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Chinese and East Asian Engagement in Latin America

KEY POINTS

- Despite diplomatic relations stretching back to the mid-20th Century in many cases, trade relations between China and East Asia and Latin America only really began to take off in the 1990s.
- China's bilateral trade with the region expanded from \$14.6 billion in 2001 to \$300 billion in 2013, and the motivations for its recent increased interest in the region are overwhelmingly commercial.
- Latin America is an important source of raw materials and commodities that China needs for its own economic development, in particular soya beans (for animal feed), copper, and oil.
- Taiwan, Japan and South Korea also have important economic relationships with countries in Latin America and the Caribbean.
- The region contains 12 of Taiwan's 22 diplomatic allies, and has played a major role in the competition for diplomatic recognition between China and Taiwan.
- Although China is primarily interested in the commercial and resource opportunities afforded by the region, involvement in forums such as China-CELAC, projects such as the Nicaragua Grand Canal, and mil-mil cooperation and arms sales allow China to develop greater political influence, and to use its presence as a counterweight to US presence in the Asia Pacific.

DETAIL

China's increased engagement in Latin America has coincided with its global rise to become the world's second largest economy, with the political and economic leverage that entails. Between 2005 and 2013, China's largest loans in the region went to Venezuela and Argentina. China has publicly supported the latter's claims to the Falklands Islands.

China does not attach Western-style policy conditions to their loans, but often require that borrowers contract Chinese firms, buy Chinese equipment, and sometimes sign oil and other commodity sale agreements that require nations to send these goods to China in exchange for the loans instead of local currency. As in some African countries, there is evidence that the import of Chinese labour practices has resulted in a race-to-the-bottom effect on working conditions.

A brief history of Chinese engagement

Chinese economic engagement with the Americas dates back to the days of Spanish and Portuguese colonialism, when European traders brought textiles, porcelain and other goods with them from East Asia. Chinese immigration to the region began in

the middle of the nineteenth century, when male labourers arrived to work in agriculture and on railroad construction. It is difficult to accurately determine the number of Chinese nationals and people of Chinese descent currently residing in the region, but estimates suggest that Peru has 60,000 Chinese nationals, Venezuela has 50,000, Mexico has 30,000 and Brazil has as many as 100,000. A further 200,000 people of Chinese origin are estimated to be living in the Caribbean. Cuba forged early diplomatic relations with Beijing in 1960, with most others in the region following suit in the 1970s. However it was not until former Chinese President Hu Jintao's 2004 trip to the APEC summit in Santiago that China's presence in Latin America really took hold. In the decade since, the vast majority of Chinese activities in the region have been commercial in nature. However, the region has also experienced a steady increase in political, military, cultural, and diplomatic ties with China, and governments hostile to the US in the region, such as that of Hugo Chavez and Nicolas Maduro in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia, have publicly trumpeted China as an alternative to the US and Western institutions.

In 2008, China published its first-ever policy paper on Latin America and the Caribbean, which noted that the region has "abundant resources, and the region enjoys a good foundation for economic and social growth and huge development potential".

In January 2015, fifteen years after the inaugural meeting of the Forum on China Africa Cooperation (FOCAC), China hosted the first ministerial meeting of Forum of China and the Community of Latin American and Caribbean States (CELAC). CELAC was established as an alternative to US-dominated forums such as the OAS, and as such excludes US participation. The meeting discussed issues including politics, diplomacy, trade, and culture, and President Xi Jinping used the opening session to pledge to double annual trade between China and Latin America to \$500 billion over the next decade.

What does China want?

China's motivations for its recent increased interest in the region are overwhelmingly commercial. Latin America represents a relatively stable part of the world to which China can export manufactured goods and from which it can source a range of raw materials and commodities that are needed for its own economic development. In particular, the region is a vital source of soya beans (for animal feed), copper, and oil. The vast infrastructure projects that are often linked to the extraction and transportation of these raw materials also provide a vital space for Chinese State Owned Enterprises to operate as the domestic economy becomes saturated.

There are also political motivations behind China's engagement, including the seeking of support on certain issues in international organisations, such as the United Nations. The 2008 Policy Paper said that "China stands ready to work with Latin American and Caribbean countries to strengthen the role of the United Nations, make the international political and economic order more fair and equitable, promote democracy in international relations and uphold the legitimate rights and interests of developing countries. China supports a greater role of Latin American and Caribbean countries in international affairs."

