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## CHINA'S INSERTION IN LAC AND ITS IMPACT ON RELATIONS WITH EU- ROPE

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*China's insertion in LAC and its impact on relations  
with Europe*

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# CHINA'S INSERTION IN LAC AND ITS IMPACT ON RELATIONS WITH EUROPE

Fabián NOVAK & Sandra NAMIHAS\*

## 1 China's insertion in LAC

Since the beginning of the 21st century, China has brought to bear in Latin America and the Caribbean (LAC) a soft power strategy to penetrate the subcontinent guided by several criteria (Nacht, 2013, p.142, Serbin, 2016, p 40) including:

- a) the need to meet its great internal demand for food and energy;
- b) the need to open new international markets, including LAC, for its manufactures;
- c) containing Taiwan's strategy to get new recognition as an independent state throughout the region; and
- d) turning LAC into a political ally in line with its vision of gaining major power global dominance and positioning.

China's insertion in LAC is not the result of happenstance. Rather, it follows a specially designed strategy that takes into account Latin America and the Caribbean's peculiarities, and pursues geopolitical objectives with the fundamental purpose of building a strategic partnership. This strategy has been captured in successive Chinese Government documents from 2008 and 2016, that evidence a firm decision in this regard. To date, LAC has failed to devise a response strategy towards China, although the relationship between them has evolved rapidly and quite successfully since 2001, making China an increasingly relevant regional player in the dispute for spaces traditionally filled by Europe and the US.

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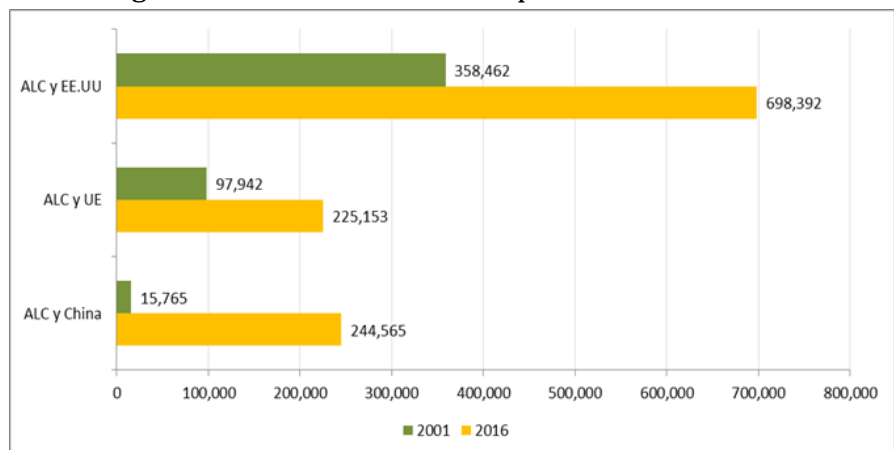
## 2 Impact on the LAC - EU relationship

China's presence in Latin America and the Caribbean has variously affected the relationships between this region and the European Community.

In the **political sphere**, China has managed over a very short period to build comprehensive strategic partnerships with seven key Latin American countries (Brazil in 2012, Mexico in 2013, Peru, Venezuela and Argentina in 2014, Ecuador and Chile in 2016), in contrast to the European Union which, after long negotiations lasting several years in some cases decades, has reached equivalent agreements (the so-called association agreements) but with two countries (Mexico in 1997 and Chile in 2002) and with the Central American block. Additionally, China's proposed comprehensive strategic partnerships would seem to cover broader ground than the European association agreements, because while the latter span the trade, cooperation and political spheres, the Chinese option includes five broader areas, i.e. deepening political relations; expanding economic cooperation (including trade and investment); cooperation in multilateral and international organizations; greater knowledge and cooperation; and, people-to-people social policies. But also, similarly to the European Union, China has been building with some regional countries -like Peru- political dialog schemes at the highest level, although differing from the old continent, again, in the speed at which it engages in such dialog. China seeks not only economic or commercial associations with LAC, but also political convergence.

In the **commercial sphere**, between 2001 and 2016 trade between Latin America and the Caribbean and China has grown faster but also has been more significant than LAC trade with Europe over the same period. As a result, China has displaced Europe as the region's second largest trade partner. (See Graphic N<sup>o</sup> 1).

