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CHINA'S GROWING INFLUENCE IN LATIN AMERICA

Dr HANS STEINMÜLLER

Chinese migrants and labourers have been in Latin America for several centuries, and both the People's Republic of China and Taiwan have had political and trade relations with the countries on the continent for decades. However, Chinese involvement in the continent has broadly increased during the last decade. Both Latin American countries and China recovered relatively quickly from the global financial crisis of 2008, and since then have deepened existing trade relations. Additionally, Chinese investment in the region has increased rapidly and is now funding numerous development projects. Chinese trade with Latin America is largely focused on agricultural and mineral products; Chinese investment also focuses on raw materials, often accompanied by infrastructure projects. This essay first presents some background of the current relations between China and Latin America. It then describes current economic and political developments, and focuses on the benefits and pitfalls of Chinese involvement on the continent, specifically the synergy and potential conflict of Chinese and Latin American interests in the exchange of natural materials for investment in infrastructure. The final section discusses mutual perceptions and provides a cautious prospect for further developments.

HISTORICAL BACKGROUND

The Chinese presence in Latin America dates back to the 16th century, when maritime commerce mainly between the ports of Manila and Acapulco brought Chinese products and people to the then viceroyalty of New Spain (Slack, 2010). Called 'Sangleys' by the Spaniards, Chinese Mestizos (i.e. of mixed indigenous and Spanish descent) from the Philippines came as sailors, slaves and servants to New Spain before Mexican independence. In the 19th century indentured Chinese labourers were forced to work in several Latin American countries, especially in the cotton and sugar plantations of Cuba and the mines and guano industry of Peru. The history of this 'coolie trade' (using the name given to the indentured labourers) is characterized by violent exploitation; but the coolies' marriage with local women led to the formation of the first Chinese Latin American communities (Lai and Tan, 2010). Small groups of refugees from the Nationalists (Kuomintang) arrived in Latin America after their defeat by the Chinese Communist Party on the mainland in 1949; since then there have been some Taiwanese communities, for instance in Ciudad del Este in Paraguay and in Buenos Aires in Argentina (Trejos and Chiang, 2012). Aside from Cuba, no Latin American nation recognized the People's Republic of China, which was established in 1949. China's break with the USSR in the 1960s, and the rapprochement of China and the USA, was followed by the formal establishment of diplomatic relations with a number of Latin American countries in the early 1970s, including Argentina, Chile, Mexico and Peru. However, the largest tide of Chinese involvement in the continent has occurred in the last 10 years. China has become the largest trade partner of Brazil, Chile and Peru, and a very important trade partner of most other Latin American nations. Ecuador and Peru are the main destinations of Chinese foreign direct investment (FDI) in mineral resources (Gonzalez-Vicente, 2012: 45); in these countries and elsewhere, Chinese mining projects are often coupled with large-scale infrastructure development undertaken by Chinese state-owned enterprises. Chinese businesses are investing in many different industries in Latin America, small-scale entrepreneurs are opening internet cafés and supermarkets all over the region, government enterprises are investing in oil extraction in the Amazon, and China is preparing to host annual meetings with the representatives of most Latin American nations and regional groups.

The rapid pace of Chinese investment in the region has sometimes led to the impression that there is an insurmountable gap between Chinese strategies and the established practices of Western governments and companies. It is important to bear in mind that Chinese involvement in Latin America has been part of the wider strategy of 'going out', which is accompanied by an internationalization of the Chinese state and companies; in this process, Chinese companies are adjusting their practices to those of international competitors (Gonzalez-Vicente, 2011). Hence, Chinese government agencies and corporations are also adjusting their strategies in certain ways to the situation in their respective host countries. Since the so-called era of 'reform and opening' began in the 1980s, Chinese investment, migration and political involvement has become widely felt almost everywhere in the world. China's rising global influence is clearly articulated with domestic developments: the relaxation of political control and the encouragement of local entrepreneurship since the 1980s, the opening of special economic zones, and the continuing state-ownership of strategic industries (especially in energy and infrastructure) are the background against which Chinese investment and migration abroad is taking place. Since the southern tour of Chinese leader Deng Xiaoping in 1992, the rapid privatization of state assets and state-led capitalist development in the People's Republic was accompanied by a surge of Chinese investments abroad. In 1999 the Government announced its 'going out' policy to support and increase Chinese investments abroad. Aside from balancing China's huge foreign exchange reserves, one important target of this strategy is to equip Chinese companies with the skills and experience to compete with global competitors, who are already operating in China. Following these changes, the developing world has become a major focus of China's foreign policy. Chinese involvement in Africa has been a focus of interest for Western journalists and academic observers (see, for instance, Alden, 2007; Rotberg, 2008; Raine, 2009). Similar developments have taken place elsewhere, and to some extent Chinese involvement in Latin America is comparable to China's relations with African countries (Alden, 2012). As in Africa, one particular interest of Chinese government and business in Latin America is to satisfy the country's increasing demand for oil, minerals, copper, iron and other metals. Partly in exchange for access to mineral resources and primary products, Chinese companies and government agencies have invested widely in infrastructure projects in Latin America. Chinese firms have received numerous contracts for road construction, and are involved in large hydro-electrical projects, oil production and mining extraction across the continent. The emerging literature on China in Latin America points to these core features of resource interest and Chinese investment (Cesarin and Moneta, 2005; Gallagher and Porzecanski, 2010; Armony and Strauss, 2012).

