China's Recent Engagement in Latin America and the Caribbean: Current Conditions and Challenges

Enrique Dussel Peters

THE
CARTER CENTER

August 29, 2019

CHINA'S RECENT ENGAGEMENT IN LATIN AMERICA AND THE CARIBBEAN: CURRENT CONDITIONS AND CHALLENGES

Enrique Dussel Peters[1]

Introduction

Since the beginning of the 21st century, China's presence in Latin America and the Caribbean (LAC) has been substantial in practically all socio-economic fields: cultural, bilateral and multilateral political issues, as well as trade, foreign direct investments, academic exchanges, and other areas. The main objective of this document is to analyze the effects of China's presence in the region in terms of sustainable and long-term development, as well as its incidence in its relationship with the United States. Thus, the document will include a diagnostic to understand some of the specificities of the LAC-China socio-economic relationship, followed by the conclusion with a series of proposals.

The first section of the paper will examine five issues that are relevant to understand general and specific topics about the China-LAC relationship: 1) general geostrategic and diplomatic topics to understand current tensions between the United States and China; 2) China's proposal of a globalization process; 3) the concept of "new triangular relationships" and LAC's challenges given increasing tensions between the United States and China; 4) particular developments and structures in trade, foreign direct investment, financing and infrastructure; and 5) the institutional framework between LAC and China. The second part of the paper focuses on a series of recommendations attempting to deepen and extend the China-LAC relationship and integrating the United States in it.

Five Topics to Understand the Current China-LAC Relationship

1. **U.S. response to increasing Chinese competition.** In recent years there has been a wide and general discussion on the new hegemony and options for bipolar and/or multilateral scenarios (Foreign Affairs 2019). However, there has been less analysis on domestic policy shifts in the US *vis-à-vis* China and the historical equilibrium between its public and private sectors, the former being more critical of China in the 21st century and the latter more interested in doing business from trade to investments with and in China. Thus, the escalation between the Trump administration and China since 2018, especially when it is analyzed in the context of the "trade war," goes far beyond trade. China is quickly catching up in technology (from 5G to high-speed trains, semiconductors, artificial intelligence, and electric automobiles, among many other areas of the global value chains), as well as in credit and financial sectors. As a result, there has been a "shift" in the US private sector which is more critical of China and is contributing to an overall hardening of U.S. public policy *vis-à-vis* China.[2]

   Vice President Mike Pence's remarks at the end of 2018 (Pence 2018) acknowledged this "great power competition" and "a new approach to China," since hope for political change in China in the last decades "has gone unfulfilled." In addition, Pence stressed that China's economy has continued to grow "at the expense of its competitors, especially America," resulting in a big trade surplus with the U.S., and an approach to control "90% of the world's most advanced industries, including robotics, biotechnology, and artificial intelligence. … Worst of all, Chinese security agencies have masterminded the wholesale theft of American technology – including cutting-edge military blueprints." China's military presence, particularly in Asia, is also considered a threat. In the same speech, Pence argued that "America had hoped that economic liberalization would bring China into greater partnership with us [the U.S.] and with the world. Instead, China has chosen economic aggression, which has in turn emboldened its growing military."

---

[1] Enrique Dussel Peters is professor at the Graduate School of Economics of the National Autonomous University of Mexico (UNAM), coordinator of the Center for Chinese-Mexican Studies of the School of Economics of UNAM, and coordinator of the Academic Network of Latin America and the Caribbean on China (RED ALC-China), dusselpeters.com. Paper prepared for The Carter Center Latin America and Caribbean Program and China Program.

[2] The argument was particularly clear and strong by Susan Shirk at the China Development Forum organized by the Development Research Center of the State Council in March of 2019, with similar arguments by former Treasury Secretaries Larry Summers and Robert Rubin.

As a result, the U.S. will respond to China's increasing competition in all those fields, including trade, financing, international cooperation, and the military. There is already evidence of this approach. The U.S. created the U.S. International Development Finance Corporation (USIDFC) in 2018. In 2017, the Committee on Foreign Investment in the United States presented the Foreign Investment Risk Review Modernization Act (CFIUS), which was approved in 2018 to adopt more restrictive rules for Chinese investments in the U.S. New export controls also forbid foreign scientists and researchers to work in specific U.S. sectors. New rules prohibit sales of U.S. technology firms to China, as well as the sale of third countries' companies in which U.S. technology accounts for at least 25 percent of the product value (Wang 2019/a/b). These measures to limit potential Chinese theft in particular sectors affect Chinese citizens and firms and have a massive impact on transactions in other countries such as in LAC[3], where US technology accounts for more than 25 percent of the product value. In his visit to Chile in April of 2019, U.S. Secretary of State Mike Pompeo continued with this line of thought and accused China (and Russia) of spreading "disorder" in LAC and highlighted that Chinese outbound foreign direct investment (OFDI) and financing "often injects corrosive capital into the economic bloodstream, giving life to corruption and eroding good governance."

2. **China's proposal of a globalization process with Chinese characteristics**. China's increasing global presence in the context of profound domestic social, economic, and political reforms since the 1970s has also been reflected in the increase of Chinese activities and responsibilities in the United Nations Security Council, in the acknowledgement of China's relevance in the international financial system through its membership in 2016 and inclusion of the renminbi as part of the Special Drawing Rights (SDR), and by its increasing leadership at the G20. From this international perspective, the launch of the Belt and Road Initiative (BRI) at the end of 2013 is crucial to understanding China's proposal and ambition of a globalization process with Chinese characteristics. The BRI is China's key international cooperation strategy with countries in Asia, Africa, Europe, and Latin America since January of 2018, when China formally recognized Latin America at the CELAC-China Forum, specifically through five areas of cooperation: policies, roads and highways, trade, currency, and people-to-people (Long 2015). The BRICS countries (Brazil, Russian Federation, India, China and South Africa) New Development Bank (NDB), as well as the Asian Investment and Infrastructure Bank (AIIB) are some of the new powerful instruments of this global strategy.

