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China in Latin America: Repercussions for Spain

Mario Esteban (coord.)

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Executive summary

Relations between China and Latin America are complex, strengthening, notably asymmetrical and fundamentally economic. Ties have intensified rapidly in recent years, to the extent of shaping the evolution of countries in the region and their processes of regional integration. Spain cannot afford to remain indifferent to this phenomenon, given its close links to this part of the world.

The strengthening of ties between China and Latin America has a double-edged impact on Spanish interests. On the one hand, the headway that China is making in the region translates into a loss of Spanish influence and attraction in one of the traditional spheres for Spain's foreign policy. On the other hand, the greater presence of China can contribute to the development of the region and is generating opportunities for cooperation and synergies with Spanish players, both public and private, on multiple stages.

In fact, China's increased interest in Latin America may also translate into greater attention being paid to Spain, thanks to the latter's degree of sway and experience in the region. Spain would thus figure as a more important diplomatic partner for Beijing, Spanish companies as more attractive recipients of investment and the Spanish language as a global communication tool.

Spain maintains close links with Latin America, which manifest themselves in, for example, substantial investments and innumerable exchanges and personal ties. Hence it is extremely positive for Spain that Latin America should fare well. This report will defend the position that in general terms Latin America's relations with China are positive for the development of the region, thanks fundamentally to the transfer of financial surpluses and the construction of infrastructure. In any event, the slowdown in the Chinese economy in the short to medium term and its impact on the price of raw materials will act as a brake on the region's development prospects.

Various Spanish companies have sought out synergies and shared interests with the Chinese enterprises that are expanding into Latin America, and in the main have drawn positive conclusions about the new arrivals. The only sector in which there has so far been a greater degree of competition between Chinese and Spanish companies is in infrastructure and civil engineering. This will probably change in the future as Chinese investments in the region diversify. At the time of writing, the market position of Spanish companies has not been threatened in other sectors. On the contrary, the possibility has opened up for cooperation that is mutually beneficial to firms from both countries: whether in terms of providing services to Chinese enterprises and complementing their offer or through Chinese acquisitions of Spanish assets enabling such enterprises to embark on large-scale projects in Latin America or to reposition their presence in the region.

This should not disguise the limitations and the sense of fatigue that seems to beset the strategy employed by Beijing to favour its presence in the region. China has resorted to a State-to-State model of interaction as a means of opening doors for its companies. A clear demonstration of this is the fact that the sum of its loans to Caracas is equivalent to the aggregate of Chinese direct investment in the whole of Latin America. In this way Beijing uses its considerable liquidity to underwrite contracts for its companies in opaque conditions, with little competition and relatively lax working and environmental standards. This notably reduces the positive effect of economic transactions with China in terms of its impact on development in Latin America, which in turn rebounds negatively on its image and on the sustainability of the rhythm at which it is currently strengthening its ties with the region.

In this context, Beijing understands that its relationship with Latin America would be more effective if it benefitted from greater knowledge of the region; if its companies knew how to deploy themselves better in these markets and adhered more scrupulously to local laws and norms; and if its financial commitments translated into greater economic development for the recipient countries. Various official pronouncements issued this year along similar lines, for instance during the first China-CELAC ministerial summit and Li Keqiang's tour of Latin America, have gone further in this direction. Chinese strategy in the region seems to be moving towards investment of higher quality, incorporating sectors characterised by more advanced technology and greater knowledge content, thereby contributing to the region achieving a qualitative leap forward in its industrial fabric. This gives rise to a new scenario with significant opportunities for Spain and its companies, but also an enormous challenge, since Latin American countries will prioritise relations with the actor who can most help them insert themselves into the global value chains and diversify their economies.

In conclusion, it would be a mistake to interpret China's presence in Latin America as a zero-sum game, because to do so would mean missing out on attractive opportunities for cooperation. It is a matter of an open-ended and complex process, the outcome of which is still uncertain for Spain. It is an outcome that will be shaped by the measures taken to meet the challenge.

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1. Introduction*

One of the main developments of our times is the rise of China as a world power. According to the International Monetary Fund (IMF), the Chinese economy has been the largest in the world since 2014 on a purchasing power parity basis, comprising 16.5% of the global economy; it has accumulated the largest currency reserve in the world, with a value close to US$4 trillion; it is the world's leading exporter and importer (if Hong Kong is included); and it has the second largest military budget. This spectacular increase in China's capacities also translates into greater international political influence.

China's re-emergence coincides chronologically with the process of diversification in Latin America's patterns of international insertion, and this accounts for the fact that in the last 15 years Beijing has gone from being a marginal factor to becoming a key player for Latin American economies and foreign relations. The special ties that Spain maintains with the region mean that Spaniards cannot afford to ignore this phenomenon and make an analysis of its repercussions for the country obligatory.

This paper analyses the relations between China and Latin America and identifies the main challenges and opportunities they may present to Spain. It is not therefore a normative study, aimed at debating what the links between China and Latin America ought to be. This is a text based on a description of how these links actually stand so as to prepare the ground for an analysis of their implications for Spain. In order to achieve this goal it is imperative to understand how the interaction between Latin America and China determines the evolution of the region and the decisions of the Latin American players, whether in terms of altering the internal dynamics of the various countries or the dynamics on the international stage. China has made a strong impact on the Latin American mindset and this shapes the decisions of politicians, business people, students, etc, on multiple issues with repercussions for Spain, whether this means voting behaviour at international forums, making investment decisions or choosing where to go to university.

As far as the scope of the study is concerned, a holistic approach has been taken that covers the multiple dimensions of Sino-Latin American relations; these have been split into three sections: (1) political; (2) economic; and (3) socio-cultural and public diplomacy. The reason for this is that all these areas have a bearing on Spain's interests in its relations with Latin America. More attention has been paid to those issues where Sino-Latin American relations are at their closest, such as trade, or where Spanish relations with the region are strongest, such as investments.

In referring to Spain we also take a broad approach that encompasses the manifold players contributing to Spain's foreign deployment: the various layers of the administration, businesses, NGOs, universities, etc. We have avoided the triangular (Spain/China/Latin America) approach for three reasons. First, because it would induce us to overlook the roles of other important players, such as the EU and the US, which are indispensable for

* In addition to Mario Esteban, the following have also contributed to the paper's preparation: Adrián Blanco, Félix Arteaga, Ángel Badillo, Carlos Malamud and Aitor Pérez.

understanding many of the implications that China's presence in Latin America has for Spain. Secondly, the triangular focus carries with it an overly homogenous view of the region, whereas an analysis broken down by countries enables a much more precise calibration of the risks and opportunities the process poses to Spain than a regional focus. Lastly, and most importantly, the triangular approach is usually perceived in Latin America and China as a neo-colonial conception, especially if it involves a historic power such as Spain.

Before drawing the introduction to a close it is important to re-emphasise the applied nature of this paper. China's interaction with Latin America will significantly shape not only the future of the region but also, as a consequence, Spain's interests in a part of the world to which it is intimately connected. The precise way in which this will manifest itself is still unknown, since the process is an open-ended one, so that part of the outcome will depend on the initiatives that can be launched from Spain. We therefore consider it necessary to carry out an exercise such as this, which may in turn prove especially fruitful if it serves as a catalyst for a more in-depth debate regarding how Spain's administration and society should react to the inter-relationship between China and Latin America. It would thus be advisable to use this study as the basis for embarking upon a more detailed analysis, breaking down relations by industry and by country, which would have the potential for generating more specific proposals for action.

2. The evolution of the bilateral relationship: from revolution to pragmatism

Relations between China and Latin America can be divided into two main periods. The first extends from the founding of the People's Republic in 1949 up until 1969, and the second running from then up to the present day. The first phase was highly ideological in nature and imprinted with the anti-imperialist and revolutionary stamp that Beijing imposed on its foreign policy. This revolutionary period may in turn be divided into two phases. In the first, between 1949 and the establishment of diplomatic relations with Cuba in September 1960, Beijing endeavoured to win influence in broad sectors of Latin American society through low-profile diplomacy and by emphasising its similarities with Latin American countries as societies undergoing development. The second phase was marked by the Sino-Soviet dispute, disagreement with Cuba and the Cultural Revolution. Beijing's foreign policy became more doctrinaire, emphasising the need to organise peasant guerrillas to seize power by force and constantly criticising both the Soviet Union and the US. This led to their distancing themselves from the Castro regime, with which they had collaborated closely between 1960 and 1964. During these first two decades the People's Republic of China reaped meagre political dividends in Latin America, a region that was considerably more resistant to Chinese influence than the rest of the developing world.

During the second period, pragmatism became the cornerstone of the relationship. Starting with the Sino-American rapprochement at the outset of the 1970s, support for the strengthening of ties between Latin American countries and China ceased to be the exclusive reserve of leftist movements. Throughout this decade China maintained diplomatic relations with various anti-communist dictatorships in Argentina, Brazil and Chile. The military regimes in turn were not prevented by the communist character of the People's Republic of China from establishing and/or maintaining diplomatic relations with Beijing. Similarly, the Communist Party of China (CPC) maintained links with the main political parties in Latin America, regardless of their ideological orientation. The CPC had contacts with the four most important groupings of parties in the region: the Latin American and Caribbean Committee of the Socialist International; the São Paulo Forum; the Christian Democrat Organisation of America; and the Permanent Conference of Political Parties of Latin America and the Caribbean. For their part, the democratic leaders who took over the running of various Latin American countries in subsequent decades would not make political differences a determining issue for the future of relations. Nor would they view the human rights situation in China as an obstacle to bilateral ties. Ideological affinity was therefore not a determining factor when it comes to analysing relations between China and Latin America. Pragmatism came to underpin a relationship that has flourished in spite of ideological differences when mutual political and/or economic rewards have been there to be harvested.

