Building Development Partnership: Engagement Between China and Latin America

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Introduction

The full-fledged economic ties between China and Latin America and the Caribbean are important indicators of China's role as a global player. In the ongoing and heightened debate about China's rise, China's impact on Latin America is being discussed by scholars and policymakers worldwide. Though there are doubts about China's intentions and impact on Latin America, China has developed a more substantial and meaningful policy framework to build development partnership with the region.

An Emerging Development Partnership

Characters and Driving Forces

Latin America's ties to China are characterized by their economic dimensions instead of the full-fledged ties between the region and the United States. The economic agenda has taken a high profile in the Sino-Latin American relationship since the establishment of the China-Brazil strategic partnership in 1993. The most visible achievements of the strategic partnership are economic in nature. For example, China surpassed the United States as Brazil's largest trade partner in 2009. Additionally, China and Brazil are founding members of the newly established multilateral investment banks such as the New Development Bank (NDB) and the Asian Infrastructure Investment Bank. China's Free Trade Agreements (FTAs) with Chile, Peru, and Costa Rica clearly show the primacy of the economic agenda in the relationship. China's economic growth strategy is to integrate itself into the world economy, and Latin America is an increasingly important trade partner for China and vice versa.

This is not to say that political, cultural, and military exchanges between China and Latin America are not important, but other dimensions are overshadowed by this prominent economic linkage. In the context of this deepening economic relationship, both sides are engaging with each other on other dimensions such as culture, politics, and security. While the relationship is supported by economic ties, it needs to become more comprehensive and sustainable in order to continue to develop. To achieve this goal of a stronger relationship, China has strengthened its political will and increased the amount of economic resources in order to support its overall relationship with the region.

There are some new features of this prominent economic linkage. Firstly, the economic ties are going beyond the initial trade dimension. China is the largest trade partner for Brazil, Peru, and Chile. China is also an

increasingly important creditor and investor for the region's various economic sectors. Research by the Inter-American Dialogue and Boston University found that Chinese state-to-state finance has exceeded the sovereign lending from the World Bank and the Inter-American Development Bank (IDB) since 2005.[1] Secondly, China is pursuing economic ties in a sustainable manner by paying more attention to infrastructure, innovation, and renewable energy, which is mainly achieved via China's diversified investment in the region. Thirdly, the economic ties are used by both sides to build a kind of solid development partnership. Both China and regional countries are treating their economic ties from a perspective of not only commercial interests, but also development opportunities. An important indicator in this regard is the increasing number of countries from the region that are joining the Belt and Road Initiative, designed by Chinese leadership as a platform for international cooperation.

All these new features are happening in the context of China's gradual rise. In the past, China and Latin America were highly dependent on advanced economies. In the long period after China initiated its economic reform and opening-up process in the late 1970s, China's main economic partners were developed economies who could offer China the highly needed capital, technology, management, export markets, etc. Latin America also deeply depended on advanced economies and occupied a very limited priority in the last century since it didn't have the capital, technology, or management skills China needed. Without the economic rise of China within the current international economic system, it would be impossible for China to build such a dynamic development partnership with a region that is geographically remote relative to China.

From a perspective of domestic and external nexus, China's projection in Latin America is always influenced by the strategic environment of the international system. Historically, China's interaction with Latin America was quite loose since China lacked the capacity and intention to project its presence into Latin America. The famous Maritime Silk Road (1565-1865) between China and Mexico was mainly conducted by European traders, and trade relations between China and Mexico were connected via the European-controlled Philippines. In the 19th century, thousands of Chinese migrants were traded to Latin American countries by European colonists. These Chinese laborers contributed a lot to local railway and canal construction. In order to protect the illegal damage to the interests of Chinese immigrants in Mexico and Cuba, the Qing dynasty expressed its concern by ordering its fleets to visit Cuba in 1911.[2]

[1] Margaret Myers and Kevin P. Gallagher, "Cautious Capital: Chinese Development Finance in LAC, 2018," *China-Latin America Report*, February 2019. https://www.thedialogue.org/wp-content/uploads/2019/02/Chinese-Finance-in-LAC-2018-2.pdf.

[2] 百度百科词条："托雷翁惨案", https://baike.baidu.com/item/%E6%89%98%E9%9B%B7%E7%BF%81%E6%83%A8%E6%A1%88/9112881?fr=aladdin&ivk_sa=1022817p.

After the establishment of the People's Republic of China in 1949, China's major external relationship was concentrated on the Soviet Union group for a long period because of the blockade imposed by Western countries. China's interaction with Latin America during that period mainly happened in the cultural and economic sectors. China's intention in Latin America during that period was also questioned by some regional countries because of their domestic communist activities. The establishment of the China-Cuba diplomatic relationship in 1960 also fit the Soviet Union-U.S. bipolar power structure. Even further, the China-Cuba relationship also suffered from the Moscow-Beijing rivalry through the 1970s and 1980s until the normalization of the Soviet Union-China relationship in the late 1980s. China's booming diplomatic relationship with Latin America came about in the 1970s in the context of the improved Sino-U.S. relationship and China's return to the United Nations as a permanent member of the Security Council. From this geo-strategic perspective, some scholars argue that China's foreign policy toward Latin America has been primarily driven by a one-dimensional concern: global geopolitics from a historical perspective.[3] In general, the bipolar world power structure constrained the potential of the China-Latin America relationship.

It is fair to say that a substantial relationship with Latin America became possible only when both China and Latin America could act as independent players on the global stage. Even when China implemented its opening-up policy in 1978, it took at least two decades for China to reach the capacity to engage substantially with the remote developing regions such as Africa, the Middle East, and Latin America. China's growing economic capacity and strategy to integrate itself into the world economy are what allowed China to build a substantial relationship with Latin America. Therefore, it was at the start of the 21st century that a significant economic trade relationship began to emerge between China and Latin America as China integrated itself into the global value chains. During this time, Latin America mainly provided raw materials to China as China developed into a world-class manufacturing center. Later on, China's sizable emerging middle class's growing domestic demands, accumulated capital, management and technology, and increasingly capable "going global" enterprises began to be the major drivers of China's economic ties with Latin America. China's social dynamism includes a significant population of 700 million that left poverty in recent years and its increasing demands for meat, dairy, cereal, and soy products that was very attractive for the region's agricultural sector.

