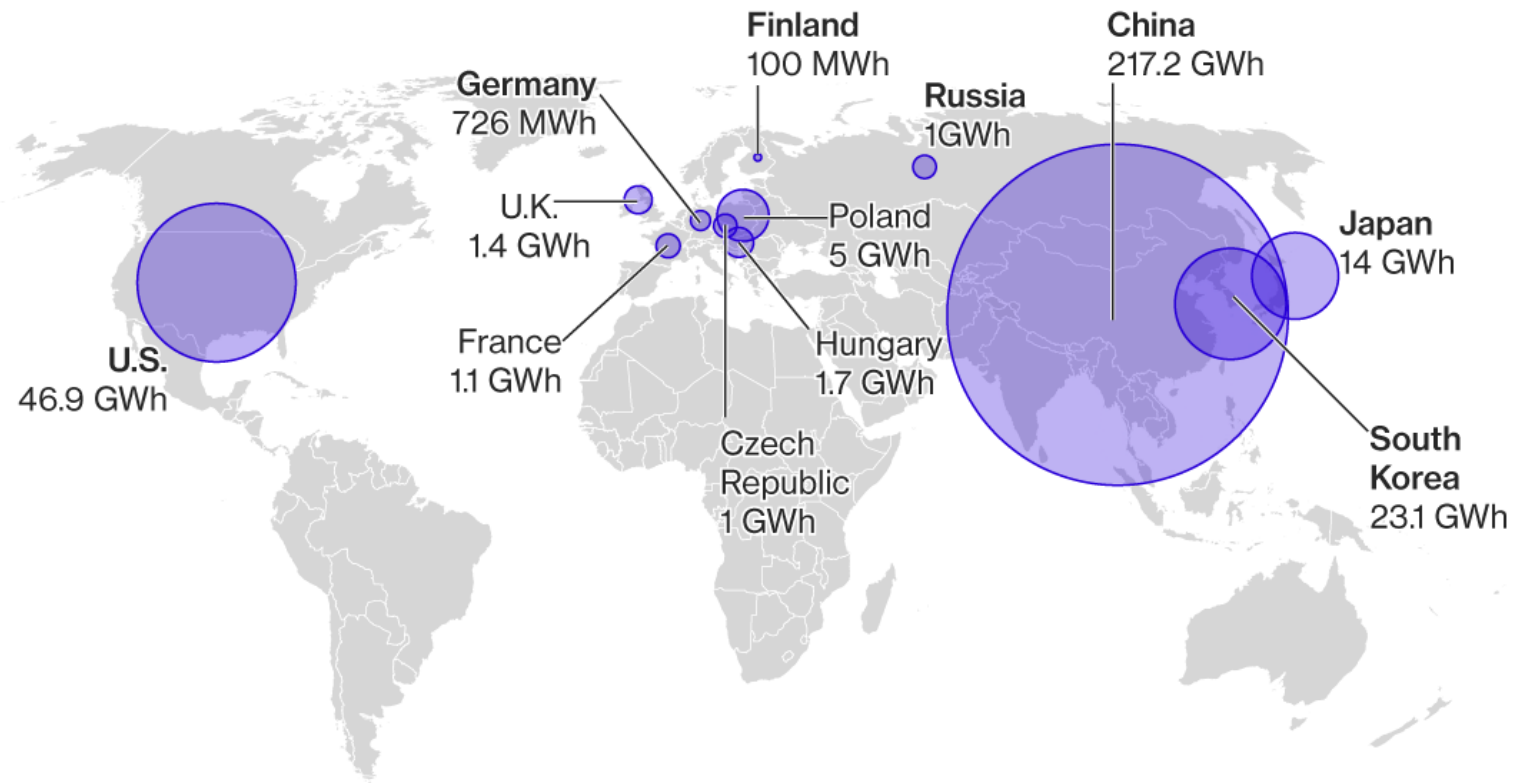


Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

Will Peru join global value chains of battery cell production?

Dominating Supply

China dwarfs global rivals in planned and existing battery cell production capacity



