Journal of Chinese Political Science (2019) 24:433–449
https://doi.org/10.1007/s11366-018-09603-w

RESEARCH ARTICLE

Pulling the Region into its Orbit? China's Economic Statecraft in Latin America

Wei Liang [1]

Published online: 28 January 2019

Abstract
Latin America is a critical region for analyzing China's economic statecraft. Following the Monroe doctrine, Latin America has long been seen as part of the sphere of U.S. influence. For the purpose of studying the effectiveness of China's economic statecraft I will focus on two countries that stand on opposite extremes: Brazil and Mexico. Both countries happened to be important target states (strategic partners) of China's economic statecraft in the region, albeit for different political and strategic goals. In this paper I will compare the different domestic political and economic conditions, interests and institutions in these two countries to explain why China has made greater progress in projecting its economic power through trade and investment to pursue its political goals with Brazil, but has not succeeded in Mexico.

Keywords Economic statecraft · China · Latin America · Mexico · Brazil · Trade · Investment · Foreign policy

Introduction

After decades of low-level commercial interaction, China and Latin America significantly ramped up their economic relationship in the 2000s. China has become a top trading partner and an important destination for many Latin American/Caribbean (LAC) countries' exports. While not yet a main source of foreign direct investment overall, China has built a strong investment presence in South America, particularly in the natural resource and infrastructure sectors. There is a rich set of literature on the impact of China's economic engagement in the region, including an examination of the impacts of increased commodity concentration and neo-dependency as a result of China's strong demand for natural resources [32], the importance of geopolitics [31], China's impact on Latin American economies and industrialization [19] and political

✉ Wei Liang
wliang@miis.edu

[1] Graduate School of International Policy and Management, Middlebury Institute of International Studies at Monterey, Pierce St., Monterey, CA 93940, USA

institutions [29], the implications for US hegemony [17], and China's projection of soft power [13]. However, the domestic factors that have been attributed to the different policy responses to China's economic statecraft in these target states has largely been understudied.[1] Thus, this paper is trying to reverse that research question in order to explore why China is more effective in using its economic power to pursue political and strategic goals in some LAC countries, but is less successful in others.

Economic statecraft can be broadly understood as state manipulation of international economic activities for strategic purposes [2]. Plenty of literature has studied this subject and identified a number of domestic and international variables to help examine the processes and outcomes of Chinese economic statecraft. Blanchard attributes success of economic statecraft to the target countries' level of stateness, which comprises of three components: *autonomy, capacity,* and *legitimacy* [5]. Norris focuses on principle-agent problems by defining various business-government relations and conditions for the government to tightly control the actors [30]. The unique party-state system and state capitalism of China has made government planning and manipulation of Chinese firms, banks and other players in international economic activities easier [35]. The economic means that the government has widely adopted are mainly through trade, investment, foreign aid, and financial statecraft. These studies have greatly contributed to our understanding of China's motivation, process, and implementation of its economic statecraft. This article, however, will focus on the domestic economic and political conditions of the target states. It explores the question of what domestic economic and political conditions in the target country are more conducive/ resistant to China's utilization of economic statecraft?

Latin America is a critical region for analyzing China's economic statecraft. Following the Monroe doctrine, Latin America has long been seen as part of the U.S. sphere of influence. Due to Washington's overwhelming superiority in military and economic realms, the region has been considered the backbone of American hemispheric hegemony since World War II [26]. In contrast, China was a latecomer to this scene and only began to extensively engage the region at the beginning of the new millennium. Driven by the energy thirst resulting from its economic opening in the 1980s, Beijing has adopted a global strategy of securing energy and natural resources. Latin America is one of the main regions China has tried to secure its resource supply from. As one leading China specialist noted, "China historically has paid less attention to Latin America than to any other third world region" [39].

On the other hand, Latin American countries also take China's increasing engagement in the continent as a new leverage in dealing with the United States. Long, among some others, provided an excellent examination of how Latin American leaders were able to overcome power asymmetries with the U.S. to pursue their national interests by exploring the key moments in post WWII inter-American relations [25]. In this paper I aim to further his argument by exploring the policy choices of Latin American countries in order to gain leverages when dealing with China.

With a wide range of countries in the region, it is difficult to present one overall regional assessment. Latin American countries' relationships with China vary widely; there is no single, coordinated regional response. China's growing economic

[1] There are important exceptions, including Gonzalez-Vicente [20]; Urdinez et al. [41]; Gallagher and Irwin [18].

engagement in the region, especially in the post-boom (post-2013) period, is driven primarily by Beijing's search for status and influence in the area. Within the context of their economic relationship with China, Carol Wise and Victoria Choon Ching divided the countries into three groups [43], namely, the three most liberal and open economies in the region of LAC (Peru, Chile and Costa Rica), resourceful countries like Brazil and Argentina, and the countries that also focus on manufacturing like Mexico. For the purpose of studying the effectiveness of China's economic statecraft I will focus on two largest economies and the most important political powers in the region: Brazil and Mexico. Both countries happened to be important target states (strategic partners) of China's economic statecraft in the region, albeit for different political and strategic goals. In the following section I will compare the different domestic political and economic conditions, interests and institutions in these two countries to explain why China has made greater progress in projecting its economic power through trade and investment to pursue its political goals in Brazil, but has been less successful in Mexico. By examining domestic factors including different level of trade dependence, proximity to the U.S., existence of alternative market and source of capital, and a shared vison on global governance, I explain why China's economic statecraft is more successful in Brazil than in Mexico even though both countries have been identified by the Chinese government as strategic partners in Latin America.

This papers proceeds in five parts: The following section sets a baseline for China-Latin America relations which traces the evolving cross-pacific economic exchange during the 2001–2013 boom and the post-boom new development. The third section examines the strategic goals of the Beijing government in Latin America. The next section compares the varied outcomes of China's economic statecraft in Mexico and Brazil and explores the domestic factors that have attributed to this outcome. Finally, the last section summarizes the findings and offers conclusions about the China's economic statecraft in LAC.

