



# China, Latin America, and the Global Economy

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Economic, Historical, and National  
Issues

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*Edited by*  
Aaron Schneider  
Alessandro Golombiewski Teixeira

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# China, Latin America, and the Global Economy

“The extraordinary expansion of China’s ties to Latin America marks a turning point in the region’s engagement in the international arena, and this timely volume illuminates the implications across key countries and sub-regions as well as different economic and strategic domains. This study considers how best to maximize opportunities that an increasingly multi-polar order affords to Latin America, emphasizing the need to balance growing relationships with China alongside continuing engagement with the United States.”

—Eric Hershberg, *Professor of Government, American University*

“This volume not only presents a rich and comprehensive analysis of China-Latin American relations, it also offers important insights into China’s overall economic, foreign policy and geopolitical strategies and limitations as an emerging global power. Required reading for anyone interested in a deep and contextual analysis of China and world order.”

—Amitav Acharya, *Distinguished Professor of International Relations, American University*

“This collection of clearly written and original works by noted scholars examines China’s engagement in Latin America. Taking a unique position, it explores how the global powers can coordinate and work collaboratively with regional players to shape the regional and global order. The volume makes an important contribution to the literature on China’s rising power behavior in one of the most important regions of the world. Strongly recommended for anyone who is interested in Chinese foreign policy, great power relations, and regional dynamics in Latin America.”

—Suisheng Zhao, *Professor, Josef Korbel School of International Studies, University of Denver, and Editor of Journal of Contemporary China*

Aaron Schneider ·  
Alessandro Golombiewski Teixeira  
Editors

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# Introduction

*Alessandro Golombiewski Teixeira and Aaron Schneider*

China has sought to occupy a more prominent global position without upsetting existing international relationships. This has been especially true in Latin America, where the US continues to dominate regional relations as a result of geographic proximity and historical engagement, among other reasons. Still, China is already the top trading partner or among the top trading partners for every country in the region, especially as Chinese growth outpaced the West in the aftermath of the 2008 financial crisis, and China has continued to act as the motor for the international economy after the onset of the 2019 pandemic. Increasingly, Chinese capital rivals Western-dominated multilateral, bilateral, and private lenders and investors in the region. To make sense of Chinese “going out” and the response from Latin America, the current project

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invites experts on China and Latin America to engage with the meaning of Chinese engagement, the responses from Latin American countries, and the potential scenarios moving forward. In particular, the project argues that room exists for positive-sum outcomes, but only under certain conditions that depend on the actions of China, the United States, and especially countries and subregions within Latin America.

Some have viewed Chinese integration with Latin America as a threat to US influence. Others have argued that China threatens to repeat the most extractive and interventionist elements of neocolonial relations. Some portray China loosening traditional conditions on trade and capital, while others note that Chinese engagement is not without its own conditions, different but no less significant, than those of traditional partners. The current project argues that a complete understanding of the future of Chinese-Latin American engagement will depend on the particular patterns of economic and political integration that occur with each country and subregion, and within particular sectors. Increased interconnection with China is bound to happen, and its exact form will depend on actions by China, the US, and each Latin American country.

Because they have different endowments and histories, the countries of Latin America present varied images when engaged with China. In economic terms, Brazil, Argentina, and Mexico represent larger and more complex actors, while Andean countries present particularly commodity-dependent export profiles. The small countries of Central America present unique geopolitical challenges given their proximity and historical relation to the US, while the Caribbean offers a subregional dynamic that surpasses the characteristics of each individual country. Further, swings in government and electoral cycles, including pendulum swings to the right during the previous decade, and more recent swings back to the left, alter the political scenario in ways that shape and complicate short-term trends across the continent.

This edited volume seeks to offer sectoral, subregional, and national accounts of the ways in which Chinese engagement with Latin America will shape the regional and global order. What is happening in terms of trade? What is happening in terms of infrastructure? What is happening in terms of finance? In what ways can major regional actors, such as Brazil or Mexico, shape their relationship with China, and what room do smaller actors, such as Andean countries, Central American countries, and the Caribbean have to secure relationships beneficial to all parties? Finally,

how can deeper engagement between China and Latin America occur in ways that the US does not perceive as threatening?

Under the right conditions, the rise of China can promote shared solutions to thorny global problems as well as a world order characterized by genuine cooperation among great powers. By making this argument, the current volume stands apart from many contemporary analyses of Chinese emergence. The crux of the argument depends not on any singular actor alone, but rather the new relationships between great powers, such as China and the US, and lesser powers, such as the countries of Latin America and the Caribbean. To achieve a cooperative world order, countries like those in Latin America and the Caribbean are essential contributors, as they can help to temper unnecessary competition between great powers like the US and China. Yet, Latin American and Caribbean countries can only fulfill this function if they act collectively and with a degree of autonomy, shaping a new world order that includes agency for lesser powers and cooperation and positive-sum outcomes among great powers.

Before making this argument in the rest of this volume, it is important to examine the economic and geopolitical changes that have occurred in recent decades, as well as the particular position of peripheral and semiperipheral countries such as those in Latin America and the Caribbean. This discussion will be the focus of the next section, followed by a brief review of current literatures on Chinese relations with Latin America and the Caribbean. Next, this chapter emphasizes the methodological leverage obtained with attention to three elements: Chinese economic and policy development, variations across the countries and subregions of Latin America and the Caribbean, and key historical and sectoral characteristics of Chinese engagement. An overview of the organization of the book ends this introductory chapter.

## ECONOMIC AND GEOPOLITICAL CHANGE

The last several decades have been characterized by a heightened period of international integration, creating space for the emergence of new economic and political actors, foremost among them, China (Li 2012). Integration has been driven by policy changes, such as deregulation and liberalization; technological changes, such as information and communication technologies; and geopolitical changes, such as the fall of the Soviet Union and the incorporation of former Soviet states and China into the

world market economy (Fukuyama, 1992). Raw materials extracted in one place were transformed into intermediate goods in another, assembled into commodities in another, and consumed in yet another, creating a chain of value that encompassed the globe. Globally integrated value chains drew far-flung geographic regions closer together, increased flows of capital, expanded trade, and generated immense wealth. Among the greatest beneficiaries of the expansion, in terms of a shifting global role, was China, which had opened its economy in the 1980s and reoriented toward export-oriented industrialization, rapidly becoming among the largest economies on the planet.<sup>1</sup>

Yet, the period of globalization was also fraught with challenges. A transnational capitalist class came to coordinate global value chains, creating a globalized world for the rich, but excluding most of humanity from the benefits (Robinson 2015). Soaring inequality left consumers unable to absorb the commodities generated in the newly productive global without ever larger infusions of credit (Piketty 2017). For a time, Chinese trade surpluses were recycled in Western financial centers to sustain consumer credit, but the crisis of 2008 exposed the vulnerability of bubbles to sustain global value chains dominated by finance (Varoufakis 2015).

The early 2000s also exposed the fragility of the unipolar moment of US hegemony after the end of the Soviet Union. Almost as predicted by great power theorists (Kennedy 1989), the US succumbed to a paroxysm of imperial overreach in Afghanistan and Iraq, exhausting its capacity to act unilaterally across the globe. China came to occupy a pivotal role in several regions, certainly in its near neighborhood of East Asia (Li 2010), and quickly came to be among the most important trading partners and sources of capital for regions farther afield, including Latin America (Gallagher and Porzecanski 2010).

The world order taking shape since 2009 is marked by several elements of significance when considering Chinese relations with Latin America. First, while China recovered quickly by raising domestic incomes and reorienting some of its production to the home market, Western central

<sup>1</sup> The exact placement of China among the top economies of the world depends on the use of nominal GDP, real GDP, GDP at purchasing power parity, or other measures. It is not our interest here to lead the reader into a discussion that has agitated the current academic circles, but to say China has grown significantly and markedly among all countries in recent decades.

banks sought to prop up finance-dominated value chains and stock markets with massive infusions of credit. Second, much of this cash went into new technologies, as platforms and data came to dominate drivers of growth, with questionable impacts on democracy (Zuboff 2020) and employment (Acemoglu 2021). By reinvesting its trade surpluses, China joined in the reorientation toward technology, lifting research and development to bring its own economy to the edge of the tech frontier and investing in infrastructure to link other countries, including Latin America, into value chains coordinated and led by Chinese actors (Wen 2020).

It is in this context that Latin American and Caribbean relations with China fit into a new world order. It is not clear that China poses or wishes to pose a challenge to US dominance in Latin America, and it would appear that China most of all does not wish to challenge the capitalist order in the region (Bernal-Meza and Xing 2020: 4). Yet, Chinese development has propelled its relations with Latin America in two ways that cannot help but alter international relations. First, Latin America and the Caribbean have increased their trade, especially the export of raw materials, to satisfy expanding Chinese industrialization and consumption. Second, by penetrating Latin America, China occupies space that the United States previously dominated but has neglected in recent decades (Ellis 2009).

In the last decade, Chinese GDP per capita has expanded an average of 9.9% annually. This expansion has drawn on Latin American and Caribbean raw materials, and engagement has rapidly deepened in other ways as well. In addition to becoming the top or among the top trading partner of the countries in the region, China is also one of the most important investors. Part of the expansion in investment can be understood as China's need to "go out," with an important result that Latin American countries have alternative sources of finance, bearing different conditionalities, and perhaps providing greater policy space for individual Latin American and Caribbean governments (Jenkins 2019).

President Xi Jinping signaled Chinese eagerness to deepen relations with Latin America during the inauguration of the Forum of China and the Community of Latin American and the Caribbean States (China-CELAC Forum) in 2014 in Brasilia. He promised Chinese commitment to boost trade, investment, and technological cooperation, noting that China's demand for agricultural products, mining, and investment in industry, infrastructure and energy will remain high in the coming

years. In total, 24 bilateral forums between China and Latin America and the Caribbean have occurred, and eight more are proposed.<sup>2</sup> Of particular note, the ministerial meeting of the China-CELAC Forum of 2018 included the presentation of the Belt and Road Initiative and a Joint Chinese, Latin American and Caribbean States Action Plan 2019–2021. As proffered to Latin America and the Caribbean, the Belt and Road Initiative prioritized computer technology, network communication, internet of things, and artificial intelligence, accelerating the development of digital connectivity in the region. Similar to the dynamic provoked with its regional neighbors, China seeks to project the image of “flying geese,” in which a lead economy pulls along its partners, shifting technological advances to them to raise their productivity and living standards and pressuring home economy firms to upgrade further (Akamatsu 1961).

## EXISTING LITERATURE AND MISCONCEPTIONS

Despite the growing Chinese interconnectedness with Latin American and Caribbean, scholars, professors, researchers, businessmen, and diplomatic personnel lack reliable, in-depth, high-quality analysis of the relations between China and Latin American countries. In particular, there has yet to be a nuanced consideration of the socioeconomic variations within Latin America, and what those variations mean for Chinese engagement (Serbin 2022). Southern Cone countries are different from Andean countries are different from Central America are different from the Caribbean are different from Mexico. Further, each of the countries and subregions varies in terms of its existing integration with the

<sup>2</sup> The ongoing Forums are China-LAC Infrastructure Cooperation Forum, China-LAC Business Summit, High-Level China-Latin America Investment and Cooperation Forum, China-CELAC Infrastructure Cooperation Forum, China-Caribbean Economic and Trade Cooperation Forum, China-CELAC Forum of Ministers of Agriculture, China-CELAC Science, Tech, and Innovation Forum, China-CELAC Digital Technology Anti-Epidemic Cooperation Forum, China-CELAC Poverty Reduction and Development Forum, China-LAC Martial Arts Exchange Forum, China-LAC Think Tanks Forum, China-CELAC High-Level Academic Forum, China-CELAC Local Government Cooperation Forum, China-LAC People’s Friendship Forum. The newly proposed ones are China-CELAC Space Cooperation Forum, China-LAC Legal Forum, China-CELAC Digital Technology Cooperation Forum, China-CELAC Transportation Cooperation Forum, China-CELAC Private Sector Cooperation Forum, China-CELAC University Dean Forum, China-LAC Youth Development Forum, and China-LAC Media Forum.

US, calling for additional nuance in terms of the triangular relationship between China, the US, and Latin America. To fill this gap in understanding, we have collected contributions from Chinese, Latin American, and North American scholars addressing historical, sectoral, regional and national dimensions of Chinese-Latin American engagement.

The growing role of China in Latin America and the world is one of several momentous changes facing the international system. In the past two decades, China has become a motor of international growth, increasing its need for raw materials and commodities, strengthening the integration of China and Latin America, and promoting growth in the region (Santiso 2007). Further, the last decade has seen a rapid expansion in other forms of integration, as Chinese investment in much-needed infrastructure and production has interwoven Chinese capital with Latin American ventures (Gallagher 2016; Ray et al. 2017). While the beginnings of a political economy understanding of Chinese relations with Latin America are coming into view, there remains limited coverage of the variations within Latin America and what that means (Stallings 2020).

To understand the factors driving Chinese engagement with Latin America, one aspect that deserves attention is the evolution in China's own development and foreign policy strategy. As China's growth and modernization has accelerated, it has needed to "go out," forcing it to seek inroads in Latin America (Roett and Paz 2008). At least part of that is a need for natural resources, and that has certainly shaped Chinese foreign trade and investment patterns (Xu 2017). But, there is also increasing diversification in the nature of Chinese engagement, reflecting a maturing of Chinese development and its engagement with Latin America (OECD/CAF/UN 2015). As Chinese engagement has become more complex, it has adopted a more complex set of strategies and relationships with the region (Fornés and Philip 2012; He 2012).

Chinese emergence also reshapes Latin American relationships with other parts of the world, especially the US, which has a long history in the region. China has generally avoided direct confrontation with the US in the region, looking for opportunities to engage without upsetting existing international relationships (Strauss and Armony 2012). In recent years, China has been less quiet in its engagement, and some in the US have been convinced all along that Chinese engagement represents a threat to the US (Ellis 2005, 2009, 2014). Still, there is evidence to demonstrate

that Chinese capital offers alternatives to capital from the West, particularly in terms of the kinds of conditions attached to loans and investment (Kaplan 2021).

## METHODOLOGY

This book explicitly seeks historical, sectoral, national, and subregional perspectives, and it is worth considering the methodological considerations that entered the choice of cases and comparisons. Contact between China and Latin America and the Caribbean may have entered a qualitatively new phase, but it is not completely unprecedented. We include a historical chapter at the start to frame the current moment in its historical context. In particular, Chinese engagement with Latin America and the Caribbean builds on decades of South–South and semiperiphery–periphery contacts. While this history has the potential to mobilize norms of solidarity in international relations, such an ideology has not yet resonated significantly among Latin Americans (Katz 2021).

The sectoral comparisons emphasize the need for a relational understanding of Chinese–Latin American engagement.<sup>3</sup> Instead of the bilateral and subregional actors that take center stage in the second section, the sectoral focus emphasizes the relation between China and Latin America in critical sectors, in which the unit of analysis is the relation that characterizes economics, development models, infrastructure, trade, foreign policy, and the geopolitical triangle with the US. By looking across sectors, we come to an understanding of the overall relationship between Latin America and the Caribbean and China. We believe that the historical and sectoral stories told in this volume change the narrative on China–Latin American relations and the implications for regional and global order. Chinese engagement is happening, and it cannot be prevented or reversed, nor should it be. Improved outcomes for China, for Latin American and Caribbean countries, and for the US are possible. Certain problems can only be solved through international collaboration, and relationships built on cooperation among the great powers in the Latin

<sup>3</sup> International relations has increasingly elaborated relational approaches, in which the specific characteristics of actors (such as countries) can be read and understood through “connections, ties, transactions, and other kinds of relations among entities” (Jackson and Nexon 1999).



American context could be a boon to cross-regional issues such as poverty, peace, and climate.

We also dedicate the second half of the volume to national and subregional case studies. We recognize the variations that exist within Latin America and the Caribbean, and we select cases to offer representative coverage of subregions, even as we emphasize individual cases. From the Southern Cone, we explore Brazil. From the Andes, we explore Peru. In North America, we choose the only Latin American country, Mexico. Central America includes case studies of individual countries but treats the subregion as a whole. Because the section focuses on individual country and subregional cases, it emphasizes the policy and strategic actions to be taken to achieve collaborative and positive-sum benefits. Two seemingly contradictory behaviors stand out for Latin America: coordination and autonomy. Latin American and Caribbean countries can exert the greatest degree of leverage and present the most attractive partnership to great powers if they coordinate their actions. Further, while many have worried about renewed dependence as great power rivalry plays out in the region, Latin American and Caribbean countries have most to gain if they can maintain a degree of autonomy. Indeed, the chapters argue that it is in the interest of the great powers to encourage Latin American and Caribbean countries to both coordinate among themselves and retain a degree of autonomy such that they can check the worst excess of great powers in the international arena.

By exploring historical and sectoral issues, the volume offers analysis and advice to improve Chinese policy, US policy, and Latin American policy. By understanding regional and national differences, the volume tailors advice to specific contexts. Together, the chapters offer coherent social science analysis, policy frameworks, and empirical detail to understand and navigate increased Chinese engagement with Latin America and the Caribbean.

## ORGANIZATION OF THE BOOK

After this introduction, the book is organized into two sections: (I) Sectoral and Historical Issues and (II) Regional and National Issues. We believe there are multiple ways of looking at the nature of Chinese engagement with Latin America and Caribbean, and it takes the partial views available from different sectoral and national vantage points to

understand both the particularities of each case as well as the sum of the parts.

The first section begins with a historical chapter written by Rafael Ioris and Marco Cepik. Ioris and Cepik argue that Chinese contacts with Latin America and the Caribbean long predate US dominance within the hemisphere, and the current uptick in Chinese engagement occurs atop this prior contact. As a result, the chapter argues that despite the important potential for rivalry between a rising Chinese power and existing US power in the region, a recuperation and appreciation of Chinese history in the region can soften the perceived inevitability of conflict. Further, an understanding of Chinese trade, migration, and South-South historical contact can orient engagement toward positive-sum outcomes for China, the US, and the region.

The next chapters maintain the general observation that sector by sector, the potential for collaborative outcomes of interest to China and Latin America are possible under certain scenarios. In a number of cases, these scenarios also require a shift in approach toward and from the United States. Chapter two focuses on Chinese Economic Policy, in which Mathilde Closset, Cecilia Plottier, and Zebulun Kreiter especially highlight the role of Chinese Foreign Direct Investment (FDI). They trace the increase in FDI to shifts in Chinese international economic strategies, including also a shift from an initial focus on extractive industries to a wider breadth of sectors and countries. The chapter ends with an identification of the challenges and the opportunities presented to Latin American and Caribbean countries by shifts in China's development strategy, the Belt and Road Initiative, and its Health, Green, and Digital Silk Road components.

Chapter 3, by Menghuai Xiang and Mingyuan Li, considers relations with Latin America in terms of shifting Chinese development models. After the reform and opening up of the 1970s and 1980s, China vigorously implemented an export-oriented trade strategy and achieved economic take-off in a relatively short period of time, achieving a qualitative leap in relations with Latin American, especially after China's accession to the WTO. In response to the crisis of 2008, China shifted away from a purely export-oriented model and toward a "double-cycle" development model including technological development and focus on its own domestic market, and this shift was quickly followed by an international complement in the Belt and Road strategy in 2013. Current relations with Latin America and the Caribbean include strengthened

cooperation especially around the infrastructure of the Belt and Road, opening room for China to disseminate its development strategies to Latin American countries. Consistent with this view, the next chapter on Chinese foreign policy by Marco Cepik and Cui Shoujun notes that Chinese foreign policy has become more comprehensive and assertive since 2014. The chapter explores China's grand strategy and the institutional setting for foreign policy definition in China. Contextual analysis with a principal-agent model analyzes implementation costs, especially with respect to the case of the CELAC-China Joint Plan of Action for Cooperation on Priority Areas (2019–2021). Of particular note, the chapter echoes a theme that will reappear in several cases and sector, regional integration and coordination, through regional multilateral institutions, remains an important and uncertain condition to positive-sum outcomes in relations with external great powers, including China.

The next chapters address issues of infrastructure and trade. Alessandro Teixeira and Nicolas Azocar explore in depth the Belt and Road Initiative (BRI). They argue China's Belt and Road Initiative has arrived in Latin America and the Caribbean, provoking changes to international cooperation, with potential improvements in connectivity and reductions to infrastructure gaps. However, the BRI raises concerns about the lack of information and transparency, the asymmetrical dependent relationship, and the potential lack of coordination and competition among countries rather than exploring cross-regional projects. The chapter begins with a consideration with why the BRI is crucial for China and explores the extent to which Latin American regional cooperation might influence the Chinese approach to the region.

Wenyin Cheng and Zhenyu Jiang evaluate trade patterns between China and Latin American economies, with a specific focus on three periods: the period before the opening up of China's economy; 1978 to the year of China's accession to the WTO; and the period after 2001. The chapter explores major policies and mutual visits of political leaders during these periods to show the subjective motives of the governments to build mutually beneficial relations. In weighing the empirical evidence, the chapter finds more evidence of trade complementarity than competition, including evidence that exchange is moving toward a "flying geese" model, with China as the head pulling along Latin American and the Caribbean.

Finally, the section ends with an exploration of the geopolitical relations organized by the triangular relation between China, the US, and

Latin America by Louis W. Goodman and Aaron Schneider. This chapter argues that China and the United States have important opportunities to collaborate in Latin America to advance the fortunes of countries in the region and to find shared outcomes on issues such as climate, peace, and development. Yet, achieving these outcomes will require a change in perspective on the part of all actors within the triangle. The current moment is characterized by relatively conflictual relations between China and the US and major divisions among Latin American and Caribbean countries. Consistent with the themes raised in previous chapters, countries in the region can achieve more significant advance if they operate collectively and if the US and China cooperated around those issues on which they share goals.

The second section of the book focuses on regional and national issues, including five chapters selected to capture distinct dynamics operating in different parts of the region. The chapter on Central America, from Aaron Schneider and Henrique Estides Delgado, takes a subregional approach, addressing all six of the Central American countries, while the other chapters draw a single example from various regions, including North America (Mexico), the Southern Cone (Brazil), and the Andean region (Peru). On Central America, Schneider and Delgado argue that shared economic and strategic interests lie in a medium-term approach focused on structural change. Central America needs to upgrade the value of its exports, increase domestic consumption, especially for the most vulnerable, and advance regional integration. China could help by absorbing more Central American exports and helping to balance trade; invest in infrastructure, firms, and activities to encourage higher value-added exports; encourage the structural changes that raise domestic consumption, especially by the poorest; and invest in infrastructure that contributes to greater regional integration. Similar to earlier chapters, to take advantage of opportunities requires integration and collaboration among the Central American countries and can come to resemble the flying geese model that has served East Asia so well.

In a chapter on the vicissitudes of Mexico-China relations, Luz María Gallardo Castro and Juan Carlos Morales Marcucci review changes over the last decade, with an emphasis on the canceled Mexico-Queretaro Train and the Dragon Mart Project. Chinese infrastructure projects have represented a particular level of socioeconomic interaction and complexity, with potential for cooperation and development for the future, but the potential for trade and investment engagement must

be understood in the context of these significant cancelations. During the twenty-first century, the People's Republic of China has intensified its relationship with Mexico; becoming Mexico's second largest trading partner after the United States, but Mexico's close relationship to the US perhaps complicates the possibilities of any deeper interaction.

In their chapter on Sino-Brazilian relations, Jorge Arbache and Gabriel Condi note that China has been Brazil's largest trading partner since 2009, with a growing level of foreign direct investment. The chapter includes an historical perspective, discussing the range and nature of China-financed projects in Brazil over time, as well as the impact of the Chinese economic growth for Brazil. The study identifies strategic sectors with greatest potential to strengthen bilateral relations, including, but not limited to, value-added manufacturing production, green growth, education, science, technology, and innovation. The chapter is relatively optimistic in terms of positive-sum outcomes for Brazil and China but acknowledges the ongoing dispute for influence between the United States and China in Brazil and throughout Latin America, as exemplified by the experience with the COVID-19 pandemic.

The book ends with a final chapter taking a close look at Peru with comparisons to a host of similarly positioned countries from other regions, including the Philippines, Malaysia, and Indonesia. The chapter builds on the growing consensus among scholars that national and subnational dynamics in host countries matter to BRI projects and the different inflows of Chinese capital in general. By examining China's investments in Peru's extractives sector and a growing number of Chinese infrastructure projects, the chapter illustrates host country agency when interacting with the Chinese state and its firms. Despite China's overwhelming economic weight, host country actors have always mattered and play a role in shaping the progression or cancelation of deals, forcing Chinese leaders and firms to negotiate and seek agreement from national and subnational leaders, agencies, and communities in host countries.

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PART I

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Sectoral and Historical Issues





# History: The Long Trajectory of a Relationship yet to Be Fulfilled

*Rafael R. Ioris and Marco Cepik*

## INTRODUCTION

The first two decades of the twenty-first century led to a growing awareness, mixed with rising concern, about the emerging presence of China in the now-called Global South, particularly in the region traditionally seen as secured to US hemispheric hegemony: Latin America. China has indeed changed its foreign policy dramatically over the last 50 years—from restrained engagement in global affairs to increasing assertiveness in bilateral negotiations, regional block formation, and the very reframing of the international postwar order—demanding new, retrospective and prospective, reflection. But, even though the impact of these events has

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become the topic of growing scholarly interests, more often than not, analyses have been defined by anxiety about diminishing US influence in the region rather than evidence-based understandings about the actual dynamics of China-Latin American relations.

Setting the stage for this volume, which innovates in its focus and interdisciplinary approach, the present chapter critically reviews the historical trajectory of interactions between China and Latin America. State-to-state relations structure the analysis, but other dimensions are included whenever possible. Given its synthetic nature, though, we selected what we believe are some of the central actors and events that helped define relations over time. Though no exhaustive account could be provided within the constraints of the present piece, we are confident that it provided the background and the main contours capable of illuminating the thematic and country-based analyses offered in the ensuing chapters in this much-needed volume.

### TRACING THE ROOTS OF A WINDING BUT EMERGING RELATION

The first point to understand about Chinese-Latin American relations is that they are not as new as they may seem. Chinese-New World trade relations helped define the course of the global economy since European incursions in the continent that came to be known as Latin America started taking place five centuries ago. Initially guided by the search for Asia, these expeditions incorporated new territories into European empires and Trans-Pacific trading routes, especially the one connecting Acapulco to China via the Manila Galleon (or *Nao de China*), played a significant role in making the colonial project economically viable (Hearn and Leon-Marinquez 2011). What is more, colonial trade based on New World exploitative activities, above all mining, helped create the underpinnings of what was to become globally connected trade networks, mainly by providing silver as the first global currency (Spate 1979: 161; O'Brien 2005).

In the nineteenth century, the Western hemisphere's overt and formal Chinese presence diminished for internal reasons on both sides of the Pacific. On the one hand, Latin American new republics (except for the Brazilian empire) were ensnared in domestic concerns about setting up viable political and economic institutions and cultural and diplomatic procedures, mainly by attempting to mimic the emerging European

nation-state system. On its part, China was focused on consolidating its territorial expansion into border areas in East and Central Asia (Bello 2016). This path of inwardness became even more accentuated in the second half of the century and early part of the twentieth century when China became mired in internal conflicts created on the throes of Western powers' neo-colonial incursions (Wahed 2016).

But, whereas government-level interactions decreased, this was a time when more intense migratory experiences between China and different parts of Latin America occurred. Well-established migratory networks were consolidated, especially with Peru, Cuba, Mexico, and Brazil, eventually leading to the formalization of new diplomatic relations with several countries in the region at the turn of the century. In 1810, the Portuguese authorities contracted several hundred Chinese workers to remedy the labor shortage and plant tea in Rio de Janeiro. In the Spanish-speaking new countries, and the remaining Spanish colonies in the Caribbean, especially Cuba, toward the end of the nineteenth century, more than 300,000 Chinese "coolies" made their way under different labor contracts (Chou 2002; Moura 2012; Bueno 2021).

Domestic strife defined much of the first half of the twentieth century in China. It would take the expulsion of Japanese troops in WWII and the victory of the Communist forces in 1949 for major domestic conflicts to be somehow resolved (Clubb 1964). In different phases and through multiple approaches, the new People's Republic of China (PRC) tried to move beyond the unusual lack of Chinese relevance in the world that had marked the previous 100 years by reversing lackluster diplomatic relations. And though this goal was initially hamstrung by Cold War policies, particularly from the Truman and Eisenhower administrations, China managed to push its way into global spheres of power (Gunter 2020).

At first, conservative ruling elites in Latin America were hesitant to have formal relations with Communist China. The Taiwan issue served as a proxy for diplomatic recognition across the region, along with trends unfolding in international organizations and largely under guidance from Cold War policies from the region's historical hegemon. Only Cuba, after its revolution in 1959, would establish formal relations before the 1970s, even though this was not a crucial move to legitimate the PRC in Latin America since the new Cuba regime remained aligned with the USSR after that country and China drifted apart over Cold War's strategies in the early 1960s. Thus, despite growing economic ties and reciprocal

interest, cross-Pacific relations were weighted more heavily toward politics for much of the Cold War. The Chinese tried to win the friendship of a broad cross-section of Latin Americans with an approach based on an appeal to actual and alleged similarities in history, goals, and interests, primarily defined by the overarching and loosely defined goal of overcoming the condition of underdevelopment at home and imperialism abroad (Ratliff 1972).

It was only in the 1970s, after Nixon's strategic overture to China, that formal diplomatic relations would slowly start taking place on the part of Latin American nations. Yet, though moving toward pragmatic engagement with the United States, during much of that decade, China continued to support causes of the developing world and to hold good relations with leftist regimes in Latin America, such as Salvador Allende's Chile and Luis Echeverría's Mexico, particularly in regards to their defense of what later be known as the promotion of a New International Economic Order (Shixue 2008: 29; Thornton 2011). Conversely, several Latin American governments moved to support China's re-entry into the United Nations in 1971. The Chinese Cultural Revolution derailed some of the emerging ties between China and Latin America, but political and economic exchanges were resurrected by the mid-1970s when Argentina, Brazil, Chile, Mexico, and Peru formally recognized the PRC and normalized diplomatic relations with Beijing (Shixue 2001).

Using its new status as an emerging power, throughout the decade, China continued to voice political support for Latin American issues of sovereignty, economic justice, and the right to self-determination (Wise and Ching 2017). And, even though Beijing sought to navigate its growing presence in the Western hemisphere in a way not to confront US historical hegemony directly, the PRC's ideologically driven foreign policy provided limited but important support to Maoist guerrilla forces in the region, especially in Peru, Bolivia, Brazil, Mexico, and Colombia. In this sense, much of Cold War China's influence in Latin America was more ideological and, often through non-official, left-wing opposition groups than with ruling governments in Latin America. The new China indeed represented both a model for revolutionary changes in the periphery and an alternative of development beyond the constraints of the bipolar world for Latin American revolutionaries or more tamed progressive forces. Consequently, in addition to propaganda materials received in large numbers in local leftist organizations, such as unions and small but assertive break-away revolutionary parties, these efforts involved the

visits of thousands of Latin Americans to China, as well as multiple venues for cultural initiatives promoting good-will relations between non-official reciprocal organizations (e.g., different chapters of the Chinese-Latin American Friendship Association).<sup>1</sup>

To be sure, by then the PRC could not compete with the Soviet Union's ability to provide assistance to Latin American Communist parties and Castro's Cuba. As a result, Beijing was relegated to splitting Communist parties in an effort to weaken the international position of the Soviet Union (Mora 1997). Chinese involvement in Latin America after the Communist Revolution was thus gradual, and official state policy instructed that China should not impose excessive requirements on the relationship and the role of people-to-people relations to circumvent Cold War constraints in between 1949 and early 1970s (Bingwen et al. 2011). These were uniquely important courses of action at a time when formal diplomatic relations were significantly curtailed by US pressure and submissive right-wing dictatorships, particularly in the Southern Cone.

Things started changing after 1976 when the promotion of revolutionary ideas was incrementally curbed by the dramatic shift in domestic and foreign policy directives coming out of the PRC leadership after Chairman Mao's death. Foundational for the changes that ensued in the following years was the Third Plenary Session of the Communist Party of China's Eleventh National Congress in 1978. Under Deng Xiaoping, major new policies were implemented, which sought to promote a new approach to pursuing the goal of enhancing China's role in the world. Thus, gradually, the PRC started moving away from an overt path of solidarity with the Third World, as prescribed by Mao's Three Worlds Theory, toward focused economic reforms structured along with a growing economic integration of the country in the global capitalist economy.<sup>2</sup>

<sup>1</sup> A classic piece on this Johnson, C., 1970. *Communist China and Latin America, 1959-1967*, New York: Columbia University Press. A more recent and insightful analysis, based on personal accounts and cultural history elements, is offered by Rothwell, M., 2013. *Transpacific Revolutionaries: The Chinese Revolutions in Latin America*, New York: Routledge. See also: Ferry, M.M., 2000. China as Utopia: Visions of the Chinese Cultural Revolution in Latin America, *Modern Chinese Literature and Culture*, vol. 12, no.2. pp. 236–269.

<sup>2</sup> Details can be found in Shixue, J., 2008. The Chinese Foreign Policy Perspective, pp. 30–33.

As will be detailed in the next section, in the following four decades, Chinese-Latin American relations experienced their most transformative and consequential years. Policies toward Latin America became increasingly more relevant in China's global overtures. The region became a fruitful ground for Chinese ever more pragmatic courses of action, which emphasized economic issues and attempted to expand political or diplomatic ties with multiple regions of the world. To be sure, especially in the last years of the twentieth century, China grew ever more economically intertwined with, or even dependent on, the United States market and sources of capital and technology, making itself more vulnerable to political and economic pressures from Washington—a course of integration in the global economy that will have impacts in Chinese diplomatic efforts to this day. In effect, in order to reduce these very same vulnerabilities, in July 1991, China embarked on a well-publicized export diversification drive that resulted in a remarkable expansion of Sino-Latin American interactions. Ten Latin American presidents from eight countries and eight prime ministers and vice premiers from six nations visited China. Additionally, foreign ministers from fifteen nations and thirty legislative delegations from fourteen countries visited Beijing. Chinese diplomacy reasserted its interest and focus on LA, consolidating diplomatic and trade relations with several countries, a path that deepened rapidly during that transformative decade, including through Latin American regional organizations such as Mercosur (Mora 1997: 48; Bingwen et al. 2011).

The new direction from the leadership that came to power upon Chairman Mao's death did, in the long run, help redefine the shape of the global economy and its geopolitical dynamics. Yet, until recently, this new direction was based on the notion that a country's relationship with the United States lies at the core of its external relations, and anything considered detrimental to the stability of relations between China and the United States would often be sacrificed (Yu 2015). In fact, for much of the last 20 years, important American and Chinese analyses of China's intensification of relations in Latin America tended to see those developments mainly in relation to the United States presence and interests in the region rather than as an opportunity for pursuing engagement along more constructive lines with the governments and peoples of this region (Aranson et al. 2014; Hongbo 2011).

It is not entirely clear whether these prospective assessments shall materialize, as much of it will depend on dynamics still unfolding in a rapidly changing global, regional, and even domestic landscapes. What is certain

is that China's accelerated engagements with the global economic and multilateral system in the last 30 years have reshaped the course of what was at first widely perceived as a unipolar global order. The path of these developments and their impacts in Latin America detailed in the next section.

### THE END OF THE COLD WAR, A NEW CENTURY, AND THE POSSIBILITY OF A NEW HISTORICAL CHAPTER

The growing Chinese relevance for Latin America was defined by factors taking place on both sides of the Pacific. Upon the demise of the Cold War and Deng Xiaoping's southern tour (1992) in the aftermath of the Tiananmen crisis, the Chinese leadership increased China's engagements across the globe. Culminating with the "Go Out" Policy in 1999 and China's accession to the World Trade Organization (WTO) in 2001, China's role in the world underwent significant changes. Profound transformations were also occurring in several parts of Latin America at this very time, especially in countries transitioning from dictatorial regimes (such as Argentina, Brazil, Peru, Uruguay, and others), as well as more autarkic economic systems in places like Mexico, as well as, again, Brazil, and Peru. Together, all these regional nations were embarking throughout the 1990s on the turbulent and painful neoliberal course of opening up their economies to global market forces under the promise (largely unfulfilled, at least for Latin America) that a more interdependent, globalizing world economy would benefit all willing to integrate themselves in global commodity chains and financial flows.

In the first decade of the twenty-first century, the two most striking features of Latin America's international relations were the new regionalism promoted by the center-left governments of the so-called pink wave and China's growing presence and importance for the region. Both were facilitated by the retreat of the engagement of the United States, mainly occupied with the interventions in Afghanistan and Iraq, in the context of the long "Global War on Terror." China's growth created alternatives to the US-led neoliberal experiences with globalization prevailing in the 1990s and early 2000s (Roett and Paz 2008: 16).

In economic terms, China used its foreign reserves, investment capacity, and domestic market opening to sustain high growth rates. The country's foreign reserves have increased since 2001 to over USD three trillion. Chinese banks hold more than USD15 trillion in deposits. As

a result, PRC's originated foreign direct investment (OFDI) increased from USD 35 billion in 2003 to 92 billion in 2007. The Gross Domestic Product (GDP) in constant dollars (1990) increased from 2.2 trillion in 2000 to 6.1 trillion in 2010, when China became the world's second-largest economy (The World Bank 2021). China's economic growth has fueled a strong demand for commodities, and trade with LAC, for instance, increased 22-fold between 2000 and 2012, from USD 12 billion to over USD 270 billion. And though Latin America was not at the center of its priorities in 2001, by the end of Hu Jintao's time as CPC and PRC leader, China's growing influence in the region had largely reshaped the national and international economic dynamics in the area. For once, China became an increasingly important creditor and investor for the region's various economic sectors.

While Chinese Outflows of Foreign Direct Investment (OFDI) to Latin America were limited until 2010, focusing on energy and mining sectors (Chen and Ludeña 2014), there were significant increases in its role as the region's financier and investor. Research by the Inter-American Dialogue and Boston University found that Chinese state-to-state finance has exceeded the combined sovereign lending from the World Bank and the Inter-American Development Bank (IDB) since 2005 (Ni 2019). The 2008–2009 financial crisis negatively impacted all countries in the region, but mainly Mexico and other countries with growth dynamics more dependent on the US economy. By the end of the decade, China had become the largest trade partner for Brazil, Peru, and Chile. Country-level chambers of commerce with China in different countries also became prominent.

Accompanying the increasingly intense economic relations, new bilateral and multilateral diplomatic arrangements were developed between China and Latin America in the first decade of the century. In 2008, at the onset of the global economic crisis, China released its first official policy on LAC, pledging to strengthen cooperation (PRC Government 2008). China also became a full member of the Inter-American Development Bank (IDB) in 2008 (Shambaugh 2011). In 2009, along with Lula da Silva (Brazil), Dmitry Medvedev (Russia), and Manmohan Singh (India), Hu Jintao formally initiated what would become the BRICS Forum (South Africa joined in 2010) (Yanran 2016). Between 2001 and 2012, the PRC signed Free Trade Agreements (FTAs) with Chile (2009) and Costa Rica (2007). It also upgraded its bilateral relations with Brazil to “Global Strategic Partnership” (2012).



Along with economic and diplomatic initiatives, China has expanded, diversified, and intensified cultural links with Latin America. The official discourse and the social practices in China value what are called people-to-people exchanges, involving tourism, migration, and active cultural diplomacy. For example, the number of tourists traveling annually from Latin America to China went from 82,900 in 2000 to 300,000 in 2010, a 361% increase (China Statistical Yearbook 2019). Migration between China and Latin America is lower than other regional flows, mainly with Southeast Asia and North America. In the first decade of the twenty-first century, an estimated 5 million Chinese lived in the United States and Canada (;Budiman 2021; Chan 2019). In 2004, the Chinese Ministry of Education established the Confucius Institutes Headquarters (Hanban) as an affiliated institution to promote language teaching, scholarly exchange, and interest in Chinese culture. In Latin America, 21 Confucius Institutes were created from 2006, when its first Institute opened in Mexico City, to 2012.

The second decade of the twenty-first century maintained an upward trajectory in China and Latin America relations, but with critical contextual changes. First, there has been an important political shift in Chinese and US leadership, with the assumption of Xi Jinping in China in 2012 and the growing anti-Chinese emphasis in US foreign policy in Obama’s second term (2013–2016) and throughout the government of Donald Trump (2017–2020) in the United States. Such an antagonistic stance has continued so far in Biden’s administration (2022). Another crucial contextual change was the reduction in global demand and the prices of the most exported commodities in Latin America, especially from 2014 onwards. Finally, the return of right and center-right governments in Latin America, some through elections and others through political coups, implied an increasingly acute crisis in regional integration initiatives. And whereas LAC’s economic relations with China peaked in 2011–2012, it continued to flourish in a period of slower Chinese GDP growth (6.9% in 2017, against an average rate of 9.61% from 1989 to 2018).

In effect, as Wise and Ching (2017: 02) indicate, the “pass-through for LAC in terms of China’s lower demand for commodities has been a slowing of growth to 1–2% on average since 2013.” By 2015, China’s sovereign lending had increased to USD 29 billion, nearly twice the combined figure of all the Western multilateral development banks. It decreased to USD nine billion in 2017, still very relevant for the region.

Between 2010–2020, Chinese OFDI in Latin America was approximately US\$ 115 billion, mainly in the energy (more than 60%), mining (more than 20%), and transportation sectors (AEI 2021). About 90% of those investments were made by state-owned enterprises (SOEs) (Rodrigues and Hendler 2018). In 2016, China responded for 9% of LAC's exports and 18% of its total imports. In 2018, China was the second trade partner for LAC as a whole (Dussel 2018).

China's growing presence in Latin America also provides at least the possibility that a new model of development with a much more vital role for structures of the central state and with a consistent concern about and implementation of measures to address structural economic exclusion could compete with traditional liberal capitalist lines of US-based development approaches. It is still early to know, but, indeed, it is no longer possible to make sense of Latin America without moving beyond US-Latin American relations to include manifold ties with China. Trying to make sense of these events, some scholars have claimed that growing Chinese interest in Latin America could lead to global engagement and better alternatives to the region (Hirst 2008). Nonetheless, others pointed out that China's increased Latin American engagements have primarily been based on commodity exports from the region, along historical lines that resembled traditional uneven, North–South exchanges (Lanxin 2008). What's more, the growing dependence of Latin American economies on commodity exports to the Chinese market in the last two decades may lead to excessive reliance on trade revenues for sustaining domestic growth (Harris and Arias 2016).

In short, China's presence has been crucial to the diversification of Latin American economic partners while also being a contributing factor for a re-primarization of regional economies as the booming Chinese market for Latin America exports has essentially been one for commodities. This is to say that having other trading options did not necessarily decrease historical Latin American dependence on external demand and prices for raw materials and produce from the former Iberian colonies in the New World (Cepik et al. 2021). In fact, as Latin American economies engaged more with China, different countries benefited differently, and commodity export, especially of raw materials, was the center of these transactions for some, but not all, of the regional economies (Gonzalez 2008).

To balance mutual costs and benefits, China's diplomatic engagements with the region became even more intense. Xi Jinping made his first

official visit as PRC President in 2013. By 2018, he had visited the region four times, reaching Trinidad and Tobago, Costa Rica, Mexico, Argentina, Brazil, Cuba, Venezuela, Ecuador, Peru, Chile, and Panama. If one considers four regional powers (Brazil, Mexico, Argentina, and Colombia), the number of official Chinese presidential visits increased continuously in the last three decades (seven in 1990–1999, nine in 2000–2009, and twelve in 2010–2018) (Ministry of Foreign Affairs n.d.). Since 2013, bilateral relations were officially established (with Panama, Dominican Republic, and El Salvador) or upgraded (with Mexico, Argentina, and Costa Rica).

In 2018, out of 66 PRC's strategic partnerships in the world, 10 of them had been signed with Brazil (1993), Venezuela (2001), Mexico (2003), Argentina (2004), Peru (2008), Chile (2012), Costa Rica (2015), Ecuador (2015), Uruguay (2016), and Bolivia (2018). Although less frequent and intensive, Latin American heads of state have also visited the PRC more times since 2010. For example, the right-wing Chilean president Sebastián Piñera participated in the Second Belt and Road Forum for International Cooperation in Beijing in 2019.<sup>3</sup> In addition, three Brazilian presidents visited China, signing more than 30 agreements.

Multilateral diplomacy also improved. China built partnerships with LAC countries in international forums such as G20, APEC, BRICS, and the United Nations. Following the creation of the Community of Latin American and Caribbean States (CELAC) in 2011, a dialogue and cooperation China-CELAC Forum (CCF) was founded in 2015. Latin American countries were also invited to join the BRI, a flagship initiative of the Chinese government led by President Xi Jinping (OECD 2015). In June 2018, Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, and Venezuela were members or prospective members of the Asian Infrastructure Investment Bank (AIIB) (Myers 2018). After the beginning of the COVID-19 pandemic, high-profile official meetings between Chinese and Latin American authorities in 2020–2021 continue using online platforms. It is important to mention the 13th BRICS Summit, the China-CELAC Conference of Foreign Ministers on COVID-19, the II China-CELAC Ministerial Forum on Agriculture (China-CELAC Forum 2021), and Xi's speech to the CELAC 6th Summit in Mexico.

<sup>3</sup> Details of the meeting can be found at: <http://www.beltandroadforum.org/english/n100/2019/0426/c22-1253.html>.

Since China and the Latin American countries are cautious about building political relations, its cooperation in the defense sector has been limited. Unparalleled to the traditional US military presence (active and indirect by support to regional armed forces), China's military/security diplomacy in the region is focused on a few countries. More than 93% of China's US\$ 872 million defense-related commerce with Latin America (2000–2020) was made with Venezuela and other ALBA members (SIPRI 2021). Between 2011 and 2018, there has been a minimal supply of Chinese military hardware to the region—which currently imports 6% of China's total outflows (Gurrola 2018). Low prices and better military technology can be China's significant advantages to attract substantial agreements beyond ALBA countries in the future (Nixon 2016). Relating to security matters, despite avoiding formal military alliances, China seems to have more interest in the Caribbean, donating military equipment to smaller countries. The Caribbean region concentrates some of the few remaining countries in the world that still recognize Taiwan. China has also mentioned in its white papers the importance of legal certainty through judicial and police cooperation with the region (Ellis 2020). The cost-effectiveness of Chinese technologies and its diversifying strategy can make Chinese companies more competitive—Huawei had a 21.3% increase in its revenues in the region in 2019—(Dua 2020) and lay the groundwork for future technological agreements with Latin American countries.

Beyond economy and official diplomatic relations, cultural, and educational, people-to-people exchanges with most countries in the region continued to develop. The Chinese Communist Party (CCP) continues to engage with dozens of different political parties in the region through its International Department (ID). The most critical Communist party-to-Communist party contacts since 2001 have been those with the Communist Party of Cuba (CPC). Still, CPC contacts with governing and opposing parties in the region are diverse and serve the purpose of defending China's core interests with flexibility and room for mutual learning about broader international issues (Hackenesch and Bader 2020). Compared to the previous decade (2001–2010), the number of tourists traveling annually from Latin America to China has increased from 300,000 in 2010 to 450,370 in 2018 (China Statistical Yearbook 2019). Likewise, the number of Confucius Institutes in LAC countries grew from 21 in 2012 to 41 in 2019 (He 2019), with more than 100,000 students, of which around 500 a year travel to China on scholarships.

And the number of LAC students in China grew from 2,200 in 2017 to approximately 6,000 in 2018 (Menino 2020).

Since the outbreak of the COVID-19 pandemic, as Latin America underwent catastrophic losses in lives and economic output, China's importance for the region increased even more. Through various actors and beyond state-to-state relations, China has donated medical equipment to numerous countries and has become the largest per capita supplier of COVID-19 vaccines in the region, strengthening its soft power in the health dimension as an extension of the "Health Silk Road" project (Vadell 2021). The China-CELAC Forum and the inclusion of the region in the BRI can be understood, according to Vadell (2021), as part of China's institutional minilateral and bilateral-multilateral relations, reinforcing Chinese presence in the region while being a major economic partner and infrastructure financier. For example, in the first China-CELAC Summit in 2015, Xi Jinping announced the goal of scaling up trade to USD 500 billion, the investment stock to USD 250 billion, and promoting currency agreements with the region by 2025 (Ministry of Foreign Affairs 2015).

This goal was part of the "1 + 3 + 6" pragmatic cooperation plan with the region: the 2015–2019 China-LAC Cooperation Plan was the first cornerstone; cooperation in trade, investment, and finance the three driving forces; and the cooperation in six sectors (energy, natural resources, infrastructural construction, agriculture, manufacturing industry, scientific and technological innovation, and computer technology) the priority (Ministry of Foreign Affairs 2016). Yet, despite Xi's endeavor, expressed in his statement at the 6th CELAC Summit, to jointly build a "community of shared future" (Xinhua 2021) between China and CELAC—in line with China's foreign policy proposal and the principle of a Community of Shared Future for Mankind (人类命运共同体)—, there is still a need for a Latin American institutional arrangement compatible with this transformative goal. LAC's institutional fragility manifests in CELAC's internal disputes—such as Brazil stepping out in 2020—and a lack of strategic thinking about how to navigate a "new triangular reality" (US-CH-LAC), adding obstructions in China-LAC relations in the future (Dussel 2021).

## CONCLUDING REMARKS

Since the People's Republic of China (PRC) foundation in 1949, its relations with LAC developed in four periods (Cui 2016). Curbed links marked the first period (1949–1978) under the leadership of Mao Zedong. During the Cold War, ideological conflict plagued LAC. However, the changing alignments between China, the Soviet Union, and the United States resonated less loudly in the region. Even so, since the Sino-Soviet rupture process (1958–1966), the Three Worlds Theory (三个世界的理论) put great emphasis on the Third World. As a result, Asia, Africa, and Latin America (亚非拉) became the South-South component of China's diplomacy. Following the recognition of the PRC in the United Nations (UN) in November 1971, by the end of this first period, ten Latin American countries had established diplomatic relations with Beijing, including Mexico, Argentina, and Brazil (Colombia would follow in 1980). The second period (1978–2001) corresponds to the leadership of Deng and Jiang (second and third generations). It was a transitional period in world affairs, encompassing the second Cold War, the Tiananmen crisis, the end of the Soviet camp, and the first decade of the US's grand strategy intended to build a unipolar, globalized world order.

The third period (2002–2012), mainly under Hu Jintao leadership, was marked by influential transformations, culminating in a peaking insertion of China in Latin America, especially in trade, through strong demand for commodities and financial spheres, but also expressed in a substantial cultural and diplomatic growth. This insertion reshaped the economic dynamics of the region. Under Xi Jinping's leadership, the fourth and current period (2012–2021) corresponds to a moment of consolidation of the Chinese presence in the region despite the more modest growth of China and LAC. China, by 2018, was the second trade partner for LAC as a whole, and its OFDI has escalated (though not linearly) and diversified. Even with growing anti-Chinese emphasis in US foreign policy since Obama's second term (2013–2016), China's multi and bilateral diplomatic engagements with the region became even more intense compared to the previous period.

In sum, it is clear that Latin America is now a region connected with two global powers, the US and China. Acknowledging these trends along with the concept of "New Triangular Relationships" seems critical for

Latin America today as the region and each of its countries, with no exception, has to understand, deal with and negotiate within this “new triangle” (Dussel et al. 2013). Even if not to the same degree as the US presence in Latin America, the past two decades have been characterized by a significant increase in institutional bilateral and multilateral initiatives from China, and its reiterated identity as a “Global South alternative” may reinforce its economic strength and growing projection—such as diplomatic and cultural—in the region (Guo 2021).

At the same time, China’s growing importance to the region triggers anxiety because of its impact on the environment and demand for natural resources. There are concerns in parts of Latin America about how China’s rise and its overseas expansion are shaping the development options for Latin American countries (Armony and Velazques 2015). But there is also the possibility that a joint and more determined resumption of the environmental agenda lays the groundwork for a *détente* between the US and China with constructive consequences for a more sustainable energy transition. In this sense, China also has a possible impact as an alternative model of development to the region, enabling a global engagement and better alternatives as the region moves beyond its historical relationship with the US. For a more mutually beneficial engagement, Latin America could pursue cooperation in the future on Chinese experiences and models of poverty alleviation, which are part of a still ongoing public policy and are much needed in LAC.

Since the outbreak of the COVID-19 pandemic, China’s prestige in the region has been enhanced vis-a-vis Trump’s debacle, with active engagement of private and state actors, donating medical equipment, and being a major vaccine supplier. Despite China’s regional engagement actions, politically and economically, LAC still has responsibilities regarding its institutional solidity. The region had more possibility of exerting agency when regional coordination was stronger (up to five years ago). The crisis of UNASUR, CELAC, and especially regional leaders (Brazil) seems to indicate a not promising action from Latin America. As Dussel Peters (2021) highlighted, the future of China-LAC relations involves better quality engagement and a much deeper understanding of the ongoing processes and needs, both in China and Latin America. Considering the scale of current global challenges for humankind, one can only hope that at least some of these more optimistic trends may materialized. It would be advisable to prepare oneself for the impacts of rising global rivalries in the horizon.

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# Chinese Foreign Investment Policy: Internationalization in LAC and Future Perspectives

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## INTRODUCTION

The emergence of China as a significant force in the global economy has increased its importance for Latin America and the Caribbean as a source of investment. Since 2010, the presence of Chinese companies in the

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region has increased through various modalities: mergers and acquisitions, development of new projects, construction contracts, and concessions. In contrast to their high concentration in the hydrocarbon and mining sectors during the early years of the century, Chinese investments have recently branched into new sectors. Yet this incipient diversification has not matched China's increasing technological sophistication or the global internationalization patterns of its companies. Investments remain concentrated in a small number of strategic activities considered essential for China's internationalization strategy and domestic development.

The sectoral composition of Chinese investments has positioned the Latin America region as a strategic provider of production inputs, which hampers its economic diversification and the development of more technologically advanced productive capacities. Moreover, concerns about debt sustainability and transparency and the limited prospects of investments to contribute to structural change have counterbalanced the benefits of Chinese firms' greater presence in the region.

This chapter analyzes the characteristics of Chinese FDI in Latin America and the Caribbean (LAC) within the context of China's broader internationalization process. The benefits and challenges of the China-LAC investment relationship are assessed, and the prospects for future investment flows to address LAC's longstanding structural problems are evaluated, particularly in relation to China's evolving development strategy, the Belt and Road Initiative and its Health, Green, and Digital Silk Road components.

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## FOREIGN DIRECT INVESTMENT ACCOMPANIED THE CONSOLIDATION OF CHINA AS AN ECONOMIC POWER

### *China Has Emerged as a Main Origin and Destination of FDI Three Decades After Opening*

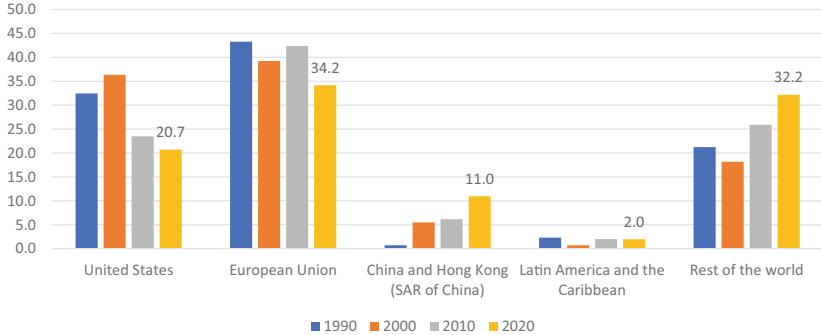
The astronomical growth of China's external investment reflects the country's rise as an economic power in the world. The country's rapid growth in FDI is one of the defining characteristics of global investment in the twenty-first century and reflects an internationalization strategy that began in the 2000s, which is integrated into the country's economic, technological, and industrial development strategy.

In 2019, China (including Hong Kong, SAR of China)<sup>1</sup> became the country with the second largest stock of outward FDI in the world after the United States. In 2020, developed countries hold over 75% of the global stock, with the European Union accounting for 34% and the United States 22% (see Fig. 3.1). The trio of Europe, the United States, and Japan, which had dominated the investment landscape for decades, is now matched by China. Its prominent position is a reflection of the sustained growth of China's FDI outflows for almost three decades, through which its share in the world stock of FDI increased at an average annual rate of 11%, going from 0.7% in 1990 (0.5% from Hong Kong and 0.2% from mainland China) to 11% (5% from Hong Kong and 6% from mainland China in 2020 (see Fig. 3.1)).<sup>2</sup>

This growth in foreign investment was also accompanied by a strong expansion in FDI inflows entering Chinese territory (see Fig. 3.2). In fact, in its process of internationalization, China has received more FDI than it has invested. Since the first foreign investment authorized in the country in 1980 until today, the expansion of transnational corporations in China has been rapid and sustained. The regulatory framework has gradually made their entry more flexible, but still maintains very strong entry restrictions on foreign capital in certain sectors considered strategic, such as telecommunications, air and maritime transport, finance,

<sup>1</sup> In this chapter, China will always include Hong Kong, SAR of China. In cases in which Hong Kong, SAR of China is not included in the data, it will be referred to mainland China.

<sup>2</sup> For the purposes of consistency in the calculation, the combined FDI stock of China and Hong Kong was maintained from 1990 onward, although it was not until July 1997 that Hong Kong became a Special Administrative Region of China.



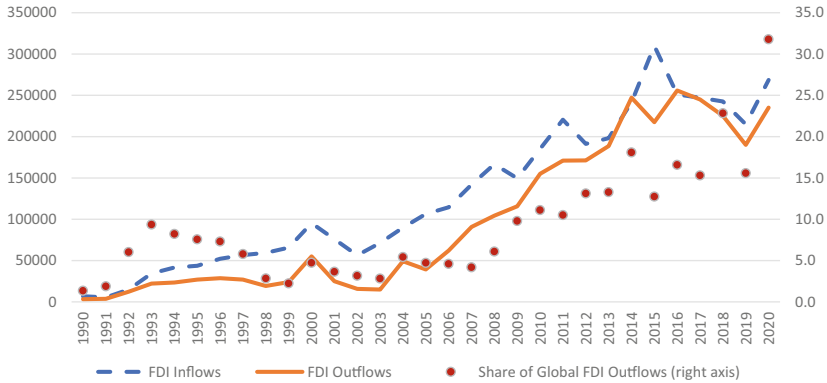
**Fig. 3.1** Stock of outward foreign direct investment, by country and region, 1990–2020 (*Source* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNCTAD data. *Note* For graphical purposes, the grouping of China and Hong Kong (SAR of China) prior to 1997 was maintained)

public services, and the media (Li 2019)—industries in which Chinese companies have acquired important positions in foreign markets.<sup>3</sup> The regulation of FDI inflows does not only follow a sectoral approach. Initially, only joint ventures with Chinese companies were allowed, which would make it easier for national companies to access more sophisticated technologies and equipment at a low cost, a restriction that has become more flexible.

This process of rising inflows of foreign capital made China—including Hong Kong (SAR)—the world’s second largest FDI destination after the United States in 2019, and the outright leader in 2020. Except in some specific years, the investments received from abroad in mainland China and Hong Kong (SAR) exceeded the value of investments made abroad. In 2020, China and Hong Kong (SAR) received about US\$ 269 billion in FDI and spent US\$ 235 billion, the latter figure representing 32% of the world’s total outward FDI. This sharp rebound in 2020—a year when global FDI plummeted due to the effects of the pandemic—followed

<sup>3</sup> The first transnational company in China was Beijing Air Catering (BAC) in 1980, a joint venture between Hong Kong’s leading catering company Maxim’s Catering Limited and the Civil Aviation Administration of China, regulated by law that enabled the establishment of joint ventures with foreign companies in the country in 1979 (Li 2019).