Source: Bloomberg New Energy Finance, CATL IPO prospectus

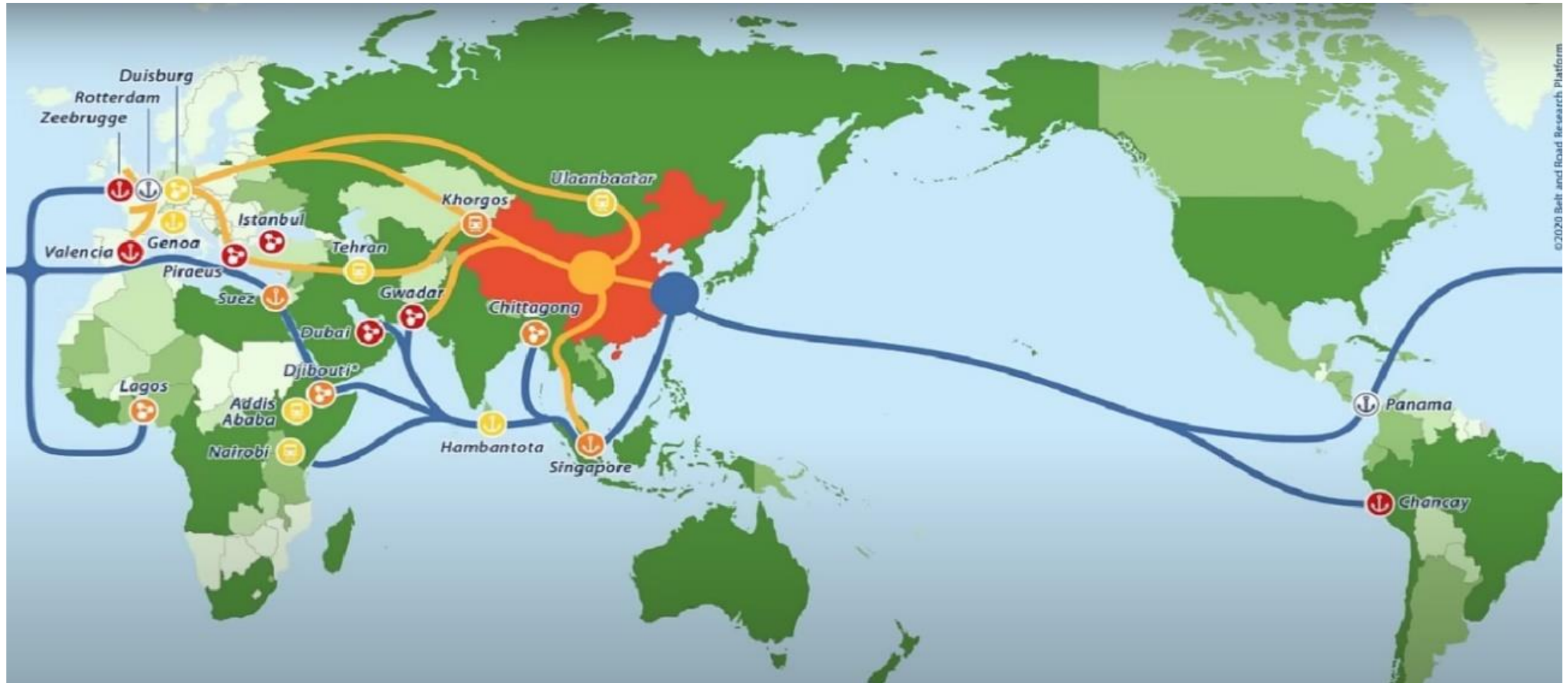
Bloomberg

Bolivia is attracting Chinese lithium investments; and yet Peru?

Bolivia chooses Chinese consortium led by CATL for \$1 billion lithium investment



Peru should participate in Pacific and the New Silk Road



Summary

- China' s economic slowdown is understandable
 - Rule of convergence
 - Capital reallocation to high-tech
 - Competitive domestic firms in NEVs, photovoltaic, ICT, etc.
- US trade restrictions towards China
 - Hardly reduce US reliance on supply chains in China
 - Create more secondary trade hubs as “intermediaries”
- China-Peru economic relationships
 - Still weak: Renewable, ICT, EV, high-end manufacturing
 - New manufacturing abilities: From traditional to high value-added