Within this period, which continues to the present day, it is possible to distinguish three phases. The first starts in mid-1969, with the end of the Cultural Revolution, lasting until

1978 and the start of the reform period. This phase was marked by the rapprochement between Beijing and Washington, which afforded Latin American regimes more scope for making overtures to the People's Republic. Beijing's main goal in Latin America in these years, as part of the dispute it maintained with Taiwan, was to increase the number of States with which it had diplomatic relations. On 7 February 1980, Colombia became the last large country in the region to establish official diplomatic relations with Beijing. A clear example of the pragmatic nature of China's relations with countries in the region was the fact that the Pinochet coup did not lead to the severing of diplomatic ties with Chile.

During the next phase, running from the start of the reform period to the repression of the Tiananmen movement in the spring of 1989, Beijing lost interest in Latin America. This may be accounted for by the fact that it had already achieved the diplomatic recognition of the most important countries in the region and the marginal role of Latin America in the economic modernisation process upon which China had embarked. Latin America once again started to arouse Beijing's interest from the second half of 1989, when the sanctions imposed by the West and Japan on China made the communist authorities see the need to diversify their foreign policy. Since then China has progressively intensified its diplomatic activities to an unprecedented degree, driven on latterly by the need for raw materials and energy resources stemming from its rapidly growing economy and the substantial increase in Chinese loans to the region since 2010. Relations between China and Latin America are currently blossoming as at no other time in their history.

3. Political relations

3.1 China and Latin America in relation to the role of the EU and the US in the region

In recent years Latin American countries have substantially strengthened their ties with such countries as South Korea, India, Iran, Japan, Russia and, especially, China; none of them States with which they had traditionally maintained close relations. This new, more pluralistic scenario is generally positive for the Latin American countries, which have been able to extend the ranges of their international cooperation options in all spheres: political, economic, defence, educational, cultural, etc. On the other hand, its effects on the interests of traditional extra-regional players, Spain being a case in point, are much more ambiguous, as such players see their relative sway in the region starting to wane.

Until the recent emergence of China in Latin America, the US was its main point of focus, followed by the EU. The US continues and will continue to be the most influential non-Latin American country in the region, but with less bearing than before the arrival of the Chinese. This became clear from the trip that Dilma Rousseff made to China in April 2011, five months before meeting Obama, and from Juan Manuel Santos's decision to place considerable emphasis on strengthening ties between Colombia and China across a range of spheres, including security, despite Bogotá being the main South American partner for the US in this area for more than a decade and the largest recipient of American aid in South America.

The US is now competing with China for the role of the main supporting actor, something that is becoming more and more difficult for the US to pull off, since in all likelihood the Chinese presence in Latin America will continue to make significant inroads in the years ahead. China has displaced the EU as the second largest trade partner and as the main source of international public finance in the region, which also reduces the EU's capacity to wield influence in other areas. This does not equate however to a zero-sum game in which China's burgeoning weight necessarily translates into a loss of relevance on the part of the EU or Spain. Indeed, China's increased interest in Latin America also translates into greater attention towards Spain, as the resumption of the bilateral consultation process on the region[1] and the decision taken by certain Chinese companies to set up their regional headquarters for Latin America in Spain both demonstrate.[2]

3.2 Geostrategic fundamentals

There are two main geostrategic goals that underpin relations between China and Latin America. The first, shared by China and all the Latin American countries, is to diversify their foreign relations as much as possible, which translates into fluid "south-south" cooperation in various spheres. In the case of China this involves:(1) ensuring access to energy resources and raw materials, essential for maintaining the pace of China's economic growth; (2) guaranteeing China's food security, which is becoming ever more dependent of foreign

1 http://www.notimerica.com/politica/noticia-espana-china-espana-china-inician-proyecto-consultas-estrategicas-iberoamerica-20061219184310.html.

2 http://www.investinspain.org/invest/wcm/idc/groups/public/documents/documento/mde0/mzqy/~edisp/doc2014342090.pdf.

sources owing to its increasing pace of urbanisation; (3) establishing and protecting markets for China's products while boosting productive and added-value capacity; (4) ensuring access to the global flows of technology and information; and (5) maintaining a presence in the key institutions for its global economic transactions. For its part, Latin America seeks new opportunities for accessing markets; finance –an issue that is particularly pressing for countries facing problems obtaining credit through traditional routes, such as Argentina, Ecuador and Venezuela–; and technology, which has given rise to bilateral cooperation in such industries as civil aviation and space technology (Brazil), civil uses of nuclear energy (Brazil and Argentina) and biotechnology (Cuba).

The second goal, shared by China and those countries that have more problematic relations with the US, is to reduce their dependence on their traditional partners as a way of driving multilateralism and providing a counterweight to Washington's dominance. A key factor in this regard is that China and the majority of Latin American countries have a conception of sovereignty that is much more similar to each other's than the more interventionist positions of the traditional powers. Although relations between countries in the region and China are also clearly asymmetrical, Beijing is much less inclined than the traditional powers to avail itself of such an imbalance to foster internal changes in these countries. To emphasise this point, China establishes its bilateral relations based on the Five Principles of Peaceful Coexistence: (1) mutual respect for sovereignty and territorial integrity; (2) non-aggression; (3) non- intervention by one party in the internal affairs of the other; (4) equality and mutual benefits; and (5) peaceful coexistence.

This desire to provide a counterweight to US power is particularly evident in countries such as Argentina, Bolivia, Cuba, Ecuador, Nicaragua and Venezuela, whose current political elites are looking for ways to be less closely tied to the US than those of other Latin American countries, and in Brazil, which is seeking to fill the regional leadership role. It should be stressed that Beijing's diplomatic support for these countries does not entail the establishment of military alliances or direct support in the event of regional armed conflict. China has been extremely cautious in avoiding subscribing to the anti-American rhetoric of some of the Bolivarian Alliance countries. Chinese support materialises when these governments request diplomatic and political backing within the context of international organisations or possible US or UN sanctions, and in general in the form of its neutrality in the event of possible international intervention in States in question. It should not be forgotten, however, that it remains to be seen how far China is prepared to go in antagonising the US in order to reinforce its position in the region. The dynamic is still an emerging one, as the occupation of the Manta air base and the building of a base in Neuquén both indicate, but, at least for the time being, relations with Washington both for China and for Latin American countries continue to transcend those that they maintain with each other.

Similarly, China seeks the support of Latin American countries in the presence of US diplomatic leadership when initiatives aimed at censuring China are deployed. Beijing wants to reduce the pressure it receives from the West on issues such as the violation of human rights or the situation in Tibet and Xinjiang. A clear example of the success of this strategy was the vote that took place at the UN's Human Rights Commission on 15 April 2004, on actions to be taken in response to the flagrant human rights violations in China. No Latin American country with official diplomatic relations with Beijing voted in favour of taking action. China has also sought out partners in Latin America to forge alliances in multilateral forums to oppose the interests of the developed countries. An example is the G22, jointly led by China and Brazil, which has coordinated 22 developing countries to demand more concessions from the US and the EU in the Doha Round negotiations.

This does not mean that China and Brazil, or any other country in the region, act as a bloc at an international level. Although both are members of the BRICS group, China does not support in any clear way the Brazilian ambition to become a permanent member of the Security Council, and during Brazil's most recent occupancy of a seat on the Council (2010-11), the two countries voted in different ways on five of the nine resolutions that were not approved unanimously. Other relatively high-profile discrepancies have included Brazilian criticisms of Chinese exchange-rate policy and support for competing candidates in the recent election for the presidency of the World Bank, in which Beijing voted for Jim Yong Kim and Brasília sided with Ngozi Okonjo-Iweala.

Nor does the sharing of goals mean that China has the same importance in the foreign policies of Latin American countries as the other way round. The relations are clearly asymmetrical, even in the case of Brazil, with China being much more important for the Latin American countries than the Latin American countries are for China. Even from a regional perspective, Latin America remains near the bottom of China's foreign-policy priorities.

The promotion of these strategic interests shared by China and Latin America has been helped by three factors: (1) the absence of historical conflicts between China and the countries of the region; (2) wide cross-party support in Latin America for the strengthening of relations with China; and (3) a pragmatic approach by the two sides to their bilateral relations. In general terms a good political understanding exists between China and the region. The main disagreements, aside from those related to Taiwan and international economic policy, are restricted to the larger countries of Latin America and, in general, are being resolved satisfactorily from the Chinese perspective. The clearest example is provided by the visits the Dalai Lama has paid to Mexico, four in total since 1989. Beijing has protested vociferously about this, particularly because the Tibetan leader was received officially, especially notable being his meetings with Carlos Salinas and Felipe Calderón at Los Pinos. For his most recent visit however, in October 2013, no prominent Mexican politicians held meetings with him.