In 2016, China rose to become the second-largest source of outward foreign direct investment (FDI) for the first time, and its FDI outflows were 36% more than its inflows. China remained the largest investor in the least-developed countries (World Investment Report 2017). The importance of China for the developing world,

[3] XIANG, Lanxin, "An Alternative Chinese View," in Riordan Roett and Guadalupe Paz, eds., *China's Expansion into the Western Hemisphere*, Brookings Institution Press, 2008.

including Latin America and the Caribbean, was well recognized by international organizations.[4] In its 13th Five-Year Plan (2016-2020), China set some important goals regarding the developing world. These include reaching the volume of trade in services that accounts for at least 16% of total foreign trade, establishing overseas production centers and cooperation zones for major commodities, and encouraging international cooperation on production capacity and equipment manufacturing. China will promote opening of capital markets and encourage Chinese financial institutions to increase their overseas presence. China's transition from world factory to innovation center will also affect its economic relationship with the rest of the world. In the future, Chinese investments will focus on more advanced and value-added industries.

The rise of China is a new reality for Latin American countries when they think of the future. Since the beginning of this century, most Latin American countries turned their eyes to East Asia and especially to China for commerce and trade opportunities. They were trying to engage with China bilaterally and multilaterally. The agenda with China goes beyond economic areas to global issues such as climate change, fighting poverty, etc. China also treated Latin America as an important region in the global system. With this vision in mind, China built many types of strategic partnerships with individual countries from the region and coordinated with regional countries in international forums such as APEC, BRICS, and the United Nations. To facilitate cooperation with the whole region, China initiated the China-CELAC Forum. Latin American countries were also invited to join the Belt and Road Initiative as its natural extension, which is a flagship initiative of Chinese government led by President Xi Jinping.

Expectations and Doubts about the Partnership

As some scholars have postulated, "relations between China and Latin America are complex, strengthening, notably asymmetrical and fundamentally economic".[5] The attraction to build economic and development partnership is fundamental for both sides. For Latin American countries, China is not just another major trade partner. China is also seen as a successful growth story beyond traditional development paths. Most Latin American countries have tried multiple paths to achieve economic development. From the import substitution model, neoliberal experiments based on the "Washington Consensus" to the Santiago Consensus, the region aimed to achieve a comprehensive development agenda including industrialization, social inclusiveness, as well as green development. However, the regional economy as a whole—except for Mexico and Brazil—still depends heavily on exporting raw materials, and most countries remain in the stage of middle income with daunting social, environmental, and growth tasks. The region's economic integration is also slower and weaker than other regions

[4] OECD, UN, CAF, *Latin American Economic Outlook 2016: Towards a New Partnership with China*，2015. http://www.oecd.org/dev/Overview_%20LEO2016_Chinese.pdf.

[5] Mario Esteban (coord.), "China in Latin America: Repercussions for Spain," in *Real Instituto Elcano Working Paper*, No.3, October 2015.

such as North America, Europe, and East Asia. Noting the similarities with East Asia, some Latin American countries are considering the relevance of Asia's development experience for their own development, in addition to enhancing economic ties with Asia.

According to the narrative of China's second policy paper on Latin America and the Caribbean in 2016, Latin America is an important region for China that is full of emerging economies and developing countries, a major player in safeguarding world peace and development, and a rising force in the global landscape. China has shown its consistent policy attention to the region by issuing two policy papers on Latin America and the Caribbean in 2008 and 2016 respectively. The policy goal of China is to build a comprehensive and cooperative partnership with the region based on the principle of equality, mutual benefit, and common development. The establishment of the China-CELAC Forum in 2014 completed the last piece of the puzzle for institutional dialogue with the developing world. Under the institutional cooperation framework of the China-CELAC Forum, a broader course for common development was set and implemented. China aims to enhance its development partnership with the region by supporting intensive visits by political leaders, comprehensive economic engagement, and cultural exchanges.

As the relationship deepens, many concerns have also been raised from both sides. With China's expanding economic presence in the region, concerns about the investment environment were raised by Chinese observers of the bilateral relationship. Concerns of "China threat" or "Chinese imperialism" from the Latin American side and of "country risks" and social risks from the Chinese side were identified as new problems for the China-Latin America relationship.[6] From the Latin American side, China's evolving role in Latin America has been impacted by the tide of Chinese interest turning from commerce to investment.[7] On trade, a major concern was how to diversify the exporting of goods of Latin American countries to China—which means that Latin American countries hope to export more manufactured goods to China while maintaining their exportation of primary goods. Considering China's status as world manufacturer, it is quite difficult for Latin American countries to export sizable amounts manufactured goods to China except for a few products such as regional aircraft made in Brazil. Therefore, it is an economic and industrial structure issue. On investment, some new-generation politicians, such as Brazilian President Jair Bolsonaro, expressed their concern that China is buying Brazil. Considering China's increased but still limited investment in Brazil, this concern is more political than real. Actually, the Bolsonaro government is working hard to attract foreign investors to participate in its huge privatization program. In general,

[6] See Jiang Shixue, "New Development of China-Latin America Relations," *China Quarterly of International Strategic Studies*, Vol. 1, No. 1, 2015, pp. 149-153.

[7] Enrique Dussel Peters, "China's Evolving Role in Latin America: Can It Be a Win-Win?" *Atlantic Council Report*, September 2015.

with China's slowing economic growth, a major regional concern is how to sustainably benefit from China's economic rise, aside from trade and getting loans.