The conclusions of the XIX National Congress of the Communist Party of China (CPC) at the end of 2017 and the two CPC sessions in 2018 are relevant to these initiatives (Anguiano Roch 2018, 2019). They not only emphasize a long-term socialist development of China for 2035 and 2050 and elevate Xi Jinping's thought as part of the CPC, but they also underline the importance of BRI as part of the domestic and global strategy of China.[4] After the Second BRI Forum in April of 2019, 130 countries had joined the BRI (Belt and Road Portal 2019) and 17 from LAC.[5] The Asian Infrastructure Investment Bank (AIIB), on the other hand, accounts for 70 members, including 44 regional members and 26 non-regional members, plus 27 prospective members (six regional and 21 nonregional).[6]

As part of these strategies, China has signed an increasing number of trade agreements and today has 10 free trade agreements, including those signed with Chile, Costa Rica and Peru, in addition to the agreements with the Special Administrative Region of Hong Kong and Macao and negotiations with Pakistan and Israel. From an Asian regional perspective, China has been also leading efforts within the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN). However, in recent years China has prioritized the Regional Comprehensive Economic Partnership (RCEP) with 16 member countries, including the Philippines, Japan, Korea, Australia, India, and Vietnam. So far, no LAC country participates in that initiative.

China has proposed a group of specific initiatives toward LAC. On the one hand, the Chinese public sector published two "White Books" for LAC in 2008 and in 2016 (GPRC 2011, 2017). They integrate a group of issues

[3] In his analysis, Pence makes a specific reference to LAC: "Beijing has extended a lifeline to the corrupt and incompetent Maduro regime in Venezuela … And since last year, the Chinese Communist Party has convinced three Latin American nations to sever ties with Taipei and recognize Beijing."

[4] The analysis of Nalbantoglu (2017) is particularly relevant since it highlights the importance of BRI for the domestic social and economic stability of China; in terms of international cooperation, the core of BRI is Asia and the China-Pakistan relationship (Cai 2017).

[5] From LAC, so far Antigua and Barbuda, Barbados, Bolivia, Chile, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Jamaica, Grenada, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela have joined BRI (Belt and Road Portal 2019).

[6] So far no LAC country has become a member of AIIB, and eight LAC countries (Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay, and Venezuela) are prospective members (AIIB 2019).

relevant for this analysis, including 13 priorities on economic and trade topics (GPRC 2017:7-11), which include: the promotion of trade in high-value-added products and with high technological content, cooperation in industrial investment and productive capacity, cooperation in infrastructure and in manufacturing, and cooperation between chambers and institutions to promote trade and investment (GPRC 2017:9). Interestingly, the 2016 White Book states that Chinese firms should "promote linking the productive capacity with quality and advantaged equipment from China to the necessities of the countries of LAC to help them in improving their development capacity with sovereignty" (GPRC 2017:7) and to enhance infrastructure projects and public-private partnerships "in transport, trade logistics, storage installations, information and communication technologies, energy and electricity, hydraulic works, urbanism and housing, etc." (GPRC 2017:8). China also focuses on cooperation in the manufacturing sector to "establish lines of production and sites for the maintenance of construction material, of nonferrous metals, machinery, vehicles, communications and electricity equipment, etc." (GPRC 2017:9).

More relevant in the specific context of Chinese proposals of cooperation with LAC is Xi Jinping's cooperation scheme "1+3+6," which stands for: 1 plan (the CELAC's Cooperation Plan for 2015-2019), 3 driving forces (trade, investment, and financial cooperation), and 6 key fields of cooperation (energy, resources, infrastructure projects, manufacturing, scientific innovation, and technical innovation). The CELAC-China Forum Cooperation Plan for 2015-2019 includes a wide range of tools for cooperation in politics, culture, education and economic issues, among others. It also includes enhancing micro, small and medium firms, financial institutions, infrastructure and transportation, industry, science and technology, as well as specific sectors such as the aeronautics, information and communication industries. The plan also makes explicit reference to the "joint construction of industrial parks, science and technology, special economic zones and high-tech parks between China and CELAC member states, with the goal to improve industrial investments and the generation of industrial value chains" (CELAC 2015:4). Those initiatives will be accompanied by several forums and funding options, including the Forum on Development and Industrial Cooperation China-LAC, the Fund for China-LAC Cooperation, the Special Credit for China-LAC Cooperation, and other options according to the cooperation priorities. Most of these instruments, as well as new ones, were renewed in the Working Program of the China-CELAC Forum (CELAC 2018).

In this context, China's presence in the region has been highlighted and criticized from a number of different perspectives, notably using the argument of a "debt trap" and environmental challenges.[7]

3. **LAC at the crossroads in the "new triangular relationship."** Since the beginning of the 21st century, there has been a qualitative change in China's global presence, including in LAC. While it is true that China is still a developing country in terms of GDP per capita and other socio-economic indicators, the size of its population and of its economy, along with its medium- and long-term initiatives, have all allowed China to become a serious global competitor to U.S. hegemony (see issues A and B of this chapter). From an LAC perspective, it is true that the US is still by far the most important "qualitative" actor in the region, with long historical ties with the regional elites, militaries, and academics, and plays an important role in cultural terms It is also true that China is increasing its presence in LAC, with or without diplomatic ties.[8] Less than a decade ago Chinese scholars argued that China would respect the U.S.'s "backyard" (Wu 2010). Since then, however, China's presence has not only increased in socio-economic terms, as we shall see below, but it has also emerged as an additional actor breaking the duopoly of the European Union and U.S. presence in the region. China has become an additional point of reference in terms of economy, culture, education and even in military terms, such as in the case of Venezuela (Koleski and Blivas 2018).

