

Great Decisions 2020

Class #6: China's Road into Latin America



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China & Latin America

1. How's Latin America Doing?
2. Why is China expanding in Latin America?
3. Why is Latin America receptive?
4. Why is U.S. concerned?

We are not what we know but what we are willing to learn. - Mary Catherine Bateson (b. 1939, American writer and cultural anthropologist, daughter of Margaret Mead)

What is Latin America?

- Total of 4 sub-regions
- 20 predominately Spanish & Portuguese (*i.e.* Latin) speaking
- Mostly Catholic & democratic
- Middle to low income
- High inequality
- Political volatility
- 640 mil people (8% of world)
- \$11 tril GDP (ppp, 7% of world)



Latin America – 20 diverse countries

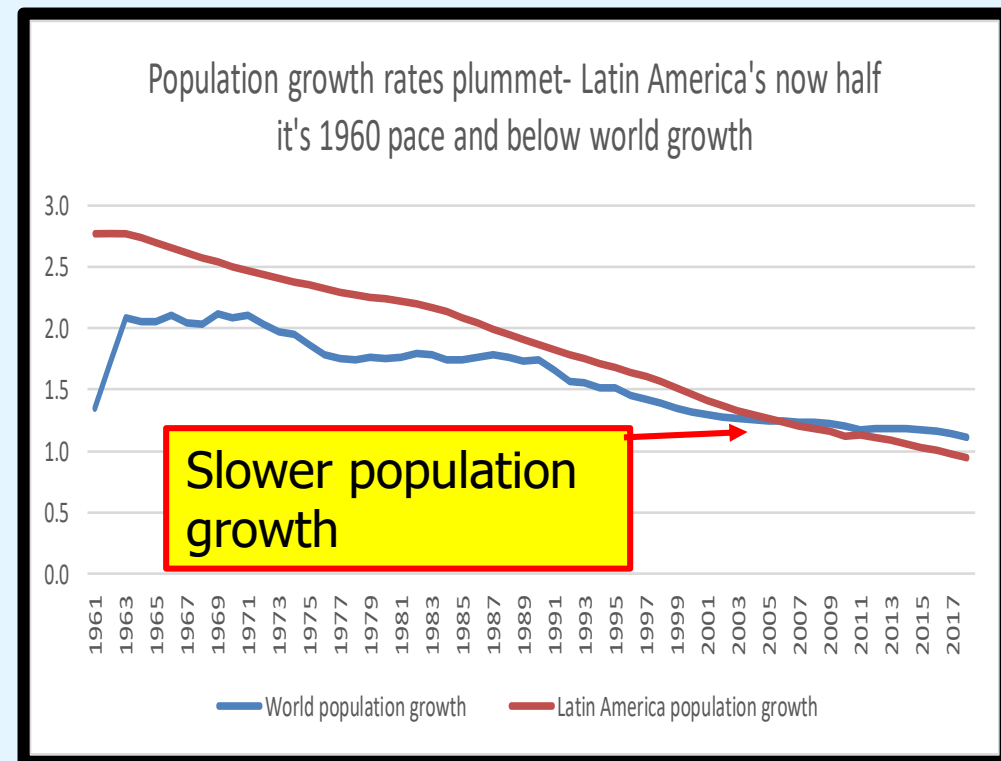
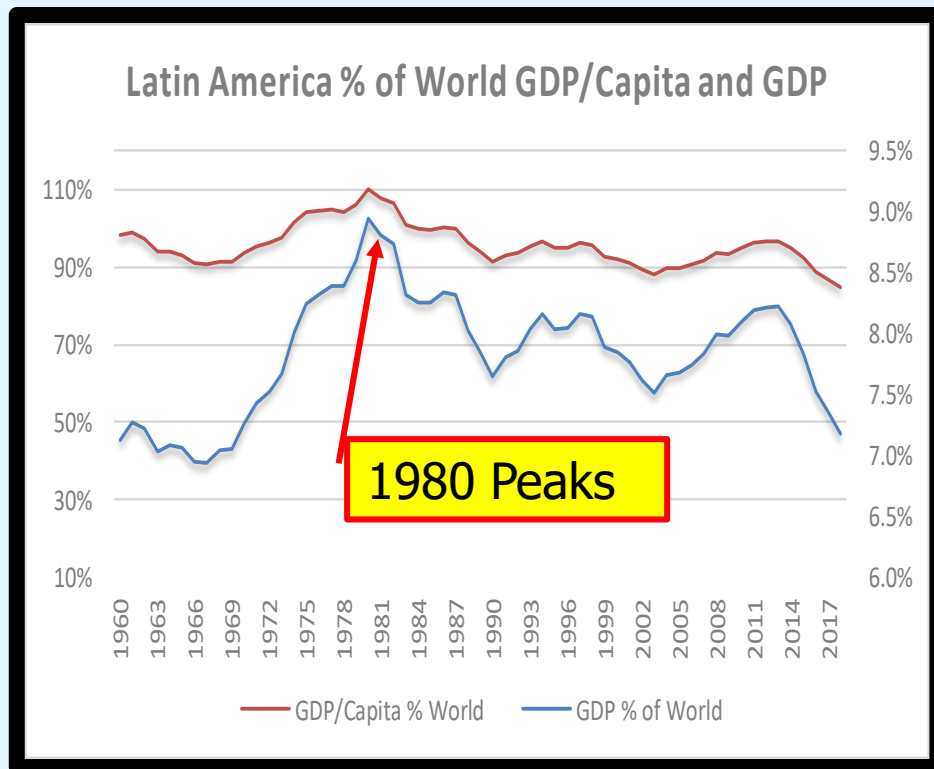
- Almost double U.S. population but less than half U.S. GDP
- Brazil & Mexico largest economies
- Chile, Argentina & Uruguay highest GDP/capita
- Central America mostly low GDP/capita

