

Latin America's Increasing Relationship with China, Where It is Heading and How It will Affect the Region

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1. Introduction

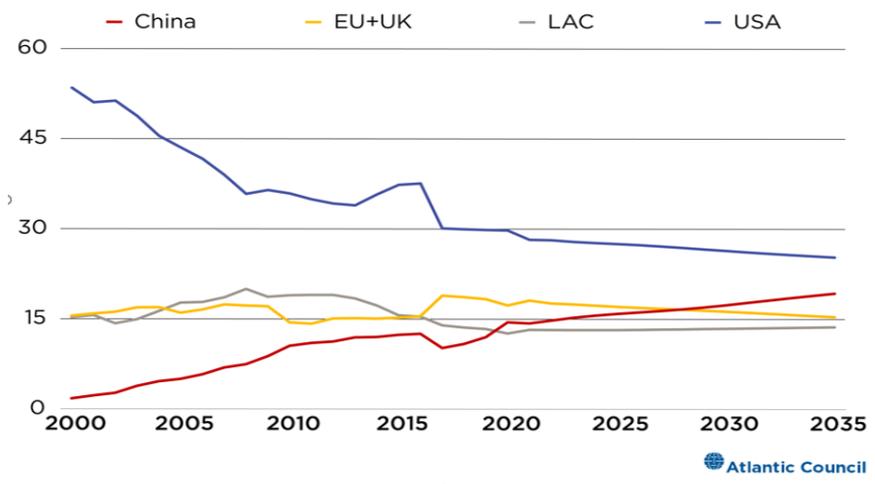
China presence in the Latin America economy is rapidly increasing, and already for several countries China has become its main trade partner and one of their biggest investors. This is in sharp contrast with 20 years ago, when China presence in the region was very small and the main partner of Latin American countries was the United States. And the presence of China will increase because many Latin American countries need markets for their commodities and capital for investment.

What implications will bring the growing presence of China in the region? The answer becomes more important as the present competition between China and United States will continue and probably increase. United States, US, has traditionally been the main partner, but for an increasing number of countries in the region China is replacing the US. In this article it will be seen what this will mean for international business.

2. China and United competition in Latin America

As can be seen in Figure 1, in the year 2000 US, was the dominant partner of Latin American countries, with around 52% of total trade of the region and China participation was quite small, perhaps less than 3% of the total. But in 2020 US participation has decreased to 30%, and China has increased to 15%. And according to a projection, in the year 2035 US share will decrease to around 25% and China will increase to around 20%.

Figure 1: LAC's Main Trade Partners Through 2035



Source: Prazeres, T., Bohl, D., Zhang, P., May 12, 2021, Atlantic Council: "China-LAC Trade: Four Scenarios in 2035" <https://www.atlanticcouncil.org/in-depth-research-reports/china-lac-trade-four-scenarios-in-2035/#China-LAC-2035>

So, at present US is the main partner of Latin America and China is the second (if excluded the group of countries in the European Union). But in fact, if Mexico is excluded from the calculus, it can be said that already China is the dominant partner. In 2019 Latin America exported to US around 444 billion dollars, and to China 123 billion dollars. But, as explained below, Mexico export mainly to US. If we exclude Mexico exports to US and China from the total amount the region exported to both countries, Latin America exported only 85 billion dollars to US but to China exported around 116 billion dollars in 2019 (World Bank 2021: World Integrated Trade Solutions).

Mexico, and countries in Central America and the Caribbean, have very strong links with US. Mexico, which is the biggest exporter in Latin America (with around 46% of the total), for example in 2019 sold around 80% of its goods to US, and to Canada around 3%, its two partners in the United State-Mexico-Canada Agreement, USMCA, but only 1.5% to China (World Bank 2021: World Integrated Trade Solutions). But, as can be seen in Map 1, already China presence in South America is very strong and for several countries, it is their biggest trade partner. As said before, projected to 2035, China as partner of the region will become more important.

Map 1: Latin America trade in goods with China and US from 2020 and projected to 2035.