Acknowledging these trends along with the concept of "New Triangular Relationships" (Dussel Peters, Hearn and Shaiken 2013) is critical for LAC today. The region and each of its countries, with no exception, has to understand, deal with and negotiate within this "new triangle." In some cases, the presence of the U.S. is still very strong, such as in the Caribbean, Mexico, and Central America. In others, the presence of China is considerable, such as in Cuba and Venezuela. Nevertheless, in all cases LAC countries must consider increasingly difficult strategies in their foreign relations given the increasing tensions between China and the U.S.. None of the LAC countries can exclude the U.S. or China as an important strategic partner. New governments (such as in Argentina and Brazil) have attempted to distance themselves from China recently, with little success. Venezuela, on the other hand, until the recent crisis still had substantial economic linkages with the U.S.

[7] There is a widespread analysis on these issues. Hurley et al. (2018) examine 68 potential BRI borrowers, while the analysis of Dussel Peters, Armony and Cui (2018) analyze a group of LAC countries with Chinese infrastructure projects discussing debt, environment and other issues for the respective country.

[8] In the case of Central America, for example, even before the diplomatic recognition of El Salvador and Panama, China's presence in terms of trade and investments was relevant (Dussel Peters 2018).

From this perspective, many countries in LAC are at a crossroads and in the middle of the U.S.-China competition. Vice President Pence (2018) highlights: The U.S. will be "heightening our scrutiny of Chinese investment in America to protect our national security from Beijing's predatory actions." … "A new consensus is rising across America …" and putting enormous pressure on countries worldwide, including LAC. In 2017 and 2018, three LAC countries—Dominican Republic, El Salvador, and Panama—established diplomatic relationships with China. In response, the U.S. in September of 2018 recalled its top diplomats in all three countries and threatened 17 additional countries that still have diplomatic ties with Taiwan, mainly in Central America, the Caribbean, and the Pacific, proposing new legislation in the Senate to "downgrade U.S. relations with any government that shifts away from Taiwan, and to suspend or alter U.S. assistance" (Reuters 2018).

The situation is particularly stressful for countries in LAC that are geographically close to the U.S., such as Mexico and those in Central America, with long historical, political and economic ties with the U.S. and that are experiencing an increasing presence of China. In the case of Mexico, the renegotiation of the North American Free Trade Agreement in 2018 has led to the signing of the United States-Mexico-Canada Agreement, or USMCA, which still has to be ratified by the legislatures of the respective countries and includes an "Anti-China chapter" (chapter 32.10) that practically prohibits free trade agreements with China (as a "non-market economy") (Dussel Peters 2018).

Acknowledging the potential risks of their relationships with either China or the U.S., LAC countries might find themselves in the future under strong pressure to choose sides. However, that would make little sense from an LAC perspective given the presence of both powers in all countries of the region.[9]

4. **China's Socio-economic Presence in LAC.** In addition to the already discussed tensions between China and the U.S., as well as the respective options provided by each at both a global level and with regard to LAC, it is important to understand details of China's recent presence in LAC. A group of authors (Salazar-Xiranachs, Dussel Peters, and Armony 2018) have highlighted the importance of shifting from a superficial description of the LAC-China relationship and provide a new evidence-based analysis using available studies and more developed research[10]. Such an approach systematizes the data and information on the expanding Chinese presence in LAC.

The LAC-China socio-economic relationship since the beginning of the 21st century can be understood as a series of four phases (Salazar-Xiranachs, Dussel Peters, and Armony 2018): 1) the stage that starts in the 1990s with a rapid intensification of the trade relationship and China becoming LAC's second trading partner[11]; 2) the stage of 2007-2008, parallel to the global financial crisis, during which China became a major regional financial source for LAC; 3) in the same period (2007-2008) China also became a very important source for foreign direct investment (or Chinese OFDI); and 4) the stage starting in 2013, in which China is developing massive infrastructure projects in the region, also as part of a series of Chinese global initiatives.

Increased trade between China and LAC. At least four topics are relevant in this area: 1) China's share in LAC's trade increased from less than 1 percent in the 1990s to 14.08 percent in 2017, and China has been LAC's second trading partner since 2013, displacing the European Union. In addition, and a topic that has received little attention so far, LAC has increased its share in China's trade becoming China's second trading partner, moving from less than 4 percent in the 1990s to 9.52 percent in 2017, second only to the U.S. 2) LAC's trade with China is characterized by an increasing trade deficit — above $US 80 billion since 2012. These trends are a result of the disaggregated composition of trade. LAC's main three import goods (according to the Harmonized Tariff System) from China—automobiles, electronics and auto parts—have increased significantly their share over total imports, from 26.67 percent in 1990 to 38.63 percent in 2000 and 56.85 percent in 2017. LAC's exports to China are