3.3 The Taiwan factor

From the founding of the People's Republic of China up until Beijing's tacit acceptance of the offer of a 'diplomatic ceasefire' put forward by the President of the Republic of China, Ma Ying-jeou, during his investiture speech on 20 May 2008, the governments of Beijing and Taiwan were engaged in a ferocious dispute for international diplomatic recognition. For decades, snatching allies away from Taiwan was one of the main driving forces underlying Chinese foreign policy in Latin America. Since the 1980s, Latin America and the Caribbean have had the greatest concentration of States in the world that recognise Taipei, with 12 out of 22 countries currently maintaining diplomatic relations with Taiwan. These countries have also been particularly active in channelling the Republic of China's admission requests to such international bodies as the UN and the World Health Organisation (WHO), and have enabled Taipei to follow an active 'transition diplomacy' in the US.

In their frequent visits to Central America the Taiwanese authorities take the opportunity to refuel in the US and hold meetings with politicians, functionaries and public figures, etc. This accounts for the fact that, when Taiwan started to lose the recognition of other countries with greater sway in the international arena in the 1990s (Saudi Arabia in 1990, South Korea in 1992 and South Africa in 1998), the region became the epicentre of this diplomatic competition. This led China and Taiwan to active use of 'cheque-book diplomacy', with varying degrees of success, and to Beijing exercising its right of veto on the Security Council for the third time in relation to the United Nations Verification Mission in Guatemala (MINUGUA).

The diplomatic truce does not mean that the Taiwan factor ceases to play a role in relations between China and the Latin American countries, rather that it operates in a different way. The priority is no longer to establish official diplomatic relations with the greatest possible number of countries. China has poured cold water on the enthusiasm to recognise Beijing expressed by various Presidents in the region, such as Fernando Lugo, Mauricio Funes, Porfirio Lobo and Ricardo Martinelli. Currently the main goal is to strengthen ties with these countries without undermining the popularity of Ma Ying-jeou and the Kuomintang within Taiwan, although this could to some extent become a burden on relations with Latin American countries.

Another example is a posited China-CELAC summit for Heads of State: Beijing is showing no interest in this being held owing to the negative impact it would have on Ma Ying-jeou, as long as it involves the attendance of Heads of State from countries with official diplomatic relations with Taipei. It is important to bear in mind however that this situation may change after the general elections in Taiwan scheduled for January 2016, depending on the stance the new government adopts towards Beijing. Although there is still a long time to go and the Kuomintang has not even put forward its candidate, the most likely scenario appears to be a victory for Tsai Ing-wen, the Democratic Progressive Party's candidate.

The diplomatic truce has not prevented China from continuing to extend its links in recent years with those countries in the region that give diplomatic recognition to Taiwan. Examples of this include the Chinese government granting loans to the Honduran administration and the Chinese enterprise Sinohydro to enable the latter to construct a hydroelectric complex, Patuca III, while the Chinese businessman Wang Jing is the person behind the interoceanic canal project in Nicaragua.

3.4 Bilateral relations

China maintains strategic relations with six Latin American countries, namely, in chronological order: Brazil, Venezuela, Mexico, Argentina, Chile and Peru. Except in the case of Chile, all these strategic associations have become comprehensive strategic partnerships in the last three years. Granting this status to bilateral relations is a way of recognising the importance both parties place upon them.[3] Among this group are five of the six largest recipients of Chinese financing in the region, four of the six main trade partners and also four of the principal recipients of Chinese direct investment in Latin America.

Brasília was first to establish a strategic partnership with Beijing, in 1994, and this is also the most heavily institutionalised relationship, with a notable role being played by the Comissão Sino-Brazileira de Alto Nível e Concertação (COSBAN), which has 11 specialist sub-commissions. Brazil is the most important Latin American country for China and the one with which it has the least asymmetrical relations. This importance stems from the strength of the economic relationship, Brazil being China's top trade partner and the principal recipient of Chinese foreign direct investment in Latin America, and especially from the diplomatic power Brazil wields both within and beyond South America. Brazil pursues a strategy of positioning itself as a regional leader and aligning itself with the large emerging countries as a counterweight to the global influence of the traditional powers. Beijing looks favourably on this stance and contributes to it in various ways, fostering greater connectedness between Brazil and its neighbours and participating jointly in various forums that elevate Brazil's diplomatic stature, the BRICS group being a notable case in point.

Brazil would like to receive greater backing from China for its aspiration to become a permanent member of the Security Council, but Beijing does not support the joint G4 candidacy, essentially because of its antagonism with Japan. Another controversial issue is the impact of China on local industry. Indeed, over the course of the years Brazil has imposed various protectionist measures to reduce the volume of Chinese imports. This, however, has been no impediment to companies such as Petrobras (oil), CVRD (iron and steel), Embraco (refrigeration equipment) and Embraer (civil aviation) entering into partnerships with Chinese companies in Brazil and/or in China. Both countries, moreover, have a long history of collaboration in high-tech strategic sectors such as the nuclear industry and, especially, satellite construction. Their joint space project was in fact the first in the world to be carried out by developing countries.

China has maintained strategic relations with Venezuela since May 2001. Beijing has adopted a reactive approach to this relationship, since it is much more important to China to maintain fluid relations with Washington than to have a strategic alliance with Caracas. Hence the fact that while China approves of the extension of the Bolivarian project in its tendency to diminish US influence and it has contributed to the process with substantial funding commitments, it has abstained from praising it overtly. This accounts for the fact that China favours a gradual development of its ties with Caracas in the energy and military fields. According to the official figures released by Petróleos de Venezuela (PDVSA), Venezuelan oil exports to China did not reach a substantial level until 2008, when they amounted to 320,000 barrels per day, contrasting with 95,000 barrels in 2007. The next significant leap was in 2012, with 450,000

3 Spain has had a comprehensive strategic partnership with China since November 2005 and with the EU since October 2003.

barrels per day, and a steady subsequent increase to 535,000 barrels per day in 2014.[4] Exports of Venezuelan crude oil to the US have moved in the opposite direction, but even so remain higher, at 740,000 barrels per day in 2014. As far as arms sales to Venezuela are concerned, according to the figures compiled in various editions of *The Military Balance*, China ranks far behind other countries, especially Russia.

Relations between Beijing and Caracas are going through a difficult time owing to the problematic macroeconomic situation facing the government of Nicolás Maduro, characterised by a combination of low oil prices and growing social unrest. Beijing has to decide up to what point it wants to continue injecting liquidity into an economy as badly managed as the Venezuelan one is, and how it will respond in the event that Venezuela is unable to meet its commitments. For the time being the Chinese authorities have chosen to take an intermediate path, moderately increasing their investments in Venezuela, with a new loan of US$2 billion, falling well short of what Maduro had been hoping for.[5] In his recent visit to Beijing in September 2015, in the midst of the crisis with Colombia, President Maduro announced a new Chinese line of credit worth US$5 billion and earmarked for the Venezuelan oil industry. The terms and conditions of this agreement are not known, but it should be pointed out that the loan is aimed exclusively at reviving the oil industry, thereby boosting production and Chinese prospects of continuing to import Venezuelan oil.

The Mexico-China Strategic Partnership was signed during Prime Minister Wen Jiabao's official visit to Mexico in 2003. The intense economic competition between the two countries and the lack of interest on the Mexican side in strengthening relations with Beijing as a counterweight to Washington have caused relations to suffer numerous setbacks in the succeeding years, however. Mexico has been the only Latin American country to become embroiled in high-level and recurrent diplomatic spats with China. In the two six-year terms the National Action Party (*Partido Acción Nacional*, PAN) has been in government, the country's highest authorities have held meetings with the Dalai Lama, described the emergence of China as a threat to the interests of Mexico and criticised China's authoritarian character and its disrespect for human rights.[6] Harmony between the two countries improved substantially after Peña Nieto's rise to power and the strategic partnership acquired a comprehensive status in June 2013 , and, among other things, included an undertaking to intensify dialogue and bilateral consultations in the multilateral forums in which both countries take part, especially the UN, the G20 and APEC.[7]

This change has stemmed from the way that bilateral economic ties have developed. At the start of the century, Mexico viewed China as one of its main competitors both for its industry and in terms of attracting foreign investment. Mexico was the last member of the WTO to agree to Beijing joining the organisation. Currently, however, China is also seen as a source of investment and as a market for Mexican products. Furthermore, the massive bilateral trade deficit, approximately US$55 billion in 2013, is no longer due to the purchase of Chinese consumer goods –which account for only 10% of the total– but fundamentally to intermediate

4 http://www.pdvsa.com/index.php?tpl=interface.sp/design/biblioteca/readdoc.tpl.html&newsid_obj_id=12902&newsid_temas=111.

5 http://spanish.xinhuanet.com/chinaiber/2015-03/13/c_134063877.htm.

6 http://www.redalyc.org/pdf/599/59916819013.pdf, http://sipse.com/mexico/calderon-corrio-a-china-de-mexico-34607.html.