**Fig. 3.2** Foreign direct investment flows from China and Hong Kong (SAR of China), 1990–2020 (*Source* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UNCTAD data. *Note* For graphical purposes, the grouping of China and Hong Kong (SAR of China) prior to 1997 was maintained)

three years of declining outward investment and was mainly on account of expanding profit reinvestments by Hong Kong (SAR) companies in Asia (UNCTAD, 2021a), given that outward FDI from China rose by only 3%.

The strong growth of outward FDI led the country to become a net investor in 2014 and 2016, with greater outflows than inflows, but the slowdown in outward investments from 2017 onward reversed this position. In 2019, China's pace of international expansion slowed, with FDI outflows falling 22% compared to the previous year and a decrease of 17% compared to its peak in 2016.

China's recent slowdown in outward FDI can be explained by internal and external factors. First, since 2017, Chinese authorities have put in place a stricter control of FDI outflows in an effort to cut debt levels and to permit the redirection of investments by Chinese transnational companies toward national priorities under the Belt and Road Initiative (BRI) and Made in China 2025. Likewise, Chinese companies have faced more scrutiny abroad, especially in the case of state-owned enterprises, as economies have tightened their investment screening regimes. The strengthening of controls and restrictions by the United States and the countries of the European Union on certain high-tech and other sectors

considered as strategic had a direct impact on the reduction of acquisitions by Chinese transnational companies.

### *China's Regionally Differentiated Internationalization Strategy*

China's investment strategies in the world and its preference for certain investment modalities according to the region are consistent with the country's development strategies. The preponderance of greenfield investments in some geographic areas and mergers and acquisitions (M&A) in others reflects the sectoral orientation of Chinese investment in these territories and the country's strategic objectives. China has consistently used greenfield investment as a means to increase the presence of Chinese companies in new markets in sectors in which the country's capacities are well developed. M&A on the other hand have played an important role in securing access to natural resources and in enhancing the technological capacity and knowhow of Chinese companies.

Another important aspect of the internationalization of Chinese companies is through construction contracts or infrastructure projects. As opposed to FDI projects, the ownership of the constructed infrastructure belongs to the client and not the companies that build it. Infrastructure projects through contracting modalities have been particularly used in the framework of the BRI. The particularities of the infrastructure projects carried out by Chinese firms are that they often integrate all the segments of the project such as financing and post-construction processes (Dussel Peters 2020). A large part of these projects are government construction contracts financed by Chinese banks (Ellis 2014).

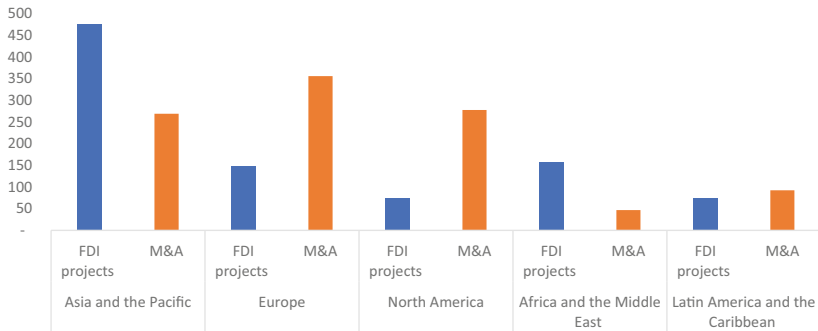
The BRI, with its focus on infrastructure development in greater Eurasia, and to a lesser extent in Africa, also explains the prevalence of greenfield investment in those geographical areas. On the other hand, with the Made in China 2025 plan, China has a development strategy for its manufacturing sector that seeks to move up the value chain through technological improvement and reduce dependence on imports of foreign technology. Acquisitions made in strategic sectors, particularly in high-tech sectors, in North America and Europe are within the framework of the concerted effort to develop these sectors at the national level. Chinese FDI in LAC has taken both of these forms, varying across countries and sectors.

In geographic terms, the internationalization of Chinese companies through FDI has primarily been concentrated in the Asia-Pacific region

where most of the announcements of new investments were located between 2005 and 2020 (52%) (see Fig. 3.3), followed by Africa and the Middle East (15%). Among regions, Latin America and the Caribbean was the fourth-largest destination, together with North America, both representing 8% of announcements of total investments.

In terms of M&A, the highest number of transactions took place in Europe (34% of the amount between 2005 and 2020), North America (27%), and Asia–Pacific (26%). Latin America and the Caribbean accounted for 8.9% of the global number of Chinese M&A completed between 2005 and 2020, a share similar to that of investment announcements.

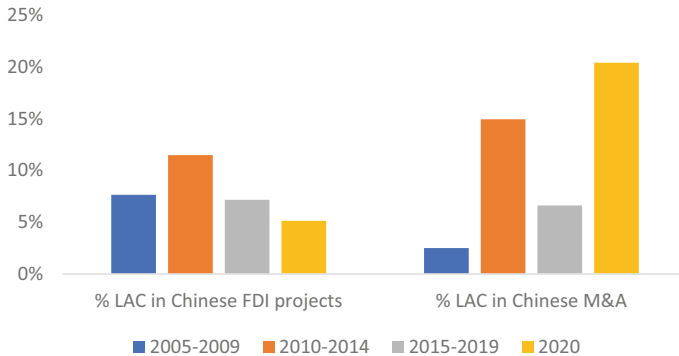
Between 2005 and 2010, Latin America and the Caribbean accounted for an average share of 8% of Chinese FDI announcements which increased to an average of 11% for the period 2010–2014 (see Fig. 3.4), reaching a peak of 14% in 2013. However, its weight as a destination for new projects began to decline after 2013, reaching an average of only 7% of Chinese FDI projects between 2015 and 2019. However, in 2019,



**Fig. 3.3** Announcements of foreign direct investment and cross-border mergers and acquisitions of China and Hong Kong (SAR of China), by region of destination, 2005–2020 (*Source* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg. *Note* Only mergers and acquisitions that were completed are considered and are accounted for in the year the agreement was closed. Transactions are considered where the share control objective exceeds 10%. The investment announcements include amounts estimated by the data source for those cases in which the company did not announce the amount of the project)

there was a rebound in the region's share of projects, reaching an all-time high (18%). In 2020, the share of LAC in Chinese FDI announcement was lower, with the region representing only 5% of Chinese FDI projects. Given the particular nature of 2020, it is too early to conclude whether this low participation represents a significant decrease in the interest of Chinese firm in the region or just a period of lower dynamism.

The share of Latin America and the Caribbean in M&A carried out by Chinese companies has a high variance, which is explained by the nature of M&A and the magnitude of transactions in the region, where a large transaction in one year can completely alter the trend. Analyzing the 5-year average, Chinese M&A in the region reached their maximum average share in China's overall merger and acquisition activity during the period 2010–2014 (15%), compared to only 3% in the period 2005–2009 and 7% in the more recent period. In 2020 however, despite the COVID-19 pandemic, the share of LAC in Chinese global M&A reached 20%.



**Fig. 3.4** Participation of Latin America and the Caribbean in investments abroad by China and Hong Kong (SAR of China), according to modality, 2005–2020 (*in percentages of the total amount*) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg)

## LAC's BURGEONING INVESTMENT RELATIONSHIP WITH CHINA

### *From 2010 the Presence of Chinese Companies in the Region Deepens*

During the internationalization phase associated with the Go Out Policy strategy and until 2010, the presence of Chinese companies in Latin America and the Caribbean was moderate and concentrated in a few countries, largely in natural resource sectors.

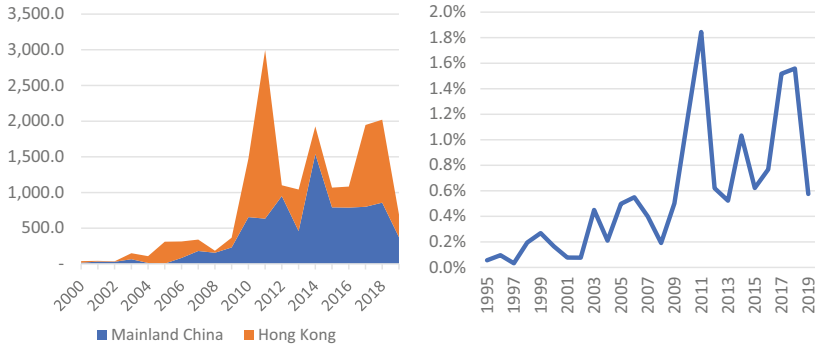
The deepening of economic relations with China in the last decade was reflected mainly in increasing trade flows, but also in the growth of FDI inflows from China. In 2010, FDI inflows from this source crossed the one-billion-dollar threshold for the first time and reached a maximum of 3 billion dollars in 2011. Since then, FDI inflows from China have fluctuated between 1 and 2 billion dollars annually (see Fig. 3.5). With this growth, China came to represent 1.6% of FDI inflows to the region in 2018 and only 0.6% in 2019, a share that is still low compared to traditional origins of investment such as the European Union (43% of FDI inflows in 2019) and the United States (24%).<sup>4</sup>

These numbers reflect those registered in the official balance of payments statistics of the recipient countries and report the capital that entered directly from China. However, they underestimate the presence of Chinese companies in the region for two reasons. First, since not all countries report FDI inflows by the origin of capital, it is impossible to report a total that collectively represents all the countries of Latin America and the Caribbean. The second, and more significant, factor is that a large part of China's investment flows do not enter directly from China but are invested through third markets. In a study on Brazil, for example, it was estimated that in 2016, 80% of investments of Chinese origin entered through third countries, mainly Luxembourg and the Netherlands (Central Bank of Brazil 2018).

For these reasons, and to better understand the presence of Chinese firms in the region, three complementary data sources are analyzed: (i)

<sup>4</sup> These figures correspond to the countries that report FDI data by origin: Argentina, Bolivia, Brazil (excluding reinvestment of profits), Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, and Uruguay.

The countries represented 92% of FDI inflows in Latin America and the Caribbean in 2019.



**Fig. 3.5** Latin America and the Caribbean (selected countries): Foreign direct investment (FDI) inflows from China and Hong Kong (Special Administrative Region, SAR, China) (*Source* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official sources. *Note* The countries with information on the origin of FDI are Argentina, Bolivia, Brazil (excluding reinvestment of profits), Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, and Uruguay)

M&A carried out by companies from China and Hong Kong in assets located in countries of the region, (ii) announcements of new investment projects, and (iii) construction contract projects. Each of these modalities has certain characteristics to consider for the analysis.

The value of M&A corresponds to the value of the agreements that were entered into each year, for those transactions in which the value was disclosed.<sup>5</sup> This information allows for the characterization of Chinese firms' internationalization strategies in terms of the magnitude of the agreements, sectors, destination countries, and involved firms. However, these figures are not necessarily foreign direct investment and thus are not necessarily accounted for in the official FDI flows of the recipient countries.<sup>6</sup>

<sup>5</sup> Considering the purchases by companies from China and Hong Kong (SAR of China) in Latin America and the Caribbean between 2005 and 2020, the value of the transaction was revealed in 83% of the registered deals (based on data from Bloomberg).

<sup>6</sup> This depends on the nationality of the parties involved (the selling firm may also be foreign), the payment method and other financial terms of the agreement.

Investment announcements make it possible to identify the investment intentions of firms in new projects. New investment projects are particularly desirable for the receiving economy as they create new productive capacity and have, in general, higher direct impact in terms of job creation and development of local capacities.

It is important to note that Chinese companies are also operating in the region through construction contract modalities in the context of infrastructure projects. Infrastructure projects can be defined as “a service between a customer and a supplier through a contract—usually the result of a bidding process, although the process may be by direct designation—and in which the ownership belongs to the customer” (Dussel Peters 2020: 2). These projects are not direct investments but represent an increasing influence of Chinese companies and technologies in the region. According to this definition, in the region, 86 infrastructure projects, for a total amount of nearly 77 billion USD, have been registered between 2005 and 2019, from which 51 (54.7 billion USD) have been registered after 2015 and none before 2005 (Dussel Peters 2020).

In terms of cross-border M&A of companies located in the region, the deals concluded by companies from China and Hong Kong (SAR of China) grew substantially in 2010. Between 2005 and 2009, 37 agreements were closed for a total of 3.454 billion dollars, while in the following two five-year periods (2010–2014 and 2015–2019), this figure rose to 57 and 49 agreements, with an accumulated value of 40.640 and 34.126 billion dollars in each, respectively. In 2020, Chinese firms participated in 8 M&A deals in the region for a total of 5.901 billion USD. These numbers are slightly below the average of the last 10 years but represent an increase compared to 2019, counter to the expected slowdown from the COVID-19 pandemic. The share of Chinese companies’ M&A in the region’s total increased from less than 1% of the annual amount between 2005 and 2009 to 16.1% of the annual amount in 2010, reaching a maximum of 34% in 2017 (see Fig. 3.6A). Although the operations of Chinese companies represented, on average, 17% of the amount of cross-border M&A carried out in the region from 2015 to 2019, the share of these operations decreased between 2017 and 2019. However, in 2020, thanks to 2 mega deals in the electricity sector, China’s share in the region increased to 23%.

In total, between 2005 and 2020, 150 agreements were concluded for a total of approximately 83 billion dollars, 11% of the total value of cross-border M&A in the region. Of these, 27 operations exceeded one billion

dollars. These “mega deals” represented 82% of the value of operations carried out between 2005 and 2020.

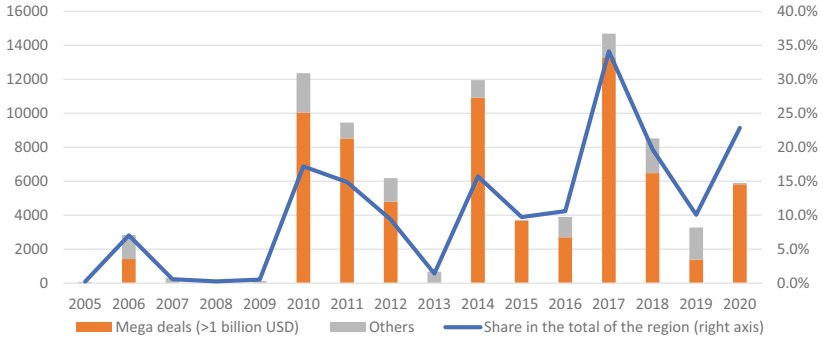
The presence of Chinese companies in the announcements of new investments has shown an upward trend, but with a lower share than that registered in M&A. Between 2005 and 2020, they represented 5% of the value of all investment announcements made in Latin America and the Caribbean, amounting to less than half of the proportion of M&A (see Fig. 3.6B). Over this period, 329 companies from China and Hong Kong (SAR of China) announced 652 projects in Latin America and the Caribbean, for an associated amount estimated to be 75 billion dollars. From 2010, the value of investment announcements grew, but not at as marked a rate as M&A. Between 2005 and 2009, 81 projects were announced with an estimated value of 16.000 billion dollars. Between 2010 and 2014, the number of projects grew substantially, with 190 announcements, for a value of 30.000 billion dollars. In the last five years, it reached the investment announcement record, with 335 projects, but with a lower associated value (28.000 billion dollars), more than a third of which were recorded in 2019. That year, FDI announcements from Chinese companies reached an all-time high, with 124 projects for a total estimated to be \$14 billion, far exceeding the annual average of announcements from China for the last fourteen years. However, in 2020, the COVID crisis halted this trend and only 46 projects were announced for a total of 2.6 billion dollars.

Compared to M&A, the presence of megaprojects is less frequent in announcements: Only 15 projects exceeded one billion dollars and represented 35% of the accumulated amount in the last sixteen years. As a result, since 2010, the estimated investment value for new projects by Chinese firms in Latin America and the Caribbean has been lower than the value of M&A (see Fig. 3.7).

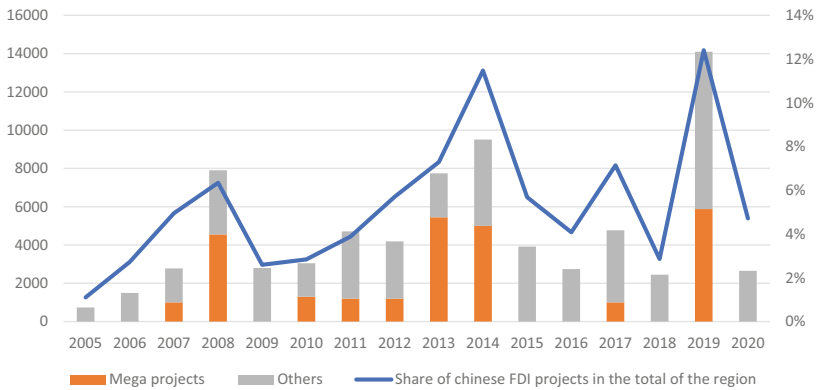
This growth positioned China among the principal investors in Latin America and the Caribbean, which added to its status as a leading trading partner. In 2020, China was the country with the highest volume of activity in M&A, with 8 operations for a total of \$ 5.900 billion, preceding Spain and Canada (see Fig. 3.8A). Taking the period 2005–2019, China was the second largest origin of cross-border M&A by value after the United States, and with a higher volume of transactions than historical investors in the region such as Spain, Canada, United Kingdom,



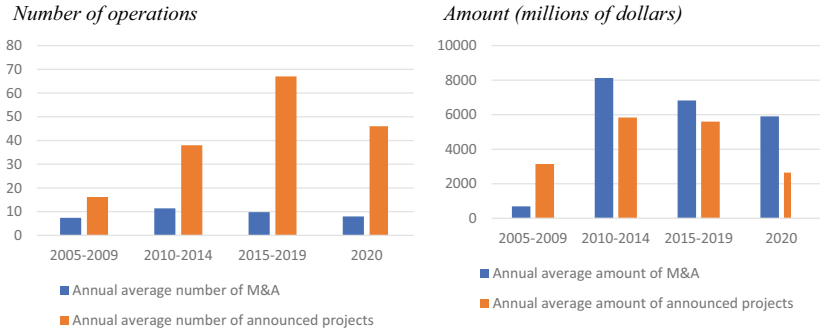
**A. Cross-border mergers and acquisitions**



**B. Foreign direct investment announcements**



**Fig. 3.6** Investment of companies from China and Hong Kong (SAR of China) in Latin America and the Caribbean, according to modality, 2005–2020 (in millions of dollars and percentages) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg. *Note* Only mergers and acquisitions that were completed are considered and are accounted for in the year the agreement was closed. Cases are taken where the share control objective exceeds 10%. Mega deals and megaprojects refer to operations greater than one billion dollars. The investment announcements include amounts estimated by the data source, for those cases in which the company did not announce the amount of the project)



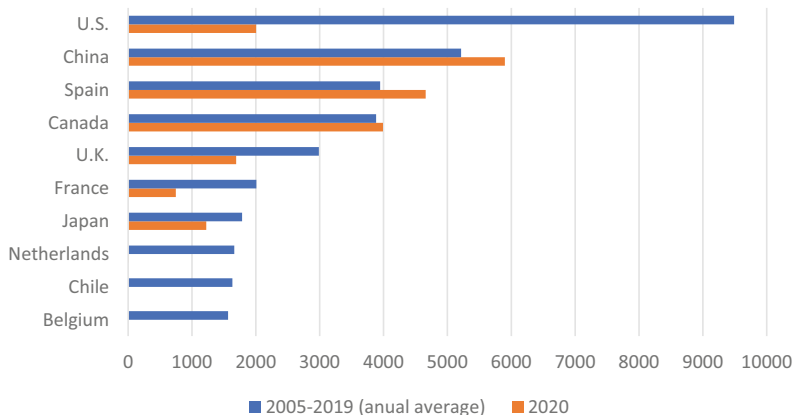
**Fig. 3.7** Investment of companies from China and Hong Kong (SAR of China) in Latin America and the Caribbean, by modality, 2005–2020 (*Source* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg. *Note* Only mergers and acquisitions that were completed are considered and are accounted for in the year the agreement was closed. Cases are taken where the share control objective exceeds 10%. The investment announcements include amounts estimated by the data source, for those cases in which the company did not announce the amount of the project)

and France. Considering FDI greenfield projects, China was the fourth-largest source of projects in Latin America and the Caribbean in 2020, and the fifth in the period 2005–2019 (see Fig. 3.8B).

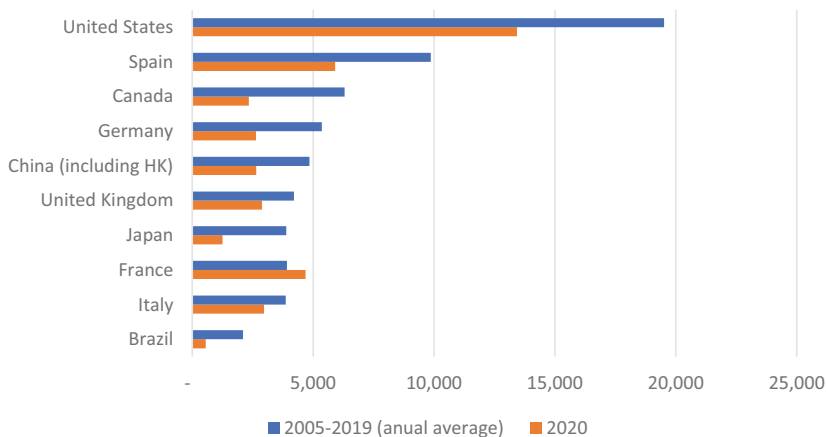
Chinese investment through M&A and announced projects has not been distributed evenly across every country in Latin America and the Caribbean. Brazil has been the main destination for M&A carried out in the region, accounting for 59% of the total value of Chinese M&A in the region between 2005 and 2020, followed by Peru (18%), Chile (10%), and Argentina (4%) (see Fig. 3.9). Brazil, Peru, and Chile's weight in Chinese M&A is higher than in M&A from the rest of the world, which demonstrates a greater relative interest of the Asian country relative to the rest of the world in these destinations. In the case of Mexico however, the country represents only 0.3% of Chinese M&A in the region while it is the destination of 16% of the global cross-border M&A in the region.

Mexico is however the second host country of Chinese FDI projects, representing 23% of the total amount, after Brazil (26%), and before Peru (18%), Argentina (7%), and Bolivia (4%).

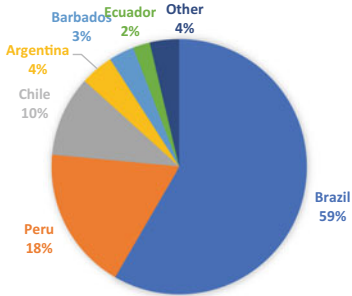
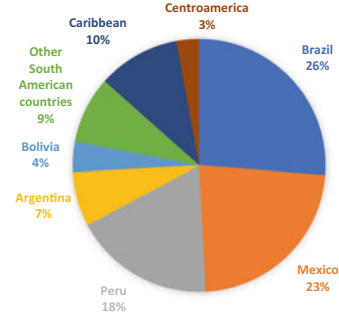
### A. Cross-border mergers and acquisitions



### B. Foreign direct investment announcements



**Fig. 3.8** Foreign investment in Latin America and the Caribbean, main origins, 2005–2018 and 2019 (*millions of dollars*) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg. *Note* Only mergers and acquisitions that were completed are considered and are accounted for in the year the agreement was closed. Cases are taken where the share control objective exceeds 10%. The investment announcements include amounts estimated by the data source, for those cases in which the company did not announce the amount of the project)

**A. Cross-border mergers and acquisitions****B. Foreign direct investment announcements**

**Fig. 3.9** Chinese Foreign investment in Latin America and the Caribbean, by host country, 2005–2020 (*percentages of total amount*) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi Markets, and Bloomberg)

*From Natural Resources to Sectoral Diversification: Chinese FDI in LAC, 2005–2019*

The first phase of investments in the 2000s and early 2010s was characterized by investments in hydrocarbons, metal mining, and agriculture and fishing. As evidenced in previous studies (Ellis 2014; Dussel Peters 2019) Chinese FDI in the region diversified recently, entering into sectors such as electricity, infrastructure construction, logistics, and to a lesser extent, in manufacturing, banking, and information and communication technologies. Nevertheless, major investments are still concentrated in few, and strategic, industries.

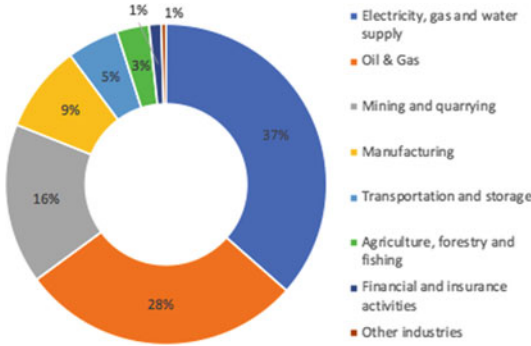
Taking into account the sectoral composition of M&A of Chinese companies in the region, between 2005 and 2020 80% of the deals amount were concentrated in electricity, oil and gas, and mining (see Fig. 3.10A). In the early years, 2005 to 2009, acquisitions were smaller, and the greatest volume of transactions was in transport and logistics companies in Panama, the fishing sector in Peru, and in the hydrocarbon sector in Colombia, Ecuador, and Mexico. From 2010, an incipient diversification took place (see Fig. 3.10B and C).

Between 2010 and 2014, there was major interest in mining and quarrying, oil and gas and manufacturing, an industry where deals were smaller (it represented 4% of the amount and 19% of the number of

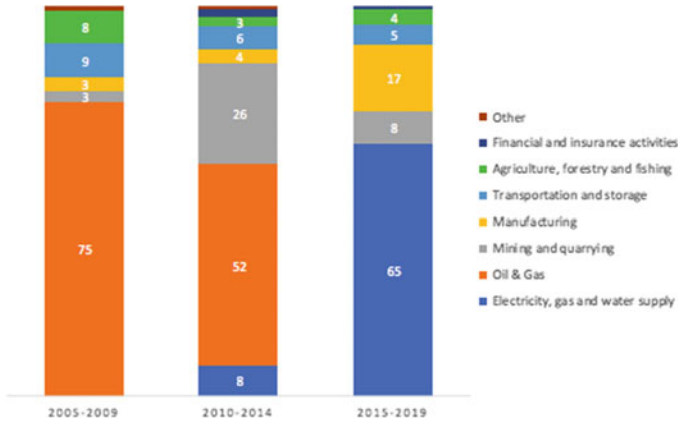
deals). Chinese companies conducted significant acquisitions in hydrocarbons, acquiring stakes in major integrated oil companies from the region and concessions to exploit resources, mainly in Argentina, Brazil, Peru, Trinidad and Tobago, and Venezuela. In 2010, one of the largest mega deals was the acquisition of a 40% stake of the Spanish Repsol Brazil by China Petroleum and Chemical Corp (Sinopec Group) for 7.1 billion dollars. In mining, the largest deals were closed in Peru and Brazil and smaller deals targeted firms in Jamaica, Bolivia, Mexico, Ecuador, and Argentina. The largest deal was closed in Peru: Swiss firm Glencore sold Las Bambas copper mine for 7 billion dollars to a consortium formed by MMG Limited, Guoxin International Investment Co. Ltd., and CITIC Metal Co. Ltd. In the financial sector, the largest transaction to date was the entry of China Construction Bank in Brazil in 2014 through the purchase of 72% of Brazilian BicBanco for 725 million dollars. In 2015, it acquired an additional 26% for 51 million dollars. In this period, Chinese companies started to invest in electricity utilities in Brazil.

Between 2015 and 2019, the interest in utilities grew and they became the main target of Chinese companies, with a focus on Brazil, but also with acquisitions in Chile and Peru. From 2015, no M&A deal in oil and gas was identified. In 2017, State Grid Corp of China acquired 94.75% of CPFL Energia SA, one of the largest integrated electric utilities of Brazil, via several operations with a total value around 9.9 billion dollars. In this period, manufacturing and transport and storage acquired more relevance. In manufacturing, agrochemicals in Brazil and basic chemical products in Chile were the industries with the largest deals, and smaller deals were closed in electrical equipment in Mexico and food and beverages in Argentina and Chile. The largest manufacturing deal recorded is the acquisition of 24% of SQM of Chile, valued at 4 billion dollars, which within its product portfolio produces lithium carbonate and lithium hydroxide. In transport and equipment, the largest deals targeted marine terminals, mainly in Brazil and Peru. The acquisition by China Merchants Port Holdings Co Ltd of Terminal de Contenedores de Paranagua (TCP) in Brazil, closed in 2018 for 896 million dollars, was the largest deal. Finally, in 2020 very few deals were closed and the largest were electric utilities sold by Sempra Energy from the United States to China Yangtze Power Co Ltd in Peru, for 3.6 billion dollars, and to State Grid Corp of China in Chile, for 2.2 billion dollars.

**A. Total 2005 - 2020**



**B. Five-year evolution**



**Fig. 3.10** Latin America and the Caribbean: mergers and acquisitions by Chinese firms, by industry (*percentage of the deals value*) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg. *Note* Only mergers and acquisitions that were completed are considered and are accounted for in the year the agreement was closed. In 18% of the operations, the value was not disclosed. The sectors are an adaptation of the sectors to 6 digits of the Bloomberg Industrial Classification)

### C. Number of deals (*five-year total*)

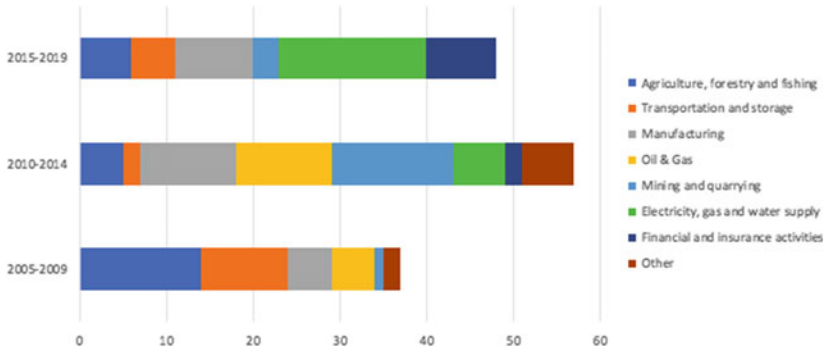


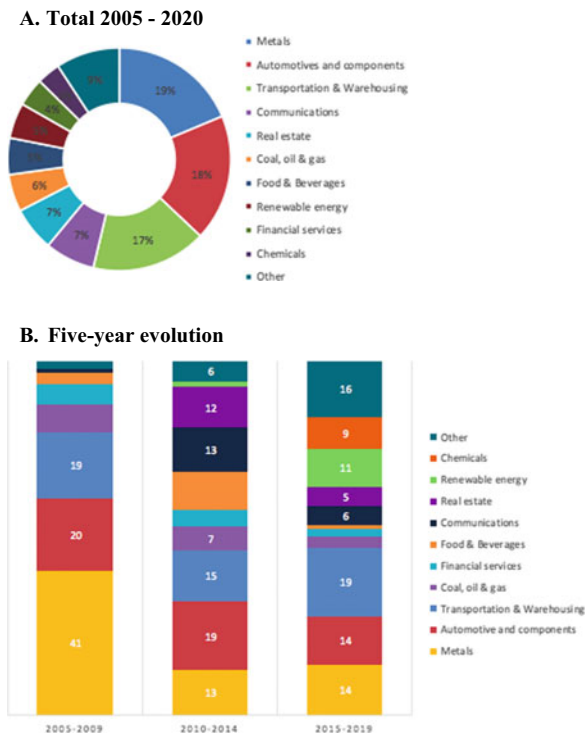
Fig. 3.10 (continued)

Greenfield investments showed a different picture than M&A, they were less concentrated by sector, and they had other leading host industries. Automotive and components and transportation and warehousing were among the top three host industries between 2005 and 2020, along with metals, which includes mining and manufacture of basic metals (see Fig. 3.11A). In the first phase (2005–2009), metals projects concentrated the largest amounts (see Fig. 3.11B), mainly in Peru and Guyana. In the automotive industry, projects were announced in Brazil and Mexico and the largest projects in transportation and warehousing were announced in Ecuador, Brazil, Mexico, and Panama.

From 2010, projects grew and diversified by industry. Metals, automotive and components, and transportation and warehousing remained as the industries with the largest projects announced, while between 2010 and 2014 communications and real estate acquired greater relevance. Later, between 2015 and 2019, announcements in renewable energy and chemicals belonged to the top 5 industries in value of projects (see Fig. 3.11B).

Already in 1997, Panama awarded to Hutchison Whampoa from Hong Kong the concessions for 25 years for the operations of port of Cristobal, at the Atlantic, and port of Balboa, at the Pacific, a fact that according to Ellis (2014) triggered political and media discussion about Chinese presence in the Western hemisphere.

By number of projects, most announcements were made in communications and automotive and components (16% of the total each, between 2005 and 2020) (see Fig. 3.11C). In the last five years, consumer products and electronic components ranked third and fourth as the industries with more projects announced by Chinese companies, while between 2010 and 2014 those places belonged to industrial equipment and financial services. From 2010, the number of industries with announcements increased: from 8 sectors in the first phase to 20 sectors between 2015 and 2019. As mentioned before, 2019 was an all-time high in the number



**Fig. 3.11** Latin America and the Caribbean: announced investments by Chinese firms, by industry (*percentage of the deals value*) (Source Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Financial Times, fDi SMarkets)



### C. Number of projects (five-year total)

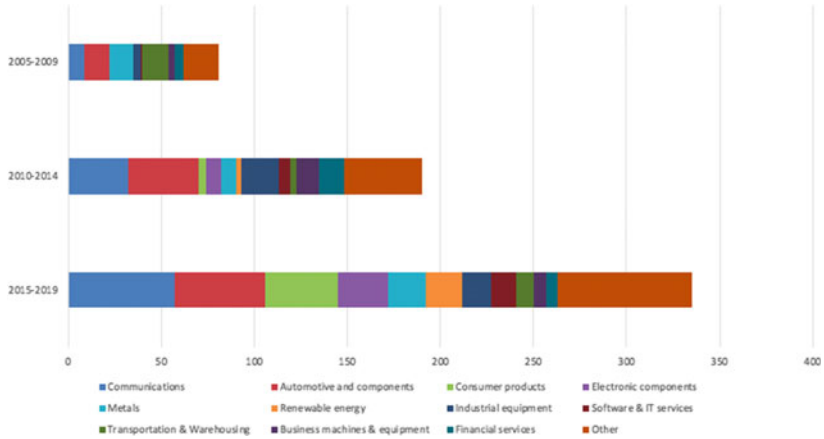


Fig. 3.11 (continued)

and value of announcements, and it was also an all-time high in the diversification of industries, with projects in 25 sectors.

In communications, 19 companies announced projects in the last 16 years and three led the investments: Huawei Technologies, (47% of the number of projects in communications and 63% of the value), Xiaomi (21% of the number and only 1% of the value, given that all its projects are in retail or sales, marketing, and support), and ZTE (14% of the number, 9% of the value). In total, 57% of the announced projects are in retail, sales, marketing, and support activities; however, projects in research and development, ICT and Internet infrastructure, and manufacturing concentrated the most value (31%, 22%, and 19%, respectively, between 2005 and 2020). Huawei Technologies made the largest announcement in the industry: a plant of 800 million dollars in Brazil, announced in 2019. Second ranked was the project of a manufacturing and research and development plant project by ZTE, also in Brazil, announced in 2011 with an investment around 600 million dollars.

Projects in automotive and components were mostly in manufacturing and were concentrated in Mexico, Brazil, and Argentina. The number of companies was larger than in telecommunications (45 investing firms), and the leaders were as follows: Chery Automobile (15% of the value of

projects), Anhui Jianghuai Automobile (JAC) (11%), Changan Automobile Group (9%), Geely Holding Group (7%), and BYD (7%). The leading role of Chinese companies in the electric vehicles market creates interesting opportunities for countries in the region. For example, in 2014 BYD announced a plant in Brazil to produce chassis for electric buses with an initial investment of 90 million dollars, which opened in 2017. In 2019, they announced an expansion of this plant, to produce solar panels, with an estimated investment of 300 million dollars.

In addition to foreign direct investment, Chinese companies have been carrying out projects in various sectors through contract modalities. According to the monitor of infrastructure projects of Dussel Peters (2020), energy projects are the most frequent type of project carried out by Chinese companies in the region between 2005 and 2019. Energy projects represented 37 of the 86 projects carried out by Chinese companies and 49 billion dollars (64% of their amount). These projects include hydroelectric, alternative renewable energy plants, grid development, and gas and oil projects as well as a nuclear project in Argentina. However, the nuclear project in Argentina that represented a 15-billion-dollar contract when signed in 2015 was put on pause in 2016 and is still under negotiation now. The sector with the second largest amount of Chinese construction contracts in the region is transport, with 34 projects in road, railways, ports, and airports for a total of 25 billion dollars.

## PROSPECTS FOR CHINA'S INTERNATIONALIZATION IN LAC

### *Challenges and Evolution in the China-LAC Investment Relationship*

ECLAC estimates that to close the region's physical infrastructure gap. The 6% of GDP would have to be invested annually, equivalent to US\$ 6.9 trillion over 15 years from 2016 to 2030, expressed in 2010 dollars (ECLAC 2019). Financing for infrastructure projects from China has been important to help close this gap, particularly for countries without access to financial markets. Between 2005 and 2020, China provided over 137 billion dollars in loans to Latin American and Caribbean governments and state-owned enterprises through China Development Bank and China Export-Import Bank, though no new loans were issued in 2020 (Gallagher and Myers 2021).

However, China is among the world's least transparent creditors in terms of reporting on the volume and terms of its official lending.

This is partly because loans are not only provided on a government-to-government basis, but often through Chinese State-owned enterprises (SOEs) to recipients that are often also SOEs. These loans are not registered by statistical offices in developing countries, which generally do not record business-to-business loans. Another reason for this opacity is that Chinese foreign assistance, including loans, is influenced by and linked to the country's investment, trade, and foreign policy objectives (Horn et al. 2019). In addition to being linked to construction projects carried out by Chinese companies, financing has sometimes been contingent on the use of Chinese materials and labor for projects, such as in the construction industry (Ellis 2014). The reliance on workers from China has limited employment opportunities for local populations and the development of new skills in these projects.

Furthermore, China's largest investments have been acquisitions of strategic importance to China, but with limited opportunities for technology transfers or productivity growth in recipient countries, risking to further lock them in at lower value-added links of production chains. Latin America and the Caribbean's export basket to China remains heavily skewed toward raw materials and natural resource-based manufactures, representing 95% of regional exports to China compared to 46% of exports to the rest of the world.<sup>7</sup> Investments in new projects with greater potential to produce spillovers in the economy, since they involve the development of a new activity, have been less dynamic. These include investments in key sectors for the region's sustainable development, such as renewable energies and electric vehicles, and others in the digital economy, in which Chinese companies are among the global technological leaders. In terms of scale and scope, however, these investments are minor and focus mainly on marketing or assembly activities rather than manufacturing or research and development.

Chinese companies' increasing familiarity with the region and evolving domestic policy frameworks could potentially alleviate some of these challenges and reorient the country's internationalization strategy. China's rise to become the country with the second highest amount of capital invested abroad was not an abrupt change, but rather was achieved through decades of foreign investment growth supported by a concerted campaign of investment promotion policies. The internationalization of

<sup>7</sup> ECLAC on the basis of the UN Comtrade database.

the Chinese economy has often been aligned with specific policy documents and pronouncements that augured changes in the volume and orientation of investments, trade, and financing.

The deeply intertwined nature of China's corporate and public sectors, including the active role of state-owned companies in overseas investment, facilitates this alignment of economic and political objectives. State-owned companies and large conglomerates are the main investors in the region. Among the top ten actors in the region's mergers and acquisitions, only one is non-State-owned and among the companies making investment announcements, only two of the ten with the largest announcement amounts are private (ECLAC 2021a). As the international context and China's policy environment evolves, these changes are certain to impact the volume and structure of the country's internationalization in Latin America and the Caribbean.

### *China-LAC Investment Prospects in a Changing World*

At the global level, at the end of the 1990s, China launched the “Going Global Strategy” or “Go Out Policy”<sup>8</sup> that encouraged companies to invest abroad. Since 2004, the rules and regulations for these investments have been progressively introduced and more recently, in 2013, the Belt and Road Initiative (BRI) was launched.

The notable expansion of Chinese investment in Latin America and the Caribbean since 2010 described in the previous sections followed on the heels of the publication in 2008 of the first of two white papers on Latin America and the Caribbean by the Chinese Ministry of Foreign Affairs. The second was published in 2016. Although specific priorities are not highlighted, these white papers emphasized the importance of cooperation between the region and China and suggested generic spaces for the exchange and deepening of relations in the political, economic, cultural, and social spheres, as well as in peace, security, legal matters, and regional organizations (Stallings 2020). At the China-CELAC forum held in Brasilia in 2014, President Xi Jinping unveiled China's “1 + 3 +

<sup>8</sup> The Go Out Policy (走出去战略; Zǒuchūqū Zhànlüè) was a strategy launched in 1999 by the People's Republic of China, with the aim of motivating its companies to invest abroad.

6” cooperation framework, referring to the China-CELAC Cooperation Plan (2015–2019), the three engines of trade, investment and financial cooperation, and the intention to expand China’s economic activities in the region into the six fields of natural resources, energy, infrastructure, manufacturing, science, technology, and information technology sectors (Ministry of Foreign Affairs 2014).

In the current geopolitical environment characterized by tensions with the United States and the competition for technological dominance, the characteristics of Chinese investment in the region are poised to change further. China’s 14th Five-Year Plan for 2021–25, which gives greater priority to domestic consumption, technological development and self-sufficiency, and recent changes in the sectoral emphasis of the BRI, may impact the nature of China’s economic engagement with Latin America and the Caribbean.

China’s 14<sup>th</sup> Five-Year Plan continues the country’s gradual rebalancing toward an increased focus on the domestic market. The decline in mainland China’s ratio of foreign trade to GDP from 64 percent in 2006 to less than 36 percent in 2019 illustrates this structural shift (World Bank 2021). Simultaneously, the plan’s “dual circulation” strategy entails enhancing domestic productive capabilities through industrial policies with a focus on strategic sectors prioritized by Made in China 2025 and maintaining access to international markets. The plan seeks to enhance technological capabilities by increasing research and development spending by 7% a year between 2021 and 2025, with emphasis on seven cutting-edge technologies: (i) artificial intelligence, (ii) quantum information, (iii) neurological science, (iv) integrated circuits and semiconductors, (v) clinical medicine and health, (vi) genomics and biotechnology, and (vii) deep-earth, deep-sea, polar, and deep-space research. China’s domestic development strategy will in turn inform outward investment priorities, including through the reorientation of the Belt and Road Initiative and its offshoots.

### *Belt and Road Initiative*

The BRI, launched in 2013 as “One Belt, One Road,” is a China-led program with global reach, which aims to increase connectivity and integration. Although the initiative began with a Eurasian focus, with projects concentrated on logistical infrastructure connectivity between China and geographically adjacent regions like Central, South and Southeast Asia and the Middle East, as well as Europe, the geographical and sectoral

scope of the BRI have evolved over time. To date, 19 LAC countries have signed agreements with China to join the BRI.<sup>9</sup>

Despite the rapid expansion of the BRI in Latin America and the Caribbean from the end of 2017 until early 2019, fewer BRI cooperation agreements have been signed since. Notably, the region's three largest economies, Brazil, Colombia, and Mexico, have yet to join the ranks of the BRI countries. The BRI has often been characterized by infrastructure projects under different forms of contracts, which represent a growing form of participation by Chinese companies and technologies in the region.

The scope and objectives of the BRI continue to evolve. The confluence of the COVID-19 pandemic, together with the evolving development strategy of China and increasing geopolitical competition, has led to greater emphasis on facets of Belt and Road cooperation that help further the country's ambitions in strategic industries and emerging technologies, namely the Health Silk Road (HSR), Green Silk Road (GSR), and Digital Silk Road (DSR).

### *The Health Silk Road*

Although the HSR was first announced in January 2017, the initiative largely lay dormant until the outbreak of the COVID-19 pandemic in 2020. The HSR reflects China's ambition to become increasingly influential in global health governance, building on its existing global health cooperation programs and the domestic Healthy China 2030 program.

In the context of the pandemic, the HSR has largely taken the form of trade and cooperation in medical supplies and vaccines. As a significant producer of pharmaceutical products and personal protective equipment, the HSR is a route to cultivate markets for Chinese medicine and health-care industry products. As China seeks to develop its biomedicine and advanced medical equipment industries, one of Made in China 2025's 10 priority sectors, the HSR is an avenue to market these higher value-added products. Given the supply chain risks illustrated by the pandemic and their longer-term reconfiguration amidst geopolitical tensions, China

<sup>9</sup> As of October 2022, the Latin American and Caribbean countries that have signed Belt and Road Initiative cooperation agreements are Antigua and Barbuda, Barbados, Bolivia, Costa Rica, Chile, Cuba, Dominica, Dominican Republic, Ecuador, , El Salvador, Grenada, Guyana, Jamaica, Peru, Suriname, Uruguay, Venezuela (Bolivarian Republic of), Panama, Trinidad and Tobago.

could potentially increase its investment in the manufacturing of basic health equipment in BRI countries to produce in or near their final markets through near-sourcing options (Chow-Bing 2020).

This potential is already taking shape with the production and distribution of Chinese-made COVID-19 vaccines. Latin America and the Caribbean has been an important market for Chinese vaccines against COVID-19, with 264 million doses delivered as of November 2021, the second largest export market after the Asia-Pacific region (Bridge Consulting 2021). In addition, Chinese manufacturers have produced COVID-19 vaccines in the region through local production agreements in Brazil and Mexico and plans to establish fill-and-finish plants in Chile and Colombia are underway (ECLAC 2021b).

### *The Green Silk Road*

China has increasingly underscored the importance of ensuring that the BRI is compatible with sustainability objectives both in reaction to criticism for the detrimental environmental impacts of the initiative during its early years, the country's carbon emission reduction commitments, and the country's dominant position in renewable energy technologies.

China's target to reach peak CO<sub>2</sub> emissions before 2030 and achieve carbon neutrality before 2060 will require substantial changes to the country's production and consumption patterns. Significant efforts have been placed on greening manufacturing since China's climate objectives rely on the achievement of Made in China 2025 goals in power and new energy technologies and materials.

The GSR also serves to export China's emerging dominance in green technologies to new markets. China has installed renewable energy capacity accounting for 30 percent of the world's total, and its new energy vehicles account for more than half of the world's stock (Ministry of Foreign Affairs 2020). The growing importance of renewables is already apparent in the composition of BRI energy sector investments. In 2020, renewable energy investments, including in solar, wind, and hydropower, accounted for the majority of Chinese overseas energy investments, growing 38% in 2019 to 57% in 2020 (Nedopil 2021).

In Latin America and the Caribbean, projects targeting renewable energies began to gain prominence in 2015. Projects were announced by 15 companies, with the large portion of the funds involved targeting solar energy (57%), a sector in which China has a very strong global position, and hydroelectric power (29%). There is substantial demand for greater

electricity generation in the region, which is expected to grow by 91% by 2040 (Balza et al. 2016).

Electromobility is another sector in which Chinese investment could complement and expand the region's existing capabilities and contribute to its sustainable development. One example is the Chinese electric vehicle manufacturer BYD's growth in Brazil. In 2016, the company inaugurated its first all-electric bus chassis assembly facility. In 2017, it expanded its operations and inaugurated its first solar panel plant. Then, in 2020, BYD opened a battery factory. Through these investments, the company has supplied the regional market not just through imports of electric buses, which already have a significant presence in the public transport fleets of cities in Chile, Colombia, and Brazil; it has also invested in the construction of new capacities.

### *The Digital Silk Road*

The DSR emerged in 2015 as the "Information Silk Road" and initially focused on investments in fiber optic cables and telecommunications networks. Since then, its scope has expanded to include investments in e-commerce and mobile payments systems, data security, projects related to the space industry, data and research centers, and smart city projects. The DSR is part of China's technology development strategy, which includes Made in China 2025 and the National Informatization Strategy and reflects China's ambition to achieve global high-tech leadership. The DSR aims to help internationalize Chinese technology companies and thus spread the country's cyber norms and standards.

Announcements of new projects by Chinese companies in the Latin America and Caribbean telecommunications, software, and Internet sectors have increased in recent years, but Chinese mergers and acquisitions in Latin American and Caribbean technology sectors are very rare. In the telecommunications sector, 19 Chinese companies announced projects between 2005 and 2020. Most of the projects announced in the communications sector involved sales or marketing, as Chinese companies have achieved significant market shares in the region, although the largest deals were for tenders to build infrastructure.

Large Chinese technology companies, which have been key in the implementation of the projects of the DSR, have a growing presence in Latin America and the Caribbean. According to data from the International Cyber Policy Centre of the Australian Strategic Policy Institute, 12 of the largest Chinese tech companies, including Huawei, China



Telecom, and ZTE, have started new activities in 15 Latin American and Caribbean countries since 2015 that include investments in data centers, telecommunication networks, and safe city projects.

The growing presence of Chinese companies in the telecommunication sector represents an opportunity to catalyze the acquisition of new capacities, generate higher-quality jobs, pursue innovation, incorporate technological progress into existing processes, and diversify exports. However, it is also a potential source of conflict due to rivalry with the United States over leadership in the field of new digital technologies.

## CONCLUSIONS

This chapter has described China's evolving internationalization in Latin America and the Caribbean, starting from its first investments in natural resource sectors in the 2000s to its expansion in both overall volume and sectoral scope since 2010. Although the region accounts for a modest share of China's overseas investment, the increasing number of sectors in which companies have engaged in M&A, greenfield investment, and contract modalities demonstrates the depth and complexity of economic relationship.

Just as policy measures in the past impacted the volume and orientation of China's outward investment, the 14<sup>th</sup> Five-Year Plan (2021–2025) for National Economic and Social Development and shift in emphasis in the BRI may once again affect the characteristics of China's economic engagement with Latin America and the Caribbean, in a context of increasing competition with the United States.

For Latin America and the Caribbean to leverage China's investments to overcome its structural problems of high levels of structural heterogeneity, primarization, limited technological density, and heavy concentration in sectors and activities with low levels of productivity and value added, the region's countries will be required to rethink how best to negotiate the involvement of Chinese companies. Considerations go beyond investment and encompass China's important weight as a trading partner and, in some cases, as a creditor; the way in which policy decisions arising from the strategic guidelines have an impact on its enterprises; and the importance of those companies in the development of new technologies.

Multilateralism and regional cooperation must be part of the Latin America and the Caribbean's approach. Common frameworks and a

better understanding of China's emerging role, vision, and strategy will allow the countries of the region to establish a mutually beneficial relationship with it. The recovery from the COVID-19 pandemic offers the region the opportunity to enter a new stage in its economic relations with China, and craft policies that ensure that Chinese investments contribute to the construction of productive capacities in recipient countries, generate linkages with local suppliers, create employment, and serve as an engine to promote sustainable development.

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# Chinese Economic Development: Impact on LAC Countries

*Menghuai Xiang and Mingyuan Li*

## INTRODUCTION

In this chapter, the authors focus on the impact of China's economic development model on the Latin American economy in terms of its different stages. After the reform and opening up, China vigorously implemented the export-oriented trade strategy and achieved economic take-off in a relatively short period of time. China's economic ties with various countries around the world have also become closer and closer, and in this process, China's Latin American trade has made a breakthrough. With China's accession to the WTO and further expansion of its openness to the outside world, trade between China and Latin American

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countries has also been growing. The limitations of the export-oriented trade strategy have been highlighted during the development process, and in response, after the economic crisis in 2008, China had to adjust its economic development model and gradually shift to a double-cycle development model with scientific development and focus on the domestic market. In 2013, President Xi Jinping proposed the Belt and Road development strategy, which also points the way for future economic cooperation between China and Latin America. Through the Belt and Road Initiative, China has strengthened cooperation with Latin American countries and promoted the development of Latin American countries by using its own ideas and experience to provide multilateral and bilateral cooperation. At the same time, Latin America should cooperate with China at multiple levels and in multiple ways to give full play to Latin America's advantages in resources and human costs, and to promote the development of both sides.

## HISTORY OF CHINESE ECONOMIC DEVELOPMENT AFTER THE OPENING UP (1978–2000)

China's economy has been undergoing crucial changes since 1978 with the beginning of reform and opening-up policy. Due to the control of the central government prior to 1978, its economic performance was not satisfying, and China decided to face the challenges and actively embrace trade and economic integration. Many measures have been taken during this period, which were beginning to affect both the structure and performance of China's economic system.

### *Political Background*

Because of the negative influence of the Cultural Revolution, Chinese domestic political status was turbulent and this affected its economic development. Since the central government realized the negative impact of the class struggle and extreme cult of personality, in 1978 the Third Plenary Session of the 11th Central Committee of the Communist Party of China decided to reunite various factions within the nation and to stick to the development of economy. To achieve this goal, China needed to open itself and seek chances to coordinate with foreign friends. According to the leadership of Deng Xiaoping, China would stick to the Socialist regime and follow Communism even as it boosted the economy at that

time. Therefore, a path with Chinese characteristics was created and developed by the government and followed by Chinese people.

### *Economic Background*

Before 1978, China mainly adopted planned and state-owned economic policies. While other countries had already experienced speedy development after World War II, China, as a latecomer to modernization, performed badly in economic terms. To change the unfavorable situation, Deng Xiaoping sought economic growth through the introduction of foreign capital and technology while maintaining a commitment to socialism. The process of reform and opening up confronted problems, sought solutions, and constantly overcame difficulties. Thus, the country established a series of priority areas and took measures to develop the economy.

Specifically, the reform and opening-up policy contains several aspects including establishment of special economic zones (1979); establishment of household Contract Responsibility System (1982); science and technology as primary productive forces (1988); established a modern enterprise system in 1993; and the planned economy gradually transformed into a market economy and established a modern corporate system. These steps gave a solid foundation of further reform.

In addition, one strategy to attract foreign investment and improve the openness of China was to establish coastal special economic zones and introduce foreign advanced technology, capital, and management experience, which was an important measure of opening up. Among those special zones, Shenzhen is the most successful one. The significance of the special economic zone is not only to open up a window for opening to the outside world, but more importantly to explore the path from a planned system to a market system in a certain scale area, and it has a demonstration and attractive effect.<sup>1</sup> For example, after the implementation of a market economy in Shenzhen, the influx of agricultural products from the surrounding areas has not only had a great impact on the prices of the surrounding areas, but also has a great impact on the planned system. Later, the opening to the outside world was gradually expanded, from the coast to the river, and then to the inland border ports. Nowadays, such

<sup>1</sup> Opening a window to see the world—A look back at the highlight moments of China's coastal opening. Xinhua, Oct. 18, 2018, accessed Oct. 18, 2021.

special zones have converted into super cities with abundant accumulation of wealth and even could compete against some well-known parts of the world, such as Tokyo, New York, and so on. It was one of the huge steps that China took to liberate its mind and to inspire more cities to accelerate their integration into the world economic system.

The other thing was the changes in the ownership structure of enterprises and their impact on the planned economy system. The result of a series of reforms has caused major changes in China's economic system. In the mid-1980s, the ownership of Chinese enterprises was different from the past. The original situation of only state-owned enterprises and collective enterprises was broken, and joint ventures, foreign-funded enterprises, individual enterprises, private enterprises, joint-stock enterprises, and new, large collective enterprises appeared. From the late 1970s to the early 1980s, a large number of educated young people returned to the city and needed employment. To solve this problem, the government not only allowed these people to find their own way, but also built the infrastructure to set up businesses. Newly established enterprises were called "large collectives" at the time. The biggest difference between the various types of new enterprises, including large collectives, and the original state-owned and collective enterprises is that they are not included in the planned economic system and must find products, raw materials, and sales channels by themselves. In other words, these companies must rely on the market to survive. In this way, various new types of enterprises have created a market outside of the original planning system (Chao and Xiaoping, 1985). Although this market is still immature and has no clear legal status, it has already emerged. State-owned enterprises have been reformed. And the introduction of joint venture and foreign companies have made the market much livelier. The reform of the structure of enterprises also contributed to the success of reform and opening-up policy.

China retained Marxism as the ideology of the Communist Party. In Latin America, there were also Leftist ideological leanings, contributing to the foundation of potential business partnerships. By the late twentieth century, several countries had established diplomatic relationship with China, such as Uruguay, Venezuela, and so on. The post-1978 reforms would become a potential chance for these two areas to work together. With the expansion of the reforms, more foreign countries have established diplomatic relationships with China, and the "friend circle" has

strengthened. Although these regions are far away from each other, China and Latin America are increasingly connected.

In 1999, the Chinese government proposed the “Go out policy” (also referred to as the Going Global Strategy), which aimed to encourage its enterprises to invest overseas. Since then, Chinese companies have developed their own strategies to open markets besides China and to seek potential profits in other parts of the world. Under the guidance of this policy, China started to restructure state-owned enterprises and managed to reach out for more partners and economic cooperation.

According to the statistics of official websites, Chinese total import and export of goods rose significantly. In 1978, the total value of imports and exports of goods was only 20.6 billion U.S. dollars, and it has increased to 474.3 billion U.S. dollars in 2000. As an outcome of these measures, the actual use of FDI has seen similar increase. In 1978, it was only 900 million U.S. dollars, and it increased to 40.7 billion U.S. dollars in 2000.

In comparison between 1978 and 2000, China’s GDP witnessed a significant growth. In the year of 1978, GDP was 346.5 billion yuan, and in 2000, it has grown to 9921.5 billion. Such a contrast indicates that China did the right thing in developing its economy. Further, the balance of foreign exchange reserves was also a good indicator of economic development. It was 200 million U.S. dollars in 1978 and increased to 165.6 billion U.S. dollars in 2000.<sup>2</sup> While maintaining its socialist regime, China used the positive elements of foreign investment and diverse economic factors to make the market much livelier than before. Only one element could not lead to the prosperity of economy. For those who suspected that whether these measures obeyed socialism or not, Deng Xiaoping pointed out that the criteria for judging whether the surname is “capital” or “community” should mainly depend on whether it is conducive to the development of socialist productivity, whether it is conducive to enhancing the overall national strength of a socialist country, and whether it is conducive to improving the people’s living standards.

<sup>2</sup> Data source: Bureau of Statistics.



## THE CHINESE DEVELOPMENT PATH AFTER 2000

### *Export-Led Strategy*

The great Reform and Opening Up Policy has contributed to an obvious increase in the Chinese economy, especially in GDP and FDI. In those years, China has been acknowledged as a member of WTO and plays a crucial role in the UN. As China has gradually become an outgoing and integrated part of the world, more countries are willing to do business with China and pursue mutual gains.

China began to take various measures to expand exports, develop export industries, gradually replace primary product exports with light industrial product exports, and otherwise promote economic development. At that time, China sought to join the global economic system by becoming a member of the WTO (World Trade Organization) in 2001. It was a shocking yet inspiring event for Chinese people. As a milestone of China's reform and opening-up policy, it further attracted international partners to do business with China.

The openness of China has provided a big chance for countries in Latin America, adding another potential partner besides the United States. Since 2000, Mexico has exported a large amount of agricultural products to China, which contributed to its GDP.

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*Exports of goods and services (% of GDP) China (data from World Bank)*

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| Year       | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Percentage | 20.90% | 20.30% | 22.60% | 27.00% | 31.10% | 33.80% | 36.00% | 35.40% | 32.60% |

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### *Became a Manufacture Powerhouse*

Manufacturing is the foundation of the country. After joining the WTO, China has increased its reform and opening-up efforts unprecedentedly by adapting to the international trade rules and continuously optimizing the investment and financing and business environment, attracting global multinational giants to settle in China. China has rapidly become the "world's factory," and the Chinese manufacturing market exports worldwide. China became the world's top exporter in 2009 and then the

world's top manufacturer in 2010. In this process, Chinese manufacturing industry began by mainly imitating, lacking innovation, following, and copying. In addition, Chinese companies competed mainly on price in international competition, and there were not many Chinese companies that could compete by adding more value. But, with China's economic development and rising labor costs, it no longer had a demographic dividend. As it loses its price advantage, it will inevitably need to gain competitiveness through technological innovation. In 2015, China proposed "Made in China 2025," which aims to become an industrial and innovation leader by 2025. This strategy focuses on the development of a new generation of information technology, high-end equipment, new materials, biomedicine, and other high-tech industries.