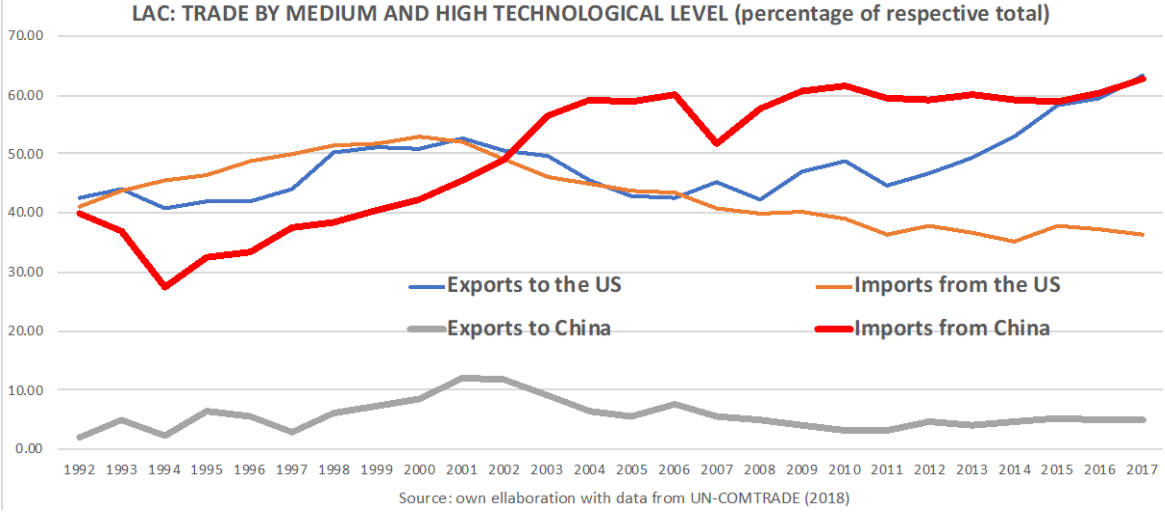
[9] The canceled Annual Meeting of the Boards of Governors of the Inter-American Development Bank at the end of March 2019 in Chengdu, China, is probably a good example in understanding the high level of tensions and difficulties in negotiations between the U.S. and China on an LAC matter. The U.S. and other LAC countries insisted on inviting delegates of Venezuela representing opposition leader Juán Guaidó, but China rejected conferring diplomatic status.

[10] In the case of LAC, for example, the Center for Chinese-Mexican Studies of the School of Economics at the National Autonomous University of Mexico (UNAM) and the Academic Network of Latin America and the Caribbean on China (RED ALC-China) have allowed for a detailed and public learning process together with Chinese counterparts in topics such as trade, foreign direct investments, international relations, environment and mining, as well as history, culture, and learning Chinese, among others.

[11] The topic is relevant for the region as a whole and for countries both with and without diplomatic ties with the People's Republic of China: China is already the second or third major trading partner of each of the countries in Central America (Arce Alvarado 2016) and the Caribbean (Díaz 2016), many of which have strong diplomatic ties with Taiwan; this "pragmatism" is highly dependent on the "normality" of the Taiwan-China relationship, which could change in the future in light of bilateral changes and/or changes in the U.S. position.

significantly more concentrated. LAC's main three export goods—soya, minerals and copper—account for at least 65 percent of total exports since 2007. 3) The specific content of LAC-China trade is critical. As illustrated in Figure 1 below, the content of LAC imports and exports from/to China differs dramatically by its technological share. While LAC's share of medium and high technological exports to China account for less than 5 percent of total exports in the last decade, imports from China accounted for more than 60 percent. Trade figures with the United States show that LAC's trade has not only closed its gap in terms of medium- and high-technology goods, but has achieved substantial results, exporting more medium- and high-tech goods than it imported. 4) The U.S. has been the main loser as a result of increasing competition between China and the U.S. in LAC's imports. During 2000-2017, the U.S. share of LAC's trade fell from 53.57 percent to 40.76 percent, while China's increased from 1.72 percent to 14.08 percent (Dussel Peters 2016). The decline of U.S. exports to LAC has generated an annual loss estimated at around 840,000 jobs, particularly in manufacturing and the auto parts-automobile global commodity chain (Dussel Peters 2015).

Figure 1
LAC: TRADE BY MEDIUM AND HIGH TECHNOLOGICAL LEVEL (percentage of respective total)



Source: own ellaboration with data from UN-COMTRADE (2018)

China's OFDI in LAC. A series of recent studies on Chinese OFDI in LAC highlights regional and national characteristics. Some case studies include analysis of particular areas of the global value chains and firms (Dussel Peters 2014; Jiang 2017), with methodological and statistical differences between international, Chinese, and Latin American sources (Ortiz Velásquez 2016). With these relatively detailed discussions on LAC and China in mind, the Monitor of China's OFDI in LAC (Dussel Peters 2019) provides the following trends for 2001-2018: a) the People's Republic of China has launched methodological regulations to record the final destination of OFDI (MOFCOM, NBS and SAFE 2015). Such regulations, however, have not yet resulted in the official statistics to record Chinese OFDI. b) Total Chinese OFDI fell in 2018 for the second year in the last decade, as well as to LAC (from 31 percent to 8 percent in 2018) and represented 51.66 percent of 2016. c) Chinese firms invested $US 121.7 billion from 2000 to 2018 in 402 transactions that generated 324,096 jobs, particularly during the most recent period 2010-2018. d) Recent results on China's OFDI include an increased share of mergers and acquisitions (M&A) (72.24 percent in 2017 and 74.75 percent in 2018), and they show an increased diversity of China's OFDI, particularly in services and manufacturing (in 2010-2018). For example, raw materials' share of total OFDI in LAC accounted for only 36.21 percent of total OFDI, and the increased share of private OFDI within the total OFDI, from 29.8 percent during 2000-2018 to 93.74 percent in 2018. Disaggregating by country, China's OFDI also reflects interesting recent changes, including increased diversification in target countries, with an increased presence in Chile and Peru, while the share and absolute value of Chinese OFDI to Argentina, Brazil, and Mexico fell substantially in 2018.