Generally speaking, there are three categories of concerns regarding China's possible negative influence in Latin America. The first concern is about China's increased strategic influence based on its economic ties to the region. Proponents of this argument worry about China's impact on the region's governance and economic character by noting China's preference for emphasizing diplomacy to create opportunities for its enterprises, avoiding market competition, and downplaying environmental and labor requirements.[8] The second concern is about the North-South relationship feature of China's economic ties with Latin America and the de-industrialization effects on Latin America by China's economic relationship. This argument is that China's demand for raw materials and investment in energy, agriculture, and mines has increased the dependency of Latin American economies on primary goods.[9] The third concern is about China's possible assertive geopolitical influence on the region's liberal order based on its growing trade ties to Latin America.[10] The perspective is that the competition between Washington and Beijing for influence in the LAC region occurs mainly on the battlefield of clashing visions of the international liberal order, and competing models of economic and political governance.

China is aware of these concerns and tries its best to follow its previous roadmap and commitments. In 2014, President Xi proposed a new cooperative framework with three engines and six prioritized areas when meeting his counterpart in Brazil. These three engines are trade, investment, and financial cooperation. The six areas are energy and resources, infrastructure, agriculture, manufacturing, science and technology, and information technology. Xi also intended to increase the trade volume between China and Latin America to US$500 billion and China's accumulated FDI in the region to US$250 billion in 10 years. After the first ministerial meetings of the China-CELAC Forum, China announced a series of investment and finance programs, including special loans for infrastructure, the China-Latin America cooperation fund, and concessional loans totaling US$40 billion. It is notable that these programs emphasize the principle of commercial operation, mutual benefit, and the participation of regional institutions such as the Inter-American Development Bank (IDB) and participating countries.

Aside from the established regional linkages such as China's observer status in the Organization of American States, membership of the International Development Bank, and others, China will have more initiative

[8] Mario Esteban (coord.), "China in Latin America: Repercussions for Spain", in *Real Instituto Elcano Working Paper*, No.3, October 2015.

[9] Jorge Guajardo, Manuel Molano, and Dante Sica, *Industrial Development in Latin America: What is China's Role?* Washington DC: Atlantic Council, 2016.

[10] Peter Hakim, "Is Washington Losing Latin America?" *Foreign Affairs*, Vol. 85, No. 1, 2006; Ted Piccone, "The Geopolitics of China's Rise in Latin America," *Geoeconomics and Global Issues*, November 2016; Evan Ellis, *US National Security Implications of Chinese Involvement in Latin America*, Army War college Strategic Studies Institute, 2005.

and agenda-setting power in the China-CELAC Forum. In order to facilitate this wide economic agenda, China has also supported a variety of non-economic forums with Latin American countries to have dialogues with people from think tanks, politics, the legal system, civil society, businesses, etc. For example, the first ministerial meeting between China and CELAC in 2015 generated the Cooperation Plan (2015-2019) which not only had ambitious economic cooperation goals but also strong public diplomacy arrangements such as scholarships and training opportunities, among others. While this emerging overall approach is economics-oriented and heavily features Chinese preference for infrastructure development and industrial capacity cooperation, it is also comprehensive, multifaceted, and based on mutual respect. Through these regular dialogues with different partners and topics, both sides can get to know each other better in order to avoid the lack of knowledge that has been a challenge to their relationship. To this aim, China also offers more than 10,000 visiting fellowships to the region's elites for field trips to China. Additionally, many centers on Latin America studies were established in China's universities to deepen Chinese knowledge about all aspects of the region.

Key Dynamics of the Partnership

Cooperation Beyond Complementary

Economic structure is a decisive factor for the nature of cooperation between China and Latin America. Therefore, the dynamic of the trade relationship between China and Latin America will be based on their existing comparative advantages in the near future. China's strong demand for the region's raw materials does not seem to be over. It is quite obvious that the demand from China's booming middle class for high-quality food, energy, and other stuffs is increasing rapidly. China is still a world-class manufacturing center, which remains a strong importer of raw materials. For example, according to the Food and Agriculture Organization of the United Nations, global agricultural production needs to grow by 70% by 2050, so the cooperation potential of Brazil as a supplier and China as a demander in food security is very high. Though this means Latin American countries have to continue exporting raw materials to China, they can update and diversify these primary goods with more added value since Chinese consumption and domestic human resource costs are rising. With the rapid urbanization of the Chinese population, China needs more grain and other agricultural products such as milk and meat. It can import these items from Latin America, leading to a compatible relationship. In recent years, both Peru and Chile have updated their previous free trade agreements with China to allow for more goods and services to be traded.

Besides the liberalization of trade arrangements, China's increasing investment and loans to the region might help make Latin America stronger in doing business with China. China became the second-largest source of overseas foreign direct investment in 2014. Just one year later, International Monetary Fund staff proposed

that its Executive Board include the Chinese RMB as a fifth currency in its special drawing right (SDR) currency basket.[11] China's role as an emerging global investor and creditor is increasingly important for the LAC region.

China wants to transform and upgrade its economic ties with the region so that the ties can better serve the interests of both sides. Former Brazilian President Dilma Rousseff expressed her intention to build a more balanced relationship with China by asking the latter to diversify trade and investment ties beyond raw materials to include more value-added goods in 2011. This was well received by China. China addressed Rousseff's concerns by offering billions of dollars of investment pledges in various areas and purchased car parts as well as aircraft from Brazil. China hopes that its partners can develop their own industrial capacity. During Premier Li Keqiang's visit to Brazil in 2015, China and Brazil signed a 2015-2021 Joint Action Plan that made innovation and industrial capacity investment priorities. Chinese investments in many key sectors of Brazil include mining, car manufacturing, electricity transmission, oil, rail, agriculture, and information technology. China's investment in Latin America reflects the country's domestic manufacturing sector's technological development in the past decade.[12]

After the super cycle of raw material booming around 2010, economic development in Latin America has slowed. Some fundamental reasons for this slowdown are the stagnation of productivity and lack of infrastructure in the region. To overcome these shortcomings, Latin American countries expect that China can do more to help the region's economic development. Brazil has always thought that China can treat the country as a major manufacturing base and an important market hub, and in doing so, China can shift its investment focus from raw materials and commodities to industry and infrastructure. Chinese Premier Li Keqiang's 2014 visit to the region gave response to this expectation by suggesting industrial capacity cooperation and infrastructure investment. China's message is clear in diversifying its investment in Latin America and enhancing the quality of its investment. China's experience shows that being a part of the global value chain will help one country's global trade. Industrial capacity cooperation between China and Latin America might help the latter to update its industrial structure, integrate with Asian value chains, and have more trade with China and the rest of the world.