### *Financial Crisis and Adjustment of Development Path*

In 2008, China held the Beijing Olympic Games, which was a huge attraction for foreign investment and a new indicator of openness. For those who questioned that whether China is still a socialist country or not, China had already given its own answer. However, in this year another big issue was the financial crisis in capitalist countries. Due to secondary debt, many Chinese people fell into poverty and the financial system crashed. Realizing the shortcomings of the past growth model, the Chinese government took measures to expand internal demand and stabilize exports in order to cope with the impact of the economic crisis.

Since the crisis, China began to gradually adjust its development path. The Chinese government defined the strategy "China goes global," which was seen later reinforced by the proposal of the New Silk Road (Páez 2019). From the viewpoint of investment scale, it has been growing year by year, and its share in the world has been increasing. From the viewpoint of investment, it shows the characteristics of geographical diversification, and China's investment in countries along the Belt and Road and in Latin America has been increasing in recent years (Table 4.1).

In the post-crisis period, the Chinese government has taken many measures to stimulate consumption for the development of China's economy and to expand domestic demand. On the one hand, China has a large population and a broad consumer market; and, on the other hand, with the economic development and the increase of people's income, residents have strong consumption ability. Expanding domestic demand can

**Table 4.1** China  
outbound direct  
investment flows  
2010–2019

| <i>Year</i> | <i>Direct investment flows (\$ billion)</i> |
|-------------|---|
| 2010        | 688.1                                       |
| 2011        | 746.5                                       |
| 2012        | 888   |
| 2013        | 1078.4                                      |
| 2014        | 1231.2                                      |
| 2015        | 1456.7                                      |
| 2016        | 1961.5                                      |
| 2017        | 1582.9                                      |
| 2018        | 1430.4                                      |
| 2019        | 1369.1                                      |

Data from the Ministry of Commerce of China

**Table 4.2** Disposable  
income of chinese  
residents 2013–2019

| <i>Year</i> | <i>National residents' disposable income (yuan)</i> |
|-------------|---|
| 2013        | 18310.8   |
| 2014        | 20167.1   |
| 2015        | 21966.2   |
| 2016        | 23821.0   |
| 2017        | 25973.8   |
| 2018        | 28228.0   |
| 2019        | 30732.8   |

Data from China Bureau of Statistics

increase employment, improve infrastructure, and maintain a good level of economic and social development (Table 4.2).

### *China's Economic Relations with Latin America: Start Investing in LAC*

China's investment in Latin America started late, but its growth rate is fast and volatility is greater. In 1999, China made its first investment in Latin America. Chinese enterprises such as Huawei have also expanded their field in Latin American countries. In 2004, Huawei signed a contract with many overseas companies to seek potential markets in foreign countries. In 2015–2016, Chinese investment in Latin America grew rapidly and reached a historical peak. Since then in general, Latin America has become less attractive for Chinese capital. On the one hand, political

**Table 4.3** Chinese direct investment flows to Latin America, 2010–2019

| <i>Year</i> | <i>Direct investment flows (\$ billion)</i> |
|-------------|---|
| 2010        | 105.4                                       |
| 2011        | 119.4                                       |
| 2012        | 61.7  |
| 2013        | 143.6                                       |
| 2014        | 105.5                                       |
| 2015        | 126.1                                       |
| 2016        | 272.3                                       |
| 2017        | 140.8                                       |
| 2018        | 146.1                                       |
| 2019        | 63.9  |

Data from the Ministry of Commerce of China (2019)

uncertainties in Latin America have increased; and, on the other hand, economic development has been slow. However, under the joint promotion of Chinese and Latin American leaders, comprehensive partnership between China and Latin America has achieved leaps forward in development. In particular, the “Belt and Road” initiative has brought huge development opportunities to Latin America. Although China’s investment in Latin America is declining in the short term, there remains room for investment in Latin America in the future (Table 4.3).

### *“Dual Circulation” Development Pattern*

In May 2020, the Standing Committee of the Political Bureau of the CPC Central Committee proposed a “dual circulation” economic policy. Building a new development pattern is a strategic choice to improve China’s economic development and to shape new advantages in China’s international economic cooperation and competition. This is a major development strategy proposed by the Chinese government in accordance with the changes in the domestic and international situation and from the goal of building a strong socialist modern country. This strategy has fundamental guiding significance for future high-quality development, high-level market system construction, and high-level opening to the outside world.

The “dual circulation” is to expand domestic demand, focus on the domestic market, improve the country’s innovation capacity, and reduce

dependence on foreign markets, all while maintaining openness to the outside world.

## BACKGROUND

### *Economic*

Since the reform and opening up, for a long period of time, influenced by the domestic economic base and realistic conditions, China has relied on its comparative advantage in labor-intensive products and achieved great success in its export-oriented strategy targeting overseas markets. China's total economic volume leaped to second place in the world, and its comprehensive national power and international influence achieved a historic leap. But, behind the rapid development, the strategy also brought hidden dangers, firstly, opening up to the outside world, relying on the international market to achieve development, long-term neglect of the cultivation and development of domestic market demand, to a certain extent, affecting the advantages of a large country's economy; and secondly, excessive reliance on external conditions, easily controlled by others, encountering bottlenecks, such as the chip problem and the lack of its own core technology and independent brands.

After more than 40 years of reform and opening up, China's per capita GDP exceeded 10,000 U.S. dollars and more than 400 million people entered the middle-income group. China's economy has entered a new stage from high-speed growth to high-quality development, accelerating the transformation of the development model. China has a huge market of 1.4 billion people, so the potential economic vitality and room for development and space remain significant.

### *Impact of the Coronavirus Outbreak*

The outbreak of coronavirus in early 2020 necessitated the closure of cities and factories in order to effectively contain the spread of the coronavirus and ensure the safety and health of the people. The global production chain basically came to a halt, and the supply chain was temporarily cut off. The corona pandemic will not only have an impact on China's economic development in the short term, but also on the world's economic development in the medium term.

### *Main Contents of Dual circulation*

President Xi Jinping has proposed that China should gradually form a new development pattern with increased domestic circulation and a dual domestic and international circulation. The main contents of the double cycle are as follows.

**The main internal cycle:** In the global economic downturn, weak demand, poor circulation, and difficult further expansion of Chinese exports, meeting domestic demand is the starting point of development, relying mainly on China's endogenous power of large-scale advantages to build a domestic demand system and the formation of a domestic cycle to stabilize China's economic growth and drive global economic development.

**External cycle:** The duality recognizes that China needs to expand its markets, improve the opening pattern, optimize the business environment, deepen multi- and bilateral cooperation, and insist on promoting reform, development, and innovation by opening up, so as to achieve a higher level of opening up to the outside world.

The two types of development promote each other. The domestic and international cycles are not isolated, and independent of each other, they influence each other, intermingle, promote each other, and complement each other. By giving full play to the advantages of the domestic mega market, we can add momentum to China's economic development and drive the recovery of the world economy through the prosperity of the domestic economy and the smooth flow of domestic circulation.

### *The Impact of China's Dual-Cycle Development Model on Latin American Countries*

The epidemic has had a significant negative impact on Latin American countries. Since the beginning of the pandemic, Latin America has gradually become the hardest hit, with about 1/5 of the world's cumulative confirmed cases. The epidemic has brought new challenges to Latin America and has also caused various social problems. According to the UN ECLAC, among the 33 independent countries in Latin America, except Guyana, whose GDP grew by 30.9% thanks to the discovery and commissioning of large oil reserves, all the other 32 countries had negative GDP growth. Among them, Brazil, Mexico, and Argentina had GDP growth rates of -5.3%, -9%, and -10.5%, respectively. The Chinese

government has adopted a double-cycle development model in order to cope with the impact of the global economy. This section asks, “what is the impact of this model on Latin American countries?”

Economic activities never exist in isolation, but are a dynamic, cyclical process. Since the reform and opening up, China has long been deeply integrated into economic globalization. Compared with the EU, the United States, Japan, and other traditional markets, emerging markets are developing fast and have high market demand potential, which is an emerging force to promote the construction of “double-cycle” development in China. Taking the Latin American region, where emerging markets are concentrated, for example, strengthening economic and trade cooperation between China and Latin America is conducive to the mutual promotion of the domestic and international “double cycle.”

The internal circulation will, to a certain extent, expand imports of Latin American goods in order to meet China’s growing domestic demand. In the past 42 years of reform and opening up, China’s has become a miracle of economic development, fundamentally due to China’s huge population base, which also means a huge market. China has now eliminated absolute poverty and built a moderately prosperous society. People’s needs for a better life are becoming more and more extensive, and they have put forward higher requirements for material and cultural life. With a population of 1.4 billion and a GDP per capita exceeding \$10,000, including about 400 million in the middle-income group, China is one of the largest consumer markets in the world. China has become the second largest trading partner of Latin America, and many quality products from Latin America have entered the Chinese market through foreign trade and gained the love of Chinese consumers, such as Chilean wine and Ecuadorian bananas. Latin American fruits are becoming more and more common on tables in China, and increasing the import of Latin American fruits is conducive to meeting the growing demand of the Chinese market for a better quality of life.

With the policy of “One Belt, One Road,” the outer circle will, to a certain extent, increase investment in Latin American countries. The Belt and Road is an important growth point for the external circulation. Despite the prevalence of counter-globalization, the double cycle is by no means self-sufficient behind closed doors but must still actively participate in international exchanges and cooperation. Since 2011, Chinese direct investment flows to Latin America have been growing, reaching \$27.27 billion in 2016. As of the end of 2019, the five industry sectors

in which Chinese companies' investments in Latin American countries are most concentrated are, in order, information transmission, software and information technology services, leasing and business services, wholesale and retail trade, finance, and scientific research and technical services. Although the uncertainties in the Latin American region are increasing and the economy is seriously affected by the epidemic, the "irreplaceability" of China in the field of trade and investment will not change. In the future, China-Latin America investment cooperation will have a broader prospect, and the investment fields will be more extensive.

### FUTURE TRENDS OF CHINA-LATIN AMERICA ECONOMY

Under the new corona epidemic, 2020 becomes a watershed year for global development. 2020 sees China become the only major economy in the world to achieve positive economic growth. The latest report of the United Nations Economic Commission for Latin America and the Caribbean (Cepal) points out that the economy of Latin America and the Caribbean will shrink by 5.3% in 2020, the lowest growth rate since its own records began in 1900, due to factors such as the shutdown of major economies, falling prices of raw materials, and sluggish tourism. China and Latin America are both developing, with strong complementarities in the economic sphere, and in the post-epidemic era, they should work together to overcome this unprecedented change that is taking place in a century.

#### *The Impact of the Epidemic on the Economy of the China-Latin America*

The corona pandemic has had a significant impact on the global economy. As of now, the impact of the pandemic has lasted for nearly two years, and it is inevitable that the global economy will continue to be affected even in 2022. However, we can also see that the negative effects of the vaccine are diminishing as the vaccine is developed and the number of vaccinations becomes more widespread. The world economy is also recovering, and the impact of the pandemic is diminishing and dissipating.

According to the China Bureau of Statistics 2020, China's GDP grew by 2.3% year-on-year in 2020, with total GDP exceeding 100 trillion yuan for the first time, including a 6.8% year-on-year decline in the first quarter, 3.2% growth in the second quarter, 4.9% growth in the third quarter and



6.5% growth in the fourth quarter. China became the only country among the world's major economies to achieve positive GDP growth, with Made in China becoming an important support for the world economy during the pandemic and foreign trade bucking the trend to set records. In contrast, at the beginning of the pandemic, Latin American countries did not realize the seriousness of the pandemic and the measures taken by each country were inconsistent, leading to an increasing number of infections and making it the hardest hit area in the world. The latest report of the United Nations Economic Commission for Latin America and the Caribbean (Cepal) points out that the economy of Latin America and the Caribbean will shrink by 5.3% in 2020, the lowest growth rate since record began in 1900, due to factors such as the shutdown of major economies, falling prices of raw materials, and sluggish tourism.

Take Brazil, the largest developing country in Latin America, for example. According to data released by the Brazilian Institute of Geography and Statistics, Brazil's gross domestic product (GDP) will decline by 4.1% in 2020, ending the previous three consecutive years of growth momentum. 2020 Brazil's agricultural and livestock output will grow by 2.0%, while industrial and service output will decline by 3.5% and 4.5%, respectively, and GDP per capita will fall by 4.8%.

The pandemic has had a serious impact on the development of both Latin America and China, but it does not seem to have had much impact on their mutual trade. In fact, China has maintained a close trade partnership with Latin American countries for many years. Even under the impact of the pandemic, China-Latin America trade and economic exchanges have still withstood the test. China-Latin America trade volume has exceeded US\$300 billion for three consecutive years. In addition, China continues to maintain its position as Latin America's second largest trading partner, while Latin America is also the second largest destination for Chinese outbound investment and an important partner for international production capacity cooperation.

Statistics released recently by the General Administration of Customs of China show that against the backdrop of the corona pandemic hitting international trade hard, China's trade with Latin America and the Caribbean still performed smoothly in 2020, with the region's exports to China growing by 0.1% against the trend and China's export trade structure to the region becoming more diversified. In 2021, from January to August, China-Latin America trade reached US\$289.72 billion, up 46.8% year-on-year, and China's demand for the region's agricultural

and resource-based products is still in great demand. For Latin American countries, cooperation with China is one of the key opportunities to overcome the impact of the economic crisis.

*The Future Development Opportunities of China-Latin America: “Belt and Road”*

In September and October 2013, Chinese President Xi Jinping proposed the construction of the New Silk Road Economic Belt and the 21st Century Maritime Silk Road, respectively. Since 2018, the Belt and Road Initiative has continued to develop actively in Latin America and the Caribbean, with 19 countries in the region having signed Belt and Road cooperation agreements with China. These 19 countries were Chile, El Salvador, Guyana, Dominica, Bolivia, Trinidad, Uruguay, Antigua and Barbuda, Venezuela, Dominica, Suriname, Grenada, Ecuador, Barbados, Peru, Cuba, Costa Rica, Jamaica, and Panama.

But we also need to see that the Latin American countries that have joined the Belt and Road are mainly small countries which have limited role in driving the economic development of the whole Latin American region. The major Latin American countries, especially the large regional countries such as Brazil, Mexico, and Argentina, have not yet joined the Belt and Road.<sup>3</sup> These large countries need to join the “Belt and Road” cooperation “circle of friends” and play their role as role models and exemplars, so as to promote the economic recovery and prosperity of Latin America.

In the face of the global crisis brought about by the pandemic and the unprecedented changes of the century, it is necessary to promote China-Latin America economic and trade relations from a strategic and long-term perspective, insist on seeking opportunities in the midst of crises, promote the joint construction of the “Belt and Road,” and dovetail with common development needs. The “Belt and Road” initiative proposed by China provides a rare opportunity for Latin America to develop. This article takes the medical field in the context of the pandemic as an example. In Latin America, the corona vaccine developed and produced by Sinopharm has been approved for official registration in Bolivia and Peru, and has received emergency use permits in several

<sup>3</sup> Argentina joined in February 2022.

countries such as Argentina, El Salvador, and Trinidad and Tobago. At present, several Latin American countries have started mass vaccination with Chinese vaccines, and the safety and reliability of Chinese vaccines are widely recognized, while the cooperation of Chinese vaccines in Latin America has helped push Chinese vaccines to the world. The medical field is a good and positive interaction, which plays an important role in building the immunization barrier and restoring social life in Latin America, and also benefits China's export and economic development.


The Latin American region is a natural extension of the “Maritime Silk Road,” a new platform through which Latin American countries can access capital and technology to promote national and regional strategies for faster connectivity within the region and between Latin America and the rest of the Asia–Pacific region. For a long time, infrastructure development in Latin America has been lagging, which seriously restricts the economic growth of Latin American countries. Latin America is accelerating its connectivity in the areas of transportation, energy, and communication, which has a high degree of compatibility with the “One Belt, One Road” facility connection. The cooperation between China and Latin America and the Caribbean under the Belt and Road Initiative provides an opportunity to reduce structural asymmetries, promote sustainable development, and achieve an inclusive and transformative economic recovery.

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# China's Foreign Policy Toward Latin America: Context, Decision, Implementation

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The United States of America (US) has considered Latin America and the Caribbean (LAC) to be under its hegemonic control since the nineteenth century. In turn, Latin American countries acted toward the continental hegemon alternating a logic of autonomy and logic of acquiescence (Russel and Tokatlian 2015). In the twenty-first century, two phenomena have updated the logic of autonomy. One was the emergence and subsequent crisis of post-hegemonic regionalism, marked by initiatives such as the Union of South American Nations (UNASUR), the Bolivarian Alliance for the Peoples of Our America (ALBA), and the Community of

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Latin American and Caribbean States (CELAC) (Riggiozzi and Tussie 2012). The other is China's regional presence.

We assume as a premise that China-US relations are critical for the international system (Waltz 2009). Normatively, we hope this dyad can escape the "Thucydides Trap" (Allison 2017). Latin America is relevant for both great powers. Moreover, Latin Americans are not passive bystanders. Their agency is asymmetric yet consequential (Coetzee 2019). Therefore, triangular relations between the United States, Latin America, and China form a vital part of a global multidimensional transition.

Our research question emerges from what came to be known as the "second image reversed" problem (Gourevitch 1978). What are the international sources of China's foreign policy toward Latin America? How do US and LAC's actions alter the implementation of China's regional policy? To answer both questions, we follow Kenneth Waltz's thinking about how foreign policy is decided upon and implemented, and how successful it can be in achieving its goals (Hall 2014).

We start with six heuristic conjectures (Lopes et al. 2016). First, LAC becomes more critical to the People's Republic of China (PRC) due to the redistribution of capabilities at the systemic level. Second, Beijing's foreign policy toward this region is consistent with and subordinated to its overall grand strategy. Third, China's institutional setting for deciding upon foreign policy is highly centralized and effective. Fourth, implementation is more decentralized and costlier than other stages of the foreign policy cycle. Fifth, American securitization of China's presence in the region poses a risk for Latin America's development. Sixth, regional powers in Latin America lack a proper strategy to guide their relations with China.

This text is organized into three main parts. In the first part, we examine China's grand strategy and LAC's place in it. The second part explains the institutional setting for deciding China's foreign policy. In the third section, we interpret China's implementation challenges and discuss lines of action China may adopt. A brief conclusion re-evaluates the six heuristic propositions.

## CONTEXT: CHINA'S GRAND STRATEGY AND LATIN AMERICA

The concept of grand strategy is used here to express the general and longer-term goals established by national governments, as well as to

evaluate the degree of coherence between their military, economic, and diplomatic policies (Gaddis 2018). Such use adheres to Clausewitz's assumption of war as an instrument of *Politik*. Both the US and China have changed their grand strategies in recent years (Schweller 2018).

The United States grand strategy suffered two considerable modifications, the first being the National Security Strategy (NSS) issued by the White House in December 2017. The White House ascertained the military, economic, and diplomatic aspects of Trump's "America First" motto. Despite the grotesque role Trump has played in international affairs (Walt 2018a:14), three political goals stated in the NSS stood out. First, the continuous pursuit of nuclear primacy and unmatched global force projection, along with their required space, cyber, and conventional combat capabilities. This inherited goal from previous governments is revisionist and offensive, not *status quo* oriented or defensive (Walt 2018b). Second, the economic goal of maintaining global leadership in technological innovation, along with attaining energy dominance. Third, a diplomatic offensive in all multilateral and bilateral *fora* to pursue a geopolitical struggle with China and Russia. Regional priorities are Europe, the Middle East, and the so-called Indo-Pacific.

Regarding the Western Hemisphere, the NSS document complains that "China seeks to pull the region into its orbit through state-led investments and loans" (US Government 2017:51). The second modification comes as a sort of settlement in many aspects, with Biden's less bold Interim National Security Strategic Guidance, which rebukes the America first strategy and gravitates back toward limited multilateralism and international alliances. The Guidance also points to climate change, the pandemic, and cyber activity as top national security threats. However, with regard to China, the concern remains on a more measured note than Trump's. Biden's provisory NSS recognizes China as "the only country with economic, diplomatic, military and technological power to seriously challenge the stable and open international system" and sustains that American relations with the PRC will be competitive, collaborative, and adversarial depending on the occasion, matter, and China's approach. The advice on China was to strengthen relations with other countries from Southeast Asia to contain Chinese diplomatic growth. Therefore, it seems that other regional theaters such as Asia and Europe continue to be more important than Latin America for the US when it comes to China's influence. However, Biden's intention behind the publication of the Interim Guidance, according to his Secretary of State Antony Blinken, is to lay out

ground rules for the security agencies to follow, while a “more in-depth” national security is in the making. Therefore, despite the report pointing out Biden’s will to retrace the US’s foreign policy, there are many points of continuity (US Government 2021). The US Southern Command (SOUTHCOM), in its 2021 posture statement, manifested once more its concern with increasing Chinese activities in the Latin American region, warning that the PRC is “seeking to establish global logistics and basing infrastructure in the hemisphere in order to project and sustain military power at greater distances” (US Congressional Research Service 2021).

Beijing’s grand strategy has the broad goal of fulfilling China’s dream (中国梦) through the rejuvenation of China (中华民族伟大复兴). Additional objectives and means unfold to advance the core national interests (国家的核心利益). Three primary documents convey such interests, the 13th and the 14th Five Year Plan (2016–2020; 2021–2025, respectively) (PRC Government 2016a, b, c; PRC Government 2021a, b) and Xi’s 19th CPC Congress Report (2017) (Xi 2017a). Considering China is the largest developing country in the world, the two-stage plan intends to build a moderately prosperous society from 2020 to 2035 and further develop into a modern socialist country by 2050. These are the two centenary goals following the 100th anniversary of the Communist Party of China (2021) and the 100th anniversary of the People’s Republic of China (2049). Despite the COVID-19 pandemic, at the end of 2020, the Chinese government achieved one of its centenary goals: to eradicate extreme poverty in the country. In numbers, this represents that 98,99 million people in rural areas living below the poverty threshold in 2012 had their income and living conditions improved (PRC Government 2021a, b). Such a grand strategy has three main components, the military, the economic, and the diplomatic (Danner 2018).

China’s Military Strategy (China 2015) aims at sustaining a minimal deterrence nuclear force, kept credible by improved space, cyber, air, maritime, and land combat capabilities. Its active defense concept implies the persistent transformation of the People’s Liberation Army (PLA) to dissuade or win conventional wars in a contested zone up to 600 km beyond PRC’s borders (PRC Government 2015). According to Biddle and Oelrich (2016), existing and projected (2040) Chinese anti-access, area-denial capabilities (A2/AD) will be neither capable nor intended to defeat the United States in the Western Pacific or beyond. Its goal is to guarantee PRC’s sovereign interests regarding Taiwan and the South and East China Seas (Biddle and Oelrich 2016).

China's international economic strategy is the lynchpin of its grand strategy. Following the global financial crisis in 2008 and the US-led blocking of China's increase of its voting rights in the International Monetary Fund (IMF) in 2010, Beijing has since adopted a two-pronged macro-economic approach. First, trying to be less dependent on the United States dollars (USD), investments, and trade. According to Overbeek (2016, p. 324), even after the PRC's Renminbi (RMB) officially became one of IMF's Special Drawing Rights currency basket in 2015, the monetary component will take time to develop fully. Therefore, the second part of China's strategy aims to secure resources (food, energy, materials, capital, and knowledge) and address development challenges. Prominent examples are the USD 100 billion Asian Infrastructure Investment Bank (AIIB), the USD 100 billion New Development Bank (NDB, launched by the BRICS), and the USD 40 billion Silk Road Fund (Overbeek 2016).

China's diplomacy promotes the concept of forging a community of shared destiny (命运共同体) to link economy and security. Its normative content encompasses humankind, evolving from its original regional reach (Zhang 2018). It follows a synthetic orientation: "Big powers are the key; China's periphery is the priority; developing countries are the foundation; multilateral platforms are the stage" (大国是关键, 周边是首要, 发展中国家是基础, 多边是重要舞).<sup>1</sup> In implementing this directive, variations occur. For instance, the proposed model for major-country relations (新型大国关系) materializes differently in the cases of Russia and the US. Likewise, the Belt and Road Initiative (BRI) launched in 2013 has evolved to be more about governance than infrastructure per se. In 2017, the Belt and Road Forum for International Cooperation (BARF) attracted 29 foreign heads of state and government, as well as representatives from more than 130 countries and 70 international organizations (Wenxian et al. 2018). In June 2018, some 5000 government and business representatives from 55 countries participated in the Third Belt and Road Summit. By September 2018, China had signed 118 cooperation agreements with 103 different countries and international organizations to implement the BRI (Yanan 2018). By early January 2020, the Belt and Road Initiative encompassed 138 countries, 18 of them being in Latin

<sup>1</sup> See 专访秦亚青: 十七大后中国外交将更重视多边舞台. Interview with Qin Yaqing, China News Agency, October 12, 2007, available at <http://cpc.people.com.cn/GB/100804/6370470.html>, (accessed 15 September 2018).



America and the Caribbean, and ongoing or planned projects related to the BRI were valued at US\$3,87 trillion (Oxford Business Group 2020).

Amid the pandemic, the rhythm of development of the infrastructure projects dwindled. COVID-19 consequences as logistic issues (such as lockdowns and countries closing their boards), a reduction of construction supplies, alongside a decline in Chinese overseas investment help explain the numbers. According to China's Ministry of Foreign Affairs, in June of 2020, 20% of BRI projects were "seriously affected" while other 30–40% BRI projects were "somewhat" afflicted by the pandemic situation (Reuters 2020a, b). Despite the turbulence in the infrastructure projects, the pandemic functioned as a catalyst for some changes in the linchpins of the Initiative that were already figuring in China's foreign policy such as sustainability and green development; health-related initiatives; and digital and technological innovation. The COVID-19 Economic Impact Assessment of Oxford Business Group inquires further, dividing the BRI into the specifications under the umbrella of the Initiative: The Green Silk Road, The Health Silk Road, and The Digital Silk Road (Oxford Business Group 2021).

China participates intensively in the United Nations (UN) system. Besides, in Asia, Beijing created the Shanghai Cooperation Organization (SCO), the Asia–Pacific Space Cooperation Organization (APSCO), the ASEAN–China Free Trade Area (ACFTA), and the Asian Infrastructure Investment Bank (AIIB). China has also been decisive in the Association of Southeast Asian Nations Regional Forum (ARF), the Asia–Pacific Economic Cooperation Forum (APEC), the BRICS Forum, and the Group of Twenty (G20). New 1 + N platforms include the Forum on China–Africa Cooperation (FOCAC), the China and Portuguese-Speaking Countries Forum for Economic and Trade Cooperation (MACAO), the China and Central and Eastern European Countries Initiative (CEEC 16 + 1), the China-Arab States Cooperation Forum (CASCF), and the China-CELAC Forum (CCF) (Jakóbowski 2018).

However, China has critical strategic decisions to make. For instance, China must decide whether or not its current global assertiveness is sustainable. Alternatively, in the terms used by Yan Xuetong (2014), if "striving for achievements"—SFA (奋发有为) is indeed better than the previous "keeping a low profile"—KLP (韬光养) (Xuetong 2014). Further, China must also decide whether or not its growing interests in global value chains will continue to allow for a limited and less costly military strategy, especially if the US further securitizes relations with

China. Meanwhile, to assess LAC's place in China's grand strategy, we assume two general premises. First, regarding its realist foundations, we consider those expressed by the official Thought on Socialism with Chinese Characteristics for a New Era (习近平新时代中国特色社会主义思想) (Xi 2017b). Second, regarding the institutionalization of its policy-making process, we consider those indicated by China's achievements following the 40th anniversary of Deng's policy of Reform and Opening-Up (改革开放) (Garnaut et al 2018).

Realism predicts that China will not challenge US military dominance in the Western Hemisphere. The PRC lacks either the intent or the means to project significant military power to Latin America. None of the doctrinal, organizational, and force structure changes commanded by the Leading Group for National Defense and Military Reform (中央军委深化国防和军队改革领导小组) since 2015 indicate otherwise (Cordesman and Kendall 2017). Even the staunchest advocates of containment acknowledge the non-military nature of China's "threat" to US interests in LAC (Ellis 2018). Therefore, economy and diplomacy are crucial in this region. China's LAC policy is part and parcel of its overall grand strategy (Poh and Li 2017). Moreover, this strategy has been very successful. In the next section, we shall look at how the leadership decides upon foreign policy (Zhao 2016).

## DECIDING POLICY TOWARD LAC: THE INSTITUTIONAL SETTING

China's decision-making can be modeled using a  $3 \times 3$  matrix.<sup>2</sup> Horizontally, the first tier comprises the Party and the Central Government bodies. The second tier is composed of ministries, agencies, and state-backed financial vehicles. The third tier includes ministerial departments, provincial and local governments, state- and privately-owned enterprises, and other interested actors. Vertically, grand strategy combines three sectors, the military, the economic, and the diplomatic. The resulting matrix includes both actors and institutions. By actors, we mean either individuals or organizations with dissimilar agency power (Milner and

<sup>2</sup> This matrix is not to be confused with the  $3 \times 3$  Model for Cooperation proposed by Premier Li Keqiang in 2015, referring to capacity building in logistics, power generation, and IT, through synergy between businesses, society, and government. Li's model has been expanded later to include enhancing funds, credit loans, and insurance financing.

Tingley 2015). By institutions, we mean formal and informal governance arrangements (Rixen et al. 2016). Relations between the party and the government and between tiers can be conceptualized using the principal-agent model. It conceives public policy as a series of authority delegations (“contracts”) between decision-makers and implementers. Due to asymmetric information, uncertain local conditions, and limited rationality, conflicts of interest between principal and agents emerge, with cascading costs along the policy cycle (Kettl 2006).

In the first tier, the ruling position of the Communist Party of China—CPC (中国共产党) appears briefly in the preamble of the PRC’s Constitution. Nevertheless, its unmatched power is the starting point for any evaluation of China’s polity. In November 2012, the 18th National Congress of the CPC brought into power the fifth-generation leadership with Xi Jinping as Secretary-General. In March 2013, Xi was selected to be PRC’s President during the 1st Session of the 12th National People’s Congress (NPC). Xi also holds the chairmanship of both the party and the state Central Military Commissions (CMCs). After emerging even more powerful from the 19th National Congress of the CCP in October 2017, Xi was officially designated the Core Leader and was reappointed as PRC President in March 2018 without predetermined term limits (Shue and Thornton 2017).<sup>3</sup>

Other members of the Standing Committee of the Central Political Bureau (中国共产党中央政治局常务委员会) in the 19th Central Committee also illustrate the authoritative relations between party and state. Li Keqiang, as the 2nd ranking member of the Standing Committee, is the Party Secretary of the State Council of the PRC, and only because of that he is the Premier of the State Council. Likewise, Li Zhanshu, the 3rd ranking member of the CPC’s Standing Committee, performs as the Party Secretary of the National People’s Congress—NPC (全国人民代表大会常务委员会) and, as a result, he is the Chairman of the Standing Committee of the NPC (Xinhua 2017). In the military sector, the CPC’s Central Military Commission (CMC) exercises political authority over the

<sup>3</sup> The 20th National Party Congress will be held in October 2022. It is not possible to anticipate if Xi Jinping will be confirmed for a third term. See more at: South China Morning Post. 2021. “As the Communist Party turns 100, Xi Jinping has a problem: who will take over?” June 25, 2021. Available at <https://encurtador.com.br/ipwT3> [Accessed 11 September 2021].

PRC's CMC. Since both commissions are chaired by Xi Jinping, respectively, as Party General Secretary and as PRC President, and since both commissions are identical in membership, they form one institutional arrangement with two names (个机构两块牌子) (Ji 2014). In any case, the sheer size (95.1 million members in 2021) and the complexity of the CPC disprove simplistic stereotypes (Cheng 2014). Decisions are not taken monocratically. Instead, they are built through lengthy negotiations and consultative procedures. Power centralization under Xi Jinping is a fact, but it serves the purpose of enhancing the collective CPC rule and the strategic coordination over the government and armed forces.<sup>4</sup>

The new central coordinating structures established by the party (and the central government) corroborate this interpretation. China's leadership combines permanent and formal coordinating tools with temporary and informal networks, their roles going from more concrete (authority) to more abstract (guidance) (Alexander 1993). For instance, the Party General Secretary is the chairman of the Central National Security Commission—CNSC (中央国家安全委员会) established by the 18th Central Committee in 2013. Moreover, Johnson (2017) reports 29 new Leading Small Groups (LSGs) and Central Commissions created either by the CPC's Central Political Bureau or the PRC's State Council between 2013 and 2017 (Johnson and Kennedy 2017). The Central Financial and Economic Affairs Commission—CFEAC (中央财经委员会) of the CPC, for instance, is chaired by Xi. The General Secretary also heads the Central Foreign Affairs Commission—CFAC (中央外事工作委员会) of the CPC, upgraded in March 2018 from the former Foreign Affairs Leading Small Group established in the 1950s. The CFAC is probably the highest-ranking body for formulating foreign policy in China. The new commission held its first meeting in May 2018, having Li Keqiang as its deputy head, and other senior CPC officials as members, including Wang Qishan, Wang Yi, and Yang Jiechi (Xinhua News 2018). The party also relies upon Central Conferences to evaluate, discuss, formulate, negotiate, and communicate directives. The last Central Conference on Work Relating to Foreign Affairs took place in Beijing in June 2018 (Kumar 2018).

<sup>4</sup> To assume otherwise would wrongly imply that China is becoming a Sultanistic regime. See H. E. Chehabi, J. J. Linz, *Sultanistic Regimes* (Baltimore: The Johns Hopkins University Press, 1998).

In this sense, the CPC is the principal, and the government ministries are the agents in China's political system (Delreux and Adriaensen 2017). Nonetheless, the central PRC's institutions and actors are also powerful and sophisticated. Observe, in the first tier, the roles of the National People's Congress—NPC (全国人民代表大会常务委员会) and the National Chinese People's Political Consultative Conference—CPPCC (中国人民政治协商会议全国委员会). The CPPCC holds a yearly meeting simultaneous to the plenary session of the National People's Congress (NPC). Both sessions form the “National Two Meetings” (两会). They are less potent compared to legislative bodies in Europe or North America, but the NPC (2980 seats) and the CPPCC (175 groups) are essential components of the PRC political system for both legitimacy building and goal attainment purposes. In the realm of foreign policy, the Special Committee for Foreign Affairs is one of the ten special committees of the Standing Committee of the NPC. Likewise, the National Committee of the Chinese People's Political Consultative Conference has its own Special Committee for Foreign Affairs. Between sessions of NPC and CPPCC, the two foreign policy special committees perform consultative, advisory, and other legislative roles (Guo 2013). The State Council is the chief administrative and executive body under the PRC's Constitution. In the 13th State Council (2018–2023), 35 cabinet members directly oversee dozens of national-level ministries and departments, organizations, state-owned assets, administrative offices, and other specialized entities on the second and third tiers. The Standing Committee of the State Council led by Premier Li Keqiang has ten councilors, including Wang Yi, who is also the Minister of Foreign Affairs (Lai and Kang 2014:298).

The relations between the three tiers also fall within the principal-agent framework. Given the authority of the CPC at each branch and level of government (central, provincial, and local), what is called bureaucratic insulation elsewhere works differently in China. Less than a rift between party, government, and armed forces in the first tier, the more significant problems are vertical, between tiers, and diagonal, across specific agents in the third tier and principals located in the upper tiers (Bauer et al. 2016).

The Ministry of Foreign Affairs—MFA (外交部) is the statutory body in charge of PRC's foreign relations at the second tier. The MFA employs more than 9000 staff to conduct bilateral and multilateral diplomatic relations (Ministry of Foreign Affairs 2018). The global reach of China's foreign policy requires the participation of other state

actors. Nevertheless, the MFA is *primus inter pares*, with precedence in sensitive issues like Taiwan. Other cabinet-level entities have stakes and influence in specific topics or geographical areas. Examples include the Ministry of Commerce—MOFCOM (商务部), the National Development and Reform Commission—NDRC (国家发展和改革委员会), the Ministry of State Security—MSS (国家安全部), the Ministry of Industry and Information Technology—MIIT (工业和信息化部), and the People's Bank of China—PBC (中国人民银行). The MOFCOM is the leading ministry regarding trade, investments, and external aid. The NDRC has authority in the fields of energy, climate change, and infrastructure projects. The China Development Bank—CDB (国家开发银行), the EXIM Bank of China (中国进出口银行), and the China Export and Credit Insurance Corporation—SINOSURE (中国出口信用保险公司) are increasingly important at the second-tier decision processes. The Ministry of National Defense—MND (国防部) calls for clarification. The MND handles the official liaison with foreign defense ministries. Since the MND does not exercise direct command over the People's Liberation Army (PLA), the CMC and the PLA branches (Ground Force, Navy, Air Force, Rocket Force, and Strategic Support Force) are more consequential to security and foreign policy decisions. Even so, the current Minister of National Defense, PLA general Wei Fenghe, is a member of the Standing Committee of the State Council, and a member of the unified Central Military Commission (CMC) (Char 2016).

Finally, at the third tier, we find the bureaucratic cluster (官僚集群) responsible for specific subjects and areas in different ministries, plus state-owned enterprises (SOEs), provincial and local governments, quasi-government organizations, private companies, interest groups, and think-thanks. Decisions at this level tend to be related to adapting general policies to specific realities. This level is critical for goal attainment and problem solving. Examples of departmental actors include the MFA's Department of Latin America and Caribbean Affairs—DLACA (拉丁美洲司), the MOFCOM's China Investment Promotion Agency—CIPA (商务部投资促进事务局), and the Office of Chinese Language Council International—HANBAN (国家汉办是中国教育部直属事业单位), subordinated to the Ministry of Education—MOE (教育部). Guangdong provincial and Zhuhai prefecture-level city administrations exemplify the subnational governments' role. In 2016, Guangdong accounted for one-sixth of all China-Latin America trade. In 2017,

|          |       |        |            |               |             |           |
|----------|-------|--------|------------|---------------|-------------|-----------|
| Decide   |       |        |            |               |             | Monitor   |
|          |       |        | Sector     |               |             |           |
|          |       |        | Military   | Economy       | Diplomacy   |           |
|          | Level | Tier 1 | CMC        | CFEAC         | CFAC        |           |
|          |       | Tier 2 | PLA        | MOFCOM        | MFA         |           |
|          |       | Tier 3 | Navy (PLA) | CIPA (MOFCOM) | DLACA (MFA) |           |
| Evaluate |       |        |            |               |             | Implement |

**Fig. 5.1** China’s policy-making matrix (*Source* elaborated by the authors)

the new Hengqin China-Latin America Economic and Trade Cooperation Park was inaugurated in Zhuhai (China Daily 2017). To mediate, top-down and bottom-up initiatives are the role of quasi-governmental organizations like the China Council for the Promotion of International Trade—CCPIT (中国国际贸易促进委员会) (Yang 2015). Besides, state-owned (e.g., State Grid, Three Gorges, China National Petroleum) and private enterprises (e.g., Alibaba, Didi Chuxing, Huawei) are both decision-makers and implementers at this level (Dussel 2015). Figure 5.1 shows a summary matrix of policy stages (decide, monitor, implement, evaluate), levels (three tiers), and sectors (military, economy, diplomacy), with nine sample actors.

In sum, China’s decisions regarding Latin America are realist, strategically oriented, and increasingly coherent.<sup>5</sup> After decisions are constructed across tiers and sectors, the monitoring stage has precedence over implementation. Furthermore, implementation challenges remain in two complementary dimensions. The first relates to the adaptation costs inflicted by changing international contexts (“outside-in”). The second is caused by cascading institutional costs along the policy implementation path (“inside out”) (Lai and Kang 2014).

<sup>5</sup> We disagree with Jing Sun, 2016. Growing Diplomacy, Retreating Diplomats—How the Chinese Foreign Ministry has been Marginalized in Foreign Policymaking, *Journal of Contemporary China*.

## IMPLEMENTING CHINA'S LAC POLICY: COSTS AND DYNAMICS

In November 2016, Beijing released its second Policy Paper on Latin America and the Caribbean. The main differences between the 2008 and 2016 documents are contextual, programmatic, and operational (Vadell 2018).

Contextually, China has praised LAC's recovery after the 2008 global financial crisis, calling it a "land full of vitality and hope" (PRC Government 2016a, b, c). It has also better recognized national specificities, regional diversity, and collective importance for China. In this sense, South-South cooperation works as a shared goal. The new policy paper subtly expressed China's concerns about a polarized world where the United States resists emerging multipolarity. Programmatically, it expressed China's aspiration for a "new stage of comprehensive cooperation," reinforcing areas such as political contacts, international governance, economic relations (from commerce and energy to tourism), technical assistance, and cultural exchanges. It has also brought a new chapter on social cooperation in areas of mutual interest (poverty reduction, climate change, health, and science and technology).<sup>6</sup> Operationally, the document has reiterated "principles of respect, equality, diversity, mutual benefit, cooperation, openness, inclusiveness, and unconditionality."

The first Ministerial Meeting of China-CELAC Forum (CCF) was held in Beijing in January 2015. Along with a final declaration and the first cooperation plan (2015–2019), the PRC and the 33 Member States of CELAC agreed upon mechanisms and rules for the CCF (CCF 2015). The leading institutions for agenda-setting are the Ministerial Meetings (ordinarily every three years), the Annual Meeting of National Coordinators, the Dialogue of Foreign Ministers of China, and the "Quartet" of CELAC (held five times between 2015 and 2018), as well as the Subforums in Specific Fields (Agricultural Ministers Forum, Scientific and Technological Innovation Forum, Business Summit, Think-Tanks Forum, Young Political Leaders' Forum, Infrastructure Cooperation Forum,

<sup>6</sup> Following the "1 + 3 + 6" cooperation framework proposed by President Xi in his keynote speech at the China-Latin American and Caribbean Countries Leaders' Meeting held in Brasilia, 2014. One plan, three engines (trade, investment, and financial cooperation), and six areas (energy, infrastructure, agriculture, manufacturing, Science and Technology, and information technologies).



People-to-People Friendship Forum, and the Political Parties Forum) (PRC Government 2016a, b, c).

In January 2018, the Second Meeting of Ministers of Foreign Affairs of the China-CELAC Forum (CCF) took place in Chile. PRC's Foreign Minister Wang Yi and the 25 foreign ministers and delegations from 31 Member States of CELAC agreed to adopt a Joint Plan of Action for Cooperation on Priority Areas (2019–2021). Programmatically, the joint plan has avoided setting up new quantitative targets, like the previous “1,000 political leaders of CELAC countries” the PRC would invite to visit China in five years (2015–2019). Alternatively, the 2015 goal of increasing “trade to 500 billion USD and raising the stock of reciprocal investment to 250 billion USD” by 2025 (China-CELAC Forum 2015). The accumulated annual trade reached 228,6 billion USD by September 2018 (General Administration of Customs People's Republic of China 2018). If one assumes annual increases of 7.5% on average, the half-trillion target by 2025 could be achieved. The qualitative wording was meant to preserve room for maneuver.

The CCF leaders have also endorsed international commitments. They have rejected “the threat of the use of force as a means of resolving conflicts” and assumed the need to promote a “multilateral, non-discriminatory, trade system” within the WTO. They have also expressed their willingness to implement the Paris Agreement adopted under the UN Framework Convention on Climate Change (UNFCCC) and work jointly to achieve the UN Sustainable Development Goals (SDGs). Unfortunately, since the II CCF Meeting took place, the Colombian government has refused to sign a Declaration from the Lima Group ruling out external military intervention to overthrow Maduro in Venezuela, and the Brazilian President Bolsonaro has threatened to withdraw from the Paris Agreement (González 2018).

Such extreme positions are not prevalent, but they inflict adaptation costs to China's regional policy. The securitization of China's LAC policy and the militarization of Inter American relations trended during Obama's second term, but Trump's government has artificially exacerbated it.<sup>7</sup> As expected, by the end of , China was still dealing with “trade

<sup>7</sup> After all, the US is not about to “lose” LAC in any meaningful sense: “*The United States remains the region's largest trading partner, accounting for around a third of the region's export growth. Countries in the region account for 11 of the United States' 20 free trade agreements and 8 of its 42 bilateral investment treaties. Militarily, the United States*

friction” with the US (PRC Government 2018). Moreover, Washington’s regional agenda had become more confrontational on issues like migration, Cuba, Venezuela, energy, commerce, and the environment (Barrios and Creutzfeldt 2018). In response, China has tried to reassure the relevance of CCF. As pointed out by Jakóbowski (2018), to succeed, the Chinese-led regional platforms require a modicum of local countries’ engagement. Instead, LAC’s economic slowdown and political polarization have weakened regional multilateral organizations, from MERCOSUR, OTCA, and UNASUR to ALBA, the Pacific Alliance, and CELAC.<sup>8</sup> The last couple of years have been rough for Latin America’s regional organizations mostly on account of the global financial crisis, the end of the commodities boom, the deterioration of the political and economic situation of Venezuela turning the state into an international pariah, as well as the end of the pink wave and the new regional political panorama of fragmentation and instability. According to Malamud, “almost all of the integration institutions that emerged in the first decade of the twenty-first century under the protection of the Bolivarian umbrella - such as ALBA, UNASUR and CELAC - are practically paralyzed” (Malamud 2020). The COVID-19 pandemic only emphasized these breaches in Latin American regional integration efforts and its total ineptitude to formulate a regional response or cooperation scheme to the shared health, social and economic consequences of the pandemic (Political Settlements Research Programme, 2020). Regarding the China-CELAC Forum, despite China’s attempt of sustaining its dynamics, since 2018 CELAC’s Pro Tempore Presidency and its Annual Summit remain inert.<sup>9</sup> As one reads from the Forum’s website, activities have been reduced to a minimum in the last couple years (China-CELAC Forum n.d.).

*maintains close ties with the region with robust military training programs, regular military training exercises, and high-level visits.*” See more in Koleski, Katherine, and Blivas, Alec. 2018. “China’s Engagement with Latin America and the Caribbean.” US-China Economic and Security Review Commission: 28.

<sup>8</sup> The Common Market of the South (MERCOSUR), the Amazon Cooperation Treaty Organization (OTCA), UNASUR, ALBA, and the Pacific Alliance (formed by Mexico, Colombia, Peru, and Chile) risk becoming “zombie institutions.” Banerjee, R. and Hofmann, B., 2018. The rise of zombie firms: causes and consequences, BIS Quarterly Review.

<sup>9</sup> The last CELAC Summit took place in January 2017, in the Dominican Republic. Bolivia would take the *pro tempore* Presidency in 2019.

The second adjustment further differentiates China's approach to specific LAC countries. The South-South cooperation for sustainable development and the defense of multilateralism shall appeal to progressive governments in Uruguay, Bolivia, Ecuador, Costa Rica, and Cuba (Vadell 2018). Besides, smaller open economies like Chile, Costa Rica, and Peru are gaining from FTAs with China that include market access clauses, local infrastructure building, industrial sector exceptions, and financial lending (Wise and Ching 2017). The "One China Policy" will continue to be the cornerstone of China's bilateral diplomacy and economic incentives, as indicated by the examples of Panama (2017), the Dominican Republic, and El Salvador (2018). A "strictly business" approach seems to be the way forward for governments more aligned with the United States since there is a negative correlation between Chinese economic presence in the region and solid local ties with the US. Colombia is an example of hegemonic effects on trade and investments, yet China is its second source of imports (Urduz et al. 2016). Similarly, the Brazilian business elite tend toward pragmatic accommodation with China (Stanley 2018). Led by López Obrador (AMLO), Mexico poses a limited risk and ample opportunities. On the one hand, AMLO's program includes defending its industrial exports to North America and reducing the trade deficit with China (Dussel 2017). On the other hand, Mexico's search for economic diversification signals stronger bilateral relations with Beijing (Stanley 2018). Finally, Venezuela and Argentina are crucial tests. Maduro's government needs financial and technical support to survive, but it is far from certain that it can keep its end of the bargain even if China is willing to increase its exposure (Bloomberg 2018). Macri's government, despite his political orientation, was a less problematic partner for China. During the G20 Summit in December 2018, both countries signed more than 30 new agreements (currency swaps, agriculture, infrastructure, and investments) (Al Jazeera 2018). With Alberto Fernandez and Argentina's return to a left-populist direction, the relationship with China became even more significant. Alongside the new agreements for commerce, infrastructure and energy, Argentina is also taking part in China's Asia Infrastructure Investment Bank (AIIB) and joining formally the Belt and Road Initiative (as the first large country in the region to do so) (Ellis 2021). Brazil, Mexico, Colombia, and Argentina (437.75 million) represent 67.11% of LAC's population. Due to the devastating impact of the COVID-19 pandemic in Latin America, China's health cooperation with the region

stood out positively, and involved state agencies, private companies, and civil society donations (Vadell 2021).

China also needs to reduce its own transactional (“inside out”) costs. In the second tier, there is a risk of overloading the adopted “hub and spokes” model of policy implementation. Since the establishment of the CCF, the MFA was designated as the leading agency for coordinating with other Chinese ministries and branches and coordinating with Latin American counterparts. Within the MFA, the Department of Latin American and Caribbean Affairs—DLACA (拉丁美洲司) is the primary agent. However, DLACA has around 80 diplomats organized into six divisions, four dedicated to specific countries, one in charge of policy drafting and planning, and the one responsible for exchange with regional organizations (Ministry of Foreign Affairs of PRC 2018). To carry out its duties, DLACA needs to coordinate with LAC embassies in Beijing. It also needs to mobilize and get help from Chinese embassies in 22 different LAC countries. In Brasilia, the biggest embassy in the region, there were 38 Chinese officials in 2018, plus the Military Attaché and the Ambassador. In Mexico, 13 Chinese diplomats appear on the embassy’s website.<sup>10</sup> Besides, MFA engages with nations that still recognize Taiwan, paving the way for future breakthroughs. At the multilateral level, DLACA is responsible for the day-to-day affairs of the CCF Follow-Up Committee and for preparing meetings at various levels, from Subforums (eight different constituencies) to Dialogues and Summits. According to the director of DACLA’s policy planning division, 39 state organs were represented at the Preparatory Committee chaired by the MFA in 2018.<sup>11</sup> Among them were the MOFCOM’s Department of Overseas Investment and Economic Cooperation and the NDRC’s Department of Utilization of Foreign Capital and Overseas Investment. Given the growing importance of financial and technical issues, the more politically oriented MFA needs extra time and energy to avoid being a bottleneck. After all, in any centralized network, its total capacity is limited by the hub’s capacity.

At the third tier, the number of agents is higher, and their primary interests are more diversified. In general, first-tier State Council bodies can supervise and coordinate government agencies and the business

<sup>10</sup> Ministry of Foreign Affairs of the People’s Republic of China, available at <https://bit.ly/38Qlauf> (accessed 8 September 2021).

<sup>11</sup> Interview conceded to the authors in Beijing, on July 23, 2018.

sector. Most prominent among the supervising bodies are the State-owned Assets Supervision and Administration Commission—SASAC (国务院国有资产监督管理委员会), as well as the MOFCOM, NDRC, and PBC. Other government-owned financial institutions, like the CDB, the SINOSURE, the EXIM Bank, and the State Administration of Foreign Exchange—SAFE (国家外汇管理局), also have regulatory and operational power. For example, the NDRC coordinates the China-LAC Cooperation Fund, which was created in April 2015 with a capital injection of US\$10 billion by the EXIM Bank. The China-LAC Industrial Cooperation Fund also started with a US\$10 billion investment, but from PBC and SAFE. Both are private equity funds to invest in a diversified range of sectors, including manufacturing, energy, logistics, agriculture, and technology. Between 2005 and 2016, China developed 2,133 infrastructure projects overseas, 8.35% of them in LAC countries (Dussel and Armony 2017). Twenty state-owned enterprises (SOEs) have carried out more than 80% of all projects (mainly transport and energy). Still, it is difficult to align the interests of specific companies with national goals (Cui 2018). The cases of the Hong Kong Nicaragua Canal Development Group (HKND), registered in the Cayman Islands, as well as China’s National Petroleum Corporation (CNPC) role in the “Loan for Oil” program with Venezuela, come to mind (Shaofeng 2011). According to Vadell (2021), US securitization moves against China’s BRI framework for investments and cooperation in the region put additional pressure on Beijing to carefully fine-tune initiatives to specific countries and issues.

The Chinese leadership knows the contextual and operational challenges facing the implementation of its LAC policy. Their success or failure bears consequences for China’s global and regional leadership.

## CONCLUSION

We shall return to the six propositions stated at the outset. Proposition #1 was partially corroborated. Diplomatic and economic evidence about the growing importance of LAC to China were consistent. This trend outlasted the commodities “super-cycle.” For instance, trade between China and LAC grew 151.2% in ten years (2007–2017), reaching USD 258 billion in 2017 (Koleski and Blivas 2018) and US\$ 326,5 billion in 2019 (World Bank 2021a). Nonetheless, more specifically, we could not confirm causality effects between global US-China power redistribution and the growing Chinese presence in LAC.

Nevertheless, proposition #2 was validated. We found Chinese foreign policy toward LAC consistent with and subordinated to China's overall grand strategy. Likewise, proposition #3 about the decision-making process and its institutional setting was supported by enough evidence as we interpret it. Such processes are centralized and top-down. However, we disagree with the literature by considering it more institutionalized, consistent, and legitimacy-conscious than usually credited.

Proposition #4 had to be corrected. We first imagined implementation costs as emerging from "inside out" the Chinese coordination model, as bureaucratic turfs and principal-agent dilemmas. Then we found additional pressures from "outside-in," as conditions change in specific countries, subregions, and even globally. We had to conflate propositions # 5 and # 6 to understand this dual-level dynamic. American securitization of China's presence in Latin America is consistent with the current US offensive and revisionist grand strategy. Beijing will try to avoid confrontation. At the same time, it will not withdraw from Asia, Africa, and Latin America. So far, Latin American regional powers lack a strategy to guide their relations with China. While manufactured goods accounted for 91% of China-originated Latin American imports in 2017, commodities (mainly soybeans, copper, iron ore, refined copper, and oil) accounted for 72% of the region's exports to China in 2016. According to the World Bank (2021b), these trading terms were sustained in 2019, when 79.8% of LAC exports to China were still raw materials, while more than 50% of its imports were capital goods. Nevertheless, 1.8 million jobs were created in LAC from 1995 to 2016, directly tied to China's regional presence (Dussel and Armony 2017:47). A combination of bilateral FTAs, Strategic Partnerships, and a sort of minimalist regionalism (CCF) helped remove some of the obstacles.

Four challenges remain for China. First, how to maintain and revitalize CCF. The second challenge is how to adjust established policies to new realities emerging from LAC's volatile political process. The third challenge is to simultaneously reduce horizontal conflicts between second-tier agencies, maintain top-down strategic coherence (CPC-PRC), and incorporate bottom-up initiatives. Last, proper evaluation of the "tractability" of such challenges is required. According to Sabatier and Mazmanian (1980), how tractable (or manageable) a problem will depend on the amount of knowledge about it, the diversity and size of the target population, as well as the extent of behavioral change required to achieve the policy goals (Sabatier and Mazmanian 1980). A Chinese epistemic

community concerned with Latin America is emerging. By 2016, more than 60 centers or institutes focused on Latin America had been established in Chinese universities, 16 of them registered at the Ministry of Education (Myers and Gallagher 2017). Future research could explain if and how the MFA and other agencies at the second tier consult with area experts to improve monitoring and evaluation capacity.

China declares that its overall goal is to create a humane community of shared destiny (命运共同体). To achieve mutual understanding and cooperation, extensive behavioral change of billions of people is required. Any prospective leadership “must be willing and able to rise to the task of providing system-level solutions to the system-level problems” (Arrighi and Silver 1999). In our time, the most severe problems are the rigid social inequalities and the deteriorating ecological environment. No government, party, or nation alone can solve problems of such scale. So far, China has been part of the solution. How about Latin America?

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# Infrastructure: The Belt and Road Initiative in Latin America

*Alessandro Golombiewski Teixeira and Nicolás Azócar*

## INTRODUCTION

China's President Xi Jinping launched the Belt and Road Initiative (BRI) in 2013, calling for a new international cooperation model under the principles of peaceful coexistence of sovereign states. The BRI is usually framed as a massive global infrastructure project that would connect China with the rest of the world. This definition misunderstands the actual scope of the BRI, which considers five areas of cooperation and is a strategy to achieve a series of economic, geopolitical, and security objectives.

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Although Latin America was initially left out of the Belt and Road official map, Chinese interest in the region and its links with megaprojects were considered to declare it a significant “natural extension” of the Twenty-First Century Maritime Silk Road (Wang 2017: 1). The BRI could benefit Latin America by improving its infrastructure, expanding trade and product demand, promoting international cooperation in science, technology, and innovation, and connecting with Asia, Europe, and Africa (Li and Zhu 2019: 2297). However, scholars have raised awareness about challenges in implementing the BRI in the region. These concerns come from the lack of information and transparency, the asymmetrical relationship based on economic dependency, and the potential discoordination and competition among countries to get resources individually rather than exploring potential co-financed projects, as well as financial and environmental affairs.

This chapter explores to what extent the main features of the Latin American regional cooperation might influence the Chinese approach and the implementation of the BRI in the region. It also argues that complementing its execution through a combination of multilateral and bilateral strategies is more convenient for China and Latin America.

We begin by providing a general introduction to China’s strategies to Latin America with an explanation of the main characteristics of regional integration. Our focus then turns to the Belt and Road Initiative, explaining why it represents a new model of international cooperation and why it is crucial for China. After that, we analyze the potential challenges for the BRI’s implementation in Latin American, address those threats, and propose the strengthening of multilateral cooperation, taking the example of the Pacific Alliance.

## CHINA AND LATIN AMERICAN’S MODERN RELATIONS

Since the establishment of the People’s Republic of China in 1949, Sino-Latin American relations have experienced diverse phases, moving from indifference and ideology (1949–1969) to engagement and economic interchange (1970–1997) (Mora 1997: 37). In the first stage, China had very restricted exchanges with Latin American countries, given that many of them had diplomatic relations with Taiwan. During the 1960s and 1970s, China-Latin American relations became normalized due to the Sino-Soviet Split and the diplomatic break with Taiwan (Chen 2021: 114).

In fact, the president of Cuba became the first Latin American head of state to pay an official visit to Beijing in 1960, and the Caribbean country was the first to recognize Communist China. In the 1970s, a stage of accelerated expansion of connections began. In those years, 11 Latin American nations established diplomatic ties with China: Chile, Peru, Mexico, Argentina, Guyana, Jamaica, Trinidad and Tobago, Venezuela, Brazil, Suriname, and Barbados, and the trade volume increased from 145.82 million dollars in 1970 to 1,261.18 million dollars in 1979 (Shicheng 2006: 104).

In the 1980s and 1990s, Deng Xiaoping's market-oriented reforms and the "Going Out" strategy influenced China's foreign policies. For Latin America, Beijing developed friendly and cooperative relations over ideological differences, it has prioritized ties with major countries such as Brazil, Mexico, Argentina, and Venezuela, and it gave greater importance to the expansion of economic and commercial relations. All of that allowed sustained growth in bilateral trade volume, driving from 1,363 million dollars in 1980 to 2,294 million dollars in 1990 and 8,278 million dollars in 1999 (Shicheng 2006: 107).

In order to understand the Chinese policies regarding the region during this century, it is necessary to remark on the main features of Latin American integration. First, there is extensive fragmentation and significant divergence among governments regarding economic and development policies, the concept and practice of democracy, and the role of the state and foreign policies, which impacts its openness to commit to regional cooperation (Birle 2018: 259). By extension, Latin America is a heterogeneous place where Brazil, the fifth largest country globally, coexists with islands like Saint Kitts and Nevis. It is also a space shared by countries such as Haiti and Chile, with a USD 2,925 GDP (PPP) and USD 25,067 per capita, respectively (World Bank 2021c). In addition, almost all adjacent countries in the region have had border disputes (Hui 2014: 63).