China as a major source of financing for LAC since 2007-2008. A group of authors and institutions, particularly Kevin Gallagher at the Global Economic Governance Initiative (GEGI), have contributed substantially through transaction and country-level analysis, with comparisons on the conditionality of financing, as well as national and sectorial distribution of financing (Gallagher, Irwin and Koleski 2013; Gallagher 2016; Myers and Gallagher 2019; Stanley 2013). In general, China's financing to LAC during 2005-2018 has been highly concentrated. China Development Bank and Eximbank have provided more than $US 140 billion. Most resources in 2018 have been channeled to Venezuela, focusing significantly on infrastructure projects. As with OFDI trends, however, Chinese finance to LAC has fallen substantially in 2017 and 2018.

The RED ALC-China (Dussel Peters, Armony and Cui 2018) has provided a detailed analysis and discussion of Chinese infrastructure projects in LAC. The presentation of firm-level statistics and analysis of case studies in several countries results in a wide range of experiences and policy suggestions at the firm level, as well as for specific sectors within infrastructure and respective countries. Until 2017, China had pursued 69 infrastructure projects in LAC, accounting for more than US$56 billion and generating more than 214,000 jobs in the region. Argentina, Venezuela, Ecuador, and Brazil have had the most Chinese infrastructure projects in the region, while other countries in Central America and Mexico have, so far, received fewer. The more qualitative and case-study work of Dussel Peters, Armony and Cui (2018) reflects the pragmatism of Chinese firms through infrastructure projects in the region and the ability to operate in very different labor conditions, subcontracting networks and relations with clients depending on each country's context. In several cases the same Chinese firm—all of them public firms—generate very different conditions in different countries of the region. In some cases, Chinese firms are able to subcontract all major civil engineering segments of the projects to local and national firms, and subcontract with local suppliers for major segments of the respective infrastructure projects. Workers and working conditions are thus generated by local firms. In several cases, the employees do not know they are working for a Chinese infrastructure project. In other cases, the totality of the project is run by Chinese firms, including the design of the project, financing, subcontracting, workers, engineering activities, construction, and post-construction services. While Chinese firms have the ability to offer these "turn-key projects," in most cases it depends on the specific conditions of the host country. The involvement of local and domestic firms, workers, and specialized activities, and particularly the contracts defined and accepted by host countries, may in some cases even allow for learning processes and technology transfer. Development, from this perspective, is highly dependent on the host country and government that proposes and signs these contracts. A rather small group of Chinese public firms are the core of these infrastructure projects in the region.

5. **Weak and insufficient institutions in LAC, China and the US on the LAC-China relationship**. Rather surprisingly, while socio-economic and political relations between China and LAC have increased dramatically, public, private, and academic institutions working on China in LAC and LAC in China, as well as bilateral institutions between China and specific LAC countries and in the U.S., have not reflected the same dynamism. In general, there is a wide gap between public, private, and academic institutions analyzing the China-LAC relationship both in LAC and in China and socio-economic growth (Arnson et. al 2014; Dussel Peters and Armony 2015). Beyond the fashion of studying the China-LAC relationship, in general, there are many authors and institutions in LAC, China, and the U.S., including think-tanks, that do not review the massive, albeit insufficient, literature in China and Latin America and the Caribbean of the last four decades.[12] With few exceptions, such as the *Consejo Empresarial Brasil-China* (CEBC), the Institute for Latin American Studies of the Chinese Academy for Social Sciences (ILAS/CASS), the China Institutes of Contemporary International Relations (CICIR), the Center for Chinese-Mexican Studies (CECHIMEX) at UNAM, and the Academic Network of Latin America and the Caribbean (RED ALC-China), the institutional analysis in the public, private and academic sector is weak, with few attempts to develop a qualitative learning process beyond the institutional competition, and those based on the existing analysis in LAC and China. The best example of the existence of these limited institutions is the CELAC-China Forum (Cui and Pérez 2016). Its presidency rotates annually, it lacks a technical secretariat, and it depends annually on a different ministry of foreign affairs from an LAC country. As a result, the learning process in terms of analysis and proposals is weak, the technical and qualitative learning process is limited, and so are the implementation, evaluation, and proposals on very specific items discussed and proposed by the CELAC-China Forum since 2015.

[12] Such is the case of the Atlantic Council (Avendaño, Melguizo, and Miner 2017; González 2018), the Brookings Institution (Dollar 2017) and the Inter-American Dialogue (Myers 2018; Myers and Barrios 2018) with topics on China's OFDI and infrastructure projects, among others. Surprisingly, their review of existing literature in China and in LAC on the respective issues is practically nonexistent and insufficient. The lack of knowledge and integration of massive literature, particularly in LAC and China, on methodological issues, case studies, and analysis of the respective issues for specific countries, among other topics, of public, private, and academic institutions does not only limit an explicit learning process, but also reflects poor conclusions and policy proposals and a repetition of discussions that have already taken place.

Conclusions and Proposals

This document highlights the current conditions of the LAC-China bilateral relationship in the context of global dynamics and specifically the nature of the China-U.S. relationship. From this perspective, the concept of "new triangular relationships" is functional for understanding LAC's challenges in terms of future development.

The tensions between the U.S. and China, beyond the current "trade war," are crucial to understanding LAC's position in any new triangular relationship. The increasing aggressiveness of the bilateral relations, including the cancellation of the annual meeting of Inter-American Development Bank (IADB) in Chengdu in 2019, reflects a generally hostile global environment, which implies difficult decisions for LAC countries. The U.S. currently requires LAC countries to have an "exclusive relationship" with the U.S., and thus not with China, as discussed for the case of a group of LAC countries that recently began diplomatic relations with China. The new U.S. legislation against countries that acknowledge China diplomatically emphasizes this argument. China in principle, however, has a much more open and pragmatic approach being "the new rich guy in town" and has a strategy based on the Belt and Road Initiative (BRI) and dozens of specific potential mechanisms to extend and deepen its relationship globally, not just with Latin America. In principle, these mechanisms—ranging from political bilateral and regional cooperation to specific instruments in education, culture, the transfer of technology through the creation of industrial parks and special economic zones, and an upgrading process in LAC through Chinese investments, for example— should neither be exclusive nor in contradiction with the relations between LAC and the US. Future escalations of tension between the U.S. and China, however, will make the new triangular relationship increasingly difficult. The respective foreign ministries, among other ministries, will require increasingly specialized personnel and mechanisms to allow for negotiating with the U.S. and China.