7 http://www.jornada.unam.mx/2013/06/05/politica/012n1pol.

goods and capital. Around 60% of such goods imported from China are used to manufacture products that are then sold beyond Mexico's borders, thereby demonstrating its contribution to enhancing Mexican industry's competitiveness.[8] This new perception of bilateral economic transactions has found a firm foothold in the current Mexican regime, but not yet among the majority of the general public.

In November 2004 Argentina recognised China as a market economy and, in return, Beijing symbolically recognised Buenos Aires as a strategic partner, although the bilateral relationship was still some way from taking off. As with Mexico, Argentina's protectionist stance, evident in various anti-dumping measures introduced against Chinese products post-2007 as part of the numerous cases it lodged against China at the WTO, hampered relations for a number of years.

Argentina's increasing problems in obtaining international credit provided the inducement to pave the way to a deepening and diversification of relations, because it was on the back of Chinese loans that agreements were negotiated in other strategic areas such as energy, transport, telecommunications, space technology and defence.[9] Among these agreements is the 50-year lease of 200 hectares of land to construct a space tracking station in Neuquén.[10]

Beijing has supported the Argentine position both in the conflict over the Falklands (Islas Malvinas for the Argentines) and in its negotiations with so-called vulture funds. In April 2012, at the 13th UN Conference on Trade and Development held in Doha, Qatar, the 130 members of the Group of 77 plus China approved a declaration on the Falklands, urging the UK to enter into negotiations with Argentina,[11] while in September 2014 the Group of 77 plus China persuaded the General Assembly of the UN to pass a resolution to make headway in drafting an international convention regulating the processes of restructuring sovereign debt.[12]

China's strategic partnerships with Chile (2012) and Peru (2013) are much more recent. Bilateral relations in the case of Chile have largely been confined to economic and trade matters, while in the case of Peru there have been significant investments from Chinese companies, the largest of these being in the Peruvian mining industry. The fact that both countries are exporters of raw materials and have little by way of local industry helped pave the way to them becoming the first two countries in the region to sign free trade agreements with China and ensure that their trade relations have been much less controversial than those of the first four Latin American countries with which China established strategic partnerships.[13] Although the strategic partnership between Peru and China postdates the Chilean agreement, and the volume of bilateral trade between China and Peru is less than half of the China-Chile figure, Lima has successfully secured a comprehensive strategic partnership in very little time. This is essentially due to two distinct circumstances: the substantial levels of Chinese investment in

8 http://www.uv.mx/chinaveracruz/files/2014/01/03_06_4_China-y-Mexico_2-1.pdf.

9 http://prensa.argentina.ar/2014/07/18/51417-argentina-y-la-republica-popular-china-firmaron-un-acuerdo-que-establece-su-asociacion-estrategica-integral.php; y http://www.casarosada.gob.ar/slider-principal/28354-los-mandatarios-de-argentina-y-china-firmaron-la-declaracion-para-fortalecer-la-asociacion-estrategica-integral-y-convenios-de-cooperacion.

10 Given the secrecy surrounding the agreements it remains to be seen whether the new Argentine government respects what has been signed and maintains the Chinese prerogatives.

11 http://unctad.org/meetings/es/SessionalDocuments/td468_sp.pdf.

12 http://www.un.org/spanish/News/story.asp?NewsID=30403#.VZFlcPntmkp.

13 The free trade agreement with Chile came into force on 1 October 2006 and with Peru on 1 March 2010.

Peru, particularly in the mining industry, and China's interest in constructing a transcontinental railway between Brazil and Peru.

For Bolivia, Cuba and Ecuador, Beijing is an essential counterweight to the US for the diplomatic support it can provide them with in various international forums and as a source of finance, technology and development aid. This support helps to create an image of China as an alternative to the traditional powers, which earns it political credit in its relations with other countries that are in the process of development or are simply going through periods of tension with the traditional powers. This model of relations, based on opaque agreements between governments, enables China to secure its supplies of natural resources, direct concessions of contracts to its enterprises and the diplomatic support of these countries. Such a manner of proceeding also generates resistance however –albeit not for the time being among the majority–[14] amid the political opposition and civil societies of such States, as well as in countries where the rule of law holds sway.

Ecuador is the only one of these countries with a relatively substantial economic significance for China, with US$2 billion worth of direct investment and loans granted to the value of US$10.8 billion, in addition to the US$7.5 billion agreed during President Correa's visit to China last January. One of the quid pro quos obtained by China for the latter financial agreement was the 10-year lease on the Manta military base.

Cuba meanwhile has a certain geostrategic importance for China, because it serves in a sense as a mirror for the conflict centring on the straits of Taiwan. By supporting the Cuban regime, Beijing shows Washington its capacity to maintain a presence close to its shores, just as Washington does with its backing for Taipei.

Colombia, whose links with Beijing are poorly developed owing to its close relations with the US, is in a situation far removed from the ALBA Bolivarian Alliance countries. Proof of this was the recent visit of the Prime Minister, Li Keqiang, the highest-ranking Chinese leader to visit Colombia in 35 years of diplomatic relations. In the regional context, Colombia is only an important partner as a recipient of direct investment, in fourth position with US$3.75 billion (ECLAC, 2013), and as an importer of Chinese products, in sixth position with a figure of US$6.83 billion (Comtrade, 2013). Incipient ties are starting to develop in other areas however, such as education, security and defence and, bearing in mind the results of Li Keqiang's visit, the prospects for the years ahead are for a rapid strengthening of relations in many sectors, including finance and infrastructure.[15]

3.5 Security and defence

China is a player of moderate but growing importance in Latin American security, despite the fact that it does not pose a military threat to any country in the region, or offer military support to changes of government or establish military alliances.

14 The survey data supporting this assertion are analysed in section 5.1.

15 http://wp.presidencia.gov.co/Noticias/2015/Mayo/Paginas/20150521_14-Declaracion-Conjunta-entre-el-Gobierno-de-la-Republica-Popular-China-y-el-Gobierno-de-la-Republica-de-Colombia.aspx.

The military dimension is far from being the most decisive consideration for China. As has been suggested in various white papers on the subject of China's defence, forging ties with Latin American armed forces enables China to establish alternative security structures that do not depend on western powers, particularly the US. It is also a means of supporting Chinese presence via military influence in non-military areas of cooperation within the same country and simultaneously a way of transmitting Chinese military influence to other countries in the vicinity. Military inroads thus reinforce China's rise in many of the region's States and enables it to influence political elites, promote the entry of Chinese investments and products and anticipate or forestall political decisions that could affect Chinese interests, while acquiring more profound knowledge of the countries and region concerned, among other benefits.

Building military cooperation also allows China (Ellis, 2011):

- To create tools to protect China's growing business presence in the area, whether through Latin American armed forces and/or private security companies, given that in recent years Chinese companies and citizens have suffered attacks in various countries in the region. Companies operating in remote locations are especially vulnerable, as demonstrated by the kidnappings and attacks, in some cases with explosives and fatalities, carried out against the employees and installations of Sinochem in Colombia; protests against Chinese oil firms in Tarapoa and Orellana, Ecuador, which ended with over 20 deaths and a state of emergency being declared; and protests at the site of a Bosai Mineral mine in Linden, Guyana, which led to the evacuation of Chinese personnel.

- To contribute to the development of the Chinese arms industry by means of its exports to the region. Sales of arms and non-lethal equipment to Latin American armed forces not only contribute financially to the development of the Chinese defence industry –especially the less technologically advanced part– but also helps to develop its technological know-how since it serves as a means of testing and fine-tuning the performance of military equipment across a variety of situations.

- To position itself strategically in a part of the world that is sensitive for the US. China will run the Manta military base in Ecuador for the next 10 years, has a presence in some of the former Soviet installations in Cuba and is building a space station in Neuquén, Argentina, to be run by military personnel. Apart from having a significant symbolic value as a sign of the way the Chinese military presence is accepted in the region, this aids Beijing in such aspects as gathering intelligence, carrying out various types of military exercises, demonstrating its military equipment to potential Latin American customers and undertaking training programmes.

China has expanded its programme of security and defence cooperation with Latin American countries in a sustained way, fundamentally through arms sales and military diplomacy. Although this process has been assisted by the decline of the US military presence in the region and the rise to power of various governments with an antagonistic stance towards the US, Beijing has been extremely cautious not to alienate Washington. This accounts for the gradual and low-profile way in which it is forging these ties and the systematic avoidance on the part of the Chinese authorities of any kind of anti-American rhetoric.

3.5.1 Arms sales

Although Chinese arms exports to Latin America are far less than those of the region's main suppliers, both their volume and their sophistication are clearly on the rise. Venezuela is the country that has resorted to China the most to modernise its armed forces, not only to acquire the equipment set out in Table 1, but also to construct various command and control centres. According to Hernández (2015)[16] and the IISS (2015),[17] over the course of the last decade China has supplied non-lethal equipment for maintaining public order as well as logistics material and vehicles for the Venezuelan armed and security forces. It has also supplied aviation radars: seven JLY11s in 2006 and three JY1Bs in 2010 and 26 in 2014; followed by 18 K-8W training aircraft in 2009, eight Y-8F-200W tactical transport aircraft in 2011 and 24 L-15 Falcon advanced fighter training aircraft, together with the corresponding simulators. For its marines, Venezuela purchased from China an unknown number of amphibious vehicles (VN1 and VN18) and tanks (VN 16) and has received and commissioned numerous vehicles and ambulances. In addition to such material, China has won contracts to build infrastructure and industrial installations for the armed forces to manufacture communications, logistics and field equipment.