TRADE AND INVESTMENT

While China's trade volume with Latin America is still far lower than its trade with Asian countries, the People's Republic has already become the largest trading partner of Brazil, Chile and Peru. According to the Brazilian Ministry of Development, Industry and Foreign Trade, Brazil's bilateral trade with China grew by 10% in 2013 to reach US $83,300m. (Toh, 2014). A large part of Latin American exports to China are primary products, such as copper, iron ore, soy and oil. In 2009 agriculture and mining sector goods constituted 83% of Latin American exports to China (Gallagher and Porzecanski, 2010). Some observers predict that China will overtake the European Union (EU) as Latin America's second largest trade partner in 2016 (Toh, 2014), and some predict that it might eventually surpass the USA as Latin America's largest trading partner in about 15 years (Hakim and Myers, 2014).

By global region, Latin America was the second largest target of Chinese overseas foreign direct investment (OFDI) in 2011, receiving 13% of Chinese OFDI following Asia's 71.4%. However, 92% of Chinese OFDI to Latin America went to the British Virgin Islands and the Cayman Islands, and for a more balanced view of Chinese FDI to Latin America these two tax havens will henceforth be excluded from our analysis. Of the remaining FDI, large parts went to Brazil, Peru, Venezuela and Argentina, which are the main recipients of Chinese FDI in the region (Chen and Pérez Ludeña, 2013). Chinese companies play an important role in the oil and gas industry of several countries, and in the mining sector in others (specifically Brazil and Peru). The largest investments outside the natural resources sector have been to Brazil, where several Chinese manufacturers and at least one provider of electricity services operate. At the same time other countries, such as Chile and Mexico, have not yet received significant amounts of FDI from China. While Chinese FDI to the region has grown exponentially, China's overall share of FDI to Latin America is less than 7%, and thus far behind that of the USA and the EU, which, respectively, provide 25% and 40% of FDI to the region (Chen and Pérez Ludeña, 2013: 11).

In terms of trade and FDI, agriculture plays an important role for China in Latin America. Rapid urbanization and the effects of desertification and environmental pollution in China itself, together with concerns about volatility in food prices, have led Chinese government agencies and enterprises to search for investment opportunities in agricultural production and markets abroad. Aside from other staple crops, China has become a major importer of soy from Latin America. Agriculture-related involvement in Latin America is still mainly limited to trade; there has been much less investment in agriculture or so-called 'land-grabs' as has sometimes been suggested in the Western media (Myers, 2013).

Together with increased volumes of trade and FDI, China has also become a major provider of loans to Latin American countries. Chinese banks have issued more than US $100,000m. since Chinese lending to the region began in 2006. Recent estimates indicate a major increase in Chinese lending to Latin American countries in 2013, after a considerable slump in 2012 (Irwin and Gallagher, 2014). Chinese banks have emerged as an important alternative for Latin American countries, specifically for those that are considered high risk on global capital markets. These include the Governments of Venezuela and Argentina, which were the principal recipients of Chinese loans in 2013, with volumes of $50,600m. and $14,100m., respectively, since 2006.[1]

MUTUAL PERCEPTIONS AND INTERESTS

From a Chinese perspective, there are a number of core interests in Latin America: the region is a major provider of raw materials and an emerging market for China's manufactured products. Aside from these economic interests, the Chinese Government also has a number of geopolitical and strategic interests in the region, which include the search for allies that support China's position in international negotiations, including over its contentious relationship with Taiwan and possibly the limitation of US influence in Latin America (Ellis, 2009: 14-15; Leiteritz, 2012: 68).