Second, features of the integration include internal dispersion and intersection. There exist more than 15 regional cooperation organizations among 33 countries. These instances vary in structural forms, functioning principles, objectives, and number of members, making it a large hassle for external organizations or countries like China to make agreements or choose the best institution to negotiate specific topics. In addition,



since several countries are members of two or more organizations, participating in several integration processes at different degrees, there is an intersection between them (Hui 2014: 63).

Third, due to the aforementioned, there is a lack of supranational institutions, obstructing coordinated policies, long-term development goals, compliance with agreements, and delay in incorporating common laws (Ayuso and Villar 2014: 9). Joint projects depend mainly on the political ideology of the respective heads of state, which in many countries constantly changes.

In addition, the lack of infrastructure for the transport of goods and the shortage of investment and regional planning of multinational infrastructures reduces the deepening of integration (Ayuso and Villar 2014: 10). Indeed, in 2019 the Inter-American Development Bank estimated the infrastructure investment gap in Latin America and the Caribbean at approximately 2.5 percent of GDP or roughly \$150 billion per year. The absence of infrastructure costs one percentage point of forgone GDP growth. If the gaps persist over ten years, the cost increases to 15 percentage points in forgone growth (Cavallo and Powell 2019: 1).

Therefore, as the notion of a Latin American community of interests is far from reality (Hui 2014: 68), China has been following a pragmatic path and has respected the logic of the market rather than ideology (Haibin 2017: 99). Its approach is outlined by a blend of bilateral and regional strategies, as well as an increasingly institutional network (Defelipe 2017: 123; Haibin 2017: 99).

In terms of commercial reasons, due to the rising demand for natural resources, China is the second-largest trade partner and the largest partner of several countries in this region. Bilateral trade grew seventeen times, from almost \$18 billion in 2002 to nearly \$316 billion in 2019 (Sullivan and Lum 2021: 1). Likewise, Chinese banks—the China Development Bank and the China Export–Import Bank, are the principal financing actors in Latin America, providing more than \$141 billion in loan commitments. It surpassed the combined lending from the World Bank, the Inter-American Development Bank (IADB), and the Development Bank of Latin America (CAF) (Gonzalez Jauregui 2020: 3; Yuanbo and Xufeng 2019: 2297).

Related to political terms, Beijing has an increasing interest in Latin America, which was confirmed with the five visits of President Xi Jinping since 2013. Concerning the combination of bilateral and multilateral

relations, China has managed to engage with various countries regardless of their size. In fact, it has established a comprehensive strategic partnership with Brazil, Panama, Peru, Mexico, Argentina, Venezuela, Ecuador, Chile, Bolivia, Costa Rica, Uruguay, and Jamaica (Yuanbo and Xufeng 2019: 2297). Multilaterally, China has strengthened its institutional network through links with almost all institutions in the region at different levels. It is a member of the IDB and the Caribbean Development Bank, an observer of the Latin American Integration Association, the Organization of American States and the Pacific Alliance, a founder of the China-CELAC Forum, and finally, a partner in the Common Market and Caribbean Community, the Andean Community of Nations and the Common Market of the South (De Sousa 2020: 137). In parallel, Latin America has been a strong supporter of Chinese initiatives. Indeed, Brazil is a founding member of BRICS and the New Development Bank (NDB), along with Russia, India, China, and South Africa; and seven Latin American countries have offered political support to the Asian Infrastructure Investment Bank (AIIB) (Gonzalez Jauregui 2020: 4).

In addition to these strategies, Beijing has built an institutional network to reinforce political ties with the region, which began with *China's policy paper on Latin America and the Caribbean* in 2008. Beijing expressed its interest to strengthen relations and its concern in working together under the umbrella of a strategic plan of cooperation based on win-win relationships (Gélvez Rubio and Gachúz Maya 2020: 2). Subsequently, during President Xi's visit in 2014, China signed 56 cooperation agreements and offered the *1 + 3 + 6 Cooperation Framework*. It consists of a projected five-year plan (2015–2019), three engines (trade, investment, and financing), and six priority sectors for cooperation: energy and natural resources, construction infrastructure, agriculture, manufacturing, scientific innovation, and information technologies. The framework was complemented by the *3 × 3 Model for Capacity Cooperation*, announced by Premier Li Keqiang in 2015. It refers to building capacity in three sectors (logistics, power generation, and information technology) and constructing more effective relationships between three actors (businesses, society, and government).

Consequently, as a sign of consolidation between the two sides, the China-CELAC Forum was established in 2015. The Forum aims to strengthen bilateral economic and political cooperation between both regions and promote multilateralism guided by the principles of respect, equality, cooperation, and openness (MFA China 2016). At the same

time, China launched three regional funds during high-level visits to the region in 2014 and 2015: the China-LAC Cooperation Fund, the China-LAC Industrial Cooperation Investment Fund, and the Special Loan Program for China-LAC Infrastructure with a capital of \$10-\$15 billion, \$20 billion, and \$10 billion, respectively (Myers and Gallagher 2017: 4).

One year later, in 2016, Beijing released a second *China's policy paper on Latin America*, seeking to strengthen diplomatic, political, and security cooperation through its direct engagement with the regional block CELAC. The Chinese Government, extending its pragmatic approach and its mixture of bilateral and regional strategies, took a step forward with a formal invitation to the Belt and Road Initiative at the China-CELAC Forum in January 2018.

### THE BELT AND ROAD INITIATIVE: BEYOND INFRASTRUCTURE

China's Belt and Road Initiative is a novel, open, and inclusive international cooperation platform that seeks to promote economic development, political coordination, and cultural exchanges within the regions and countries along the routes. Under the principles of openness and cooperation, harmony and inclusiveness, market-based operation, and a mutually beneficial win-win for all countries, it aims to offer an alternative mechanism to the current dominant model of North-led cooperation by constructing two initiatives: *the Belt* and *the Road*.

The Silk Road Economic Belt (*the Belt*) is a land corridor that relies on major cities to create trade and economic zones through three routes: (1) China to Europe through Central Asia and Russia; (2) China to the Persian Gulf and the Mediterranean through Central Asia and West Asia; (3) China to the Indian Ocean through Southeast Asia and South Asia.

Six economic corridors connect these three routes: (1) the New Eurasian Land Bridge, (2) the China-Mongolia-Russia Economic Corridor, (3) the China-Central Asia-West Asia Economic Corridor, (4) the China-Indochina Peninsula Economic Corridor, (5) the China-Pakistan Economic Corridor, and (6) the Bangladesh-China-India-Myanmar Economic Corridor.

The Twenty-First Century Maritime Silk Road (*the Road*) is a sea corridor that relies on major ports to build unimpeded, safe, and efficient

logistics routes through three ways: (1) the China-Indian Ocean Africa-Mediterranean Sea Blue Economic Passage runs from China's coastal ports through the South China Sea to the Indian Ocean, extending to Africa and Europe, (2) the Blue Economic Passage of China Oceania-South Pacific, traveling southward from the South China Sea into the Pacific Ocean, and (3) the Polar Silk Road that aims to connect China to Europe through the Arctic Ocean (Huang 2016: 318; Mações 2020: 62).

The BRI is most notably defined as a global infrastructure program connecting China with the rest of the world (Dirmoser 2017: 28; Hurley et al. 2019: 139; Kroeber 2020: 309). However, this assessment misunderstands the scope of the BRI. The network of roads, railways, ports, airports, power plants, power grids, power lines, data transmission, and others is only the face of the Belt and Road Initiative. Its spirit goes beyond infrastructure. China also aims to promote five areas of cooperation, namely policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

*Policy Coordination* is supported through intergovernmental cooperation, multilevel and macro-policy exchange and communication mechanisms, which aims to expand shared interests, enhance mutual political trust, and reach a new cooperation consensus (China 2015). Furthermore, this area is implemented toward international cooperation with the 140 countries that have joined the BRI by signing a memorandum of understanding with China, deep collaboration with UN Agencies, and enhancing coordination between BRI and national, regional, and international initiatives (Lewis et al. 2021: 73; Nedopil 2021: 1).

A criticism of the current state of this goal is that it is primarily based on bilateral agreements between China and other countries. Shaping the Belt and Road as a truly multilateral initiative would require moving beyond those bilateral arrangements without China's necessary participation (World Bank Group 2019: 80). In this way, the *Belt and Road Forum for International Cooperation* (BRI Forum) role is crucial since it is a formal space that aspires to seek complementarities with other connectivity initiatives that provide new opportunities and impetus for international cooperation. Moreover, it helps to work for a globalization that is open, inclusive, and beneficial to all (MFA China 2017). Its first edition in 2017 had an attendance of more than 1,500 participants from over 30 countries and 70 international organizations, including 29 foreign heads of state or government. Other than the United Nations' meetings,

it was the most extensive global summit held since the end of the Second World War (Dunford and Liu 2019: 165).

Another inspiring initiative is the *Belt and Road Green Investment Principles* and the *BRI International Green Development Coalition* (BRIGDC), launched during the Second BRI Forum. It is a voluntary international network and involves 134 partners. It aims to bring together the environmental expertise of all partners to ensure the long-term green and sustainable development of the BRI (UNEP, n.d.). Besides the BRIGDC, other initiatives could be an exciting example of multilateral cooperation without China's necessary participation: the Green Silk Road Envoys Program, the Belt and Road Green Lighting Initiative, the Belt and Road Green Cooling Initiative, and the Belt and Road Environmental Technology Exchange and Transfer Center, among others (Zhang 2019: 4).

The second area of cooperation is *Facilities Connectivity*, which is a priority area for implementing the BRI. Facilities refer not only to the construction of transport infrastructure but also to the development of conventional and renewable energy sources and cross-border and submarine optical cable networks. Likewise, alignment of technical and institutional standards and management operations are included here. More specifically, the BRI aims to address the infrastructure gap, which is a common component of growth, development, poverty reduction, and environmental sustainability (Yin 2019: 6991).

In particular, a study from the World Bank estimates that BRI infrastructure will benefit both countries participating in the initiative and non-BRI countries and regions. It will decrease travel times and increase trade and investment along the economic corridors. The study predicts that travel times will decline by up to 12 percent once completed. Travel times with the rest of the world are estimated to decrease by an average of 3 percent. If successfully implemented, BRI transport projects could also increase trade between 1.7 and 6.2 percent for the world, increasing global real income by 0.7 to 2.9 percent (World Bank Group 2019). An example of this is the Khorgos–Almaty Road along the New Eurasian Land Bridge Corridor, the primary road border crossing point between Kazakhstan and China. After its upgrade, transport costs declined from US\$0.26 to US\$0.24 per vehicle/kilometer, and travel times fell by 40 percent, from five hours to three. The reduced transport costs and travel times are foreseen to expand trade in the coming years (World Bank Group 2019).

In much the same way, the goal of *Unimpeded Trade* aims to improve investment and trade facilitation and remove investment and trade barriers. It also enhances customs cooperation such as information exchange, mutual recognition of regulations, mutual assistance in law enforcement, and the development of free trade economic zones, and cross-border e-commerce.

Trade facilitation could increase trade volumes, provide new impetus to the local economy, and create new jobs (Lewis et al. 2021: 73). Indeed, the World Bank estimates that the BRI will increase the world export volumes by 6.3 percent. BRI countries are expected to increase exports by almost 10 percent, while non-Belt and Road economy exports would total a third of this. Similarly, the BRI could also help lift 7.6 million people from extreme poverty, those earning less than \$1.90 a day, and 32 million people from moderate poverty, those earning less than \$3.20 a day (World Bank Group 2019).

Toward the fourth goal of *Financial Integration*, the BRI may also be an effective platform for mobilizing and integrating resources urgently needed worldwide. Considering the BRI costs hundreds of billions or trillions of dollars, no single country can solely afford to provide finance alone, so market operations will complement (Shang 2019b: 16). Therefore, through establishing financial institutions such as the AIIB, the NDB, or the Silk Road Fund, the initiative may help fill the investment gap and expand financing channels for infrastructure and trade (Lewis et al. 2021: 73).

Finally, *People-To-People Bonds* aims to provide public support for implementing the BRI through extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges, and volunteer services.

It is relevant to highlight that these five areas complement each other, forming an integral body. While *policy coordination* focuses on high-level dialogues, *people-to-people bonds* focus on basic level exchanges. They are both prerequisites for cooperation in the three specific areas of *facilities connectivity*, *unimpeded trade*, and *financial connectivity* (Shang 2019b: 4).

An example of a misinterpretation of the Belt and Road cooperation purposes is the recent plan announced during the Group of Seven (G7) in 2021. President Biden and G7 partners agreed to launch the new global infrastructure initiative *Build Back Better World* (B3W) to address strategic competition with China and commit to concrete actions to help

meet the infrastructure needs of low middle-income countries (The White House 2021). On the date of this writing, there are not much more details about the B3W, but *the 2021 G7 Leaders' communiqué* (Group of Seven 2021) and statements from The White House provide a few clues.

The B3W focuses only on infrastructure and capital with specific guiding principles and values-driven definition without any consultation. The new program neither considers policy coordination nor people-to-people exchanges, which would make it difficult to serve the vital interest of developing countries. On the contrary, the Belt and Road is much more than a global infrastructure program, but indeed a set of principles and objectives pointing to a new model of international cooperation. These aims achieve broad goals of the Chinese Government, which are examined as follows.

## UNMASKING THE BELT AND ROAD INITIATIVE

In 2015, two years following the announcement of President Xi, the first official Chinese government document on the BRI was issued, entitled *Vision and Actions on Jointly Building the Silk Road Economic Belt and the Twenty-First Century Maritime Silk Road* (China 2015). The Chinese Government remarks that it is not an isolated initiative but an integral component of its institutional framework. Indeed, this is evidenced by the inclusion of the project in the 13th Five-Year Plan 2016–2020 toward a chapter titled “Move forward with the Belt and Road Initiative” (Central Committee CPC 2016), and with the incorporation in the Communist Party of China’s Constitution in 2017. Moreover, the 14th Five-Year Plan 2021–2025 details the BRI with an entire chapter within the section “High-level opening, cooperation, and win-win” (Central Committee CPC 2021).

Although there is little doubt that the Belt and Road is the most crucial foreign policy under Xi Jinping’s leadership, there remains doubt concerning its primary purpose. Why is the BRI so relevant for China? The BRI consists of a blend of economic, political, and strategic goals which operate differently in different countries and can be analyzed in two levels: global and domestic plans (Jones et al. 2019: 1).

At the international level, the BRI aims to increase China’s influence in reshaping global governance through four critical approaches. First, it promotes an alternative development model to the neoliberal framework

toward inclusive globalization. It posits a combination of market tools with state involvement in promoting international cooperation. Market rules remain as necessary as the purpose of economic integration, building a community of shared interests, responsibility, and mutual political trust. Moreover, the BRI, as an open initiative, respects national sovereignty, embraces social models' diversity, and promotes cultural inclusiveness to secure win–win outcomes (Liu et al. 2018: 1212). Consequently, the Belt and Road encourages a different mechanism from the traditional international cooperation characterized only by economy and trade (Shang 2019b: 20).

Second, China proposes an alternative economic architecture to finance the BRI toward new multilateral arrangements such as the AIIB, the NDB, and the Development Bank of Shanghai Cooperation Organization. The AIIB is an intergovernmental financial development institution that operates with the model and principles of multilateral development banks (Shang 2019a: 9). Its mission is to build sustainable infrastructure that promotes regional connectivity. The initial capital subscribed is USD 100 billion and consists of 103 approved members worldwide, including the UK, Canada, Germany, France (AIIB 2020).

On the other hand, the NDB was launched in 2015 by the BRICS block countries to finance infrastructure and sustainable development projects in emerging and developing economies, complementing multilateral, and regional development banks. The initial authorized capital of the NDB is USD 100 billion, of which USD 50 billion has been subscribed equally by the five founding members. Unlike the unbalanced governance structure of the International Monetary Fund (IMF) or the World Bank, each NDB member has an equal shareholding with no veto power over any matter (New Development Bank 2021).

Similarly, the Belt and Road aspires to support the internationalization of the Renminbi (RMB) by creating opportunities to gradually increase its use as a primary currency in international trade, financial transactions, investment, and international reserve currency. Examining more closely, the initiative encourages increased usage in international transactions (particularly concerning transactions related to investment in infrastructure and currency swaps), promotes Chinese companies to use RMB for cross-border trade and cash management, and forms Alliances with other countries to hinder the US dollar's global supremacy. For example, it encourages payment for imported crude oil in RMB (Mações 2020: 23).



The establishment of multilateral institutions was a response to the unwillingness of Americans and Europeans to concede a more prominent role to emerging economies resembling the size of their economies (Dunford and Liu 2019: 149). The Belt and Road strengthens the purpose of emerging countries to play an even more prominent role, with greater representation in international governance and financial institutions.

Third, in response to the demand of the international community to adopt larger obligations in the global economic system, China's BRI fills the vacuum left by international organizations, multinational corporations, and large countries that nowadays do not provide resources for infrastructure in many regions (Huang 2016: 315). Indeed, the Global Infrastructure Hub, a G20 think tank, estimates a \$15 trillion gap between projected investment and the amount needed to provide adequate global infrastructure between 2016 and 2040 (2017). The Belt and Road has had assets exceeding US\$575 billion, including projects already executed, in the implementation phase and planned, and it is expected to deliver up to US\$ 1 trillion (Bandiera and Tsiropoulos 2020: 2).

Finally, due to the previous features, it is hoped that China's BRI embraces a multipolar order. The BRI is open, inclusive, and beneficial to all members, primarily developing and emerging countries which can cooperate economically and culturally, contributing individual strengths (Shang 2019a: 33).

Paradoxically, in an apparent double moral standard, Western scholars critique this strategy as a threat. In a testimony before *the US-China Economic and Security Review Commission*, the scholar Nadège Rolland states that China expects to "expand its circle of friends and its influence in a vast area where democratic practices are weak, authoritarian regimes mostly prevail, and where the US influence is rather limited" (NBR 2019). Beijing has done nothing contradictory, but something that the West has benefited from: deeper links of investment, infrastructure, and trade can leverage relations with other countries in their favor (Mações 2020: 30). The above testimony demonstrates anti-Chinese narratives and undervalues the participation of more than 100 countries, listing them as political or social systems unsuited to Western standards. The Western countries do not own the defense of multilateralism, for emerging countries also contribute to its promotion, and they are doing so effectively with the BRI.

At the domestic level, the Belt and Road serves various overlapped goals, which can be examined by economic, security and geostrategic drivers. First, China aims to sustain its economic growth. The Asian country has been among the world's fastest-growing economies, with real GDP growing by an annual average of 9.5% through 2018, and its GDP per capita climbed from US\$ 194 in 1980 to US\$ 10,500 in 2020 (World Bank 2021a, b). China is also the world's second-largest economy, the world's largest trading nation, exporter, manufacturer, energy consumer, auto market, the user of steel, cement and copper, and the world's largest applicant for patents (Chen 2018: 3).

However, China's real GDP growth has shrunk significantly, from 14.2% in 2007 to 5.95% in 2018 (World Bank 2021a). The IMF projects will decrease over the next six years, falling to 5.5% in 2024 (IMF 2019). Xi Jinping has pointed to the new scenario as "the economic model of new normality," where it is no longer feasible to maintain fixed investment and exports as a primary source of growth. Innovation is argued to be the new economic engine, emphasizing quality over quantity, upgrading industry, and increasing private consumption and services, reflected in the plan "Made in China 2025."

In this way, the Belt and Road is a complement to that strategy since it seeks to open new markets and secure new routes for its exports, as well as building hard and soft infrastructure, which requires the development of technology and services. An example of that is the relevance given by Beijing to the Digital Silk Road. As part of the BRI, there lies a vision to catalyze global digitalization, comprising four comprehensive categories of interrelated technology-focused initiatives: (i) physical infrastructure in the digital sphere, which includes 5G technology; (ii) developing advanced technologies, considering satellite navigation systems, artificial intelligence, and quantum computing; (iii) digital commerce; and (iv) international norms in cyberspace and advanced technologies (Cheney 2019).

In addition, Beijing needs to face imbalances within the economy. The Belt and Road could address industrial overcapacity such as steel, glass, cement, and aluminum by building infrastructures abroad (Enderwick 2018: 448; Shang 2019b: 9). It also provides an opportunity to address regional development imbalance by promoting economic growth in China's less-advanced regions, such as Xinjiang, Qinghai, Gansu and Yunnan. The BRI plans to develop Western regions to enhance connectivity to the economic corridors, improve welfare, and integrate into

global trade (Cai 2017: 6; Enderwick 2018: 448; Flint and Zhu 2019: 98).

Along with economic motivations, the development and increase of living standards of those regions also meet security drivers. At the local level, Xinjiang has become the primary source of terrorism within China. One of the central policies to address the issue involves large investments to reduce social unrest and political instability. For example, the China–Pakistan Economic Corridor which links Kashgar in Xinjiang with the Port of Gwadar, costs \$46 billion, and aims to integrate the region into the global economy, as well as control religious radicalization, fundamentalism, and terrorist recruitment (Cai 2017: 15; Maçães 2020: 30; Rolland 2019). At the regional level, the initiative would improve Eurasian integration and contribute to more stable security conditions by building mutual trust, especially in countries and regions bordering southern and western China (Shang 2019b: 13; Wuthnow 2017: 26). For instance, the territorial conflicts with India in the Himalayas and some Southeast Asian nations in the South China Sea would be mitigated by managing inside the BRI framework.

In parallel, geopolitical strategy is an essential driver of the Belt and Road. China is highly reliant on other nations for oil, gas, and mineral resources, which are mainly shipped by sea (Shang 2019b: 10). For example, in 2016, 80 percent of imported oil passed through the Malacca Strait and the Indian Ocean (Maçães 2020: 21), making China highly vulnerable in case of disputes with other countries. This “Malacca Dilemma” forces Beijing to secure energy supplies by diversifying oil and natural gas sources and transport routes, and the Belt and Road is an answer to address this. It designs new routes toward the construction of new ports in Gwadar (Pakistan) and Colombo (Sri Lanka) and through overland pipeline construction between the Chinese city of Kashgar and Gwadar, as well as a planned oil pipeline linking the Bay of Bengal and Yunnan via Myanmar (Wuthnow 2017: 11).

Within the blend of economic, political, and strategic goals at global and domestic levels, China officially invited 33 Latin American countries in 2018 to join the Belt and Road Initiative at the China-CELAC Forum.

## *TO BRI OR NOT TO BRI: THE INITIATIVE IN LATIN AMERICA*

The inclusion of Latin America could result in considerable improvements in terms of financial instruments for ports, roads, energy, and infrastructures, improvements of intra-regional trade, access to new markets, open businesses opportunities for the private sector, and increased cultural exchanges, among other benefits (Valderrey et al. 2019: 42).

However, by January 2021, only 19 countries had signed a memorandum of understanding for the BRI (Nedopil 2021: 1), with some distinguished exceptions, such as Brazil, Colombia, and Mexico. Many countries have raised concerns regarding challenges in implementing the Latin American Belt and Road: specifically, the lack of information and transparency, economic dependency on China resulting in a deeper asymmetric relationship, and discoordination and competition among Latin American countries to get resources individually rather than exploring collaborative projects, as well as financial and environmental concerns.

The first critique refers to the lack of definition of what it means or what are the particular benefits of being a member of the platform, which raised misunderstandings, skepticism, and ambiguity concerning the primary purpose of the BRI. The Chinese Government has kept an open-door policy to those governments willing to join the group, resulting from the absence of procedures and measuring the contribution of member countries to the initiative (Valderrey et al. 2019: 42).

In addition, it is indeed ambiguous why a country should join the BRI if they still receive investments. In fact, Brazil, which is not part of the BRI, is among the top three countries of Foreign Direct Investment from China during the period 2005–2020 (Chirkin 2021: 11; Velásquez 2017: 14). Similarly, Mexico, which did not sign a BRI agreement, is the second country with more Chinese announcements of investment projects during the same time (ECLAC 2021). Those countries that are not official members also have agreements with China related to energy, science, and finance, and they have sent delegates to the BRI Forum.

As well as this lack of information, it is possible to observe a multiplicity of actors working under the umbrella of the BRI and a potential discoordination between them: the China-CELAC Forum, the AIIB, the China Development Bank, the Export–Import Bank of China, Chinese state-owned enterprises such as Sinopec, Sinohydro, China National Petroleum Corporation, State Grid Corporation of China, and China

State Construction Engineering, along with Chinese and Latin American government agencies (Serrano Moreno et al. 2020: 2).

Examined more closely, the absence of procedures to join the BRI could be argued as a positive feature because the BRI is defined as an open, inclusive, and win-win mechanism without a single or shared understanding (Gu et al. 2019: 14). Moreover, its less institutionally focused and not treaty-based feature brings flexibility and concrete actions, which are more relevant than rules, agreements, or specific procedures that may produce fruitless results (Wang 2018: 3). The BRI was also announced without factual content, which leaves it a very vague and broad policy slogan subject to open interpretation (Zeng 2019: 210).

Besides, the apparent ambiguity is a source of opportunity, since working within a framework as vague and ductile as the BRI means that different policies can actually be pursued simultaneously (Gu et al. 2019: 14; Mações 2020: 20). On the same line, the multiplicity of actors represents a strength due to the chance for Latin American members to receive support and assistance from a wide range of institutions.

A second challenge is that the BRI could increase a more asymmetrical relationship between China and Latin America, consolidating the current economic dependency. This asymmetry is stimulated by the primary interest of China to gain access to natural resources to reduce its energy vulnerability and secure its demand in food consumption. On the one hand, in terms of trade, Latin America stands out as a supplier of raw material products, mineral resources (petroleum, iron ore, copper, soy, and other metals) with low technological intensity. On the other hand, Chinese exports to the region focus on high value-added manufacturing products with high technology components (De Sousa 2020: 142).

The BRI can be seen as a sort of hub-and-spoke network, with China as the hub and the other BRI states as the spokes (Wang 2018: 6). The region's inclusion was not born as a joint project but as unilateral strategic objectives and part of China's aim to sustain growth, redirection of its excess domestic capacity and capital, and assert more significant international influence (Laufer 2020: 15). The investment in infrastructure could be deemed as a strategy to facilitate the trade of natural resources and export Chinese products in Latin America, but not as a way to help countries develop or tackle their needs.

As a result, the BRI could extend the reprimarization of Latin American exports and the decline of national production, as well as an increase

in the trade deficit (Laufer 2020: 14; Lum et al. 2009: 13). Moreover, the trade asymmetry increased concerns related to infrastructure projects' feasibility and sustainability, the negotiation of the terms, and the possibility of loan repayment. Additionally, the BRI would incentivize competition among Latin American countries to acquire resources individually rather than exploring potential collaborative projects (Serrano Moreno et al. 2020: 9). This challenge is a consequence of features related to regional cooperation commented above: the lack of shared development goals, internal dispersion, and the overlap among regional institutions.

From China's perspective, its companies face challenges to engage with various jurisdictions due to the lack of experience in local regulations, local culture and society, engagement with communities, and environmental issues (Toro-Fernandez and Tijmes-Ihl 2020: 8; Yuanbo and Xufeng 2019: 2297). Moreover, the sociopolitical context of Latin America tends to ground this issue, given the short-term policies and constant changes in power that outline governments of the region. In this regard, some studies compare the railroad projects in Brazil, Argentina, Venezuela, and Mexico, and concluded that China's infrastructure projects involve a slow and complicated learning process, increasing the costs of the Latin American Belt and Road (Leiva 2020: 3; Serrano Moreno et al. 2020: 8).

### **Box 1: The Bi-Oceanic Railway**

The Bi-Oceanic railway is a vast project seeking to connect both the Atlantic and the Pacific oceans. It has been discussed for many years in South America, and various alternatives were proposed. The more robust project connects the Brazilian port of Açú with Peru's Pacific Coast. The original design contains 5,300 km-long railroads. It was estimated to cost \$12 billion and was projected to carry 23 million tons, forecast to increase to 53 million tons in twenty-five years (Hiratuka 2018: 135).

After Chinese President Xi Jinping's support during his visit to Latin America in July 2014, studies were conducted and revealed that the costs were five times higher than the original plans (at least \$60 billion). It also exposes environmental and social impacts since the route across the Amazon could affect its ecology, biodiversity, and several indigenous communities (Leiva 2020: 5). Besides, given the lack of information about

China's assistance, it raises concern about the terms of the loans and the genuine interest of the Asian country.

In parallel, other Bi-Oceanic projects were under study in a clear sign of discoordination and lack of common goals in the region. In 2015, the Government of Bolivia presented preliminary studies to create a central route covering Brazil, Bolivia, and Peru. This shorter alternative (around 3,750 km) would require significantly fewer construction expenses (Hiratuka 2018:137). To make it even more puzzling, given the strong partnership between Chile and Brazil and, on the contrary, the complex relationship between Brazil and Bolivia, the Chilean President proposed in 2020 to create a southern route, excluding Peru and Bolivia. This road is even shorter (around 3,500 km) and includes Argentina and Paraguay (Reuters 2020).

The Bi-Oceanic railway perfectly summarizes the BRI challenges in Latin America: lack of information about Chinese support, concerns about the loans, competition and lack of coordination between Latin American countries. However, these issues cannot be ignored and could be seen as an opportunity to implement the Initiative effectively.

The Latin American BRI could be a positive game-changer, providing financial resources, filling the gap in infrastructure, and helping in high-level dialogues to improve collaboration between countries, among other benefits (Zhang 2019: 1). Nevertheless, as discussed previously, to achieve the BRI's goal of policy coordination and to have a positive impact on the whole region requires to move beyond bilateral agreements. Thus, the critical issue is how it is possible to implement a multilateral strategy in a region characterized by its dispersion, extensive fragmentation, and significant divergences among the governments regarding economic and development policies.

### A MULTILATERAL APPROACH TO IMPLEMENT THE BELT AND ROAD INITIATIVE IN LATIN AMERICA. AN OPPORTUNITY FOR THE PACIFIC ALLIANCE

A multilateral approach is required from the Latin American perspective since the region's inclusion in the BRI was not born as a joint project but as unilateral strategic objectives and part of China's needs (Laufer 2020: 34). No state in the region can negotiate alone with China in equal terms due to the disparity represented by the resources and strategic influence

of the world's second-largest economy. However, suppose Latin American countries can present a coherent strategy and observe the challenges when designing and enforcing projects. In that case, they might be able to secure critical infrastructure and avoid some of the risks of dependency, excessive debt, or repayment of the loans (Gonzalez Jauregui 2020: 8).

In addition, since the region needs to improve regional connectivity and infrastructure, it would require a coordinated effort between China and national and local governments to minimize potential environmental and social impacts. For instance, the project Capricornio Corridor intends to connect the Argentine railway system with the one in Bolivia, and in the long term, to the Bi-Oceanic railway (Brazil, Peru, and Chile). Thus, improving logistic routes or building railways does not depend on one country but many of them.

China has been implementing the BRI toward a combination of bilateral and multilateral strategies. For the latter, the Chinese Government has chosen the Community of Latin American and Caribbean States called CELAC, which is a regional bloc of 33 sovereign countries with a total of about 600 million people, land area 6 times bigger than India with a GDP of US\$ 3 trillion (MEA GOV IN). Although CELAC is recognized as the first experience that congregates different political views, and China aims to make it a vital element of an institutional framework of aid, cooperation, trade, and investment with LAC countries, we think CELAC is suitable for leading policy coordination among countries. However, it is not the best regional counterpart for China or Latin America to conduct the implementation of BRI's projects.

CELAC lacks an institutional framework, a decision-making process, and the absence of legal mechanisms affects coordination within countries and other international organizations. It also has limited follow-up and effective monitoring of the commitments assumed by member states. Moreover, while CELAC emphasizes short-term goals directed to immediate domestic needs (Segovia 2013: 101), the Belt and Road aims for long-term objectives and global needs.

In terms of *Policy Coordination*, the China-CELAC Forum could reinforce positive outcomes, clarify some misunderstandings and address the challenges of the BRI in two modes. Firstly, it can help make an assertive narrative about the BRI's vision that pursues cooperation and development by constructing a community with shared interests, mutual political trust, economic integration, and cultural inclusiveness (China 2015). Nevertheless, the shortage of information produces doubts about China's



fundamental objectives, raises confusion, and creates skepticism about the project's primary purpose.

Secondly, the Belt and Road should be present as a new international cooperation platform, providing resources that nowadays international organizations, multinational corporations, and large countries are not providing for development in many regions. Thus, the Initiative offers many benefits and aims to fill that gap (Valderrey et al. 2019: 42). In fact, within a short period, the BRI has proven its significant potential to accelerate progress in some regions.

CELAC has acted as a political consultation institution rather than an international body able to implement and coordinate projects such as the BRI. Therefore, it is suggested that an organization with a more technical and economic role could complement the political role of the China-CELAC Forum. The Pacific Alliance is one of the best suited in the region to be a counterpart of China due to its economic integration purpose, and its aim to build a common market to increase trade with the Asia Pacific region and gain entry into global value chains (Chaves García, 2017: 35; Toro-Fernandez and Tijmes-Ihl 2020: 8).

The Alliance also has a robust institutional setting with a Framework Agreement and Guidelines Applicable to the associate states. The former requires applicants to have a free trade agreement with every member, which is the case within Chile, Colombia, Mexico, and Peru, and the latter sets formal procedures for new countries (Toro-Fernandez and Tijmes-Ihl 2020: 5). Both legal procedures may create regional normative and institutions to help China's companies improve capacity limitations and prevent costs from dealing with various jurisdictions. In addition, the Alliance is not only supported by Latin American Presidents but also legislators' aims for international economic integration despite their ideological positions. As discussed in the first section, that is an advantage, considering that the disparities in ideologies depend mainly on the respective heads of state, which influences regional cooperation.

Even though the Pacific Alliance has only four members, it is worth remarking that it holds 14 observer states from the Americas. Among them, seven countries are part of the Belt and Road (Costa Rica, the Dominican Republic, Ecuador, El Salvador, Panama, Trinidad and Tobago, and Uruguay). Therefore, more than half of the BRI partner states are either member or observer states of the Pacific Alliance, which can assist to use its institutional arrangements as a framework to pursue a successful execution of the Initiative.

The aforementioned reinforces the argument that it is more suitable for both China and Latin America to implement the BRI through multilateral institutions to overcome the potential challenges explained above. Thus, CELAC could keep its role as a political consultant body, while the Pacific Alliance is a suitable regional instance to be an implementer of the Latin American Belt and Road Initiative.

## CONCLUSION

The Belt and Road has aroused the interest of governments in Latin America, given the need for investments to improve the region's connectivity through modern transport and logistics infrastructure. It would also provide access to strategic resources that can present win-win opportunities for both China and Latin America. However, scholars have raised awareness about some challenges on implementing the BRI in Latin America related mainly to the lack of information, dependency on China, and a feasible discoordination and competition among LAC countries to get resources individually.

This chapter has addressed all those challenges through literature review and content analysis of official documents, showing that the BRI has the potential to be a positive regional game-changer. Consequently, it is recommended to develop the following policies.

First, China should use the Belt and Road Initiative as a platform to unify the different policies and instruments such as the 1 + 3 + 6 Cooperation Framework, the 3 × 3 Model for Capacity Cooperation, the China-LAC Cooperation Fund, the China-LAC Industrial Cooperation Investment Fund and the Special Loan Program for China-LAC Infrastructure. The BRI should help both China and Latin America to have a coherent and harmonious strategy.

Second, the China-CELAC Forum, in its political role, should develop an assertive narrative about the meaning of being a member of the Belt and Road, which could help address the distinguished absence of countries such as Brazil, Colombia, or Mexico. It should reinforce the platform's purpose as a set of principles aiming for a new model of international cooperation with broad consultation, joint contribution, and shared benefits. It is important to remark that the BRI goes beyond infrastructure, promoting five areas of cooperation, called policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

Third, promoting policy coordination toward high-level dialogue and exchange mechanisms provided by the BRI could help to improve discoordination in the region to create joint projects. For instance, in the Bi-Oceanic railway project, *the Belt and Road Forum for International Cooperation* can provide a space to facilitate dialogue and find a solution to have one robust route that could benefit all countries.

Fourth, a regional organization with a more technical and economic role that is able to implement the initiative, like the Pacific Alliance, could complement the political role of the China-CELAC Forum. It would help present the Belt and Road as a platform for mobilizing and blending resources needed for Latin American development. To be concrete, the variety of financial actors involved can expand financing channels and fill part of the \$150 billion per year gap in the region's infrastructure. Moreover, it is crucial to increase transparency and better risk assessment in project selection in order to decrease the misconception and skepticism about assistance provided by China (Dunford and Liu 2019: 157).

Fifth, concerns about sustainability, pollution, or environmental degradation should be addressed with the novel instance of the BRI International Green Development Coalition. In the example analyzed above, the actors involved in the Bi-Oceanic railway could join the network and follow the BRI Green Investment Principles.

Sixth, the Belt and Road should prioritize developing the goal of people-to-people bonds through cultural and academic exchanges, tourism, joint scientific and technological research, and health and emergency aid. All of these will provide public support and will overcome the misunderstandings for implementing the BRI. For example, China and other BRI countries have performed diverse forms of cultural relations, establishing various initiatives such as The Silk Road International League of Theaters, Silk Road International Museum Alliance, and Silk Road International Library Alliance. In education, China has signed agreements with 24 BRI countries on the mutual recognition of higher education degrees, and the Chinese Government Scholarship - Silk Road Program has been set up (MFA China 2019).

Latin America should not repeat the same mistakes in the past. It should strengthen multilateral cooperation to have a new opportunity to change its history, promote economic integration, and achieve its long-awaited development.

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# China-LAC Trade: Competition or Complementarity?

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## INTRODUCTION

This chapter analyzes the evolution of trade between China and Latin American economies and focuses specifically on whether the trade between these two regions is based on competition or complementarity. In that order, we first contextualize the trade evolution by periodization (3 periods): the period before the opening-up of China's economy; 1978 to the year of China's accession to the WTO; the period after 2001. We introduce significant policies and mutual visits of political leaders during these periods to show the subjective motives of the governments to build win-win relations with each other. Then we empirically study the trade perspective with official data and show that the objective results support

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the optics of complementarity, rather than that of competition. Specifically, we discuss economic growth, trade volume (in total, or by items, countries, or partners), trade barriers, and trade complementarity index.

## CHINA-LAC TRADE: A HISTORICAL PERSPECTIVE

When we analyze the historical economic cooperation between China and LAC countries, we may not find many texts that describe this relationship before 1950, although it was born centuries ago. Yet, what we can draw from the history books and texts is that this relationship has existed before modern Latin America was born. If, for instance, we evoke the historical formation of “the American Continent,” we can see that what we call today Great China had a very important role in the future of the American Continent. The first attempt at economic relations between the Europeans and “Zhong Guo” has resulted in the discovery by fortune of a new continent—The Americas.

The history between China and LAC has started during the ancient spice trade route from Asia to Europe in 1400–1500. The spice trade was one of the earliest forms of international commercial trade connecting Asia with Europe through a series of maritime and overland routes. This trade left a deep impact on Southeast Asia, home to the so-called Spice Islands, a region teeming with precious spices that had aroused a craze in Europe before European colonization of Asia and the discovery of the new continent – the Americas. The tropical climate, the abundant rainfall, and the fertile soil of the region made it suitable to grow cloves, nutmeg, pepper, mace, among many other herbs and spices. These spices added flavor and aroma to many dishes in Europe.

The merchants responsible for bringing Europe such a wide variety of products were always searching for different routes. The rise in power of the Ottoman Turks and the decline of the Mongol Empire disrupted traditional trade routes, making it difficult to access Asia from Europe. The Ottoman Turks defeated the Byzantine Empire in 1453 and cut the land link between Europe and Asia. At the same time, there were several improvements in shipbuilding and navigation, made by the Portuguese and Spaniards that made it possible to travel farther and for longer periods. So, by the middle of the sixteenth century, the European Kingdoms and their merchants had to find alternative routes to continue profiting from the Europe-Asia trade. So, Europe’s period of exploration and colonization was fueled largely by necessity.

Commissioned by Queen Isabella and King Ferdinand of Spain, Italian explorer Christopher Columbus was among the first who sought a faster, more direct route to Asia by sailing west rather than east. In 1492, Columbus landed on an island in the Caribbean. Although Columbus mistakenly believed he had landed on an island in East Asia, later explorers added to the knowledge of the land, and—thanks in part to the voyages of fellow Italian Amerigo Vespucci—determined that Columbus had reached a “New World.” Each of the major European powers—Portugal, Spain, France, the Netherlands, and England—sent explorers to the New Continent, and that was how everything was started for the LAC countries.

By that time, the European colonizers had heard histories of the Chinese traders such as Zhang Qian who helped to establish the Silk Road more than 2000 years ago, and Zheng He who under the vision of Zhu Di Emperor Son of Heaven had commanded one of the largest fleets in the world and had left “Zhong Guo,” the “Middle Kingdom,” in 1403 to travel across Southeast Asia, India, Arabia and Africa doing trade and presenting the potential of his region. After the occupation of the American Continent by the Europeans, Sino-Latin American historians’ research<sup>1</sup> shows a very prosperous trade route, when the “Maritime Silk Road” saw 20 to 60 ships sail between China’s coastal regions and Mexico’s Acapulco every year. Via a stopover in the Spanish colony of Manila in the Philippines, the ships also carried mainly silver from Mexico<sup>2</sup> (and from Peru and Bolivia) in exchange for spice, porcelain, ivory, lacquerware, processed silk, and other valuable commodities. Many other goods from Latin America reached China at that time, while also many goods from China reached LAC. The goods were potato, sweet potato, corn, cacao, peanuts, chili, tomato, pepper, pineapple, and tobacco, creating a trade route that persisted until 1815.

After the Opium war ended (1860), China opened itself to the world. The Chinese began to leave their country and many of them went to the American continent. Peru was the first country in Latin America where large-scale immigration of the Chinese began (1848 and up to 1874).

<sup>1</sup> Straus, J. and Armony, A. 2012. From the Great Wall to the New World: Volume 11: China and Latin America in the 21st Century (The China Quarterly Special Issues), Cambridge Press.

<sup>2</sup> Romero, R. 2010. *The History of the Chinese in Mexico 1882–1940*. University of Arizona Press.

Approximately 100 thousand arrived. The reason why they went to Peru is that there was a scarcity of labor force in the plantations of sugarcane and cotton in the Coastal region.<sup>3</sup>

In 1874, Peru<sup>4</sup> was the first country in Latin America to establish diplomatic links with China and Japan. Mexico, for example, established diplomatic links with Imperial China just in 1899. As a result of early Chinese immigration in Peru, there is a large Chinese community in Latin America.<sup>5</sup> In South America, for example, countries like Argentina, Brazil, Chile, and Suriname boasted large concentrations of Chinese. Still, Peru maintains the largest and most vibrant community (and the seventh largest in the world).

During the late nineteenth to early twentieth century, Chinese immigrants arrived<sup>6</sup> as indentured manual laborers, known derogatorily as “Coolies.” Beyond their toil, these immigrants came to further shape the societies they inhabited.<sup>7</sup> Many centuries later, very few important facts<sup>8</sup> can be registered in the history of the relations of these two regions until the 1960’s.

The rebirth of China-Latin America and the Caribbean relations became meaningful again after fifteen years of the establishment of the

<sup>3</sup> Traditionally slave force was used there (people from Africa brought by the Spaniards when they conquered the Inca Empire), but by the middle of the XIX century the slave trade was being forbidden in the world and when finally, in 1854 slavery was forbidden in Peru, the scarcity of labor became a big problem.

<sup>4</sup> Because of an incident on a ship carrying Chinese laborers, Peru established diplomatic links with China and Japan in 1873–1874.

<sup>5</sup> Gonzales, M. 1989. Chinese Plantation Workers and Social Conflict in Peru in the Late Nineteenth Century, *Journal of Latin American Studies*, vol. 21, no. 3. pp. 390.

<sup>6</sup> In Central America, Nicaragua and Panama boast significant Chinese populations. The presence of Chinese nationals in Nicaragua can be traced back to 1920 when a census recorded approximately 400 Cantonese immigrants living along the Atlantic regions. Many went on to found small businesses and eventually became leaders in Nicaragua’s textile, transportation, agricultural, industrial and hospitality industries. In Panama, Chinese immigrants arrived to work on the construction of the Canal. Their descendants echo previous patterns of integration and industrial achievement by intermixing with the local population and economy. In recent years, Panama hosted the Chinese Association of Central America at the Panama Convention, a supranational support network for the Chinese diaspora.

<sup>7</sup> Lausent-Herrera, I. 2009. Tusans (tusheng) and the Changing Chinese Community in Peru, *Journal of Chinese Overseas*, vol. 5, pp. 116.

<sup>8</sup> Romero, R. 2010. *The History of the Chinese in Mexico 1882–1940*. University of Arizona Press.

People's Republic of China (PRC). The first country that effectively established a diplomatic relationship with China was Cuba. From 1960 onwards, most Latin American governments waited until President Nixon visited Beijing in February 1972 to recognize the People's Republic: in 1972 Argentina and Mexico recognized the PRC, followed by Brazil two years later, and later still, Bolivia in 1985.<sup>9</sup> In the 1970s, 12 LAC countries had established diplomatic ties with China: Chile (1971), Peru, Mexico, Argentina (1972), Guyana, Jamaica (1973), Trinidad and Tobago, Venezuela, Brazil (1975), Suriname and Barbados (1977).

## EXPANDING CHINA-LAC TIES (1978–2000)

### *China-LAC Trade Took off (1978–1992)*

China started the reform and opening-up policy in 1978, which marks a historic transformation of China's relationships with other countries. Since then, the focus of China's diplomacy has gradually shifted from "war" and "revolution" to "peace" and "development." The so-called soft diplomacy, peaceful development and approaches have prevailed, which means that relations are based on mutual respect, non-aggression, non-intervention in internal affairs, equality, reciprocal benefit, and peaceful coexistence.

The "peace and development" approach has increased mutual visits of government heads and expanded diplomatic and political ties between China and LAC, further consolidating trade relations. In the 1980s, such LAC countries as Colombia, Ecuador, Bolivia, Uruguay, Antigua and Barbuda, Grenada, Nicaragua and Belize have successively established diplomatic ties with China, and about 17 countries had established diplomatic ties with China by the end of the 1980s. China supported the initiative of "peaceful settlement of the Central American conflict" put forward by the "Contadora Group" composed of Colombia, Venezuela, Mexico and Panama in the 1980s.

On China's side, Chinese government leaders visited Latin America in 1985 and pointed out the four principles of China-LAC relation: "Peace and friendship, mutual support, equality and mutual benefits, and

<sup>9</sup> Li, He. 1990. *Sino-Latin American Economic Relations*. Amherst, MIT Press.

common development.”<sup>10</sup> It is not until 1990 that the Chinese president (Shangkun Yang) visited LAC, including Mexico, Brazil, Argentina, Uruguay, and Chile.

On LAC’s side, in 1988 when the president of Argentina, Raúl Ricardo Alfonsín, visited China, Chinese president Deng Xiaoping reiterated the great significance of peace and development for the world and pointed out that “Now people often say that the twenty-first century will be the Pacific century. I think this is premature. The Pacific age is sure to come, but not now. There will also be a Latin American era.”<sup>11</sup> Deng Xiaoping also proposed that “China’s policy is to establish and maintain sound relations with Latin American nations and make Sino-LAC relations a model for South-South Cooperation,” in 1988 when the president of Uruguay, Julio María Sanguinetti, visited China.<sup>12</sup>

Besides the expanding political and diplomatic ties, the reform and opening-up policy has also brought China-LAC trade ties to a new stage. Trade as a share of GDP in China remained almost the same, changing from 8.74% in 1960 to 8.39% in 1977. After that, however, it grew sharply, from 14.10% in 1978 to 38.77% in 1992.<sup>13</sup> In this stage, the bilateral trade started to take off, surpassing the previously marginal levels. The cumulative trade volume between China and LAC during 1978–1992 was about five times that from 1951 to 1977.<sup>14</sup> In 1992, LAC’s export to China and import from China reached 0.99 billion and 0.70 billion US dollars, respectively.

In addition, China has not only established trade offices in more than ten Latin American countries, but also reached economic and trade agreements with Chile, Peru, Jamaica, Mexico, Argentina, Ecuador, and Brazil. Although the trade volume of China and Latin America accounted for

<sup>10</sup> Xie Yixian. ed. 1997. *A History of China’s Contemporary Diplomacy* (p. 442), Beijing: China Youth Press.

<sup>11</sup> CCCPC Party Literature Research Office. ed. 2004. *Annual Records of Deng Xiaoping: 1975–1997* (Vol. 2, pp. 1230–1231), (May 15th, 1988). Beijing: CPPCC Party Literature Press.

<sup>12</sup> CCCPC Party Literature Research Office. ed. 2004. *Annual Records of Deng Xiaoping:*

*1975–1997* (Vol. 2, p. 1257), (November 7th, 1988). Beijing: CPPCC Party Literature Press.

<sup>13</sup> Source: <https://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS?locations=CN>.

<sup>14</sup> Source: UNCTAD, “the online Handbook of Statistics”.

only 3% and 1% of their respective foreign trade volume in 1984, since the 1990s, Latin America has pursued an “open regionalism policy,” and China has pursued a “market diversification” strategy. As a result, Sino-LAC trade entered a period of rapid growth.

In 1980, China approved four special economic zones as pilots: Shenzhen, Zhuhai, Shantou and Xiamen, with preferential policies and beneficial institutions for trade and investment. To seek business opportunities in these special economic zones, Andronico Luksic followed his father to China and became one of the first Latin Americans to invest in the country. Luksic was not only impressed by the number of bicycles but also remembered his father’s words: “When this country wakes up, our country will also be rich.” Luksic founded the Luksic Group and became one of the richest men in Chile.

### *China-LAC Trade Grew Steadily (1992–2000)*

In 1992, the central government of China first proposed to establish a socialist market economy, indicating that China’s economic system would transform from a plan-oriented one to a market-based one, and the Chinese economy would open to the world. This is a critical reform redefining the boundaries of government and market in China and thus provides beneficial institutional environments for trade and investment between China and other countries. Furthermore, based on the evolution of China and LAC in the 1980s, several motivations emerged from each side owing to respective necessities, which allowed a gradual and sustained advance of the bilateral ties. In the 1990s, China-Latin America relations, from both the economic and political points of view, showed a modest but steady pace.

With the process of economic reforms and external opening-up in China, international economic relations acquired an outstanding pragmatism related to economic development. Clearly, since the 1990s, China and LAC have already entered the process of strengthening their economic relations. First, LAC means for China a stable market for imports of raw materials, energy, food, and a destination for its external investments aimed at guaranteeing these imports. It also plays a role, though secondary, as an export market for Chinese manufactured goods (textile and electronics), taking into account the large population in LAC and its far higher per capita incomes compared with China.



Total trade between China and LAC grew from 1.68 billion US dollars in 1992 to 12.17 billion US dollars in 2000, with the average annual growth rate reaching 28.05% during this period (see Fig. 7.2). However, the trade links were not homogeneous for the entire region. China gave priority to the links with more economically relevant countries like Brazil, Mexico, Argentina, and Chile. As shown in Fig. 7.6, the Trade Complementarity Index (TCI) between China and LAC grew sharply from 49.47 in 1992 to 63.68 in 2000, whereas that between the US and LAC grew much less (from 75.84 in 1992 to 81.59 in 2000).

The relationship between China and LAC has also significantly intensified since 1990 as far as cooperation is concerned. China has implemented cooperation agreements with several Latin American countries (16) in areas like infrastructure, agriculture, medicine, humanitarian aid, culture, and social development. It also signed agreements for mutual promotion and protection of investment with 11 countries in the region and established inter-governmental protocols for joint-cooperation commissions with 12 countries.<sup>15</sup> Since 1990, it has carried out almost 20 annual gatherings of Chancellors with the Rio Group. In addition, in 2000, it set up a mechanism for consultations and cooperation with the Andean Community of Nations (Venezuela, Colombia, Peru, Ecuador and Bolivia). In the political arena, China has exchanges with Parlatino (the Latin America Parliament) and the Association of Caribbean States.

## LEAP FORWARD OF CHINA-LAC RELATIONSHIPS (2001–NOW)

### *Explosion of China-LAC Trade (2001–2010)*

China's accession to the World Trade Organization (WTO) in 2001 made it quickly jump onto the free trade agreement FTA bandwagon. Similarly, China has used FTAs as a means to further deepen trade integration, signing more than 20 FTAs since 2000 with five more under negotiation. Three of these bilateral agreements have been signed with Latin American countries: Chile (2006), Peru (2009) and Costa Rica (2011).<sup>16</sup> These FTAs may have contributed to the diversification of the export basket of

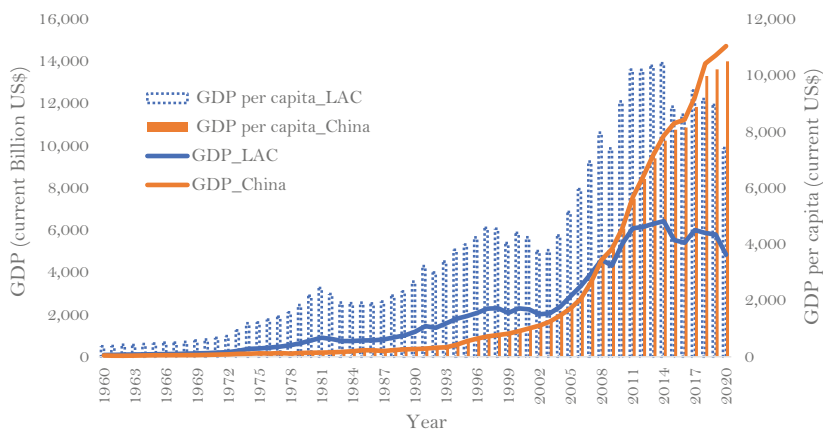
<sup>15</sup> Ellis, R.E. 2014. *China on the Ground in Latin America: Challenges for the Chinese and Impact on the Region*, Palgrave Macmillan, New York, NY.

<sup>16</sup> MOFCOM Annual Report on Trade and Investments (various Years).

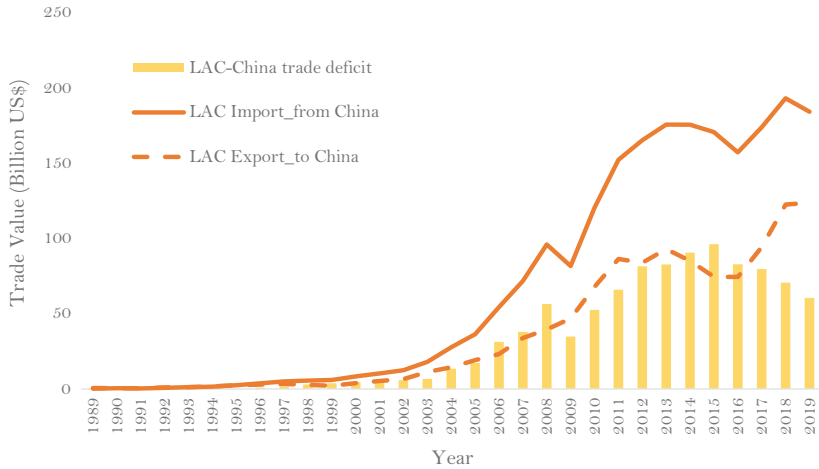
these countries. This trend is most clear in the case of Chile, as the share increased from 8.8% in 2006 to 24.6% in 2014.

Entrance into the WTO has catapulted China into a stellar trade trajectory. China became the largest merchandise exporter in 2007. It also means a revolutionary change for China-LAC trade. On the one hand, LAC's imports from China grew from 10.29 billion US dollars in 2001 to 120.34 billion US dollars in 2010, with an average annual growth rate of over 31.42%. On the other hand, LAC's export to China grew from 5.28 billion US dollars in 2001 to 67.81 billion US dollars in 2010, with an average annual growth rate of over 32.80% (see Fig. 7.2). China became the second largest importer and exporter of LAC in 2003, and LAC became the seventh largest exporter and ninth largest importer of China in 2010. The leap forward of China-LAC trade contributes to the economic growth of the two regions, with an annual GDP growth rate of 10.16% and 18.32% for LAC and China respectively (see Fig. 7.1).

Another critical factor contributing to the leap-forward development of China-LAC trade is the 9/11 attacks in 2001. After the attacks, the president of America, George W. Bush, paid too much attention to the anti-terrorism campaigns toward Afghanistan and Iraq, thus paying less attention to watching over Latin America and China. LAC's imports from the US decreased from 175.71 billion US dollars in 2000 to 150.74



**Fig. 7.1** GDP (left) and GDP per capita (right) of China and LAC (*Source* World Development Indicators, <https://data.worldbank.org>)



**Fig. 7.2** Trade between China and LAC (*Source* World Development Indicators, <https://data.worldbank.org>)

billion US dollars in 2003, whereas LAC’s exports to the US remained almost unchanged (from 203.22 billion US dollars in 2000 to 204.24 billion US dollars in 2003).

Frequent mutual visits of presidents further contributed to the bilateral ties. During the 2001–2005 period, several LAC Presidents visited Beijing (visits from the presidents of Mexico and Chile in 2001 Ecuador and Uruguay in 2002, Cuba and Guyana in 2003, Brazil, Argentina and Venezuela in 2004, and Colombia and Peru in 2005). Also, in 2004, President Hu Jintao’s first tour to Brazil, Argentina, Chile and Cuba, and a year later to Mexico, attested to Beijing’s interest in the region. Several agreements on mining, agriculture, custom duties, and social development were signed, and a strategic association was agreed, projecting mid and long-term relations. Hu Jintao claimed that “China is developing, so is Latin America. There are new requirements and conditions for deepening cooperation. China and Latin America are enjoying unprecedented historical opportunities.”<sup>17</sup> At the same time, the First Forum of Economic and Commercial Cooperation China-Caribbean (Jamaica,

<sup>17</sup> Hu Jintao, Join Hands in Creating a Friendly Future for China and Latin America: A Speech.

February 2005) was established and attended by China's Vice President Zeng Qinghong. A total of ten Caribbean countries were declared tourist destinations for Chinese citizens during the event, while Jamaica and Trinidad and Tobago granted China the status of a full market economy.

China has also increased its multilateral involvement in LAC. China became a full member of the Inter-American Development Bank (IDB) in 2008. Political and economic relations have come together in negotiations for free trade agreements between China and individual Latin American countries. The first among these was with Chile and came into force in 2006. An agreement was then signed with Peru in 2009 and one is currently under negotiation with Costa Rica. China is of course a member of Asia-Pacific Economic Cooperation (APEC) (to which Chile, Peru and Mexico also belong), and it has engaged in dialogues with Mercado Común del Sur (MERCOSUR) and the Andean Community.

### *Long-Term Stable Relations (2010–now)*

The financial crisis of 2008 had a great impact on the economic growth and trade of the world, as can be seen in the negative growth of GDP and trade in 2009 (see Fig. 7.1 and Fig. 7.2). Though both GDP and the growth rate in trade returned to positive territory in 2010, the long-term impact of the crisis can never be underestimated. In fact, the world's merchandise trade as a share of GDP has been decreasing since 2008. This coincides with the growing sentiments of trade protection around the globe and numerous trade disputes and US exit from international organizations. Furthermore, technology protection has also become a fashion for developed countries. Unlike the continuing growth of high-technology exports of China, that of developed countries (e.g., the United States, Japan, and Germany), has been decreasing, or remains constant at the most, since 2008.