Population and GDP for Latin American countries

Country	Population	GDP (PPP)	
		2015, bil. US\$	Per Capita
By GDP Ranking	2018 millions		
Brazil	210	3,208	15,312
Mexico	126	2,220	17,592
Argentina	44	972	21,899
Colombia	50	724	14,571
Venezuela	29	492	17,010
Chile	19	424	22,690
Peru	32	385	12,044
Ecuador	17	182	10,632
Dominican Rep.	11	148	13,925
Guatemala	17	126	7,302
Cuba	11	95	8,407
Panama	4	82	19,571
Uruguay	3	74	21,824
Costa Rica	5	74	14,820
Bolivia	11	74	6,482
Paraguay	7	61	8,686
El Salvador	6	53	8,266
Honduras	10	41	4,271
Nicaragua	7	31	4,800
Haiti	11	19	1,712
Total	630	9,485	15,051

Source: https://en.wikipedia.org/wiki/Latin_America

Latin America % of world GDP & GDP/capita and population growth decline



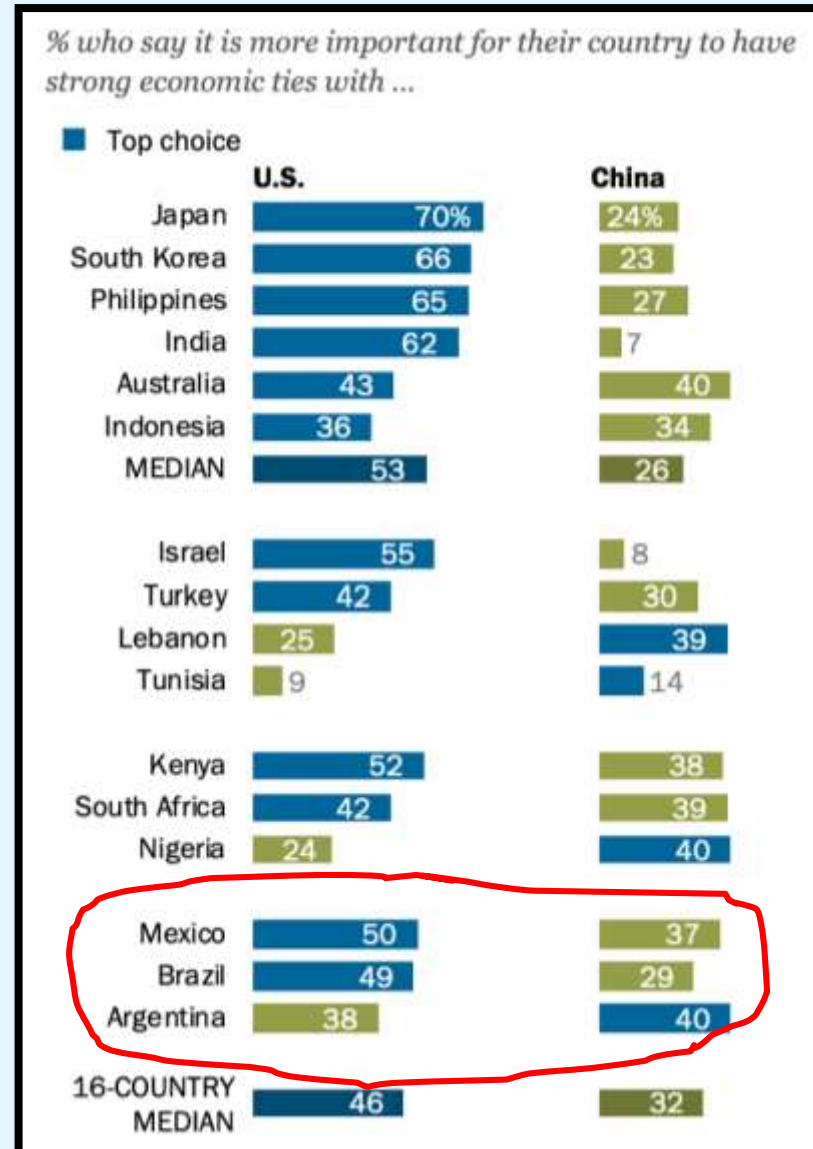
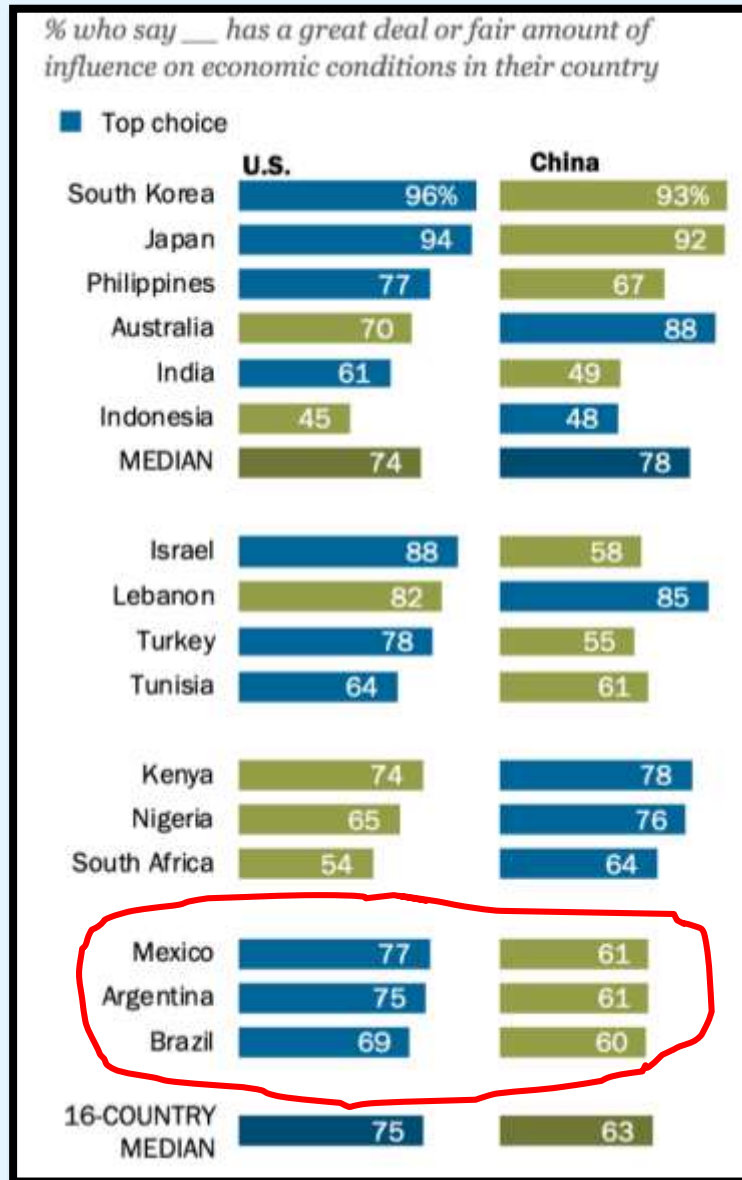
What does China want? **The China Dream**