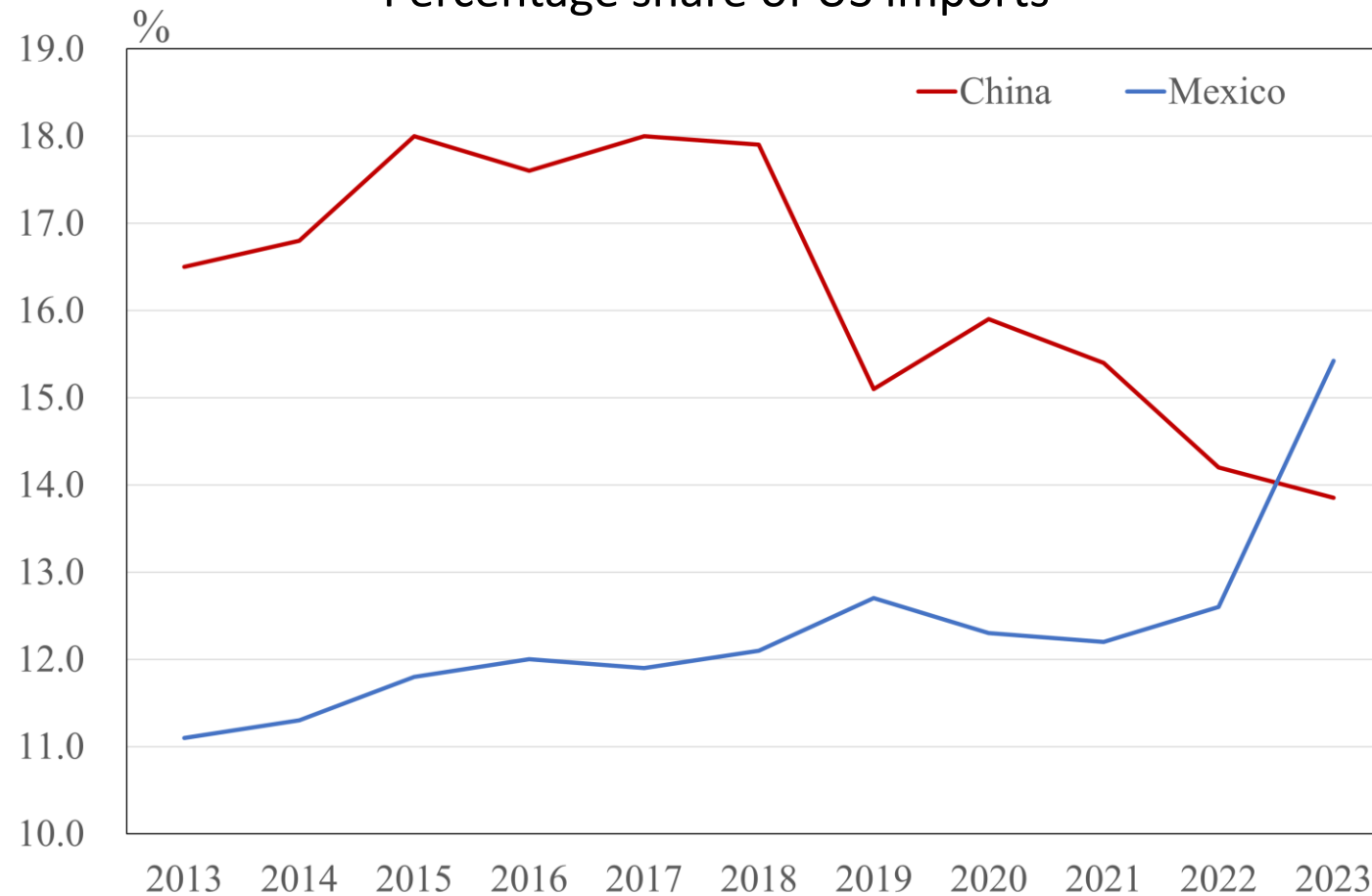
Discussion

“她”
三十而

Are the US and China decoupling from each other?

Mexico overtook China as top US import source in 2023

Percentage share of US imports



Country rank		
	Imports	Exports
Canada	3	1
China	2	3
Mexico	1	2

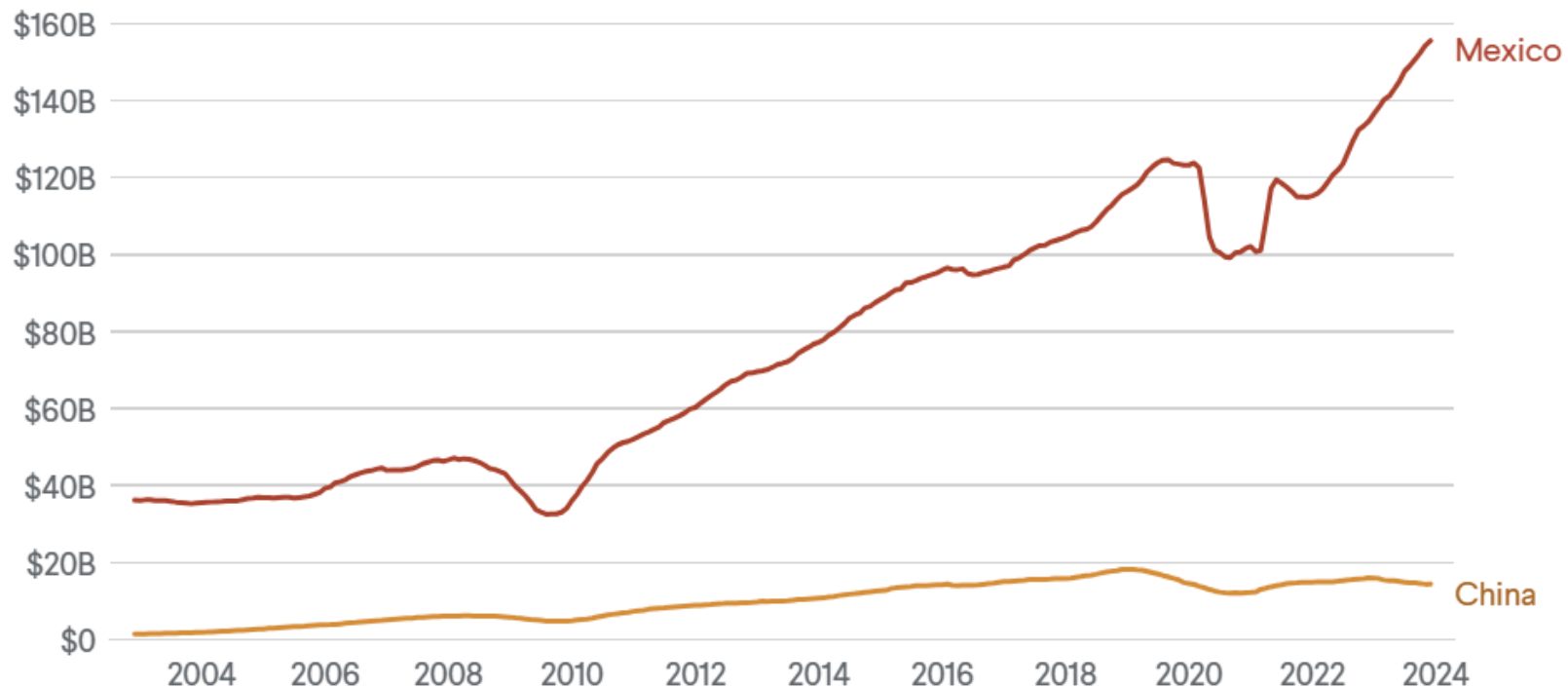
Balance	
Canada	6
China	1
Mexico	2

Source: Author's calculation based on the data from U.S. Census Bureau.

What drives Mexican auto production capability?