Despite the growing trade and technology protection sentiments around the globe, China keeps widening and deepening its cooperation with other countries or regions, including LAC. In 2011, Chile, Colombia, Mexico, and Peru formed the Pacific Alliance to pursue regional integration. The Alliance now includes 30 observer countries

Delivered at the National Congress of Brazil on November 12th, 2004, publicized on the first page.

of People's Daily on October 14th, 2004.

including China since 2013. In 2014, China and the Community of LAC States (CELAC) jointly announced the establishment of the China-Latin America comprehensive co-operative partnership and the formal establishment of the China-CELAC.<sup>18</sup> The Chinese government currently holds links with 90 political entities in 29 LAC countries. The Chinese strategy has been developed in three levels - bilateral relations, groups, regional and sub-regional integration mechanisms, and the links established within trans-pacific economic cooperation bodies (APEC, FOCALAE).<sup>19</sup> In recent years, it has concluded free trade agreements with various countries and encouraged platforms of multilateral dialogue, such as the China-CELAC Cooperation Forum with MERCOSUL (South America Trade Bloc—Argentina, Brazil, Paraguay, Uruguay, and Venezuela) and other Latin America areas.

Since the 18th National Congress, China's political and economic relations with LAC have accelerated. On the one hand, this is due to the strong complementarity between China and LAC in terms of economic structure and the mutual demands of both sides. On the other hand, it stems from the proactive willingness of Chinese and LAC's leaders to engage with each other. In June 2013, less than three months after his election as president, President Xi Jinping launched his first trip to LAC (Costa Rica, Trinidad and Tobago). This is the first time in the history of China-LAC relations that a Chinese leader visited to LAC countries in such a short period of time. Subsequently, President Xi Jinping visited Latin America twice, in 2014 and 2016. In addition, Premier Li Keqiang visited four LAC countries in 2015. It is extremely rare in China's diplomatic history for a top national leader to visit the same region, especially a developing region, highlighting the importance of LAC in China's new diplomatic landscape.

The four visits by Chinese leaders have actually achieved a "Latin American layout." Geographically, they included both North America (Mexico) and Central America (Costa Rica), the Caribbean (Trinidad and Tobago, Cuba), and South America (Brazil, Argentina, Chile, Colombia, Venezuela, Ecuador and Peru). In terms of the economic scale, it includes

<sup>18</sup> Economic Commission for Latin America and the Caribbean (ECLAC). 2018. Exploring new forms of cooperation between China and Latin America and the Caribbean—Second Ministerial Meeting of the Forum of China and the Community of Latin American and Caribbean States (CELAC), Chile.

<sup>19</sup> MOFCOM Annual Report on Trade and Investments (various Years).

both large, small and medium-sized countries. In terms of ideologies, it includes both socialist countries and capitalist countries, and both countries with strong markets and rule of law and countries with more state intervention. This fully demonstrates that China's development of relations with Latin America is not based on ideological demarcation at all, but on how to promote common interests and achieve win-win cooperation. It is a new type of state relations based on equality, mutual benefit and common development. To date, China has established strategic or comprehensive strategic partnerships with major LAC countries, most of which occurred after the 18th National Congress.

## CHINA-LAC TRADE RELATIONS: COMPLEMENTARITY OR COMPETITION?

### *Economic Growth of China and LAC*

Before analyzing trade between China and LAC, it is beneficial to take a look at the evolution of their GDP and GDP per capita (see the following figure). On one hand, economic growth lays the foundation for trade. Higher economic growth means not only more demand for imported goods, but greater production capacity and thus more products for export. On the other hand, trade contributes to economic growth. Export is part and parcel of GDP, and imports bring useful intermediate goods for domestic productions.

LAC is far more developed compared with China before China's reform and opening-up, with the ratio between GDP of China and that of LAC sliding from 0.73 in 1960 to the bottom 0.21 in 1981. After that, however, China created an economic miracle, especially after China's accession to the WTO, with an average annual growth rate of 9.93% during 1978–2008, which is almost incomparable in the world during the same period.<sup>20</sup> The GDP of China has surpassed that of LAC since 2009 and is about 3.04 times the latter in 2020.

When it comes to GDP per capita, LAC is superior to China during most of the history since 1960 but has been transcended by China since 2018. In addition, as for LAC, the top 10 countries in GDP in 2019:

<sup>20</sup> The only exception is Equatorial Guinea, a very small country, with an average annual growth rate of 18.17% during 1980–2008. GDP is measured based on the constant 2010 US dollar. Source: World Development Indicators, <https://data.worldbank.org/>.

Brazil, Mexico, Argentina, Colombia, Chile, Peru, Ecuador, Puerto Rico, Cuba, Dominican Republic, contribute 83.44% of LAC's GDP.<sup>21</sup>

The fast growth of China's economy is one of the reasons that make some scholars take China as a competitor to LAC. However, the growth of LAC's GDP almost goes side by side with the growth of China-LAC trade. The following figure shows that it is the global financial crisis after the year 2008, rather than the long-standing China-LAC trade, that seriously drags LAC behind China. Therefore, it is irrational to simply consider China's strengthening economic power as a threat.

### *Trade Between China and LAC*

Now, we come to the analysis of the evolution of trade between LAC and China, as can be seen in the following figure. Both the import of LAC from China and export of LAC to China have been increasing since the year 1989, especially in the new century. The joint growth of imports and exports, to some extent, indicates that China-LAC trade is a win-win, rather than a zero-sum game.

More importantly, the trade deficit of LAC, with China as the partner, has been lessening since 2015, with the continuing growth of both imports and exports. In other words, the "transaction loss" of LAC with China has been decreasing. This provides further support for our argument that China and LAC are comrades, instead of enemies in terms of trade.

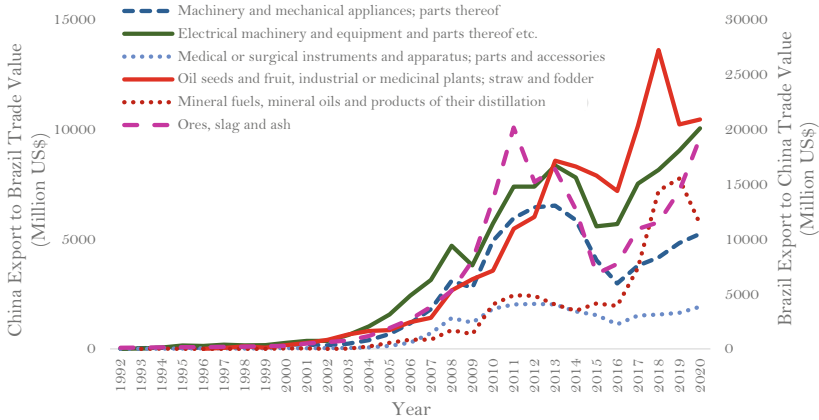
### *Trade by Items and LAC Countries*

Whereas the total trade of LAC fails to tell the detailed story, we further examine the trade by items and by LAC countries. For simplicity, we focus on the trade of the top three countries in LAC: Brazil, Mexico, and Argentina.

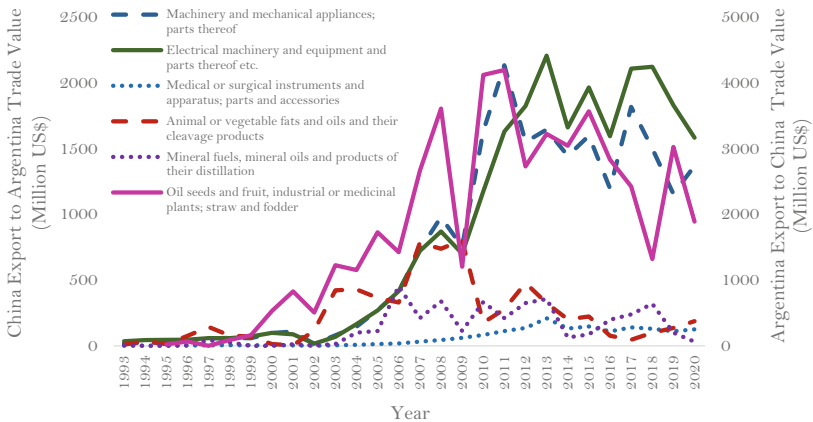
Figure 7.3 (a)-(b) shows that China's imports from LAC mainly focus on agricultural products, mineral fuels and ores resources, while China's exports to it mostly focus on machinery, electrical equipment, parts, and accessories. Concerns abound that LAC mainly sells natural resources to China and buys manufactured goods in reciprocation. Many scholars

<sup>21</sup> Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&locations=ZJ&start=1960&view=chart>.

claim that LAC exports to China have been excessively concentrated on a handful of products, and LAC countries are getting overdependent on China by restricting themselves to the bottom of the global value chain, which hinders LAC’s development and innovation.



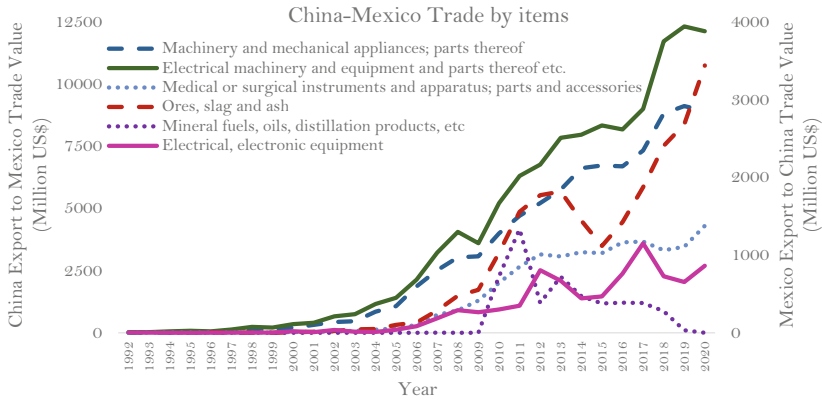
(a): China-Brazil Trade by Items



(b): China-Argentina Trade by Items

**Fig. 7.3** Trade by items and LAC countries: **a** China-Brazil Trade by Items; **b** China-Argentina Trade by Items; **c** China-Mexico Trade by Items (Source UN Comtrade Data base, <https://comtrade.un.org/data/>)





(c): China-Mexico Trade by Items

**Fig. 7.3** (continued)

While the above argument seems reasonable at first glance, it never hit the bull's eye. With increasingly free trade, it is up to LAC what types of commodities or services should LAC export to or import from China. In fact, it is the huge demand in China that truly attracts producers of primary goods in LAC countries. China accounted for almost 70 percent of the world's imports of iron ore, and almost 60 percent of soybeans and copper imports in 2019.<sup>22</sup> The right way for LAC countries to upgrade along the global value chain is to import more technologies with the foreign exchange earnings from the exports of primary goods. China has been exporting manufacturing goods to LAC, which would help improve LAC's technologies and thus promote its long-term economic growth. As shown in the following figure, China's exports in such high-tech products as machinery, electrical equipment, and medical instrument have been increasing along with its import of primary goods.

To better understand the China-LAC trade relations, it is beneficial to introduce the flying geese model,<sup>23</sup> with industrialized countries and

<sup>22</sup> Calculation based on ITC data.

<sup>23</sup> Akamatsu, Kaname. 1961. A Theory of Unbalanced Growth in the World Economy. *Weltwirtschaftliches Archiv, Hamburg*, no.86, pp.196–217.

Akamatsu, Kaname. 1962. A Historical Pattern of Economic Growth in Developing Countries. *The Developing Economies*, Tokyo, Preliminary no. 1, pp. 3–25.

resource-supplying countries as the head and tail of the geese respectively. This model has been widely used to explain the catch-up process of late-comers. From the earliest time after World War II, Japan caught up with the United States and Germany. Then the “Asian four tigers” followed in Japan’s footsteps, and then China and “Asian four tigers” constitute new flying geese.

With the US as the head of the flying geese, China has grown up in seemingly “unequal” trade relations with the US. In the beginning, China mainly exported labor-intensive goods to the US. With China’s ambition to promote innovation, technologies in China have been catching up with those in the US, and China has been exporting more and more capital-intensive and technology-intensive goods. China’s high-tech export to the US has already exceeded America’s high-tech export to China, though the gap in technologies between China and the US is still very large.

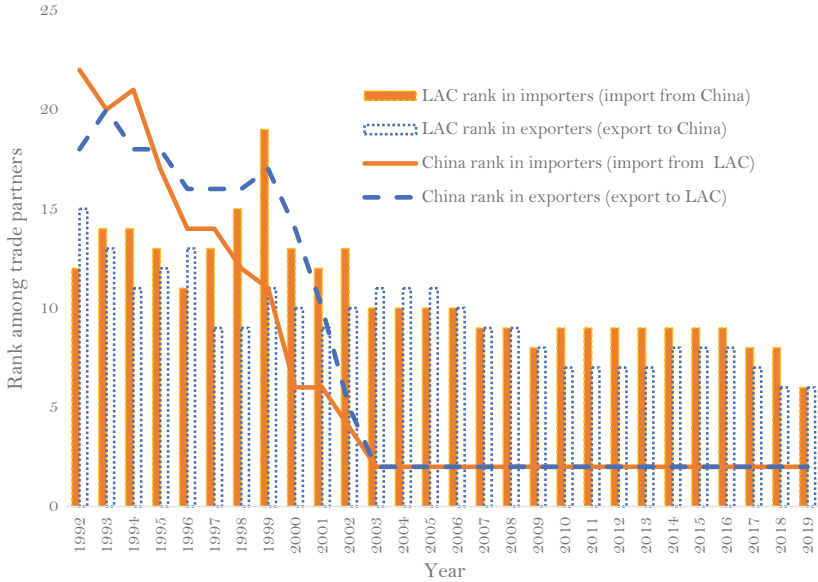
The vertical division of labor between China and LAC is also similar to the flying geese, with China as the head and LAC as the tail. The “unequal” division of value chain is part and parcel of “flying geese,” with which underdeveloped countries have numerous opportunities to catch up with the advanced ones. The key point is whether the governments of latecomers could employ these opportunities in the right way.

### *Trade Partners of LAC*

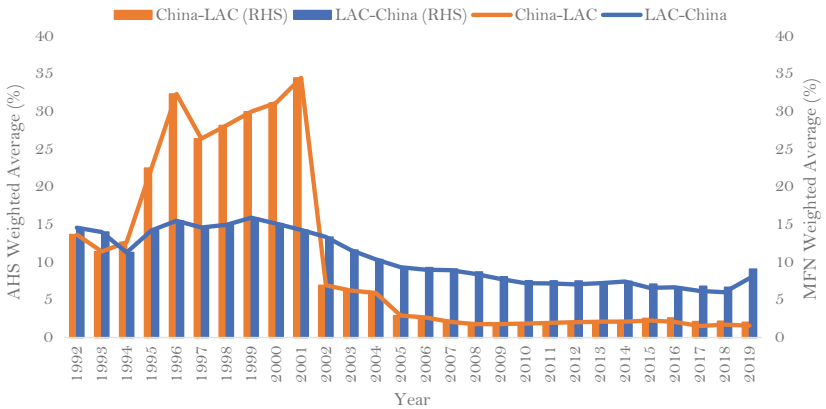
The above analysis considered only bilateral trade. Now we further take into consideration all trade partners and calculate the rank of LAC among Chinese trade partners, and that of China among LAC’s trade partners.

The following figure shows the rising rank of both China and LAC among each other’s trade partners. The rank of LAC among Chinese import and export partners rises from 12 and 15 in 1992 to 6 in 2019. Meanwhile, the rank of China among LAC’s import and export partners rises from 22 and 18 in 1992 to 2 in 2019, following closely the rank of the United States. These findings provide further evidence that the trade between China and LAC benefits both regions (Fig. 7.4, 7.5 and 7.6).

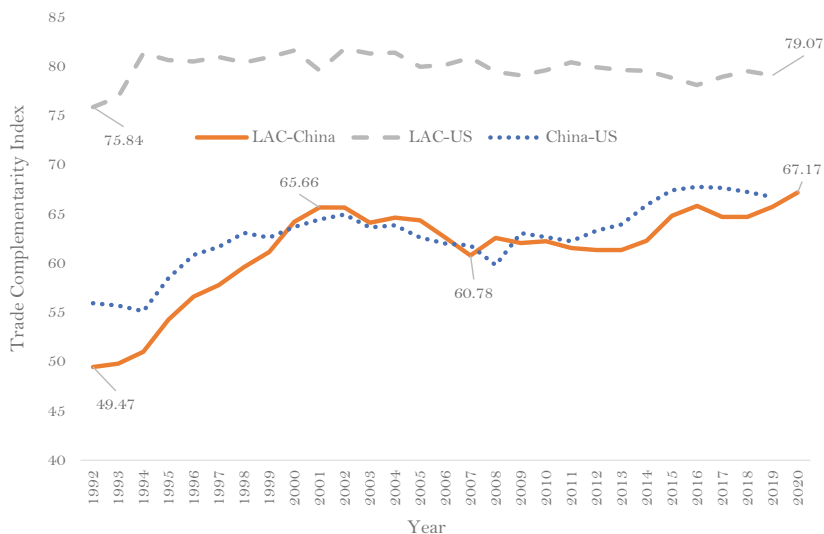
Kojima, Kiyoshi. 2000. The flying geese’ model of Asian economic development: Origin, theoretical extensions, and regional policy implications. In *Journal of Asian Economics*, no. 11, pp. 375–401.



**Fig. 7.4** Ranks of both China and LAC among each other's trade partners (Source World Integrated Trade Solution, <https://wits.worldbank.org>)



**Fig. 7.5** China and LAC product AHS/MFN weighted average (Source World Integrated Trade Solution, <https://wits.worldbank.org>)



**Fig. 7.6** Trade complementarity index: China, LAC, and US (*Source* World Integrated Trade Solution, <https://wits.worldbank.org>)

### *Trade Barriers*

After the accession to the WTO in 2001, China has experienced great changes in institutions, including bringing down its average tariff rate from 14.6 percent to 6.1 percent in the next five years.<sup>24</sup> This is especially the case for LAC. China's trade tariffs to LAC have dropped sharply from 34.45 in 2001 to 6.94 in 2002, though those of LAC to China decreased only a little. In addition, the Effectively Applied Trade Weighted Average (AHS) tariff is even lower than Most Favored Nation (MFN) ones. These facts provide evidence for China's initiative to form win-win relations with LAC countries. Also, the vast majority of LAC countries have joined the Belt and Road Initiative, whose goal is to bring mutual benefits for all member countries. Furthermore, a number of non-tariff measures have been taken to reduce trade barriers between China and LAC, such as

<sup>24</sup> Shafaeddin, S. M. 2002. Some Implications of Accession to WTO for China's Economy, *International Journal of Development*, no. 1–2, pp. 93–128.

Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Import License System (ILS), etc.

### *Trade Complementarity Index*

Finally, we employ the trade complementarity index (TCI) to intuitively show the complementarity between China and LAC. TCI can provide useful information on prospects for interregional trade in which it shows how well the structures of a country's imports and exports match. The TCI between China and LAC is defined as:

$$TCI_{CL} = 100 \left[ 1 - \sum_i (|M_{iC} - X_{iL}|/2) \right]$$

where  $X_{iL}$  is the share of good  $i$  in global exports of LAC, and  $M_{iC}$  is the share of good  $i$  in global exports of China. The index is zero when no goods are exported by LAC or imported by China, and 100 when the export and import shares exactly match.

The following figure shows that TCI between China and LAC increases sharply from 49.47 in 1992 to 65.66 in 2001. Though the index slides to 60.78 in 2007 after China's access to the WTO, it rebounds to 67.17 in 2019.

## CONCLUSION

During the past three decades (1989–2019), the total trade volume between LAC and China has increased by 427.69 times, with the expansion of both export and import. It has been a long-standing dispute on whether China and LAC relations are complementary or competitive, especially since the rapid growth of China. This chapter attempts to answer this question by delving deep into the trade evolution between China and LAC economies. On the one hand, we introduce significant policies and mutual visits of political leaders to show the subjective motives of the governments in building win–win relations with each other. On the other hand, we empirically show that the objective results support the optics of complementarity, rather than that of competition.

We first contextualized the trade evolution by periodization (3 periods). (1) The period before the opening-up of China's economy. Whereas the texts analyzing the relationship after 1949 abound, those

discussing the relationship before that are scarce. In fact, China-LAC economic cooperation can be dated back to at least 5 centuries ago, during the ancient spice trade route from Asia to Europe. After the Opium war ended (1860) when China was opened to the world, many Chinese people began to move to the American continent. China-LAC cooperation became meaningful and frequent from 1960 onwards, especially after the year 1972 when the United States recognized the People's Republic of China. (2) 1978 to the year when China joined the WTO. Since China's reform and opening-up policy in 1978, the focus of China's diplomacy has gradually shifted from "war and revolution" to "peace and development," marking a historic transformation of China's relationships with other countries and also the take-off of China-LAC trade relations. The "peace and development" approach has been confirmed through the more and more frequent mutual visits of political leaders between China and LAC countries. In 1992, the Chinese central government first proposed establishing a socialist market economy, indicating that China's economic system would transform from a plan-oriented one to a market-based one, and the Chinese economy would open to the world more roundly. Both the trade volumes and the number of cooperation agreements experienced rapid growth during this period. (3) The period after 2001. On the one hand, China's accession to the WTO makes it quickly jump onto the FTA bandwagon. On the other hand, the 9/11 attacks in 2001 make the United States pay too much attention to the anti-terrorism campaigns toward Afghanistan and Iraq, thus paying less attention to watching over Latin America and China. Both conditions catapulted China into a stellar trade trajectory and enabled the explosion of China-LAC trade. Of course, frequent mutual visits of presidents and multilateral involvement of the China and LAC countries further contributed to the bilateral ties. Despite the lasting and negative impacts of the 2008 financial crisis on world trade and technology cooperation, China keeps widening and deepening cooperation with other countries and regions, including LAC. Since the 18th National Congress, China's political and economic relations with LAC have accelerated.

Our empirical results also provide strong support for the complementarity view of China-LAC relation. First, the growth of LAC's GDP almost goes side by side with the growth of China-LAC trade. Though LAC falls behind China in GDP per capita after the global financial crisis in 2008, it is highly possible that the economic stagnation of LAC should be attributed to the way LAC coped with the financial crisis rather than

the long-standing China-LAC trade. Second, the joint growth of imports and exports, to some extent, indicates that China-LAC trade is a win-win, rather than a zero-sum game. More importantly, the trade deficit of LAC, with China as the partner, has been lessening since 2015, with the continuing growth of both imports and exports. Therefore, trade growth should be considered more relevant than the trade deficit between China and LAC. Third, the vertical division of labor between China and LAC is a kind of the flying geese, with China as the head and LAC as the tail. The “unequal” division of value chain is part and parcel of “flying geese,” with which underdeveloped countries have numerous opportunities to catch up with the advanced ones. The key point is whether the government of latecomers could employ these opportunities in the right way. Fourth, we further take into consideration all trade partners, rather than considering only bilateral trade, and find the rising ranks of both China and LAC among each other’s trade partners. Fifth, after the accession to the WTO in 2001, China has dramatically brought down its average tariff rate and non-tariff barriers. China’s trade tariffs to LAC have dropped sharply from 34.45 in 2001 to 6.94 in 2002, though those of LAC to China decreased less. In addition, the Effectively Applied Trade Weighted Average (AHS) tariff is even lower than Most Favored Nation (MFN) ones. These facts provide evidence for China’s initiative to form win-win relations with LAC countries. Sixth, the trade complementarity index (TCI) between China and LAC has been increasing since 1999, which directly answers the question of competition or complementarity.



# Conflict, Competition, or Collaboration? China and the United States in Latin America the Caribbean

*Louis W. Goodman and Aaron Schneider*

In 2000, it took a full month for China (PRC) and Latin America and the Caribbean (LAC) to carry out trade worth one billion dollars. In 2021, this took just one day. By 2035, LAC-China trade could reach 25% of LAC's total—more than doubling its 2021 figure of \$350 billion. This has profound implications for a region where the United States (US) and Europe traditionally have had strong cultural economic, political, and military ties. It also has important implications for LAC's partners, both old and new. Will this result in conflict, competition, or collaboration

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among China, the US and other nations as they strive for economic and political advantage in Latin America and the Caribbean and as the shape of world order evolves?

### THE PRC'S GEOPOLITICS—SUCCESS OR FAILURE WITH ITS 2049 CENTENARY GOAL

Expanding Chinese trade and investment world-wide, including with LAC, is critical for China achieving its national goals. Having relations that enhance China's ability to import supplies, materials and technology and export its own goods are key for China's prospects for continuing the economic progress seen as essential for improving the welfare of its citizens and giving legitimacy to China's Communist Party (CCP)-led regime. Continued development of positive military, cultural, and personal ties will be decisive for sealing the deals essential for this economic expansion and for China's role in the evolving world order.

China's LAC trade growth will not close out US economic activity in the region. From 2000 to 2020, US-LAC trade grew from \$350 to \$500 billion, still substantially greater than China's 2020 figure of \$350 billion, but its rate of growth—increasing by nearly 50%—was dwarfed by China's 2600% increase. While China is expected to continue to outpace the US in LAC trade growth for the foreseeable future, geopolitical and economic ties forged by the US with LAC for more than 200 years likely will result in the US continuing to be LAC's primary economic partner, although this will vary country-by-country. For example, in 2020, China was already Brazil's most important trading partner, with a substantial current trade surplus, something that likely will shrink by 2035 as China's exports to Brazil increase and other nations compete with Brazil's agriculture. Over the same period, Mexico's trade dependence on China likely will contract as the US intensifies its commercial ties with Mexico and Mexico increases its capacity to export a range of products to markets world-wide.

This growth of Chinese influence in Latin America is not just a regional phenomenon. It is reflective of China's long-held geopolitical strategy to reshape world order to make it easier to achieve its national goals.<sup>1</sup> Since

<sup>1</sup> For a discussion of China's pursuit of its national goals see Doshi (2021).

1987, the CCP has stated explicitly that, by 2021 (the 100th anniversary of the founding of the CCP), it aimed to eliminate absolute poverty in China, and by 2049 (the 100th anniversary of the founding of the PRC), it aimed to build China into “a great modern socialist country in all respects.” These over-arching objectives (called China’s “Centenary Goals”) are key to the CCP’s “rejuvenation of China,” erasing the scars of China’s 1820 to 1949 “long century of humiliation” and restoring China to its place as a world leader.

In his July 1, 2021 speech on the 100th anniversary of the CCP, General Secretary Xi Jinping described the importance of these centenary goals for China as follows:

...it is my honor to declare on behalf of the Party and the people that through the continued efforts of the whole Party and the entire nation, we have realized the first centenary goal of building a moderately prosperous society in all respects. This means that we have brought about a historic resolution to the problem of absolute poverty in China, and we are now marching in confident strides toward the second centenary goal of building China into a great modern socialist country in all respects.....<sup>2</sup>

Realizing the first centenary goal and eliminating absolute poverty in China is, by any account, a remarkable achievement. Thanks to economic growth rates that have at times exceeded 10% per year, over a period of 40 years more than 800 million Chinese have been lifted out of poverty (World Bank 2021).

Achieving the second centenary goal would be at least as remarkable. It would require continued Chinese economic growth at the level of 6% per year or higher through 2049. Trade growth, including with Latin America, would be important for realizing this goal. As was stated above, by 2035 LAC-China trade is expected to more than double from its 2020 level, to more than \$700 billion (World Economic Forum 2021). To be maximally productive for both China and Latin America, the composition of that trade would change. While agricultural exports from Latin America would continue to be significant, competition from other world areas likely will reduce its relative importance. Similarly, China will likely

<sup>2</sup> Reported by Nikkei Asia as “Full text of Xi Jinping’s speech on the CCP’s 100th anniversary, <https://asia.nikkei.com/Politics/Full-text-of-Xi-Jinping-s-speech-on-the-CCP-s-100th-anniversary>.

be increasingly exporting high technology products as it intensifies its competition with advanced industrialized nations and Latin American nations would need to enhance their own productivity to avoid a continuation of the cycle of declining terms of trade. Since not making progress on achieving the second centenary goal would undermine the legitimacy of the CCP's leadership of the PRC, such expansion in Latin America and elsewhere will be critically important and will be facilitated by leveraging access to the large PRC market, by favorable Chinese financial arrangements, and by partnerships with Chinese firms as well as Chinese assistance with infrastructure, health, and other basic needs plus limited military cooperation. Should progress toward the second centenary goal be halted, this wide swath of Chinese-Latin American engagement would also be slowed if not reversed.

Precisely how will China proceed to engage with Latin America to realize its goals? Rush Doshi suggests that China has followed a "long game" to realize its goals and, at the same time, to displace "American Order." He argues that this has followed three stages, in all of which China's primary focus was on how its actions related to the US capacity to sustain what it saw as a world order that favored US objectives. In Stage 1, which started in 1989 with the collapse of the Soviet Union, the Tiananmen Square protests, and the Gulf War, followed Deng Xiaoping's strategic guideline for reducing the risk of US containment. In four Chinese characters: "Tao Guang Yang Hui" it stated classically that China needed "to hide one's capabilities and bide one's time." At the same time, China took steps to blunt the capacities of the US to extend its power over China. In Stage 2, which began in 2009 with the global financial crisis, China continued its blunting and began to build its capacities for "creating consensual bargains and legitimacy" as well as forms of control over others. In Stage 3, which began in 2016 with Brexit and the election of Donald Trump as US President,, China continued its blunting and building and also attempted to displace the American order through expanding its efforts globally.<sup>3</sup>

Such a strategy by a rising power would be employed differently according to the context of the region or nation in which it is operating. Primary attention would be given to the region in which the rising power (in this case China) is located; hence, initial efforts largely have

<sup>3</sup> Blunting, building and expanding are the three mechanisms which a rising state can use sequentially to displace the power of a hegemon according to Doshi op cit.

been directed to displacing American power in East Asia. Similarly, efforts directed to the region in which the hegemon (the US) is located would take longer to materialize. With the United States located in the Western Hemisphere and having established its dominance through the Monroe Doctrine and other mechanisms, it is logical that Latin America would be impacted by Chinese strategy later and less intensely than regions closer to China. Hence, for example, in 2013, when Xi Jinping announced China's global infrastructure and financing strategy, the Belt and Road Initiative (BRI), as "One Belt One Road," Latin American nations were not among the 70 countries identified as anticipated to be involved. However, by 2017, Latin America and the Caribbean had been designated as a "natural extension of the 21st Century Maritime Silk Road." As the BRI took form and China's building and expanding strategies showed success, Latin American nations became more important for China's BRI efforts to import supplies, materials and technology and export its own goods. Panama was the first LAC nation to join the BRI in 2017 and by mid-2021 19 LAC nations were among the 138 countries which had joined. Further 5 LAC countries were among the 103 nations that had signed on as members of China's BRI-related Asian Infrastructure Investment Bank (AIIB). Thus, one can see that in Latin America, while China's strategy varies from country to country, it is clearly in the "blunting, building and expanding stage" of establishing consensual agreements and, at times, as it attempted with trade partners Brazil and Argentina in UN votes, to establish some mechanisms of control.

## UNITED STATES GEOPOLITICS—MORE OR LESS ENGAGEMENT WITH LAC AND THE WORLD

While the PRC is able to set long-term goals based on a presumption of stable CCP leadership, the United States has a history of shifting objectives based on changes in political control in both the executive and legislative branches of its government. The financial crisis of 2008 and the rise of China and other powers called to question US leadership promoting economic globalization and world-wide democratic governance. The four years of Donald Trump's presidency diminished US capacities for combatting climate change, providing collective security, and mobilizing world trade—a process accelerated by the COVID-19 pandemic, which also hobbled the US economy. The Joseph Biden administration has emphasized that the US "build back better," both

domestically and internationally. For countries in Latin America and elsewhere, this means repairing US alliances and returning the US to a “position of trusted leadership” capable of mobilizing diverse sets of nations to achieve a variety of objectives.

The foreign policy of the Joseph Biden administration emphasizes elevating diplomacy and repairing the US’s alliances, which it says were damaged by the Donald Trump Administration. President Biden has emphasized returning the US to a “position of trusted leadership” among democratic nations to prepare for “a long-term strategic competition with China” and to “meet the threat from Russia.”<sup>4</sup> Apart from preparing for competition with China, as president, Biden has made a commitment to strengthen ties between the U.S. and Europe including recommitting the US to NATO and collective security; has stressed combatting climate change including rejoining the Paris Climate Accord; has underlined the need for multilateral coordination on financial issues and on health issues including COVID-19 and Ebola; has rejoined the World Health Organization; has abolished the ban on immigrants from predominately Muslim countries; has committed to ending “forever wars” in Afghanistan and the Middle East; has extended the New START Treaty with Russia to minimize nuclear threat; and has committed to combat foreign-sponsored cyberattacks and cyberespionage.

While Joseph Biden has had more exposure to Latin America than any previous US President, the first months of his presidency were devoted to other foreign policy issues and after 6 months an Assistant Secretary for Western Hemisphere Affairs had not been installed. Early on, however, the role of “point person for Central America” was assigned to Vice President Kamala Harris (a role Biden played during the Obama presidency) and the strategy for the Biden Administration’s engagement with Latin America had been outlined in his presidential campaign in the following statement:

The Western Hemisphere has the potential to be secure, democratic, and prosperous from the northern reaches of Canada all the way to the southern tip of Chile. Critical to achieving this goal is ensuring that

<sup>4</sup> Joseph Biden, Remarks by President Biden at the 2021 Virtual Munich Security Conference, February 19, 2021, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/19/remarks-by-president-biden-at-the-2021-virtual-munich-security-conference/>.

the nations of Central America—especially El Salvador, Guatemala, and Honduras, the Northern Triangle countries—are strong, secure, and capable of delivering futures of opportunity for their own people.<sup>5</sup>

This suggests a priority for engaging with the small Northern Triangle countries, a strategy which would require close coordination with Mexico, “...the neighbor which with the U.S. is most directly connected through shared borders, commerce and investment, and bonds of family, (and) is in deepening trouble in ways that profoundly affect both its people and fundamental U.S. strategic interests.”<sup>6</sup> Despite Mexico’s problems, the need for US-Mexico collaboration opens the door for new scenarios for China-US relations in Latin America.

These scenarios, involving deep and genuinely cooperative US involvement with Latin America and the Caribbean, would start with something akin to the suggestion made by Robert Pastor in 2012 that the US forge “...a seamless market with Canada and Mexico...” (Pastor 2012: 1) including collaborating on transportation, education, and infrastructure.

Pastor argued that (in 2012) since

- North America already constituted a coherent economic entity representing 90% of the hemisphere’s economy and 87% of the trade, and
- South America is fractured in terms of ideology and trade patterns.
- If the three countries of North America could find a strategy that lifts Mexico to the first world economically, then
- Together, they should apply the same formula in Central American and in the Caribbean as two units rather than as more than twenty countries.

<sup>5</sup> Biden-Harris Democrats, The Biden Plan to Build Security and Prosperity in Partnership with the People of Central America, <https://joebiden.com/centralamerica/>.

<sup>6</sup> Ellis (2021a) points out that Mexico’s problems are huge and include deep penetration of the state by transnational organized crime, frightening violence, an ineffective security apparatus, a government that has been unable to contain the COVID-19 pandemic, reduce endemic corruption or prevent economic decline (a drop of 8.5% in 2020), and which has recently enacted laws which make Mexico-US coordination on security and financial matters more difficult.

- If that were to succeed then South America would be “knocking on the door,” and the Free Trade of the Americas can be resurrected.
- If North America cannot succeed in Mexico, then the model will not be attractive to the rest of the region.<sup>7</sup>

Pastor thus suggested that if Canada, Mexico, and the US could act together strategically and sequentially, the result would be a huge boost to their economies, would create for each a much stronger position in an increasingly competitive world, and would create the economic integration in the Western Hemisphere needed to create real economic growth in Latin America and the Caribbean. He also argued that this would be the most effective way “to get China’s attention” or in Doshi’s terms, to develop a “blunting, building, and expanding strategy” for the US in its global competition with China.

While increased US attention and multilateral cooperation would generate a relative balance and hopefully mutual respect among great powers in their relations with Latin America and the Caribbean, an alternative scenario deserves consideration. In that alternative scenario, China continues with its “blunting, building and expanding” but the US remains inattentive and selective, guided in its hemispheric policy more by domestic concerns or recycled Cold War frameworks. Indeed, there is some hint of this tendency in the apparent willingness of the Biden government to retain policies advanced by Trump for the region.

While the current administration has rhetorically distinguished itself from the previous one, on several dimensions related to Latin America, current policy extends Trump initiatives or fails to reverse them. Immigration was a major point of difference for the Biden campaign, and rhetoric has focused on the “root causes” of immigration and promised a comprehensive reform proposal to Congress. Still, certain Trump-era policies continue. While the US initially reversed Trump’s “Remain in Mexico” policy returning asylum applicants to third countries for processing, the Supreme Court preserved the policy (*New York Times* 2021). Further, the administration continues to press the Mexican government to apply coercive measures to dissuade Central American migrants. Another area in

<sup>7</sup> Adapted from Pastor, *ibid.*, p. 7.

which Trump-era policies continue is with respect to Cuba, as the Biden administration maintained the long-standing embargo with extraterritorial secondary sanctions, even adding to the more than 200 officials and companies targeted by the US. Neither the hardline immigration policy nor the Cuba sanctions will achieve much, but both alienate US allies across the region, and appear driven mostly by domestic partisan concerns.

Selective attention to the region appears in concerns with democracy, as the Biden administration increased pressure on countries that both violate democratic norms and flaunt US objectives but takes a more reserved approach with countries that only violate democratic norms. Cuba, Venezuela, Nicaragua, and Bolivia fall into the first category; Honduras, Guatemala, El Salvador, Colombia, and Brazil fall into the second. The Leftist leanings of the first category give the appearance of Cold War calculations, confirmed by analyses that Russia and China are making inroads into the first category of states (Ellis 2021c).

Brazil, the largest country in the region, provides an example of inconsistent US policy and attention. Brazil's President Bolsonaro modeled his political movement on Trump's and sought to align closely with the US, with subsequently colder relations with Biden. The Biden administration expressed concern with destruction of the Amazon and threats to democracy, but Biden extended Trump's offer to incorporate Brazil as a NATO partner in exchange for rejecting Huawei telecommunications equipment for its 5G system.<sup>8</sup> At best, the approach to Brazil would appear to be inconsistent and fragmented; at worst, it would appear that the US is opting for a zero-sum conflict with China over issues such as technology.

In sum, there are two scenarios for US engagement with Latin America in the context of China's "blunting, building, and expanding." The first scenario entails renewed US attention to the region, greater economic-social-political integration, and a balanced presence of great powers in the region with the potential for US-China cooperation. A second scenario entails continued US inattention, allowing domestic concerns, Cold War blinders, and inconsistency to guide US policy, driving the US and China into more of a zero-sum competition.

<sup>8</sup> Brazilian outlets affirmed the offer (Coletta and Vargas 2021) and the White House denied it (White House 2021).



## CHANGED GLOBAL GEOPOLITICS—A MORE “MULTIPLEX” WORLD

Global geopolitics is rapidly changing as the twenty-first century evolves. Colonialism and Pax Britannica are ancient history; the US-USSR Cold War rivalry is long gone as is the “unipolar moment” when Francis Fukuyama suggested that humanity had reached “the end-point of mankind’s ideological evolution and the universalization of Western liberal democracy as the final form of human government” (Fukuyama 1989). Today’s global politics are much more complex with the US and the PRC appearing to be the world’s leading nations and a host of other state and non-state actors playing increasingly important roles. Amitav Acharya has described these global geopolitics as “multiplex global order” (Acharya 2017; Acharya et al. 2021). Briefly stated, Acharya uses the term “multiplex” mainly to describe a post-hegemonic world with a variety of consequential actors or leaders (rather than powers), providing goods in a growing number of issue areas through bilateral, regional, and multi-lateral means. Thus, any discussion of the geopolitics of Latin America and the Caribbean examining the roles of the PRC and the US, while acknowledging the established dominant power of the US and the rising power of China, must also include other consequential actors in the analysis. This would be critical as LAC nations develop their own strategies for achieving their national goals. While Latin American nations are neither hegemonic or rising powers world-wide, they can and have been able to overcome power asymmetries and influence the policies of hegemons (both the US and European nations) as has been documented by Tom Long in his *Latin America Confronts the United States: Asymmetry and Influence* (Long 2015).

## UNCHANGED LAC GEOPOLITICS—TRANSNATIONAL INTEGRATION AND/NATIONAL REGIONAL DISINTEGRATION

Despite being situated in a rapidly changing increasingly multiplex world order, geopolitics within Latin America and the Caribbean has remained relatively static when compared with other world regions. In fact the structure of contemporary geopolitics in Latin America is not substantially different from that described by Osvaldo Sunkel in his classic 1973 article: “Transnational Capitalism and National Disintegration in Latin America” (Sunkel 1973). While the structure and mechanisms Sunkel used to

describe Latin American geopolitics are outdated, his main conclusion still holds: that the Latin American economic system “favors the development of local segments integrated into the internationalized nucleus of the capitalist international system...while at the same time tending to disrupt the rest of the economy and society, segregating and marginalizing significant segments of the population” (Sunkel 1973: 163).

Extending further back in regional history, this was essentially the situation that Raul Prebisch lamented when he wrote *The Economic Development of Latin America and Its Principal Problems* (1950). Prebisch argued that, to halt the decline in the terms of trade between industrialized and non-industrialized countries and the vicious cycle of underdevelopment, developing nations had to implement two sets of policies:

- Import Substitution Industrialization (ISI)—to substitute domestically produced products for imported goods, and
- Economic Integration (EI)—to increase intra-regional trade by reducing intra-regional protectionism and developing complementary economic capacities that could engage in competition at the global level.

Following World War II ISI policies were widely and profitably adopted on a country-by-country basis by elites throughout the region. However, despite some limited and still-born attempts, EI policies were never implemented. In part, this was due to political and economic differences among the countries of the region, but it was more decisively due to elites’ unwillingness to surrender national monopolies and engage in the complex process of building complementary capacities necessary for regional integration.

Other regions have made more progress with economic complementarity with strong economic development results: the European Union (EU) after World War II; the North American Free Trade Association (NAFTA) in the 1980s and 1990s; the Association of Southeast Asian Nations (ASEAN) since the end of the twentieth century; and most recently the East African Union (EAU) which has even been able to create a common currency for its members. Each of these regions was able to work out strategies for economic complementarity despite marked political and ethnic diversity among and within their nations. The result has been a steady decline in Latin America’s proportion of global product

over the past 50 years and projections of further decline in the future (Interamerican Development Bank 2018; McKinsey 2017).

Hence, in an increasingly competitive world, Latin America is saddled with economic and political elites that are unable to take steps necessary to engage with other nations in a manner which promotes regional integration and national development. The result has been a decline in Latin America's proportion of the global product and even a decline in the proportion of Latin American GDP dedicated to infrastructure investments (from 3.6% of GDP in the 1980s to 2.2% from 2000 to 2015) (ECLAC 2020: 9). It has also resulted in marked increases in national income inequality in the region and low increases in income per capita growth compared with other regions, making Latin America the world's region with the least economic integration progress and the most marked national (and regional) income inequality. This has been the case since the beginning of the twentieth century (Roser and Ortiz-Ospina 2016). Finally, buffeted by the 2000 pandemic-induced world-wide recession, LAC GDP has fallen by 6.8% with per capita income falling to 2010 levels and poverty indices to those of 2006 with more than 30% of LAC citizens subsisting below official poverty lines. This threatens LAC in the 2020s with a repeat of the "lost decade" of the 1980s unless a new regional approach is taken for economic development.

This lack of regional integration in an increasingly multiplex world has clear implications for Latin American economic development and geopolitics. Latin America continues to have declining and volatile terms of trade with industrialized countries such as the US, the PRC, and members of the European Union. While the PRC, the US, and other countries engage with Latin America in trade and other activities, they do so in a more limited fashion than they would have had the region made more economic integration progress, and further do so in a manner that is less likely to contribute to a "virtuous cycle" of economic development.

Ironically, an important feature of the increasingly multiplex nature of world order and of the possibility of increased PRC and US engagement in the region is the possibility of finally spurring Latin American elites to advance regional EI. Among the reasons for elite reluctance to promote EI is the region's huge infrastructure deficit, estimated at \$150 billion per year.<sup>9</sup> Support for public sector investment in infrastructure is one

<sup>9</sup> Estimated by the InterAmerican Development Bank to be \$150 billion per year (Ray 2021) quoted in Heine (2021).

of the principal strategies of China's BRI and contrasts with the market-driven supply and demand approach which has been supported by western financial intuitions. Thus, Drache et al. suggest that "...the economic development approach promoted by China and the BRI... (compared with that of 'liberal internationalism') ... allocates a more significant role to the state, especially in building up public infrastructure and connectivity to enhance a country's competitiveness" (Drache et al. 2019: xxiv, xxvi as cited in Heine 2021).

In addition to surrendering national monopolies, in order to create the productivity complementarity needed to promote intra-regional and extra-regional trade in Latin America, huge investments need to be made in highways, railroads, airports, ports, canals, broadband, and other elements of infrastructure. Further, unlike North America, Europe, ASEAN and East Africa, Latin America's coasts are separated by high mountain ranges—the Andes in South America and the Sierra Madres in Mexico—and lack waterway integrating linkages like the Mississippi/Missouri/Ohio in North America, the Rhine and the Mediterranean in Europe, and the various seas which surround and connect ASEAN nations. LAC infrastructure investments, especially ones creating bi-oceanic corridors between the Atlantic and the Pacific, in both the northern and southern hemispheres, would greatly reduce costs for Atlantic coast exporters to get their products to Asia and for Pacific coast exporters to send theirs to Europe and Africa. Creating such infrastructure would require concerted multi-national regional cooperation for huge engineering and construction projects. The result of which, in addition to reducing export costs, would create thousands of LAC jobs and would hasten the development of the region's vastly underpopulated hinterland. All of this could be a much overdue geopolitical and economic development game-changer for the region.

To this point, providing the infrastructure foundation for economic development is the primary focus of China's BRI and its related Asian Infrastructure Investment Bank whose 103 members include Argentina, Brazil, Chile, Ecuador, and Uruguay. This effort, which aims to create a sinocentric infrastructure-based international trading network, is described by China's President Xi Jinping as aiming "to advance win-win cooperation among countries and build a new platform for international trade, while also creating development opportunities for China" (Reuters 2019). From 2013 to December 2020, China invested about \$770 billion

in the 138 countries that have signed BRI MOUs. Region-wise the Americas have received the smallest portion with barely 7%. This compares with 27% for East Asia, 22% for West Asia, 21% for Sub-Saharan Africa, and 14% for the Middle East. In recent years, the Americas figure has grown, starting with 3.6% in 2015 and amounting to 9.09% in 2020 and promises to grow in the future (Wang 2021).

This \$54 billion is dwarfed by Latin America's infrastructure gap but it may significantly impact LAC geopolitics and economic development. For example Jorge Heine, Chile's former ambassador to China, argues the following: "There is a confluence between the BRI and China's proposal on infrastructure and connectivity in Latin America, on the one hand, and the development needs of the region, on the other. Countries like Brazil, Chile, and Panama have realized that the state plays a key role in articulating the complex interface between a country's internal development and the world economy" (Heine 2021: 9). Each of these countries have received BRI financing and have used it to advance their particular national objectives: Brazil to develop its research and development capacity, Chile to build traditional infrastructure, and Panama to develop its transoceanic canal as an economic resource.

While, starting in 2017, it was argued that BRI financing may result in predatory lending with unsustainable loans and increases in corruption (Chellaney 2017), this accusation has been rebutted by analysts including Deborah Brautigam who has examined particular financing agreements (Brautigam and Rithmire 2021) and by Yuen Yuen Ang who argues that payments categorized as BRI bribery are better viewed as "access money" allowing entrepreneurs to have the opportunity to initiate projects, a practice she says has been used by nineteenth century American magnates such as Leland Stanford and in the twenty-first century to advance development projects in East Asia and elsewhere (Ang 2021).

The availability of Chinese finance for infrastructure investments has caused the Brazilian political theorist Amado Luiz Cervo to argue that a new form of statecraft may be possible in LAC involving engaging with global capitalism to generate resources and then channeling them through the national private sector following criteria akin to those advocated by Latin American "structuralists" (Cervo 2021). Cervo calls this the "logistic state" and claims that that strategy was used by Brazil's presidents Cardoso and DaSilva to bring tens of millions of Brazilians out of poverty as well as by leaders of LAC's most successfully developing countries, Chile and Panama. Another analyst who argues that China's

resources can be harnessed by LAC countries to good effect is Evan Ellis who describes how Uruguay's strong state institutions have allowed it to put Chinese trade and investment to good use (Ellis 2021b).

This use of Chinese funding for infrastructure projects world-wide has not gone un-noticed by the US or by other nations interested in having strong relations with LAC. In fact the US has announced the establishment of a \$60 billion fund managed by its International Development Finance Corporation which, among other projects, signed a \$2.8 billion infrastructure agreement with Ecuador during the final month of the Trump Administration. Similar facilities have been developed by European countries with the result that, if LAC countries develop the "logistic state" institutional capacities described by Cervo, they will be able to draw upon infrastructure and other development resources that could finally make significant EI progress possible in the region. Further, if the US government were to build upon the initial recommendations of the Biden Administration and follow the advice laid out by Robert Pastor a decade ago, funds available for development that could move LAC along the path followed by ASEAN might be imaginable.

In this context, it is useful to consider the nature of Chinese infrastructure investment, and likely implications for the US and the region. Based on a novel database of Chinese infrastructure projects gathered from media articles, business reports, and government sources, the total value of 313 documented Chinese infrastructure projects in the region stands at \$318.8 billion, including \$108.2 billion completed, \$62.1 billion still in progress, another \$19.4 billion proposed, and the remainder canceled or unclear.<sup>10</sup> Projects extend to 33 different countries, in which the single largest so far has been the \$8 billion acquisition of CPFL Energia and its subsidiary, CPFL Renovaveis in Brazil.

These amounts dwarf the promised amounts from the US and Europe, and Chinese funds tend to come with different requirements. Kaplan has argued that Chinese financing is "patient," offering longer time horizons than Western loans (Kaplan 2021). Shorter time horizons on Western loans disciplines borrowers, while patient capital offers greater policy space to run counter-cyclical fiscal policies (Kaplan 2016). China also accepts exports of natural resources and commodities as collateral and payment, providing greater room for indebtedness but also

<sup>10</sup> Database created by Henry Heilbroner through media and business reports. Database available on request.

mortgaging future revenues. Kaplan further distinguishes between the macro-economic conditions favored by Western donors, such as balanced budgets and liberalization of trade and capital markets, and the micro-economic conditions favored by the Chinese, such as profitability of firms, use of Chinese labor, and purchase of Chinese inputs.

While these differences in amounts and terms of financing help distinguish US and Chinese lending strategies, of critical importance is perhaps the question of whether Chinese and US finance appear to be promoting cooperation or competition, both between the US and China and among countries in the region. Finance promotes cooperation between great powers if they mobilize capital together, coordinate their activities by sector and country, and engage projects that build infrastructure useful to regional integration. Alternatively, finance promotes competition if great powers seek to exclude rivals from sectors or countries and contribute to infrastructure that drives neighboring countries apart.

On this, there is a mixed record. Most Chinese financing comes from state and private entities that offer limited transparency or potential for cooperation. Yet, some comes through multilateral banks and funds, including the Central American Bank for Economic Integration (CABEI), Development Bank of Latin America (CAF), Interamerican Development Bank (IDB), International Finance Corporation (IFC), and World Bank. There are also bilateral mechanisms, such as the China-Venezuela Fund. The same could be said about US financing, which operates through state and private entities, though with greater transparency, as well as multilateral and bilateral mechanisms.

There is also a mixed record in specific countries. Around the Panama Canal, for example, there would appear to be instances of both cooperation and competition. The China Communications Construction Company and US-based Louis Berger Group jointly won a \$5 million bid to design a third bridge project to allow the passage of Post-Panamax container ships. Also, a US-subsidiary of China State Construction Engineering Corporation, China Construction America, won the \$137 million bid for Panama's largest residential development, Ciudad de Esperanza. By contrast, China offered a feasibility study for a high-speed rail link from Panama City to the border of Costa Rica at a price of \$4.1 billion, but canceled the project over US concerns.

Great power inconsistencies and competition highlight further the importance of Latin American agency through integration and coordination. With a degree of coordination among Latin American countries,

they could exert the leverage to direct external infrastructure finance in a more cooperative direction, forcing great powers to approach infrastructure in ways that more fully benefit Latin American development. Other regions have achieved such coordinated infrastructure, such as train and air networks through the European Union (EU),<sup>11</sup> financial infrastructure through the East African Community (EAC),<sup>12</sup> and shipping and logistics infrastructure among the Association of Southeast Asian Nations (ASEAN).<sup>13</sup>

Such coordination has been tried in Latin American subregions before, such as among Andean and Central American countries in the 1970s, but national rivalries and imbalances, too often encouraged by external actors, fragmented and weakened regional integration. One lesson from other regions is the role of larger regional powers. As Indonesia did for ASEAN and Germany for the EU, larger Latin American countries such as Brazil and Mexico have a particular role to play in providing some of the public goods that will hold regional coordination together (Godshardt and Nebers 2011).

### CONFLICT, COOPERATION, INTEGRATION, FRAGMENTATION—WHAT FUTURE FOR US-CHINA-LAC

It is worth reflecting at this point on the possible scenarios for the medium term in Latin America, depending on great power relations and relations among Latin American and Caribbean countries. There are multiple areas on which Latin American countries can benefit from cooperation among great powers and in which external powers might be presumed to have an interest in cooperating in the region. Illicit trade, climate change, and public health are obvious areas of shared interest between both China and the US, yet they have to date shown limited cooperation. The failure to coordinate a global and regional response to COVID-19 is only the most immediate and glaring (Li et al. 2021). On the part of the great powers, a degree of mutual acceptance will be

<sup>11</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/123/common-transport-policy-overview>.

<sup>12</sup> <https://www.eac.int/monetary-union>.

<sup>13</sup> <https://www.asean.org/wp-content/uploads/images/archive/AADCP-REPSF-Project/Main-Report.pdf>.



necessary. China would have to accept the dominant external role of the US in the hemisphere, and the US would have to recognize the validity and legitimacy of Chinese participation in regional questions of mutual interest. There may be areas in which cooperation is impossible, such as support for democracy, given China's top-down centralized regime and the US commitment to electoral democracy. Still, on the long list of issues on which common ground might be found, the US and China can choose to be cooperative or competitive in their Latin American engagements.

This choice brings up the related issue of the role for Latin American agency. An integrated Latin America could nudge great powers operating in the region to cooperate, acknowledge Latin American priorities, and use great power engagement to further advance regional integration. A fragmented region provides little leverage for Latin American actors and leaves great powers with no other choice but to engage Latin American countries piecemeal and selectively.

The chart below outlines possible scenarios. The horizontal dimension measures the degree of cooperation or competition between the US and China. The vertical dimension measures the degree of integration, and therefore agency, on the part of Latin American countries. One might consider that we currently operate in the lower right quadrant, Latin America is fragmented and the US and China compete. Opportunities for collaboration are missed and Latin American countries fail to coordinate their engagement with great powers. If the US and China still competed but Latin America were more integrated, the upper right quadrant, Latin American countries could perhaps reserve a degree of autonomy from the two camps, avoiding aligning with either the US or China. Still, they would continue to miss opportunities for collaboration and perhaps attract attempts by great powers to re-fragment the region by provoking zero-sum conflicts.

If the US and China were willing to cooperate but encountered a fragmented region, the lower left quadrant, there could be some progress on shared goals, but it would be slowed by the failure of regional actors to coordinate their own behavior and encourage further integration. Finally, the upper left quadrant is perhaps the most hopeful. The US and China could collaborate on those issues where they share interests, and an integrated Latin America could press further cooperation as well as direct great power engagement toward furthering Latin American integration.

| <i>US-China LAC</i> | <i>Cooperative</i>  | <i>Competitive</i>                                  |
|---------------------|---|---|
| Integrated          | US and China collaborate and LAC nudges great powers toward further cooperation and integration | US and China compete but LAC remains unaligned      |
| Fragmented          | US and China collaborate in LAC but regional division limits progress                           | US and China compete and LAC divides issue by issue |

### CONCLUDING QUESTIONS

Would this result in collaboration, competition or conflict between China and the US? While all three forms of engagement are likely, an examination of the goals of the US in LAC suggests ample room for collaboration and productive competition. Evan Ellis suggests that the US has three broad goals in LAC.<sup>14</sup> They are to have:

- (1) Economic partners that are democratic, stable, and prosperous.
- (2) Friendly neighbors that help secure our region against terrorism and illegal drugs.
- (3) Nations that work together in the world to advance shared political and economic values.

At least on the first two goals, there is substantial overlap between the objectives of the PRC and the US. Both would benefit from stable and prosperous economic partners in LAC. The more stable and the more prosperous the more likely would be the possibility of economic and other ties in a positive-sum context. Both would welcome any initiatives that could combat the operation of transnational organized crime and international terrorism in the region. This could enhance the “logistic state” capacities of LAC nations and allow them to forge more meaningful and enduring partnerships with the US, China, and Europe.

<sup>14</sup> From the English version of the article published in Chinese in *Air and Space Power Journal in Chinese*. 2nd Semester 2014. pp. 79–93, [https://www.williamjperryce.ner.org/sites/default/files/publication\\_associated\\_files/China%27s%20Growing%20Relationship%20with%20Latin%20America%20and%20the%20Caribbean.pdf](https://www.williamjperryce.ner.org/sites/default/files/publication_associated_files/China%27s%20Growing%20Relationship%20with%20Latin%20America%20and%20the%20Caribbean.pdf).

While China and the US autonomously working together to achieve these objectives would be highly desirable, even following up on a suggestion for direct China-US cooperation to combat COVID, as was suggested by China's Ambassador to the US, Qin Gang, in August 2021 with the words, "How about our two countries working together on solutions, e.g., more effective vaccines and helping other countries?" would likely prove difficult (Liu 2021). Perhaps the best scenario for productive cooperation and competition is in the hands of the LAC countries. Both China and the US would benefit from more control over organized crime in the region; both would benefit from an end to Venezuela's nightmare of migration and disfunction; both would benefit from LAC poverty reduction, market growth, economic integration, and engagement with world markets; both would benefit from LAC countries collaborating on large multi-national projects such as bi-oceanic transportation corridors, complementarity in economic production to facilitate intra-regional trade, or coordinated elimination of non-tariff barriers to enhance trade and technology transfer.

Probably with both China, the US, and others' concerns about being subject to outside control, this would take place with considerable "blunting," but the net result could be decidedly positive (Doshi 2021). In short, while the future of China, US, LAC relations undoubtedly will be complex, involving many state, private and transnational actors, it is just beginning to take shape and could very well be positive if well-managed. This is especially the case since there appears to be no fundamental conflict of interest among China, the US, and LAC regarding the first two US goals identified by Evan Ellis above. Regarding the third goal of "shared political values," efforts will have to be made to recognize and respect differences while looking for opportunities for cooperation. It is important that this scenario not be merely a hypothetical. We know from the history of the Cold War that not finding ways to compete and collaborate productively results in terrible losses of treasure and lives for all parties concerned – China, the US, LAC, and the rest of the world.

So in this context, it may be appropriate to end this chapter with a quotation from John F. Kennedy's Commencement Speech at American University, Washington, DC June 10, 1963:

So, let us not be blind to our differences--but let us also direct attention to our common interests and to the means by which those differences can be resolved. And if we cannot end now our differences, at least we can

help make the world safe for diversity. For, in the final analysis, our most basic common link is that we all inhabit this small planet. We all breathe the same air. We all cherish our children's future. And we are all mortal.

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PART II

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Regional and National Questions



## China and Central America

*Henrique Estides Delgado and Aaron Schneider*

The relationship between China and Central America offers an important, yet unrealized, opportunity for mutually beneficial deepening. For example, integration with China can deepen and upgrade Central American insertion in global value chains, as China can serve as a market, and both can re-export to Europe and the US. In particular, savvy integration with China can transform key sectors in Central America such as the countryside and high-tech services, offering an opportunity not only for economic growth but for fundamental structural change. This kind of change will require Chinese capital and know-how to address infrastructure gaps in the region, as well as patience of the kind exhibited

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in long-term Chinese engagement. Both to make the region attractive for this kind of engagement and as an outcome of Chinese engagement, Central American countries can further integrate. In geopolitical terms, proximity and historical relations mean the US will always outweigh China in absolute measures of influence, but there are useful opportunities for China to increase its collaboration without threatening the US. This chapter explores each of these areas of engagement between China and Central America, emphasizing the importance of strategic behavior on the part of Chinese and Central American actors. While the chapter is generally optimistic in its view of potential mutual benefits between Central American countries and China, there are important risks that must also be addressed.