- President Xi is more ambitious & expansive role abroad – than “peaceful rise” of Deng Xiaoping
- Xi’s message: "China is a big country and other countries are small countries, and that's just a fact"
- Control of South China Sea, Taiwan, Hong Kong, Ryukyu ...
- Going out - Belt & Road to boost economy, friends
- Currency (Renminbi-RMB) to have wider acceptance
- Get rich and powerful – others recognize & respect

II. Why is China expanding in Latin America?

Both U.S. & China have substantial influence but of varying value on Latin economies



Source: Spring 2019 Global Attitudes Survey, Q37a, b.

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China's engagement in Latin America

- Valuable export market - grew from \$2 billion in 2000 to \$149 billion in 2018
- Seeking alternative markets for decreasing demand from U.S. and Europe
- Critical source of natural resources (crude oil, iron, copper, lithium) and agricultural commodities (soybeans)
- Greater control over pricing and supply of agricultural products
- Increase its soft power and international clout



Promote China's "Digital Silk Road"



- **Building a Digital Silk Road** - international communications connectivity and internationalization of China's technologies
 - Security, machine learning (**Artificial Intelligence**), 5G wireless, e-commerce, e-government, satellite navigation system, low-earth orbit broadband Internet

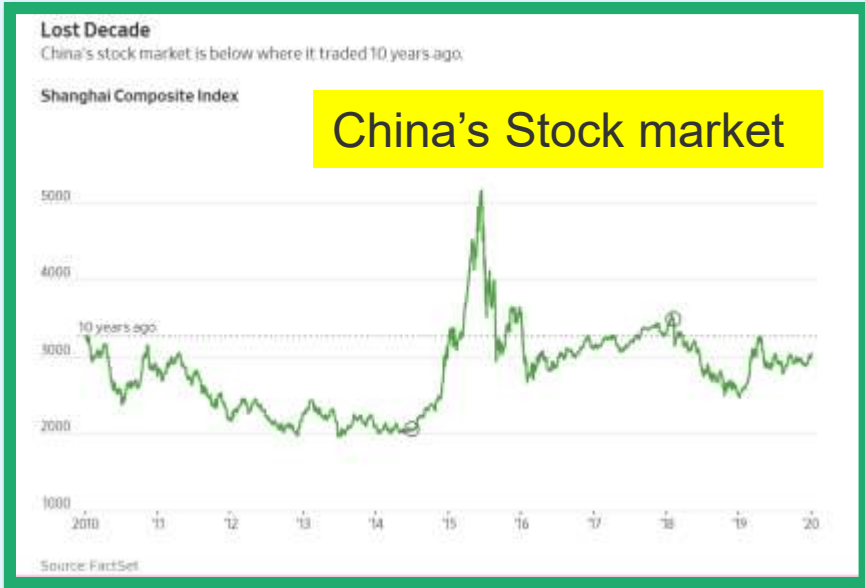
A region where can benefit and influence