Although less significant since the two sides agreed to a truce following Taiwan's change of government in 2008, the region has played a major role in the competition for diplomatic recognition between China and Taiwan. Twelve of Taiwan's 22 diplomatic allies are in Latin America and the Caribbean, more than in any other

single region, and include Nicaragua (where a Chinese-funded canal has been proposed), Panama (site of the existing canal), and Haiti (where a number of Chinese military police have been deployed as part of United Nations peacekeeping forces since 2004). The 2008 Policy Paper stated that “the One China principle is the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organizations. The overwhelming majority of countries in the region are committed to the one China policy and the position of supporting China's reunification and not having official ties or contacts with Taiwan.”

What does Latin America want, and what does it get?

China offers first and foremost a market for Latin American commodities. The resulting wealth created over the last 12 years has been a huge source of the funding for social programmes in many countries, thereby contributing to political stability that might otherwise have been strained. But while this has undoubtedly brought benefits to some groups in some countries, it has also brought competition, within the region, for locally-produced manufactured goods, and has resulted in a heavy reliance on commodities rather than a focus on diversification and industrial development.

Hu Jintao's landmark 2004 trip to the region included announcements of tens of billions of dollars of proposed Chinese projects, and also highlighted China's expanding commercial engagement, including bilateral trade that had expanded from \$14.6 billion in 2001 to \$300 billion in 2013. This trade, however, is heavily skewed in Beijing's favour. Latin America has a \$65 billion trade deficit with China and exports much lower value goods to China than vice versa. As is increasingly the case among China's trading partners, Latin America needs China's markets much more than China needs theirs. On the other hand, the US remains a far more important trading partner for Latin America, and this is likely to continue as exports to China from some countries in the region have started to decline, partly due to lower commodity prices.

Engagement by other Asian countries

The development of trade between other Asian countries and Latin America follows a similar trajectory to that of China. Before the 1990s there was little trade. Latin America, whose goods were destined for the large North American market, viewed Asia as a poor region, riddled with economic crises and posing high risks for business. Transport connections between these geographically remote regions were poor, trade and language barriers were high and few cultural, diplomatic and business ties existed.

However, trade between Asian and Latin American countries has more than doubled over the past decade, reaching a historic high of over \$500 billion in 2014. This figure is expected to grow to at least \$750 billion by 2020. Growth in interregional trade was visible during the global financial crisis of 2008-09, when the relationship provided a safe haven from declining markets in industrial economies. Another factor causing growth was buoyant demand for Latin American commodities from India and the ASEAN economies, as well as from China.

The spread of free trade agreements (FTAs) between the two regions has been a key driver for this growth. These agreements enhance market access, rules-based trade and business confidence. In 2004, only two FTAs (South Korea–Chile and Taiwan–Peru) existed. This figure increased to 9 in 2007 and to 22 in 2013. By 2020 there are likely to be at least 25 FTAs. Taiwan is Asia's most proactive Latin America trade

pact negotiator, having concluded five FTAs. Singapore has signed four deals, and China, Japan and South Korea each have three FTAs. The Japan–Mexico FTA provides access to the US via the North American Free Trade Agreement. Meanwhile, Chile has eight FTAs with Asian economies and Peru has five.

As of 2014, twelve countries¹ from the Asia Pacific and Americas regions have been involved in negotiations for the proposed Trans-Pacific Partnership (TPP). China has expressed its “openness” to the idea of joining at some future point, but it does not currently meet the standards required in terms of definitions of free trade and open markets.

South Korean engagement with Latin America and the Caribbean dates back to 1948 when the majority of countries in the region recognised it as the legitimate government on the peninsula. Colombia participated in the Korean War, while Mexico and many others in the region sent medicine and aid. Economic and trade relations expanded in the 1990s due to its status as a forward base for indirect exports to North America and Europe. As Latin America emerged as a favoured region for investment, many Korean companies rushed to launch their businesses in the region.

South Korea has actively pursued FTAs; a Korea-Chile FTA was signed in February 2003 and saw the trade volume increase from \$1.8 billion to \$7.3 billion in its first six years. A Korea-Peru FTA was signed in March 2011 and a Korea-Colombia FTA was signed in February 2013. Negotiations for similar agreements with Mexico and MERCOSUR are planned.

