China's geo-economic role in Latin America

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In Latin America, China's role is more low-key and deferential than in some of the regions geographically closer to the Asian power. Although the region is also the target of Chinese diplomatic and military initiatives, Latin America mainly feels the impact of an increase of Chinese companies operating in the region and growing trade with China, which is slowly leaving its mark on the economies of Latin America and the Caribbean.

In the 37 years since Deng Xiaoping opened the People's Republic of China to the global economy, the country's engagement with Latin America and the Caribbean has undergone three important transitions: First, in 2001, the acceptance of China into the World Trade Organization marked the beginning of the geometric expansion of Chinese trade with the region, eventually eclipsing the battle between China and Chinese Taipei, which had previously dominated the relationship. Second, in 2009, investment in, and operations by, Chinese companies in Latin America began to take off, giving China a growing stake in the internal affairs of the countries where they were operating. Third, in 2015, a confluence of decelerating Chinese growth and difficulties with China-backed projects and regimes began to move the region toward a more balanced and pragmatic attitude regarding engagement with China and its potential contribution to regional development.

The twentyfold growth of China's bilateral trade with Latin America and the Caribbean – from $15 billion in 2001 to $288.9 billion in 2014[19] – and the receipt of more than $120 billion in Chinese loans since 2005[20] have significantly impacted the agendas of political and business leaders in the region, captivating them with the possibilities afforded by leveraging China's resources and accessing China's substantial market, yet also generating resistance from those whose businesses are threatened by Chinese competition.

The dynamics of the increasing number of China-based companies operating in the region differ by sector. Chinese petroleum and mining companies, for example, have primarily entered the region through mergers and acquisition, whereas in telecommunications, key Chinese actors have grown their presence "from the ground up". Loan-backed China-based construction initiatives have been most successful in Venezuela, Ecuador and the Caribbean, whereas manufacturing investments involving Chinese companies have occurred primarily in Brazil and Mexico, which both have large internal markets and provide access to important markets of neighbouring countries through NAFTA and MERCOSUR.

As Chinese companies have established operations in the region, their managerial and technical staff have been challenged by a lack of familiarity with the local language, culture and formal and informal rules for doing business, which had to be learned rapidly on the ground.

A changing Latin American economy

Engagement with China also has had an impact on the Latin American economy more broadly. With respect to economic structure, Chinese purchases of the region's commodities, reinforced by select Chinese investment in their production, has increased the role of commodity exports in the region's economies.

Expanding trade with China and other Asian countries is transforming the region's infrastructure, driving the expansion of Pacific coast ports, improved roads to connect them with the interior of the continent, the widening of the Panama Canal, and improvements to Caribbean maritime infrastructure to accommodate the new large ships that will pass through the canal.

Engagement with China is also transforming the trade, financial and intellectual infrastructure of the region, including bilateral free trade agreements signed between China and Chile, Peru and Costa

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[19] *Direction of Trade Statistics*, International Monetary Fund, June 2014, p. 33.
[20] "China-Latin America Finance Database," Interamerican Dialogue, accessed January 10, 2016, http://thedialogue.org/map_list

Rica. Such transformation also includes numerous government-to-government agreements with China on topics from phytosanitary issues to investment protection, as well as the proliferation and strengthening of China-oriented programmes in Latin American and Caribbean universities.
Expanding Chinese commerce with the region has also transformed the dynamics of Latin American finance, including currency swap agreements in Argentina and Brazil, and contracts denominated in renminbi.

An undesirable by-product of greater commerce with China is expanded transpacific criminal activity, with immigrants, contraband goods, arms and precursor chemicals for drugs flowing from Asia to Latin America, while illegal mining products and drug money to be laundered moves in the other direction.[21]

Disillusion and pragmatism
China's relationship with the region is arguably now entering a new phase, marked by diminished expectations and greater pragmatism on both sides. The deceleration of China's GDP growth to 6.8%, and perhaps less, has contributed to falling international commodity prices, imposing costs felt particularly by those states which have most benefited from exporting petroleum, mining and agriculture products to China. Weakening industrial demand in China may lead its petroleum and mining companies to postpone programmed investments in Latin America, the Caribbean and elsewhere, where the terms of their concessions allow them to do so.

Apart from a severe crisis in the Chinese financial system, the same weakness in China domestic markets is also likely to motivate Chinese companies to more aggressively pursue loan-financed construction projects in the region, as well as investment in manufacturing facilities in pursuit of access to Latin American markets.

Falling revenues from exports to China, fewer Chinese petroleum and mining investments, and greater competition from Chinese product exporters and construction companies will increase the degree to which China is seen as a competitor, more than a source of opportunity, in Latin America and the Caribbean.

The tempering of Latin American expectations will be reinforced by the substantial number of Chinese projects in the region which have either not been realized or have experienced considerable difficulties. Examples include China's announced, but so far unutilized $35 billion development fund for the region, undone infrastructure projects such as the Nicaragua Canal and proposed "dry canals" in Colombia, Honduras, Guatemala and Mexico, unrealized refinery modernization projects in Costa Rica, Ecuador and Cuba, the Mexico City-Queretaro Railroad in Mexico, and the Rositas hydroelectric dam in Bolivia.[22]

Examples of violent resistance to Chinese extractive industry projects in the region include oilfields in Tarapoa and Orellana, Ecuador, Caquetá Colombia, and a long list of violent incidents against Chinese mining projects in Ecuador, Peru, Mexico and Bolivia, among others.

At the same time, China is increasingly only one of a myriad of suitors in the region with sometimes competing, sometimes complimentary interests, in an increasingly complex environment shaped by an ever denser web of bilateral free trade agreements across the Pacific and (pending ratification by the US Congress) the multilateral Trans-Pacific Partnership.

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[21] For a detailed discussion, see R. Evan Ellis, "Chinese Organized Crime in Latin America," *Prism*, Vol. 4, No. 1, December 1, 2012, pp. 67-77. See also Arron Daugherty, "Colombians Charged in Massive China-based Money Laundering Scheme," *Insight Crime*, September 11, 2015, http://www.insightcrime.com/news-analysis/colombians-charged-china-drug-money-laundering-scheme.

[22] R. Evan Ellis, *China on the Ground in Latin America: Challenges for the Chinese and Impacts on the Region*, New York: Palgrave-Macmillan, 2014. See also *La Inversion Extranjera Directa en America Latina: 10 casos de estudio*, Enrique Dussel Peters, Coord., Mexico City: UNAM, 2014, http://dusselpeters.com/73.pdf. See also, see "Nicaragua's $50bn canal plan delayed," *Financial Times,* November 27, 2015, http://www.ft.com/cms/s/0/3fa3ce82-9423-11e5-bd82-c1fb87bef7af.html#axzz3uzGqydJh

As with Latin America's experience with other extra-hemispheric actors, the region's engagement with China will produce winners and losers, with political and business leaders learning to temper both expectations and fears, assuming informed risks, in pursuit of limited but tangible gains.

**The author is not a member of the Global Agenda Council on Geo-economics.*