US auto imports from Mexico have soared

US imports of autos and auto parts for the 12m period ending each month

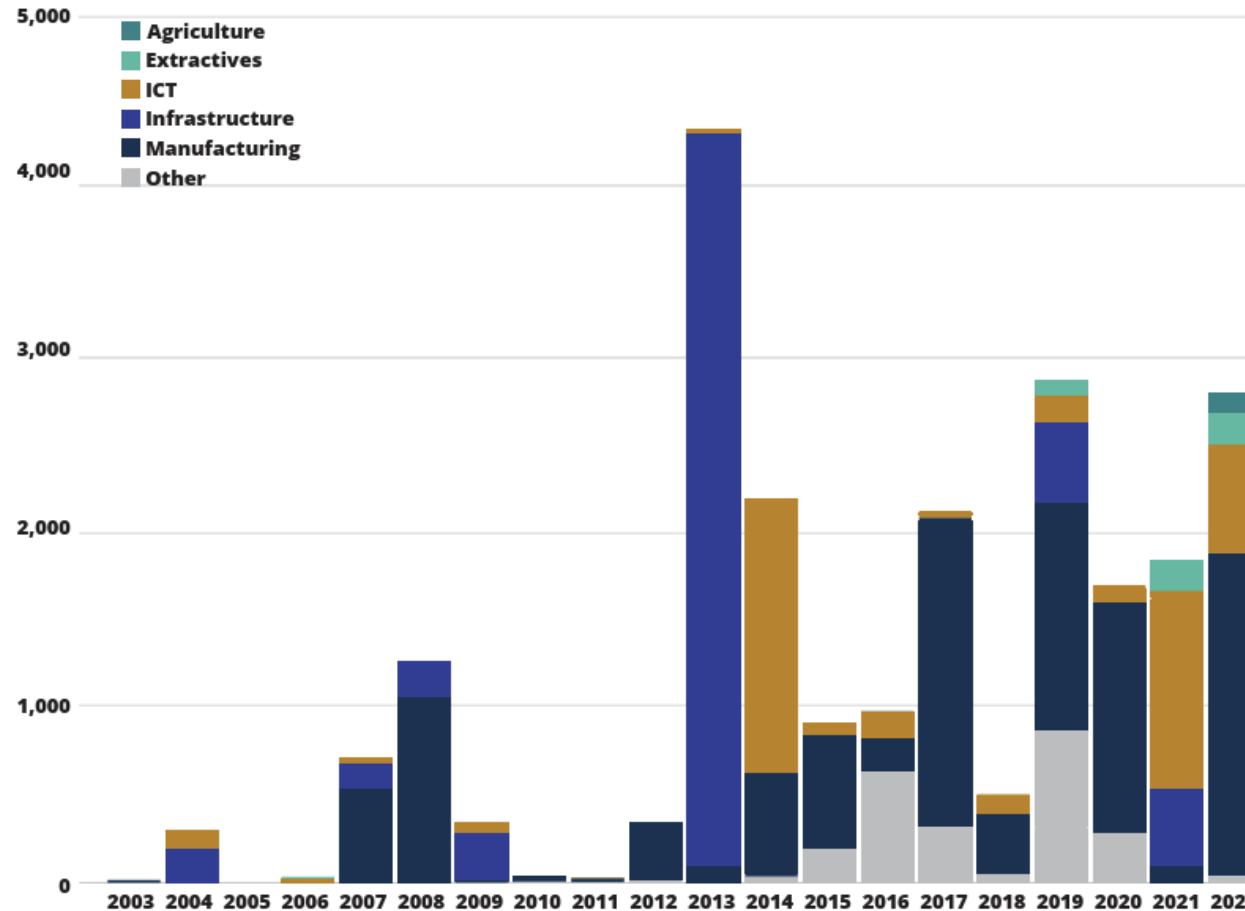


Source: US Census.