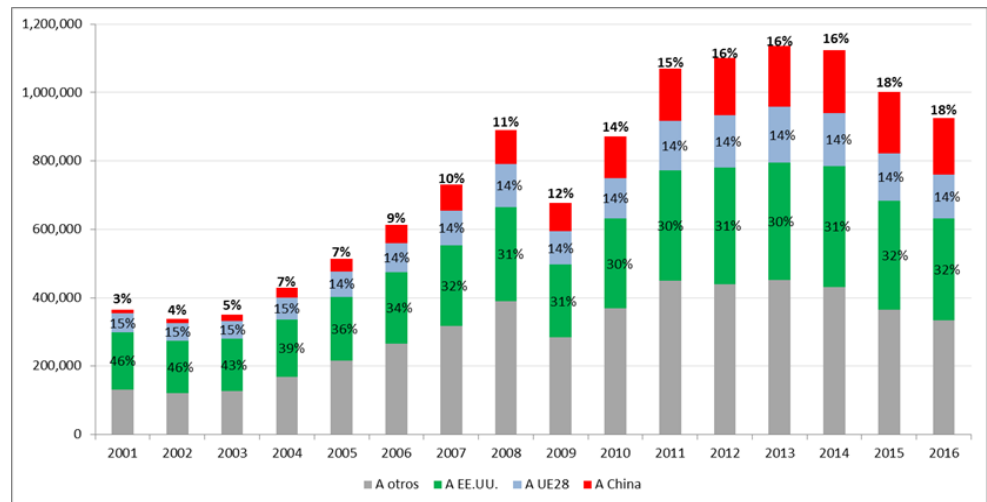
Trade growth rates. LAC and main partners. 2001-2016



(Source: ITC, 2017. Prepared by the authors.)

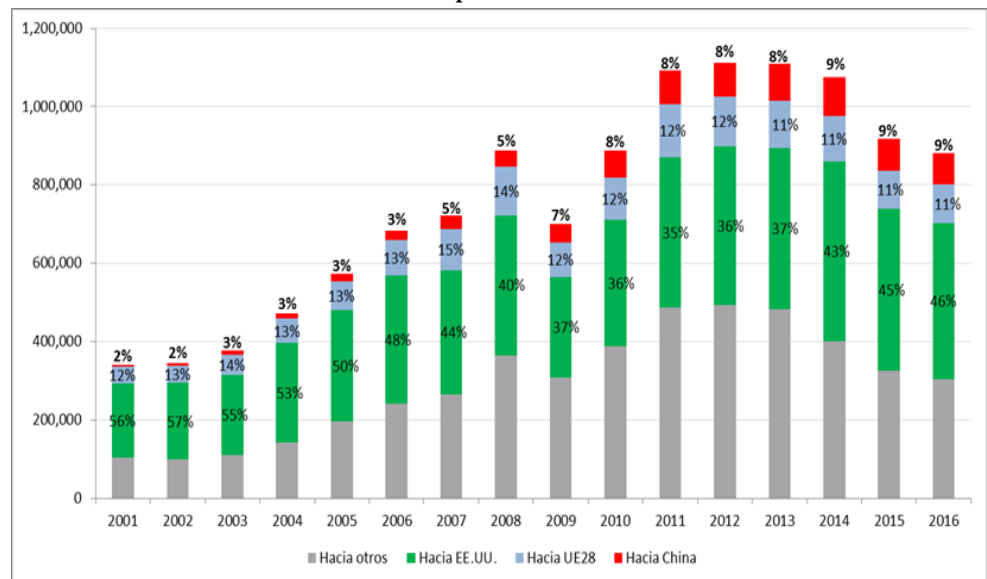
More specifically, China has displaced the European bloc as LAC's second largest supplier. Between 2001 and 2016, the region's imports of Chinese products rose from 3% to 18% of total imports. Everything indicates that soon China will also displace Europe as the second most important destination of LAC exports. In 2001, LAC exports to China accounted for only 2% of the region's total exports. By 2016, the figure had risen to 9%.

Graphic N° 2  
LAC imports from its main partners.



(Source: ITC, 2017. Prepared by the authors.)