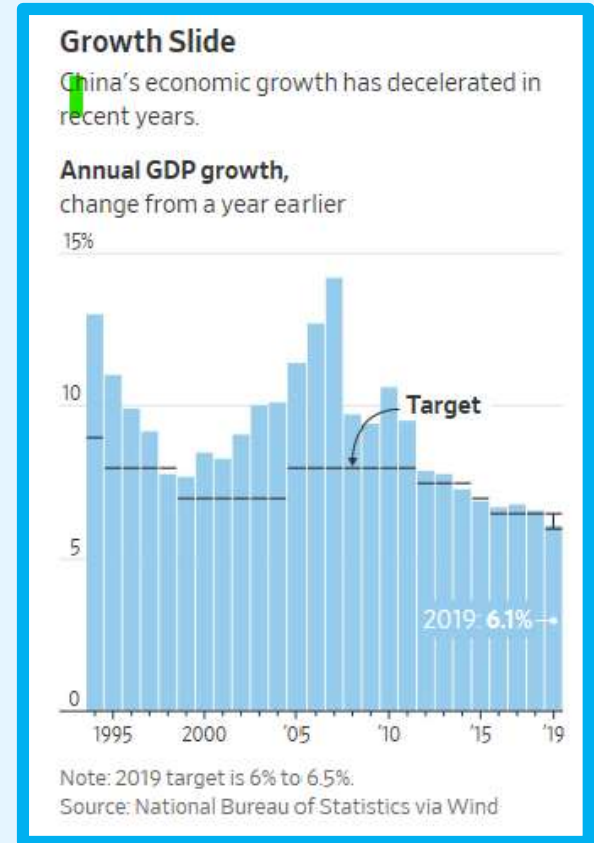
- China is South America's top trade partner and second to U.S. for rest of region
- Reduce risk with loan repayments in crude oil
- Support domestic "going out" objectives expanding trade & employment of excess capacity in steel, construction ...
- Tie contracts to use of Chinese firms and goods
- **Embed China's 5G Internet protocol and surveillance technologies**
- Gain cooperation for China's approach to global governance and more prominent role for "Global South"

China's slide

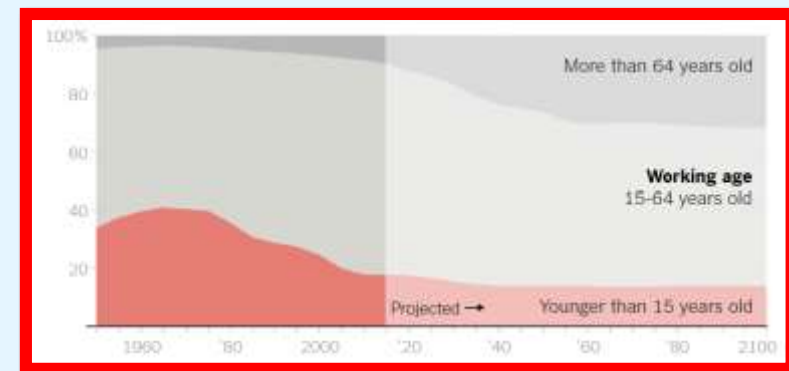
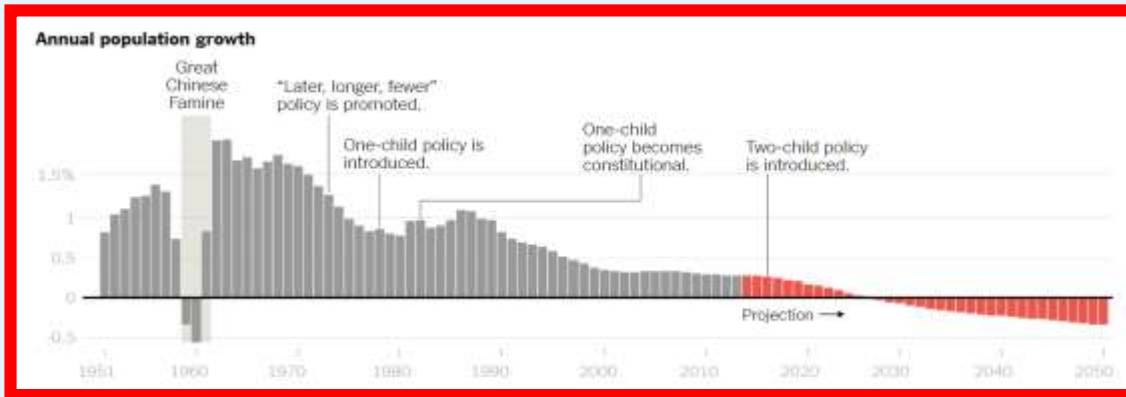
II. Why is China expanding in Latin America?



China's recent GDP slowed to 6% since peaking in 2011 after years of record growth



China's Stock market last decade slid vs. U.S. nearly tripled, Japan more than doubled and Europe's jumped by 64%.



China's population and workforce projected to decline

U.S. has long history of interference



Dislike Monroe Doctrine policy of protecting neighboring countries in its "backyard" from outsiders

Theodore Roosevelt's Big Stick policy and bully pulpit tactics, asserting American dominance over the Caribbean region.

Chronology of 200 years of US Interventions in Latin America

1811-91: Intervention in Chile

1854-1983: Monroe Doctrine to prevent European powers from Latin America

1901: Platt Amendment virtually made Cuba a U.S. protectorate and in 1906-9 governed Cuba.