Apart from the Venezuelan sales, Chinese equipment has penetrated the market to only a limited extent. Among the unfulfilled orders for Latin America compiled by IISS (Military Balance, 2015), there are no Chinese commissions for forthcoming years other than those already mentioned for Venezuela. Chinese strategy originally tended to look for strategic alliances with local industries. At the end of the 1990s the first agreements were struck with Brazil to develop rockets for various applications, which is still running to this day, although the attempt to jointly develop aircraft with Embraer was a failure. China has also tried to set up an industrial enterprise with Argentina. After licensing Fábrica Argentina de Aviones to manufacture light helicopters in 2011, it signed a memorandum of understanding[18] in 2014 to foster industrial cooperation in the naval, land and aviation fields. Up until now the agreements have failed to produce concrete results: Argentina has not been able to muster sufficient funding to produce VN1 vehicles and has even turned down evaluation of the Sino-Pakistani JF-17 Thunder aircraft. The agreement to install a space station in Neuquén, which will become available over the course of 2015, has fared better albeit with the reservations mentioned above. Other initiatives that have so far failed to prosper include attempts to sign industrial cooperation agreements with Uruguay, the Argentine-Sino coproduction of CZ-11 helicopters and agreements to install radars in Ecuador. These failures, combined with incidents involving intellectual copyright and air accidents such as the Venezuelan K-8 have triggered a debate about the reliability of military cooperation with China. Notwithstanding all this, Chinese logistics have proved more dependable than others that are available and Table 1 shows the fulfilment of delivery dates.

This strategy, inclined as it is to technology transfer, is aided by its low level of sophistication, enabling local industries to participate in joint manufacturing because they are capable of assimilating the technological transfers involved. The Latin American market is not as technologically demanding as North American, European, Arab or Asian markets because

16 Carlos E. Hernández, 'China en el fortalecimiento militar de Venezuela', Infodefensa.com, 18/V/2015.

17 Institute for International and Strategic Studies (IISS) (2015), Military Balance, p. 418-420.

18 Mixed Argentina-China Commission, 29/X/2014, following President Cristina Fernández's 2015 visit to China. The Cooperation Agreement in the Field of Defence Technology and Industry sought to assemble the VN1 vehicle and jointly manufacture P-18 corvettes.

its military requirements are not as complex and nor does it have such high purchasing budgets at its disposal to sustain the demand. The consequence is that Chinese headway in military procurement is being made by selling such secondary equipment as vehicles and ambulances (Ecuador), donations of military equipment (Colombia) and free assistance (Uruguay) to the armed forces, as well as equipment and installations for the security forces (the National Police School in Argentina).

What then accounts for the fact that Chinese arms companies are increasing their market share in Latin America? There are two key factors: the impossibility of accessing Western alternatives and the financial support offered by Beijing. Venezuela and Bolivia, for example, started to buy Chinese fighter planes only after the US refused to sell them F-16s and put pressure on other Western countries to follow suit. Bolivia's main arms purchases from China, shown in Table 1 –the two MA-60 cargo planes (US$38 million), the squadron of K-8WB fighters (US$58 million) and the six H-425 transport helicopters (US$108 million)– were financed by soft loans, in the latter case over a 20-year period at 2% interest. Moreover, the prices of Chinese systems are more affordable and represent a new channel for obtaining technology transfers for joint and independent production.

Table 1. Sales of Chinese military equipment to Latin America, 2001 - 14

Purchaser	Quantity and equipment	Order year	Delivery year	Observations
Argentina	4 WZ-551 armoured infantry vehicles	2008	4 in 2010	US$2.6mn
Bolivia	500 Red Arrow 8 anti-tank missiles	2003	500 in 2003	
	6 K-8 trainer-fighter planes	2009	2011	US$58mn
	6 AS365/AS565 Panther (H-425 version) helicopters	2012	6 in 2014	US$108-113mn
Ecuador	2 BT-6(BT-6/CJ-6 version) planes	2005	2 in 2006	Donation
	1 YLC-18air defence radar	2009	1 in 2010	Second-hand, loan until the delayed purchase of new YLC-2s and YLC-18s
	1 YLC-2air defence radar	2009	1 in 2010	
Mexico	13 105mm field howitzers (M-90 version)	2006	13 in 2006	US$14mn
Peru	15 FN-6 portable missiles	2009	2010	US$1.1mn
	10 QW-11 portable missiles	2009	10 in 2009	
	40 122mm (90-B version) self-propelled missile launchers	2013	–	US$42mn
Venezuela	3 JYL-1 air defence radars	2005	3 in 2005/2006	Part of a US$150mn programme
	7 JYL-1 air defence radars	2006	7 in 2008/09	
	3 JY-11 air defence radars	2008	3 in 2010/11	
	18 K-8 trainer-fighter planes	2008	18 in 2010	
	100 air-to-air missiles	2008	100 in 2008	For K-8 aircraft
	8 Y-8 cargo planes(Y-8F-200W version)	2011	8 in 2012/14	
	8 AS365/AS565 Panther helicopters (H-425 version)	2012	2015	
	18 81mm self-propelled mortars	2012	9 in 2014	Part of a US$150mn programme
	18 SR-5 self-propelled rocket launchers	2012	6 in 2014	Part of a US$150mn programme
	40 VN-1 infantry vehicles	2012	10 in 2014	Part of a US$150mn programme
	121 VN-4 armoured personnel carriers	2012	75 in 2013/14	For the National Guard
	25 VN-18 light tanks	2012	10 in 2014 remainder in 2015	Part of a US$150mn programme
	25 VN-16 light tanks	2012	10 in 2014 remainder in 2015	Part of a US$150mn programme
	9 K-8 trainer-fighter planes	2014	2015	
	24 L-15 trainer-fighter planes	2014	–	

Source: adaptation of the SIPRI Arms Transfers Database, information generated 13/VI/2015.

3.5.2 Military diplomacy

From Beijing's perspective, military diplomacy represents an excellent conduit for forging ties with Latin American armed forces without causing alarm to other parties, such as the US. It is hardly surprising that bilateral initiatives in this arena, such as high-level visits, exchanges of personnel, military exercises and humanitarian projects have proliferated exponentially in recent years and have involved a much greater number of countries than arms sales. Institutional meetings and visits to tackle security questions have taken off rapidly both at bilateral and multilateral levels. In November 2012, the Chinese Defence Minister, Liang Guanglie, chaired the first High-level China-Latin America Defence Forum, with representatives from Bolivia, Cuba, Colombia, Ecuador, Peru and Uruguay.

In the education and training arenas, virtually all the countries of the region that maintain diplomatic relations with Beijing send personnel to be trained in China. The People's Liberation Army offers them courses in English, French and Spanish, particularly at the Changping Defence Studies Institute. Most of these countries also receive members of the Chinese armed forces for their training programmes, albeit in smaller numbers. The only matter of real interest to China in this respect is the training offered by Colombia in insurgency control. Beijing has also donated military equipment to virtually all the countries, barring Brazil, Chile and Mexico, even though many of them have a higher per capita GDP than China. These initiatives also often involve Washington's main allies in the region. Colombia for example has received various donations of Chinese military equipment, notably those granted in 2012 to the value of US$7 million, and, like Chile, offers tactical-level training programmes to members of the Chinese armed forces. The fact that President Juan Manuel Santos has publically lauded the strengthening of defence ties with China, after more than a decade in which Colombia has been Washington's biggest ally on security matters and the largest recipient of US aid in the region, is a sign of waning US influence in this part of the world.

As far as joint military exercises are concerned, particularly notable is the '2010 Angel of Peace' exercise involving China and Peru, which simulated a humanitarian rescue mission with the aim of verifying the correct use of a mobile field hospital donated by China. The total value of this donation amounted to US$3 million, with US$1 million being earmarked for the purchase of Spanish supplies.[19] This humanitarian dimension was also the focus of the 2011 mission involving the Chinese 'Peace Ark' hospital ship, which attended to members of the armed services, government employees and the local populations in Cuba, Jamaica, Trinidad & Tobago, Costa Rica and Chile. Both missions received widespread coverage in the local media and emulated the humanitarian activities of the US military in the region, which has used this type of initiative to legitimise its regional presence.

19 http://www.bvsde.paho.org/notici/per101124_2.pdf.

3.5.3 Non-traditional security

As the legitimate links between China and Latin America have intensified, so criminal activities have emerged with the concomitant threat to security; these include the extortion of Chinese communities in Latin America by organised crime syndicates, the trafficking of arms, people and drugs as well as money laundering. Whether by action or omission on the part of the governments of the region, or the lack of Chinese companies' interest in the end-use of their products, the fact is that terrorist groups and organisations operating in Latin America, such as the FARC, are using Chinese weapons. An especially recent case was that of the Chinese vessel Da Dan Xian bound for Cuba, which was held for almost two months in Cartagena de Indias on charges of arms trafficking.[20]

3.5.4 Risks and opportunities for Spain

The emergence of China means that Latin American countries have more options for cooperating on matters of security, which reduces Spain's capacity to influence the armed forces of the region and creates increased competition for the Spanish defence industry. As the number of Latin American officials in China rises, the relative influence of Spain's educational programmes with the region's armed forces declines. This process is unfolding very rapidly because China, like the US, is able to offer intensive high-level training to a large number of Latin American military personnel, whereas Europe offers very limited capacity in its various military academies. Linked to their purchases of radars and fighter jets for example, various groups consisting of dozens of technicians and pilots from Venezuela and Bolivia were sent to China to receive training.