Evolving China-Latin America Economic Relationships: Boom and Post-Boom Periods

China's trade with and investment in the region deepened at around the turn of the new century. China is now the second largest source of imports for Latin America and is its second largest export destination, in both cases directly behind the United States. This dramatic increase of China's demand for Latin American resources has been fueled by China's need to sustain its rapid industrialization and in particular, export-oriented manufacturing [13]. Ferchen further argues that it has corresponded with a change in China's domestic development priority to switch from labor-intensive light and medium manufacturing toward capital-intensive, heavy industrial (over) production as a result of Chinese government's implementation of the post-2008 financial crisis stimulus package [16].

In 2017 China-Latin America trade reached $266 billion [12]. Chinese president Xi Jinping made a commitment at the first China-Latin America forum hosted by Beijing in 2015 that between 2015 and 2019, China would invest $250 billion in direct investment in the region and about $500 billion in trade [11]. Similar to China's trade patterns with Africa, it is concentrated in a small number of countries and primarily follows the pattern of importing natural resources from LAC and exporting manufacturing products. In 2017, five products– soybeans, iron ore, copper ore, refined copper, and oil – made up 70% of the total value of exports from LAC. Barton and Rehner captures this new commercial relationship that is based on resource trade and features the pragmatic hybrid as China's "dragon doctrine" in Latin America. [4]

The Boom (2001–2013)

Since joining the WTO in 2001, China has begun to integrate itself into the global economy. Following the East Asian export-driven development model, China began to develop itself as a global manufacturing powerhouse in order to take advantage of its population dividend and economy of scale. Consequently, China became a true global trader by importing raw materials, commodities, energy and intermediate parts from the developing world and exporting the finished industrial goods to developed markets. The country's heightened demand for copper, crude oil, iron ore, and soybeans made Latin America a natural frontier for trade. Hence, it has done well with LAC countries possessing an abundance of these natural resources including Brazil, Argentina, Venezuela, Chile and Peru. Commodity exports are a way for many LAC countries to (re) integrate into the global economy [38]. Thanks to China's strong commodity demand, these Latin American countries were spared the worst of the 2008–2009 crisis. In fact, trade between the region and China multiplied 22 times between 2000 and 2013 [10].

Before the burst of the commodity boom in 2013, China's investment projects were largely developed to support its trade relations with Latin America. Most Chinese companies invested in open commercial offices in Latin America to facilitate trade, some of which grew into small manufacturing units for assembling components imported from China. In the services sector, the only important investments were in finance, where the key objective is to finance trade operations with China. Even in the natural resources sector, many of the companies investing in mining and oil operations are large importers of these resources into China. In other words, China's economic influence over Latin America is conducted mostly through trade and not through direct investment [12].

Direct foreign investment from China shows a strong degree of concentration, both in terms of sectors (with mining and fossil fuels represented at around 80%) and in terms of country destinations, with only three countries – Brazil, Peru and Argentina – receiving 81% of said investment between 2005 and 2017 [12]. This reinforces the pattern of exchange of raw materials for manufactured goods that has characterized trade between the region and China.

Post-Boom: 2013-Present

2013 represents a watershed moment in China-Latin America economic relations. Commodity prices worldwide plunged dramatically from 2013 to 2014 and China's economic growth has slowed to an average rate of 6–7% since 2013. The pass-through for LAC in terms of China's lower demand for lower-priced resources has been a slowing of growth to 1–2% on average since 2013 [33]. This is partly due to declining Chinese exports to developed markets and partly due to an intentional shift away from its previous export-oriented model to a more sustainable consumption and service-based development model. However, when the demand for commodities had slowed and prices plummeted, China continued and even further expanded its economic presence in the LAC region – especially through financial statecraft. This suggests that China has been pursuing more than just commercial interests from 2013 onward. The end of the commodity boom seems to provide an opportunity for China to revisit its economic engagement in the region and to make it more balanced and less controversial. Rather than solely using Latin America as a source of commodity imports, the Chinese government has applied its ever-increasing economic clout, utilizing trade, infrastructure investment and aid to pursue its non-economic goals.

During the post-boom period China's investment in the region is still highly concentrated in terms of host country selection. Though China invested $90 billion in Latin America between 2005 and 2016, it only accounts for approximately 5% of FDI inflow to the region during this period. Investment by Chinese companies in LAC in 2017 is estimated to be more than US$ 25 billion, equivalent to around 15% of total inflow to the region that year [12]. Brazil has received 55% of investments made by Chinese companies in the region since 2005, followed by Peru with 17% and Argentina with 9%. Thus, the top three recipient countries account for 81% of Chinese FDI inflows to the region [12].

What has changed since 2013 is that Chinese companies have begun to invest in the manufacturing and agricultural sectors [32]. In January 2015, President Xi Jinping pledged $250 billion in Chinese investment in Latin America over the next 10 years, some of which is expected to go into Brazil's recently proposed railroad that would link the Atlantic and Pacific Oceans via Peru. Chinese policy banks now provide more finance to Latin American governments each year than do the World Bank and Inter-American Development Bank (IDB) combined. The Chinese finance has functioned as a private sovereign debt market with some typical Chinese characteristics: focus on industry and infrastructure, large loans tied to purchase requirements of Chinese industrial goods, and natural resource purchase contracts which reduce repayment risk [18]. China is less willing to operate at an economic loss just in order to bolster non-economic ends in Latin America, which differs China's economic diplomacy strategy in LAC from that of its in Southeast Asia and Africa.

Gaining Influence and Status through Economic Statecraft?

Chinese government prefers economic statecraft as it matches the global image China has long subscribed: China is going to rise peacefully and other countries will benefit from China's rise. Increasingly, China has employed its growing economic clout to pursue other objectives. As stated by David Baldwin, "economic measures are likely to exert more pressure than either diplomacy or propaganda, and are less likely to evoke a violent response than military instruments" [2].