1903: Backed independence of Panama from Colombia to create Panama Canal

1905: Occupation of Dominican Republic

1909: Backed rebels in Nicaragua depose President José Santos Zelaya

1914 to 1917: Troops in Mexican conflict and Pancho Villa Expedition

1915 to 1934: Occupation of Haiti

1923 to 1928: (Nicaragua) Marines occupied main cities of Nicaragua

1954: CIA helped overthrow Jacobo Arbenz government in Guatemala

1959: CIA attempt to depose Cuban dictator Fidel Castro through the Bay of Pigs Invasion

1961: CIA supported overthrow of Rafael Trujillo in Dominican Republic and later invaded to end civil war

1970-73: CIA fostered Chilean coup d'état of Allende leading to years of dictatorship under Pinochet

1983: CIA repeatedly intervened to prevent right-wing coups in El Salvador

1983: Invaded Grenada and held free elections.

1983: Supported movements in Nicaragua

1989: Invasion of Panama to depose dictator Manuel Noreiga

1993-6: Participated in UN mission to reinstate the elected president of Haiti, Aristide, after a military coup

2003: Aid and counter-insurgency training in war-ravaged Colombia to aid nation-building

Source: http://en.wikipedia.org/wiki/Overseas_interventions_of_the_United_States

China's policy of "non-interference"



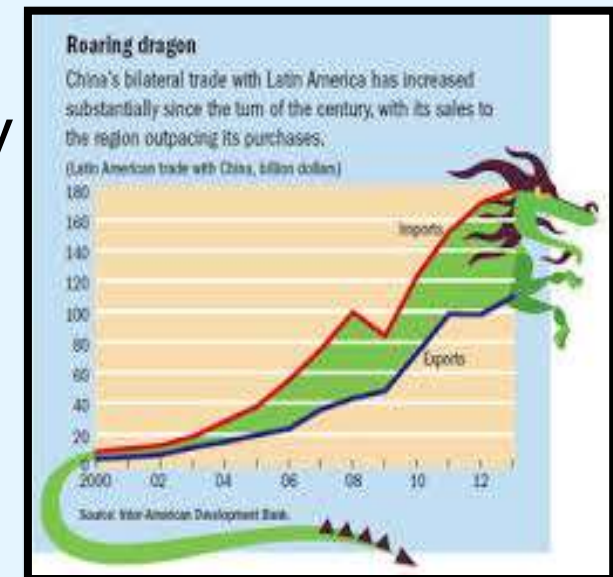
- China touts a policy of noninterference in politics
- Latin Americans have a more favorable view of China than U.S. which has interfered much in past
- China is more friendly & compatible with leftists – especially during “pink tide” rise of socialism
- China invests in projects that U.S. won't such as
 - \$1.4 billion bridge across Panama Canal
 - Argentine railway system



But China is not inexorable nor always beneficial

The mighty Chinese juggernaut has been humbled ... by a virus. While Chinese authorities struggle to control the epidemic and restart their economy, a world that has grown accustomed to contemplating China's inexorable rise was reminded that nothing, not even Beijing's power, can be taken for granted. By Walter Russell Mead, *WSJ*, Feb 3, 2020

- Commodity exports can be “unequal exchange” and heighten dependency and trade imbalances
- Increased competition for domestic industry
- Adverse environmental effects of projects
- Projects not coordinated with locals
- Despite pledge of non-interference, often reinforces current regime



China may be facilitating corruption and weakening democracy



- China extends finance when no publicly purpose stoking allegations of bribery
- Supports leaders pet projects to facilitate their election
- Propping up failed Maduro regime in Venezuela
- Influencing domestic decision-making in sensitive areas such as Internet governance and surveillance equipment
- Debt diplomacy - "China's offers always come at a price," "are imperialistic" and "invests in ways that have left countries worst off," i.e. debt burdened



Worried about China's adverse impacts and influence

- China introduces corrosive capital that generates corruption
- China supports dictator Maduro in Venezuela
- Use of China's cyber equipment presents a security risk



Debt trap diplomacy



- The problem is risks of debts that can't repay - "debt trap diplomacy" that compromises sovereignty
- When countries can't repay the debt, China may take such interests or commodities: for example, Ecuador owes huge debts to China; some 80 to 90% of oil goes to China for next 5-10 years
- But this could also become a trap for China - as the old saying goes, "If you owe \$100 to a bank you have a problem, if you owe \$1 million, the bank has a problem"

U.S. Secretary of State Mike Pompeo: be wary of Chinese investment and influence – "the attractiveness of such investment comes with a cost to sovereignty and may hurt, instead of help, long-term development." AP 2/2/2020