Graphic N° 3  
LAC exports to China



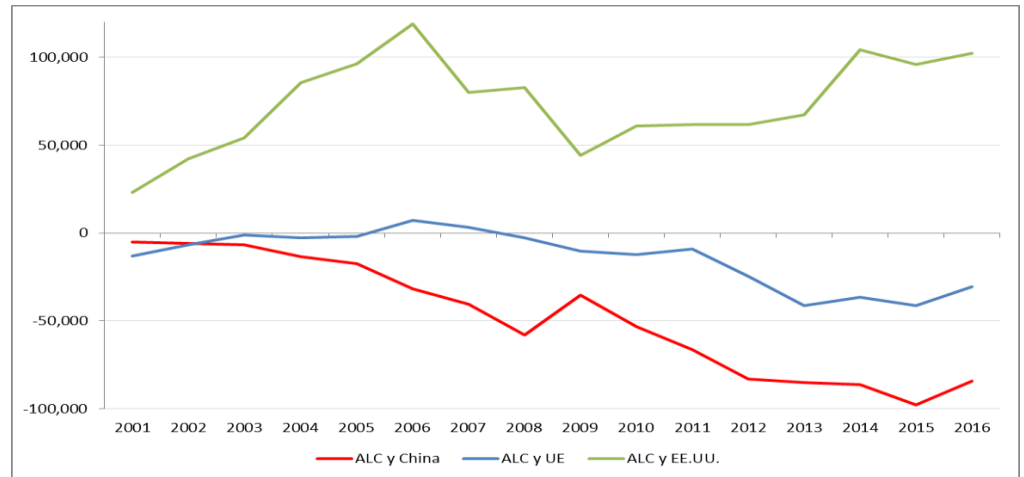
(Source: ITC, 2017. Prepared by the authors.)

However, it is also relevant to underscore that LAC exports to the European Union are more diversified -including a significant percentage of non-traditional products- than those that go to China, and also involve



small and medium-sized Latin American companies that have an important impact on job creation. Although LAC's trade balance with both China and Europe is on negative ground, the marginal deficit is much wider with China.

Graphic N° 4  
Trade balance between LAC and its main partners.



(Source: ITC, 2017. Prepared by the authors.)

On the impact in **investments**, the European Union remains the largest identified-source investor in Latin America and the Caribbean, with China still far behind. While investments by Chinese companies into the region averaged just over 13 billion dollars annually in the last five years (2012-2016), Spain alone, in 2015, invested 20,6 billion USD (ECLAC, 2016, p. 34).

Europe invests in many countries around the region while Chinese investment basically targets (73%) only two South American countries (Brazil and Peru). By industry, the European Union's investments in the region mainly focus on infrastructure, financial markets, telecommunications and energy. China has changed the nature of its LAC investments. In recent years, it has directed more than half of its investments to the services industries (finance, electricity, renewable energies and transport) unlike before when it invested mostly on oil, gas, mining and metals, all capital-intensive structures that created few jobs in the receiving countries (Avendaño et al., 2017, p.6).

Finally, European investment throughout the region is essentially private, unlike China's, more than 80% of which is made by state-owned corporations. This scenario may become more complex in the future as in recent years China has been massively acquiring European companies.

In the **financial sphere**, Chinese loans to LAC (125 billion dollars to 2015) are by far larger and broader scope than those coming from European financial institutions, and even heftier than those from the World Bank, the Inter-American Development Bank, the Development Bank of Latin America (CAF) and the Export and Import Bank of the United



States, either alone or combined. China has thus become the most important financial underpin of the Latin American and Caribbean region.

However, China lends to countries that did not -and still do not- have access to loans from those financial organizations. Also, 87% of these loans are directed to specific industries, such as energy, mining, infrastructure, transport and construction, to which, for example, the World Bank only directs 34% of its loans and the IDB 29%; on the contrary, these last two financial institutions direct the bulk of their loans to social sectors such as health, development and the environment, which do not receive Chinese financing. From these two characteristics we can conclude that Chinese loans complement rather than substitute for those granted by European and US financial organizations.

