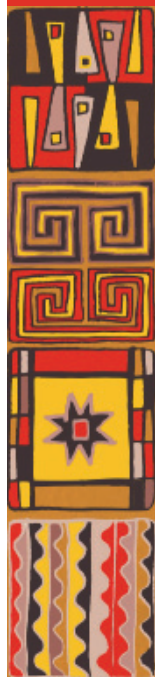


A New Era of China-Latin America Relations

Haibin Niu



China's relationship with Latin America and the Caribbean (LAC) experienced a process of impressive expansion in the first 15 years of the 21st Century. China has been the largest trade partner for some of LAC's major economies such as Brazil, since 2009. With the negative impact of the global economic slowdown since the 2008 financial crisis in developed countries, the growth of both China and LAC as a whole, as well as the established economic ties of both sides, faced increasing difficulties. The deindustrialization concerns of China's competition, plus decreasing Chinese demand, resulted in a complex scenario for LAC to re-think its relations with the Asian superpower.

In that context, China updated its economic strategy towards the region by emphasizing investment, financial and industrial capacity cooperation, besides trade. Though the new Chinese economic strategy has been generally welcome by the region, domestic instabilities of some major partners such as Brazil and Venezuela have complicated China's new efforts to achieve visible and meaningful results in the short term. Besides, Latin America's political trends might turn to the right again as a result of the economic growth challenges, which could have an unclear economic and strategic impact on China's relationship with the region.

The United States has been adjusting its strategic posture towards the region, signaled by its recent rapprochement with Cuba with the help of Pope Francis, from Rome. It seems that the importance of the United States as a key third factor in Sino-Latin American relations is re-emerging while the autonomy of the countries in the region is increasing, in part due to its ties with China. Even if major external economies cannot offer real opportunities to achieve its growth, it is highly possible that China will maintain its status as an attractive partner for the region.

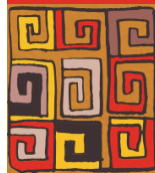
Given the economic slowdown of its own domestic growth and the new dynamics of American policy towards Cuba, China needs to adjust its strategy towards Latin America based on the region's new realities. China cherishes its relationship with LAC by declaring the arrival of a comprehensive cooperation stage. The overall profile has been defined by the establishment of China-CELAC Forum and the enhanced political and social ties with the region, besides the already existing economic ones. Based on the deepening economic ties, the question on how to react to China's presence in a more integrated regional manner has been in the political agenda of Latin American states for a while. The effectiveness of China's updated strategy towards LAC will depend on the efforts of all relevant stakeholders beyond state actors.

End of the Economic Honeymoon?

China's increasingly close economic ties with LAC, was the most visible feature of the Sino-LAC relationship in the past two decades. The increased trade volume and a commodities super cycle, supported the argument that China was economically important for the region. Strong economic linkages with China were treated as a positive factor in helping LAC countries overcome the financial crisis of 2008. Within the context of a weaker global expansion, China's current growth rate slowdown impacts on the region's development prospective. With the stronger economic performance of the United States, as well as the debates around reducing social spending and stimulating private sector within LAC countries, the United States is becoming a more attractive partner than before.

However, on the one hand, it is hard to conclude that the Chinese economic slowdown directly affected LAC countries in recent years. In fact, both China and LAC are located in the middle or lower positions of global value chains, and are either benefiting or suffering from the economic performance of the advanced economies. In fact, China's demand for raw materials is almost the same, but the co-mmodities trading prices are lower, due to the end of the super cycle period. The slowing growth of advanced economies and the energy revolution of the United States contributed a lot to the fall of raw material prices. As former Chilean ambassador Fernando Reyes Matta has pointed out, the amount of Chilean copper exports to China remains the same but the price is below US\$2.50 a pound.¹