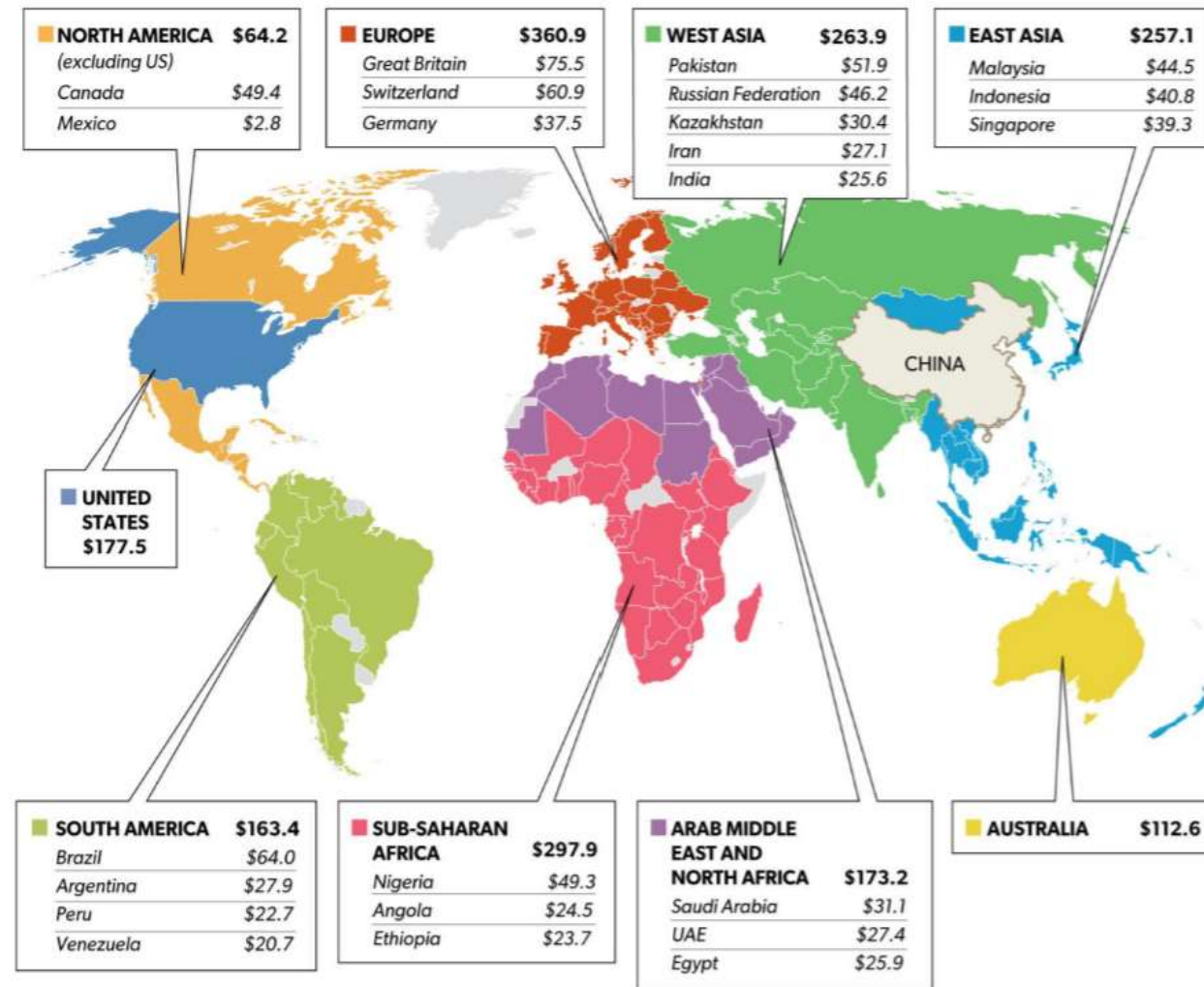
IV. Why is U.S. concerned?

China's investment is large, but not a big as in U.S. or elsewhere

- U.S. bigger than S America \$177 vs \$163
- Brazil 3x Venezuela
- Europe 2X U.S.
- Africa & Middle East @\$471 biggest of all

Map 3. China's Worldwide Reach

Since 2005, the combined value of China's global investment and construction is nearly \$1.9 trillion. More developed countries draw the bulk of investment, with Europe as a whole the leading region. Developing countries such as Pakistan and Nigeria see the most construction activity.



Fareed Zakaria: U.S. shouldn't panic over China



- Many see China as vital threat to U.S.
- China is a repressive regime with thoroughly illiberal policies
- But China has not gone to war, used lethal military force, or supported armed insurgents anywhere in world for three decades and is second-largest funder of UN and its peacekeeping
- U.S. exports to China are up by 527% since 2001 China is largest supplier of goods to U.S.
- China is rising but faces internal challenges of demographic decline and debt.
- China presents a large challenge, but U.S. should keep its cool and patiently pursue a policy of engagement plus deterrence, forcing China to adjust while we adjust to make space for it

China & Latin America

Summary & Conclusions



- How's Latin America Doing?
 - GDP not keeping pace with world, lacks diversification – still commodity based, politics volatile
- Why is China expanding in Latin America?
 - Diversify trade, access commodities, utilize excess capacity, expand global influence...
- Why is Latin American receptive?
 - Big customer, less meddling than U.S., will do projects U.S. won't, more friendly to leftist ...
- Why is U.S. concerned?
 - Great power rival, supports dictators and corruption, concern over debt diplomacy, it's our neighborhood



China's Road into Latin America- competing for influences

- All over Western Hemisphere a new power is making its presence evident
- Traditionally China's Belt and Road project focused on Asia and also investment projects in Africa
- Until recently, China had little interest in Latin America. Now its investment is transforming the region
- This new alignment of China in Latin America and prospect of direct competition poses a challenge to U.S. policy
- China is a new power in Latin America - economically and diplomatically
- But also raising questions about rising debts, creeping authoritarianism and undercutting U.S. influence



