

## RELATIONS BETWEEN CHINA AND LATIN AMERICA: FROM MARKET OPPORTUNITIES TO INTERNATIONAL POLITICAL ECONOMY

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We perceive that a period of instability, structural change, and superpower competition is developing in the world economy and particularly in the Asia-Pacific region, following the end of the boom of Chinese growth, investment and trade (2003-2012). This boom significantly benefitted China and a number of emerging economies which sold commodities to, and hosted investment from, the PRC.

The comparative stability of the former period produced in Latin America the image of economic relations with China as a relatively uncontentious issue area characterized by clear market opportunities that could be tapped largely by means of conventional diplomacy and trade expertise. There were, of course, some concerns that a new center-periphery subsystem was being established and that a small number of small or middle-size countries of the region were becoming too close to China, but these issues seldom transformed into international or domestic tensions or crises.

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In the present stage, we foresee that the trade and investment relations of Latin American countries with China will become increasingly complex and politicized to the point that they will tend to be linked with issues of higher politics, with important repercussion at hemispheric level, such, for instance, as military cooperation and the countries' international position on human rights.

At the roots of the approaching period of instability we perceive that conditions in the Chinese economy have undergone major changes and, at the same time, the rules of the economic game, both at the global and regional levels, have become open for renegotiation between the two major international players, Washington and Beijing, prompting a new climate of geoeconomic and geopolitical competition.

China is in the process of transforming its economy from an extraordinary reliance on exports and investment to conferring a major role to internal consumption. Similarly, the leading role of resource-intensive industries is being replaced by an emphasis on services. From 2007 to 2011, trade diminished from 68% to 50% of China's GDP. Still, China currently accounts for 40% of world GDP growth, with the US contributing only 10% (and India 20%) (according to Sanwal from the IDSA, 2016).

New trade and investment opportunities related with China, while important, will not be as evident as in the past; they will increasingly have to be appraised and exploited not only on the basis of insights on the workings of a colossal state capitalist machinery but also in accordance with some established economic orientations and plans of the players.

At the same time, both China and the US –directly or indirectly– will persistently try to induce regional players into policies and actions that will benefit their national interests and positions vis a vis those of its rival. For instance, a particular bone of contention might become the degree of involvement that Latin American governments allow Chinese state-owned enterprises in their economies. Another major issue might be the influence of NGOs on public opinion targeting the labor and environmental practices of Chinese corporations.

Specifically, we contend that the forthcoming period in the economic relations of China with Latin America will prompt statesmen, diplomats, strategists, planners, trade and IR specialists, and political scientists to take a deep interest in a practical field that had previously been left largely to economists or been generally addressed from a predominantly utilitarian or entrepreneurial viewpoint.

We believe the most suitable approach for addressing China-Latin American economic relations in the new setting is that of International Political Economy (IPE), a branch of International Relations which examines the interactions between economic and political power, and between public and private players, for the attainment of national and corporate interests.

Among the many definitions of national power one of the most important corresponds to the capacity of certain players to set group agendas and to structure the rules in various areas of international economic relations. In this perspective, we can see China's new role in Asia and the Asia-Pacific region where its rising trade and investment position is empowering her to propose new paradigms, rules and practices which are vigorously contested by the hegemonic power.

Perhaps the most suggestive example of China's emerging normative power in the world is the One-Road-One-Belt initiative (OROB) or Silk Road Economic Belt, connecting Asia, Europe and Africa, a new paradigm for regional and inter-regional integration and an attractive alternative to treaty-based regimes; 34 countries have already signed cooperation agreements with China within this initiative.

In the trade and investment arena, the U.S. is attempting to formulate or strengthen a series of international rules that limit the development and actions of state-owned enterprises, raise labor standards, allow the free flow of information, protect the environment and defend intellectual property rights. Of special concern to Western powers is the imbalance created by the practice of Chinese state enterprises to buy competitors in high-tech sectors. The Trans-Pacific Partnership (TPP) and the

Transatlantic Trade and Investment Partnership (TTIP) are meant to achieve the aforementioned aims.

China, for its part, argues that these agreements have been negotiated to make emerging countries accept a highly liberalized trade regime or face exclusion from the regime. Beijing is propelling its own proposal, the Free Trade Area of Asia Pacific (FTAAP), that eventually might lead to the formation of trade blocs.

In the second part of this presentation we will briefly review the evolution of Chinese relations with Latin America in the perspective of China's rise and its changing relations with the US.

As we know, following Deng's economic reforms, Chinese exports, started to grow spectacularly in the 1980s, largely oriented toward the US and other industrial nations. But Western economic sanctions derived from the events in Tianamen (1989) as well as the disappearance of the Soviet Union (1991) put an end to the approximation of China to Washington and the West. The perception radically changed in Beijing to one of a threat to its regime and was aggravated by tensions with Taiwan and the NATO bombing of the Chinese Embassy in Belgrade (1999).