On the other hand, it is also hard to conclude that others countries will replace China as attractive alternative economic partners for LAC. The Asian giant might lose its label as world factory because of its raising labor costs and stricter environmental standards, and might be replaced by its neighbors in South East Asia. The noteworthy issue is that Chinese foreign direct investment (FDI) will play an important role in the growing manufactory sectors in China's neighboring countries. Its future economic growth will rely more on domestic consumption, which is expected to bring new opportunities for Latin American markets. After the financial crisis in 2008, Chinese firms were eager to look for opportunities in emerging markets outside of the advanced economies. China became the second largest source of overseas FDI in 2014. Chinese currency, the Renminbi (RMB) was traded widely in world financial centers and was formally supported by International Monetary Fund (MF) Managing Director Christine Lagarde, by saying that IMF staff had proposed the Executive Board to include the Chinese currency into its special drawing right (SDR) currency basket as a fifth currency (Xinhua, 2015). China's role as an



emerging global investor and creditor is increasingly important for LAC.

According to statistics of the Inter-American Dialogue (IAD), China has become Latin America's leading banker with 22 billion dollars in 2014.² Getting financial assistance and investments from China, have been the main economic goals for Venezuela, Argentina and Brazil in their engagement with the Asian giant because of the difficulties in their domestic growth in recent years. The Chinese loans exceed the combined worth of those by the World Bank (WB) and the Inter-American Development Bank (IADB), according to the IAD report. Considering these countries' poor credit ratings, Chinese loans are important for their development and the achievement of financial goals. But, China faces the challenges of potential defaults, since some countries in LAC have performed badly in terms of economic indicators. Therefore, the ability to implement much-needed economic and institutional reform becomes more decisive for these countries, in order to attract Chinese investment in the future.

Even though most of the Chinese financial aid to Latin American countries are commodity-backed or resource secured, China hopes that its partners can develop their own industrial capacity. For example, Chinese loans to Venezuela have been invested in mining, infrastructure and housing projects, as well as in the energy sector. During Premier Li Keqiang's visit to Brazil in 2015, China and Brazil signed a 2015-2021 joint action plan that put innovation and industrial capacity investment as priorities. Chinese investment in Brazil goes far beyond the traditional thinking which focuses on iron ore and soy. China invests in many key sectors of Brazil include mining, car manufacture, electricity transmission, oil, rail, agriculture, and information technology. The China National Nuclear Corporation (CNNC) signed a US\$ 6 billion cooperation agreement with its Argentine counterpart to build nuclear plants in Argentina with Chinese technology. As the blog title "Brazil-China 2.0" indicates, China's investment in Latin America reflects the country's domestic manufacturing sector technological development in the past decade (Myers, 2015).

The Chinese government issued its first policy paper on Latin America in 2008, to draw a comprehensive picture for future Sino-Latin America relationship. If that paper was a strategic vision, China's policy design towards Latin America nowadays is more concrete. President Xi Jinping announced the "1+3+6 Cooperation Framework", in his second year as President, during his second trip to the region. There is one plan –the *China-CELAC Cooperation Plan (2015-2019)*-, three engines and six sectors, according to Xi's idea. The three engines are trade, investment and financial cooperation. The

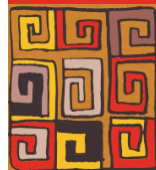
framework includes, as well, 6 sectors, namely energy and resources; infrastructure; agriculture; manufacturing; S&T, and information technology, as priorities for economic engagements. He also promised an ambitious goal of US\$250 billion in investment stock in LAC and US\$500 billion in trade for the next decade.

Premier Li Keqiang also added his idea of a “3×3 cooperation model”, in 2015. Li’s idea emphasized the cooperation between enterprises, societies and governments in building logistics, power generation and information technology with support of funding, loans and insurance. These new ideas from Chinese top leaders reflect the comprehensive profile of the current China-Latin America economic relations.