China's growing influence

- Latin America is a new priority for China-long have they emphasized Africa and Asia
- Why Latin America now?
 - They want to expand their influence globally
 - They want to do business under China's rules
 - Also for national security and economic interests
- China increased their interest during the early 2000s of so-called "pink tide" movement of rise of socialism in Latin America, especially in Ecuador and Venezuela
- While China expands Trump administration is tending to withdraw around the world



China's Road into Latin America- competing for influences

- In June 2017, Panama made a bombshell announcement
- They were second in Latin America diplomatic recognize China and break diplomatically with Taiwan
- Panama says U.S. wasn't notified in advance because Panama knew it would be hard for us to accept
- Latin American countries say it's necessary to be connected with China's huge market and investment potential
- Dominican Republic and El Salvador followed Panama's recognition of China
- Latin America is seeking to be more assertive and independent after a century of heavy U.S. influence and intervention



China's sophisticated approach

- Countries dropping recognition of Taiwan and recognizing China get windfalls of investments
- Sees Latin America as a part of the “bottom world”
- Persuaded top officials such as president of Ecuador and his cabinet to go to China
- Sophisticated diplomacy – e.g. ambassador to Ecuador speaks excellent Spanish
- Expanded into entire region - bankrolls infrastructure especially in transportation and energy



Latin America says China invests whereas West won't

- E.g. - \$1.4 billion bridge across Panama Canal
- Latin America argues that investments West declines to fund are beneficial
- China funds projects West won't
- E.g., in Argentina, China has invested in railway system West wouldn't
- But Chinese investments also have benefits to China
 - Insist on using Chinese equipment and managers
 - Improving internal transportation will facilitate agricultural exports to China
- Not all projects successful, but only option available



Debt trap diplomacy

- A problem is risks of debts that they can't repay - U.S. calls this "debt trap diplomacy" used to compromise sovereignty
- When countries can't repay debt, China may take ownership or commodities: e.g., Ecuador owes huge debts to China; 80 to 90% of oil goes to China for next 5-10 years
- But this could also become a trap for China - as the old saying goes if you owe \$100 to a bank you have a problem, if you owe \$1 million to the bank, the bank has a problem



China's policy of "non-interference"

- China traditionally touts its policy of noninterference
- But it inevitably gets dragged into delicate situations, e.g. in Venezuela by recognizing leader challenging Maduro
- A controversial project is secret tracking station in Argentina – presumably it is a space tracking station
- But it is manned by China nationals
- Has not created significant jobs in Argentina
- It is suspected of being linked to China's military for spying purposes and has negligible benefits to Argentina



Monroe Doctrine controversy

- During Obama Administration, Secretary of State Kerry announced that “era of the Monroe doctrine is over”
- This was popular in Latin America because they have been critical of Monroe Doctrine implying U.S. would call the shots
- Monroe Doctrine was enacted in 1823 as a warning to Europe not to interfere in Western hemisphere
- Under Trump Administration, John Bolton announced that Monroe Doctrine was “alive and well”
- This signaled a more aggressive and domineering influence of U.S. policy



Despite U.S. warnings, difficult to break ties with China

- In Santiago, Chile in 2019, Secretary of State Pompeo said that Latin America should reject China's overtures
- Cooperating with China was dangerous, would erode democracy and create corruption
- But Chileans responded - not trading with China would be difficult for them
- Latin America argues U.S. is pulling back and thus creating a void which China is filling
- Latin America says they understand risks of dealing with China, but they need to have an alternative as U.S. is pulling back



U.S. recent policy response- the “Build Act”

- In 2019, U.S. enacted “Build Act” which assists private sector investments in 90 countries similar to what China now does
- Development Finance Corp. for public infrastructure combines private and public investment
- U.S. argues that inclusion of private sector is better than strictly government lending



Debate about role of China, but their growing influence is undeniable

- There is a lack of consensus about China
- Some say they act like corporate raiders- come in fire workers, take over and people protest
- Others say they would like to have and need more investments
- Whether future will be cooperation or competition is yet to be determined
- But one thing is clear: U.S. policy must now grapple with China influence all around globe-including our own backyard



Questions about China's growing influence in Latin America

- What are the reasons for China's increasing interest in Latin America?
- Why are Latin American countries interested in dealing with China?
- What are the downsides for Latin America in dealing with China? Does China face any downsides?
- How should the U.S. respond to China's inroads into Latin America?
- Are we now in great power struggle with China?



China's "going-out strategy"

- China's had expansive commercial and investment activity in Latin America past two decades
- This is in support of its "going-out strategy":
 - Overseas engagement by state owned enterprises to promote the export of goods and services and supplement supply of natural resources and foster development of multinational companies
- An early example was China Petroleum Company exploration in Peru in 1994 and in Venezuela in 1997
- Latin America has become a valuable export market for China-trade grew from \$2 billion in 2000 to \$149 billion in 2018
- In aftermath of 2008 global financial crisis, China was seeking alternative markets for decreasing demand from U.S. & Europe

Growing trade

- Latin America has been critical source of natural resources and agricultural commodities- soybeans, crude oil, iron, and copper
- These are for 59% of all Chinese imports from Latin America from 2013-17
- Brazilian and Argentine trade in soybeans has boomed as China needs feed to meet expanding demand for meat
- China also seeks to have greater control over pricing and supply of agricultural products
- It has acquired processing, storage, trading and other agricultural infrastructure in Latin America
- Only 10% of China's oil come from Latin America, but it is seeking a broader diversification of sources