Chinese automakers invest in Mexico to enter the US Market

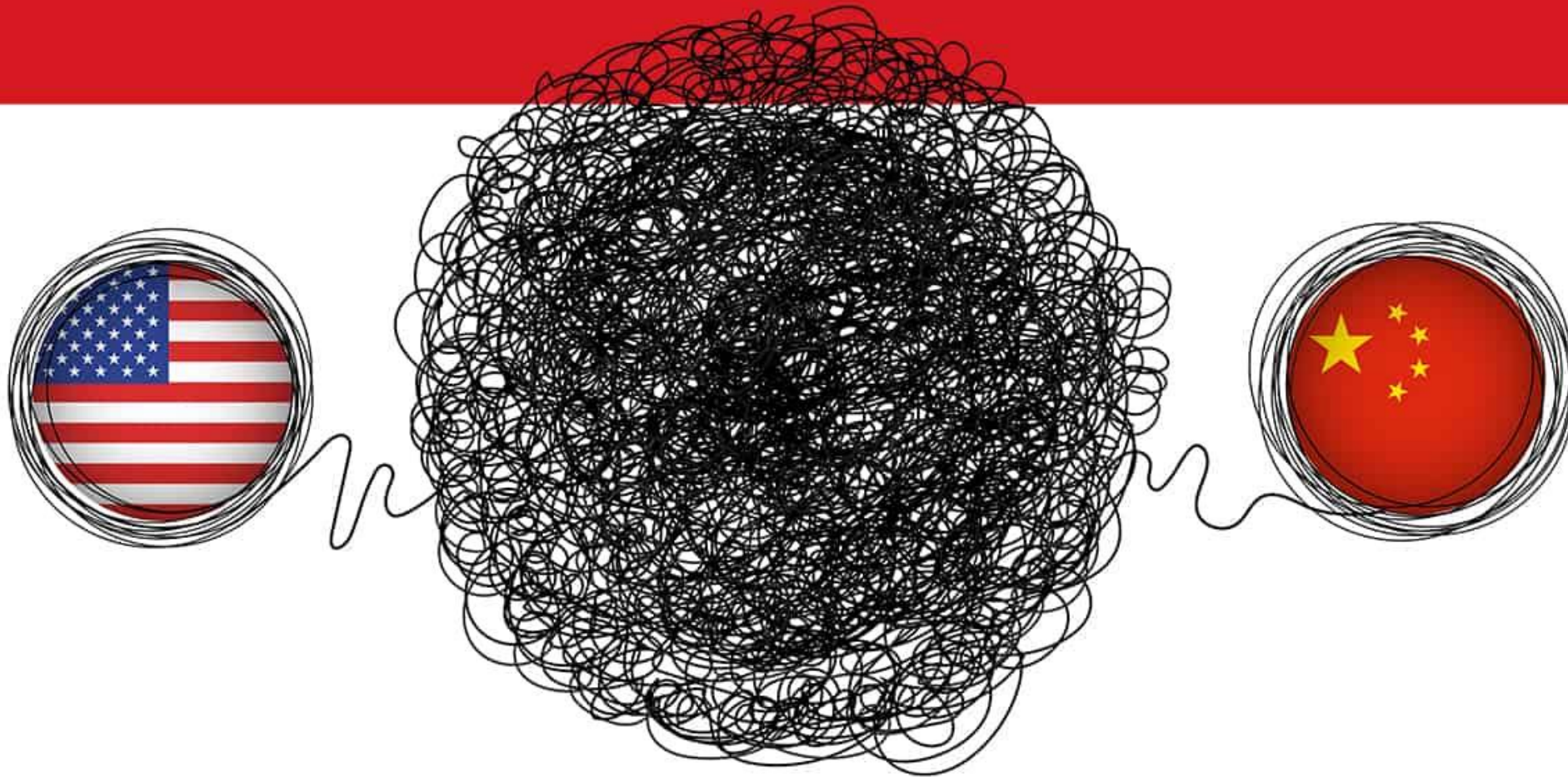
Chinese FDI in Mexico by sector, 2003-2022

Millions of USD



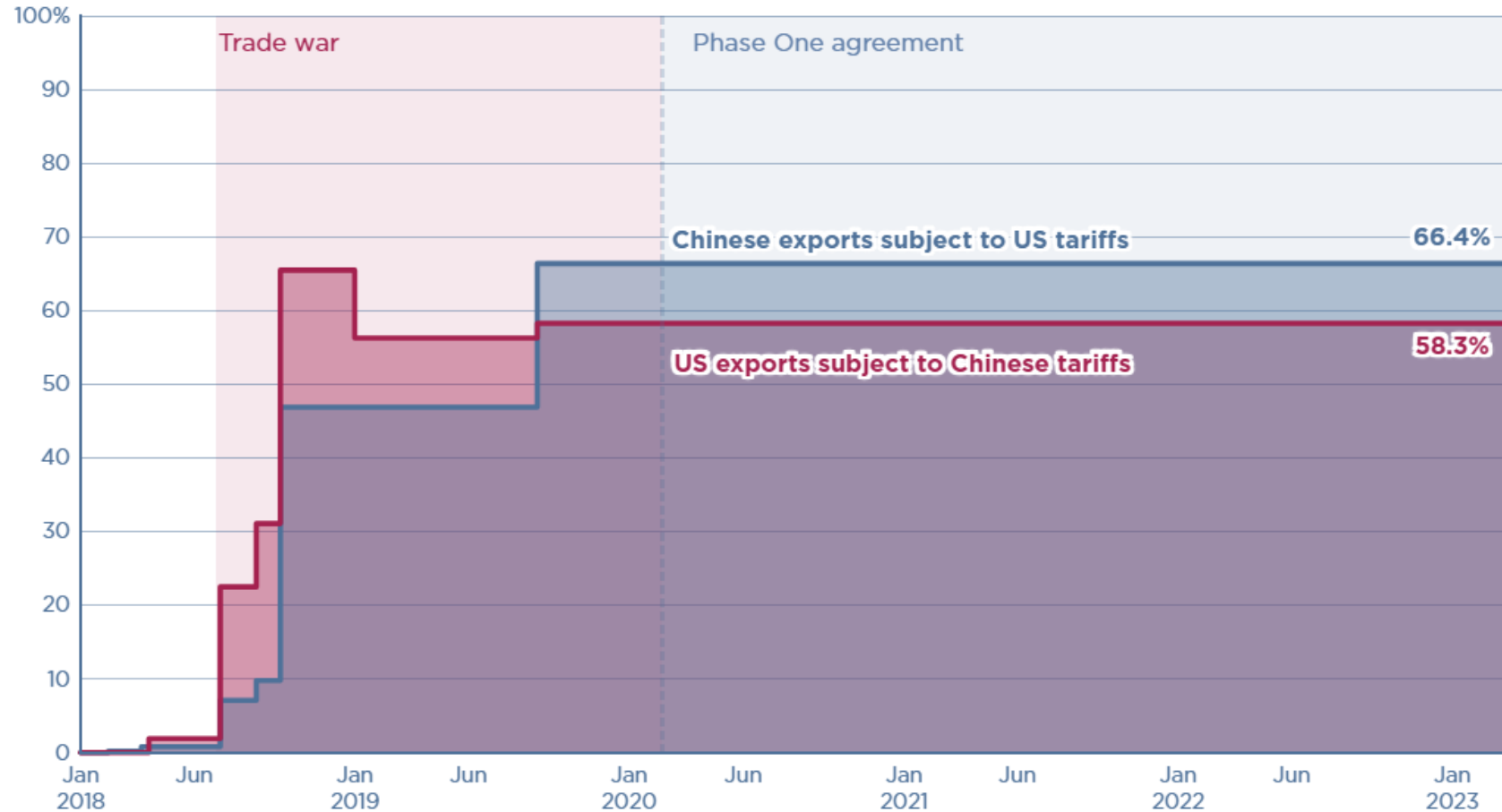
Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

Why do US-China trade relationships matter?