Compared to its neighborhood including Northeast and Southeast Asia, and its bilateral relationship with the major global powers including U.S., EU and Japan, China does not see Latin America as the most strategic region in relation to its core interests and key foreign policy objectives, which has been identified as regime stability, sovereignty and territorial integrity and development rights [24]. Consequently Latin America attracted only about 13% of China's total FDI during 2003–2016 period (about US $110 billion) compared to 70% directed elsewhere in Asia.

Where then does Latin America fit in the Chinese grand strategy and what are the geopolitical goals driving China's economic activities in this region of considerable interest to the United States? First and foremost is China's strategic interest in securing energy security and commodity supply to sustain its rapid economic growth. During the first decade of the twenty-first century geopolitics did not seem to be the key driver for China's policy towards Latin America. Rather, Beijing was very cautious not to upset the U.S. by engaging the region economically. In the first Latin America policy white paper issued by the Chinese government in 2008, the focus was on energy security and the role that could be played by the LAC countries to help diversify China's energy supply [6, 7]. The "China fever" cooled down in 2013. With the burst of the commodity boom and the slowing down of the Chinese economy and its exports to the developed market, China reduced its commodity imports from LAC. However, to many people's surprise, China's engagement with the LAC continues to soar and China has even expanded its scope of engagement beyond commercial interest. China has maintained its presence in LAC's extractive sectors and Chinese investment and finance in LAC is still heavily focused on extraction. Mining, drilling, and refining accounts for over half of Chinese mergers and acquisitions in LAC, while coal, oil, and natural gas account for over half of public-sector lending – a record US$17.2 billion in 2017 [34].

Second strategic interest of China's economic statecraft in LAC is to integrate Latin America into its "Belt and Road Initiative". Under the new leadership of President Xi Jinping, China has adopted a more assertive foreign policy and gone through a major transformation to redefine its role in the developing world. In recent years, the Belt and Road Initiative (BRI), previously known as the "One Belt, One Road" (OBOR) strategy, has emerged as the cornerstone of Chinese foreign policy. According to the Chinese government, the twenty-first-century version of the Silk Road will take shape around a vast network of transportation, energy, and telecommunications infrastructure, linking Asia to Europe and Africa through Central and South Asia and accompanied by strengthened trade and investment and increased people-to-people exchanges [45]. Beijing sees physical infrastructure as a first step toward Eurasian integration, which will build economic corridors to enable greater integration and foster a vibrant "community of common destiny," a blueprint outlined by Chinese President Xi Jinping.

Consequently China has increasingly diversified its investment to other sectors, including finance, services, manufacturing and, in particular, infrastructure. Between 2005 and 2016, China invested US$5.5 billion into 91 infrastructure projects in the region [9]. Those projects include the region's most ambitious projects such as the development of a transcontinental railway linking Brazil's Atlantic coast to Peru's Pacific coast, the construction of the Two-Ocean Tunnel between Argentina and Chile, and the building of three nuclear plants in Argentina. Many of these new projects have completed yet, but they have reflected the diverse interest developed by Chinese state-owned enterprises in the region. Different from the previous focus on extractive diplomacy, this recent surge of infrastructure diplomacy has policy implications beyond commercial interest. It is an integral part of China's new global vision of connectivity and development, an alternative idea to complement and challenge existing international institutions. In a visit to Chile in May of 2013 the Chinese Premier Minister said, "The current industrial cooperation between China and Latin America arrives at the right moment, China has equipment manufacturing capacity and integrated technology with competitive prices, while Latin America has the demand for infrastructure expansion and industrial upgrading" [14].

Third strategic interest of China's economic statecraft is to intensify its relationship with Latin America by institutionalizing the relations through both bilateralism and regional institutional building. China has not made much progress in this regard. So far China has only negotiated free trade agreements with three small and open economies in the region, which are Peru, Chile and Costa Rica. Regionally, China has developed close economic ties with Community of Latin American and Caribbean States (CELAC) forum. The first meeting of China-CELAC forum in January 2015 aimed to double annual trade and significantly increase China's investment stock in the region. At the second China-CELAC forum held in January 2018, China's policy preference was no longer commercial interest, but instead the pursuit of strategic goals [9]. It successfully persuaded a number of LAC countries to join the China-dominated Belt and Road Initiative (BRI). Before the forum was held, Chinese leaders had already endeavored to rephrase the Belt and Road discourse to include LAC. Now the new discourse describes LAC as a "natural extension" of the Maritime Silk Road and an "indispensable participant" of the Belt and Road Initiative. This language was first used by President Xi Jinping during his meeting with Argentina's President Mauricio Macri on the sidelines of the 2017 Belt and Road Forum [3]. The Declaration, signed during the Second China-CELAC Ministerial Forum in January 2018, presents the BRI as "a new platform for mutually beneficial cooperation" between China and Latin America, and affirms that the former "invites Latin American and Caribbean countries to join" [9]. As of June 2018, four of the roughly 70 countries that have signed these agreements are located in the LAC region: Panama, Antigua and Barbuda, Trinidad and Tobago, and most recently, Bolivia. This new development is strategically critical as it is an important step to integrate LAC into China's global strategic vision.

The fourth strategic interest of China is the Taiwan issue – the core interest of Beijing government. In Latin America white papers issued by the Chinese government in 2008 [6] and 2016 [28], Beijing emphasized the importance of "upholding the One-China principle" as the foundation for bilateral cooperation with LAC. We have witnessed the fiercest diplomatic contest between China and Taiwan in LAC; among the 17 countries that still formally recognize Taiwan, nine of them are located in LAC.[2] This issue is more pressing now than ever, partly because China and Taiwan ended their tacit "diplomatic truce" (2008–2016) after pro-independence president Tsai Ing-wen came into power in 2016. The remaining group of eight Central American and Caribbean nations, plus Paraguay in South America, represent a large chunk of the only 17 countries that presently recognize Taiwan. The conflict between Taiwan and China has indeed become more real, evidenced by China's shifting focus from South America to Central America and the Caribbean. This diplomatic contest has influenced China's economic engagement with the region. China has been using economic incentives as sticks and/or carrots to bid for the non-recognition of Taiwan [41]. Countries that recognize Taiwan have found their access to the Chinese market restricted; none of the regional states that recognize Taiwan are on the list of the top 13 destinations of Chinese lending [24]. When Panama switched its diplomatic