### PATIENT CAPITAL AND ECONOMIC STATECRAFT

It is worth considering the potential Chinese role in addressing long-term development challenges for Central American countries. The countries of Central America are not particularly resource-rich, though there are some untapped reserves that have temporarily caused spikes in exports. Nor do the countries present particularly large markets in which to sell Chinese products, though Chinese imports have rapidly increased. While China and the region have significantly expanded their trade, the balance is fairly consistently in China's favor, raising questions about the burdens of expanded trade for macroeconomic management, squeezing out Central American producers, and exacerbating social pressures. Several countries in the region only recently emerged from devastating internal conflicts, leaving relatively weak states with serious problems of corruption, and democratic institutions remain fragile. In this context, it is worth reflecting on the approach an aspiring great power like China might take with smaller partners, in which existing social structures and relations with the international system, especially the US, have resulted in stagnant development and limited modernization.

The argument in this chapter is that the shared economic and strategic interests of China and Central American countries lie in a medium-term approach focused on structural change. Central America needs to upgrade the value of its exports, increase domestic consumption, especially for the most vulnerable, and advance regional integration. China could help by absorbing more Central American exports and helping to balance trade; invest in infrastructure, firms, and activities to encourage higher

value-added exports; encourage the structural changes that raise domestic consumption, especially by the poorest; and invest in infrastructure that contributes to greater regional integration. The resulting peaceful, developed, and mutually beneficial partnership with China could be of shared strategic interest to both China and the US.

The potential for a more medium-term perspective is captured by the concept used by Stephen Kaplan to describe Chinese “patient capital” (Kaplan 2016, 2021). With a greater degree of state influence than most Western lenders and investors, both public and private Chinese capitals include “high-risk tolerance, long-term horizon, and lack of policy conditionality.” Kaplan highlights the fiscal and financial implications of patient capital, loosening the Mundell–Fleming constraint on exchange rate management, capital mobility, and monetary autonomy, and allowing Latin American countries to avoid the fiscal austerity imposed by Western capital. While Kaplan highlights these fiscal and financial implications of Chinese patience, an additional implication is the possibility for Chinese engagement to address longstanding problems in the structure of production in the region. Central American countries suffer from trade imbalances, low domestic consumption, and weak infrastructure and coordination within the region.

Addressing these issues could be in the long-term strategic interest of China, an approach captured by the notion of “economic statecraft” described by William Norris (2016). Norris argues that state control allows China to direct economic tools of national power toward strategic objectives. While state control varies by sector and institution, Chinese domestic political economy prioritizes international strategic issues such as access to raw materials, relations with Taiwan, and the performance of sovereign wealth funds. An additional implication is the triangular relationship with the US. To the degree China can contribute to a peaceful, modernized, and integrated Central America, the US, and China can find common ground in advancing engagement with the region.

One possibility for such an optimistic pattern of engagement is outlined by those who see “flying geese” model of development such as the one that well-served East and Southeast Asia’s dynamic catching-up process over the past several decades. In an analogy to the pattern of flying geese, lead actors gradually pull along followers by shifting more and more advanced stages of production to those who follow, driven especially by rising labor costs and the need to innovate in the lead economy

(Kojima 2000; Kasahara 2004). Not only does this integration “complement rather than threaten US hegemony in the Western hemisphere” (Wise 2020: 6), we argue that this can be especially harmonious once performed through the Chinese contractual innovation of widespread use of joint ventures and preference for cooperative partnerships. Greater regional integration in Central America can be both a means and a goal for partnerships that better involve regional actors.

As a contractual model that served Chinese upgrading, joint ventures can more sustainably mediate technological acquisition and embed managerial know-how. Similarly, innovative entrepreneurial partnership at the level of villages and towns are also opportunities to introduce new dynamics to a rural sector that needs structural change to eliminate poverty through a more equitable access to land and modernized production. While Wise finds varying outcomes of Chinese engagement, the countries of Central America might be positioned, like Costa Rica, to “make openness work” (Wise 2020: Chapter 4). Chinese-led value chains could coordinate across the region, gradually shifting higher value-added activities to each country, especially with an eye toward exporting to the nearby US market.

## EXISTING PATTERNS OF TRADE AND INVESTMENT RELATIONS—OVERALL AND BY COUNTRY

Central American trade with China has rapidly increased since 2001, but that increase remains tilted in China’s favor and the value of Central American exports remains low. There exists significant room to expand Central American exports to China, increase the value-added of Central American products, and enhance the degree of Central American participation in value chains led by Chinese firms. Further, this expansion can occur in a way that is complementary to the already high levels of integration with US-led value chains.

To explore the potential for Central America to link into global value chains with China, we start by presenting the existing structure of international economic flows that currently connect countries in Central America to the world. The main characteristic of Central American trade is the relevance of commercial exchange among the countries in the region and the robust importance of exports to and imports from the United States. As displayed in Table 9.1, the United States is the main source of

imports and the main destination of exports for Central America, therefore constituting the number one trade partner, considerably ahead of the others.

**Table 9.1** 2020 international trade reported by Central America<sup>a</sup> with main trading partners<sup>b</sup>

| <i>Region</i>        | <i>Country</i>     | <i>Exports<br/>(millions of<br/>US\$)</i> | <i>Imports<br/>(millions of<br/>US\$)</i> | <i>Trade partner<br/>position (exports;<br/>imports; total: X I<br/>M)</i> |
|----------------------|--------------------|---|---|--|
| <i>North America</i> |                    |   |   |  |
|                      | United States      | 11,125                                    | 19,862                                    | 1; 1; 1  |
|                      | Mexico             | 856                                       | 5,378                                     | 4; 3; 3  |
|                      | Canada             | 352                                       | 467                                       | 13; 15; 14   |
| <i>Europe</i>        |                    |   |   |  |
|                      | Netherlands        | 1,609                                     | 334                                       | 2; 20; 4   |
|                      | Belgium-Luxembourg | 873                                       | 327                                       | 3; 21; 10  |
|                      | Spain              | 654                                       | 1,018                                     | 6; 7; 6  |
|                      | Germany            | 583                                       | 1,185                                     | 8; 5; 5  |
|                      | United Kingdom     | 497                                       | 241                                       | 10; 29; 15   |
|                      | Italy              | 467                                       | 581                                       | 11; 11; 12   |
|                      | France             | 139                                       | 419                                       | 21; 18; 19   |
| <i>Asia</i>          |                    |   |   |  |
|                      | China              | 715                                       | 8,176                                     | 5; 2; 2  |
|                      | Japan              | 598                                       | 1,000                                     | 7; 8; 7  |
|                      | South Korea        | 433                                       | 735                                       | 12; 10; 11   |
|                      | Saudi Arabia       | 347                                       | 28  | 14; (50+); 26  |
|                      | Taiwan             | 311                                       | 424                                       | 15; 17; 16   |
|                      | UAE                | 247                                       | 26  | 17; (50+); 34  |
|                      | India              | 140                                       | 838                                       | 20; 9; 13  |
|                      | Turkey             | 121                                       | 326                                       | 24; 22; 23   |
| <i>Caribbean</i>     |                    |   |   |  |
|                      | Dominican Republic | 534                                       | 145                                       | 9; 35; 17  |
|                      | Puerto Rico        | 285                                       | 57  | 16; (40+); 28  |
|                      | Jamaica            | 104                                       | 2   | 25; (50+); (50+)   |
|                      | Haiti              | 103                                       | 1   | 27; (50+); (50+)   |
|                      | Brazil             | 194                                       | 1,050                                     | 18; 6; 9   |
|                      | Colombia           | 143                                       | 1,224                                     | 19; 4; 8   |
| <i>South America</i> |                    |   |   |  |
|                      | Chile              | 127                                       | 547                                       | 23; 12; 18   |

(continued)

**Table 9.1** (continued)

| <i>Region</i> | <i>Country</i> | <i>Exports<br/>(millions of<br/>US\$)</i> | <i>Imports<br/>(millions of<br/>US\$)</i> | <i>Trade partner<br/>position (exports;<br/>imports; total: X I<br/>M)</i> |
|---------------|----------------|---|---|--|
|               | Peru           | 103                                       | 269                                       | 25; 26; 27   |
|               | Ecuador        | 102                                       | 226                                       | 28; 30; 29   |
| <i>Africa</i> | Egypt          | 135                                       | 14  | 22; (50+); (50+)   |

Data from SIECA, <https://www.sieca.int> checked November 12, 2021.

<sup>a</sup>Total trade (exports and imports) reported by Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

<sup>b</sup>This table includes all countries that were destination of US\$100 million or more of Central American exports in 2020.

If considered as a group, the European Union is the second most important trade partner for Central America, especially in terms of being a destination for exports, with the Netherlands as the main port of entry. Meanwhile, China has already solidified a comfortable second position as source of imports to the region, followed immediately by Mexico. With each of these trading partners, however, Central America runs significant trade deficits. Exports to China have increased significantly over the last 20 years, but Chinese contribution to Central American development could be significantly enhanced if China absorbed more from Central America, thus assisting Central American countries in rebalancing their trade not only with China but also with the rest of the world.

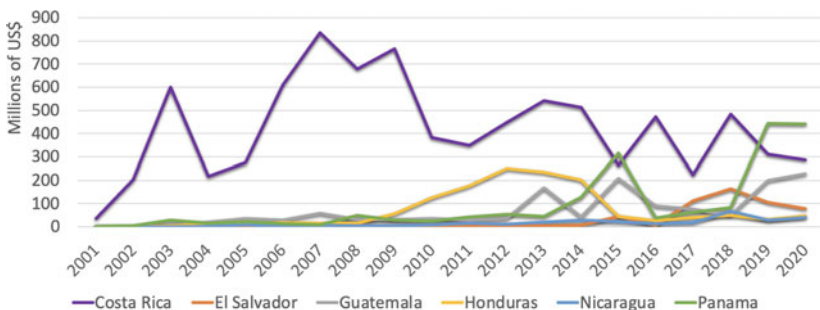
Even though there is a major concentration in trade with the US, followed by the EU and China, Central America has 28 destinations for exports valued US\$100 million or more in 2020. They include countries from all continents but Oceania. The list of top 10 destinations for Central American exports in 2020 is completed by Japan, the Dominican Republic, and the United Kingdom. While China sits at second overall as a trading partner and second as a source of imports, it is only fifth in exports, which suggests room for growth.

The Central American experience already provides examples of the potential for China to absorb greater exports and to boost higher value-added activities. Costa Rica, in particular, benefited from China's economic statecraft, receiving significant investment and winning access for high value-added exports on switching recognition from Taiwan to the

PRC and in signing a free trade agreement with China. Trade with China rose significantly following both events and exports especially expanded (Wise 2020: 142). As evident in Fig. 9.1 Costa Rica raced ahead of the other countries in the value of its exports, largely driven by high-tech electronics and computer chip exports. As discussed later in the chapter, even when these exports fell, China continued to absorb high value-added exports in the form of semiconductor and medical devices.

Still, the figure also shows that Panama leapt ahead of Costa Rica in the absolute value of exports in 2019. This was driven especially by an increase in copper exports, valued at \$359 million in 2019. This shift reflects a worrying overall move away from Chinese absorption of high value-added exports. Whereas semiconductor devices, electrical parts, and electrical capacitors, mostly from Costa Rica, accounted for 62.71% of all export value from Central America to China in 2016, these categories had fallen to 15.66% by 2019, offset only slightly by the increased export of medical instruments and orthopedic appliances at 5.37%. Instead, ferroalloys (11.7%) and copper ore (32.8%) represented the leading categories of exports in 2019.

One way to return to the flying geese model of China pulling Central American economies into higher value-added activities would be to relocate productive activities to the region. As Chinese labor costs rise and the US places constraints on Chinese exports, China-led value chains could find Central America a convenient platform for production and export



**Fig. 9.1** Export value from Central America to China, by country (2001–2020) (Data from UN Comtrade, <https://comtrade.un.org> checked June 15, 2021. Adjusted with data from BACI, [http://www.cepii.fr/CEPII/en/bdd\\_modele/bdd.asp](http://www.cepii.fr/CEPII/en/bdd_modele/bdd.asp))

into the US market. While it is not always easy to trace Chinese investments in Latin America, as much of the investment flows through tax havens or other third countries, an overview of foreign direct investment (FDI) in Central America suggests that China has not yet made substantial direct investments. In none of the countries was China among the top sources of FDI, appearing instead behind traditional investors such as the US, UK, Spain, and Canada, as well as Northern financial hubs such as Switzerland, and other Latin American countries, such as Colombia and Mexico.<sup>1</sup>

Central American countries are also important investors in each other, led by Costa Rica (around US\$1 billion of direct investments in Guatemala, Nicaragua, El Salvador, and Panama in 2019) and Panama. Panama's role as an intermediary, financial center for the rest of the region is evident as it is the leading source of FDI for El Salvador (US\$3.3 billion) and among the top sources for Honduras (US\$2.9 billion).

## VARIATIONS OF INTERNATIONAL INSERTION AND CHINESE RELATIONS: NICARAGUA, PANAMA, COSTA RICA

*Nicaragua.* As the country with some of the lowest levels of integration with China in the region, the Nicaragua-China relationship is one that offers the greatest potential for increase in terms of exports and also exhibits the problematic trade deficit of Central American countries with China. The low level of integration may seem surprising, as Nicaragua was the first country in the region to swap diplomatic ties with Taipei for Beijing, in 1985, though it reversed when the Sandinistas left power in 1990, and has only recently re-recognized China, joining Panama, Costa Rica, and El Salvador.<sup>2</sup>

One reason Nicaragua may have waited to switch its recognition to China was that recognition in the 1980s had brought few deeper relations. The 1980s were the heydays of Deng Xiaoping's call to "hide your strength, bide your time," and his export-led development strategy could not risk losing access to the US market. While reported aid from China

<sup>1</sup> Data from the Coordinated Direct Investment Survey, updated most recently by the IMF on 12 September 2020, and checked on 12 December 2021.

<sup>2</sup> In typically dramatic fashion, the Nicaraguan government seized the Taiwan embassy in Managua and handed it over to China in the final days of 2021. See Associated Press (2021).

to Nicaragua went up from 7 million US dollars at the end of 1985 to a pledge of 20 million US dollars in 1986, relations with the PRC were not decisive for the Sandinistas government's fate in the tumultuous late 1980s.

With Ortega's return to the presidency in 2007, discussions began around a grandiose canal to rival Panama's backed with Chinese capital. According to a 2012 report by Reuters, the Hong Kong Nicaragua Canal Development Investment Co (HKND) was opened in Hong Kong, and the proposed investment was touted by Ortega as part of his platform for the 2014 elections, once he had removed presidential term limits. The discussions marked China's "increasing willingness to negotiate with countries that still recognize Taiwan [...] hinting that the pursuit of diplomatic recognition is now secondary to the fulfillment of economic goals" (Wu and Wei 2014: 800). For these authors, negotiations around Nicaragua's inter-oceanic canal were a display of this new mood—they also mention Guatemala's move to attract Chinese investment since 2012 and actual Chinese investments in Honduras. Moreover, as argued by Shi and Hoebink (2020), increasingly in cases of aid and investment from China, the recipient governments are facing non-central Chinese actors with fewer constraints than the central government in Beijing.

Still, the United States has been consistently Nicaragua's main trading partner by a large margin, especially for exports. For instance, in 2018 Nicaragua sold to China roughly US\$68 million in goods, making it the 10th main destination for Nicaraguan exports. In the same year, Taiwan was the destination for roughly US\$98 million, with both countries far behind the US\$3.1 billions in exports sent to the United States. In the period between 1995 and 2017, Nicaragua exported a total of US\$166 millions in goods to China. That corresponds to less than 1% of the total amount exported to the United States (US\$20.64 billions) during the same period.

While exports to China have been limited, imports to Nicaragua have grown steadily. The Asian country has been number two in this respect since 2014, behind the US. From 2014 to 2018 Nicaragua imported US\$4.98 billion worth of goods from China, US\$2.5 billion less than the US side in these five years.

*Panama.* The Panamanian example offers perhaps the clearest indication of the close relationship between economic development of value chains coordinated by China and the need for careful geopolitical navigation of growing Chinese power, especially so close to the US. The



best example of this dynamic can be seen in the tale of two canals: the unrealized and seemingly impossible Nicaragua canal<sup>3</sup> and the revamped Panama Canal, in which China desired and secured advantageous deals and greater access to infrastructure.

The United States had effectively governed the territory around the Panama Canal for the twentieth century, though the Carter administration had agreed in 1977 to turn over the canal to the Panamanians on December 31, 1999.<sup>4</sup> By the early twenty-first century, aged infrastructure made the Panama Canal a bottleneck in a world of trade moving in ever-growing container ships and oil tankers, and China was quickly becoming the country that most used the canal after the United States. In 2007, the first expansion of the canal began, and by 2016 the total cargo capacity of the waterway was doubled.<sup>5</sup>

It is in the context of this expansion that the connection between China's economic rise and geopolitical maneuvering is most clear. The Nicaragua plans, unlikely as they were, offered leverage to ensure that the expanded Panama Canal would provide fair treatment to Chinese goods. This was in keeping with the Carter administration "Treaty of Permanent Neutrality," which specifies that "both in time of peace and in

<sup>3</sup> To put things in perspective, the canal through Nicaragua and its lake Cocibolca was estimated in 2014 to cost US\$50 billion (Reuters 2014). This is equivalent to the total amount of the multi-project multi-year partnership investment plan promoted by China's prime minister Li Keqiang in 2015 to Brazil, a country that between 2016 and 2018 has exported to China a yearly average of goods roughly valued at those same US\$50 billion. Also, US\$50 billion is equivalent to 2% of Brazil's GDP in 2014. Meanwhile, during 2014 Nicaragua has amassed a GDP of US\$11.9 billion, thus the envisaged project represented roughly four times the GDP of the country at that time. Finally, the expansion of the Panama Canal costed US\$5 billion, or 10% of the investment estimated for the construction in Nicaragua.

<sup>4</sup> Just after Panama declared independence from Colombia, with US help, in 1903, the newly created country entered the Hay-Bunau-Varilla Treaty, in which the United States was granted by the newly founded Republic of Panama, "all the rights, power and authority within the zone" of the canal that would be built as "if [the United States] were the sovereign of the territory within which said lands and waters are located." Interestingly enough, the original plan for an interoceanic canal was through Nicaragua, but the political ease of separating Colombian territory and submitting it to a neocolonial treaty led to what Hobsbawm called a "convenient local revolution" (1987: 58) to create Panama. The Panama Canal became both a means and a symbol of US wealth and power in the twentieth century.

<sup>5</sup> At that time the IMF was enthusiastic affirming that its "calculations suggest that the canal expansion project has an impressive social rate of return" (2016: 58).

time of war [the Panama Canal] shall remain secure and open to peaceful transit by the vessels of all nations on terms of entire equality.” Yet, the military guarantee of such open neutrality was secured by Panamanian and US armed forces, whose vessels are “entitled to transit the Canal expeditiously.” By leveraging the possibility of a Chinese-financed canal in Nicaragua, China could secure access and continue to expand supply chains that required entering maritime routes previously dominated by other powers.

As a result, Chinese goods have come to dominate the value of goods passing through the Colón Free Zone (ZLC). This marks a rapid and significant increase since 2004, when China was not even among the top 10 sources of total Panamanian imports—i.e., import by the Panamanian Free Zones for re-export and for domestic use in Panama itself. In 2005, Chinese imports sat in 10<sup>th</sup> position, accounting for only 9% of the value of imports coming from first placed United States, and by 2009 China was second. In that year, Panama imported US\$2.1 billion from China and US\$2.9 billion from the US, and China has been in the first position ever since. Created in 1948 the ZLC is the second largest Free Trade Zone in the world, only behind Hong Kong. According to UNCTAD (2017: 20), 70% of the value of Panama’s total trade in merchandise corresponds to activities in the ZLC.

According to data kept by Panama’s National Institute of Statistics and Census (INEC), the United States maintains a solid first place in imports destined to the domestic market of Panama. In 1998, the United States were the only origin of imports valued over one billion US dollars, a threshold China surpassed in 2013, though the US still sold three times more in value in 2015. Since then, US and China have remained first and second sources of imports to Panama.

Also according to INEC, in 1998 China was not among the twenty largest destinations of Panamanian exports. Taiwan and Hong Kong were included in the list in 1999, respectively in the 16<sup>th</sup> and 17<sup>th</sup> positions. Mainland China appeared on the list for the first time in 2003, already in 12<sup>th</sup> position, ahead of any other destination in Asia. It was only in 2007, however, that China was listed among the 10 largest destinations of Panamanian exports. It did so already in the 3<sup>rd</sup> position. Table 9.2 depicts the top 10 destinations of Panamanian exports since 2007.

*Costa Rica.* The Costa Rican example provides both a promising and a cautionary tale for the region. It was the country that integrated with China fastest, earliest, and with the highest value added, but it also

**Table 9.2** Panama's top 10 export destinations, from 2007 to 2018. Values are Free on Board (FOB) in Balboas (1 Balboa = 1 US\$)

|    | 2007            |             | 2008            |             | 2009            |             | 2010            |             |
|----|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| 1  | USA             | 391,402,233 | USA             | 434,889,817 | USA             | 349,675,367 | USA             | 211,581,692 |
| 2  | Netherlands     | 114,639,537 | Netherlands     | 122,789,078 | Costa Rica      | 60,894,644  | Canada          | 75,725,487  |
| 3  | <i>China</i>    | 68,032,101  | Costa Rica      | 65,976,003  | Netherlands     | 53,938,420  | Netherlands     | 50,562,884  |
| 4  | Sweden          | 62,150,387  | Sweden          | 62,295,144  | Spain           | 50,802,257  | Sweden          | 49,973,881  |
| 5  | UK              | 61,239,025  | UK              | 61,761,662  | Sweden          | 49,734,861  | Costa Rica      | 49,363,640  |
| 6  | Costa Rica      | 57,100,852  | Spain           | 56,870,087  | China-Taiwan    | 24,027,103  | China-Taiwan    | 36,595,334  |
| 7  | Spain           | 55,792,236  | China-Taiwan    | 49,407,111  | <i>China</i>    | 20,218,021  | <i>China</i>    | 36,078,786  |
| 8  | BELUX           | 42,347,229  | <i>China</i>    | 46,374,287  | Dominican Rep   | 19,442,443  | Spain           | 19,917,800  |
| 9  | China-Taiwan    | 38,920,078  | Italy           | 29,744,234  | Colón Free Zone | 18,166,151  | Honduras        | 16,905,412  |
| 10 | Honduras        | 20,922,849  | Colón Free Zone | 19,675,708  | Italy           | 16,955,101  | Colón Free Zone | 19,759,117  |
|    | 2011            |             | 2012            |             | 2013            |             | 2014            |             |
| 1  | USA             | 163,337,433 | USA             | 160,969,825 | USA             | 152,818,004 | USA             | 157,304,568 |
| 2  | Canada          | 121,048,584 | Canada          | 119,797,162 | Canada          | 65,976,617  | Germany         | 87,210,461  |
| 3  | Sweden          | 55,009,978  | Costa Rica      | 54,270,898  | <i>China</i>    | 51,408,384  | <i>China</i>    | 69,014,283  |
| 4  | Costa Rica      | 52,343,335  | Netherlands     | 48,178,011  | Costa Rica      | 49,983,616  | Costa Rica      | 54,896,876  |
| 5  | <i>China</i>    | 38,650,669  | Sweden          | 39,094,950  | Germany         | 49,066,044  | Netherlands     | 42,866,614  |
| 6  | China-Taiwan    | 34,841,091  | <i>China</i>    | 33,847,021  | Netherlands     | 39,740,856  | Vietnam         | 34,975,360  |
| 7  | Netherlands     | 34,484,400  | China-Taiwan    | 33,238,727  | China-Taiwan    | 39,487,226  | China-Taiwan    | 30,757,178  |
| 8  | Colón Free Zone | 28,922,459  | Italy           | 33,183,493  | Colón Free Zone | 32,204,358  | Colón Free Zone | 29,796,086  |
| 9  | Italy           | 20,028,421  | Colón Free Zone | 29,296,719  | Italy           | 29,029,467  | Spain           | 23,957,179  |

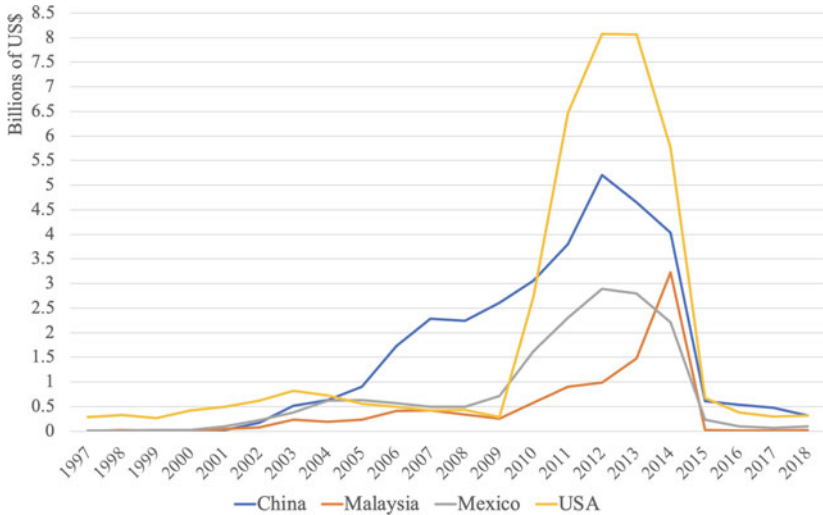
|    | 2007               | 2008                              | 2009                             | 2010                             |
|----|--------------------|-----------------------------------|----------------------------------|----------------------------------|
| 10 | India<br>2015      | 19,063,000<br>South Korea<br>2016 | 24,887,266<br>India<br>2017      | 28,333,009<br>Italy<br>2018      |
| 1  | USA                | 130,524,420<br>USA                | 130,200,000<br>USA               | 120,600,000<br>Netherlands       |
| 2  | Germany            | 91,767,724<br>Netherlands         | 96,800,000<br>USA                | 112,882,084<br>USA               |
| 3  | Costa Rica         | 53,267,545<br>Costa Rica          | 38,400,000<br>China              | 49,410,816<br>China              |
| 4  | China              | 40,486,009<br>China               | 35,500,000<br>China-Taiwan       | 41,953,550<br>India              |
| 5  | China-Taiwan       | 29,047,927<br>China-Taiwan        | 26,800,000<br>Costa Rica         | 36,358,959<br>Costa Rica         |
| 6  | Netherlands        | 28,680,831<br>India               | 24,000,000<br>India              | 31,210,032<br>Colón Free<br>Zone |
| 7  | Colón Free<br>Zone | 26,482,680<br>Colón Free<br>Zone  | 21,900,000<br>Vietnam            | 30,643,925<br>China-Taiwan       |
| 8  | Vietnam            | 24,693,318<br>Vietnam             | 21,500,000<br>Spain              | 21,089,057<br>Spain              |
| 9  | India              | 21,985,824<br>Germany             | 18,500,000<br>Colón Free<br>Zone | 17,575,678<br>Thailand           |
| 10 | Italy              | 18,249,756<br>Spain               | 15,400,000<br>Nicaragua          | 15,103,679<br>Vietnam            |

Data from INEC, <https://www.inec.gob.pa> checked January 10, 2021 with authors' calculations

suffered from direct competition from China and lost some of the very gains it had previously secured. From the group of six countries covered in this chapter, Costa Rica is the one that has the longest period of active full diplomatic ties with Beijing, which started in 2007. Ten years before that, the largest export from Costa Rica to China was under 1 million dollars per year and consisted of goods listed under the Harmonized System (HS) code embracing “Live trees, plants, bulbs, roots, cut flowers, etc.” Electrical and electronic equipment accounted for a meager US\$136 thousand. In that year Chinese exports of goods to the country totaled US\$22.7 millions, while the imports from Costa Rica reached US\$1.4 million.

Things changed considerably in 1998 with the installation of a computer chip manufacturing hub by INTEL. Chinese exports doubled to US\$46.4 millions, but imports from Costa Rica also got an over tenfold increase to US\$16.8 millions. The bilateral trade profile also became substantially different from previous years. While the main imports from Costa Rica pertained to the HS group of “edible fruit, nuts, peel of citrus fruit, melons,” China also purchased goods from the group of “nuclear reactors, boilers, machinery, etc.” and, most tellingly, it bought US\$1.3 million worth of electrical and electronic equipment. That would increase over the years, rising to US\$5.2 billion of electrical and electronic equipment imported in 2012, when Costa Rican exports to China peaked at US\$5.3 billion.<sup>6</sup> During that period, Costa Rica had four major importers for such goods whose trade experienced a peak between 2010 and 2014 (Fig. 9.2). In that year, the Central American country had a surplus of US\$4.4 billion in its trade balance with China. With the closure of the INTEL factory in 2014, exports from Costa Rica to China experienced a two-year decline and a hard plunge in 2015 back to a level below US\$1 billion per year. The electrical and electronic equipment sector fell from US\$4 billion in 2014 to US\$612.9 millions in 2015 and halved once again since then.

<sup>6</sup> A study of 39 electrical and electronic firms in 2012 by Frederick and Gereffi (2013) found that 82% had “parent companies in the US, three firms (8%) are under Costa Rican ownership, three are from the European Union, and one is from Japan” (40).



**Fig. 9.2** Reported imports from Costa Rica of electrical and electronic equipment (HS code 85), in billions of US\$.<sup>7</sup>  
 (Data from UN Comtrade, <https://comtrade.un.org> checked January 10, 2021)

## COMMODITIES AND THE RURAL SECTOR: STRUCTURAL CHANGE AND CHANGED PRIORITIES

Another area of potential for Chinese and Central American collaboration around development is the rural sector. A significant population continues to live in the countryside, produce agricultural goods for subsistence and the market, work as agricultural laborers, and commodity exports account for major export earnings. Yet, the livelihoods of rural Central Americans lag far behind the urban population and problems of inequality, poverty, lack of services, and increasing environmental vulnerability remain and appear to be worsening.

Over the last three decades, major changes to the rural sector have been the expansion of non-traditional exports and the return of large-scale extractive industries. Both innovations have increased (rather than

<sup>7</sup> The substantially different US\$ levels between Figs. 9.1 and 9.2 stem from whether the value represents exports reported by Costa Rica (Fig. 9.1) or imports reported by the receiving country (Fig. 9.2).

decreased) rural land scarcity, inequality, and dependence on non-farm labor for family survival. The result has been rapid out-migration and worsening poverty. Non-traditional exports were part of the neoliberal export orientation of the 1990s, when international assistance and domestic oligarchies shifted resources to export crops popular in developed countries, especially the US, and could be grown off-season in Central America (Robinson 2003). Examples include cauliflower, broccoli, and other fruits and vegetables, different from traditional cash crops like coffee, banana, and sugar, but also highly dependent on fertilizer and abundant water, as well as the technical assistance to bring such products to Northern markets at the appropriate time.

The turn to extractivism coincided with the commodity boom of the 2000s and only intensified in the 2010s. The increase in commodity prices in the 2000s rapidly increased revenues from extractive industries in the region, bringing new foreign investment and technology to metals and petroleum extraction, encroaching on frontier resources previously available for subsistence farming. Compounding the pressure on such territories were mega-infrastructure projects, often built to provide energy inordinately absorbed by extractive industries and to bring such products to international markets. The result of the combined increase in non-traditional exports, extractive industries, and mega-infrastructure projects has been to increase land scarcity, worsen environmental risk, and create more inequality in the countryside (Svampa 2019).

Opportunities to reverse these trends are available, but they will require structural change and sustainable and equitable expansion in the rural sector, processes in which China has recent historical experience. Applied carefully, Chinese capital, markets, and political economy know-how could introduce new dynamics to the rural sector.

In the recent past of the last few decades, China has experienced rapid urbanization and the elimination of poverty, and in the relatively recent historical past of the last century China redistributed land to achieve more equitable access, raise incomes, and modernize production among its peasant population (Pils and Svensson 2014; Yu 2007). These experiences offer important lessons for Central America, where some countries remain predominantly rural and the rural sector is afflicted by severe inequalities. In fact, it is the inequality of social relations in the countryside that some have long blamed for the strength of oligarchic interests and the recurrence of political instability and repressive regimes (Best 1976; Torres Rivas 1993). The challenge, of course, is the savvy and careful

understanding of the rural sector in each Central American country, applying appropriate lessons from the Chinese experience, and nudging rural development toward a more sustainable and equitable development trajectory.

Table 9.3 begins to portray some of the patterns of inequality that particularly afflict the countryside. Honduras, Nicaragua, and Guatemala remain significantly rural, with between 40 and 50% of the population in the countryside. While statistics for rural inequality are difficult, all six countries of the region show highly unequal income distributions overall, with Gini coefficients approaching 0.50, in which zero is perfect equality and 1.0 is a situation in which one person holds all the wealth. While more indicators of specifically rural inequality are difficult to identify, a 2001 measure of land inequality showed a Gini over 0.75 for all countries except Costa Rica, and the largest 1% of farms held almost half the total land in Guatemala, over a third of all total land in Costa Rica, and around a quarter of all land in El Salvador and Nicaragua.

At these levels, unequal rural relations are a significant obstacle to raising incomes and welfare in the countryside, and land reform would significantly improve welfare. Of course, land reform presents social and political obstacles most of all, having failed or been reversed multiple times when attempted in the past. Still, there is available land in several countries, with relatively low population density in at least some of the countries, at barely more than 50 people per square kilometer in

**Table 9.3** Inequality, land inequality, and population density

|             | <i>2020 rural<br/>population<br/>%<sup>a</sup></i> | <i>2014 Gini<br/>coeff<sup>b</sup></i> | <i>2001 land<br/>Gini<sup>c</sup></i> | <i>% land in<br/>largest 1% of<br/>farms<sup>c</sup></i> | <i>Density<br/>people/SqKm<sup>a</sup></i> |
|-------------|--|--|---------------------------------------|--|--|
| Costa Rica  | 19.2   | 48.6                                   | 0.67                                  | 33.89  | 99.8                                       |
| El Salvador | 26.6   | 41.6                                   | 0.81                                  | 28.6   | 313.0                                      |
| Guatemala   | 48.2   | 48.3                                   | 0.84                                  | 47.96  | 157.3                                      |
| Honduras    | 41.6   | 49.9                                   | 0.76                                  |  | 88.5                                       |
| Nicaragua   | 41.0   | 46.2                                   | 0.72                                  | 24.63  | 55.0                                       |
| Panama      | 31.6   | 50.5                                   | 0.77                                  |  | 58.2                                       |

<sup>a</sup>World Bank World Development Indicators, <https://data.worldbank.org/> checked October 28, 2021

<sup>b</sup>2014 is the most recent year for which data is fully available. World Bank World Development Indicators, <https://data.worldbank.org/> checked October 28, 2021

<sup>c</sup>Data from 2003 in Guatemala; Oxfam (2016); Honduras data from Nelson (2003)



Panama and Nicaragua and fewer than 100 people per square kilometer in Honduras and Costa Rica. These patterns of inequality and land use offer a useful example of the nuance required for Chinese collaboration around development, as appropriate land reform strategies have to be applied to each country, depending on the social, political, and economic reality. The most applicable conditions for Chinese style redistribution might be those countries where the population is significantly rural, inequality is highest, land inequality is high, and population density is lowest.

Chinese rural experience could also be useful in terms of addressing issues of livelihoods in the countryside while keeping in mind issues of environmental sustainability and food sovereignty. Even in countries that exhibit high levels of rural population, earnings in the countryside remain low, and to the degree that value is being generated, it is mostly from export crops. Wages are low, and the table below indicates that Nicaragua has the lowest rural minimum wage, at slightly more than four dollars, with El Salvador just under seven and Guatemala and Panama around twelve. In none of the countries, besides Costa Rica, was the minimum wage sufficient to purchase a normal basket of food goods, according to the food purchasing power of the minimum wage. In combination with land reform or on its own, raising rural wages would improve livelihoods in the rural sector, also raising domestic demand and contributing to a rising share of labor in the rural product.

Environmental sustainability is additionally important given the already existing vulnerability of the region to extreme weather driven by climate change and geophysical disasters, such as volcanoes, earthquakes, and tidal waves. This vulnerability has only gotten worse as a result of encroachment on previously protected areas, natural defenses, and vulnerable territories driven by land pressure from extractive industries and infrastructure mega-projects. The table below shows the average number of climate change and geophysical disasters, as well as the average number of people affected when such events occur. Of particular note, Guatemala and Honduras experienced an average of two or more climate change-related disasters per year from 1990 to 2020, and when they occurred, 300–350 thousand people were impacted each time. By contrast, Costa Rica has become a world leader in environmental management, returning land to protected status and maintaining a commitment to carbon neutrality (Pagiola et al. 2005). China's experience with green technologies in its own countryside and efforts to protect against climate change, as well as Chinese

financing to extend regional models such as those in Costa Rica, could be an important part of regional collaboration.

Finally, it is notable that in a region with so many individuals still in the rural sector and with significant capacity for food production, food imports remain significant, even as agricultural exports generate significant foreign exchange earnings. Cash crops such as coffee, bananas, sugar, fruits, and vegetables continue to dominate merchandise exports, the countries of Central America continue to import food equal to over 10% of merchandise imports, approaching 20% in Honduras. A return to greater national production of food grains for domestic consumption would address some of these foreign trade imbalances and raise incomes and consumption in the countryside (Table 9.4).

The rural sector in Central America is the site of some of the most severe and historic inequalities, as well as significant vulnerability in terms of the population and the environment. Chinese collaboration to address these issues could be transformative, both because of the need for structural change and the history of successful transformation in the Chinese case. Lessons from China can be applied to Central America, with careful adaptation of Chinese experiences to specific local contexts. Successful Chinese collaboration will require interlocutors within Central American society who share developmental goals, and it is worthwhile considering several categories. While most foreign capital partners with large landowners and oligarchic interests capable of navigating the politics of access to extractive industries, government contracts, and cash crop commodity production, an opportunity exists to engage with peasants, small farmers, and indigenous populations, precisely the populations neglected by current rural social relations. Peasant organizations built a degree of capacity during the capitalist transformation of the countryside in the post-World War II period, and some of that organizational capacity evolved into important political voices during the revolutionary upheavals of the 1980s in places like El Salvador, Nicaragua, and Guatemala. Small farmers have long been an important part of Costa Rican political economy, and indigenous populations make up 41% of the population in Guatemala, and a much higher percentage of the rural population (World Bank, 2015). Each of these groups could assist in driving a more equitable, sustainable and sovereign strategy for rural development, and careful Chinese contact with appropriate actors in each context will be required to cultivate the appropriate collaboration.

**Table 9.4** Rural Earnings, Environmental Vulnerability, and Food Sovereignty

|   | <i>Costa Rica</i> | <i>El Salvador</i> | <i>Guatemala</i> | <i>Honduras</i> | <i>Nicaragua</i> | <i>Panama</i> |
|---|-------------------|--------------------|------------------|-----------------|------------------|---------------|
| 2018 daily wage \$US <sup>a</sup>                                 | 17.4              | 6.7                | 12               | 8.6             | 4.2              | 12.2          |
| 2012 rural wage as % of food basket <sup>a</sup>                  | 180               | 79                 | 91               | 66              | 47               | 82            |
| 1990–2020 avg annual climate disasters <sup>b</sup>               | 1.3               | 1.3                | 2.3              | 2               | 1.6              | 1.3           |
| 1990–2020 avg directly affected by climate disasters <sup>b</sup> | 53,966            | 74,018             | 281,447          | 342,832         | 141,256          | 6775          |
| 1990–2020 avg annual geophysical disasters <sup>b</sup>           | 0.4               | 0.3                | 0.6              | 0.1             | 0.3              | 0.1           |
| 2017 food imports (% merchandise imports) <sup>c</sup>            | 13.4              | 17                 | 14.6             | 18              | 14               | 10.2          |

<sup>a</sup> CEPALSTAT, <https://statistics.cepal.org/portal/cepalstat/dashboard.html?lang=en> checked October 28, 2021

<sup>b</sup> Author calculations from CEPALSTAT

<sup>c</sup> World Bank World Development Indicators, <https://data.worldbank.org/> checked October 28, 2021

## POTENTIAL FOR A CENTRAL AMERICA IN A NEW TECHNOLOGY ECONOMY

Planned carefully and adapted for each country, Chinese experience can be relevant for structural change and development for another key sector in Central America—advanced sectors such as services, information and communication technologies, and the digital economy. These are the cutting-edge areas of contemporary economic change, in which China has leapt forward in the space of a few short decades. Central American countries will have to take certain steps to be capable of absorbing new technologies and techniques, and China will have to leave room for Central American producers to be pulled forward by Chinese advances. In this manner, Central American countries can move up value chains to enter higher value-added exports with more surplus available both for accumulation and for distribution to raise living standards. Arguably, this can be facilitated by the establishment of joint ventures and other forms of partnerships that can embed managerial know-how and mediate technological acquisition and spillovers.

Some countries in the region already have experience adopting new technologies and moving up value chains, namely Costa Rica and Panama. The challenges they face relate to their ability to adapt their innovation infrastructure to fit into Chinese-led value chains alongside the US-led value chains where they are already significantly integrated. For countries with less capacity for high value-added exports, the challenge is to create the conditions in which innovation can take hold, especially a more developed logistics infrastructure and more capable human capital. In these areas, Chinese capital and know-how, and integration within the region can raise potential margins of operations and advance this sector more rapidly.

The Costa Rican experience with high-value exports offers some lessons, centered on the boom and bust associated with US company, INTEL. In 1997, INTEL shifted computer chip production to Costa Rica, and technology exports quickly amounted to 36% of all exports by 2000. They rose to constitute an overwhelming share of total exports until its peak in 2012. By 2014, however, INTEL closed its chip assembly in the country, moving production to lower-cost sites in Asia, including Malaysia, Vietnam, and China. Costa Rica lost 1500 jobs, but retained research and development capacity to “design, prototype, test, and validate integrated circuit and software solutions” (*Economist* 2014). While

computer chip exports fell, other services and high value-added exports replaced chips, especially medical devices. Further, in 2020, in the midst of disruptions to global production from the pandemic and US-China disputes, INTEL announced it would move some computer chip assembly back to Costa Rica, including a new \$350 million investment and the creation of 200 new jobs (Zúñiga 2020).

Several things are notable about this pattern of global insertion for Costa Rica. First, a critical mass of well-educated labor and an ecosystem of training and innovation allowed companies to move high-value activities to Costa Rica and allowed Costa Rica to replace manufacturing activities with research and development and alternative high value-added exports when cost pressures emerged in 2014. Further, the same conditions allowed Costa Rica to recuperate some manufacturing when near-shoring production became attractive in 2020. At the same time, changes to the production process both allowed manufacturing to relocate to lower-cost, lower-skill sites, and even when manufacturing returned to Costa Rica, only 200 jobs were created in contrast to the 1500 lost six years earlier. Further, even though Costa Rican exports to China did not collapse to pre-2000 levels, they peaked in 2007 at around \$800 million and appear to have settled in the \$300–\$500 million since 2010 (see Fig. 9.1).

For both Chinese actors and Central American actors, this sequence bears lessons. In certain ways, China and Costa Rica emerged as competitors when it came to cost pressures in manufacturing. Costa Rica survived these pressures at least in part because of long-term investments in human capital and productive ecosystems that allowed their producers to move up the value chain from computer chips to medical devices. This came at the cost, however, of lower overall integration between the two countries, as well as lower revenues and employment. Future integration might more successfully mediate race-to-the-bottom pressures on manufacturing costs and also pursue a more equitable and planned distribution of higher value-added activities across jurisdictions and over time. In this way, each country can reap some of the benefits of participating in higher value-added activities. Even if there is a partially grounded understanding that “solutions” to insufficient development levels will neither be designed nor championed by firms and countries in privileged positions in the global value chains, joint ventures are forms of partnership that China should recognize as mutually beneficial because they were important to China’s own development. These innovative contractual relations can

foster collaboration between Chinese and appropriate regional actors in different contexts of Central America. Further, such partnerships can avoid threatening the US and open room for triangular collaboration between the US, China, and Central America in ways that empower Central American actors.

Such integration will require certain adaptations to the innovation ecosystem operating in Costa Rica and the rest of Central America. For a time, Costa Rica was able to position itself strategically in a value chain that bridged the US and China. When China and the US compete to control such value chains, as appeared to be happening under current conditions, Costa Rica was forced to pick a side (it opted to integrate with the US-based value chain), but the benefits reaped in terms of revenues and employment were much lower. To the degree that Costa Rica can organize its productive and innovation infrastructure to maintain options of integration with both China and the US, greater benefits may be available.

A look across the region suggests that all the countries of the region are impacted by the global shift in economic activity, with a rising proportion of services in GDP. Panama, with canal zone logistics and finance leads the pack, and Costa Rica is close behind, with El Salvador, Guatemala, and Honduras increasing rapidly over recent decades. At the same time, it is useful to note that not all services activity is equal, with some of the countries concentrating on low value-added and non-tradeable services, especially driven by remittance-funded consumption, accounting for the increasing share of services in the economy. Costa Rica has over US\$1bi in ICT service exports, and both Costa Rica and Panama have over US\$1bi in high-tech exports. Around half of all Costa Rican and Panamanian manufactured exports are medium and high tech, as compared to less than a quarter for Guatemala and Honduras and about an eighth for El Salvador.

In terms of potential for Chinese-Central American collaboration this suggests slightly different emphases. For the entire region, investment in infrastructure can be helpful, as a World Bank measure of trade and transport logistics performance ranked Panama well above the other countries, with the other countries clustered closely but well behind. According to a database of infrastructure projects funded with Chinese capital, there are significant infrastructure investments completed or planned in Panama, at over US\$3.75 billion, just over half that amount in Costa Rica, and just under US\$1 billion in Honduras. Smaller amounts are planned for El

Salvador and Guatemala and Nicaragua data have been difficult to collect. Given that it is precisely in the other countries that the most infrastructure for trade and transport logistics is needed, there is room for investment there (Table 9.5).

While the Northern countries of the region simply need more infrastructure, Costa Rica and Panama may most need to avoid competition between China and the US to make the value chains they lead complementary rather than competitive. For all the countries, the kind of infrastructure that can be most helpful are projects that do not worsen the environmental vulnerabilities outlined above, even as the infrastructure is built with an eye to increase value-added in exports, integration within the region and with external powers, and coordinate production so the countries can share in value-added upgrading rather than racing to the bottom. One key may be in integration among the countries of the region. For Central America to truly retain access to both Chinese-led and US-led value chains and attract the kind of investment that can move all countries up the value chain, the region will have to exert greater leverage than they currently exert on their own. As small countries negotiating with much larger great powers, they are most likely to secure investment, market access, and productive integration with both China and the US if they are more significantly integrated and able to collectively bargain externally.

## REGIONAL INTEGRATION

One of the repeated observations of this chapter has been the potential benefits of greater regional integration. As small and open economies, the countries of the region are already highly connected to each other and internationally, but they lack the draw of large markets or national champions exporting high value-added goods with which to bargain their insertion into global value chains. One way they can alter this scenario is to integrate more fully within the region, negotiating insertion collectively for various stages of global value chains, building toward higher value-added stages over time. As individual countries, they have difficulty inserting themselves except at the bottom of value chains, but together they could bargain as a platform for export to the somewhat untapped Mexican market to the North and especially to the nearby US market. To achieve this level of coordination and integration in the region, it will be

**Table 9.5** Services, value-added in exports, existing infrastructure, and Chinese commitments

|   | <i>Costa Rica</i> | <i>El Salvador</i> | <i>Guatemala</i> | <i>Honduras</i> | <i>Nicaragua</i> | <i>Panama</i> |
|---|-------------------|--------------------|------------------|-----------------|------------------|---------------|
| 2020 services, value added<br>% GDP <sup>a</sup>                            | 68.8              | 61.5               | 61.9             | 58.3            | 49.3             | 71            |
| 2017 Hi-Tech exports<br>(\$USmillion) <sup>a</sup>                          | 1110              | 251                | 247              | 45.7            | 12.6             | 1360          |
| 2017 ICT service exports<br>(\$USmillion) <sup>a</sup>                      | 1280              | 204                | 253              | 274             | 174              | 294           |
| 2019 medium and Hi-Tech<br>exports (% manufactured<br>exports) <sup>a</sup> | 54.2              | 14.8               | 23.2             | 23.6            |                  | 49.6          |
| Trade transport logistics<br>index (1 = low to 5 =<br>high) <sup>a</sup>    | 2.3               | 2.2                | 2.2              | 2               | 2.5              | 3.3           |
| Chinese infrastructure<br>projects (US\$million) <sup>b</sup>               | 1969              | 63                 |                  | 974             |                  | 3752          |

<sup>a</sup>World Bank World Development Indicators, <https://data.worldbank.org/> checked October 28, 2021

<sup>b</sup>Database created by Henry Heilbroner through media and business reports. Database available on request



important to avoid pitfalls that undermined integration in the past as well as to build on existing institutions and patterns of integration.

Central American integration in fact has a long history, with the region beginning as a federation following independence from Spain (Kinzer 2021). The federation divided in 1838, but there have been multiple attempts to reunify the region at various moments, with the post-World War II period marked by a protracted effort at greater integration until the 1970s and a renewed and more successful push since the 1990s. Initial post-World War II efforts were driven by Latin American structuralist strategies of import substitution industrialization, marked by the 1960 General Treaty of Central American Economic Integration, including steps toward a Central American Common Market, a customs union, and a common external tariff regime. Intraregional exports grew from 6.7% of total exports to 26% until 1970, but stagnated from there, when intraregional differences erupted most expressly in a short war between El Salvador and Honduras over perceived inequities on land and trade. Intraregional integration stalled further during the 1980s, when Guatemala and El Salvador were deeply divided into civil war, Nicaragua saw the successful Sandinista revolution, and Honduras became a base for counter-revolutionary subversion against Nicaragua.

Once peace agreements had ended conflict, a new model of “open regionalism” began to take shape in the 1990s (Ethier 1998). The protocol of Tegucigalpa in 1991 and Guatemala in 1993 drove intraregional trade to 32% of total exports by 2018 (ECLAC 2019: 7). Among the steps toward integration since the 1990s, a number of advances are notable. In infrastructure connectivity, the region embarked on a regional electrification strategy, in which power was generated through lower hydrocarbons and greater shared electricity generation and distribution, through the Central American Electrical Interconnection System (SIEPAC for the acronym in Spanish). Central America has demonstrated rapid transition to renewable energy generation, with Costa Rica already drawing 98% of its energy from renewables, Panama 67%, and the other countries at 50% or more (ECLAC 2019: 10). Steps toward a customs union began once again in 2000 and became a reality for Honduras and Guatemala in 2017, and intraregional movement and migration has been facilitated with a common regional passport and the application of common internal borders. The 2005 Central America Dominican Republic Free Trade Agreement (CAFTA-DR) with the US confirmed and deepened the open regionalism pattern of integration, entwining the

region more closely with the US. Regional integration, along with the availability of the US market, has shifted the export profile of the region, with manufactures accounting for a majority of exports to the US.

Among the institutions established to manage integration in the region, some are more functional than others. There is moderate fiscal and monetary coordination among the countries through periodic meetings of finance ministers, and more significant coordination on economic matters as well as financing for development comes through the Central American Bank for Economic Integration, formed in 1960 and offering approximately \$50bi over its first 50 years (BCIE 2017). Less functional institutions include the Central American Parliament and the Central American Court of Justice, in which Costa Rica has not ratified the agreement forming the Parlacen and the Court has seen only limited usage, issuing only 70 resolutions since 1994.

The current scenario presents a particular opportunity for regional integration to interact positively with integration with China. While open regionalism of the 1990s and 2000s was attuned to the neoliberal opening of the region, there is room for a more strategic form of regionalism on the basis of collective bargaining for insertion into and movement up value chains that might involve joint ventures. Among the central characteristics of the open regionalism strategy was a degree of regional competition, in which free trade internally and externally would encourage foreign investment and international integration through heightened regional competition (Giordano and Devlin 2011: 350). This regional competition has indeed attracted foreign direct investment and enhanced trade, even including more sophisticated manufacturing exports. Yet, the nature of uncoordinated competition among the countries of the region and with international rivals has meant that there has been limited wage growth, pressure to deregulate, and competition to lower or offer tax privileges. More of a “chicken flight”—as dubbed in other parts of Latin America—than a long-lasting, consequential, sustainable, and evolving flying geese strategy. The result has been a pattern of international integration in which the jobs created in the export sector exhibit lower value-added for exports to the US than in exports within Central America (Minzer Parnes and Orozco 2019: 159).

More strategic collective bargaining for insertion in international value chains would be a possibility in concert with certain policy steps China has already demonstrated in relationships to other regions. In its relations to ASEAN and with Central Asia, Chinese trade and investment patterns

show a degree of following the flying geese model, treating the region as a platform for re-export in which regional producers are pulled along from lower to higher value-added activities over time (Li et al. 2016). If Chinese-led value chains invested strategically in the value chains operating within the Central America region, they could replicate a similar inducement to regional integration and productive upgrading.

Regional value chains would need to take into account the different starting points of countries in the region. Panama and Costa Rica already add significant value through services, at 80.2 and 42.3% of total value added in exports (Minzer Parnes and Orozco 2019: 130), making them potential logistics, communications, and finance hubs for the rest of the region. Goods represent a much more significant contributor to value added in exports in Nicaragua, El Salvador, Guatemala, and Honduras, but all three show very low value added in general, with Honduras adding only 0.53 in value for every dollar exported. If the flying geese model were applied to Central America, Costa Rica and Panama could serve as entry points for Chinese capital in the region, with gradual upgrading of value-added in the productive activities in the other countries.

The existing pattern of trade and history of integration mean that the US will always outweigh Chinese importance in terms of a market for Central American goods. Still, there is room for China to expand its role without threatening the US, especially as integration with the US has not treated the region as a collective platform for an integrated value chain nor has integration with the US significantly increased value added in productive activities. Integration with China-led value chains could offer the region greater bargaining power to negotiate higher value-added activities within value chains, thereby raising incomes and welfare in the region.

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# The Mexico–Queretaro Train, Dragon Mart, and the Ups and Downs of Mexico–China Relations

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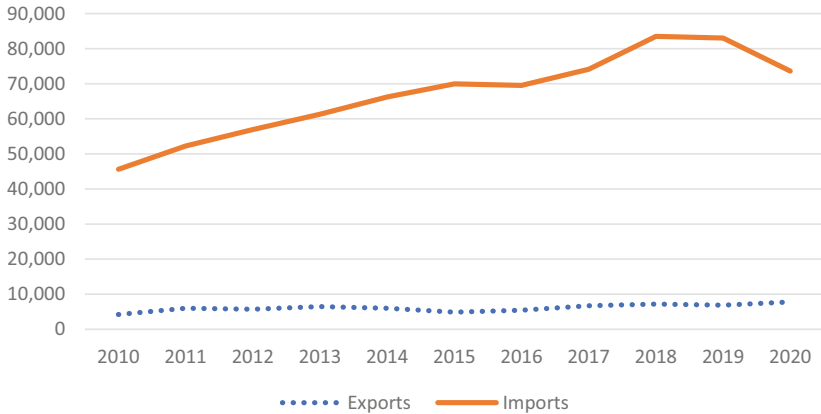
This case studies the Mexico–China relationship during the last decade with emphasis on the Mexico–Queretaro Train and the Dragon Mart Project, based on the identification and analysis of the elements that led to their cancelation, as well as their economic and commercial framework.

Chinese infrastructure projects have represented a particular level of socioeconomic interaction and complexity, with potential for cooperation and development for the future. It is thus relevant to understand both the level of socioeconomic interaction, particularly in terms of trade and

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**Fig. 10.1** Mexico: Exports and Imports from China (*Source* Own elaboration based on data from World Integrated Trade Solution [WITS] and UN Comtrade [2021])

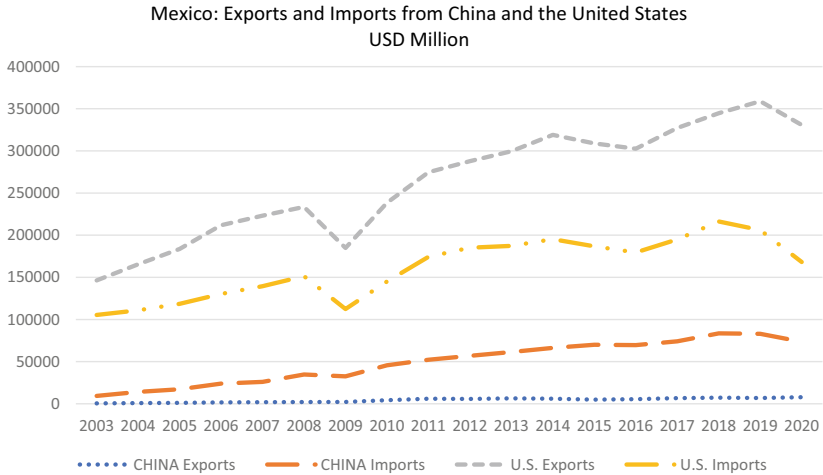
foreign direct investment (FDI), and the specifics of the cancelation of these projects.

Although Mexico and China have maintained numerous ties for several centuries, it is during the last decade of the 20th century and the beginning of the current one, where the relationship has reached a new level reflected in the breadth of interactions of a political, institutional, and economic nature (Dussel-Peters 2016).

During the recent period, the People's Republic of China has increased its relationship with Mexico, both qualitatively and quantitatively. Since 2003, China is Mexico's second largest trading partner (see Fig. 10.1) only after the United States. In addition, China's trade participation is strategic in specific areas.

As can be seen in Fig. 10.1, since 2003 there has been a steady increase in trade relations between the two countries, with imports standing out above all, affected only significantly during the years 2008–2009 due to the international financial crisis and in 2020 by the SARS-CoV-2 virus pandemic.

Although there has been a greater Chinese presence in Mexico's trade relations, the gap with the United States, Mexico's main trading partner, remains wide (See Fig. 10.2).



**Fig. 10.2** Mexico: Exports and Imports from China and the United States (USD Million) (Own elaboration: 2010–2016 period based on World Integrated Trade Solution (WITS) [2017]: <http://wits.worldbank.org/>; 2017–2019 period based on Comtrade [2021])

The United States is a strong trading partner for Mexico. However, the predominant trade position of this economy in the United Mexican States has slowed down at least somewhat in recent years, while the importance of the Chinese economy in North America and in Mexico in particular, and has increased significantly (Dussel-Peters 2016).

Likewise, the Mexican economy rapidly consolidated its commercial ties with China, generating new opportunities, challenges, and greater competition in North America.

On the other hand, political–diplomatic relations between the two countries in the last decade have been particularly intense, with more high-level visits than in previous presidential terms. During the period of former President Enrique Peña Nieto (2012–2018), there were eight meetings with his Chinese counterpart, as well as four visits by the President to China. This has been reflected, in legal matters, through numerous agreements. Of the total (around 150) of these pacts, a hundred were signed between 2012 and 2018, according to statements made by Mexico’s ambassador to China, José Luis Bernal.



In relation to the above, the following table (Table 10.1) shows part of the joint efforts between these two countries to promote trade and investment, as well as political coordination.

As can be seen in the table, during the 2013–2020 period, several commitments were signed in trade and investment matters, thus diversifying Mexico’s economic and political relations and apparently reaching another level by joining mutual interests to concretize a stronger relationship. In this way, Mexico reconsidered its traditional trade relations (Wei 2018).