In order to further promote the economic cooperation agenda, Premier Li proposed the "3×3" model during his speech to the China-Brazil Business Summit in 2014. The first level of "3" refers to fields of logistics, power, and information, with these three prioritized areas to promote the region's transportation infrastructure, power generation and transmission, and internet economy. The second level of "3" refers to sound interaction among businesses, the society, and the government, which is to foster a benign business environment. The third level of

[11] Xinhua, "China's RMB closer to IMF's SDR basket," November 14, 2015, http://www.china.org.cn/business/2015-11/14/content_37063309.htm.

[12] Margaret Myers, "Brazil-China 2.0?," *China and Latin America*, June 15, 2015, http://www.thedialogue.org/blogs/2015/06/brazil-china-2-0/.

"3" refers to the expansion of financing channels of funds, credit, and insurance. Li announced that China would set up a US$30 billion special fund for its industrial cooperation with the region and proposed to expand cooperation on currency swap and local currency settlement.

To overcome the restraints of the trade structure, both sides need to be more innovative in shaping the economic cooperation. Based on its domestic progress of innovation, China added elements that will increase innovation to the relationship by extending cooperation areas to electronic commerce, new generation telecommunications, and renewable technologies, among others. There are many cases of this new kind of cooperation emerging in Chile, Brazil, and other partners. In Chile, an interregional submarine fiber optic cable is planned and electric buses made by China are transforming Chile's major cities into more green ones. In Brazil, the most impressive joint project with Eletrobras is the ultra-high voltage (UHV) transmission system that carries power from the Belo Monte dam in northern Brazil to cities in southeastern Brazil. What's much more exciting is that this means we can seriously consider bringing solar, wind, and hydro into the main grid at scale – work that has started not just in China, but also Brazil, together with Eletrobras.

Based on the complementary situation, China aims at building a comprehensive relationship with the region. China has established nine strategic partnerships with LAC countries, and six of them are strategic and comprehensive ones. When Chinese Foreign Minister Wang Yi introduced the Belt and Road Initiative to the region in 2018, he highlighted that the initiative is aimed at promoting coordination, interconnectivity of infrastructures, facilitation of trade, cooperation on financial matters, and mutual understanding in order to promote and expand cooperation between the parties. Many observers believe that the BRI will help participating countries build a network of trade, investment, and infrastructure to connect with each other. Being comprehensive means more players are involved in the cooperation. Besides nation-states, local governments, business associations from different industries, and cultural actors are all beginning to actively engage with each other. As a part of the deliverables of the second Belt and Road Forum for International Cooperation in 2019, the China Development Bank established the Association of China-LAC Development Financial Institutions.

Besides the most dynamic economic players, actors from cultural, political, tourism, and military circles are getting involved in China's relationship with LAC. Confucius Institutes are still active across the region with the increasing demand of local people's Chinese language learning. In China, there is increasing focus on Latin America throughout the country. Separate from the international relations discipline, the newfound interest in Latin America is coming from other disciplines such as science, arts, literature, and language, among others, which is extremely helpful for minimizing the knowledge gap between China and Latin America. This new wave of Latin America fever is part of China's global diplomacy and a reflection of China's expanded interests in Latin America. More Chinese students are looking at Latin American universities beyond the traditional American and

European ones for studying abroad. Given the mobility of political parties in the Western political system, the Chinese Communist Party (CCP) is actively engaging with all Latin American counterparts to exchange ideas on how to govern a country properly.[13] Military diplomacy and conventional arms sales increased as well.

The comprehensiveness of the partnership has several dimensions. Politically, the most important thing is that both sides are willing to respect each other's development model, exchange governance experience and understand each other on major concerns. This kind of engagement on the political level is very important for economic cooperation in today's world, which is full of uncertainties. Political and policy-level dialogue is also key for China to bolster its international economic cooperation when the Belt and Road Initiative faces doubts about its international standards. Economically, China focuses on the upgrading of the cooperation as well as the role of market mechanism. Culturally, both sides engaged in increasing cultural exchange since China and LAC are different in terms of culture, history, and major religion. Lack of knowledge about each other is a great challenge for deepening China-LAC relationship. For think tanks and universities from both sides, there is a booming trend of studying each other. The think tank forums have been held four times in Beijing and Santiago. Governmental financial resources allow students and young elites to visit each other more than before. Globally, both sides are interested in enhancing South-South cooperation, supporting the multilateral trading system, furthering the global governance reform, and building an open world economic system.

Shared World Vision and Common Development Strategy

For a very long time, globalization has been led mainly by Western countries, which had the advantage of having been through the Industrial Revolution. In this period, Western countries and their companies benefited much more than their counterparts elsewhere. Today, globalization has significantly changed the situation. Emerging economies in Asia, Africa, and Latin America are actively participating in globalization by contributing their visions, institutions, and resources. Advanced economies are still major players, and even leaders, in globalization, but they are more cautious about the rise of the rest and domestic challenges of wealth inequality as well as migration. At the same time, global issues such as climate change, nuclear proliferation, international development, etc. are challenging policymakers of all nations.

It was in this strategic context that new leaders of Latin American countries started to develop a substantial relationship with China and other countries beyond their traditional ties with the North Atlantic countries. Most of the new-generation politicians in Latin America are cosmopolitan in nature, and their international vision goes beyond the Americas. Brazil's approach to China under Luiz Inácio Lula da Silva's government was mainly to

[13] NIU Haibin, "Party Diplomacy with Chinese Characteristics," in Jiemian Yang ed., *China's Diplomacy: Theory and Practice,* NJ: World Century Publishing Corporation, 2014, pp. 415-476,

create a possible partner for broader political and strategic objectives, such as the pursuit of a multipolar international order. China values Latin American countries' intentions to build diversified external relationships. The political turn to the left in 2005–2007 and the political turn to the right in 2015-2018 didn't change the cosmopolitan worldview of most Latin American leaders. Since the beginning of the 21st century, it has been a remarkable era of global diplomacy for Latin American countries.