Source: Prazeres, T., Zhang, P., 17 June 2021, World Economic Forum; “China’s trade with Latin America is bound to keep growing. Here’s why that matters” <https://www.weforum.org/agenda/2021/06/china-trade-latin-america-caribbean/>

The main reason why China is and will continue to be for many countries in the region their main market for their goods is that they, with Mexico exception, mainly export natural resources, being these mineral and petroleum, or foodstuff. For example, for the year 2019, Peru, for which China is its main export destination with around 29% of the total and US is in second place with around 12% (World Bank 2021: World Integrated Trade Solutions), around 51% of its exports are primary goods (World Bank 2021: World Integrated Trade Solutions), and 33% of Peru’s exports are classified as intermediate goods, but many of these goods are also raw materials with only a little processing. In the case of Brazil, in which China is also its main export destination with around 28% of

the total and US is in second place with around 13%, around 50% of its exports are also primary goods (World Bank 2021: World Integrated Trade Solutions). And China is the biggest importer of commodities in the world. Given the industrial structure of many countries in Latin America, and the abundance of natural resources in the region, they have comparative advantage mainly in exporting commodities, and this probably will not change in the future.

Regarding Foreign direct investment in the region, FDI, China presence has also increased in the last years. Again, in the year 2000 China position as investor in the region was very small, but it is now the second or third biggest investor in several countries. For Peru for example, of the total FDI invested in the country by the end of the year 2020, around 26% is from China. Up to the year 2020 China has invested around 30 billion dollars in Peru, of a total amount of FDI of 116 billion dollars in Peru (Scissors, D., January 2021 and UNCTAD, 2021).

But the competition between China and US is having its effect for international business in the region. Since the Trump administration US has tried to increase its presence in the region to slow and prevent China increasing its own.

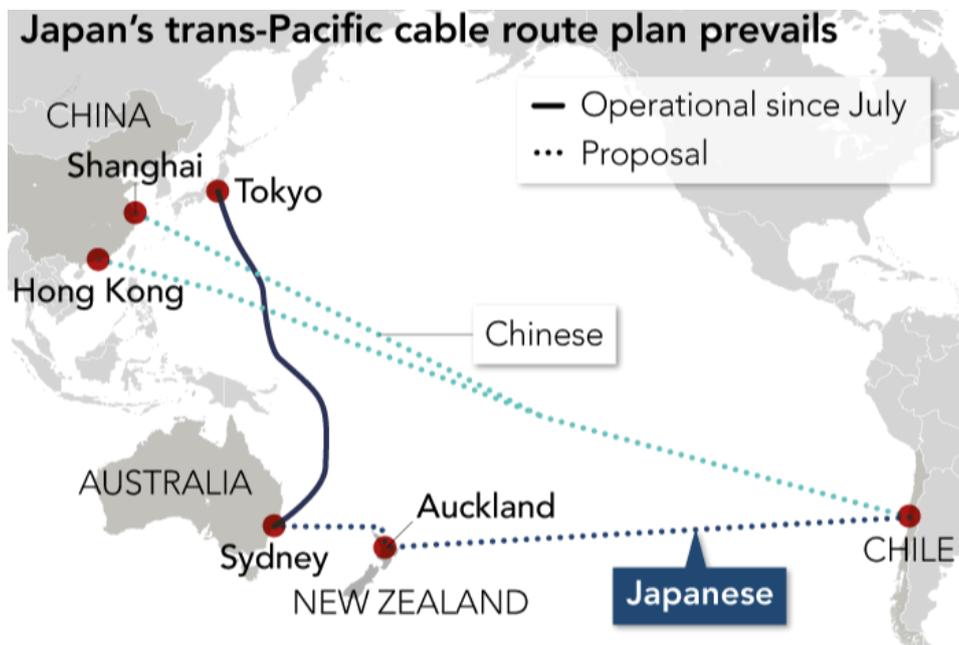
For example, China through its Belt and Road Initiative, BRI (for which 19 countries in the region have already joined), is increasing its presence, especially in the construction of infrastructure. One case in point is the construction of a mega port in Peru, the Chancay port, by Cosco Shipping, that will need a 3-billion-dollar investment (Labrut, M., November 15, 2021). One way US is trying to compete with China in this field is through its initiative of "Growth in the Americas", where it aims to mobilize mainly private sector resources to the building of infrastructure of all types (United States Department of State).

