

WORLD: Latin America “Magic, or Realism?” Dec. 29 2004

Topic Reference:

The Economic Problem

III. Gains from Trade

- A. Gains from Advantage
- B. Achieving Gains

This article focuses on the newly established economic bond that has been agreed upon between China and numerous Latin American countries. The Sino-Latin solidarity is based upon the notion that these two up and coming economic regional sectors complement each other extremely well. China, which is growing exponentially as indicated by the feverish GDP growth, hopes to acquire vast amounts of natural resources and farm products from South America. In return, China offers to boost the underdeveloped continent’s infrastructure. For instance, China would invest heavily in the Venezuela oil sector that will cause, “bilateral trade to hit \$3 billion in 2005, double the 2004 figure.” China’s president Hu Jintao visited Argentina, Brazil, and Chile in November promising tens of billions of dollars developing the infrastructure. Furthermore, he promised to label such countries, and Peru as accepted tourist destinations, that are estimated to bring in a huge influx of Chinese tourists in the coming years. In the short run for these Latin American countries, exports will rise dramatically and give them a chance to recover from an abandonment of foreign capital investment three years ago. Argentina, specifically, will rebound with the influx of capital investment.

Both economic sectors will benefit from complementary exchange. Like Japan and Canada, in the class example, China offers capital investment and a marketplace for underdeveloped Latin American countries that badly need development and depend largely on exports for economic success. China will gain the valuable food products, which it lacks from the lack of arable land in China and a huge population, and the necessary raw materials abundantly available in Latin America—for instance, Venezuela for oil. It would be inefficient for China to set aside land for agricultural production, or find raw materials elsewhere where it might be harder to bargain for. Similarly, various parts of Latin America, such as Argentina, badly need foreign capital investment to upgrade their infrastructure since American investors abandoned such projects three years ago. Both economic sectors are trading away their comparative advantage to fill their other needs.

(338 words)