[2] The nine countries are: Belize, Haiti, Nicaragua, St Kitts and Nevis, St Vincent & the Grenadines, the Dominican Republic, Guatemala, Paraguay, Honduras and Saint Lucia

alignment from Taiwan to China in July 2017 and El Salvador in August 2018, Taiwan openly blamed China for its “checkbook diplomacy.” From Beijing’s point of view, considering its sheer size of economy and global status, it is not a difficult task to win this diplomatic battle if the U.S. doesn’t support Taiwan by influencing their allies in Central America.[3] Therefore, Chinese diplomats consider this more so a battle between China and the U.S. than one with Taiwan.

The new development of U.S. foreign policy under the Trump administration – including the decision to abandon the TPP agreement and the uncertainty associated with the new USMCA agreement – and the lack of US interest in multilateralism in general may prompt some Latin American countries to further “look east.” The trade war between the U.S. and China as well as more protectionist policies towards countries including Canada, Japan and most European nations will also help with the ongoing restructuring of China-Latin America relations. More LAC countries are considering China as an alternative market and source of capital to the United States. However, on the other hand, ongoing trade tensions with the U.S. will cause China’s demand for commodities and resources to decline. China will then make more industrial and infrastructure investments in the LAC instead to take advantage of cheaper labor costs and to be close to new markets. In doing so this will provide China a new opportunity to redefine its economic statecraft in the region, shifting away from “extractive diplomacy” to a more balanced and nuanced statecraft.

Case Study: Comparing China’s Economic Statecraft toward Brazil and Mexico

In order to provide in-depth examination on China’s economic statecraft in Latin America and how the target countries responded, I chose Mexico and Brazil to conduct field research and used a process tracing approach. They have been chosen based on the case selection criteria including typical, diverse, influential and most similar/different [37]. First, they both are politically influential and economically powerful players in the region. Brazil and Mexico are the two largest economies in the region, one representing South America and the other one representing Central America geopolitically and geoeconomically. Second, China has adopted a distinctive diplomatic approach in LAC, by prioritizing its political and economic cooperation with a selective group of Latin American countries. As Table 1 shows, China has developed comprehensive strategic partnership agreements with seven countries in the region including Brazil, Mexico, Argentina, Venezuela, Peru, Chile and Ecuador—the top rank in China’s diplomatic partnership structure [44]. Among them, Brazil established this comprehensive strategic partnership in 2004, while the rest of the six countries established this priority partnership with China only in the last few years. It means that these seven countries have developed comprehensive cooperation with China in political, economic, trade, cultural, and military fields. Although the seven countries are all major petroleum and commodity producers and exporter in the region, it is evident that Brazil and Mexico has more diverse economy, and importing/exporting beyond commodity and natural resources and hence a better case to understand China’s use of economic tools to achieve its non-economic policy agenda. Chinese diplomats and MOFCOM

[3] Interviews with government officials from Ministry of Foreign Affairs, May 2018.

Table 1 China's Diplomatic Partnership with Selected Countries in America. Source: Ministry of Foreign Affairs, China. Compiled by author

PRC	Partners	Years of establishment	Additional information (year and name of related partnerships)
LAC(8)	Brazil	1993	1993 strategic partnership, 2004 *comprehensive strategic partnership*
	USA	1997	1997 constructive strategic partnership; 2011 a cooperative partnership based on mutual respect and mutual benefit
	Venezuela	2001	2001 strategic partnership for common development; 2014 *comprehensive strategic partnership*
	Mexico	2003	1997 comprehensive partnership; 2003 strategic partnership of cooperation; 2013 *comprehensive strategic partnership*
	Argentina	2004	2001 comprehensive partnership; 2004 strategic partnership; 2014 comprehensive strategic partnership
	Canada	2005	1997 comprehensive partnership; 2005 strategic partnership
	Peru	2008	2004 comprehensive partnership; 2008 strategic partnership; 2013 *comprehensive strategic partnership*
	Chile	2012	2004 comprehensive partnership; 2012 strategic partnership; 2016 *comprehensive strategic partnership*
	Ecuador	2015	2015 strategic partnership; 2016 *comprehensive strategic partnership*

(Ministry of Commerce) officials all confirmed that China considers Mexico and Brazil the two most important strategic and economic partners in LACs.[4]

It appears that China's economic diplomacy works more effectively with Brazil than Mexico. In the last two decades, Brazil has become China's most important ally in the region, standing side-by-side with China on a number of global fronts. On the other hand, Mexico continues to see China more as a competitor in global economy and rarely sides with China on foreign policy issues important to China. There are a number of critical domestic factors that account for these rather varied outcomes. In this section I will focus on the current level of trade dependence on Chinese market, proximity to the U.S. (both economically and politically), existence of alternative free trade agreements/investors to the target countries, and shared vision and interest on global governance, especially those toward multilateralism, toward the U.S. influence in the global economic system.