As far as competition for the Spanish arms industry is concerned, apart from its own limitations, such as the lack of technology transfers and compensations, and problems involving export licences, the pressure exerted by China and its comparative advantage in prices and financing is widening. A clear example is the P-18 corvettes, where the Argentine navy had previously investigated the idea of buying Spanish, as well as Brazilian and German, designs.

The criminal activities taking place in the region that can be traced back to China, such as the smuggling of chemical ingredients used in manufacturing narcotics, some of which reach Spain, or the arms trafficking mentioned above, represent a threat to Spanish interests in Latin America and the Spanish population as a whole. On the other hand, some of the joint projects in the security arena being instigated by China are helping the local regimes to wield greater control over their territories and fight such threats as terrorism and drug trafficking more effectively. Notable examples of this are the Chinese radars that are enabling Ecuador, Bolivia and Venezuela to control their airspace more effectively; the K-8 aircraft acquired for the Bolivian air force and stationed in Cochabamba to take part in operations to intercept drug shipments; and the courses delivered by members of the Chinese military on these issues in various countries, with the construction of a training centre for the Costa Rican police being a clear case in point.

20 http://www.bbc.co.uk/mundo/noticias/2015/04/150422_colombia_ordena_zarpar_barco_chino_armas_lv.

3.6 China and the processes of regional integration in Latin America and the Caribbean

China's foreign policy in Latin America also incorporates a multilateral dimension that is becoming more and more prominent. The progressive inclusion of China in the regional forums of Latin America and the Caribbean and the creation of specific multilateral platforms encompassing the region's countries and Beijing attest to China's becoming an actor of the first importance in the area. A notable milestone in this process was the holding of the first China-CELAC Forum in Beijing on 8-9 January 2015, to which only four members did not send delegations (despite the fact that there are 12 that do not maintain official diplomatic relations with China). The event was a relative success, as is evident from the three endorsed documents to emerge (the Beijing Declaration, the 2015-19 Cooperation Plan and the Institutional Arrangements and Operating Rules of the Forum) and the announcement of a second forum to be held in Chile in January 2018. Willingness was expressed on the Latin American side to set up a series of summits with China that would bring together the CELAC Heads of State and government leaders with their Chinese counterparts. If this scenario comes to pass, depending on how relations between Beijing and Taipei unfold, it would downgrade the importance of the Ibero-American Summits even further and place China on a level of dialogue with the region equivalent to that of the EU and the EU-CELAC Summits. CELAC's prospects as a driver of regional integration in Latin America remain to be seen however.

Chart 1. China's membership of Latin American institutions and bilateral forums with the region

1990	Observer at the Rio Group
1991	Observer at the Inter-American Development Bank
1994	Observer at the Latin American Integration Association
1997	Establishment of China-MERCOSUR talks
1998	People's Bank of China admitted as official member of the Caribbean Development Bank
1999	Founding of the Forum for East Asia-Latin American Cooperation
2000	Establishment of the China-Andean Community Policy Consultation and Cooperation Mechanism
2004	Founding of the China-Caribbean Economic and Trade Cooperation Forum
2004	Observer at the Organisation of American States
2004	Observer at the Latin American Parliament
2005	Establishment of the Andean Community-China cooperation programme
2005	Sino-Caribbean Economic and Trade Cooperation Forum
2008	Member of the Inter-American Development Bank
2009	Member of the Inter-American Investment Corporation
2010	First China-Latin America and the Caribbean Business Summit
2015	First China-CELAC Forum

Source: the authors.

Although regional integration in Latin America is paralysed and in crisis, China has some influence over this process through various dynamics generated by its interaction with the region, for example by modifying trade patterns, by constructing major infrastructure projects and by issuing loans. This helps to widen the gap between Mexico and the north of Central America on the one hand, which maintain much stronger and more diverse ties with the US, and the rest of Latin America on the other, which is opting to strengthen relations with China in a more determined fashion.

As far as the construction of infrastructure is concerned, the fact that China and Latin America want to improve transport links with each other is also translating into improved intraregional connectivity, especially in terms of connecting Latin America's Atlantic and Pacific coasts.[21] This has served to reactivate projects that already formed part of the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA), such as the interoceanic Brazil-Peru highway, and to stimulate new ones, such as the transcontinental Brazil-Peru railway, about which many doubts remain in terms of financing, environmental impact and economic benefits for the region. A side effect of these new infrastructure projects, which improve Brazil's transport links with its neighbours, could be to increase its influence over the region. This indeed was one of the reasons that led President Fernando Henrique Cardoso to launch IIRSA in 2000.

Lastly, a collateral effect of Chinese financing of Venezuela, and to a lesser extent other ALBA countries, has been to favour the activities of the latter organisation. It should be pointed out, however, that neither the Chinese leadership nor the news media have echoed the confrontational rhetoric employed by the heads of various ALBA governments against Washington and the Organisation of American States (OAS), in stark contrast to the positive response they have received in other parts of the world, such as Russia and Iran. Indeed, China has recently strengthened its collaboration with the OAS, especially in the area of academic exchanges.[22]

21 This strengthening of transport links between China and Latin America has also had a positive effect for Spain, which is serving as a bridging point for flights between the two.

22 http://www.china-embassy.org/eng/sgxx/ctk/rota/t1219430.htm.

4. Economic relations

4.1 Trade links

4.1.1 The emergence of China as a commercial power in Latin America

The lengthy period of economic expansion that China has been undergoing over recent decades and its opening up to the outside world, which included its admission to the WTO,[23] boosted its trade throughout the world to such an extent that by 2013 it had surpassed all other countries in terms of exchange of goods. China increased its share of the world's exports from 3.6% in 2000 to 12.4% in 2014, its sales to other countries having risen by a factor of 9.4 over the period. China's emergence as an export powerhouse stems from the way its manufactured products have been able to penetrate international markets and value chains, which is due in turn to their being highly competitive on price. Imports meanwhile increased from 3.3% in 2000 to 10.3% in 2014, multiplying by a factor of 8.7. China's strength as an importer is due to its demand for vast amounts of fuel of all kinds, minerals and the capital goods needed to keep pace with its industrial and urban expansion, as well as food and other consumer goods needed to cater to household demand.

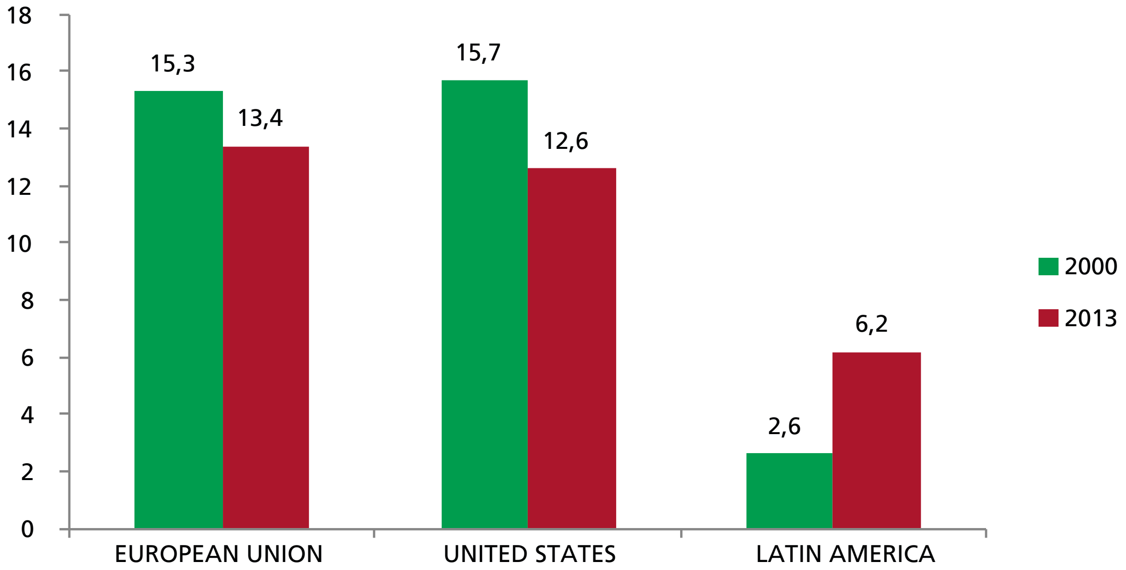
In Latin America, China found a region that clearly complemented its needs, which in turn acted as a spur to trade. Latin America has abundant natural resources to supply to its Asian partner, but also growing markets and a modest industrial base where the introduction of Chinese products can be accomplished with ease. Trade between the two economies grew at a rate in excess of 150% per annum and rose by a factor of 21 between 2000 and 2013, reaching a yearly level of US$275 billion.[24] China's share of the region's exports in this period went from 1% to 10% and imports from 2% to 16%. Although China's trade with the rest of the world also gathered pace, it grew in Latin America at an even greater rate, with the consequence that the region's share of China's total trade rose from 2.6% to 6.2%, while for the EU it fell from 15.3% to 13.4% and for the US from 15.7% al 12.6%.[25]

23 World Trade Organisation.

24 UN COMTRADE.

25 UN COMTRADE.

Figure 1. Share of Chinese trade for the EU, US and Latin America, 2000-13



Source: UN Comtrade.