During its opening-up process, China was reluctant to fully embrace the so-called economic globalization because it sometimes treated globalization as "westernization." By examining the successful experiences of East Asian economies such as the "Four Little Dragons" (Taiwan, South Korea, Hong Kong, and Singapore), China finally joined the World Trade Organization in 2001. WTO membership allowed China to integrate into the world economy better. Since then, China has gradually emerged as an increasingly relevant economic actor in Latin America. Though there were strong reactions from Mexico, Argentina, and Brazil on importing Chinese products, China reached free trade agreements with Chile, Peru, and Costa Rica. After the new liberal reforms in Latin America in the 1990s, most countries of the region also began to engage with the rest of the world on a global scale.

In its long history dealing with the so-called "Core and Periphery" relationship, Latin America has engaged intensively with "old" partners such as European countries, the United States, and Japan. With this kind of partnership and regional efforts promoting development, most Latin American countries have become middle-income countries. As a whole region, Latin America enjoys many advantages of achieving development: regional peace, almost-entirely market economies, and generally stable democracies. However, most Latin American countries failed to build inclusive economies and achieve industrialization. When China became a new substantial economic partner, its future role as a new partner for LAC was explored by some regional institutions.[14] Whether China can help LAC address those failures is a key challenge for this new economic partnership.

China was still a developing country when it became a key global player, which is quite different from the UK, the U.S., or Japan. This means that China shares the development concerns of LAC countries as both sides remain at middle-income level and their once-relative periphery position in the world economic system. Therefore, both China and Latin American countries want to build sustainable economies and societies. Over the past two decades of intensive engagement with Latin America, China has become a substantial economic partner for the region. After the end of the booming cycle of raw materials, new dynamics are needed for future China-Latin American economic ties. Based on the previous achievements, with the extension of the Belt and Road

[14] See OECD,UN,CAF, *Latin American Economic Outlook 2016: Towards a New Partnership with China*, 2015. http://www.oecd.org/dev/Overview_%20LEO2016_Chinese.pdf.

Initiative to Latin America and the new vision of the 19th National Congress of the Communist Party of China, the economic relationship between China and the region has great potential to be translated into a sustainable development partnership. This prospect is important not only for both sides but also for a world suspicious of globalization.

From a global perspective, China perceives Latin America as a like-minded shareholder to solve global challenges. In the eyes of Chinese observers, there are three aspects to Latin America's strategic importance to China. First, the relationship with Latin America is an important part of China's comprehensive opening-up structure. Second, Latin America's market potential, natural resources, and cultural openness can support China's rise. Third, Latin America is a testing ground for China to perform its global diplomacy as a great power.[15]

China thinks of its relationship with LAC from a strategic perspective by treating the region as an important part of emerging economies and developing countries, and an important rising force for world peace and development. China is still an emerging economy with multiple domestic sustainable development challenges in a globalized world. Based on its development stages, China doesn't have the intention to impose its development experiences on the region, which is different from some developed economies that gave development prescriptions to the region. Instead, China prefers a mutual-learning partnership.

China had many policy dialogues with its partners in the international initiatives such as the Belt and Road Initiative, the China-CELAC Forum, and bilateral meetings. China issued two policy papers toward LAC (2008, 2016) and initiated other policy frameworks such as "1+3+6" for economic cooperation (2014), the China-CELAC Forum (established in 2014), and the "3×3" model for industrial cooperation (2015), which offered a kind of top-down policy framework to guide potential cooperation.

In this century, both Latin American countries and China have worked closely on the global agenda, including sustainable development, climate change, international trade liberalization, etc. The financial crises since 2008 in some advanced economies were a turning point for China and Latin America to enhance their cooperation, which is a part of cooperation among emerging economies to deal with the decreasing demand from the advanced economies. China provides a ready, growing market for Latin American goods, and Chinese demand for them was one reason the region was able to withstand the 2008-2009 financial crisis so well.[16] Latin America has also gradually cultivated an enormous regional consumption market based on its growing middle-class population in the 21st century. Meanwhile, China has grown into the second-largest world economy. Against this backdrop,

[15] WU, Baiyi, *Opportunities Along with Transformation: A Multi-Perspective Analysis of the China-Latin American Relations*, Economy and Management Publishing House, 2013, pp. 4-7.

[16] Jorge Heine, "Do Latin America's Ties with China Come 'at a Price'?" *Latin America advisor*, Feb. 20, 2018.

both China and Latin America realized the importance of their identities as emerging economies and treated each other more seriously as economic partners.

The rapid development of the China-Latin America relationship is an important part of the changing world. A World Bank report arguing that Latin America's future growth is based on the rising South is quite interesting and illuminating.[17] For instance, there is a new option when traveling from China to Brazil to take the Boeing 787 Dreamliner run by Ethiopian Airlines via Africa. This new line is symbolic for understanding the importance of the rising South as a part of the healthy, strong, and balanced growth of the world economy. Both China and Latin America should keep this changing big picture in mind when thinking about their future relationship.

The BRI and Its Implications on Latin America

After the Belt and Road Initiative was formally announced by President Xi in 2013, countries in Latin America were wondering whether, when, and in what conditions they could be invited to join it. At the China-CELAC Forum's 2nd ministerial meeting in Santiago, Chile, a special declaration on the BRI was reached on January 22, 2018. In that declaration, China considers that Latin American and Caribbean countries are part of the natural extension of the Maritime Silk Road and are indispensable participants in the international cooperation of the Belt and Road Initiative.[18] With more knowledge of the BRI and previous practices in China's neighboring countries,19 countries from Latin America and the Caribbean have signed a memorandum of understanding with China on BRI cooperation.[19] It is also noteworthy that the most economically liberal of the region, such as Panama, Peru, Chile, and Costa Rica, joined the BRI.