Does the new relationship with China result in development for LAC? As discussed in detail in other documents (Dussel Peters, Armony, and Cui 2018; Salazar-Xiranachs, Dussel Peters, and Armony 2018; Dussel Peters 2016), the new relationship with China since the end of the 1990s and the beginning of the 21st century still has a huge potential in terms of development. While it is true that China was the main factor to understand substantial growth in exports, particularly until 2013, it is also true that LAC's exports to China resulted in a setback in their value-added and technological content, compared to total exports and specific exports to the U.S. With regard to infrastructure projects, and in contrast to OFDI, there is still a need for further understanding of the development of Chinese infrastructure projects in LAC. Existing analysis (Dussel Peters, Armony and Cui 2018) based on almost 20 Chinese infrastructure projects in LAC reflects that Chinese firms in LAC present very heterogeneous results, with the ability of outsourcing and supplying practically all required inputs from China (from financing, design, supplies for construction, and workers to post-construction services) or to obtain materials, labor and services from local, national or regional sources in Latin America. Ecuador is one of the countries with the most positive impacts from Chinese infrastructure projects and with significant effects in its energy matrix and long-term energy supply. However, these projects also resulted in important environmental and debt impacts (Garzón and Castro 2018; Garzón 2018). Surprisingly there is still little analysis on Ecuador and BRI in China, LAC, or in the U.S.

As a preliminary conclusion, China poses massive challenges and opportunities to LAC in term of development. While LAC elites and governments might undertake specific measures to integrate and upgrade in terms of trade, OFDI, financing and infrastructure projects, so far there has been a general deterioration in terms of development. LAC is exporting commodities with little value added and massively importing goods of substantially higher technological level, in addition to having difficulties to integrate with local and domestic suppliers to Chinese infrastructure projects.[13] The cause for this deterioration, however, lies mostly in the hands of LAC elites and governments. Detailed and concrete negotiations on each of these topics, as proposed below, as well as strong tools proposed by China, including the BRI in general, two White Books (2008 and 2016), and proposals from the CELAC-China Forum, have not been sufficiently acknowledged, understood, discussed, negotiated, nor implemented by elites and governments in LAC. The deterioration and the potential social and political impact in LAC, such as examined in detail for trade, OFDI, financing, and infrastructure projects, should also raise China's awareness and analysis to solve these specific issues for development in LAC. Both parties, LAC and China, should increase their efforts to improve, extend, deepen and learn from trade, OFDI, financing and infrastructure projects for the future. This learning process has so far been extremely limited and seriously questions the sustainability of a long-term relationship.

The following proposals arise from this analysis, mainly based on already existing analysis in LAC and China and Section 2.

1. To create specific institutions to discuss the US-China-LAC relationship with public, private, and academic actors from the three countries/regions. Such institutions, surprisingly, do not exist yet and institutions such as the CELAC-China Forum do not include the U.S. Others such as the U.S.-China Economic and Security Review

[13] From this perspective, the LAC-China socio-economic relationship reflects more a center-periphery then South-South relationship (Dussel Peters 2014).

Commission (Koleski and Blivas 2018) do not include LAC actors. An explicit "triangular institution" could result either from a development within already existing bilateral relations, such as between China and the U.S., or the U.S. and LAC, or China and LAC. Or it could result from an LAC initiative, considering the importance for LAC and the existing bilateral tensions between the U.S. and China. Existing institutions such as CELAC, IADB or the Development Bank of Latin America (CAF) are the ideal institutions to launch such an effort focused on the new triangular relationship, to "normalize" it and discourage the option of an "exclusive" relationship with either China or the U.S. This initial understanding could allow for a more concrete institutional analysis on culture, military and political topics, and particularly the four proposed issues: trade, OFDI, financing, and infrastructure projects in LAC. LAC countries, from this perspective, should be able to decide on the strategic and specific relationship with China and the U.S.

2. To improve, extend, and deepen the quantity and quality of public, private, and academic institutions in LAC working on China, in China working on LAC, and bilateral institutions working on LAC and China relations. As discussed in Section 2, Point E, the LAC-China relationship will not improve substantially without further knowledge and an institutional learning process that allows for a deeper and extensive systematization of bilateral experiences, for example, in the areas of trade, OFDI, financing, and infrastructure projects, to allow for a more sustainable relationship in the short, medium and long term. These institutions should be at both the bilateral and regional levels and should include bilateral institutions of LAC countries working with China, as well as those working from a regional perspective. In all cases, they should include public, private and academic sectors. While there have been experiences at the bilateral level within business institutions such as CEBC in Brazil and Cechimex in Mexico, for example, LAC regional institutions focusing on China could be of particular relevance and a catalyst for bilateral institutions. The CELAC-China Forum, which receives financing and political support from LAC countries and China, could and should become much more institutionalized with a permanent and strong technical secretariat that responds to the strategic, qualitative, and technical challenges of the LAC-China relationship. Such a regional-China institution would be in the best interest of both China and LAC but does not exist in the current structure of the CELAC-China Forum. Only specialized bilateral and regional institutions, with the support and explicit participation of the public, private, and academic sectors, can analyze and propose specific issues in trade, OFDI, financing, infrastructure projects, and many other topics.[14]

3. LAC countries, both bilaterally and regionally, should understand in detail China's proposal of globalization with Chinese characteristics. So far, in most cases, the respective countries have signed memorandums of understanding with little comprehension of China's expectations with regard to the BRI and other specific initiatives and mechanisms *vis-à-vis* LAC. That can easily result in substantial misunderstandings in the future.