Closer economic ties also give new dynamics to LAC’s regional infrastructure investment. Nicaragua’s canal is an example, based on the investments by a Chinese private company. Although environmental risks and the competition of the Panama Canal are huge, the investors and the Nicaraguan government are confident in the booming economic tie between Asia and Latin America. Based on the same logic but at governmental level, Peru, Brazil and China are officially reviewing the possibility to build a bi-oceanic railway, connecting Brazil’s Atlantic ports with the Peruvian ones in the Pacific. Building infrastructure in Latin America, is a new priority for China, entirely based on economic reasons, rather than geopolitical thinking. From the Latin American side, there is also a huge infrastructure gap that needs to be filled (García Escribano, Goes & Karpowicz, 2015).

The new features of China-Latin American economic linkages are the rising importance of investment, increasing diversity and technological content. China is not only a buyer of raw materials, but also an important development partner, with high technology and capital. Compared with other regions of the developing world -namely Africa and the Middle East-, Latin America has a better basis for China to develop industrial capacity cooperation. The Chinese economic strategy of industrial capacity cooperation has been designed to address two challenges: 1) internally, China needs to find ways for its domestic industrial capacity to go abroad; and 2) externally, China needs to address the de-industrialization concerns of Latin American countries by helping them to develop its own industrial capacity. Though state-owned enterprises still occupy a major role in terms of investment in Latin America, private companies of various sizes are also exploring opportunities, which makes the Chinese economic presence in the region more diversified and dynamic.

China’s updated economic engagement with Latin America is a win-win strategy for both sides, in terms of achieving sustainable



economic growth. Dussel Peters (2015) in the recent Atlantic Council report on China's evolving role in Latin America, examines the impact of Chinese interests turning from commerce to investment. The report questions whether China is the right long-term partner for Latin America to improve the overall socioeconomic well-being of its people and to facilitate industrial development. The policy suggestion is to construct a long overdue development agenda between both partners. In fact, what the region lacks is what China can offer in terms of investment, infrastructure and industrial capacity. Latin American concerns regarding the impact of Chinese investment on the rule of law and on reducing the income gap, mainly depends on the regional choices, since China has no intention to interfere in other domestic issues.

Various Approaches towards LAC

Latin America is behind Africa regarding the establishment of a regional forum to engage with China. The successful regional engagement between China and Africa also gives the Asian giant more confidence to develop a similar approach with Latin America, despite its understanding of the huge difference between both regions.

Based on the experience of its various bilateral partnerships, China has not only updated the ones it has with Latin American partners, but also established an overall approach with the region through the China-CELAC Forum (CCF). The design of this overall approach is clear evidence of the increasing importance of Latin America in China's global economic diplomacy. The 2008 policy paper shows a regional approach but without a platform to support it. The establishment of CELAC was a good opportunity for China to develop a regional strategy towards LAC.

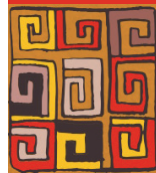
China believes it can have more initiative and agenda-setting power in the region with the CCF, in comparison to the marginalized role it has had in Inter-American institutions –it has observer status at the Organization of American States (OAS), and is a member of the Inter-American Development Bank (IADB), and others. For example, the first ministerial meeting between China and CELAC in 2015 generated the *Cooperation Plan 2015-2019*, with ambitious economic goals and strong public diplomacy arrangements, such as scholarships and training opportunities, amongst others. All of these are part of the emerging a comprehensive approach, based on mutual respect.

Chinese finances will play a key role in deepening China's economic ties within the new regional engagement approach. IAD has launched the *China-Latin America Finance Database* to follow closely China's finances in LAC throughout the years. The database features US\$119 billion in Chinese loan commitments to LAC since 2005.³ Under the framework of public-private partnership and open bidding processes, Chinese firms have been very active in a number of infrastructure programs in Latin America, including an upgrade of the underground wagons in Buenos Aires and trains in Argentina; road building in Ecuador; the railway system in Rio de Janeiro, as well as the high-speed railway project in Mexico -which has been put on hold.