First and foremost, China has more complementary trade relations with Brazil and more competitive relations with Mexico. It is noteworthy that China's trade penetration, especially its manufacturing exports into Brazil as well as its competition with Brazil in the U.S. and other third markets, has caused serious concerns in Brazil regarding 'primarization' of the economy [23]. However, neoliberal economists would argue that this bilateral trade relationship has reflected the comparative advantage of the two countries and brought the benefit of trade to these two economies. While Brazil holds the largest trade surplus with China in the region, Mexico has a prolonged trade deficit with China. Mexico's trade deficit with China reached $67.4 billion in 2017 and accounted for roughly 77% of the region's total deficit with China. This reflects the

[4] Interviews with government officials from Ministry of Foreign Affairs and Ministry of Commerce, June 2016.

fact that less than 2% of Mexico's exports, but 17% of its imports, were accounted for by China in 2014. As China's former consul general in Tijuana, Shoujian Gao, pointed out, the combination of economic competition with persisting social tensions constitutes a formidable challenge to efforts to build co-cooperation and understanding [22]. Compared to the complementary trade relations between China and Brazil, there has been significant tension between China and other manufacturing-based economies such as Mexico. Competition from Chinese exports has undercut Mexico's primary comparative advantages: low labor costs and geographic proximity to the United State*s. china* and Mexico not only share similar comparative advantages, but also similar export-driven investment policies. The "maquiladora" system of Mexico is similar to Chinese "special economic zones." Consequently, China has outcompeted Mexico in the U.S. market for exports of industrial goods thus attracting a great amount of foreign investment in manufacturing away from Mexico. Mexico has suffered from its escalated trade deficit with China, as China exports large quantities of manufactured goods to Mexico as well as parts and intermediate goods to be processed in Mexico for export to the US market. In short, since the late 1990s, China has been "eating Mexico's lunch" [36]. Meanwhile, as trade between China and Brazil expanded, China became Brazil's most important trade partner, outpacing traditional partners such as the US and Europe. On the one hand, the trade relationship is imbalanced. In 2014 commodities (soybeans, minerals and fuels) accounted for 85% of Brazilian exports to China [1]. On the other hand, Brazil's economy grew 3.3% and poverty decreased from 13.6% in 2001 to 4.9% in 2013 during the decade of rapidly growing trade with China [24].

Second, while Brazil has received the largest portion of FDI from China, Mexico received much less Chinese FDI than Brazil, as shown by Figs. 1 and 2 respectively. China invested $6.7 billion in Mexico during the period of 2003–3016, making Mexico

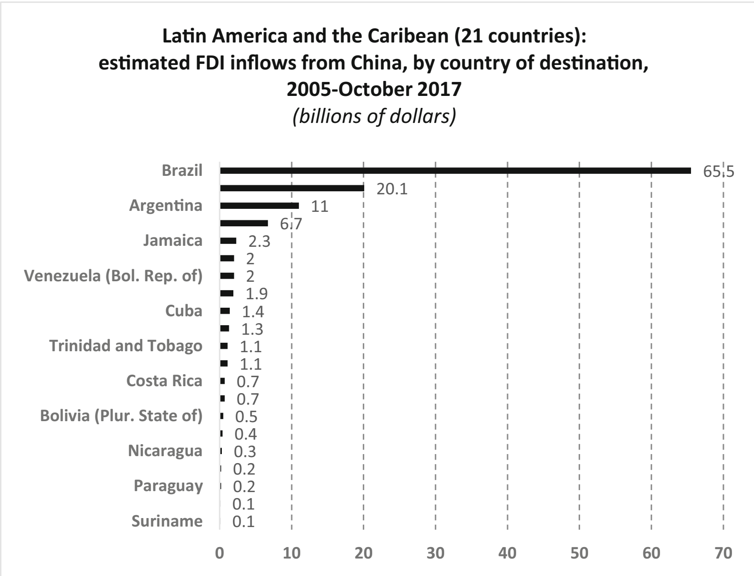

Fig. 1 Source: Source: ECLAC. "Exploring new forms of cooperation between China and Latin America and the Caribbean," January 2018. https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf

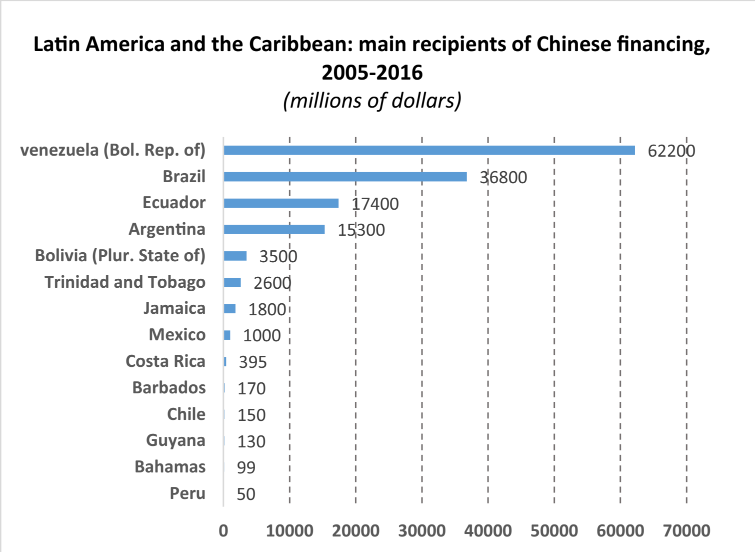

Fig. 2 Source: ECLAC. "Exploring new forms of cooperation between China and Latin America and the Caribbean," January 2018. https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf

only the fourth largest destination of Chinese FDI in the region [12]. Brazil drew about 56% of China's FDI in Latin America during 2003–2016, followed by Peru and Argentina. In 2017 alone Chia invested $24.7 billion in Brazil. Most Chinese investment in Brazil now has expanded from oil and gas extraction to electricity sector, financial service, telecommunication and manufacturing. This trend has continued in recent years, and from 2016 to 2017 China invested all its major non-resources projects in Brazil, as shown by Table 2. There are four major oil companies in China (CNPC, Sinopec, CNOOC and Sinochem), all state-owned and all with significant investments in Latin America. Chinese oil companies have a presence in all of the Latin American countries that export oil and gas. Because Mexico has not fully opened its energy sector to foreign investment and China is a strong competitor in manufacturing, Chinese companies have not found many areas to invest in Mexico compared with Brazil.

