

**Introduction to Special Issue of Journal of Chinese Economic and Foreign Trade Studies**

This Special Issue focuses on the important topic of “Two-Way Trade Flows: China and Latin America”. Five peer-reviewed papers are included. Each paper contributes to different interesting and relevant facets of the chosen theme.

The first paper is on “Mirror Trade Statistics between China and Latin America”, by *Francisco Benita* and *Carlos M. Urzúa*. It examines the important question of the discrepancies of official export and import data between China and its trading partners in Latin America. The Latin American (LA) economies considered include Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. This is the *first* paper in the literature to examine in detail the potential sources of inaccuracies in these important trade data.

The paper first explores some conventional factors that may explain why the mirror trade statistics between China and Latin America can be so large. For example, according to China statistics, in 2014 exports to Panama were 9.3bn dollars. But according to the figures from Panama, imports from China were only 1.1bn dollars. The usual suspects that may explain the disparities include “f.o.b.-c.i.f.” adjustments and potential input errors, product misclassification, time lags and exchange rate changes. For the case of China, we also have the issue of re-exports via Hong Kong. However, the paper finds that none of these can satisfactorily explain the disparity. The paper then turns to trade invoicing between China and LA countries. For the period considered (2009-2014), there was export under-invoicing from the part of China for 11 partner countries in Latin America. The export under-invoicing was extremely large for Bolivia, Mexico and Paraguay. Such mis-invoicing is likely partly due to illegal capital flight. Finally, the paper runs panel regressions and considers variables such as corruption perception index, statistical capacity index and financial openness index in explaining China–Latin America trade data disparities. The main results seem to be that in some cases the statistical capacity index is significant. In other cases, financial openness is significant. Generally, the corruption perception index is not significant.

The second paper on “Mexico, Brazil and Chile: Potential Links with China and South Korea” is by *K.C. Fung*, *Hsiang-Chih Hwang*, *Jesús Seade* and *Rocky Y. Tung*. The paper examines the trade relationships between Mexico, Brazil and Chile on one hand and China and South Korea on the other. The focus is on exchanges of parts and components, especially telecom parts and electronic parts such as semiconductor. While it is still early to conclude, the paper finds some preliminary evidence that Mexico may be in the process of forming a trans-Pacific production network with China and South Korea. Using panel regressions, the paper then provides an empirical study showing that South Korean foreign direct investment (FDI) as well as total FDI can facilitate trade in parts and components. The paper also argues that joining free trade agreements like the Trans-Pacific Partnership by various countries can enhance and intensify the East Asian and Trans-Pacific production networks.

The third paper by *Carlos Casanova, Romina Ferreira* and *Le Xia* is on “Measuring Latin American’s Export Dependency on China”. The paper highlights many interesting statistics, showing that for some of the largest LA exporters to China such as Brazil, Argentina, Chile, Peru, Colombia and Venezuela, there were very high dependencies concentrated in four commodities: soybeans, crude oil, copper ore and iron ore. These four commodities accounted for 80 per cent of LA total exports to China for the years 2008 to 2014.

The paper constructs a novel and very useful index of measuring export dependency. The index takes into account several important elements, including how concentrated a particular commodity is in a country’s exports, how important China is as an export market in the world for a particular commodity, as well as a measure of China’s strength as a buyer of a commodity relative to the exporting country’s strength as a seller. Based on the estimates by the paper, all countries and all sectors in Latin America increased their dependence on China for the period 2008 to 2014. Absolute dependence was particularly high for Costa Rica, Colombia, Uruguay, Venezuela, Brazil and others.

*José Antonio Núñez Mora* and *Leovardo Mata Mata* in the fourth paper provide a technical study of the stock markets in China (Shanghai Stock Exchange SSE, Shenzhen Stock Exchange SZSE and the Hong Kong Stock Exchange) and how they may be related to the Market Integrated Latin America (MILA). Major stock indices in the MILA include the IPSA (Chile), COLCAP (Colombia), S&P/BVL (Peru) and IPC (México). The Hang Seng Index (HSI) from SEHK involves businesses with high level of capitalization and greater openness to the world, so most researchers consider HSI is the most important stock market index in China. The paper shows the various degrees of dependence between yields on stock indices HSI, IPSA, COLCAP, S&P/BVL and IPC. The relationship between the stock indices in China and those in the countries Chile, Mexico and Peru is positive, while for the case of Colombia the relationship is negative. The level of dependence is measured by the correlation coefficient obtained to adjust the multivariate distribution probability. The HSI index yields are found to be more closely related to the yields of the IPSA index, then next with Mexico and Peru and finally with Colombia. This shows that the stock markets of China and MILA are directly connected.

The last paper by *Lurong Chen, K.C. Fung* and *Alicia Garcia-Herrero* focuses on the trade in parts and components in Latin America and East Asia and provides a study of the determinants of such trade. The importance of the East Asian economies in Greater China’s manufacturing production can be highlighted by the fact that Greater China and East Asian economies are the primary sources of Greater China’s parts and components imports, representing more than 75 per cent of Greater China’s imports since 1990. For LA countries including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. LA’s manufactured exports accounted for 63.3 per cent of LA’s intra-group exports and 38.7 per cent of LA’s exports to rest of world in 2010. Parts of telecommunication equipment (SITC 764) and parts of motor vehicles and accessories (SITC 784) were both the largest importing and exporting sectors of LA.

The paper further performs regression analysis and finds that for both exports and imports of parts and components, the positive and significant variables are the size of the economy, quality of labor (human capital and wages) and selective

aspects of infrastructure/institution (trading across border index and logistics performance index). Furthermore, the paper finds that trade in parts and components have somewhat different determinants compared to trade in all goods. Trade in parts and components are responsive only to a smaller group of institutional and infrastructure measures. In addition, the quality of labor is more important to trade in parts and components than to trade in all goods.

**K.C. Fung and Carlos M. Urzúa**