The infrastructure investment is characterized by capital intensive and long term returns, which is not attractive for private capital. Chinese passion for infrastructure investment is good news for Latin American governments. In addition, financial cooperation is another priority. Both Brazil and Argentina signed currency swaps to deal with possible external payment crises. Furthermore, economies such as the Chilean, are envisioning a larger role of the RMB as a foreign reserve currency in the country.

China also added financial resources as regional public goods to support a meaningful multilateral cooperation within the framework of the CCF. There are many new Chinese initiatives, including a special credit line of US\$ 10 billion to update regional infrastructure, another US\$10 billion of concessional loans, a US\$ 5 billion China-Latin America Cooperation Fund, and US\$50 million for an agricultural cooperation fund. Besides financing economic cooperation, China also invests heavily on people to people exchange programs, including 6000 government scholarships, 6000 professional trainings in China, 400 on-job post-graduate students in Chinese universities; 1000 visiting invitations for political party officials from the region, and the launch of the *Future Bridge Training Program* for 1000 Chinese and Latin American youth leaders (Jiang Shixue, 2015: 144).

With the deepening of the bilateral economic ties, Chinese players involved in the relationship go beyond state actors (Dussel Peters y Armony, 2015). China's reforms since the 1980s and its deep integration into world economy, especially after joining the World Trade Organization (WTO) in 2001, have encouraged its own capable international players, with an increasing emphasis on Latin America. Economic actors, both state-owned enterprises and private ones, are getting actively involved in Latin America under the *going out* strategy. They are competitive in sectors such as high technology, information technology, electronics, drones, renewable energy, education, etc. These private players downplayed the role of state actors, which evidences the diversification of the Chinese economy



and the generation of new development dynamics. In the public sectors, state-owned commercial banks such as the Industrial and Commercial Bank of China (ICBC) and the Bank of China, are increasingly active in expanding their overseas business, together with other traditionally active banks such as the China Development Bank and China Export-Import Bank. ICBC's finance cooperation with Petrobras in 2015 was substantial and impressive.

Besides the most dynamic economic players, actors from cultural circles and political, touristic and military sectors are getting involved in China's relationship with LAC. Confucius Institutes are still active across the region with an increasing demand from local people to learn the Chinese language either for business or due to other motivations. In China, there is also a booming interest in Latin American science, arts, literature, and language amongst others, which add to those coming from the International Relations discipline. This newly found interests help to close the knowledge gap between China and the Western societies of the region, and strengthen China's global diplomacy. More Chinese students are looking at Latin American universities beyond the traditional American and European ones, to study abroad. The Chinese Communist Party (CCP) is actively visiting Latin American counterparts (Niu, 2014). Military diplomacy and conventional arms sales has increased as well.

A more active Latin America in the international arena also contributes to enhance the dynamics of the China-Latin America relationship. Different from the unstable Middle East -which Chinese new generation top leaders haven't visited- Latin America has attracted two visits of President Xi Jinping and one visit of Premier Li Keqiang. It is worth noting that President Xi's first trip in 2013 was combined with a visit to the United States, and the second one, in 2014, also included his attendance to the VI BRICS Summit, held in Brazil. The APEC Summit, might attract another top visit from China to the region. Latin America's importance in international institutions such as the United Nations, the WTO and the G-20, amongst others, makes it an important partner for China to deal with global issues such as climate change, reform of international financial institutions, and sustainable development in the Post-2015 agenda.

The renewal of some bilateral strategic partnerships and the establishment of the China-CELAC Forum are signs of mutual rising importance to each other's diplomacy. Argentina, Brazil, Mexico, Peru and Venezuela were upgraded to a comprehensive strategic partnership status, from a strategic partnership in recent years. Costa Rica and Ecuador were accepted as strategic partners in 2015. Latin America is in the midst of a transitional post-hegemonic phase, and relations with China were developed during such a time (Bonillay Milet,

2014: 9). As the Latin American Faculty of Social Sciences (FLACSO, for its acronym in Spanish) suggested in its recently published collective volume, it is evident that LAC needs to correct asymmetries, and establish appropriate mechanisms for consultation and cooperation to ensure mutual benefits to all economies involved, through the design of joint strategies and policies regarding its relationship with the Asian markets. The China-CELAC Forum represents an important platform to those aims.