Gallagher and Porzecanski (2010) discuss the tension between the first two interests and the potentially negative consequences for Latin American industrialization. If, in the short term, it seems that Chinese demand for primary products has only positive consequences for Latin America, ultimately, it might just extend the resource curse that has been haunting Latin American countries for decades, if not centuries. Add to this the fact that China is providing huge amounts of cheap manufactured products to the region, and it is clear that the prospects from this relationship are not necessarily optimal for Latin American industrialization and indigenous development.

Of specific interest is also the relationship between China and the long-standing interests of the USA in the region. A number of scholars have analysed these relationships as a 'triangle' of Latin American countries, the USA and China (see, for instance, Stallings, 2008, and the contributions to Dussel Peters et al, 2013). However, the notion of a 'triangle' should be cautioned for a number of reasons: specifically, it might suggest a unity of interests for Latin American countries which is actually absent, and it might neglect other important countries which play important roles in Latin America (Ellis, 2012).

There is actually much diversity in the positions of Latin American nations towards the USA and China. Chile and Peru, for instance, have negotiated bilateral free trade agreements (FTAs) with both the USA and China (Chile concluded its FTA with the USA in 2004 and with China in 2006; Peru signed FTAs with both countries in 2009). In both cases, the FTAs concluded with China focus on the 'old trade agenda' of extending the product lines of liberalized trade, tariff and market access; by contrast, the agreements of both countries with the USA cover the 'new trade agenda', including investment, services, trade-related intellectual property rights, competition and trade facilitation (Wise, 2012). In terms of foreign policy, China's approaches in Latin America can be broadly contrasted with those of the USA. Relations between the USA and Latin America have been traditionally characterized by the exercise of 'hard power', in the form of interventions, threats and the provision of financial and technical assistance with conditions attached for the recipient countries. The USA has, for instance, intervened more or less directly in left-leaning coups d'état in Guatemala (1954) and Chile (1973); in recent decades the exercise of 'hard power' can be seen in the employment of 'sticks and carrots' in trade relations (Dunkerley, 2008). The Chinese approach, in contrast, generally sticks to the principle of non-interference, in which trade agreements and development assistance have 'no strings attached'. Chinese 'soft power' is very attractive to some Latin American regimes, especially when compared with the more restrictive US foreign policy. While the USA limited its relations with the left-leaning regimes of President Evo Morales in Bolivia and the late President Hugo Chávez in Venezuela, China invited both leaders for official state visits to Beijing. It remains to be questioned, however, how far the attraction of Chinese 'soft power' will go for Latin American citizens and governments (Leiteritz, 2012).

One core issue in China's relationship with Latin America is the contentious status of Taiwan. Currently, 12 of the 22 countries that have diplomatic relations with Taiwan are from Latin America and the Caribbean. Aside from Paraguay, they are all located in Central America and the Caribbean (Belize, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Saint Christopher and Nevis, St Lucia, and St Vincent and the Grenadines). While both China and Taiwan have used 'chequebook diplomacy' to gain support from Latin American nations, in the last decade China has successfully convinced both Dominica (in 2004) and Costa Rica (in 2007) to switch their allegiances; in both cases, the offer of significant aid packages, preferential trade agreements and infrastructure projects played a considerable role in the decision (Ellis, 2010).

The Taiwan issue is very important, but China is also looking for allies more broadly in the international arena. Building on its economic collaboration with Brazil, there have been some strategic partnerships in World Trade Organization negotiations between China and Brazil, for instance, sometimes including the other two so-called BRIC nations, Russia and India.

On the Latin American side, there are a number of different views of China, its recent development and its involvement in the region. While, on the one hand, China is a new actor on the international scene, which might not come with the 'baggage' of the historical relations with Europe and the USA, on the other hand, the particularity of the 'China Model' comes with a particular set of problems. If China offers a different paradigm of modernity without the memories of colonialism and imperialism, at the same time this 'modernity without enlightenment' might also further accentuate the unsettled problems of democracy and development in Latin American countries. In the rapidly increasing coverage of China in Latin American news outlets, one discovers not only predictable condemnation of human rights abuses and lack of democratic governance, but there is also some sense of confusion about the relative success of the 'China Model' and what it could mean for Latin America. In an analysis of China coverage in two major Colombian newspapers, Armony (2012) reveals precisely the Janus face of China's image in Latin America, which combines suspicion and admiration. At the same time, the discussions about China and Chinese investment in Latin America are becoming increasingly diverse and sophisticated, and the view that Chinese investment would favour illiberal and non-democratic settings is certainly too simplistic.