The BRI refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road proposed by President Xi in 2013. It prioritizes five categories of connections: policy, trade, infrastructure, finance, and people-to-people. It was jointly designed by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce.[20] According to the official narrative, the BRI is not only about infrastructure, as there are at least seven areas for cooperation.[21] These are: connectivity of infrastructure and facilities, economic and trade cooperation, production capacity and investment cooperation, financial cooperation, cooperation on ecological and environmental protection, orderly maritime cooperation, and cooperation and exchanges in cultural, social, and other fields.

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[17] See De la Torre, etc., "Latin America and the Rising South: Changing World, Changing Priorities," *Overview booklet*, World Bank, 2015.

http://www.itamaraty.gov.br/images/2ForoCelacChina/Special-Declaration-II-CELAC-CHINA-FORUM-FV-22.1.18.pdf.

[19] According to the BRI website, https://www.yidaiyilu.gov.cn/gbjg/gbgk/77073.htm.

[20] National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, *Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, March 28, 2015. http://language.chinadaily.com.cn/2015-03/30/content_19950951.htm.

[21] 推进"一带一路"建设工作领导小组办公室:《共建"一带一路":理念、实践与中国的贡献》, 2017 年 5 月 10 日。http://news.xinhuanet.com/politics/2017-05/10/c_1120951928.htm .

The original priority of the BRI was to renew Euro-Asian ties by connecting the main cities in Europe and the Chinese coastal area. Landlocked, underdeveloped regions within and outside China will benefit from this initiative. While the BRI is a Chinese initiative, it is a global process and represents China's efforts to deepen its opening up and enhance international cooperation. The strategic context of creating the BRI was the weak recovery of the global economy, and recognition that China needs to create strategic propellers for hinterland development. The BRI also inherited Silk Road Spirit – "peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit." Therefore, the BRI's goals are to maintain an open world economic system; to achieve diversified, independent, balanced, and sustainable development; and to advance regional cooperation, strengthen communications between civilizations, and safeguard world peace and stability.

The BRI aims to open China further to the world and create a platform for international cooperation. In doing so, China wishes to address its domestic development disparity—especially in the underdeveloped regions in the central, west, and northeast parts of China—and to create more space for domestic growth through cooperation within the BRI community. The BRI also helps to address the global development disparity and achieve the G20 goal for the world economy after the 2008 financial crises: To build a strong, sustainable, and balanced world economy. The BRI's importance in contributing to international development was recognized by the United Nations on some occasions. According to the report of the 19th Congress of the Chinese Communist Party (CCP), the BRI serves the following goals: Making regional development within China more balanced; furthering China's international influence and its ability to inspire, shape, and contribute to global peace and development; breaking new ground for opening China further through links running eastward and westward, across land and over sea; and achieving connectivity and thus building a new platform for international cooperation by creating new drivers of shared development.[22]

Based on this logic, China welcomes the participation of LAC in the BRI. This initiative had prioritized the connection between Europe and Asia, but its logic could be applied to China's cooperation with other regions. Latin America, Central Asia, and Africa shall be included in this story with the purpose of unlocking the growth potential of these regions. There is no economic reason to resist LAC countries joining the BRI since they are important emerging markets as well as major trade partners of China. In addition, the history of El Galeón de Manila demonstrates that the ship consolidated the first commercial route across the Pacific between Spain, the American continent, and China. The El Galeón de Manila route also had an important role in facilitating the spread of Chinese culture to the Western world. Considering this history, China sends out its invitation to the region by saying Latin America is a natural extension of the BRI.

[22] Xinhua, "Full Text of Xi Jinping's Report at 19th CPC National Congress," November 3, 2017. http://news.xinhuanet.com/english/special/2017-11/03/c_136725942.htm .

In May 2017, the leaders of the BRI welcomed and supported the initiative as a means to enhance connectivity between Asia and Europe, which is also open to other regions such as Africa and South America.[23] The BRI forum communiqué also emphasizes the opportunities that can be created by communication and coordination among other initiatives, such as Initiative for the Integration of Regional Infrastructure in South America (IIRSA). China is committed to coordinating development strategies with countries in LAC, advancing pragmatic cooperation with them in all fields, and expanding common interests based on the BRI ideas, principles, and approaches. When President Xi met with Panamanian President Juan Carlos Varela on November 17, 2017, he stated that "China regards Latin America as an indispensable partner for the BRI, and both sides should synergize development strategies to complement each other." Xi stated that he expected early progress in maritime, infrastructure, trade, investment and finance cooperation and active exchanges in education and tourism.

There are several favorable conditions for extending the BRI to LAC. The first is strong economic ties. Official statistics show that with the bilateral trade value soaring over the past 10 years to the US$216.5 billion mark in 2016, China has become the third-biggest source of investment for Latin American countries, and Latin America is China's second-largest overseas investment destination.[24] Infrastructure investment in Latin American and Caribbean countries can't meet the demands of the region. Investments should total around 6.2% of GDP but the amount was only 2.3% by 2015, according to the INFRALATAM database, which tracks infrastructure investments in LAC and is maintained by the InterAmerican Development Bank. There is a huge opportunity for both sides to cooperate on infrastructure. China's investment in Ecuador has helped the country become an exporter of electricity. Both sides have convergent interests in promoting the regional integration in LAC. International initiatives with strong Chinese support such as BRI, Asian Infrastructure Investment Bank (AIIB), and New Development Bank (NDB) could be helpful for Latin American countries to renew their infrastructure sector.

Infrastructure is one prioritized area for China's investments in the region. China has the capital and technology needed for the region to develop its relatively poor infrastructure. There is also a huge infrastructure gap that needs filling in Latin America.[25] By meeting the demand for infrastructure development of Latin America, Chinese banks and enterprises can also benefit by supplying capital, goods, services, and technology. China's investment profile in the infrastructure sector is also different from the Europeans' because China prioritizes

[23] Foreign Ministry of PR China, *Joint Communique of the Leaders Round-table of the Belt and Road Forum for International Cooperation*, 15 May 2017. http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1462012.shtml.