Japan’s trade with Latin America has doubled in the past 10 years and the number of Japanese companies with newly established offices in Latin American and the Caribbean has increased by 200 in the last five years. This is a result of initiatives including numerous economic frameworks including economic partnership agreements (EPAs) with Chile, Mexico and Peru (a Colombia EPA is under negotiation), an investment treaty with Peru (a Colombia treaty has been signed and negotiations are underway with Uruguay), and tax treaties with Brazil and Mexico. Japan was also the largest source of foreign direct investment (FDI) last year among Asian countries in the region; globally, Japan was the fourth-largest FDI source for Latin America and the Caribbean, representing approximately 4 percent of all FDI to the region in 2012.

In contrast to China’s heavy focus on raw material extraction, Japan’s trade and investment in the region has focused on strengthening capacity building and increasing technological transfer.

Military cooperation

Over the past several years, China has also expanded its military ties with Latin America in several ways. High-level trips by Latin American defence and security personnel to China and visits by their Chinese counterparts have become commonplace and the volume and sophistication of Chinese arms sold to the region has increased. Officer exchange programs, institutional visits, and other lower-level ties have also expanded. In 2011 the People’s Liberation Army’s hospital ship, the *Peace Ark*, conducted a 105-day tour of Latin America and the Caribbean, bringing medical treatment and projecting soft power to the region. Chinese military personnel have begun participating in operations in the region in a modest, yet symbolically

¹ Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam are currently involved in negotiations to establish the TPP

important manner. According to Dr Evan Ellis, Latin America expert at the US Army War College Strategic Studies Institute, China also has a low-profile but important physical military presence in Latin America, including military police in Haiti as part of the United Nations peacekeeping force, as well as a reported presence in at least three Soviet-era monitoring facilities: Lourdes, Bejucal, and Santiago de Cuba. China also took part in the UN's November 2010 *Angel de la Paz* humanitarian exercise in Peru.

In the short term, however, such activity does not seek to achieve formal alliances or a permanent military presence in the region, but rather to advance commercial and political objectives to include increasing China's understanding of, and influence within, Latin American governments.

Conclusion: Strategic limitations

Despite this increase in mil-mil activity, the focus remains commercial, and how strategically important the region is to China, beyond raw materials and South-South rhetoric, is debatable. Jin Canrong, an international relations expert at China's Renmin University, says that Washington's Asia Pivot strategy "has achieved little" and it is now paying closer attention to China's activities in Latin America, pointing to the US's recent change in diplomatic policy towards Cuba as evidence. Zhang Jiazhe, a researcher with the Shanghai Academy of Social Sciences, however, feels that the US will "tolerate" China's presence because "bilateral co-operation between China and Latin America mainly focuses on economy and trade".

Latin America and the Caribbean have been notably absent from President Xi Jinping's landmark New Silk Road initiative, which stretches over 8,000 miles from China to Europe, crossing the Eurasian land mass and even venturing into Africa. This "One belt, one road" initiative has become the centrepiece of Beijing's foreign and trade policy toward countries along the route. Nathan Beauchamp-Mustafaga, writing in the Jamestown Foundation's China Brief, says that for Latin America, the New Silk Road appears to be merely a catchphrase used by some sections of the Chinese media, not officials, to include the region within Beijing's overarching strategy. According to a map released by state-run Xinhua News Agency in May 2014, the New Silk Road does not extend to Latin America.

Xue Li, a director at the Institute of World Politics and Economics under the Chinese Academy of Social Sciences argues that the New Silk Road's "main objective is to establish cooperative networks in Europe and Asia," so "Latin America and Africa are not as important for China's 'One belt, one road' strategy as Eurasia." The region is "far away, with lots of US influence, weak economic connections, obvious cultural differences and no way to connect it [to China] via roads, making China-Latin America relations overall a weaker grade than China-Africa relations." In geopolitical, as well as practical, terms it is easier for China to go west through Central Asia and southeast into Asia than east across the Pacific; China remains strategically constrained by the so-called first and second island chains, and Taiwan, Japan and the US would present clear obstacles to any such ambitions in the region.

China is particularly aware of US dominance in the region, and does not wish to upset Washington in its own backyard, although some analysts have theorised that Chinese influence in the Caribbean is a counterweight to US influence in Taiwan. This dominance and influence is far greater than European influence in Africa, according to Xue, who goes on to suggest that China is establishing "partnerships"

with Latin American countries, but will shy away from anything politically stronger.