If we take Chinese investments in mining and energy as an example, there is a common view that Chinese companies prefer non-democratic policy contexts. For Chinese mining investment in Latin America, specifically in Ecuador and Peru, however, this is not the case. It has been shown that Chinese mining investments favour liberal investment regimes and relative political stability, and in these preferences Chinese mining companies are not very different from their Western counterparts. Additional factors which play important roles in Chinese investment decisions are the existing business relations and the presence of a Chinese community in the host country. Chinese FDI in mining is best understood in terms of individual mining companies in specific local settings, rather than a specific national strategy imposed by the Chinese Government. However, there are certain differences in the receptivity of Chinese companies to demands from civil society. Given that Chinese energy companies are to a large extent owned and controlled by government agencies, they do not rely on stock markets and shareholders, and their management is therefore less dependent on, and responsible to, outside demands (Gonzalez-Vicente, 2012). At the same time, several Chinese companies have made their first attempts at entering into a dialogue with civil society representatives, sometimes including representatives of indigenous peoples (for instance in Ecuador). The results need to be judged on a case-by-case basis, and in contexts where numerous multinational extractive industries operate (such as in Chile and Peru); it is far from certain that Chinese business practices are causing higher social and environmental costs when compared with other multinationals.

Anti-Chinese sentiment and protest is growing in some countries, and there are serious discussions about the benefits and pitfalls of China's relations with Latin America. Mexican manufacturers, for example, find it difficult to compete with cheaper Chinese imports, and these concerns have led in some cases to an antagonistic presentation of Chinese entrepreneurs in local media and sometimes also to acts of aggression against Chinese business (Hearn, 2012). The Government of Cuba, which still retains broad control over its national economy, has stepped up its efforts to centralize the commercial regulation of Chinese business, specifically the informal businesses in Havana's Chinatown (ibid).

Against the sometimes negative perceptions of cheap Chinese imports, irresponsible Chinese investors and an autocratic Government, China has intensified its 'soft power' efforts on the continent. Student exchanges, cultural diplomacy and the establishment of so-called Confucius Institutes play important roles here. Since 2004 hundreds of such institutes have been established all over the world in order to promote Chinese culture and language. The Confucius Institutes are under the supervision of the 'Han Ban', the Language Council affiliated to the Chinese Ministry of Education. Since 2004 at least 20 Confucius Institutes have been established in 11 Latin American countries, each of them affiliated to a local university, and in partnership with a Chinese university.

High-profile state visits are another major strategy. Soon after US President Barack Obama and Vice-President Joe Biden travelled to five Latin American countries (Costa Rica, Mexico, Brazil, Colombia, and Trinidad and Tobago) in May 2013, Chinese President Xi Jinping visited three of the same countries in June: Costa Rica, Mexico, and Trinidad and Tobago. Notwithstanding China's increased 'soft power' measures and influence in the region, the perception in most Latin American countries still ranks China and the Chinaese model as secondary for the continent, when compared with the USA. A poll of 40,000 participants in various Latin American countries found that a majority of 56.0% responded that they trusted the USA, while 50.8% of participants said that they trusted China. Similarly, when asked 'which country has the most influence in the region', 40.8% of the participants said the USA, against 20.3% which answered China (Azpuru and Zechmeister, 2014).

CONCLUSIONS

During the last decade China's influence in Latin America has grown exponentially. Measured in terms of trade volumes and FDI, China has established close ties with a number of Latin American nations. However, overall trade volumes are still small when compared to China's trade with Asia, Europe and North America. China's relationship with Latin America is characterized to a large extent by China's interest in raw materials and access to Latin American markets. As has been discussed, some countries have been able to benefit from this relationship; however, it also comes with certain risks, especially for Latin America's own manufacturing industries. Calls for the diversification of Chinese trade and investment have so far only led to limited changes; moreover, the possibilities for manufactured goods from Latin America to enter the Chinese market also remain limited.

While China has not yet overtaken the USA in terms of trade ties and political influence in the region, its growing links with the region, interest in raw materials and markets, and high degree of political engagement will demand continuous attention in the future. In terms of mutual perceptions, there have been also rapprochements between Latin America and China. Latin America, to some degree like Africa, presents a number of opportunities for China; yet there are also risks and potential misunderstandings. From the perspective of Latin Americans, China also ranks still behind the USA as a global power; it remains to be seen whether, and how, this will change in the future.

FOOTNOTE

[1] See China-Latin America Finance Database at www.thedialogue.org/map_list.

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