Third, Mexico and Brazil have carried out different domestic policies towards the U.S. and the subregional difference is noteworthy. For most countries in Central America and the Caribbean the United States is their most important trading partner and political ally. The strategic importance of Mexico is also mainly driven by its political and economic relations with the U.S. and its influence over the countries of Central America. Mexico's foreign policy and economic policy today has been shaped heavily by its geography. Its relationship with the United States is unique and unparalleled. Thus, Mexico prioritizes policies that help it liberalize its economy, deal with asymmetrical power and economic relations, and take advantage of its proximity with the U.S. while sovereignty-conscious South America, especially Brazil, appreciates more the principles emphasized by China in its usage of economic statecraft, such as mutual respect, non-interference, and protection of national sovereignty. During the Workers' Party's rule in Brazil, which started in 2003, the radical shift of Brazil towards a non-US-centered independent foreign policy as a result of regime change, not

Table 2 China's Major Investment Projects in LAC in 2016–7

	Corporation	Assets acquired	Asset location	Sector	Value (millions of dollars)
2016	China Molybdenum Co., Ltd	Anglo American-niobium and phosphates	Brazil	Mining	1500
	China Three Gorges Corporation	Duke Energy International, Brazil Ltda.	Brazil	Energy	1200
	Hainan Airlines Co. Ltd.	Azul S.A. (23.7%)	Brazil	Transport	450
January to November 2017	GIC Pte. Ltd. (Singapore), Brookfield Infrastructure Partners LP (Canada), China Investment Corporation (China)	Nova Transportadora Do Sudeste SA (90%)	Brazil	Energy	5200
	State Grid Corporation of China	CPFL Energia SA (100%)	Brazil	Energy	10,290
	State Power Investment Corporation	Sao Simao Hydroelectric Power Plant Brazil	Brazil	Energy	2250
	CITIC Agricultural Industry Fund Management Co Ltd	Dow Agro Sciences Sementes & Biotenologia Brasil Ltda	Brazil	Chemicals	1100

Source: ECLAC. "Exploring new forms of cooperation between China and Latin America and the Caribbean," January 2018. https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf

economics, is the major explanatory variable that drove the close relationship between Brazil and China (Albuquerque and Lima 2016). The public opinion survey in Brazil empirically shows that the more Brazilians share the perception that the United States loses pre-eminence globally, the more they will be willing to accept China as a trustworthy partner [40]. Keeping its economic and political independence from U.S. influence and interference by diversifying its trade and source of capital from China seems to have been a welcome option. By contrast, public opinion in Mexico is less favorable about China and Chinese investment. The failure of the three major Chinese investment projects exemplifies this domestic tension. The first one was Mexican government's unexpected cancellation of a China-led bid for a $3.7 billion bullet train project in 2014 which would have run 130 miles from Mexico City to Queretaro [33],. The second one was the construction of $180 million Dragon Mart in Cancun. The third troubled investment is the Chicoasen Power station project, which China's Sinohydro won the public bidding worth $400 million to construct a hydroelectric power station. All three projects were cancelled because one of the domestic opposition in Mexico. Dussel Peters attributed these investment obstacles to the lack of institutional expertise on China within the Mexican government, as well as the general public's anxiety about potential competition with China [8].

Fourth, Brazil shares the same principles as China on supporting a stronger role played by emerging economies in multilateralism and multipolarity. They both see multilateralism backed up by a multipolar system in the world as the most effective way to challenge U.S. hegemony. Brazilian leaders, including former President Lula, echoed that a strategic relationship with Beijing would facilitate their cooperation in multilateralism [21]. In the past decade, China and Brazil have worked closely and built coalitions in global trade negotiations including the WTO Doha Round Negotiation, IMF governance reform, global climate talks, and within the BRICS and G20 summits. Former Chinese president Hu Jintao stressed that "China forever stay on the side of developing countries" [29]. This foreign policy goal of China has been endorsed by Brazil and other South American countries as well. Their shared vision of the ideal global system, common interest in counterbalancing US expansion in the Western hemisphere, and joint effort to build alternative institutions such as the BRICS New Development Bank have made Brazil China's most valuable global partner. Meanwhile, for Brazil China represents a valuable geopolitical counterweight to the United States. They both believe that a collective rise of developing countries and emerging economies more accurately reflects fundamental change in international politics. Brazil, as an emerging economy that has always placed great importance to its sovereignty and independence in its foreign policy, shares the similar vision of the new/better world order. Compared to Brazil, Mexico appears less interested in multilateralism and is less willing to build a coalition with China and other developing countries to confront the U.S. on the world stage.

Fifth, compared to Brazil, Mexico has enjoyed more (and better) alternative export market and source of investment. As a member of the NAFTA, Mexico enjoys privilege to enter into the North America market duty-free. Currently US market absorbs about 80% of Mexican exports. Because of its location and its NAFTA membership, many countries have chosen to invest in Mexico to take advantage of its cheap labors and the easy access to the U.S. market. Besides its proximity to the U.S., Mexico has successfully negotiated free trade agreements with Japan, the EU, and a large number of countries. Mexico is a key player in the Pacific alliance in the region and is also a member of the TPP11. With the exclusion of China from the TPP, increasing trade tensions between China and many developed countries, and the growing cost of labor in China, Mexico has become the new investment destination for the manufacturing sector, particularly for automobiles and auto parts. As a top recipient of FDI in Latin America, Mexico has access to international credit on favorable terms, which are very competitive to those offered by Chinese banks. In 2017 US foreign direct investment accounted for 46% of the total FDI inflow into Mexico while US investment only accounted for 22% of the total FDI inflow into Brazil. In contrast to Mexico, Brazil is struggling with economic slowdowns along with domestic political turmoil and institutional deficits. It has maintained relatively high tariffs and other trade protectionist measures. Trade relations with its Mercosur partners has not gone particularly well as the market is small. Thus, China assigns more importance to Brazil economically and politically.

By referring to the strategic interests outlined by the Chinese government in Latin America, it seems that Beijing's employment of economic means has achieved better results in Brazil than in Mexico. Brazil has become the largest supplier of energy, commodity and agricultural products to Chinese market. This has matched China's strategic interest of energy and food security. Furthermore, Brazil has become one of the most important partners of China on global arena by building strong coalitions with China in global trade, financial and climate change governance. They have also coordinated policies in the G20 meetings. The creation of the BRICS and the New Development Bank has further promoted China's strategic interest in providing regional institutions to develop alternative mandates on development financing. Lastly, through its massive infrastructure investment in Brazil, China has successfully integrated Brazil into its Belt and Road Initiative. Compared to Mexico, it seems that China has been able to pursue more of its strategic interests by engaging Brazil economically.