Is the US-China trade “war” a stalemate?

Larger product coverage by the US
Percent of US-China trade subject to trade war tariffs

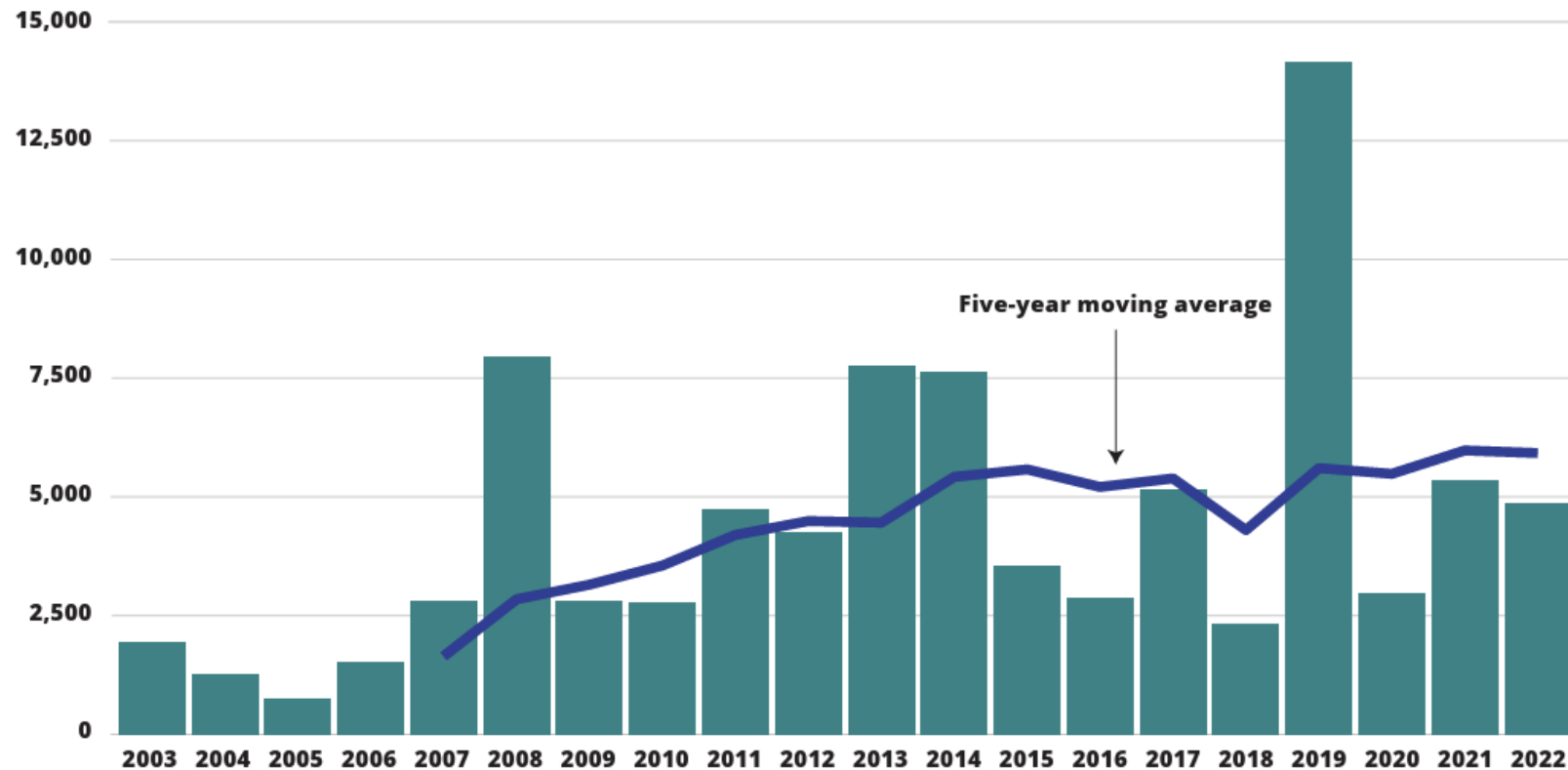


Source: “Trump’s Trade War Timeline: An Up-to-Date Guide” by Bown and Kolb (2023)