China's policies have catches

- Much of China's oil imports have been backed by loan agreements that require countries to make some of their loan payments in crude oil
- China's uses overseas engagement in support of its domestic policy objectives of economic upgrading, expanding trade and employment of excess capacity in its steel and other sectors
- Chinese have expressed interest in 150 transport infrastructure projects in Latin America since 2002 - including a \$50 billion railway between Peru and Brazil
- Chinese agreements include procurement clauses requiring use of Chinese contracting firms & import of Chinese goods



Both high-profile successes and setbacks

- China has several high-profile energy projects including dams, electricity transmission and a \$38 billion project in Brazil
- But China is also encountered setbacks such as complaints of lack of consultation with affected communities, delays, corruption, etc.
- Venezuela has become an issue; China has recently ended grace period for debt repayments
- China has become a key economic partner for almost every country in Latin America
- And it still looks to the region for markets, resources and opportunities to engage its firms

China's engagement in high-tech and strategic materials

- China is pushing its 5G Internet protocol, its surveillance technologies, and investments in lithium production—a major component in battery manufacturing
- China has invested through 2018 a cumulative \$110 billion in region
- But if China's economy slows down, as it has recently, there may be a reduction of Chinese investments
- But in view of China's resource, food and energy shortages, trade will continue to be focused on them



Chinese policy toward Latin America

- China is advancing its own interests while addressing some of Latin America's priorities
- Seeking cooperation for boosting clout of global South geopolitically
- Asia Infrastructure Investment Bank (AIIB) is being used for multiple national cooperation
- Expanding trade, investment and financial cooperation with Latin America
- Although still particular attention on energy and resources, infrastructure construction, agriculture
- Now, broadening to manufacturing, scientific and technological innovation, and information technologies

China's presence in Latin America consists of diverse interests and motivations

- Diverse firms in region including commercial banks
- Investing in private equity
- Active in technology-including advanced technologies such as artificial intelligence
- A local group of farmers from China have purchased 16,800 hectares of land in Brazil for soybean production



China's political agenda

- China is seeking recognition of its “market economy status” and support for its policies on Taiwan, Tibet, South China Sea ...
- Taiwan has been a major factor - had achieved 15 allies in Latin America by 2008
- Competition with China increased after 2016 election of Taiwan's pro-Independence party
- China has been able to lure three countries - Dominican Republic, El Salvador, and Panama to shift recognition from Taiwan to China



Is China buying recognition?

- China gave support after a shift recognition from Taiwan
 - \$3 billion project plus \$600 mill loan in Dominican Republic
 - Panama is negotiating a free-trade agreement with China
 - El Salvador has negotiated major projects including a special economic zone which would encompass 14% of country
- Taiwan also is acting to maintain its recognition in Guatemala and Honduras
- Taiwan is providing more extensive support to governments that support Taiwan's diplomatic recognition while downgrading its ties with those that don't



China's soft power initiatives

- China's "South-South agenda" is to increase its soft power and international clout
- This includes Confucius Institutes, delegations to foreign-language outlets, relationships with Latin American regional organizations ...
- Touting a strict policy of noninterference in domestic affairs



China may also be facilitating corruption

- China extends finance when no publicly purpose stoking allegations of bribery
- Supporting leaders pet projects to facilitate their election
- Propping up the failed regime in Venezuela
- Increasingly capable of influencing domestic decision-making in sensitive areas such as Internet governance and surveillance equipment



Not always a win-win relationship

- China is South America's top trade partner and second to U.S. for rest of the region
- Commodity exports criticized for decades in Latin America as creating "unequal exchange", "resource curse" & "dependency"
- Domestic industries facing increased competition from China
- In some cases, low-to mid-skilled Chinese workers have come to Latin America
- Adverse environmental effects of projects also criticized
- There's also growing trade imbalances with China



US-China-Latin America “triangular” relations

- U.S. has recently sought more direct role in shaping the evolution of China-Latin America relationships
- U.S. complains “China’s offers always come at a price” and describes China as imperialistic, and saying “China has invested in ways that have left countries worst off”
- U.S. argues that China may introduce corrosive capital or generate corruption
- Trump administration’s efforts to portray China in a bad light have been criticized in the region
- China’s continued support of Maduro in Venezuela is being criticized by U.S.
- China’s growing cyber operations also have been criticized



Unintended side effects of US-China conflicting relationship

- U.S. is concerned about losing influence competitiveness and control in Latin America as China grows its presence
- According to PEW research polls, Latin America's top countries now have a more favorable view of China than U.S.
- But Trump's trade war with China has benefited Brazil which is boosted its soybean exports to China
- Mexico also has benefited as some companies have relocated their production from China to Mexico
- But U.S.-China trade conflicts have had at least a short-term negative effect on global economy



China has its drawbacks, but U.S. is not stepping up to the plate

- There is some drawbacks associated with China-especially their lack of due diligence on their projects
- But U.S. pressure to limit China could also hurt Latin America's growth
- Experts recommend that U.S. should strengthen ties with Latin America rather than stressing China's flaws
- China seems to recognize developmental needs of Latin America better than U.S. does at present