Conclusion

Realists like John Mearsheimer and Stephen Walt have advocated for Washington to "preserve US dominance in the Western Hemisphere" [27]. Although more and more policy observers have warned that "Beijing is filling the void left by a diminished U.S. presence in the latter's own backyard [41, 42] the U.S. is and will continue to be the dominant power in the region and China has no intension to directly confront the US and US core interests in the region.[5] Economically, the US remains the largest market for the majority of Latin American exports. Latin America exported $406 billion in goods to the United States in 2017, with roughly 80% of that being manufactured products, and ran a $117 billion surplus with the northern power. In contrast, Latin America had a trade deficit of $67 billion with China, with around 90% of exports in raw materials. Commerce Secretary Wilbur Ross recently reminded the audience at the Summit of the Americas in Peru of this asymmetrical trade relation in April 2018, concluding that "the message is that Latin America is very important to the United States." His real message, however, is that "[the] U.S. is very important to Latin America." Beijing recognizes the geographic and geo-economic realities of the Western Hemisphere and is aware of Washington's sensitivities to China's growing presence in LAC. While Beijing is keen to increase its role in the region economically and politically, it prefers to do so in a low-key and non-confrontational manner. Rather than targeting the whole region, China is only focusing on a small number of countries that present key strategic value to China. In fact, China is not seeking to target all 34 countries in the region, rather, it has selected seven 'large and/or strategically important' countries, namely, Brazil, Mexico, Argentina, Venezuela, Peru, Chile and Ecuador [15]. Chinese diplomats have repeatedly stated that China is "not directed at any third party and not at forming a bloc" [46].

Given China's continued demand for energy, agricultural products and commodities, as well as its quest for global markets for its manufacturing products in the midst of US-China trade war, it will continue to maintain strong economic engagements with Latin American countries. The analysis above shows that China's economic statecraft in Latin America has mixed effects on various countries in the region and poses challenges on both sides to sustain a win-win bilateral relationship in the midst of roiling geopolitics and the complexities of South-South cooperation. China's pursuit of strategic goals through economic means and the subsequent domestic logic of the receiving states explains the various responses of Latin American countries.

Overall, Central American countries continue to be very dependent upon the US market for exports, and to a lesser extent, for investment and foreign aid. Due to their trade structures, Central American Countries have not significantly benefited from booming Chinese demand for primary products and instead have faced increased competition from Chinese products in third-country markets (like Mexico). Conversely,

[5] Interviews with government officials in Ecuador and Brazil, July 2018.

South American countries (like Brazil) have benefited from China's rapid economic growth and depend more heavily on Chinese markets for their exports and share some similar interests towards the United States.

By examining the varied outcome of China's economic statecraft in Mexico and Brazil, it appears that Latin America is the most challenging frontier for China. Compared to Asia and Africa, Latin America proves to be a more challenging region for China due to the lack of historical connection, cultural proximity, and mutual understanding on each other's political and social Institution*s*. *china* began with a pragmatic expectation and so far has achieved very limited results. The success of China's economic statecraft is largely dependent on the domestic economic and political conditions of the target state, not necessarily correlates with the scope and strategies of the China's economic inducement. Economic statecraft can take many forms. Some of the economic statecraft tools, such as sanctions and economic pressures, have been rarely used by China as it does not have the unrivaled political and economic power to make it work effectively. Instead, China has more frequently used economic inducement, through trade, investment and development financing to ensure its own economic (energy, commodity) security, expand its international influence (mostly vis-à-vis Taiwan in LAC), and work with other like-minded developing countries to challenge the U.S. dominance in the region and in multilateral institutions. In the future, the economic and political divide in Latin America – between Central and South America – will continue to have fundamental implications in US-China competition for effective economic statecraft in the region.

References

1. Albuquerque, J.A.G., and L.A.F. Lima. 2016. Chinese Investment in Brazil: Can it match the relevance of bilateral trade? *Asian Perspective* 40: 579–601.
2. Baldwin, D.A. 1985. *Economic Statecraft, revised edition*. Princeton, N.J: Princeton University Press.
3. Barrios, R. 2018. China's Latin American Belt and road chimera. The News Lens, July 14. https://international.thenewslens.com/article/99609. Accessed 15 May 2018.
4. Barton, J.R., and J. Rehner. 2018. Neostructuralism through strategic transaction: The geopolinomics of China's dragon doctrine for Latin America. *Political Geography* 65: 77–87.
5. Blanchard, J.F., and N.M. Ripsman. 2008. A political theory of economic statecraft. *Foreign Policy Analysis* 4 (4): 371–398.
6. China-ECLAC Forum. 2018. "The declaration of the second China-CELAC ministerial Forum" January. http://www.chinacelacforum.org/eng/
7. Chinese government. 2008. Chinese government policy white paper towards Latin America. Access http://www.mfa.gov.cn/chn//gxh/zlb/zcwj/t521016.htm
8. Dussel Peters, E. 2016. Chinese Investment in Mexico: The contemporary context and challenges. *Asian Perspective* 40: 627–652.
9. Dussel Peters, E. (ed.). 2017. América Latina y el Caribe y China: Economía, Comercio e_Inversión. *Enrique Dussel Peters* website. www.redalcchina.org/v21/images/docs/RedALCChina-2017-economia.pdf , accessed March 15, 2018.
10. ECLAC (economic Commission for Latin America and the Caribbean). 2013. Promoción del comercio y la inversion con China: desafíos y oportunidades en la experiencia de las cámaras empresariales latinoamericanas.
11. ECLAC. 2015. Latin America and Caribbean with China: Towards a new era of economic cooperation.
12. ECLAC. 2018. Exploring new forms of cooperation between China and Latin America and the Caribbean. Access https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf
13. Ellis, R.E. 2009. *China in Latin America: The what's and wherefores*. Lynne Rienner Press.