4. In terms of trade, LAC countries, bilaterally and regionally through institutions such as CELAC, should use the mechanisms proposed by China in the two White Books and other specific mechanisms to improve the bilateral trade relationship, despite substantial gaps in terms of technology, in order to allow for an upgrade of LAC's exports to China in specific value-added chains such as minerals, fisheries, oil, gas, and other relevant LAC exports. As discussed in Section 2, China is offering a group of specific mechanisms in this field that, so far, have not been acknowledged by LAC governments.

5. LAC governments must determine whether Chinese financing, foreign direct investments, and infrastructure projects fit LAC's development needs. So far, China has been very clear and proactive. Regionally, in institutions such as the CELAC, but also the IADB, and CAF, and bilaterally, LAC has not been able to detail how China's increasing presence might improve LAC's development. Given China's dynamic and increasing presence, the challenge is substantial. In each of these fields—financing, foreign direct investments, and infrastructure projects—LAC governments require specific responses to China's proposals. This has, so far, not happened, neither regionally nor bilaterally.

[14] As discussed in Section 2, there are important institutional precedents in both LAC and China in the public, private, and academic sectors that could be useful and functional for these new bilateral and regional institutions with China.

Literature

AIIB (Asian Infrastructure Investment Bank). 2019. Members and Prospective Members of the Bank. AIIB (https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html).

Anguiano Roch, Eugenio. 2018. "El 19 Congreso Nacional del Partido Comunista de China". *Cuadernos de Trabajo del Cechimex* 1, pp. 1-24.

Anguiano Roch, Eugenio. 2019. "La Iniciativa Una Franja-Una Ruta: evolución visible". *Ciclo de Conferencias del Cechimex,* April 4th.

Arce Alvarado, Randall. 2016. "Mercado Común Centroamericano y República Popular China: retos del vínculo comercial de cara a la integración del MCCA". In, Dussel Peters, Enrique (coord.). *La nueva relación comercial de América Latina y el Caribe con China. ¿Integración o desintegración regional?* México: Red ALC-China, UDUAL, and UNAM/CECHIMEX. pp. 97-140.

Arnson, Cynthia, Jorge Heine and Christine Zaino (edits.). 2014. *Reaching Across the Pacific: Latin America and Asia in the New Century*. Washington, D.C.: Woodrow Wilson Center.

Avendaño, Ricardo, Ángel Melguizo, and Sean Miner. 2017. *Chinese FDI in Latin America: New Trends with Global Implications*. Washington, D.C. and Paris: Atlantic Council and OECD.

Belt and Road Portal. 2019. Profiles. Belt and Road Portal (https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076&cur_page=1).

CELAC (Community of Latin American and Caribbean States). 2015. *Cooperation Plan (2015-2019).* CELAC, Beijing.

CELAC. 2018. *Plan de Acción Conjunto de Cooperación en Áreas Prioritarias CELAC-China (2019-2021).* Santiago de Chile: CELAC.

Cui, Shoujun and Manuel Pérez García. 2016. *China and Latin America in Transition. Policy Dynamics, Economic Commitments, and Social Impacts*. Beijing: Springer.

Díaz, Raymer. 2016. "La nueva relación de América Latina y el Caribe con China: ¿integración o desintegración regional? El caso de la CARICOM". In, Dussel Peters, Enrique (coord.). *La nueva relación comercial de América Latina y el Caribe con China. ¿Integración o desintegración regional?* México: Red ALC-China, UDUAL, and UNAM/CECHIMEX. pp. 141-194.

Dollar, David. 2017. "China's Investment in Latin America". *Geoeconomics and Global Issues* (Paper 4), pp. 1-24.

Dussel Peters, Enrique (2013). "Recent China-LAC Trade Relations. Implications for Inequality?" *Working Paper* 40 (desiguALdades.net), pp. 1-38.

Dussel Peters, Enrique (coord.). 2014. *La inversión extranjera directa de China en América Latina: 10 estudios de caso.* México: Red ALC-China, UDUAL y UNAM/Cechimex.

Dussel Peters, Enrique. 2015. Testimony before the Joint Subcommittee Hearing of the Committee on Foreign Affairs, Subcommittee on the Western Hemisphere and Subcommittee on Asia and the Pacific, U.S. House of Representatives, September 10.

Dussel Peters, Enrique (coord.). 2016. *La nueva relación comercial de América Latina y el Caribe con China, ¿integración o desintegración comercial?* México: RED ALC-China and UNAM/Cechimex.

Dussel Peters, Enrique. 2018/a. *Comercio e inversiones: la relación de Centroamérica y China ¿Hacia una relación estratégica en el largo plazo?*. Ciudad de México: CEPAL, Sede Subregional en México.

Dussel Peters, Enrique. 2018/b. "The New Triangular Relationship Between Mexico, the United States, and China: Challenges for NAFTA". In, Dussel Peters, Enrique (coord.). *The Renegotiation of NAFTA. And China?* Mexico: RED ALC-China, UDUAL, and UNAM/Cechimex, pp. 87-99.

Dussel Peters, Enrique. 2019. *Monitor of Chinese OFDI in Latin America and the Caribbean 2018.* RED ALC-China: Mexico.

Dussel Peters, Enrique, Adrian H. Hearn, and Harley Shaiken. 2013. *China and the New Triangular Relationship in the Americas. China and the Future of US-Mexico Relations.* Mexico: University of Miami/CLAS, University of California Berkeley/CLAS and UNAM/CECHIMEX.