[24] 人民网："中拉合作瞄准跨境平台"，2017 年 11 月 15 日。http://world.people.com.cn/n1/2017/1115/c1002-29647291.html.

[25] Mercedes Garcia-Escribano, Carlos Goes, and Izabela Karpowicz, "Filling the Gap: Infrastructure Investment in Brazil," *IMF Working Paper*, WP/15/180, July 2015.

building a railway system and continental transportation projects. In the ideal situation, projects shall serve the enhanced economic ties between Latin America with China as well as Asia. China's experience shows that infrastructure building must be accompanied by trade flows and investment; otherwise it will be unprofitable and unsustainable. Both sides believe that good infrastructure can facilitate economic engagement and bring the region into the value chains of the Asia-Pacific region.

The 19th CCP Congress and Future China-LAC Relationship

The 19th Chinese Communist Party National Congress made a roadmap for China's domestic and external agenda, which may have important implications on the future China-LAC relationship. Domestically speaking, the principal contradiction in Chinese society has changed into one between unbalanced and inadequate development and the people's ever-growing needs for a better life. The priority will be given to the quality of growth rather than the pace of growth. To build a beautiful China means building a low-carbon economy. Externally, with a new self-confidence, China strives for a central role on the world stage. China may serve as a reference for other countries and as a leader in the effort to guarantee global public goods. The congress report especially mentions that China offers a new option for other countries that want to speed up their development while preserving their independence. China's vision emphasizes that we live in a globalized and interdependent world. Therefore, building "a community of shared destiny for humanity" is essential.

China wants to contribute to the solution of global affairs by offering Chinese wisdom and solutions. This desire has prompted a broad response academically and politically. Academically, some comments argue that that moment carries huge symbolic and political importance and will therefore demand careful analysis. What will the next steps be? How can we properly understand the Chinese experience in developing a major, complex economy and creating prosperity over the last four decades as reform and opening up has proceeded? Is the great Chinese experiment sustainable? In what ways does it conform to experiences of modernization in other places, and where is it truly sui generis – if at all?[26] Politically, China's influence on development approaches in developing countries created anxiety in the United States, which was expressed in the national security strategy of the administration of President Donald Trump in 2017.[27]

It is natural to have these concerns about China's new vision. However, the vision shows that China has committed itself to providing global common goods and pursuing sustainable development, which is a positive message for a world full of uncertainties and lack of leadership. Guided by this vision, more international economic cooperation on manufacturing, low-carbon technology, and the digital economy might happen in

[26] Kerry Brown and Georg Strüver, editorial, *Journal of Current Chinese Affairs*, Vol. 46, No. 2, 2017, pp. 3-6.

[27] *National Security Strategy of the United States of America*, December 2017. https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905-2.pdf.

developing regions, including Latin America. The “new option” idea does not mean China will export its development model. Instead, China will continue to exchange development experiences with others in order to better understand, identify cooperative opportunities, and achieve common development. Economic cooperation and policy dialogue will continue to be key for China-LAC cooperation under the framework of the BRI. According to the declaration of the 2nd Ministerial Conference of the China-CELAC Forum, both sides will exchange knowledge, successful practices, and long-term planning in order to achieve the 2030 Sustainable Development Agenda.

In deepening cooperation between China and LAC countries, China needs to pay attention to several factors. First, in order to avoid investment risks, both sides need to do a better job of policy consultation and cooperate in a transparent, sustainable, and long-term engagement approach. Second, considering the diversity of the LAC countries and different approaches to regional integration, China needs to continue to mix its bilateral and multilateral approaches to address this diversity. Third, in order to achieve real development cooperation, China should encourage and support the potential partner’s domestic debate on issues and policies regarding cooperation with China. Finally, China's engagements with Latin America should continue to build a comprehensive and sustainable development partnership. Both sides should work together to safeguard an open world economy in an era full of doubts about the benefits of globalization.

Aside from economic considerations, political interests are also playing an important role in China’s engagement with Latin America. China highly values Latin America’s overall importance in the international system. In 1988, Deng Xiaoping had the foresight to state that the 21st century should be the century of both the Pacific and Latin America. As a rising global power, China needs support from more countries to make its rise acceptable and legitimate to the rest of the world. As both China and Latin America are developing, China thinks there are more common interests between the two than with established powers. China doesn’t look for allies with Latin American countries to challenge the current international order. Instead, what China expects from Latin America is political understanding of its domestic development approach and its international profile. Exchanging ideas on domestic governance has been an important aspect of cooperation, and it helps Latin American people better understand China’s political system rather than exporting it to Latin America. China also needs Latin American countries to understand its domestic and international agenda.

The Third-party Factor: Monroe Doctrine Coming Back

China’s historical relationship with Latin America has been deeply affected by the international environment. Clearly, whether China has a geopolitical strategy toward Latin America or not, global geopolitical situations—especially major power relations—have a structural impact on the China-Latin American relationship. To understand China’s current dynamic presence in Latin America, we need to understand how China perceives the

current international system and how the system's factors affect China's projection in Latin America. In the first 15 years of this century, economic globalization, the rise of the global south including the emerging economies, and a pro-globalization G20 constituted a benign international environment for the China-Latin America relationship to blossom.

Under the George W. Bush and Barack Obama administrations, the United States held an officially objective and inclusive attitude toward the deepening relationship between China and Latin America, which was quite helpful for the relationship. Though the region has been largely overlooked since the U.S. began primarily focusing on an anti-terrorism agenda in Central Asia, the U.S. generally thought of China's presence in the region as a natural result of its economic expansion rather than as a security threat. China participated in the OAS and Inter-American Development Bank with the support of the U.S. The U.S. also held regular dialogues with senior Chinese officials on Latin American affairs. When the United States formally abandoned its 190-year-old Monroe Doctrine in 2013 and made adjustments to its policy toward Cuba, both China and Latin America welcomed this new posture toward the region. China also expressed its open and supportive attitude of cooperation with third parties in Latin America.