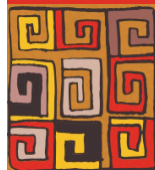
Under this newly established multilateral platform, China can develop its relationship with all the countries in the region, whether if they have diplomatic relations with China or not, and beyond their ideological differences. A multilateral platform is also helpful to develop norms and rules legitimizing China's comprehensive presence in the region by building transparency and mutual understanding. International institutions also mean shifting order. The CCF was built on an equal footing and mutual respect, which differs from other transatlantic forums and institutions. It is impossible for China and LAC to rebuild some kind of old hegemonic order, instead of a new-type of international relationship based on mutual respect and shared interests. From the Latin American perspective, China is helping the region to gain greater autonomy *vis á vis* the United States (ibídem: 13).

China's strategic influence in Latin America is an unfolding process, in which an institutional framework that will influence future choices of relevant countries in the process, is much needed.

Building a Sustainable Relationship in the Future

China's expansion of its trade relationship with LAC in the past two decades, makes the Asian giant a major partner for the region, especially for countries such as Brazil, Chile and Peru. Nonetheless, while enjoying the benefits of trade ties with China, some concerns are also raised, mainly related to commercial deficits, unbalanced trade structure, and low-value added exports to China, to mention some examples. All in all, these concerns are closely linked to the region's competitiveness and long-term growth.

When addressing these issues, it might be useful to review China's experience at the time of integrating into the economic globalization. There were paramount external competitive pressures on Chinese firms when it decided to join the World Trade Organization (WTO) in 2001. China also faced environmental challenges and technological bottlenecks in developing its manufacturing sectors. However, with its initiatives and management, China finally achieved a technological



leap forward. The most valuable lesson it has learned is that success has come through opening up and a reform process.

Learning from the experiences of the United States-Latin American relationship, both China and LAC should pay attention to the bilateral strategic relations. Clearly, the United States has not been consistently treating Latin America as its foreign policy priority since the 9/11 attacks in 2001. At the same time, Latin American countries under the leadership of left-wing politicians with a cosmopolitan view, have looked for new partners across the world. The last 15 years have witnessed a growing Brazilian presence in Africa and the Middle East, as well as Brazil's deepening relationship with China, within the framework of a changing international environment. Many observers have worried about the future of this relationship, since the "One Belt, One Road" (OBOR) initiative of the new Chinese administration does not include Latin America. However, the spirit of the OBOR strategy is applicable to LAC, since China develops its links with Latin America in a comprehensive way, similar to that of the countries involved in OBOR.

With China's expanding economic presence in the region, concerns regarding the investment environment were raised by Chinese observers of the bilateral partnership. As perceptions of a "Chinese threat" or "Chinese imperialism" developed, "country risks" and "social risks" were identified as new issues to be addressed in the China-Latin America relationship (Jiang Shixue, 2015: 149-153). It is natural for local people to raise environmental and job-creating concerns when dealing with foreigner's investment. The Chinese government and enterprises have made efforts to improve their capacity to implement social responsibility strategies when investing abroad. With raising environmental standards in China's domestic market, a better performance of Chinese firms while investing abroad, is expected. The real challenges for Chinese investors are the unstable political and business environments in the destination countries. Good governance has become a joint-research project for scholars from both sides (Cordeiro Rires y Paulino, 2010). More exchanges on governance issues will contribute to more shared values besides economic interests, which will definitely consolidate the relationship in the long run.