One of the commitments signed during this period was the phytosanitary protocols for the export of Mexican berries (raspberries, blackberries, and blueberries) to China, precisely in the context of tensions over the cancelation of some Chinese projects (Dragon Mart and the Mexico–Queretaro High-Speed Train). According to a statement issued on October 28, 2014 by the then SAGARPA<sup>1</sup> “China establishes a -good number- of precautionary measures before any Mexican berry arrives to its territory,” precisely one month before the signing. Cases like the previous one reinforce that Mexico must seek and create opportunities to build ties of the most diverse order both in Asia and in Europe and Latin America.

However, although economic and trade ties with the United States will probably remain deep, this does not prevent building ambitious bases of economic, political, and cultural ties with the rest of the world (Levy 2018).

What is crucial lies not only in the fact of diversification, but also in the existence of internal solidity so that this multiplication of relations is the product of opportunities and not of the search for certainties coming from abroad, whatever their origin (Dussel-Peters and Levy 2018).

### MEXICO: KEY OPPORTUNITY FOR CHINA IN LATIN AMERICA

Mexico has established itself as one of China’s main partners in Latin America. According to figures provided by the Center for Chinese–Mexican Studies (CECHIMEX) of the UNAM Faculty of Economics, China’s exports to Mexico reached a cumulative value of US\$429.693

<sup>1</sup> SAGARPA (In Spanish Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación), as of December 1, 2018, Secretariat of Agriculture and Rural Development SADER.

**Table 10.1** Mexico–China Meetings and Strategic Agenda (2013–2021)

| <i>Year</i> | <i>Strategy</i>   | <i>Proposals</i>  |
|-------------|---|---|
| 2013        | – State Visit to Mexico by Chinese President Xi Jinping | – <b>June 2013: Modification of the bilateral relationship: Comprehensive Strategic Partnership</b><br><b>Focus areas:</b><br>1. Institutional Infrastructure<br>2. Access to Markets: Increasing agri-food exports to China<br>3. Investment attraction: Technology and investment   |
| 2013        | – High-Level Business Group (GANE <sup>2</sup> )        | – <b>November 2013:</b> The Secretariat of Economy and the Ministry of commerce, People’s Republic of China formally established the GANE in Mexico City  |
| 2014        | High-Level Investment Group (GANI <sup>3</sup> )        | – <b>September 2014:</b> The GANI was established to promote the bilateral investment agenda through official dialogue between the Secretariat of Finance and Public Credit (SHCP) <sup>4</sup> and The National Development and Reform Commission of China (NDRC)  |
| 2014        | –Visit of President Enrique Peña Nieto to China         | – <b>November 2014.</b> The Mexican president made a state visit despite public opinion rejection and met with his counterpart Xi Jinping, with whom he signed 14 agreements in sectors such as banking, energy, technology, and food (e.g., the Protocol of phytosanitary requirements for the export of blackberry and raspberry from Mexico to China) <sup>5</sup> |

(continued)

<sup>2</sup> In Spanish: Grupo Empresarial de Alto Nivel (GANE).

<sup>3</sup> Grupo de Alto Nivel de Inversiones (GANI).

<sup>4</sup> Secretaría de Hacienda y Crédito Público.

<sup>5</sup> The Protocol of phytosanitary requirements for the export of blackberry and raspberry from Mexico to China was signed on November 13, 2014, in Shanghai, China, by representatives of the Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA, as of December 1, 2018, Secretariat of Agriculture and Rural Development SADER) of the United Mexican States and the General Administration of Quality Supervision, Inspection, and Quarantine of the People’s Republic of China.

**Table 10.1** (continued)

| <i>Year</i> | <i>Strategy</i>   | <i>Proposals</i>   |
|-------------|---|--|
| 2016        | <b>High-Level Meeting</b>   | – <b>December 2016.</b> Foreign Minister Ruiz Massieu and State Councilor Yang Jiechi exchanged views on various issues of the bilateral relationship, including the upcoming celebration in China of the VII Binational Commission. Within this context, Mexico signed the Protocol of phytosanitary requirements for exporting Mexican fresh blueberries from Mexico to China <sup>6</sup> |
| 2017        | <b>High-Level Meeting</b><br>– <b>President Enrique Peña Nieto’s Visit to China</b> | – <b>September 2017.</b> The Presidents discussed the progress made in recent years in priority areas such as trade (tequila and berries, among others), investment, and tourism   |
| 2019        | <b>II China International Import Expo (CIIE) in Shanghai, China</b>                 | – <b>November 2019.</b> The Secretary of Economy, Graciela Márquez, made a working visit to Shanghai, China. As part of her activities, she inaugurated the Mexican Business Pavilion at the CIIE  |

*Source* Own elaboration based on information from the Secretariat of Economy (2021)

million during the 1995–2020 period, surpassing Brazil, which registered US\$414.703 million (see Table 10.2). On the other hand, China’s imports from Mexico had a cumulative value of 145,985 million dollars, far from Brazil’s, which reached 764,451 million dollars in the same period. In addition, it is important to note that China’s trade with Brazil and Mexico maintains a marked gap with its other Latin American partners, such as Costa Rica, Panama, and Chile.

The establishment and development of economic, trade, and financial cooperation between China and Latin America have never been straightforward and have had to overcome numerous obstacles to consolidate (Levy 2018). Countries such as Brazil, Chile, and Peru have in China

<sup>6</sup> The Protocol of phytosanitary requirements for exporting Mexican fresh blueberries from Mexico to China was signed on November 25, 2016, in Mexico City by representatives of the Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA, as of December 1, 2018, Secretariat of Agriculture and Rural Development SADER) of the United Mexican States and the General Administration of Quality Supervision, Inspection, and Quarantine of the People’s Republic of China.

**Table 10.2** China's foreign trade in selected Latin American countries (Millions of US dollars)

| <i>Year</i> | <i>Exports</i> |               |               |               |                   |                        |              |
|-------------|----------------|---------------|---------------|---------------|-------------------|------------------------|--------------|
|             | <i>LAC</i>     | <i>Brazil</i> | <i>Mexico</i> | <i>Panama</i> | <i>Costa Rica</i> | <i>Central America</i> | <i>Chile</i> |
| 1995        | 6126           | 759           | 195           | 594           | 22                | 735                    | 411          |
| 1996        | 3097           | 768           | 221           | 488           | 19                | 618                    | 464          |
| 1997        | 4583           | 1,057         | 415           | 1,010         | 23                | 1,196                  | 563          |
| 1998        | 5276           | 1,086         | 689           | 1,053         | 46                | 1,316                  | 619          |
| 1999        | 5198           | 877           | 792           | 1,038         | 63                | 1,334                  | 605          |
| 2000        | 14,594         | 1,268         | 1,381         | 1,290         | 65                | 1,662                  | 784          |
| 2001        | 16,118         | 1,363         | 1,802         | 1,240         | 63                | 1,665                  | 816          |
| 2002        | 19,325         | 1,515         | 2,930         | 1,274         | 82                | 1,840                  | 998          |
| 2003        | 10,878         | 2,019         | 3,027         | 1,382         | 93                | 2,041                  | 1182         |
| 2004        | 37,536         | 3,675         | 4,978         | 2,187         | 154               | 3,155                  | 1690         |
| 2005        | 46,185         | 5,093         | 5,846         | 3,151         | 229               | 4,295                  | 2151         |
| 2006        | 70,708         | 7,380         | 8,824         | 3,868         | 409               | 5,666                  | 3110         |
| 2007        | 100,384        | 11,233        | 11,536        | 5,563         | 563               | 7,749                  | 4366         |
| 2008        | 140,839        | 18,775        | 13,849        | 7,851         | 616               | 10,342                 | 6151         |
| 2009        | 112,027        | 14,125        | 12,302        | 6,513         | 535               | 8,369                  | 4935         |
| 2010        | 180,777        | 24,464        | 17,874        | 11,942        | 687               | 14,635                 | 8028         |
| 2011        | 222,309        | 31,854        | 23,981        | 14,475        | 861               | 17,841                 | 10,137       |
| 2012        | 266,869        | 33,425        | 20,756        | 15,302        | 902               | 19,502                 | 12,607       |
| 2013        | 261,223        | 36,190        | 28,970        | 10,985        | 926               | 15,230                 | 13,110       |
| 2014        | 268,898        | 34,925        | 32,259        | 9,304         | 1,110             | 14,138                 | 13,019       |
| 2015        | 260,086        | 27,428        | 33,810        | 8,528         | 1,331             | 14,183                 | 13,295       |
| 2016        | 226,485        | 22,162        | 32,545        | 6,466         | 1,516             | 11,995                 | 12,957       |
| 2017        | 259,599        | 29,233        | 35,997        | 6,672         | 1,498             | 12,379                 | 14,493       |
| 2018        | 142,994        | 33,694        | 43,99         | 6,946         | 1,664             | 13,335                 | 15,883       |
| 2019        | 150,102        | 35,382        | 45,875        | 7,921         | 1,501             | 14,236                 | 14,585       |
| 2020        | 149,428        | 34,951        | 44,838        | 8,803         | 1,535             | 15,159                 | 1,5337       |
| 1995–2020   | 2,981,647      | 414,703       | 429,693       | 145,845       | 16,514            | 214,618                | 17,2297      |

| <i>Year</i> | <i>Imports</i> |               |               |               |                   |                        |              |
|-------------|----------------|---------------|---------------|---------------|-------------------|------------------------|--------------|
|             | <i>LAC</i>     | <i>Brazil</i> | <i>Mexico</i> | <i>Panama</i> | <i>Costa Rica</i> | <i>Central America</i> | <i>Chile</i> |
| 1995        | 2,964          | 1,228         | 195           | 8             | 29                | 78                     | 230          |
| 1996        | 3,615          | 1,484         | 297           | 2             | 1                 | 5                      | 455          |
| 1997        | 3,754          | 1,486         | 184           | 2             | 1                 | 4                      | 415          |
| 1998        | 2,992          | 1,133         | 152           | 1             | 17                | 19                     | 421          |

(continued)

**Table 10.2** (continued)

| <i>Year</i> | <i>Imports</i> |               |               |               |                   |                        |              |
|-------------|----------------|---------------|---------------|---------------|-------------------|------------------------|--------------|
|             | <i>LAC</i>     | <i>Brazil</i> | <i>Mexico</i> | <i>Panama</i> | <i>Costa Rica</i> | <i>Central America</i> | <i>Chile</i> |
| 1999        | 2,984          | 969           | 159           | 1             | 7                 | 9                      | 664          |
| 2000        | 5,403          | 1,621         | 488           | 1             | 10                | 17                     | 1339         |
| 2001        | 6,685          | 2,347         | 761           | 2             | 27                | 29                     | 1303         |
| 2002        | 8,878          | 3,233         | 1,135         | 5             | 191               | 200                    | 1580         |
| 2003        | 13,971         | 5,536         | 1,537         | 10            | 529               | 546                    | 2069         |
| 2004        | 21,651         | 8,656         | 2,132         | 15            | 641               | 717                    | 3672         |
| 2005        | 26,587         | 9,982         | 2,227         | 22            | 919               | 1,074                  | 4943         |
| 2006        | 33,999         | 12,907        | 2,606         | 14            | 1,747             | 1,829                  | 5689         |
| 2007        | 50,837         | 18,342        | 3,260         | 8             | 2,307             | 2,385                  | 10,239       |
| 2008        | 71,140         | 29,632        | 3,696         | 50            | 2,270             | 2,359                  | 11,362       |
| 2009        | 63,696         | 28,311        | 3,852         | 29            | 2,646             | 2,756                  | 12,561       |
| 2010        | 90,407         | 38,038        | 6,809         | 25            | 3,107             | 3,270                  | 17,755       |
| 2011        | 118,682        | 52,649        | 9,362         | 43            | 3,844             | 4,087                  | 20,576       |
| 2012        | 124,823        | 52,060        | 9,167         | 53            | 5,271             | 5,769                  | 20,611       |
| 2013        | 125,969        | 53,666        | 10,271        | 44            | 4,755             | 5,307                  | 20,800       |
| 2014        | 126,659        | 51,976        | 11,232        | 261           | 4,197             | 4,729                  | 21,133       |
| 2015        | 103,865        | 44,380        | 10,086        | 315           | 826               | 1,470                  | 18,709       |
| 2016        | 101,479        | 45,405        | 10,293        | 37            | 697               | 925                    | 18,407       |
| 2017        | 125,916        | 58,301        | 11,745        | 62            | 789               | 1,129                  | 20,808       |
| 2018        | 157,102        | 77,228        | 14,006        | 82            | 776               | 1,262                  | 26,722       |
| 2019        | 164,499        | 79,797        | 14,337        | 445           | 723               | 1,556                  | 26,234       |
| 2020        | 164,786        | 84,082        | 15,996        | 442           | 669               | 1,604                  | 28,749       |
| 1995–2020   | 1,723,343      | 764,451       | 145,985       | 1,980         | 36,997            | 43,135                 | 297,446      |

their largest trading partner. In the future, they and others contemplating expanding their relationship with China will also have to overcome pressures originating from the US government.

Until less than five years ago, studies and accumulated knowledge in Latin America and the Caribbean (LAC) on China were insufficient and reflected a significant lag with respect to the actual economic and trade movements and flows between the two (Gustavo Bittencourt 2012). Since then, however, a growing interest with respect to China is perceived. Latin America has several centuries of economic, trade, and cultural relations with the Asian giant and more than four decades of diplomatic relations with the People's Republic of China in several cases. However, it has only been since the 1990s that the economic and trade relationship with China

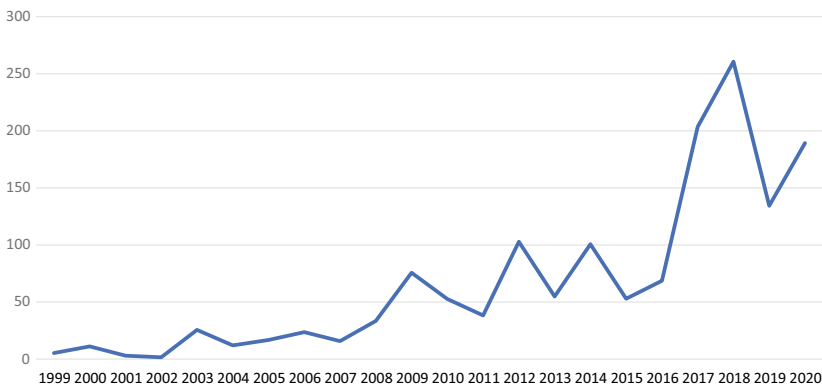
increased significantly after starting from a relatively low base (Dussel-Peters 2018a), it is now part of the leaders in the region, and by far the most dynamic among the main trading partners.

### *Overview of China's Investment in Mexico: A Growing but Modest Participation*

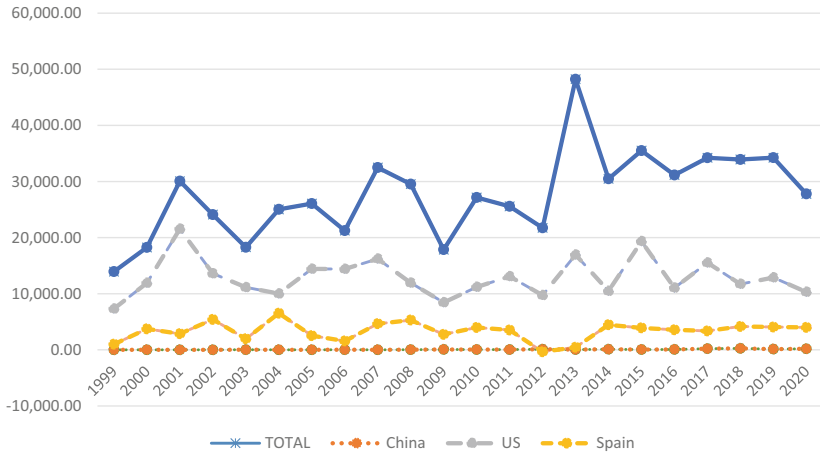
Despite the significant presence of Chinese investment in the Latin American region, the particular case of Mexico stands in stark contrast. Despite registering considerable growth since 2003, the percentage of Chinese participation remains at minimal levels in relation to the total collected (see Figs. 10.3 and 10.4).

As can be seen in 10.4, China's Foreign Direct Investment has been growing steadily since 2003, with spikes in 2009, 2017, and 2018, respectively. However, China's Foreign Direct Investment barely represents 0.20% of the total FDI accumulated during the period 1999–2021.

According to data from the National Foreign Investment Commission, Mexico registered 618,651.6 million dollars between 1999 and the first trimester of 2021, of which almost half came from the United States (Fig. 10.5).



**Fig. 10.3** China's Foreign Direct Investment in Mexico (Millions of US dollars) (*Source* Own elaboration based on the Statistical Report on the Behavior of Foreign Direct Investment in Mexico, National Foreign Investment Commission [2021])



**Fig. 10.4** Foreign Direct Investment in Mexico 1999–2020 (Millions of US dollars) (*Source* Own elaboration based on data from the Secretariat of Economy 2021)

Figure 10.4 reveals that Foreign Direct Investment (FDI) from China in Mexico is far from that achieved by the countries that lead in investment: the United States and Spain, in that order. Within the 1999–2021 period, Mexico’s neighboring country reached an accumulated total of 288,299 million dollars, equivalent to 46.6%, while the value of Spanish investment represented 74,851.8 million dollars, equivalent to 12.1% of the same period. Although the United States is positioned with a strong advantage over the other countries, in the last five years it has shown a marked downward trend, while Spain has remained stable.

### *Why China’s Investment Rebound Is Not All that Great?*

There are several factors that compromise the rebound of Chinese investment in Mexico. One of them is the lack of certainty or rather confidence. For companies, investing in Mexico could be extremely attractive as long as there was a framework of steadiness both legal and regulatory that would allow them to be certain that the existing conditions at the time of investing would be maintained (Levy 2018). In other words, continuity of commitment regardless of government transitions.

In addition to the above, the Mexican government must continue to work on the transparency of its processes, because it is precisely this environment of distrust that makes it difficult to either establish an investment relationship or limit existing ones in some way.

The cases of the high-speed train between Mexico City and Queretaro and Dragon Mart are just a clear example of the result of unclear processes and lack of commitment on the part of the Mexican government. This has a cost, mistrust, which represented and represents tensions with China and a limitation (and considered by some as a failure) of the Comprehensive Strategic Partnership so optimistically sought by the government of Enrique Peña Nieto and his Chinese counterpart, Xi Jinping.

On the other hand, general insecurity also affects companies' decisions to invest in Mexico. High crime rates with strong presence in some states of the country (Guerrero, Michoacán, Oaxaca, or Veracruz, to mention a few) undermine the intentions of investors to commit their business.

In relation to the above, signals from the Mexican government that give priority to business partners in bidding or unclear processes for Chinese investors (culture, language, knowledge of the legal or political system) contribute to the generation of distrust and "flight" of potential investments (Ronglin 2015).

## NAFTA - USMCA

According to Simon Levy-Dabbah, in *The Role of Trade with China in Mexico's Renegotiation of NAFTA*, "there is another participant behind the scenes who, despite not belonging geographically to North America, has an influential role and a strong interest in these events: China." (Levy-Dabbah 2018).

Professor Gisela Bolivar, one of Universidad Iberoamericana's in-house experts on trade agreements, consulted on the topic for this case, mentioned that in order to "throw a piece of candy to then President Trump" during the renegotiation of NAFTA, a clause was included in the USMCA that states that if any of the member countries, Mexico, Canada, or the US, wants to initiate a trade agreement with China, it has to notify the other partners. This does not mean that a trade agreement cannot be negotiated, but the other two members could decide to leave the agreement (the legal figure is called "denouncement of the agreement"). In theory, negotiations being held between the US and China in



the ongoing trade war between those two countries should be notified to the other American counterparts.

The clause about China (a non-market economy) is stated in article 32.10 of the USMCA (it can be best consulted on the website of Mexico's Secretariat of Economy <https://www.gob.mx/cms/uploads/attachment/file/465766/32ESPExcepcionesyDisposicionesGenerales.pdf>).

## PROMEXICO

In 2007, during the presidency of Felipe Calderon (2006–2012), ProMexico, an agency created to promote exports and to attract foreign direct investment was founded. ProMexico had several offices scattered throughout the world and during its eleven years of existence it did its job relatively successfully; many of ProMexico's offices were often quartered together with Mexico's embassies and consulates. Felipe Calderon was one of the so-called five neoliberal presidents, winning the 2006 election through fraud according to Mexico's current president, Andres Manuel Lopez Obrador, who lost the election by a very small margin.

The current Lopez Obrador Left-leaning government won the 2018 election with a historic majority, based on an electoral platform promising to work for the poor, to manage the country with "Franciscan" austerity, and above all, to fight corruption, vowing also to do away with many of the neoliberal economic measures of his predecessors. He took office on December 1st, 2018, and one of his initial measures was to cancel ProMexico, because in his view, it was an inefficient, expensive, and unnecessary organization.

In the summer of 2019, during a visit to the Mexican Consulate in Shanghai by Universidad Iberoamericana's summer program, students were gracefully received by Ambassador Lorena Larios Rodriguez, a career diplomat. In her speech, she outlined how busy the consulate was, handling hundreds of consular matters with a very limited staff. In the Q&A period that followed, someone asked her if the consulate was being able to handle all the work previously conducted by ProMexico staff. She replied that they were all professional career diplomats who worked under the directives of the government, and they were doing their best to do so.

Dr. Adolfo Laborde, a researcher and a member of the faculty at Universidad Anáhuac in Mexico City, was doubtful that the diplomats and staff of the Secretariat of Foreign Relations would have the logistics,

technical, and budgetary capacity to face the titanic task ahead of them (Laborde, 2018).

## THE MEXICO-QUERETARO TRAIN

On December 1st, 2012, during the swearing in ceremony for Enrique Peña Nieto as president of Mexico (2012–2018), in his inaugural speech, he informed that during his six-year term, one of his governments' signature projects was the construction of a high-speed train from Mexico City to Queretaro, capital of the state by the same name.<sup>7</sup>

### *Project Background*

The US\$3,750 million project was hailed as the first of its kind in America, and it was supposed to be “safe, fast, comfortable, environmentally friendly, and it would have had a direct impact on the twenty-three thousand people who travel the two hundred and ten kilometers every day.”<sup>8</sup> The train, traveling at three hundred kilometers per hour would make the trip in under an hour, providing traveler savings of two hours in a single trip and four hours in a round trip.<sup>9</sup>

According to the Secretariat of Communications and Transport (SCT), the project would impact 25 million people and would generate sixty thousand jobs during its construction, which was the first step of an integral transportation system meant to connect neighboring states of Guanajuato and Jalisco and eventually other states to the North.<sup>10</sup>

The initial announcement was made on July 25th, 2014 and it included the rules of the bidding for a “contract that would provide the development of the executive project, construction, supplies, and the start-up operation of rails, equipment, systems, and other components of the High-Speed Train.” The formal announcement for the bidding process was programmed for August 15th, 2014. The execution of the project

<sup>7</sup> [https://www.senado.gob.mx/64/gaceta\\_del\\_senado/documento/52678](https://www.senado.gob.mx/64/gaceta_del_senado/documento/52678).

<sup>8</sup> <http://www.sct.gob.mx/despliega-noticias/article/tren-de-alta-velocidad-mexico-que-retaro-primero-en-su-genero-en-america-latina/>

<sup>9</sup> <http://www.sct.gob.mx/despliega-noticias/article/tren-de-alta-velocidad-mexico-que-retaro-primero-en-su-genero-en-america-latina/>

<sup>10</sup> Ibid.

**Table 10.3** High-speed train infrastructure project: investment costs (in 4 years)<sup>a</sup>

|                            | <i>US\$ million</i> | <i>Millions of Mexican pesos</i> | <i>Percentage</i> |
|----------------------------|---------------------|----------------------------------|-------------------|
| Infrastructure             | 2,115               | 28,128.56                        | 64.54             |
| Road                       | 343                 | 4,566.78                         | 10.48             |
| Electrification            | 173                 | 2,297.21                         | 5.27              |
| Security and communication | 264                 | 3,515.47                         | 8.07              |
| Railway rolling stock      | 351                 | 4,662.27                         | 10.70             |
| Right of way               | 31                  | 409.48                           | 0.94              |
| Total                      | 3,277               | 43,579.77                        | 100.00            |

<sup>a</sup>Using an exchange rate of 13.3 Mexican Pesos for each \$US dollar. Source: own calculations based on Modelística (2014:Annex 5)

Source Dussel-Peters, Enrique, 2018 “Chinese infrastructure projects in Mexico.” In “Building development for a new era”. China’s infrastructure projects in Latin America and the Caribbean, ed. Enrique Dussel-Peters et al., 57–76. Asian Studies Center, Center for International Studies, University of Pittsburgh, and Red Académica de América Latina y el Caribe sobre China.

was to start that very same year and initial operations of the train were expected in December of 2017<sup>11</sup> (Table 10.3).

In November of 2014, the Secretariat of Communication and Transport (SCT) awarded the project to the only bidder, China Railway and its partners: China Railway Mexico, CSR Corporation Limited, GHP Infraestructura Mexicana, Grupo GIA, Constructora Teya (part of Grupo Higa), and Promotora y Desarrolladora Mexicana (PRODEMEX).<sup>12</sup>

The China Railway Construction Corporation (CRCC) and its consortium was the only bid presented for the ambitious project since sixteen enterprises had declined to participate: Germany’s Siemens, Canada’s Bombardier, France’s Alstom, and Japan’s Mitsubishi among others. Their reason was that the time provided to present the bid had been too short.<sup>13</sup>

For Beijing, the project meant the global recognition of the Chinese railroad technology as described by the official Chinese newspaper Global Times, since the development of the industry of high-speed trains has been one of the showcases of the People’s Republic of China. The project

<sup>11</sup> [https://www.senado.gob.mx/64/gaceta\\_del\\_senado/documento/52678](https://www.senado.gob.mx/64/gaceta_del_senado/documento/52678).

<sup>12</sup> <https://expansion.mx/economia/2015/01/12/5-cosas-que-debes-saber-del-tren-mexicoqueretaro>.

<sup>13</sup> Ibid.

meant not only the export of parts of their systems, as had been done in the past, but it was an emblematic project of Chinese industry as quoted to Xinhua news agency by Shanghai's Tonji University expert professor Sun Zhang (Navas 2014).

### *The “Derailment of the Bullet Train”*

On November 6th of 2014, a press release issued by the Secretariat of Communications and Transport, acting under instructions of President Peña Nieto, canceled the awarded project, citing “doubts and unease that have arisen in public opinion.”<sup>14</sup>

The cancellation of the project was referred to as the “derailment of the bullet train” by the Hong Kong-based South China Morning Post. On November 7th, the day after the cancellation was announced, China Railway Construction Corporation (CRCC) the largest contractor in the world, suffered a 4.94% and a 5.67% drop in the Shanghai and Hong Kong stock exchanges, respectively (Navas 2014).

The cancellation was a hard blow to China, which hoped to export its high-speed rail technology (Navas 2014). The Chinese “National Development Reform Commission demanded to protect the legitimate rights of Chinese companies and adopt active measures to promote pragmatic cooperation between the two countries since CRCC already invested resources in the project in the amount of \$60 million US” (Dussel-Peters 2018a).

In January of 2015, Mexico reopened the bidding process only to cancel it two weeks later, claiming that due to budget cuts resulting from lower oil prices, the project was suspended indefinitely, and it has not been brought up since (Dussel-Peters 2018a).

### *Situational Background*

In reality, three events influenced the cancellation of the Mexico–Queretaro train: the Casa Blanca scandal, the massive disappearance of 43 the students in Ayotzinapa in Guerrero, and the pressure of the Obama administration to put a stop to the project with the Chinese. The combination of all three forced the Peña Nieto government to halt the train

<sup>14</sup> Ibid.

project due to immense public opinion pressure from within and from abroad.

### *The Casa Blanca Scandal*

In November 2014, the Mexican press and the Wall Street Journal published information about a seven million-dollar white house located in Mexico City's most exclusive neighborhood, owned by Grupo Higa and purchased by Angelica Rivera (president Peña Nieto's wife) through mortgage credits issued by Higa to her. Grupo Higa was the holder of Constructora Teya, one of the Mexican companies participating in the China Railroad Construction Corporation consortium created for the Queretaro train project. Higa is owned by Juan Armando Hinojosa Cantú, a long-time associate and friend of Enrique Peña Nieto. During Peña Nieto's term as governor of the State of Mexico, Cantú was awarded state infrastructure projects worth several hundred million dollars. Grupo GIA's CEO, another partner of the consortium, was brother-in-law to former Mexican president Carlos Salinas de Gortari (Navas 2014).

According to the BBC's article "Mexico: the bullet train, the presidential mansion and China's anger," it all became a scandal of huge proportions, which raised the possibility that the consortium had privileged information. Through these connections, many of whom were members of Peña Nieto's PRI political party, they were certain that the project would be awarded to them. According to BBC's Raymond Li, China indicated that the cancelation of the project was the result of Mexico's internal politics (Navas 2014).

### *Ayotzinapa*

On September 26–27th, 2014, forty-three college-age students disappeared in Iguala, a small town in the poverty-stricken state of Guerrero. They were most likely killed in strange circumstances which have never been clarified, probably having to do with a drug cartel. The Peña Nieto government handling of the affair was extremely poor, and while this terrible event had no direct impact on the train project, it was the lowest point of the Peña Nieto government, decreasing further its credibility both nationally and internationally (Franco 2018).

### *Pressure of the Obama Administration*

In February of 2014, while Peña Nieto enjoyed very high popularity, he organized the Toluca Summit to celebrate the 20th anniversary of the NAFTA, attended by the US's Barack Obama and Stephen Harper of Canada. Shortly after the arrival of the US delegation, Obama held a private meeting with Peña Nieto. One of the two issues discussed was “the Chinese affair.” Obama was aware of the plans to hand the Queretaro train project to the Chinese. Obama reminded his host that the presence of the Chinese in the railroads of the region contaminated the spirit of NAFTA. If the spirit of the agreement was infringed, neither the agreement nor the summit had any purpose. With over 80% of Mexican exports going to the US, it is the most important commercial partner of Mexico, and NAFTA is a central part of it.<sup>15</sup>

### DRAGON MART: A TALE OF MANY VESTED INTERESTS

The Dragon Mart project was supposed to be an international trade center where, “Mexicans and foreigners could exhibit and sell products to visitors from around the world, especially from Latin America,” connecting manufacturers and international clients.<sup>16</sup> The facility was not meant to be a place to manufacture nor to distribute merchandize; it was a kind of permanent trade fair.

### *Project Background*

On the 22 of March, 2011, Hao Feng, president of Chinamex Middle Investment and Trade Promotion Center, informed that Cancun had been chosen among twelve Latin American cities to establish the largest commercial platform for Chinese products in the region (Vázquez 2013). Together with the local governor and the new governor-elect of Quintana Roo state, he compared the project with Dragon Mart Dubai in the United Arab Emirates.

<sup>15</sup> <https://www.lja.mx/2020/05/el-manotazo-de-obama-a-pena-nieto-una-historia-sobre-trenes>.

<sup>16</sup> [http://www.economia.unam.mx/deschimex/cechimex/chmxExtras/documentos/actividades/Dragonmart/Juan\\_Carlos\\_Lopez\\_R.pdf](http://www.economia.unam.mx/deschimex/cechimex/chmxExtras/documentos/actividades/Dragonmart/Juan_Carlos_Lopez_R.pdf).

The state of Quintana Roo in the southeastern part of Mexico relied almost entirely on tourism for its income and taxes, hence the interest of the local government to diversify sources of income. Cancun was chosen among other cities like Miami and Panama due to its great geographic location, great international connectivity, quality infrastructure, and its security for travelers and investors. The project, located in a non-seaside area called El Tucan, lays 8 km from Cancun International Airport, 4 km from Cancun Messe (convention center), and 13 km from the little town of Puerto Morelos.

The US\$200 million project was to be constructed in a 557 hectares piece of land divided into two parts: 363 hectares destined for natural conservation and 194 hectares for the trade center itself, of which 61 hectares would become further green space and 132 remaining hectares would become the trade center and complementary facilities,<sup>17</sup> including showrooms for one thousand permanent exhibitors. At some point, it was also mentioned that the project would include a hotel and over one thousand town houses for exhibitors.

During the construction, the project would create 1,600 jobs, and once fully functional it would generate up to 8,855 direct jobs. Dragon Mart would bring an additional one million (business) visitors to Cancun per year.<sup>18</sup>

The project would generate its own clean electric power through the installation of rooftop solar panels, its own well for water supply, a plant to process residual waters, and several absorption wells to replenish underground water.<sup>19</sup>

The project holders always emphasized that both Real Estate Dragon Mart and the local and international exhibitors were going to comply with the Mexican laws, and would have to have legally established Mexican subsidiaries.

<sup>17</sup> [http://www.economia.unam.mx/deschimex/cechimex/chmxExtras/documentos/actividades/Dragonmart/Juan\\_Carlos\\_Lopez\\_R.pdf](http://www.economia.unam.mx/deschimex/cechimex/chmxExtras/documentos/actividades/Dragonmart/Juan_Carlos_Lopez_R.pdf).

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

### *Public Opinion Forced Modifications*

From its very inception the project had many critics, many of them motivated by vested interests: local citizens, NGO's, environmental groups, importers, and especially the national chambers of commerce and industry, to the point that some investors were threatened with death if products were represented and sold in the premises (Méndez 2019).

From the original project, as was announced to the public at its original presentation, Dragon Mart suffered several scale downs: the idea of the hotel was scraped, the number of town houses diminished severely, and even Chinese investment was reduced to 10%.

In June of 2012, Juan Carlos López Rodríguez, the managing partner of the project, presented to the press the scope of the new modifications: 60% Mexican investment, 40% Chinese investment, and the addition of China Ocean Shipping Company (COSCO). He acknowledged that the project was generating heavy opposition by the Mexican textile, shoe, and toy industries (Vázquez 2013).

By December of 2012, Dragon Mart had transformed itself into a completely private venture with 90% Mexican capital coming from Real Estate Dragon Mart Cancun, and only 10% Chinese investment from Chinamex. While it maintained the same number of exhibition spaces, it reduced the number of townhouses from 1,650 to 720, and it eliminated the construction of the proposed hotel because it was not allowed under local ordinances (Vázquez 2013).

### *Vested Interests*

Pushing for the project were, of course, all of the local investors, Chinamex, and the government of the state of Quintana Roo. Pushing against the project, the list grows very large, and the reasons are many.

### *The National Chambers of Industry and Commerce*

Always very conservative, protectionist, and well-connected to the Mexican government, the industrial chambers of the country were totally opposed from the very first announcement of Dragon Mart. "In December of 2012, Francisco Funtanet, president of the Confederation of Chambers of Industry (CONCAMIN) warned that Dragon Mart would bring losses of US\$200 million to Mexican industry, fake invoicing,



fake brands, low-quality Chinese products, smuggling, and other illegal practices” (Méndez 2019).

Other chambers, like the National Chamber of the Transformation Industry (CANACINTRA), the Patronal Confederation of the Mexican Republic (COPARMEX), the Guanajuato Chamber of Footwear Industry (CIICEG), and the National Chamber of Clothing Industry (CANAIVES), fiercely opposed Dragon Mart (Vázquez 2013).

### *Large Importers' Opposition*

According to Juan Carlos Lopez, managing partner of the project, large importers of merchandize in Mexico (like Walmart,) fearing competition from Dragon Mart have organized a mediatic witch hunt against the project. He claims that opposition to the project has not been spontaneous, but it has been perfectly organized by vested interests (Méndez 2019).

### *Mexican Press*

Mexican news media, always in the hunt for high-rating news, played along the vested interests and contributed highly to the formation of public opinion against the project.

### *Local Citizens' Opposition*

State citizens and particularly the villagers of the nearby town of Puerto Morelos issued a public manifesto against Dragon Mart, claiming that the project would affect the tourist vocation of the region, and would damage their natural resources.

In fact, Dragon Mart could have brought up to a million visitors per year (business tourism) and it could have generated a permanent source of employment to hundreds of persons of this rural town.

### *Opposition from NGO's and Environmental Groups*

Some of the strongest opposition came from environmental groups and NGO's. In fact, the final straw came from the Mexican Center of Environmental Law (CEMDA), which was the only organization to present legal action for violations of environmental regulations (Vazquez 2013).

According to Miguel Pedraza, one of the investors, he was never able to imagine the wave of indignation the project would cause throughout Mexico. “Everybody oversized the dimensions of Dragon Mart. Our investment is but one half of a large hotel” (Méndez 2019).

### *Compliance of Municipal, State, and Federal Regulations*

Even though municipal and state environmental permits were issued, the project failed to secure federal permits from the Secretariat of Environment and Natural Resources (SEMARNAT) which is required to change the use of land from forest to tourism.

In August 14, 2014, SEMARNAT imposed the first fine of \$7.2 million Mexican pesos, because the project lacked the environmental impact permit (Vera, 2015), and in September 8 of the same year, an additional \$2.7 million Mexican pesos fine was imposed for forestry violations (Méndez 2017).

Other reasons used in the creation of public opinion against the project.

Xenophobia was also used, as people were made to believe and were opposed to the idea of the creation of a large Chinese community, a small Chinatown, with people who would not be willing to integrate, and would affect the culture of the zone.

Mexico would be inundated with cheap, low-quality, Chinese-made products manufactured by low-wage, nonunionized Chinese laborers who would steal jobs from Mexican factory workers.

In Mexico and probably in many countries throughout Latin America, there is a persistent notion that Chinese products are of low quality, which is far from the truth: during the Universidad Iberoamericana summer programs, both foreign (mostly European) and Chinese professors from Donghua University in Shanghai have repeatedly pointed out (and participants have witnessed) that depending on the price paid, Chinese manufacturers offer top quality products to buyers willing to pay the price for them. Hence, they say, “there are products of excellent quality, great quality, good quality, and poor quality, and the lowest quality products are those being looked for by Mexican importers.”

### *Cancellation of the Project*

On January 8th, 2015, given the intense pressure from different vested interests, the Mexican courts declared invalid the appeal presented by Dragon Mart, and on January 21st of the same year, a district court issued the corresponding ruling which resulted in the effective cancellation of the project (Cornejo 2019).

For the alteration of the ecological equilibrium and the “devastation” of 149 hectares and the violation of the use of land legislation, the Federal Environmental Protection office (PROFEPA) issued the final cancellation of the project. President Peña Nieto’s spokesman, Eduardo Sánchez, and POFEPA’s spokesperson announced the definitive closure of the controversial project (Vera 2015).

## CONCLUSIONS

The cancellation of the projects logically angered the Chinese Government, and the bilateral relation became cold and distant. Some reciprocal measures were taken. While the Protocol on Phytosanitary Requirements for the Export of Blackberry and Raspberry from Mexico to China had been signed in 2014, just four years later, in 2018, China applied additional tariffs and taxes against Mexican producers. Undoubtedly, these actions directly affect the diversification of Mexican trade with China, since currently about 90% of berry exports are to the United States. On the other hand, China would be losing the opportunity to supply itself with a quality product and excellent and stable production levels.

Mexican society, being as it is, very conservative, always and systematically opposes any new project, be it urban, rural or environmental, and it is yet to find the middle ground between the necessary economic development and impacts on the environmental footprint. The problem is that governmental, political, and media corruption reduces credibility, and fake news and rumors often run rampant in the news and in social media.

In the book “Building development for a new era. China’s infrastructure projects in Latin America and the Caribbean” Enrique Dussel-Peters, director of Universidad Autonoma de Mexico’s Centro China-Mexico (Cechimex), writes (about China and Mexico): “the two countries have been unable to come to agreement in the last decade. Corruption and a general lack of understanding from both sides have been the main reasons.

It has been difficult, and expensive, for Chinese firms to understand the local modus operandi, including corruption. Mexican authorities and institutions have not dedicated sufficient attention to Chinese investment and particularly to Chinese infrastructure projects” and “Chinese firms have also been slow to understand ‘how to do business’ in Mexico” (Dussel-Peters 2018a).

The end of the Peña Nieto administration and the election in 2018 of Andres Manuel Lopez Obrador government brought new winds to the Mexico–China relationship, and there are several Chinese investment projects in Mexico: a segment 1 of the Mayan Train, the renovation of the Mexico City’s oldest subway line, and other projects being built by Chinese companies (Dussel-Peters 2021).

The closure of PROMÉXICO and the lack of capacity of Mexican consulates to absorb the additional load that implies handling the promotion of Mexican products and the attraction of foreign direct investment suggests that the insufficient time dedicated to Chinese investment and infrastructure projects is likely to continue into the future.

The pressure of the US government against Mexico taking on Chinese investment and Chinese-backed infrastructure projects is also certain to continue. Dr. Aribel Contreras, the chairperson of the Global Business program at Universidad Iberoamericana in Mexico City, says that the US–China commercial war “is the new cold war 2.0.” Mexico, being a part of the United States, Mexico, and Canada Agreement, finds itself in the middle.

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## Sino-Brazilian Relations

*Jorge Arbache and Gabriel Condi*

### INTRODUCTION

The earliest interactions between Brazil and China go back to the Brazilian colonial era (Freyre 2011). At that time, their relations were rather indirect, being reflected mostly on tapestry, porcelain, and other products that traveled from Macao to Brazil, under the auspices of Portuguese rule. During the nineteenth century, the Portuguese government tried to initiate the production of tea in Brazilian territory, bringing groups of Chinese to work on tea planting and harvesting. In the end of that century, China's emperor sent the first official expedition to Brazil to catalog the country's geographical features and establish the first formal contacts between the two sides.

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The twentieth century saw a significant progress in Sino-Brazilian relations. In 1974, the two countries established diplomatic ties with the opening of embassies on one another's territory (Cardoso 2012). The bilateral relation eventually evolved into a "Strategic Partnership" in the 1990s, which was later elevated, in 2012, to a higher level, of "Comprehensive Strategic Partnership." These agreements have played a key role in developing cooperation in many areas, including trade, investment, technology, and science (Niu Haibin 2013).

In 2009, China became the main destiny of Brazil's exports and the largest source of Brazil's imports a few years later, in 2012. Nowadays, China is also one of the most important foreign investors in Brazil. Brazil receives around half of all Chinese investments in Latin America, which reveals the importance China attaches to the country.

In practical terms, bilateral trade between the two countries grew from US\$ 2.3 billion in 2000 to US\$ 101.7 billion in 2020, a 44-fold increase. As far as investments are concerned, up to 2020, the Chinese stock of investments in Brazil amounted to US\$ 66.1 billion (Cariello 2021).

Even though trade plays a vital role in Sino-Brazilian relations, the potential for strengthening the two countries' cooperation is enormous, along with the possibilities of mutual benefits that may arise from improved connections between them, going much beyond their commercial ties. Good existing economic relations, existing agreements on science and technology, agribusiness, green agenda, infrastructure, satellite imagery, and other sectors (Condi 2020) are some of the means at the hands of both countries to not only enhance their partnership, but also expand ties to other sectors.

China's growth also offers unprecedented opportunities for partnerships between the two economies. With the world's largest population and increasing affluence, the world's largest consumer market is being created in China. In fact, after basic needs are met, the Chinese middle class is already ramping up its demand for quality goods, services, and food. It is estimated that the increase in Chinese consumption will account for at least 31% of consumption growth at the global level over the next decade. In this way, spillovers of this growth will affect not only its neighbors in Eurasia, but also Brazil.

Being geographically distant, Brazil is not in the front line to benefit directly through regional value chains. Still, due to its strong economic relations with China, Brazil will be impacted by the transformations taking place in the Asian giant.

While recognizing the high complementarity of the two economies, in which Brazil basically supplies commodities to China and acquires goods and services with higher added value, it should be recognized that this trade pattern offers opportunities, such as the industrialization of Brazilian comparative advantages and agendas for services, technologies, and innovation associated with those sectors. Otherwise, commodities could be seen as a departure, not an arrival point, for an array of more sophisticated trade and investment opportunities. Climate change is another agenda that can energize the economic relationship.

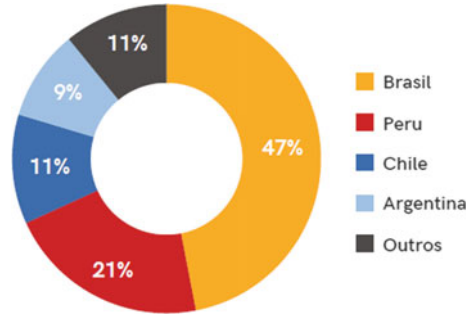
As it often happens in bilateral relations, there are also challenges in the Sino-Brazilian prospects for the future, including unbalanced trade and deep discrepancies in the technological level of products commercialized. Nevertheless, if economic progress and reforms take place, the mutual gains from improved cooperation that benefit the two sides have a clear potential to overcome any challenges.

This chapter is organized as follows: We begin by providing a brief perspective on the Sino-Brazilian relations concerning investments and trade, going from a historical overview to the analysis of future trends on selected sectors. We proceed by looking at the nature and scope of projects financed by China in Brazil, highlighting the role of Chinese and multilateral banks. Subsequently, we turn the focus to the impacts of the Chinese economic growth in Brazil, identifying sectors with potential to strengthen the cooperation between the two countries. Finally, we examine some of those sectors in more detail, namely science, technology and innovation, education, green agenda, value addition and production, and global and regional affairs. We end the chapter with some final thoughts on how to make the Sino-Brazilian relations a win-win game with suggestions for both countries to focus on the potential development of the bilateral relations.

## INVESTMENTS AND TRADE: HISTORICAL PERSPECTIVE AND TRENDS

One characteristic stands out when it comes to Chinese investments in Brazil: the difficulties to obtain a precise measure. That is because China invests in Brazil mostly indirectly, mainly, but not only, through Luxembourg (Veiga and Rios 2019). With the available data, however, it is possible to have a reasonable view of the importance of Chinese investments in Brazil as compared to other South American countries. More

**Graph 11.1** Chinese investment stock in South America (%) | 2005–2020 (*Source* Cariello [2021, 18])



specifically, Graph 11.1 shows that, from 2005 to 2020, Brazil alone represented almost half of Chinese investments throughout the region, more than the combined amount of the three countries that followed.

In absolute numbers, from 2007 to 2020, China's confirmed investments in Brazil reached US\$66.1 billion, with 176 projects confirmed (Cariello 2021). The nature of those investments changed across the period, focusing on commodities until 2010, the industrial sector from 2010 to 2013, services in 2014, and shifting to electricity and infrastructure from that year onwards, a sector that still dominates the spectrum of Chinese investments in Brazil (Cariello 2019). Graph 11.2 shows this data year by year, where higher numbers represent announced investments and lower numbers confirmed investments.

There has not been any clear trend in the amount invested by China in Brazil in the past years. Although the total value invested from 2010 afterward has been far higher than the years before, there were ups and downs in investments from one year to another.

It should also be noted that a smaller portion of the investments occur through joint ventures and partnerships that often favor the transfer of technologies and greater mutual knowledge. In 2018, greenfield investments and mergers and acquisitions in Brazil combined represented 90% of all the Chinese projects financed in the country, whereas joint ventures represented the other 10%. Even though that proportion was not the same in the previous years, joint ventures have never been the preferred way of Chinese companies doing business in Brazil.

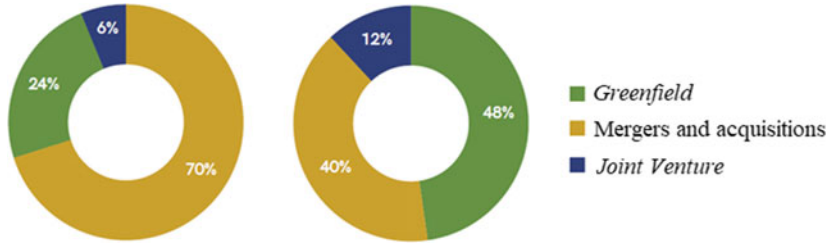
The year 2018 saw a sharp decrease in investments, when China invested US\$3 billion in Brazil, after investing US\$7.4 billion in 2015, US\$ 8.4 billion in 2016, and US\$8.8 billion in 2017. However, it is



**Graph 11.2** (a) Chinese investments in Brazil by value (2007–2020)—US\$ billion (b) Chinese investments in Brazil by number of projects (2007–2020)—US\$ billion (Sources Cariello [2021, 19, 20])

important to put that decline in perspective. Globally, China's investments were reduced to US\$120 billion in 2017 and 2018, from US\$170 billion in 2016. In Latin America, 2018 saw a reduction to less than US\$10 billion, after reaching more than US\$20 billion in the previous year (Cariello 2019). Therefore, investments in Brazil reflected trends of Chinese investments worldwide.

In terms of mode of entry, Chinese firms have traditionally opted for greenfield investments and mergers and acquisitions, which, combined, represent almost 90% of the number of projects they financed from 2007



**Graph 11.3** Modes of entry of Chinese investments in Brazil (2007–2020). By value—By number of projects (*Source* Cariello [2021, 31–32])

to 2020, and the total value invested has been dominated by mergers and acquisitions, with 70% of investments alone (Graph 11.3).

Brazil’s investments in China have historically been a lot more limited than those of China in Brazil, with accumulated investments from 2006 to July 2019 reaching US\$319.6 million. After reaching their peak in 2014, at US\$64.9 million, annual investments have declined, although it is not possible to identify any clear trend for the next years.

Beyond their mere value, Brazilian investments in China have remained rather restricted to a few companies that have been investing in specific Chinese regions, especially those more developed and in the Eastern-coastal areas. Moreover, despite being historically concentrated in trading and, to a lesser extent, mining, automotive, and restaurant sectors, they have been spread across different segments of the economy more recently, which suggests the absence of priorities.

The first column in Table 11.1 shows Brazilian investments in China from 2006 to 2019. The central column provides annual investments, and the column at the right provides accumulated investments.

Considering the relatively low level of Brazilian investments so far, the potential for them to grow is enormous. Brazil is yet to “discover” China and explore the possibilities that the country may offer in several areas. Indeed, investing in joint ventures with Chinese firms would allow Brazilian companies to acquire more know-how and technical, tacit knowledge from the Chinese side. Some segments of the economy, such as processed food, for example, would be of special interest for Brazil to increase its presence and investments in China.

The recent liberalization of investments in China is encouraging, but a greater Brazilian presence would require focus, coordination efforts

**Table 11.1** Brazilian investments in China from 2006 to 2019—US\$ million

| <i>Years</i>      | <i>Value (US\$ millions)</i> | <i>Accumulated value</i> |
|-------------------|------------------------------|--------------------------|
| 2006              | 13                           | 13                       |
| 2007              | 14                           | 27                       |
| 2008              | 15                           | 42                       |
| 2009              | 3                            | 45                       |
| 2010              | 14.3                         | 59.3                     |
| 2011              | 12.4                         | 71.7                     |
| 2012              | 46.2                         | 117.9                    |
| 2013              | 44.3                         | 162.2                    |
| 2014              | 64.9                         | 227.1                    |
| 2014              | 41.4                         | 268.5                    |
| 2016              | 19.6                         | 288.1                    |
| 2017              | 3.2                          | 291.3                    |
| 2018              | 11.4                         | 302.7                    |
| 2019 <sup>a</sup> | 16.9                         | 319.6                    |

*Source* Arbache and Maia (2019, 28)

<sup>a</sup>Data from January to July

between the public and private sectors, and trade negotiations between the two sides, especially in sectors where Brazil has more potential to grow business.

As far as trade is concerned, China not only remained Brazil's largest partner throughout the decade of 2010, but also increased its importance over the past years, revealing a solid tendency in this reg.

ard. In 2020, China was the destination of 32.4% of Brazil's overall exports and the origin of 21.9% of its imports.<sup>1</sup> The country has also become the main source of Brazil's trade surpluses, accounting for 65.5% of the total in 2020 and 67.2% from January to July of the next year.<sup>2</sup> For 2021, it is estimated that Brazil will have by far the largest trade surplus in its history, and China will once again be the largest contributor

<sup>1</sup> According to Comexstat, available at <http://comexstat.mdic.gov.br/pt/comex-vis>, last access on 7 May 2021.

<sup>2</sup> Based on data provided by Comexstat, we calculated Brazil's trade surplus overall, which amounted to US\$ 50.39 billion in 2020, and that originated specifically from the trade with China, which reached US\$ 33 billion in the same year. In 2021, from January to July, Brazil's overall trade surplus was US\$ 44.36 billion, and its trade surplus with China throughout the same period was US\$ 29.8 billion. See <http://comexstat.mdic.gov.br/pt/geral>, access on 2 September 2021.

**Table 11.2** China-Brazil bilateral trade (US\$ billion)

| <i>Year</i>       | <i>Brazil's exports to China</i> | <i>Brazil's imports from China</i> | <i>Brazil's trade surplus</i> | <i>% of Brazil's overall trade surplus</i> |
|-------------------|----------------------------------|------------------------------------|-------------------------------|--|
| 2018              | 63.93                            | 35.16                              | 28.77                         | 61.78%                                     |
| 2019              | 63.36                            | 36.03                              | 27.33                         | 77.64%                                     |
| 2020              | 67.79                            | 34.78                              | 33.01                         | 65.5%                                      |
| 2021 <sup>a</sup> | 55.21                            | 25.42                              | 29.79                         | 67.2%                                      |

Calculated by the authors based on data provided by Comex Stat

<sup>a</sup>Data available until July

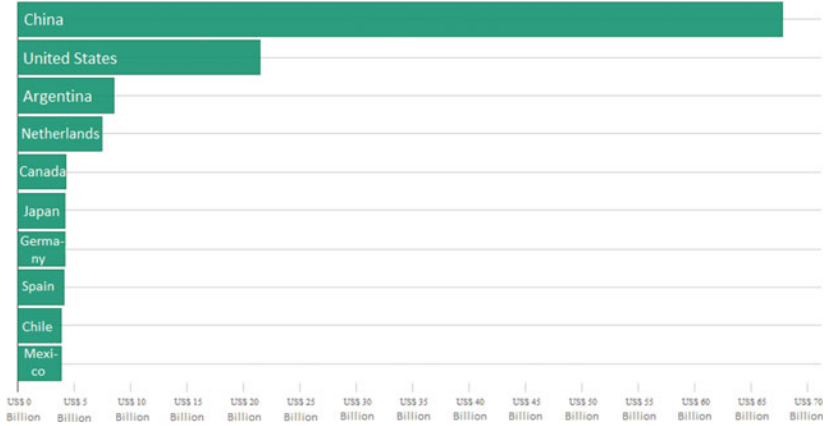
to that result. The micro and macroeconomic positive repercussions of these trade balances are especially relevant in a context of pandemics and economic crisis (Table 11.2).

China plays a prominent role in Brazil's exports and imports. Brazil exports to China around twice as much as it does to the entire European Union, a proportion that increases even further when compared to the country's second-largest destination of exports, the United States. At the same time, regarding Brazilian imports, the US plays a more important role than it does in exports, even though imports from China surpass those from the US by a large margin. The Graph 11.4 shows the Chinese prominence on the Brazilian international trade, compared to selected countries.

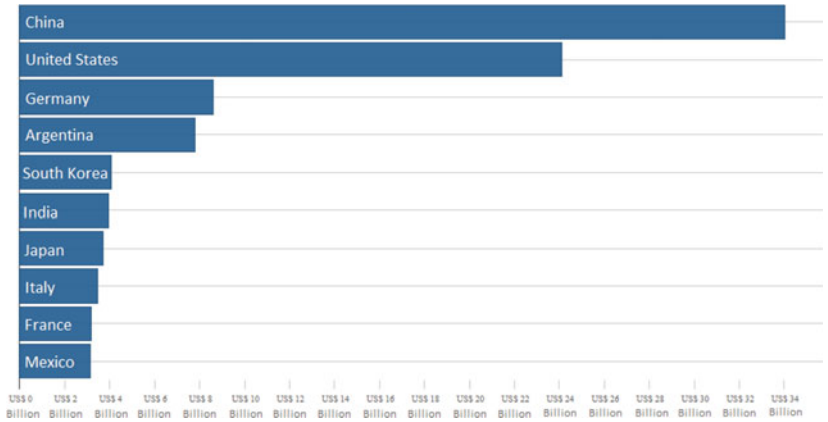
The potential for growth in trade and investment between the two countries is large, reflecting the sizes of economies and populations, and their complementarities. Despite the balance of trade in favor of Brazil, it cannot be ignored that the pattern of exchange generates imbalances in terms of adding value that disadvantages the country's manufacturing industry and services sector. After all, China, like no other country, understands the importance of having a strong and dynamic industrial sector as an element of security, insertion in the global economy, and a source of sustained economic growth.

Although many businesses may benefit from the closer ties between the two economies, some sectors are already showing conditions to advance. Below, we highlight some of those sectors.

A – Brazil’s main export destinations



B – Brazil’s main origins of imports

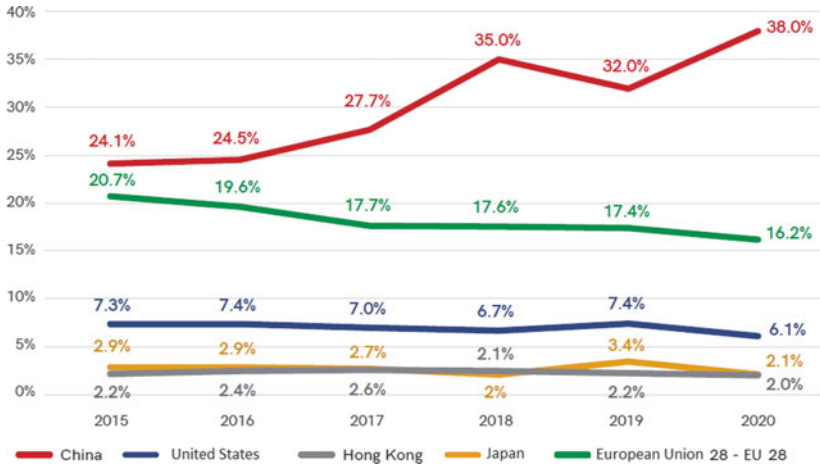


**Graph 11.4** Brazil’s main trade partners—US\$ billion (a) Brazil’s main export destinations (b) B—Brazil’s main origins of imports *Source* Comex Stat<sup>3</sup> (translated)

<sup>3</sup> <http://comexstat.mdic.gov.br/pt/comex-vis>, access on 9 February 2021.







**Graph 11.5** Main export destinations of Brazil's agribusiness (2015–2020)—in % (Source Rosito [2020, 24])

trade to take place, creating jobs in rural areas, infrastructure and logistics-related services, production of seeds and fertilizers, insurance, financial and other services, and perspectives of new investments. The increasing price of land in Brazil is one sign of the impacts that China trade brings to Brazilian agribusiness.

An aspect that hampers attempts to increase their bilateral trade in agribusiness is the high rate of taxes and other barriers imposed by China on some agricultural products coming from Brazil. Barriers on maize, wheat, and rice (the three highest taxes) are part of Beijing's plans to assure self-sufficiency in production, considering that they are among the most important grain crops in China, along with potato (considered statistically as a grain crop in China), millet, and soybean (McBeath, 2010). Incentivizing national production and protecting the country against maize, wheat, and rice coming from abroad will hardly change in the short or medium term. But taxes on other products could be reduced without affecting Chinese markets substantially (Tables 11.3 and 11.4).