Impact? Chinese FDI in Latin-America run a downward trend

Chinese FDI in Latin America has dropped since 2020

USD millions



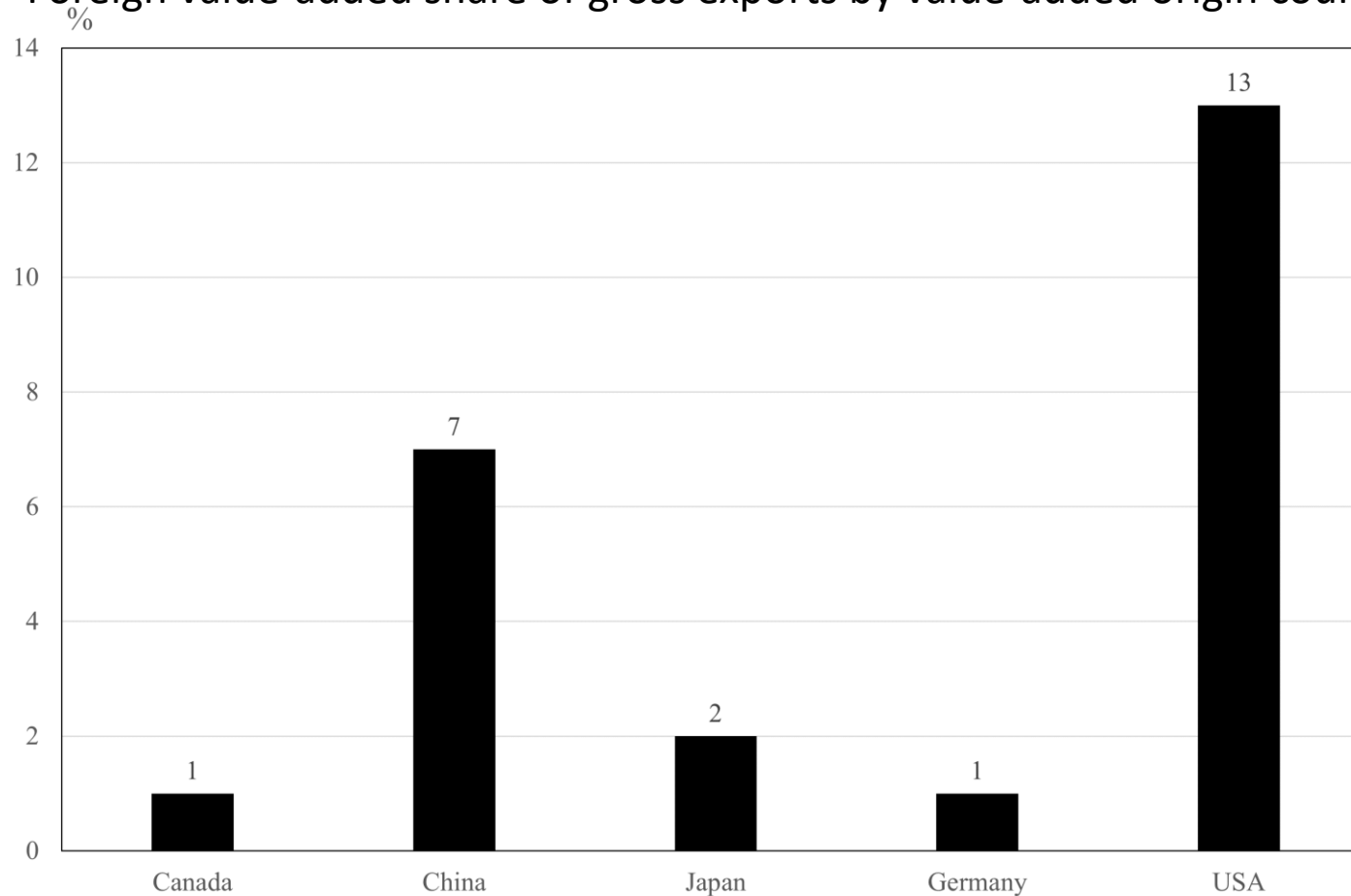
Source: China-LAC Report (January 2024) by Myers *et al.* (2024).

Critical questions

- Are the US and China decoupling from each other?
 - Global value chain; secondary trade hub
- Does the trade tension lead to China's economic slowing down?
 - Capital reallocation; strategic high-technology industries
- Does China strategically restrain its FDI in Latin America?
 - Small and beautiful; new focus on infrastructure, manufacturing, and green fields

Can Mexico replace China in US supply chains?

Mexico relies on Chinese suppliers to export to the US
Foreign value-added share of gross exports by value-added origin country



Source: The Trade in Value Added (TiVA) Database from OECD.Stat.

Mexican products are laggard in medium- and high-skill exports

Domestic value-added content of Mexico's and China's gross exports to the US in 2020