But for countries in the region China offers loans to build infrastructure, and the Chinese government is known to have plenty of resources for its BRI. US government itself will not invest much money but will promote private investment for infrastructure. So perhaps in this field China has an advantage because it can also mobilize investment in the region by its companies, many of which are state-owned, as is the case of Cosco.

But as US cannot match China in the financing of infrastructure, it is using other tools to prevent China growing presence in this field. One of them is the pressure that it exerts in several countries to avoid them using China money or allowing its companies presence. One of such case is what happened with Chile project to build a transoceanic cable project to connect with the Asia-Pacific region. Initially it appeared that China would build the undersea cable, as Huawei was the company that in 2017 carried out the pre-feasibility study.

But in 2019 Chile began receiving pressure from US, including a visit by Mike Pompeo, then Secretary of State, who told Chile “to refrain from contracting Huawei for 5G technology, as part of a Washington campaign against the Chinese company and the risk of Beijing collecting sensitive data” (Bnamericas, July 31, 2020). The same thing Pompeo said to other countries in its tour to Latin America in April 2019 when he visited, besides Chile, also Peru, Colombia, and Paraguay. And US is exerting pressure in other Latin American countries to exclude Huawei 5G technology and equipment from the region (Stuenkel, O., May 10, 2019). In the case of Chile, China proposal was left out and instead Japan proposal was accepted. See Map 2.

Map 2: Japan’s trans-Pacific cable route plan prevails



Source: Hirose Y., Toyama N., July 29, 2020 “Chile picks Japan’s trans-Pacific cable route in snub to China” recovered 11 December 2021, Nikkei Asia <https://asia.nikkei.com/Business/Telecommunication/Chile-picks-Japan-s-trans-Pacific-cable-route-in-snub-to-China>

Another example of US's actions to prevent China presence and influence in the region is what it did with Ecuador loans that this country owed to China. US helped Ecuador to repay billions of dollars to China, in exchange for excluding Chinese companies from its telecom networks (Financial Times, January 14, 2021).

Also, because of its trade dispute with China, US is trying to bring back some production that went to China, the so-called reshoring. But many agree that this is not realistic because, for example, wages in US are much higher than in China. Instead of this, US is also promoting nearshoring, this means, to bring production from China to nearby countries. And this could benefit Latin American countries. In fact, because of the trade dispute but also because wages in China are increasing, some companies are already shifting production from China to Mexico (Bowman, R., February 23, 2021).

3. Conclusion and Future Expectations

As have been said China presence in Latin America, already big, will increase in the future. China market is attractive for Latin America countries because it demands natural resources and foodstuff, that are the region's main goods exported. And China involvement in the construction of infrastructure will also increase, as also will investment by its companies in every field in the region.

But China presence has brought US response and through its initiative "Growth in the Americas" is trying to mobilize private sector resources to invest in infrastructure in the region. Also, it is exerting pressure in the region to avoid them adopting 5G technology and equipment from Huawei.

What will mean the above-described scenario for international business? What are the opportunities and challenges facing international business? Three options can be mentioned:

First, US pressure forced Chile to avoid using China money and technology in its project to build a trans-Pacific cable, and in this case, Japanese companies could benefit because Japan proposal was adopted instead of China. As the region will have to adopt 5G technology sooner or later, and China presence probably will be limited by US action, opportunities are open for companies from other countries, for example for Samsung or Ericsson, that can be alternatives to Huawei.

Second, United States is responding to the China's BRI also by partnering with other countries. For example, in South Asia, the US, Japan, and Australia are coordinating their overseas infrastructure efforts with that aim (Rajah, R., April 2020). And in November 30, the European Union announced plans to mobilize 300 billion euros in public and private funds by 2027 to finance EU infrastructure projects abroad, in a move seen also as a response to China's BRI (Stuart L, Tamma P., Posaner J., November 30, 2021).

Third, United States objective of bringing back production from China to nearby countries, in the so-called nearshoring, present opportunities for companies to set up operations in the region and from there supply the US market.

In summary, China increasing participation in Latin America, and the United States response, could open opportunities for other countries companies. Besides this, the region need for capital and investment will not be satisfied by China and US alone, and in this sense companies from other countries will find a place to participate in Latin America development.

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