Dussel Peters, Enrique and Ariel C. Armony (coord.). 2015. *Beyond Raw Materials. Who are the Actors in the Latin America and Caribbean-China Relationship?* Mexico and Buenos Aires: RED ALC-China, Friedrich Ebert Foundation and University of Pittsburgh/CLAS.

Dussel Peters, Enrique, Ariel C. Armony and Shoujun Cui (coord.). 2018. *Building Development for a New Era. China's Infrastructure Projects in Latin America.* Mexico: RED ALC-China and University of Pittsburgh.

ECLAC (Economic Commission for Latin America and the Caribbean), OCDE and CAF. 2016. *Economic Perspectives of Latin America 2016. Towards a New Association with China.* Santiago de Chile: ECLAC, OCDE and CAF.

Foreign Affairs. 2019. Who Will Run the World? *Foreign Affairs* (January/February).

GPRC (Government of People's Republic of China). 2011. "La política de China hacia América Latina y el Caribe". *Cuadernos de Trabajo del Cehimex* 3, pp. 1-11.

Gallagher, Kevin. 2016. *The China Triangle: Latin America's China boom and the fate of the Washington Consensus*. Oxford University Press: Boston.

Gallagher, Kevin, Jin, J. and Ma, X. 2018. *China's Global Development Finance: A Guidance Note for Global Development Policy Center Databases.* GDPC/Boston University: Boston.

Garzón, Paulina and Diana Castro. 2018. "A Look at the Coca Codo Sinclair and Sopladora Hydroelectric Projects". In Dussel Peters, Enrique, Ariel C. Armony and Shoujun Cui (coord.). 2018. *Building Development for a New Era. China's Infrastructure Projects in Latin America.* Mexico: Red ALC-China and University of Pittsburgh, pp. 24-58.

Garzón, Paulina. 2018. *Handbook of Chinese Environmental and Social Guidelines for Foreign Loans and Investments: A Guide for Local Communities*. Quito: China-Latin America Sustainable Investment Initiative.

Gave, Charles, and Luis-Vincent Gave. 2019. *Clash of Empires. Currencies and Power in a Multipolar World.* Beijing: Gavekal Books.

González, Anabel. 2018. *Latin America-China Trade and Investment Amid Global Tensions. A Need to Upgrade and Diversify.* Washington, D.C.: Atlantic Council.

GPRC. 2017. "Documento sobre la Política de China hacia América latina y el Caribe". *Cuadernos de Trabajo del Cechimex* 1, pp. 1-12.

Hurley, John, Scott Morris, and Gailyn Portelance. 2018. *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective.* Washington, D.C.: Center for Global Development.

Jiang, Shixue. 2017. "La inversión china en América Latina y el Caribe: características, mitos y prospectos". In Pastrana Buelvas, Eduardo y Hubert Gehring (coord.). *La proyección de China en América Latina y el Caribe*. Editorial Pontificia Universidad Javeriana: Colombia, pp. 267-292.

Koleski, Katherine, and Alec Blivas. 2018. *China's Engagement with Latin America and the Caribbean*. Washington D.C.: U.S.-China Economic and Security Review Commission.

Long, Guoqiang. 2015. "One Belt, One Road: A New Vision for Open, Inclusive Regional Cooperation". *Cuadernos de Trabajo del Cechimex* 4, pp. 1-8.

Miller, Tom. 2019. "The End of China's ODI Party". *GavekalDragonomics*, March 19th.

Nalbantoglu, Cem. 2017. "One Belt One Road Initiative: New Route on China's Change of Course to Growth". *Open Journal of Social Sciences* 5, 87-99.

MOFCOM (Ministry of Commerce), NBS (National Bureau of Statistics) and SAFE (State Administration of Foreign Exchange). 2015. *Statistical Registry Procedure OFDI*. Beijing: MOFCOM, NBS and SAFE.

Myers, Margaret, and Kevin Gallagher. 2019. *Cautious Capital: Chinese Development Finance in LAC, 2018.* Washington, D.C.: Inter-American Dialogue and Global Development Policy Center.

Myers, Margaret. 2018. *China's Transport Infrastructure Investment in LAC: Five Things to Know.* Washington, D.C.: Inter-American Dialogue.

Myers, Margaret and Ricardo Barrios. 2018. *What Do China's New Investment Guidelines Mean for Latin America?* Washington, D.C.: Inter-American Dialogue.

Ortiz Velásquez, Samuel. 2016. *Methodological Differences in Chinese OFDI. Monitor de la OFDI China in LAC.* RED ALC-China: Mexico.

Pence, Michael. 2018. Remarks delivered by Mike Pence on the Administration's Policy Towards China. Washington, D.C.: Hudson Institute.

Reuters. 2018. "U.S. recalls diplomats in El Salvador, Panama, Dominican Republic over Taiwan". *Reuters*, September 7.

Salazar-Xirinachs, José Manuel, Enrique Dussel Peters, and Ariel C. Armony (edits). *Efectos de China en la cantidad y calidad del empleo en América Latina (2000-2018).* Lima: OIT.

Stanley, Leonardo. 2013. “El proceso de internacionalización del RMB y el nuevo protagonismo del sistema financiero chino”. In Enrique Dussel Peters (edit.). América Latina y el Caribe – China. Economía, comercio e inversiones. México: RED ALC-China, UDUAL and UNAM/CECHIMEX, pp. 147-169.

Wang, Dang. 2019/a. “The U.S. Technology Control Toolbox”. *GavekalDragonomics*, February 28th.

Wang, Dang. 2019/b. “The Long Arm of U.S. Export Controls”. *GavekalDragonomics,* February 12.

Wu, Hongying. 2010. “Has Latin America Become China’s Backyard?”. *Contemporary International Relations* 19(3), pp. 16-26.