Ethanol is a good example. Whereas China has observed a series of difficulties to enhance production and to spread the use of that fuel around the country, Brazil is one of the world's most traditional and experienced ethanol producers, along with the US, besides of being a reference

**Table 11.3** Tariff regime for agricultural products exported by Brazil and subjected to tariff quotas, price controls, and participation of STEs

| <i>Product</i>        | <i>Quantity (tonnes)</i> | <i>Intra quota tariff—applied to Brazil (%)</i> | <i>Extra quota tariff - applied to Brazil (%)</i> | <i>Administration: STE and price control*</i>                                |
|-----------------------|--------------------------|---|---|--|
| Wheat                 | 9,636.000                | 1   | 65  | 90% of quota allocated to SIE (COFCO) in 2014 and minimum procurement scheme |
| Maize                 | 7,200.000                | 1   | 65  | 60% allocated to COFCO and reserves set at market prices                     |
| Sugar (raw and white) | 1,945.000                | 15  | 50  | 70% allocated to COFCO and other STEs; temporary price program               |
| Cotton                | 894.000                  | 1   | 40  | 33% allocated to STEs and temporary price program                            |

*Source* ESALQ and CAU (2020, 341)

**Table 11.4** Degree of commercial openness of the Chinese market for selected commodities exported by Brazil

| <i>Market access restrictions</i> | <i>Product</i> | <i>Tariff</i>                     |
|-----------------------------------|----------------|-----------------------------------|
| Low                               | Soybean grains | 3%                                |
|                                   | Wood pulp      | Free                              |
|                                   | Coffee         | 8%                                |
|                                   | Cotton         | 15%                               |
| Medium-high                       | Beef           | 20–25% <b>and</b> plant approvals |
|                                   | Poultry        | 0–20% and plant approvals         |
|                                   | Pork           | 12–20% <b>and</b> plant approvals |
|                                   | Sugar          | 50% to 95% (safeguard)            |
|                                   | Maize          | 54% and tariff rate quotas        |
| Very high                         | Wheat          | 65% and tariff rate quotas        |
|                                   | 3 ice          | 65% and tariff rate quotas        |
|                                   | Ethanol        | 35%                               |
|                                   | Offals         | 12–25% <b>and</b> plant approvals |

*Source* ESALQ and CAU (2020, 346)

in terms of technology production and development. Augmenting its use would benefit China's efforts to curb air pollution, while the country is still transitioning from an oil-based to an electric-based car fleet. This is a good example where the two countries are complementary, not competitors (Condi 2020).

### *Infrastructure*

Although 2010 represented an important change in Chinese overall investments in Brazil, it was in 2014 when Chinese companies began to invest more significantly in the country's infrastructure, along with electricity. That happened after years of investments flowing in much larger numbers to the commodity, industrial and service sectors. This pattern reflects the need to invest in areas required to fully implement and potentialize the trade between the two countries.

From 2007 to 2020, Chinese firms directed 5% of their investments to the infrastructure sector (4% considering the number of projects), according to (Cariello 2021). Although it may seem a low proportion, we should consider that part of investments in electricity, manufacturing industry, and agriculture must be made to build infrastructure for those sectors, elevating the overall investments in infrastructure.

Investments in Brazil's infrastructure by China and other countries have raised some concerns in some segments of the Brazilian economy, who consider that the country is putting its most crucial infrastructure in the hands of foreign companies. For example, China Gezhouba Group-water currently is responsible for the São Lourenço Water Production System, collecting, treating, and distributing water across the State of São Paulo. In the electricity sector, Sanxing Electric and YDF Valves have recently acquired, partially or totally, the Brazilian enterprises Nansen Precision Instruments and IPPG Brazil, respectively. And, in 2018 alone, State Grid and China Three Gorges invested around US\$ 1.7 billion in generation, transmission, and distribution of electricity (Cariello 2019).

If, on the one hand, those investments may bring some concerns, on the other hand, they have improved the level and the scope of Brazil's infrastructure, along with the creation of jobs and the generation of income, not to mention the increase of supply of energy in the country. It is worth noting that foreign companies in Brazil are subject to Brazilian law and need to operate according to its premises, thus mitigating eventual risks. For a country desirous of investments and technology, perhaps the most appropriate way to address the issue is through a sophisticated regulatory and inspection structure so that companies comply with local obligations.

### *Green Agenda*

In the decade of 2010, China became the country that invests the most in renewable energy around the world. To provide an idea of the scale of Chinese investments in clean energies in 2017 alone, compared to the United States, with US\$40.5 billion invested, and to Europe, with US\$40.9 billion, China invested US\$126.6 billion, accounting for 45% of investments worldwide in that year (Frankfurt 2018). Throughout the last decade, the investments made by US (US\$356 billion) and Japan (US\$202 billion) combined did not meet the amount that China invested alone, which reached US\$758 billion, more than the entire investments of Europe (US\$ 698 billion) (Frankfurt 2019).

The great potential for expansion of renewables in Brazil, especially for solar energy, could attract new Chinese investments and help expand a relevant business and environment frontier. It is worth mentioning that not only China leads investments in the renewable energy sector, but it is also one of the main developers of technologies and solutions for that

market. Considering that China remains the world's largest emitter of greenhouse gases, the country is expected to lead the global market for carbon credits and new green financial solutions in the next decades.

For its part, Brazil represents a huge potential option for Chinese investments in that sector. Wind energy increased its share of Brazil's energy matrix in the past years, and the solar energy market is booming. The recently launched RenovaBio Program, Brazil's national biofuels program, is likely to increase the country's carbon credits in the next years, which further enlarges the potential for partnerships and for investments in that area.<sup>5</sup>

### *Digital Economy*

China is one of the world leaders in digital innovation, new payment systems and in big as well as small business digitization solutions. As most firms in Brazil are made up of small ones, formal and informal, whose productivity is low or very low when compared to the productivity of larger companies in the country or with small businesses in developed countries, those firms may benefit from Chinese technologies, which may have important impacts in variables such as productivity and competitiveness, employment and income, and reduction of informality and poverty. After all, those firms are highly labor intensive and are the source of income for most of the population.

## CHINA FINANCING PROJECTS IN BRAZIL: HISTORICAL AND CURRENT CONTEXTS, AND WHAT LIES AHEAD

After the shift in Chinese investments from services to infrastructure occurred in 2014, China increased its presence in Brazil, not only in terms

<sup>5</sup> Launched in the end of 2017, RenovaBio is managed by the Ministry of Mines and Energy, which regards the program as a mechanism to fulfill Brazil's commitments at the 2015 Paris Agreement on climate change, by expanding the participation of biofuels into the country's energy matrix and providing more predictability for the market of fuels around the country. Its main functioning method is through annual, national decarbonization targets, set according to Brazil's targets for the Paris Agreement (according to the official website of Brazil's National Agency for Petroleum, Natural Gas and Biofuels—<http://www.anp.gov.br/producao-de-biocombustiveis/renovabio>, access on 2/18/2021). The expansion of biofuels across the Brazilian market will amplify the potential for cooperation with China in the foreseeable future.

of the total value invested, which began to increase almost immediately, in 2015, but also in terms of the number of projects, which increased considerably in 2017.

The years of 2018 and 2020 saw lower levels of Chinese investments in Brazil. Since 2016–2017, the Chinese government strengthened its control over investments made abroad by China’s state companies, reducing the number of high-risk investments they were engaging. That resulted in a reduction of Chinese investments worldwide, which seems to have been felt in Brazil in 2018.

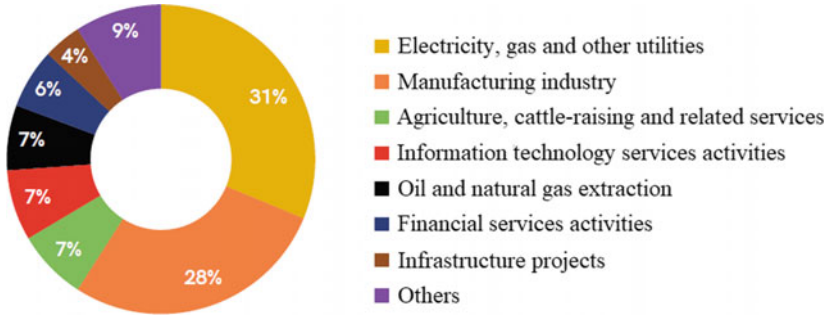
In 2020, lower investments occurred mainly due to the COVID-19 pandemic and to China’s recently launched “dual-circulation” financing mechanism. COVID resulted in Chinese investors becoming more cautious regarding where and when to invest. The dual-circulation mechanism redirected more Chinese investments to its own internal market, affecting its investments abroad. In the two graphs below, data in beige show total investments, announced and confirmed, and data in green show confirmed investments.

Despite some frictions between the new-elected government of Jair Bolsonaro and China in the first half of 2019, pragmatism in the Sino-Brazilian relations seems to have prevailed, resulting in some recovery of Chinese investments in that year. In 2020, the COVID-19 pandemic and doubts of Brazil’s possible alignment with the US against China, especially in the 5G sector, may help explain the lower investments from China.

New investments will depend, to a certain degree, on Brazil’s commitment and reliability as a commercial partner, on the approach Brazil will take regarding the implementation of 5G network, and on how China perceives Brazil’s attitude toward Chinese investments (OPEB 2020) (Graph 11.6).

In other sectors, some deals deserve special attention: the acquisition of the Brazilian ride company *99* by the Chinese *Didi*; investments by China’s *Tencent* on the Brazilian online bank *Nubank*; the *Fosun* acquisition of *Guide Investimentos* to work in the brokerage sector; and CNOOC forming a joint venture with *Ecopetrol* to explore Brazil’s “Pre-Salt” (Pré-Sal) oil reserves in the Santos Basin. Also telling are the several projects undertaken by two of the biggest Chinese companies that operate in Brazil, *State Grid* and *Three Gorges*, which have spread their operations over many states from northern to southern Brazil.

In 2017, Chinese investments in Brazil received a considerable boost, with the creation of the Brazil-China Investments and Cooperation



**Graph 11.6** Number of projects in Brazil financed by China by sector (2007–2020) (*Source* Cariello [2021, 26])

Fund.<sup>6</sup> China pledged to support up to US\$15 billion in projects identified and approved by the Fund, complemented by US\$5 billion from Brazil. Different from similar funds launched by China with other countries,<sup>7</sup> the Brazil-China Fund takes decisions by mutual agreement between the two governments, which can help promote projects that can indeed benefit both sides.<sup>8</sup>

Chinese banks have been playing a crucial role in most of the projects financed by China in Brazil, especially the China Development Bank (CDB). It is estimated that, together with China Exim, CDB invested almost US\$29 billion in Brazil between 2005 and 2017, responsible for 95% of that amount. Traditionally, those investments have taken the form of loans to Chinese companies operating in Brazil, which shows the relatively specific character of such investments as well as the enormous potential to broadening their scope in the coming years (Rosito 2020).

Although the *Bank of China* began to operate in Brazil in 1998, it was after 2012 that Chinese banks expanded their presence, with the arrival of

<sup>6</sup> Reuters (<https://www.reuters.com/article/brazil-china-investment-idUSL4N1R14YT>), access on 11/24/2020.

<sup>7</sup> Agência Brasil (<https://agenciabrasil.ebc.com.br/en/economia/noticia/2017-06/brazil-china-fund-now-operational-20-billion>), access on 11/25/2020.

<sup>8</sup> At the moment, the Fund is currently being reassessed by the Brazilian government and is therefore not operational. For recent news on the Fund, see: <https://dialogochino.net/en/trade-investment/brazil-china-fund-yet-to-back-one-project-six-years-on/>.



the *Industrial and Commercial Bank of China*, the *Bank of Communications*, and the *China Construction Bank*, for example. In 2020, the *Bank of China* alone injected BRL222 million (approximately US\$43 million) in its Brazilian branch (Cariello 2021).

It is also important to highlight China's engagement in multilateral development finance, which led to the creation of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), both in 2015. The former contains tens of member countries, from Europe, Asia, Latin America, Africa, and Oceania. The latter is more specific in terms of its scale and membership, built in partnership with the BRICS countries (Brazil, Russia, India, China, and South Africa), but also with substantial importance for Brazil, which is a member of the two banks.

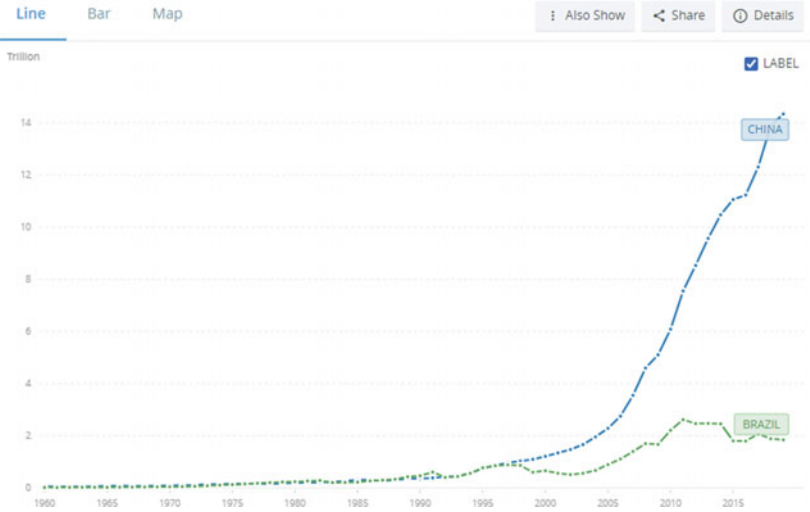
Indeed, NDB is the development finance institution in which Brazil has the larger share of the capital, 20%, like the other four members, and, for this reason, a relatively high influence on its destinies and policies as compared to other multilateral banks, and Brazil currently occupies the bank's executive presidency. The institution has just increased the number of members, but the founders will retain control over the bank's decisions.

## CHINA'S ECONOMIC DEVELOPMENT AND ITS IMPACT IN BRAZIL

Until around 1997, Brazil and China followed a similar path in their GDP, with only minor variations occurring in both countries. It was from 1998 onwards that the difference between the two countries' economies started to become increasingly large. In 2020, China's GDP of 101.6 trillion Yuan or around US\$15.7 trillion (NBD 2021) was twelve times higher than Brazil's US\$1.3 trillion (IBGE) (Graph 11.7).

Since Chinese reforms began, the country's population living in cities went from less than 19% in 1980 to around 60% in 2020, and its GDP per capita increased from about US\$156 in 1978 to more than US\$10 thousand in 2019.<sup>9</sup> Those shifts brought enormous changes to the Chinese economy and society, and the demand for food increased substantially as people began to earn higher incomes and choose higher quality diets, with more proteins (Table 11.5).

<sup>9</sup> See World Bank (<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN>), access on 26 November 2020.



**Graph 11.7** China’s and Brazil’s GDP—US\$ trillion (*Source* World Bank.<sup>12</sup>)

**Table 11.5** China’s urban and rural population trends, 1950–2050

| <i>Year</i> | <i>Total population<br/>(Thousands)</i> | <i>Rural population<br/>(Thousands)</i> | <i>Urban population<br/>(Thousands)</i> | <i>Urbanization<br/>level (%)</i> |
|-------------|---|---|---|-----------------------------------|
| 1950        | 543,776                                 | 479,596                                 | 64,180                                  | 11.8                              |
| 1960        | 650,681                                 | 545,254                                 | 105,427                                 | 16.2                              |
| 1970        | 814,378                                 | 672,676                                 | 141,702                                 | 17.4                              |
| 1980        | 984,016                                 | 793,533                                 | 190,483                                 | 19.4                              |
| 1990        | 1,165,429                               | 857,262                                 | 308,167                                 | 26.4                              |
| 2000        | 1,280,428                               | 821,045                                 | 459,383                                 | 35.9                              |
| 2010        | 1,359,821                               | 690,435                                 | 669,386                                 | 49.2                              |
| 2020        | 1,432,867                               | 558,440                                 | 874,427                                 | 61                                |
| 2030        | 1,453,297                               | 454,372                                 | 998,925                                 | 68.7                              |
| 2040        | 1,435,499                               | 391,104                                 | 1,044,395                               | 72.8                              |
| 2050        | 1,384,977                               | 335,029                                 | 1,049,948                               | 75.8                              |

*Source* Farrell and Westlund (2018, 89)

The increase in the demand for those products has had (and still has) different impacts for the places, people, and segments of the economy able to supply them. China's economic growth by itself, regardless of the changes in people's habits, has also increased the demand for raw materials in general. It is not a coincidence, therefore, that Sino-Brazilian trade has become important for both countries.

Brazilian agribusiness is not the only sector benefited by the Chinese economic growth. Among the largest Brazilian exports to China in 2019, in addition to soy, cotton, chicken, and cow meat, we could also find cellulose as well as iron ore and oil products.<sup>10</sup> Some of these sectors have already developed mature relations with their Chinese counterparts, but many others still have a huge potential to do so and therefore explore business opportunities.

Considering the fastest growing economic sectors in China, one can identify sectors that present potential for cooperation between the two countries in the next decades. Among them, we can find clean energy, electro mobility, artificial intelligence, 5G technology, Internet of Things, education, health, payment systems, and business services. We highlight a few of them ahead, noting that such a list is not exhaustive, since the whole potential for bilateral cooperation goes beyond the scope of this chapter.

Since China's continued economic growth is likely to increase its demand for energy, sugar, minerals, animal protein, corn, and other food-stuff (OECD/FAO 2019), Brazil is well positioned to service and occupy a place of even greater prominence in this agenda.

It is estimated that over the next 10 years China will import a total of about US\$25 trillion. As Brazil currently represents 4% of everything that China buys from the world, if the country maintains only this share, exports to China could reach more than US\$100 billion a year. But considering all the potential discussed in this chapter, exports could be even larger, which could change the landscape of Brazilian international trade.

<sup>10</sup> According to Comexstat's "ComexVis" search tool (<http://comexstat.mdic.gov.br/en/comex-vis>), access on 26 November 2020.

## LOOKING AHEAD: STRENGTHENING THE SINO-BRAZILIAN ECONOMIC RELATIONS

Even though economic relations between Brazil and China are already wide, much more can be done taking into account the expansion of Chinese domestic consumption and the country's journey to the condition of a developed economy. In fact, China's growth offers unique opportunities in terms of new markets for Brazilian products and services. The internationalization of Chinese companies is also an opportunity for Brazil. But there are also opportunities in the field of knowledge and technology aimed at sectors in which Brazil already has comparative advantages and for the solution of basic problems of economic development. After all, China has been developing solutions to solve its own economic and social problems that can also be useful for Brazil.

It should be recognized, however, that taking advantage of those opportunities will require a lot of work. Among other reasons, because of ongoing changes in global value chains, which become increasingly regional, there may be implications for the closer approximation of geographically distant countries, such as Brazil and China. New production technologies already make it possible to produce locally and regionally without necessarily requiring cost arbitrage conditions to become viable. In addition, the need to be close to consumer markets, environmental issues, risks of disruption of transport and logistics, and regional trade and investment agreements make up a wide range of factors that make most of Asia's trade already intraregional and it is anticipated that the region's economic relations will deepen further in the coming years.

Even recognizing the concerns with the complementarity that so characterizes trade relations at the moment, trade and investment in primary products can be seen as a platform for launching new opportunities for the expansion and sophistication of economic relations.

### *Science, Technology, and Innovation*

Challenges of commodity production offer valuable room for the development and use of innovations and technologies in value chains. In fact, there is an increasing need to target the development of new solutions to face challenges such as environmental vulnerability and increased productivity, which requires the use of a whole new generation of solutions adjusted and adapted to local realities and conditions.

There is ample space for partnerships with the Chinese in many of these areas, from RandD to solutions for the use of electronics, big data, soil analysis, and drones, among many other technologies that help increase efficiency, reduce costs, and preserve the environment. Therefore, there is room for Sino-Brazilian collaborations in science, technology, and innovation guided by mission, with pragmatic agendas to meet business needs, but also environmental and social requirements. The potential is enormous, and this could be one of the goals of a trade and investment relationship strategy between Brazil and China.

In fact, Brazil and China have already been undertaking numerous cooperation projects in the past decade in those and other areas involving many different levels of Chinese and Brazilian stakeholders, such as governments, universities, research institutions, and private sectors. However, considering the size of the two countries, both geographically and economically, and their common interests, the bilateral active projects so far have been rather limited and targeting a few areas and institutions, which does not reflect the full potential of Sino-Brazilian cooperation. There are indeed untapped opportunities for more cooperation. Table 11.6 shows a sample of projects involving government and scientific and technological institutions.

As the Science and Engineering Report of the National Science Foundation of the United States shows, China is rapidly narrowing the gap between the two countries in terms of funding for science and achievements. But perhaps even more significant are the indicators of China's growing presence and even leadership in important scientific areas, such as artificial intelligence, 5G, quantum computing, and autonomous vehicles, which places the country in the position of one of the main forces in the globe. Indeed, the gap in research and development is closing fast.<sup>11</sup> Beyond sophisticated technologies, China has also developed smart solutions to tackle problems specific to emerging and developing countries, including housing, urban infrastructure, public security, food security, public health, and education.

Brazil, for its part, also has a lot to share with China, including knowledge in tropical medicine, agronomy, oil and gas, green economy, and biofuels, as discussed below, to name a few sectors. As such, it would not be an exaggeration to consider that science, technology, and innovation

<sup>11</sup> <https://www.nsf.gov/statistics/seind/>

**Table 11.6** Cooperation projects between China and Brazil

| <i>Project</i>  | <i>Institutions</i>                                  | <i>Area</i>   |
|---|--|---|
| China–Brazil Earth Resource Satellite Program (CBERS)                   | INPE, AEB/CASC, CNSA                                 | High-definition, remote, satellite imagery  |
| FAPESP—Beijing, Zhejiang and Tianjin Universities                       | FAPESP/Beijing, Zhejiang and Tianjin Universities    | Joined research and academic activities   |
| China–Brazil Center for Climate Change and Energy Technology Innovation | Coppe (UERJ)/Tsinghua University                     | Joined research on energy technologies and climate change   |
| China–Brazil Innovation Center for Agriculture                          | ESALQ/CAU, Hainan University                         | Joined research on tropical agriculture   |
| CNPq—National Natural Science Foundation of China                       | CNPq/NNSFC   | Funding research for BRIC countries   |
| Joint Action Plan 2015–2021   | Brazil’s Federal Government/China Central Government | Strengthen cooperation on ethanol, electricity facilities, energy-saving, renewable energies, etc |
| Framework Agreement on Production Capacity                              | Brazil’s Federal Government/China Central Government | Financing clean energy, agriculture, infrastructure, mining, and other areas                      |

*Source* The authors

could be seen among the most promising areas for broadening the collaboration agenda between the two countries. In the following section, we identify some of the areas that present significant potential for the two countries to strengthen their ties.

### *Green Agenda*

While on the one hand the climate change poses challenges, on the other hand it offers unprecedented economic opportunities for Brazil which has unique natural capital, including immense tropical and blue forests and other biomes, the wide availability of fresh water, its rich biodiversity, and the wide potential for generating green energy and biofuels, essential elements for the transition to a low-carbon economy. The country’s immense potential to increase food production through sustainable technologies is also part of this agenda.

<sup>12</sup> <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN-BR>, access on 25 November 2020.

As the largest emitter of gases and consumers of carbon and with immense challenges to decarbonize its economy, clean up cities and waters, and to become carbon-neutral over the next four decades, China will have to seek new and more ambitious solutions that add to its own ongoing efforts to adapt, transform, and change. Actually, the climate agenda will be critical for China to increase its global economic influence and improve the well-being and quality of life of its population. Chinese companies, many with a growing global presence, will need to adapt to new market practices, increasingly strict environmental regulations, and new consumer demands. That will also require enormous efforts and the search for new and innovative solutions.

Considering the huge challenges and ambitions, China will need to work with allies in the field of climate change and sustainability to accelerate the transition to a carbon-neutral economy and meet the country's needs and commitments, as well as the demands of its consumers. Brazil is perhaps the country best positioned to cooperate and collaborate with China on this agenda.

To merge the pathways of environment and development, it will be critical to identify common interests between Brazil and China and look for synergies in the environmental agenda. There are at least two avenues to bring Brazil and China closer together on that agenda. On the one hand, there are the needs of Brazil to overcome the impacts of the climate change. On the other hand, there are the contributions of Brazil to support the decarbonization and sustainability of the Chinese economy.

From the demand side, Brazil needs to mitigate and adapt to climate change. As discussed above, there are many actions and business opportunities in renewable energy, industrial energy efficiency, transportation and green buildings, waste treatment, resilient infrastructure, and other areas where China has developed cost-efficient and sophisticated technologies and capabilities as well as financing channels.

From the supply side, Brazil can provide China with solutions in areas such as food security, decarbonization, sustainability, and well-being. These include bioenergy, organic food, sustainably produced food, green and blue conservation projects, sustainable exploration of biodiversity, bioeconomy, and sustainable tourism, to name a few activities. There is enormous potential for China's banks and green funds to invest in innovation, technology, conservation, and sustainable projects in Brazil.

Due to its technological nature, that agenda could energize value chains in Brazil, including manufacturing, help train the workforce, create

jobs, boost services, capital, and financing markets, and help generate virtuous circles of development. But, even more importantly, the agenda has potential to leverage and promote research, development, and innovation, and the development of new markets, which could have important implications for the sustained and sustainable development of Brazil.

The carbon credit market of China is another important area for cooperation and collaboration. Brazil can indeed participate and benefit from this market due to its favorable natural conditions, the fact that it already has a green energy matrix and that several sectors have already committed to decarbonization and sustainable production.

### *Education*

Universities, research institutions and the governments of the two countries are involved in Sino-Brazilian cooperation projects on education (Condi 2020). But the already existing partnerships are not enough to tap the full potential of more intensified relations. Education can help pave the way for the creation of new, broader bilateral cooperation and collaboration, facilitating the contact between the two parts and promoting more mutual understanding. Increasing the number of professors and researchers undertaking activities, and the number of students doing exchange programs is a promising area for further development.

### *Value Addition and Production*

In a few decades, China has left behind the condition of a poor and marginal economy to the condition of the second largest economy, which produces increasingly more sophisticated goods and services and uses more and more highly sophisticated production technologies. As such, China co-leads the development and management of digitization and robotization technologies in factories and value chains, with intensive use of artificial intelligence, Internet of Things, and other technologies. In the coming years, China is expected to have many of the most sophisticated and integrated factories in the world, which will be facilitated by 5G technology. China has also been developing sophisticated business services as part of its agenda of priorities for closing gaps in diversification and value addition.



According to a Harvard project mapping economic complexity,<sup>13</sup> China is one of the few global hubs in terms of diversification of production and production sophistication, putting it in a comfortable position to be able to exercise a leading position in the global economy.

Brazil, which has long witnessed a rapid process of deindustrialization and primarization of its economy, could benefit from developing a collaborative agenda in the industrial, production engineering, new materials, digitalization, business services, B2B platforms, and other related technologies needed to diversify production, add value, and increase competitiveness.

### *Global Affairs*

The establishment of the status of “Strategic Partners” between Brazil and China, and the elevation of that status to “Global Strategic Partnership,” along with the launching of COSBAN, strongly suggest that the two countries share aspirations and have many common interests. In this context, the two countries could work together to influence the global agenda of public goods, something that could bring benefits to both and to others. A step in that direction could be strengthening their dialogue and cooperation on regional and international institutions, including BRICS, the G20, the World Health Organization, the climate change agenda, and the Organization of the American States, where China has the status of observer country.

Both countries may also collaborate on international peace and security. As the biggest country in Latin America and bordering a dozen countries in addition to having thousands of kilometers of coastline in the Atlantic Ocean, Brazil plays an especially important role when it comes to international drug trafficking and organized crime. As one of the main sources of cocaine to the European market, the issue is important for Brazil.<sup>14</sup>

As for China, even though most of the drugs that enter illicitly in the country come from southeast Asia, it has engaged in several cooperation agreements with the United States to cope with that issue (Zhang 2012). Cooperating with China and with the US on counter-drug trafficking,

<sup>13</sup> <http://globe.cid.harvard.edu/?mode=gridSphereandid=CN>.

<sup>14</sup> According to Reuters, available at <https://www.reuters.com/article/us-brazil-violence-cocaine-specialreport-idUSKBN20Z1DP>. Last access on 5/5/2021.

Brazil could not only create and share expertise with the two countries on this matter and benefit, but also give its diplomacy a more active role in creating communication channels between the two global powers.

### FINAL REMARKS

Brazil has developed channels and relationships, knowledge, institutions, services, companies, and a production structure that ensure that the country can aim to expand its participation in certain markets in China. China, in turn, is already Brazil's largest economic partner, but will benefit from a more consolidated and more trusting relationship. The road ahead is promising, but it requires efforts on both sides and an increasing engagement of the private sector of both sides.

For Brazil, it will be important to export more elaborate products, but the big market leap will come when Brazilian companies reach Chinese-end consumers with products and brands through value chains from "farm to fork." Therefore, it is necessary to consider working harder to win the trust of Chinese distributors and consumers and to stand up as a long-term supplier with a long-term vision.

To be sustainable, the two sides should address the issue of highly unbalanced trade. In terms of value addition, Brazil's competitiveness in the areas of commodities and climate change offers a great opportunity to the industrialization of comparative advantages, adding value to agriculture, forests, bio-economics, minerals, and biofuels, among other areas.

The expansion of trade will benefit from the improvement of financing mechanisms, sophisticated financial and insurance instruments and services, greater presence of national banks and insurance companies in both markets, development of mechanisms for the use of national currencies in trade relations, as well as financial instruments to mitigate foreign exchange risks.

The huge investment needs on the part of Brazil combined with the internationalization interests of Chinese companies create important possibilities and opportunities for both countries. Although Brazil is already one of the main destinations for Chinese investments, much more can be done.

Considering China's needs in the areas of climate change and carbon markets, energy, oil, minerals, and agricultural products and its interests

in participating more directly in their value chains, China's investments in the country can grow in the coming years.

China's relevance to Brazil's economic interests is undeniable. Considering the degree of maturity of the bilateral economic relationship and the enormous potential for new business, it seems reasonable to consider that China should deserve more attention in Brazil's economic agenda. Realizing that potential will require enormous and timely efforts to align interests and build coalitions and partnerships and to develop well-informed public and private policies and strategies.

To conclude, what will probably benefit the economic relationship the most is an agenda of mutual interest with a focus on the structural needs of the two countries. That requires a long-term engagement in an atmosphere of trust and collaboration, and the definition of priorities so that the private sector can plan and implement investments and develop partnerships.

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# A Comparative View of Chinese Relations with Peru

*Victoria Chonn Ching and Alvin Camba*

This chapter builds on the growing consensus among scholars that national and subnational dynamics in host countries matter to BRI projects and the different inflows of Chinese capital in general. By examining China's investments in Peru's extractives sector and a growing number of Chinese infrastructure projects, we illustrate host country agency when interacting with the Chinese state and its firms. Despite China's overwhelming economic weight over countries in the Global South, host country actors have always mattered and play a role in shaping the progression or cancelation of deals with China. For instance, China's failed participation in the construction of the Inter-oceanic Highway and the currently stagnant Amazon waterway project demonstrate that local

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actors and politics, as well as local concerns, can dissuade policymakers from including China as a participant or from moving forward after a deal has been signed. On the surface, China is seen as a powerful and influential actor, yet Chinese leaders and Chinese firms still have to negotiate and seek agreement from national and subnational leaders, agencies, and even communities in host countries. To strengthen these findings, we illustrate host country agency in other regions, examining the Chico River Pump Project in the Philippines, the East Coast Railway in Malaysia, and the Indonesia Morowali Industrial Park in Indonesia.

## INTRODUCTION

China's participation in Latin America's investment sector has transformed considerably during the second decade of the 2000s. A report from the Economic Commission for Latin America and the Caribbean (ECLAC) estimated that since 2010, Chinese foreign direct investment (FDI) in the region had averaged about US\$10 billion per year (Chen and Pérez Ludeña 2014). While China did not become the leading investor in Latin America, the rapid expansion of its firms and financial institutions generated expectations of what increased Chinese investment and financing could bring to countries in the region, especially in terms of diversification, infrastructure, and industrialization. Yet the bigger picture on China's investment in most of Latin America has been that of projects which complement raw material imports from the region, leading to concerns that Latin American countries were engaging in a new cycle of dependency and were facing potential re-primarization and deindustrialization (ECLAC 2018, 2019; Gallagher 2010; Pérez Ludeña 2017).

However, recent research suggests that, in terms of interacting with foreign firms, these will do as much or as little as demanded by the host country and/or government (Dussel Peters 2018; Irwin and Gallagher 2013; Gonzalez-Vicente 2012; Sanborn and Chonn Ching 2017). Although this may not hold true for solving tough problems like money laundering, corruption, and graft in the concession of some investment projects, there are visible efforts in the region in demanding for the following of international standards and compliance of labor and environmental protection policies, for example (Dussel Peters 2018, 2019). Some of these demands are the result of the coordination, cooperation, and even negotiation between the central and local leaderships, ministries, sector

agencies and organizations, and different civil groups in how to meet a country's development goals as well as determined political and economic interests. In other words, these local dynamics can in fact determine the success, failure, or stagnation of an economic deal. A case in point is Peru.

Without a doubt, Peru's natural endowments in copper, iron, and oil have given the country an advantage when attracting investors from China and elsewhere, and its strategic geographical location in the Pacific Coast has also given it an edge versus counterparts like Argentina and Bolivia. Peru ranks as the second largest destination for Chinese investment in Latin America from 2005 to 2019, and despite this position, Chinese investments in the country have not been free from encountering opposition and facing challenges. In fact, Sino-Peruvian investment deals have not all been positive-sum and they demonstrate that, despite the asymmetry in the country's interactions with China, it has still been possible to hold the latter accountable.

### THE CASE OF PERU: FROM THE STATE, TO BUREAUCRATS, TO CIVIL SOCIETY

To better understand the structural dynamics of Peru's investment sector, it is necessary to also consider the country's economic rebuilding since the 1990s as it marked a period of renewal both economically and politically. Peru reactivated its investment sector in the 1990s under the administration of Alberto Fujimori, after facing decades of expropriation by military governments. This reactivation included the creation of a legal framework that could offer a stable environment for foreign investment, welcome private investors, and provide equal treatment to domestic and foreign investments as initially expressed on the Legislative Decrees No. 662 and No. 757, for example.

This set of norms delineated the Peruvian state's obligation in providing a stable investment environment, as well as the responsibilities and restrictions foreign investors had while investing in Peru. Most importantly, like what was also happening in parts of Latin America during the same period, these and subsequent policies made it clear that foreign investors were welcomed to be part of investment projects that could contribute to Peru's development (Chen and Pérez Ludeña 2014; ECLAC 2011, 2018, 2019; Pérez Ludeña 2017). In fact, Peruvian (and other Latin American) leaders have used the possibility of this contribution as a main incentive to encourage and promote foreign investment in

general—sometimes underplaying the social and environmental challenges that may come with some of these projects.

Leonardo Stanley's comparative work on investment regulations in Latin America and parts of Asia discusses this dilemma of balancing the welcoming of foreign investment to boost development and the social and environmental costs some projects may also bring: "Latin America in general maintains an acritical position, strongly associated with a quantitative vision: greater investment, greater (positive) effects on local production and economic development. However, in practice, much of the incoming investment is accompanied with social and environmental costs that are yet unknown<sup>1</sup>" (Stanley 2020, p. 12).

This emphasis on pursuing strategies and economic activities that can help Latin America's development despite possible risks is rooted in the belief that development is a tool for the region's international insertion, one that became more prominent during the second half of twentieth century (Quiliconi and Rivera Rhon 2021, p. 145), and which is also "key for the regional search of agency spaces within the international system" (*ibid.*, p. 144). In this sense, at a macro-level, Latin American governments have long sought policies that could transform and improve their countries' socio-economic environment, and this involves engaging in external asymmetric interactions that can also influence the socio-economic organization of a country.

In this context, to Peruvian policymakers, the presence of foreign investors to collaborate in the implementation of large projects was not only considered as important to spearhead the country's development process—they were essential for Peru's economic reconstruction and for the rebuilding of its international image after the debt and hyperinflation crisis it experienced in the 1980s. Nevertheless, between 1991 and 1995, the privatization of enterprises that began as part of Fujimori's structural reforms generated transactions that reached US\$4,600 million and the announcement of close to US\$2,700 million to the country's investment portfolio (PromPerú 1996). At the time, the telecommunications sector

<sup>1</sup> Translated from the original Spanish version: "América Latina mantiene en general una postura acrítica, fuertemente asociada a la visión cuantitativa: a mayor inversión, mayor el efecto (positivo) sobre la producción local y el desarrollo económico. Sin embargo, en la práctica, la inversión que llega a menudo conlleva costos sociales y ambientales que resultan desconocidos".



received most of FDI inflows, with 37% of the shares, while mining ranked second, with a share of almost 18%.

As relative economic stability continued to be achieved, it was clear that Peruvian government leaders aimed to attract as many investors as possible. In 1995, Peru signed a total of nine Bilateral Investment Treaties (BITs). But since 2009, the country placed its newfound attention toward free trade agreements, as investment provisions began to be added to these trade accords. In the last two decades, at least 14 of the bilateral FTAs Peru has signed include a section for investments.<sup>2</sup> However, FDI inflows did not experience the dramatic increase policymakers were expecting until approximately 2005, coinciding with China's "boom" in Latin America (Gallagher 2016).

### FROM SUCCESS TO STAGNATION: HOLDING CHINA ACCOUNTABLE

As an important global producer of gold, silver, copper, iron zinc, and other metals, Peru is a mining country as this industry contributes to about 10% of the country's GDP and represents more than 50% of its exports (MINEM, n.d.)—something that the Peruvian leadership and bureaucrats tend to emphasize as they promote large projects, or when some of them are expected to garner some opposition, particularly from local communities or civil society. While the extractive sector remains a heavy lifter in Peru's economy, fieldwork interviews in China and Peru to industry experts reveal that efforts to expand investment to other industries like agriculture and infrastructure, especially with a player like China, have become essential during the last decade.

In this instance, some strategies in the agricultural sector, aside from attention to large agricultural multinationals and conglomerates, have involved the coordinated efforts of medium and smaller business with Peru's commercial offices abroad and the corresponding chambers of commerce. In infrastructure, much hope has been placed on Peru's participation in the Belt and Road Initiative (BRI)—China's global development strategy via infrastructure—since 2019. Moreover, investment alternatives such as "Obras por impuestos" (Projects for Taxes), which

<sup>2</sup> Selected countries include: Chile, Canada, United States, China, Singapore, South Korea, Costa Rica, Mexico, and the European Union.

encourages the participation of the private sector (in collaboration with public entities) in public service projects, have also created incentives for different firms to collaborate with the national and local governments.

Through this modality, firms can participate in the planning, development, and construction of public projects such that the amount that was invested is redirected to the payment of taxes using a certificate provided by the Peruvian authorities. This mechanism was created in 2008 (Law No. 29230) as part of Peru's countercyclical response to the global financial crisis and as an effort to support local initiatives in the execution of much needed infrastructure projects.<sup>3</sup> According to the Ministry of Economy and Finance (MEF), as of 2020, close to 400 projects have been awarded with a total investment value of approximately PER 5,317 million (about US\$1,100 million). In this sense, even before the negotiation of an investment deal, there is an implicit coordinated effort to find international markets and attract foreign firms between the central and local leaderships, commercial businesses and organizations, and the different Peruvian economic offices established abroad which are part of the state's structure in conducting foreign economic policy. Indeed, many of the agencies and organizations responsible for the promotion of investment projects abroad are under the umbrella of the MEF.

With this in the background, China has been a key investor in Peru's mining industry as some of its main state-owned enterprises (SOEs) own important projects in Peru's economy, including the purchase of one of Peru's most iconic and the largest iron-ore operation in the country to date in 1992—the Marcona mine in Ica. Since then and until 2010, the most notorious Chinese investments have remained in the mining and oil sectors, fueling criticisms regarding China's increasing dominance in the country and the region, and its influence in Latin American countries' re-primarization and/or high dependence on natural resources and commodities (Avendaño et al. 2017; Bárcena 2015; Carvalho 2019; Dollar 2017; Jenkins 2012; Moran et al. 2012; Nolte 2018). Moreover, the faux pas by some earlier Chinese firms in dealing with workers' groups and local communities as well as civil society created the perception of Chinese investment as predatory and unruly. Even though efforts have been made in changing those views—especially since the construction

<sup>3</sup> Companies can be registered in the Electronic System of State Contracts (SEACE or Sistema Electrónico de las Contrataciones del Estado).

of the Toromocho mine in Junin by Chinalco—FDI from China is still received with caution (Sanborn and Chonn Ching 2017).

While the first decade of the 2000s saw Chinese companies entering the mining, hydrocarbons, and commercial fishing sectors, starting 2010, there has been an increased interest in other areas like financial services, IT services, alternative and renewable energy, and the construction of ports. This includes the establishment of new projects (greenfield investments) and the use of mergers and acquisitions (brownfield investments) to enter the Peruvian market. Some notable transactions include the purchase of the Peruvian shares from oil giant Petrobras by the China National Petroleum Corporation (CNPC)—which had been in Peru since 1993—in 2013, after the former came into scrutiny due to corruption allegations that emerged from the Odebrecht scandal. During the same year, China Fishery Group also announced the purchase of shares owned by Copeinca, one of Peru’s largest and most important fishing and fish oil companies. Furthermore, in line with China’s BRI of global development through infrastructure, firms like Sinohydro Corporation, China Three Gorges Corporation, and COSCO began to seek participation in key renewable energy and construction projects, some of which have been considered as “of national interest.”

Among these firms, Sinohydro has faced national and international criticism as the company is part of a joint venture operation (with Construcción y Administración S.A., CASA) that, upon obtaining the corresponding environmental clearance, is expected to build a waterway that would guarantee transportation in four of Peru’s main Amazon rivers: Marañón, Ucayali, Huallaga, and Amazon (Amazon Waters 2018; OSITRAN, n.d.). This was the first public-private (PPP) infrastructure project that former President Pedro Pablo Kuczynski awarded since assuming Peru’s presidency in 2016.

Promoted by Peru’s Ministry of Transport and Communications (MTC) and ProInversión, the government agency responsible to promote private investment projects under the supervision of the MEF, the project has been vastly criticized due to its nature and the environmental and social implications. In addition to potentially altering the fluvial ecosystem, another key and challenging issue has been consulting and seeking approval from the hundreds of indigenous communities that surround the project’s pathway. Although government representatives indicated that the affected groups were consulted before making the public bidding for the project available (Consulta Previa, n.d.; MTC,

n.d.), and environmental assessment studies were ongoing, as of January 2020, the companies responsible for the operation requested the suspension of the project by the Peruvian government (EcoAméricas 2020). This request was granted by SENACE (National Service of Environmental Certification for Sustainable Investments).

According to Cohidro (the local name of the consortium formed by Sinohydro and CASA), the Peruvian state did not provide timely resources to finalize the environmental assessment (EcoAméricas 2020). As such, this is yet another project with Chinese financing for which the responsibility of the failure has not been assumed by any party—the Peruvian state and the Peruvian-Chinese joint venture. Although great attention has been placed on Cohidro’s inability to conduct and pass the corresponding socio-environmental assessments, local experts also indicate that the project was not properly conceived by the Peruvian state, more specifically, by the MTC as it represented an effort to improve the country’s connectivity and commercial accessibility. To start, the initial design of the waterway in 2014 did not take into consideration the changing nature of the rivers, such that by the time Cohidro began the respective studies for the environmental assessments, the rivers’ flows were not the same. In addition, many of the indigenous communities were not consulted before the designing of the project, but afterward, thus leading to its opposition (Interviews MNS, March 18, 22, 2022).

This is not, however, the only operation with a Chinese firm that has faced backlash in Peru. The mining project of Las Bambas has also experienced community rejection since Glencore sold the project to China Minmetals (MMG) in 2014 (Reuters 2014). Located in what is known as the “Corredor Minero del Sur” (Southern Mining Corridor), Las Bambas became the largest mining investment in Peru with an estimated value of US\$10 billion, according to updated information published by Peruvian outlets (El Comercio 2021).<sup>4</sup> The tensions with the communities stem from a variety of reasons, including compensation demands from farmers due to the usage of their land, the relocation of communities, extortion allegations, and even requests to receive a larger share of the profits<sup>5</sup> (see El Comercio 2018; Failoc Rivas 2019). With respect to the latter,

<sup>4</sup> The operation was initially purchased at US\$ 5.85 billion.

<sup>5</sup> Organizations such as SERVINDI (<https://www.servindi.org/>) and Conflictos Mineros ([https://mapa.conflictosmineros.net/ocmal\\_db-v2/](https://mapa.conflictosmineros.net/ocmal_db-v2/)) have traced most of these conflicts in Peru and similar in the rest of the Latin America. In most cases, these are

since 2003, Peru has a revenue redistribution system, the “*canon minero*” (mining canon), which distributes part of the income taxes mining firms pay to the national government to local governments. The main goal of this canon is to redirect this revenue to projects destined to development or infrastructure. However, the success of the canon has varied. In some cases those *revenue* flows that local administrations obtain from the mining firms are not efficiently used to benefit the communities’ development, leading to complaints that those projects are not benefiting them as originally expected (Sanborn and Chonn Ching 2017).

Other operations that have faced similar issues include Chinalco’s Toromocho project and the recurrent conflicts Shougang has experienced with the workers’ union in Marcona, both of which have been vastly discussed by other scholars such as Gonzalez-Vicente (2012), Irwin and Gallagher (2013), and Sanborn and Chonn Ching (2017). A common theme found is that, in addition to Chinese firms’ mistakes when entering the Peruvian investment environment, it is also the responsibility of Peruvian authorities to hold firms (Chinese or otherwise) accountable. For example, Chinalco’s relocation of the town of Morococha to build the Toromocho mine represented a new generation of Chinese FDI in Peru—one that worked closely with civil society and followed environmental regulations and policies by the Ministry of the Environment (MINAM) and the Environmental Assessment and Control Agency (OEFA), both created in 2008. However, even though Chinalco’s management of the relocation process was once lauded as setting a new standard, conflicts with some residents still living in the old town have remained ongoing and distrust in the company has reemerged. Poverty and economic dependence on Chinalco are among the main factors that have reignited this operation as one with high potential for conflict (see Alfaro 2018; Diario Viral 2022).

What does this mean for incoming and potential large-scale projects associated with BRI? Peru’s mineral endowment has been a key factor in making it an attractive destination for Chinese FDI; however, even with this comparative advantage, it does not fully capture the two-way interactions and lessons on both sides. On China’s part, the performance of its companies abroad matters, as well as their overall image and perception, at least in Peru and the Latin American countries where they operate.

recurring themes and the main sources of conflict between local communities, farmers, and the investing firm.

As argued by Stuenkel (2021), China's presence in Latin America in the so-called post-Western world is one where it seeks to be viewed as neutral—unlike the United States in the previous century.

Thus, it is not surprising that a number of important Chinese companies in Peru have taken interest or directly participated in different governance, transparency, and revenue redistribution initiatives, for example. Since 2005, Peru has participated in the Extractive Industries Transparency Initiative (EITI), which is a global standard that seeks to promote openness and accountability in the mining, oil and gas, and financial sector through the disclosure of information about production, revenue, and revenue redistribution. To date, 68 companies in Peru are part of this standard, of which only one of them is Chinese: China Minmetals (MMG). Although the low Chinese participation rate may seem discouraging, only Shougang, Chinalco, MMG, and CNPC are companies that would be paying significant taxes in their relevant industries. A greater number of firms have been part of social investment initiatives. With the benefits of using this participation for tax reductions, Shougang, Chinalco, and MMG have been part of “Obras por Impuestos” or “Projects for Taxes.”

On Peru's side, allegations and accusations of irregularities, especially among regulatory agencies to speed up the approval of projects considered as national priority, have dampened the country's efforts in establishing legal and regulatory frameworks to create a stable and predictable investment environment. The policies and regulations of the 1990s and the subsequent creation of new ministries and entities that would help regulate Peru's most important economic sectors showed a country that has been responding to both market demands to reassure investors and parts of its populations. However, the emphasis on progress that is quantitatively measured (e.g., GDP growth) has left aside urgent social and welfare issues that are becoming more predominant (i.e., extreme poverty and weak redistribution strategies).

Nonetheless, China has been a fast growing and evolving player in Peru and the rest of Latin America. China's financing capacity and the stated nature of its multinationals have created expectations of what doing business with China could look like. Yet, previous and current analyses have shown China as an average investor when compared to other foreign counterparts. For Peru, its authorities have managed to generally hold companies accountable or at least, responsive to not only local investment regulatory frameworks, but also some social demands. However, as

projects expand to sectors that require more community engagement and approval, one major challenge will be to balance Peru's own economic growth interests while still addressing its population's social and welfare issues.

## PERU IN COMPARATIVE PERSPECTIVE

The dynamics found in Peru are roughly similar to Chinese investment projects elsewhere. Below, we outline three major projects in the Philippines, Malaysia, and Indonesia, respectively, as these are countries outside of the Latin American region and which have also showcased different levels of local agency when interacting with China. First, in the Philippines, under the administration of Rodrigo Duterte, the Chico River Pump Irrigation Project (CRPIP), a 8,700-hectare irrigation system, was agreed upon in 2016 (CHEXM 2018). As a US\$90 million irrigation project funded by China Import and Export Bank (CHEXIM), it revives a 1970s era infrastructure.<sup>6</sup> The CRPIP illustrates that while the Chinese government funded the project, the implementation process was driven by the Philippine government. The power asymmetry between Philippine indigenous groups vis-à-vis the national government came into fruition in the CRPIP case. Chinese actors were passive in the entire process, letting the host country bureaucracies lead the process (see Camba 2021a).

For the CRPIP, the Cordillera People's Alliance, a coalition of non-government people's organization in the region, stated that the project should be canceled because it was slated to be built on the ancestral lands of the Kalinga people.<sup>7</sup> The project threatens to harm the ecosystem of flora, fauna, and animal habitats, as well as increase the likelihood of soil erosion. The National Irrigation Authority (NIA) and Department of Environment and Natural Resources, with the blessing of Malacañang, bypassed the provincial and regional governments initially (Quitacol 2019). The Duterte administration also never consulted local communities or provincial government. As Cariño said, "we did not even see the plans of the Chico River Pump. We just had a workshop and there

<sup>6</sup> Ibid.

<sup>7</sup> See <https://www.iwgia.org/en/iwgia-partners/62-cordillera-peoples-alliance-for-the-defense-of-the-ancestral-domain-and-for-self-determination-philippines.html>.

was a faculty member of Cordillera University who became a consultant for NIA and presented the plan.”<sup>8</sup>

The NIA acquired the social acceptability permit, the free and prior informed consent, without conducting a free and fair consultation process.<sup>9</sup> Afterward, the Philippine government acquired the lands by purchasing titled land or appropriating the untitled ones. The NIA purchased a sizable amount of land from the population in Kalinga province, most of whom were and are living in poverty. In addition, not only did the NIA actually underpay the farmers and landowners, but in other cases, these NIA officials also reportedly threatened individuals to sell their lots far below their market value.<sup>10</sup> Apart from purchasing land, the DENR and CRPIP also forcibly acquired the Kalinga lands recognized under customary land use, which are registered as ancestral lands under the National Commission for Indigenous People (NCIP).<sup>11</sup>

The NIA also reportedly acquired the environmental compliance certificate for the CRPIP uncommonly fast (Camba 2021a). On the topic of these procedural irregularities, Cariño said, “the government produced everything. There was an environmental impact certificate even though no one conducted geological assessment or any other test.”<sup>12</sup> As Cariño explained, “they are building two hydropower dams in other parts of Cordillera. It is not clear what is the impact of the river pump on all the rivers once these dams are built. It seems like a piecemeal approach to the dams.”<sup>13</sup>

Second, under Prime Minister Najib Razak’s regime (2009–2018), Malaysia acquired a US\$13 billion CHEXIM loan to fund the East Coast Railway. Najib, his political coalition, and the Malaysian state-owned enterprises (SOEs) worked with the China Communications Construction Company to construct the project with little domestic interference. While other Malaysian projects relied on the bureaucracy to award the projects to the Malaysian business elites, the decision to award the ECRL

<sup>8</sup> Joanna Cariño, Cordillera Autonomous Region, 17 April 2021.

<sup>9</sup> Ibid.

<sup>10</sup> Barangay Captain, Benguet, 21 April 2021.

<sup>11</sup> National Commission of Indigenous People’s Rights (2021). “Unused land domains, CAR,” Circular No. 31A4. May–June.

<sup>12</sup> Joanna Cariño, Zoom interview, 17 April 2021.

<sup>13</sup> Ibid.



to CCCC and the design of the financing deal were ultimately up to Najib (Gomez et al. 2020). In this case, the Chinese government complied with Najib's request to overinflate the CHEXIM loan. Najib intended to funnel the excess capital "bailout" the IMDB, a Malaysian government sovereign wealth fund that was bankrupt at that time. Jho Low (Ong 2019), a Malaysian Chinese economic elite, reportedly advised Najib to structure the ECRL's terms and conditions.

Malaysian political elites contested the ECRL's when details of the project's exorbitant cost came out (see Sarawak Report 2016). The ECRL project became one of the targets of the *Pangkatan Harapan* (hereafter, *Pangkatan*), a new coalition formed to compete against UMNO, organized their rhetoric against the ECRL.<sup>14</sup> *Pangkatan's* parliamentarians, Selangor local elites, and some *kampung* local elites joined the initial call for cancelation.<sup>15</sup> The lack of unity among these elites constrained any meaningful mobilization against ECRL.<sup>16</sup> The concentration of power in the Malaysian government, specifically in Najib, BN, and the Ministries, limited contention and intervention outside the official channels. *Pangkatan* realized the futility of challenging the ECRL and other questionable projects before elections. They focused instead on appealing to the global and national media by popularizing the issues—IMDB scandal, the corruption of Najib, and the complicity of Chinese firms to corruption.

In a surprising victory, Mahathir and the *Pangkatan's* electoral campaign effectively won the population, and *Pangkatan* wrestled state power away from UMNO. After Mahathir won the election, the linkage between the CCCC and Najib effectively collapsed.<sup>17</sup> In the first months

<sup>14</sup> Opposition parties further alleged a plan to double the ECRL's cost to secure additional borrowings from China to bailout IMDB. In addition, the ECRL was projected to be an extremely expensive project, requiring immediate payment in 7 years despite the financial returns of the project. Industry experts also were skeptical of BN's claim that the ECRL's cargo capacity would rise by 53 million tons by 2040, which, if false, would make the project commercially unviable. The ECRL was the only bidder for the project, took charge of all the procurement activities, and rendered all the subcontracting projects to other Chinese firms at the expense of local payers.

<sup>15</sup> MCA Official, Kuala Lumpur, November 1, 2018.

<sup>16</sup> PH Official, Ampang Jaya, March 9, 2019.

<sup>17</sup> Mahathir's first act was to impose a moratorium on both pipeline projects, though Malaysia needed to compensate the contractors \$2 billion USD or 88% of the total worth of both projects for just 15% of project's completion rate.

of Mahathir's term, he suspended the ECRL (Reuters Staff 2018). After a few months, he eventually announced the project's continuation because of the ECRL's actual economic potential of linking the wealthier Malaysian states to the developing eastern regions (Lim 2019). In sum, the Malaysian case is often touted as a classic example of a developing country "pushing back" against China's "debt-driven" BRI. But as the previous paragraphs show, it is actually more of a case of elite opportunism in the form of embezzling money from the project to 1MDB, resulting in a mobilization that led to the collapse of Najib's regime.

Finally, the Indonesia Morowali Industrial Park under Joko "Jokowi" Widodo illustrates a case of industrialization, moving the country from primary producer toward manufacturing. Indonesian elites are cognizant of Indonesia's reliance on exporting primary commodities, such as coal, base and precious metals, and palm oil.<sup>18</sup> Since the Cold War, these elites have created numerous initiatives to encourage domestic industrial capacity by providing incentives, limiting imports, and banning some form of natural resource exports. Like many countries in the Global South, Indonesia followed a policy of establishing special economic zones (SEZ) and their various iterations to encourage foreign transfer of skills and technology to the domestic population. However, SEZs, conventionally from Western firms, have been criticized as perpetuating the two-tier economy: the first tier comprising the foreign funder firms and their high-value industries, and the other lower-tier host country economy that provides cheap labor and other primary inputs to the firms (Paus and Gallagher 2008).

Indonesian policy elites want to establish industrial parks not only to increase investments, but also to generate technology and skill spillovers in the hopes of reducing the country's reliance on natural resource exports. Susilo Bambang Yudhoyono (2004–2014), the former Indonesia President, expanded foreign participation in the nickel industry in order to generate jobs and hasten economic development.<sup>19</sup> Yudhoyono officials invited the Tsingshan Group, one of the largest private stainless steel manufacturers in China with significant linkages to the Zhejiang provincial government. Tsingshan Group formed a partnership with Bintang Delapan, one of Indonesia's largest nickel mining companies, and the

<sup>18</sup> Suryawirawan, Jakarta, April 5, 2019.

<sup>19</sup> Adviser, PDIP, April 5, 2019.

Indonesian government to build the IMIP in the Morowali Regency in 2012. The China-based Shanghai Decent Investment, a company in the Tsingshan Group, owns 66.25% while Bintang Delapan Group owns 33.75% of IMIP (Camba 2021b). IMIP is the first integrated steel facility in Indonesia,<sup>20</sup> comprising an airport, stainless steel facilities, mineral processing plants, and a port. IMIP spans 5000 hectares and comprises 43,000 workers, which is divided into 38,000 Indonesian workers and 5,000 imported Chinese ones (Camba et al. 2020).

Under Widodo, Indonesian government pressured Tsingshan to integrate Bintang Delapan in the mineral processing (Camba et al. 2022). Tsingshan initially proposed building a smelter in Sulawesi. However, the Indonesian government made a counter proposal for the consortium to build an integrated industrial park in order to expand linked industries—smelting, processing, and even export—in the nickel sector.<sup>21</sup> Gusti Putu Suryawirawan, previously a director in the Ministry of Industry and the key negotiator in the deal, said, “we made a counter proposal and we were planning to say no if they refused. We were looking for a partner in the broader state strategy to build industrial capacity. What made it alluring to them was they knew that we were planning an export ban that would limit their nickel imports otherwise.”<sup>22</sup> These views were corroborated by the Indonesian Chinese manager of the park: “We agreed because of long-term considerations on securing supplies. We knew that they [the state] could limit Tsingshan’s imports, so investing in an integrated industrial park still enables the consortium to access high-quality nickel reserves and help develop Indonesia.”<sup>23</sup> Building an integrated industrial park gave Tsingshan a significant cost reduction by moving processing from China to Sulawesi, tapping into cheap Indonesian labor, and shortcutting lengthy bureaucratic procedures in both countries. For Indonesia, this meant processing nickel and not just extracting them, an endeavor closer to the developmental dreams of the Indonesian policy elites. The former

<sup>20</sup> See Camba et al. (2020) and Camba (2021) for summary of IMIP. Tritto (2019) gives a concise summary.

<sup>21</sup> Suryawirawan, Jakarta, April 5, 2019.

<sup>22</sup> Ibid.

<sup>23</sup> Park Manager, Morowali, 27 April 2019.

Minister of Industry in Indonesia said the Tsingshan investment design goes back to “Indonesia’s dreams to be an industrial power. Like South Korea, Japan, and Taiwan, and now China. IMIP has the capacity to do all of these.”<sup>24</sup>

## CONCLUSION

Smaller states, or more specifically, those in the Global South can *push back* via-a-vis larger external actors—even one as large and economically powerful as China. For Peru, reinforcing its ties with China allowed for the creation (and support) of economic opportunities that targeted the country’s economic recovery, reform, and development in general. The central government, key ministries such as the MEF and the MTC, investment agencies, and even local businesses have welcomed greater investment deals with China as Chinese firms have indeed provided the financing and resources to execute megaprojects in the extractive industry and now infrastructure. Yet even with the implicit and explicit welcoming of Chinese firms, these firms were held accountable as far as the Peruvian enforcement mechanisms and structures could. This does not necessarily indicate the existence of well-functioning political, judicial, or economic institutions and organizations. But they provide insights about the complexity in the interactions between key local and central actors, and with the foreign firms. The non-Latin American examples also help to reinforce that these multilevel local dynamics are not particular to just Peru, but also in countries that tend to be perceived as likely to be at the behest of China or other more powerful actors. In other words, there needs to be further research on these developing countries and the extent to which local dynamics influence and determine their international exchanges.

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<sup>24</sup> Former Minister, Jakarta, May 3, 2019.

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