More bilateral Free Trade Agreements (FTAs) will also help to make the trade relationship run smoothly. China has established three FTAs with Chile, Peru and Costa Rica, respectively. A lack of FTAs with Mexico, Argentina and Brazil is a shortcoming for China's strategy of deepening economic ties with the region. Brazil's reluctance to fully support China's market economy status has resulted in some serious concerns in the Asian country. Considering the rapid development

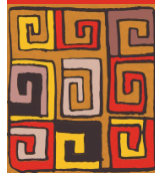
of mega-FTA arrangements such as Trans Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP), and in which both China and most of the LAC countries are being excluded, opens a window of opportunity to develop more liberal economic arrangements between China and the Latin American economies in areas of trade as well as in mutual investment. It is still valuable for Chinese firms to build partnerships with local counterparts while expanding its economic presence in the region.

To ensure a sustainable China-Latin America relationship, it is also important to avoid strategic rivalries between China and the United States in the area. It is worth mentioning that both the United States and China have been working hard to build their relationships with Latin America in recent years. Even security threats imagined by military specialists in Washington DC, show that China's economic engagement with Latin America is a real concern for the Western superpower of the United State (US).

In a broader context, it is a game of managing and balancing power shifts in the region, *vis á vis* LAC's increasing autonomy and regional emerging powers. As the New York Times commented, China is rapidly increasing its lending in Latin America as it pursues not only long-term access to commodities, but also an alternative to investing in United States Treasury notes.⁴ China's lending capacity to the region has also been perceived as in competition with the United States, as it might challenge loan strings attached by the IADB –a financial institution dominated by the northern superpower. In spite of this, China's economic engagement with the region could provide more favorable conditions to solve challenges posed by illegal immigration, drug trafficking and energy security. It will take time to build a mutually beneficial trilateral relationship between China, the US and LAC.

Improving Chinese studies on Latin America, in order to serve the rapid development of the bilateral relationship is key. China's main challenge is a lack of field research in LAC; lack of interaction between enterprises, government and scholars; and the lack of visibility of Chinese research achievement to foreign readers. On the other hand, Latin American countries' research on China has not been developed enough. In an interview, a Brazilian official mentioned that China was Brazil's most important economic partner, but they knew very little about the Asian giant.⁵

Things are actually changing fast with the proliferation of studies on China in countries such as Mexico, Chile and Brazil, which will provide knowledge to enhance the China-LAC relations. Educational exchanges are encouraging growing numbers of young professionals



from both sides, to study and live in each other's homelands. National governments from both sides need to bridge gaps in the near future.

As developing countries and emerging economies, both China and Latin American countries are paying more attention to the influence of global governance in their development agenda. However, there is very little substantial and broad cooperation between China and Latin America on improving the global governance system. China has developed some coordination and cooperation with Brazil, Argentina, and Mexico within the framework of BRICS, the UN, the WTO, and others. A broad and comprehensive coordination on global governance between China and the region might happen in the newly established China-CELAC Forum. Considering the connectivity of the world economy, and the vulnerabilities of Latin America economies in dealing with international financial crises, it is in the interests of both sides to promote the reform of Bretton Woods' system to reflect the voices of the developing world. Both sides also have huge stakes in the post-2015 development agenda and international negotiations on climate change.

The rapid development of China-LAC relations is an important part of the changing international system. A recent report by the World Bank (WB), that reflects on Latin America's future growth in the context of re-configuration of the global scenario and the rising of the South, is interesting and illuminating (De la Torre *et al.*, 2015). There is a new option when travelling from China to Brazil, which is taking the Boeing 787 Dreamliner run by Ethiopian Airlines, and not the one that goes via the United States, Europe, or Middle East, and complying with their visa requirements. This is a symbolic example to understand the importance of the rising South as a healthy, strong and balanced growth of world economies, which was the goal set up by the first G-20 Summit after the financial crisis of the most advanced economy, in 2008.

Both China and Latin America should keep this big picture in mind when thinking about their future relations.

Notes

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