In this favorable international context, China's approach to Latin America was mainly supportive to economic globalization and international cooperation. Therefore, China's presence in Latin America was not perceived as a threat to the region's peace and prosperity. China's growing ties with Latin America were built in this relatively peaceful environment and were based on a mutually beneficial economic logic from the beginning of the 21st century. Different from East Asia's competitive strategic environment, China's economic engagement with Latin America was less affected by the geostrategic competition from the United States and its allies. Most Latin American countries were embracing globalization and building a diversified external relationship by looking for more international partners, including China. China also identified itself as a beneficiary of the current international system and followed a peaceful rise approach. Major international economic institutions also recognized that the robust growth in Latin America in the past decade was partially due to connections to China.[28]

However, this optimistic atmosphere totally changed when the Trump administration adopted a new strategy toward both China and the LAC region. The "America First" doctrine distanced the U.S. from both China and Latin America by emphasizing trade protection and economic protective measures. Furthermore, the U.S. is holding an increasingly suspicious and unfriendly attitude toward China's presence in Latin America by publicly criticizing China's intention, practices, and impacts in the region and persuading regional partners away from

[28] The World Bank (2011), *Latin America and the Caribbean's Long-Term Growth: Made in China?* Washington, D.C.: The World Bank/LAC.

cooperation with China, especially on digital technologies. The U.S. rolled back many important and positive measures initiated by Obama administration. The most obvious ones were the engagements with Cuba and the reclamation of the Monroe Doctrine, which caused a fundamental change to the geostrategic environment of the Western Hemisphere. This kind of strategic and policy level changes might affect the trilateral relationship among China, the U.S., and Latin America negatively in several aspects.

Internationally, apart from the rising suspicion of globalization in the United States, both China and most of the LAC countries continue their commitment to support economic globalization. China and major economies in LAC are adopting policies more friendly to foreign investors, building a free trade network, and believing in the fundamental role of the WTO in maintaining the healthy work of international trade.

Secondly, facing the inward-looking “America First” approach and rising concerns of migration, China and Latin America need to enhance their economic relationship in order to reduce their vulnerability to the protective American domestic market. For example, stronger trade ties between China and Brazil serve their international positions by providing an alternative market for each other. Brazil’s supply of soy reduced China’s vulnerability amid trade friction with the United States. Brazil increased its sales to the Chinese market by US$8.1 billion in 2018, as American products became more expensive in China. Furthermore, if free and highly institutionalized trade arrangements between China and economies from Latin America can be reached, it will set a good example for the rest of the world.

Thirdly, the potential trilateral practical cooperation’s chances might be minimized under the United States’ Monroe Doctrine and unfriendly approach to China. The cancellation of IADB’s annual meeting in Chengdu was an example since Venezuela’s opposition insisted on sending a representative to attend the meeting in addition to the representative from President Nicolas Maduro’s government. The post-NAFTA trade deal among the U.S., Canada, and Mexico also includes some clauses that are thought by observers as obstacles for Mexico and Canada to have bilateral free trade agreements with China. Latin American countries may have less autonomy to pursue their own diplomatic agendas and to solve regional issues independently.

Fourthly, the strategic interaction among major powers in Latin America might shift from the positive side to the negative side. Previously, China's consistent intensive cooperation with LAC has highlighted the importance of the region in the world economy. China’s attention to the region also partially stimulated the advanced countries to pay more attention to Latin America again. Following China’s involvement in the Twin Ocean Railway project in South America, Germany also expressed interest in similar projects in the region. This new dynamic involving diverse external actors offered the region enhanced negotiation capacity and more economic options. However, when traditional powers focus on the security and ideological dimensions, the region once again is in danger of being a battlefield for great power competition.

While there are many challenges with a shifted American approach, it is noteworthy that both China and Latin America share a goal of achieving autonomy in international affairs. It is in the interest of both Latin America and China to pursue autonomy by building diversified international partnerships. China has increasingly presented itself as a full-fledged global player, which is naturally reflected in the comprehensive agenda of the Sino-Latin American relationship. China's presence in Latin America will definitely create some geopolitical implications for the region even if it might not be China's original intention. A strong and sustainable China-Latin America relationship serves to create the strategic international space that enhances their domestic development.

A good, stable, and rule-based China-U.S. economic relationship will be important for Latin American economies. Though countries such as Brazil and Argentina could benefit from the trade disputes between the United States and China in the short term, the uncertainties and the possible trade deal's impact are worrisome for the region's policymakers and private sector. The trade deal between China and the U.S. may reduce China's import of energy and agriculture products from Latin America. The deal's impact on the role and rules of WTO is still unclear. As the weaker and more vulnerable part of the world economy, developing economies including China and Latin America are more dependent on WTO regulations and rulings.

To ensure a sustainable China-Latin America relationship, it is also important to avoid strategic rivalries between China and the United States in Latin America. From a geostrategic point of view, an accommodative United States will offer more space for China and Latin America countries to engage with each other. In a highly integrated world, most countries in Latin America prefer to have good relations with both major world economies rather than take sides between China and the United States. In a larger context, it is a game of managing balance-of-power shifts in the region considering the rising autonomy of the region and more capable external and internal players emerging in the region. Considering the issues in the U.S.-Latin American relationship, China's economic engagement with the region could provide more favorable conditions to solve the issues of illegal immigration, drug trafficking, and energy security, etc. It takes time for all relevant stakeholders to build a mutually beneficial trilateral relationship among China, the U.S., and LAC.

China's approach to Latin America will continue in its pragmatic way and preference for national interests rather than ideology. Latin America is a region full of market economies and democracies that was highly influenced by Western culture and values. China respects these institutional and cultural choices when it seeks to deepen its relationship with the region. China still holds a neutral approach to engage with Latin American countries regardless of their ideological differences. China's strategic partnership in Latin America is based on partners' development potential, regional influence, and global capacity rather than their political systems or their relationship with the U.S. By respecting national interests, China's relationship with those countries represents a

vast shift in leadership. What China looks for in Latin America is international cooperation, mutual respect, and common development. Thus, it is highly possible for China to maintain a politically neutral attitude to regional affairs in Latin America.

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