As regards **cooperation**, although China has been providing non-reimbursable funds and donations to various regional countries region, it is still far from replacing the European Community's donor role, especially given the broad range of areas that garner European cooperation. Indeed, under the traditional concept of cooperation for development, the European Union remains the largest multilateral donor to Latin America and the Caribbean, while at the bilateral level it is the US, followed by Spain, Germany, Canada, France, Norway, the Netherlands, Sweden, Switzerland and the United Kingdom that stand out, notwithstanding the assistance provided by NGOs and private sector actors (foundations, programs, companies, etc.). Including them would further widen the assistance gap (Erthal & Marcondes, 2013, p. 72). This outlook could however change if the European bloc continues to pursue its policy of restricting or canceling co-operation for middle-income LAC countries.

Finally, when it comes to China's impact in the military field, since 2004 it has managed to build a diversified relationship with LAC through massive visits by military authorities, arms sales, interaction between military institutions, military training and education, and joint participation in United Nations peace-keeping operations and joint military exercises. Yet, this relationship is still not comparable to that between LAC and Europe, for a number of reasons. First, and most importantly, because China has only recently joined the club of main weapons-exporting countries / suppliers but is still far from the largest arms sellers (among which several European countries). Secondly, Latin American armed forces and military training schools have been since their inception inspired and advised by European military, mainly from Germany and France, but not by China. Lastly, joint participation of the Latin American and European armed forces in UN peace keeping and military training operations is a long-standing one, far older incipient such contacts in this field between China and LAC.

### **3 Factors facilitating China's inroads in LAC.**

The impact of China's insertion in the relations between Europe and LAC will be the result, to a large extent, of several factors that have contributed to the Old Continent's relaxing its relations with LAC and opening spaces to the Asian giant. These factors include: a) the European economic crisis since 2008 and various political issues in the European Union -such as the growth of both Euro-skepticism and nationalist and ultra-rightist groups; the 2015 refugee crisis and Brexit in 2016, which led Europe to focus on its own integration; b) the external crises of the European Union - such as the Ukrainian crisis in 2014 that stressed its relations with Russia, the Syrian crisis and the fight against international terrorism, which together led the bloc to reinforce its internal perspective; c) the weakening of Spain, a country traditionally acting as a hinge or bridge for rapprochement with Latin America and the Caribbean, in the aftermath of Spain's macroeconomic crisis; and, d) the enlargement of the European Union to countries in Eastern Europe, with scant links and interest in LAC.

Added to all this are factors that have led Latin America and the Caribbean to approach China more than Europe in recent years. Thus: a) China has become a source of economic resources for LAC that Europe could not provide for three fundamental reasons: i) because "its industries have relocated; ii) Europe's lower aggregate demand; and, iii) more diversified European investments that are less oriented towards primary products" (Gomis, 2017, p.507); b) China's advantage resulting from Brussels' slow pace in reaching faster and more efficient agreements with LAC; c) China's pragmatic vision to relate to governments of the new left or with authoritarian overtones, against which Europe shows caution; and, d) China's lower conditionalities for investment or financing, compared to Europe.

### **4 Possible future scenarios of relations between LAC, and China and Europe**

Continued competition is on the possible future scenarios of Chinese and European strategies towards LAC, at least in the short and medium term. Despite China's various advantages, the European Union may still regain a greater protagonist role in the region.

In fact, the European Union enjoys some advantages that could help it recover its past foothold in Latin America and the Caribbean. First of all, although the European Union is a financially weaker partner than China, the European bloc seems a more secure partner, as it shares with most of the Latin American and Caribbean region a set of values underpinning issues related to democracy, human rights, free markets, protection of the environment, social responsibility, and the fight against corruption,





among others. It should not be forgotten that economic development does not guarantee social development, democracy or stronger institutions.

Secondly, Europe knows the region better, as its relations with LAC date back to the discovery of the New World. China's relations with LAC have been built practically just in the 21st century.

Third, there are commercial, financial, investment and cooperation fields in which China is not particularly interested and that can be filled by Europe.

Finally, if the Chinese model of insertion remains unaltered, it can become exhausted and result in a slowdown of Latin America and Caribbean economies, because of the primary nature of China's demand that tends to exclude small and medium-sized enterprises, of vital importance for the region's economic growth, in contrast with the relationship between Europe and LAC that is slowly but gradually incorporating LAC's non-traditional products and SMEs.

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