4.1.2 An asymmetrical trading relationship

Trade between China and Latin America is characterised by two types of asymmetry, the first related to the products exchanged and the second to the unequal ties of dependency that have been generated between the two parties. With regards to the first, it is worth pointing out that 73% of all Latin American exports are raw materials. By contrast, manufactured goods account for 91% of the products imported by Latin America from China. There is an extremely well-defined pattern of trade between the two parties based on the exchange of raw materials for manufactured goods. Exports are moreover concentrated into a relatively small number of products (the five main products account for 80% of exports in all countries except Mexico), with oil, iron, copper, soya, scrap metal, fishmeal, timber and sugar being the most prominent. It is worth pointing out that this characteristic concentration of Latin American trade with China does not apply to other countries and regions of the world, where exports are significantly more diversified.

The second point to be made is that from the Chinese perspective the commercial importance of Latin American countries is moderate in the case of Mexico and Brazil and negligible in the case of the rest. Brazil, which is the region's foremost trading partner, accounts for only 1.6% and 2.8% of China's total exports and imports, respectively, meaning that it ranks as the 11th largest supplier of goods and is China's 8th largest customer. The second-largest trade partner, Mexico, is the 14th largest supplier to China and the 25th largest customer for its exports. Apart from Brazil and Mexico, none of the other Latin American countries manages to attain 1% of China's total exports or imports. Although the volumes of trade are modest from the Chinese point of view, the imported goods do have a certain strategic character, stemming from the fact that they are largely energy and mineral products that are essential to its development.

China has become a fundamental trade partner in recent years. As a market for exports, China is the most important trade partner for Brazil and Chile, and the second most important for Argentina, Peru and Colombia. China's average figure as an export market for Latin America is 6.8%, although it is worth noting that this is close to 20% in the case of the largest regional economy, Brazil, and 24.9% in the case of Chile. Its importance is even greater as a supplier of goods. China is the top-ranking source of imports for Brazil, Uruguay and Paraguay, and the second most important source for another 11 countries. China's average share of imports for the region is 14.4%, reaching almost 20% in the cases of Chile and Peru and 28.3% in the case of Paraguay.

Table 2. Latin American countries' ranking and share of trade from China's perspective

LAR	OR	Importing countries	$ mn	%	LAR	OR	Exporting countries	$ mn	%
1	11	Brazil	35,895	1.6	1	8	Brazil	54,299	2.8
2	14	Mexico	28,966	1.3	2	17	Chile	20,708	1.1
3	22	Chile	13,105	0.6	3	24	Venezuela	13,120	0.7
4	27	Panama	10,993	0.5	4	25	Mexico	10,238	0.5
5	29	Argentina	8,750	0.4	5	31	Peru	8,408	0.4
6	35	Colombia	6,826	0.3	6	33	Argentina	6,086	0.3
7	37	Peru	6,189	0.3	7	40	Colombia	3,620	0.2
8	38	Venezuela	6,065	0.3	8	52	Uruguay	2,466	0.1
9	55	Ecuador	2,967	0.1	9	66	Ecuador	775	0.0
10	69	Uruguay	2,324	0.1	10	72	Cuba	505	0.0
11	81	Guatemala	1,475	0.1	11	83	Honduras	235	0.0
2	83	Cuba	1,375	0.1	12	91	Guatemala	174	0.0
13	85	Paraguay	1,356	0.1	13	103	Nicaragua	92	0.0
14	99	Honduras	799	0.0	14	112	Paraguay	61	0.0
15	105	Jamaica	627	0.0	15	119	Panama	44	0.0
		Others	1,952	0.1			Others	89	0.0
		Total	129,665	5.9			Total	120,920	6.2

LAR: Latin American ranking; OR: overall ranking for the Chinese economy; the percentage refers to the Latin American country's share of China's total exports/imports.
Figures for 2013.
Source: UN Comtrade.

Table 3. China's ranking and share of trade from the Latin American perspective

			Exports		Imports	
		Share of trade	Ranking	Share	Ranking	Share
1	Brazil	33.4	1	19	1	15.6
2	Mexico	14.5	4	1.7	2	16.1
3	Chile	12.5	1	24.9	2	19.7
4	Venezuela	7.1	n/a	n/a	2	17
5	Argentina	7.1	2	7.2	2	15.4
6	Peru	5.4	2	17.5	2	19.4
7	Colombia	4.6	2	8.7	2	17.5
8	Panama	4.1	3	6.1	4	7.9
9	Guatemala	2.4	10	1.9	3	8.2
10	Costa Rica	2.3	7	3.3	2	9.6
11	Uruguay	1.8	3	14.2	1	16.9
12	Ecuador	1.4	9	2.3	2	16.7
13	Paraguay	1.1	29	0.6	1	28.3
14	Dom. Rep.	0.6	4	2.9	2	10.5
15	Cuba	0.5	n/a	n/a	n/a	n/a
16	Honduras	0.4	8	2.6	2	8.9
17	Bolivia	0.3	8	2.6	2	13.4
18	El Salvador	0.3	34	0.1	4	6.5
19	Nicaragua	0.2	19	0.5	3	11.5
20	Haiti	0.1	n/a	n/a	n/a	n/a

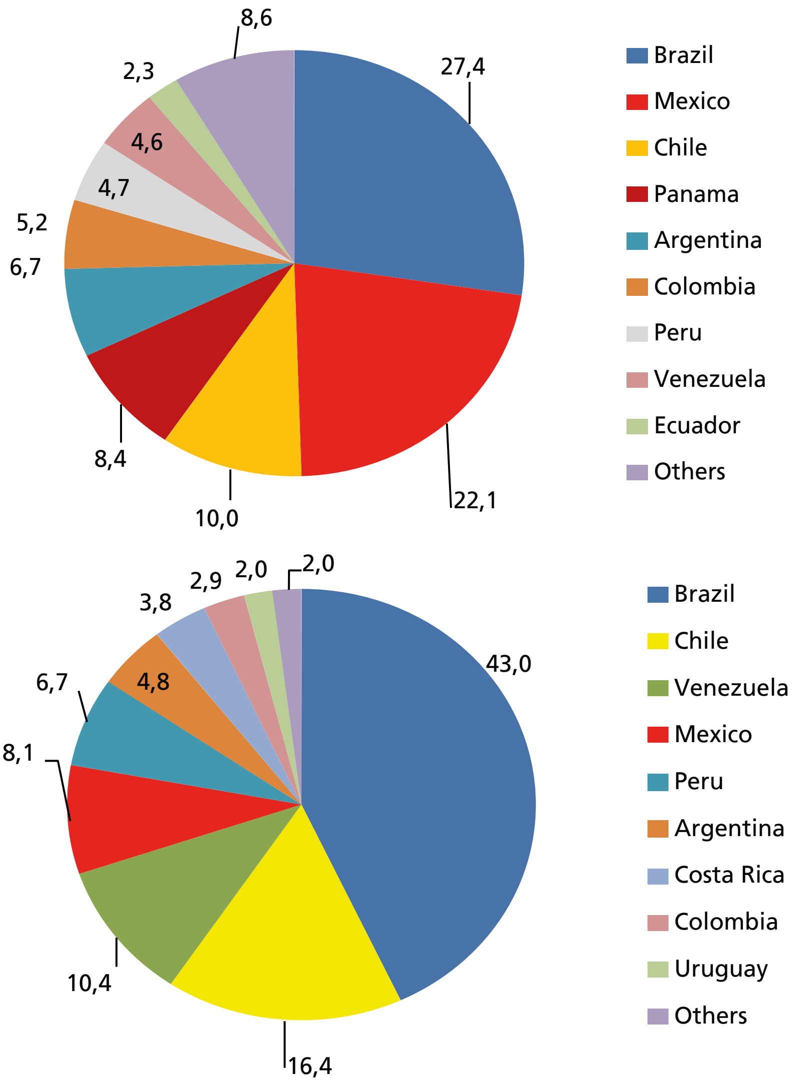
Year: 2013.
'Share of trade' refers to the trade share of the country as a trading partner with China (exports and imports). Exports and imports are from the perspective of the Latin American country.
n/a: not available.
Source: UN Comtrade.