14. Elson, A. 2014. Dragons Among the Iguanas. *Finance & Development*, International Monetary Fund 51(4), December. http://www.imf.org/external/pubs/ft/fandd/2014/12/elson.htm
15. Fan, H. 2016. China's Foreign Policy Logic Towards Latin America. *People's Forum* June 16. Access http://www.cssn.cn/zzx/gjzzx_zzx/201606/t20160616_3073037.shtml
16. Ferchen, M. 2011. China–Latin America relations: Long-term boon or short-term boom? *The Chinese Journal of International Politics* 4 (1): 55–86.
17. Gallagher, K. P. 2016. The China triangle: Latin America's China boom and the fate of the Washington consensus. Oxford University Press.
18. Gallagher, K.P., and A. Irwin. 2015. China's economic statecraft in Latin America: Evidence from China's policy banks. *The Pacific Review* 88 (1): 99–121.
19. Gallagher, K.P., and R. Porzecanski. 2010. *The dragon in the room: Chia and the future of Latin American industrialization*. Stanford University Press.
20. Gonzalez-Vicente, R. 2012. Mapping Chinese mining investment in Latin America: Politics or market? *The China Quarterly* 209: 35–58.
21. Hakim, P. 2006. Is Washington losing Latin America? *Foreign Affairs* 85 (1): 39–53.
22. Hearn, A.H. 2012. Harnessing the dragon: Overseas Chinese entrepreneurs in Mexico and Cuba. *The China Quarterly* 209 (March): 111–133.
23. Jenkins, R. 2014. Chinese competition and Brazilian exports of manufactures. *Oxford Development Studies* 42 (3): 395–418.
24. Li, M. 2017. China's Economic Statecraft: Co-optation, Cooperation and Coercion, World Scientific.
25. Long, T. 2015. *Latin America confronts the United States: Asymmetry and influence*. Cambridge University Press.
26. Mearsheimer, J. 2001. *The tragedy of great power politics*. New York, NY: Norton.
27. Mearsheimer, J., and S. Walt. 2016. The case for offshore balancing: A superior US grand strategy. *Foreign Affairs* 95 (4): 70–83.
28. Ministry of Foreign Affairs of the People's Republic of China. China's Policy Paper on Latin America and the Caribbean. 2016.
29. Myers, M., and C. Wise. 2016. The political economy of China-Latin America relations in the new millennium. In *Routledge press*.
30. Norris, W.J. 2018. *Chinese economic statecraft: Commercial actors, grand strategy, and state control*. Ithaca: Cornell University Press.
31. Piccone, T. 2016. The geopolitics of China's rise in Latin America. *Brookings*, Geoeconomics and global issues no. 2, November. Access https://www.brookings.edu/wp-content/uploads/2016/11/the-geopolitics-of-chinas-rise-in-latin-america_ted-piccone.pdf
32. Puyana, A., and A. Costantino. 2015. Chinese land grabbing in Argentina and Colombia. *Latin American Perspectives* 42 (6): 105–119.
33. Ramzy, A. 2014. Dismay from China after Mexico cancels high-speed rail bid. *The New York Times, November*: 10 http://sinosphere.blogs.nytimes.com/2014/11/10/dismay-from-china-after-mexico-cancels-high-speed-rail-bid/.
34. Ray, R. and K. P. Gallagher. 2017. China-Latin America economic bulletin. Boston University global economic governance imitative working paper. https://www.bu.edu/pardeeschool/files/2014/11/Economic-Bulletin.16-17-Bulletin.Draft_.pdf. Accessed 15 May 2018.
35. Reilly, J. C. 2013. China's economic statecraft: Turning wealth into power. Lowy Institute Analyses.
36. Rosen, D.H. 2003. How China is eating Mexico's lunch. *The International Economy, Spring*: 22–25.
37. Seawright, J. 2016. *Multi-method social science: Combining qualitative and quantitative tools*. Cambridge University Press.
38. Singh, J., and T. Nem. 2014. Towards post-neoliberal resource politics? *New Political Economy* 19 (3): 329–358.
39. Sutter, R.G. 2008. *Chinese foreign relations: Power and policy since the cold war*. Rowman and Littlefield.
40. Urdinez, F., and P. Rodrigues. 2017. Trapped in proto-Bipolarism? Brazilian perceptions of an emerging Chinese-American rivalry. *Rising Powers Quarterly* 1 (2): 105–123.
41. Urdinez, F., F. Mouron, L.L. Schenoni, and A.J. de Oliveira. 2016. Chinese economic statecraft and US hegemony in Latin America 2003-2014: An empirical analysis. *Latin America Politics and Society* 58 (4): 3–30.
42. Wigell, M. and A. S. Landivar. 2019. China's economic statecraft in Latin America: Geostrategic implications for the United States. Forthcoming in M. Wigell, S. Scholvin and M. Aaltola (eds.), *Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft*. London: Routledge.

43. Wise, C., and V.C. Ching. 2018. Conceptualizing China-Latin America relations in the twenty-first century: The boom, the bust and the aftermath. *The Pacific Review, December* 31 (3): 27.
44. Xinhua News Agency. 2013. China, Mexico enter comprehensive strategic partnership. June 5. Access http://english.cpc.people.com.cn/206972/206976/8272224.html
45. Xinhua News Agency. 2015. Full text: Vision and actions on jointly building silk road Economic Belt and the 21st-century maritime silk road. March 28. Access http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm
46. Xinhua News Agency. 2018. Ministry of Foreign Affairs: China is not directing at any third party in Latin America. January 24. http://www.xinhuanet.com/2018-01/24/c_1122310165.htm. Accessed 15 May 2018.

Wei Liang is Gordon Paul Smith professor of international policy studies and program co-chair of international trade and economic diplomacy (ITED) in the School of International Policy and Management at the Middlebury Institute of International Studies, U.S.A.