Accordingly, the Chinese ascent strategy was reoriented in the 1990s, attempting to diminish the importance of Western powers and toward South-South cooperation, beginning to actively pursue economic and political objectives in Asia, Africa and Latin America.

The financial crisis of 2008 further increased China's interest in developing countries, by causing a reduction of Chinese exports to industrial nations, at the same time making China the country with the largest investment resources in the world. Chinese outward foreign investment had started to grow a few years before, in 2001, with Beijing's accession to the World Trade Organization.

In 2009, Beijing published a diplomatic strategy that considered developing countries on the forefront of Chinese external relations and expressed Beijing's support to their aspirations in the international arena.

One year later, in 2010, it became clear that China was improving substantially its trade relations with the South: trade flows jumped 51% with Latin America, 37% with ASEAN (its main partners), and 33% with Africa.

China's trade with Africa and Latin America flourished: with the former it moved from 10 billion dollars in 2000 to 166 billion in 2011, overtaking the US as Africa's first trade partner. In the case of Latin America, the advance was even more significant: from 15 billion dollars in 2001 to 260 billion in 2014, China having surpassed the US as a destination of Latin American exports.

However, the most outstanding aspect of China's rise has been its ability to reconnect with Asia. Until the end of the 1970s, China was virtually excluded from Asia. Today, China is the engine of Asian development, enjoys a favorable image in the region, and is a key actor in Asia's busy multilateral agenda.

China has become the center of a multinational production area in East and Southeast Asia. It has displaced the US as the main economic partner of South Korea, Japan, Taiwan and the ASEAN countries. It has created two major development banks in the region.

Washington did not watch passively China's progress in the Asia. At the beginning of the Obama presidency (2009), Secretary of State Hillary Clinton asserted that the US was "back in Asia", following the low profile in the region of the Bush administration, and subsequently coined the term "Pivot to Asia" signaling a reorientation of US foreign policy to the region.

Seeking to appease Chinese annoyance with its new policy, Washington, renamed it "Rebalancing Asia" in 2012. Nevertheless, a number of Chinese specialists still consider it a containment initiative against Beijing, which reflects US fears in connection with its traditional interests and status in Asia.

China published for the first time in 2008 a set of guidelines for its policies toward Latin America. Yet it was only after the launching of the

US *Pivot* to Asia and the assumption of Xi Jinping (2013) that Beijing began a new stage in its relations with Latin America, moving beyond economic and trade cooperation.

In 2013 and 2014, Xi Jinping visited Latin America and proposed the idea of “creating a China-Latin America community with a common destiny”. The China-Celac forum was established.

Chinese academics (like Yu 2015) consider that the new Chinese emphasis on Latin America is a reaction to the containment initiative of the US in Asia, and that Beijing’s desires are not only to intensify economic and trade cooperation but to generate a sphere of influence in a region that many deem to be the US “backyard”.

Beijing has free trade agreements with Chile, Peru and Costa Rica and has established Strategic Partnerships with Argentina, Brazil, Chile, Ecuador, Mexico, Peru and Venezuela. Chinese trade with Latin America currently represents around \$ 300 bn, 20 times the amount of 2001.

On the other hand, Chinese FDI in the world is quite recent and for this reason it is notably behind that of the main industrial countries. In Latin America it is clearly below trade levels, representing one fifth of the value of trade exchanges and around 5% of the stock of FDI in the region. There is some concentration on mining and energy and the main destinations are Brazil, Peru and Argentina.

By contrast, Chinese state banks have become since 2013 the main credit suppliers of Latin American governments. To 2014 they lent US \$ 22 bn, mainly for infrastructure projects, surpassing the amounts loaned by the World Bank and the IDB to the region. Brazil, Venezuela and Ecuador have been the main recipients; the last two countries having found in Chinese banks a crucial alternative to international capital markets.

China has increased its arms sales to the region having military cooperation agreements with Venezuela, Bolivia and Argentina, and generating interest in Brazil and Peru to negotiate similar agreements.

Remarkably, the new presidents of Argentina, Macri, and Brazil, Temer, both of neoliberal orientation, have confirmed the continuation of the special relationship of their countries with China. While Macri has not ratified arms deals between the two countries, he recently signed a \$ 25 bn package of Chinese credit for a number of projects.

Our concluding thought is that from beginnings of the 20<sup>th</sup> century, with the displacement of Britain, the US has been extraordinarily successful in preventing any extrarregional power from establishing a major presence in Latin America (the USSR in Cuba being a minor but significant exception). However, in the next few decades we will witness a crucial test for the US position in the region with the unfolding of a major Chinese challenge.

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