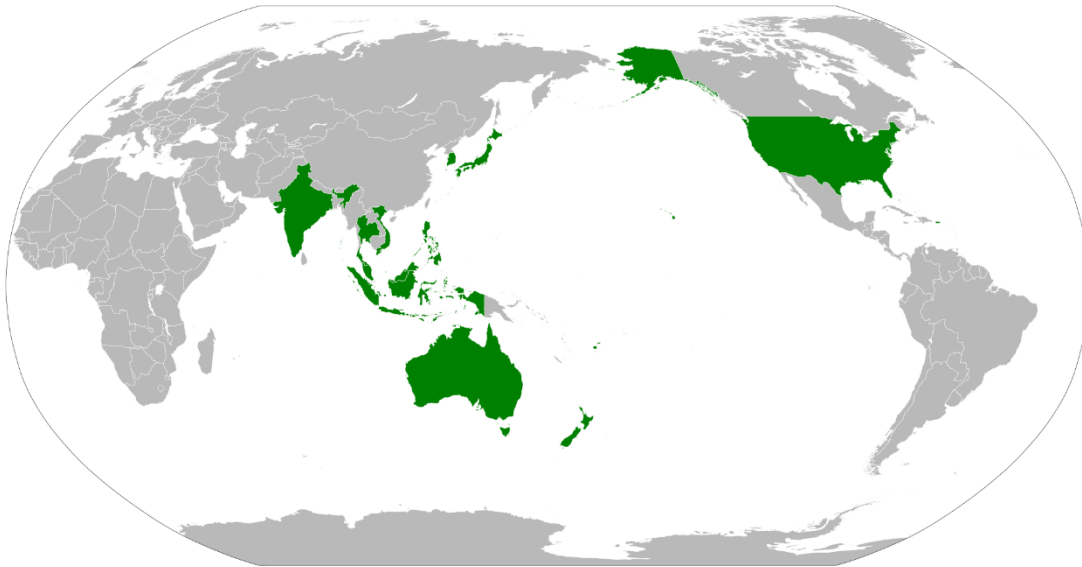
Millions of USD

	Mexico	China	Percentage Difference (%)
Manufacturing	128971	301313	-57.2
1. Food products, beverages and tobacco	5930	4059	46.1
2. Textiles, wearing apparel, leather and related products	3576	48689	-92.7
3. Wood and paper products and printing	1114	6037	-81.5
4. Chemicals and non-metallic mineral products	9702	37178	-73.9
5. Basic metals and fabricated metal products	11346	13438	-15.6
6. Computer, electronic, and electrical equipment	25311	122187	-79.3
7. Machinery and equipment n.e.c	7427	20110	-63.1
8. Transportation equipment	60411	13193	357.9
8.1 Motor vehicles, trailer and semi-trailers	58534	11025	430.9
8.2 Other transport equipment	1878	2168	-13.4
9. Manufacturing n.e.c.; repair and installation of machinery and equipment	36422	4154	776.8

Source: The Trade in Value Added (TiVA) Database from OECD.Stat.

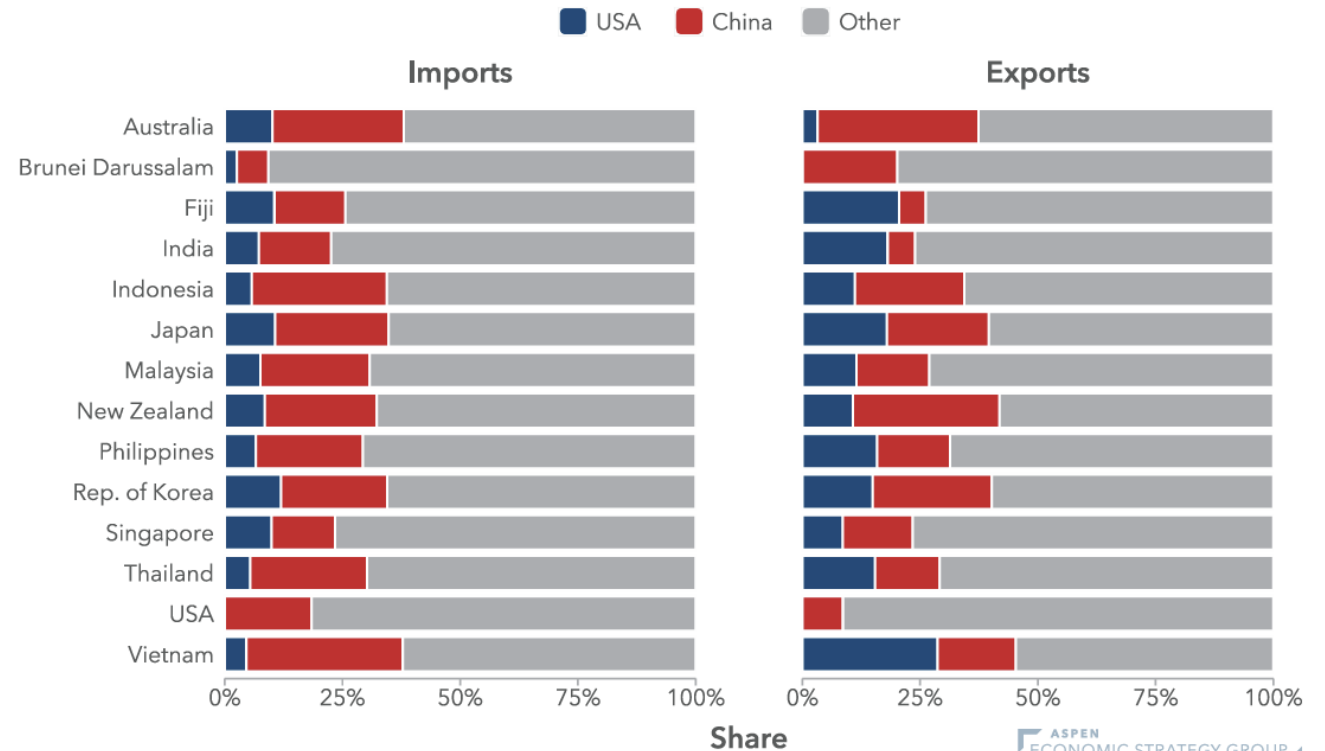
US Supply Chains: Reshaping or Reconnecting?

In May 2022, the United States launched the Indo-Pacific Economic Framework for Prosperity (IPEF)



But, the Regional Comprehensive Economic Partnership (RCEP)?

Import and Export Shares for IPEF Countries, by Selected Partners, 2021



Source: Lovely (2023)