4.1.3 Analysis by country

Trade between China and Latin America is highly concentrated in the largest economies of the region. Starting with exports from the Chinese perspective (totalling US$ 129,665 million in 2013), the two countries with the largest markets, Brazil and Mexico, account for half of the total. Other important markets for Chinese exports are Chile (10%), Panama (8.4%), Argentina (6.7%), Colombia (5.2%), Peru (4.7%) and Venezuela (4.6%). In terms of imports (worth US$120,920 million in 2013), the concentration is highest in those countries with an abundance of raw materials, these being the most imported product. Brazil accounts for 46% of the total, followed by Chile (16.4%) and Venezuela (10.4%). Also with a share in excess of 3% of the Latin American total are Mexico (8.1%), Peru (6.7%), Argentina (4.8%) and Costa Rica (3.8%).[26]

26 UN Comtrade.

Figure 2. China's exports to and imports from Latin America by country (% of the regional total)



Source: UN Comtrade, 2013

From the Latin American point of view, China has become a high-priority trading partner for numerous countries. China is Brazil's main trading partner, ahead of the US and far ahead of Argentina, a country with which Brazil has reduced trade barriers as a consequence of their both belonging to MERCOSUR. Brazil is the only Latin American country for which China is both the main export market and the main supplier of imports, which makes it highly dependent on China's economic cycle. Brazil's exports to China account for 19% of its total exports, almost double the US figure, and its imports from China represent a share of 15.6%, very close to the US figure.

Brazil exports products to China with scarcely any modification and derived from raw materials, mainly those related to soy and ferrous minerals and their derivatives, and to a lesser extent petroleum products, sugar and wood pulp. As far as imports are concerned, Brazil buys a wide range of products from China, generally characterised by high added-value, such as vehicles, textile articles, fertiliser and components for ships.[27]

Table 4. Ranking of Brazil's export markets and sources of imports

Nr	Export market	US$ mn	%	Nr	Source of imports	US$ mn	%
1	China	46,026	19.0	1	China	37,302	15.6
2	US	24,866	10.3	2	US	36,280	15.1
3	Argentina	19,615	8.1	3	Argentina	16,463	6.9
4	Netherlands	17,326	7.2	4	Germany	15,182	6.3
5	Japan	7,964	3.3	5	Nigeria	9,648	4.0
6	Germany	6,552	2.7	6	South Korea	9,491	4.0
7	Venezuela	4,850	2.0	7	Japan	7,082	3.0
8	South Korea	4,720	1.9	8	Italy	6,717	2.8
9	Chile	4,484	1.9	9	France	6,509	2.7
10	Rest	105,775	43.7	10	Rest	94,947	39.6

Figures for 2013.
Source: UN Comtrade.

Mexico's preeminent trading partner is the US, sustained by a range of factors such as geographical proximity, intra-industrial trade and the North American Free Trade Agreement (NAFTA).[28] Mexico's pronounced trade orientation towards the US and its relatively low reserves of non-exploited energy and mineral resources help to account for its trading relations with China, which lack the weight of other Latin American countries' relations. China is the fourth largest recipient of Mexican exports, but with only 1.7% of the total ranks behind the US, Canada (also a NAFTA member) and Spain. China's role is more important as a supplier to Mexico, where it ranks second, at 16.1% of the total, exceeded only by the US.

Mexico's exports to China are notable for their greater degree of added value compared with other Latin American countries, and in particular the volume of vehicles as a proportion of the total (68% of the total). Other significant exports are copper-based minerals, petroleum-derived oils and electrical equipment.[29] Imports are more diverse: apart from vehicles and vehicle parts, plastic-based products and manufactured goods, iron and steel, metals and aluminium predominate. Mexico has Latin America's largest trade deficit with China, far greater than other countries in the region and six times greater than Brazil's.

27 ECLAC.

28 North America Free Trade Agreement (NAFTA).

29 ECLAC.

Table 5. Ranking of Mexico's export markets and sources of imports

Nr	Export market	US$ mn	%	Nr	Source of imports	US$ mn	%
1	EEUU	299.846	78,9	1	EEUU	187.758	49,3
2	Canadá	10.415	2,7	2	China	61.321	16,1
3	España	7.138	1,9	3	Japón	17.076	4,5
4	China	6.470	1,7	4	Corea del Sur	13.493	3,5
5	Brasil	5.386	1,4	5	Alemania	13.461	3,5
6	Colombia	4.735	1,2	6	Canadá	9.847	2,6
7	India	3.795	1,0	7	Otra Asia	6.689	1,8
8	Alemania	3.794	1,0	8	Italia	5.621	1,5
9	Japón	2.244	0,6	9	Malasia	5.379	1,4
10	Resto	36.137	9,5	10	Resto	60.564	15,9

Figures for 2013.
Source: UN Comtrade.

Chile is China's third-largest trading partner in Latin America. As the main destination for Chilean exports, China plays an essential role in Chile's foreign trade, with 24.9% of the total, the highest Chinese share of exports of all the region's major economies, which reflects a pronounced dependency on Chinese demand. China is also Chile's second-largest supplier, with 19.7% of the total, a share that is three times greater than that of Brazil.

Chile's sales to China predominantly involve copper and associated products, which account for 77% of total exports. This reveals significant vulnerability both to the demand for this metal and its derivatives and to the fluctuations in its price. There is greater diversity in the products imported from China. Prominent among these are articles of clothing, vehicles and car parts and added-value products of various kinds based on iron and steel, plastic and rubber.

Venezuela is China's fourth-largest trade partner. The largest Venezuelan export market is the US, with China taking second position followed by Colombia, the Netherlands and Brazil. As far as imports are concerned, the US, China and Colombia are the largest suppliers of products, followed by Mexico and Argentina. Venezuelan exports to China are almost entirely confined to petroleum, accounting for 94% of the total. It is the Latin American country with the least diverse range of exports, reflecting a vulnerability even more acute than that of Chile with copper and associated products. Products that Venezuela imports from China include textile articles, photographic material, tools and various products based on stone, cement and gypsum.

Argentina is China's fifth-largest trading partner. Argentina's most important partner is Brazil; this is due to various factors including geographical proximity, the shared interests and synergies generated by their industrial development and membership of MERCOSUR since 1991. Despite this, China's growing influence in Argentina is displacing Brazil. China occupies second place in the ranking of Argentina's trading partners, ahead of the US, a position that it holds for both exports and imports, with shares of 7.2% and 15.4%, respectively. Argentine exports to China are based on agricultural produce, such as soya beans and oil, and less on minerals and fuels than other countries in the region, although petroleum does play an important part. As far as imports are concerned, chemical products and vehicle components are prominent.

Peru is China's sixth-largest trading partner, with a share of 5.4%. From Peru's perspective, China is its second-largest trading partner, exceeded only by the US, albeit by very little. China's share of Peruvian exports is 17.5%, and its share of imports 19.4%, one of the highest in the region along with Chile. Peru's sales to China are almost entirely confined to minerals, mainly copper, but also iron and zinc, which account for 95% of all exports. Imports on the other hand are more diverse, as with other Latin American countries, comprising parts and components for vehicles, as well as iron and steel articles, plastics and textile products, among others.

Colombia is China's seventh-largest trading partner. China is the second-largest customer for Colombian exports and its second-largest supplier, exceeded only by the US, with which it has maintained solid trading relations for years, boosted recently by an FTA signed in 2012. Colombia replicates the trading pattern that China has with other large Latin American economies. Its exports are heavily weighted towards raw materials: petroleum, iron, copper, coal and aluminium. Imports include low to medium-tech products, such as vehicle parts and components, chemical products and articles manufactured or derived from raw materials.

Brazil, Mexico, Chile, Argentina, Venezuela, Peru and Colombia are the seven principal economies of Latin America, between them accounting for 90.5% of Latin American GDP and 84.5% of trade with China. But China's importance and emergence as a power in world trade has also extended to other Latin American countries. In the remaining Latin American economies, characterised by their smaller size and relatively minor reserves of raw materials, China's importance as a destination for exports is notably lower; this is not the case for imports however, where China acts as one of the main suppliers of products.

As far as exports are concerned, China's share as a recipient does not exceed 3.5% for any country except Uruguay, reflecting China's relatively minor importance as a destination for exports, mainly owing to the smaller reserves of natural resources in these countries. In some cases, such as El Salvador and Nicaragua, China scarcely registers, occupying the 34th (0.1%) and 19th (0.5%) positions in their export rankings respectively.[30] China's importance as an importer to these countries is considerably greater. It is the leading importer both in Uruguay and in Paraguay, in the latter case with a share of 28.3%, the highest in Latin America. China is also the second-largest importer in Costa Rica, Ecuador, the Dominican Republic, Honduras and Bolivia, and the third largest in Guatemala and Nicaragua. Except in the case of Costa Rica, which has maintained diplomatic relations with Beijing since 2007 and an FTA since 2011,[31] the lack of diplomatic relations with the remaining Central American countries may accentuate the weaker commercial ties.

4.1.4 The benefits and risks of the pattern of trade

The exports of raw materials from Latin America to China are key to explaining the successful performance of the region's economy in recent years. The sales of energy resources and minerals have involved a considerable transfer of wealth from China, which has helped to boost regional economic growth above 5% of GDP. The region has managed to reduce its

30 UN Comtrade.

31 Free Trade Agreement.

macroeconomic imbalances and its vulnerability to external shocks, and tip-toed around the international financial crisis. The income derived from sales of raw materials released resources in order to close the investment gap with developed economies and South-East Asia, a phenomenon that applied particularly to those countries with major reserves of raw materials, such as Chile, Peru and Ecuador. Lastly, the economic cycle had an enormous impact in terms of welfare and social advances, and it is calculated that up to 50% of Latin Americans managed to attain middle-class status and another 70 million hauled themselves out of poverty.[32]

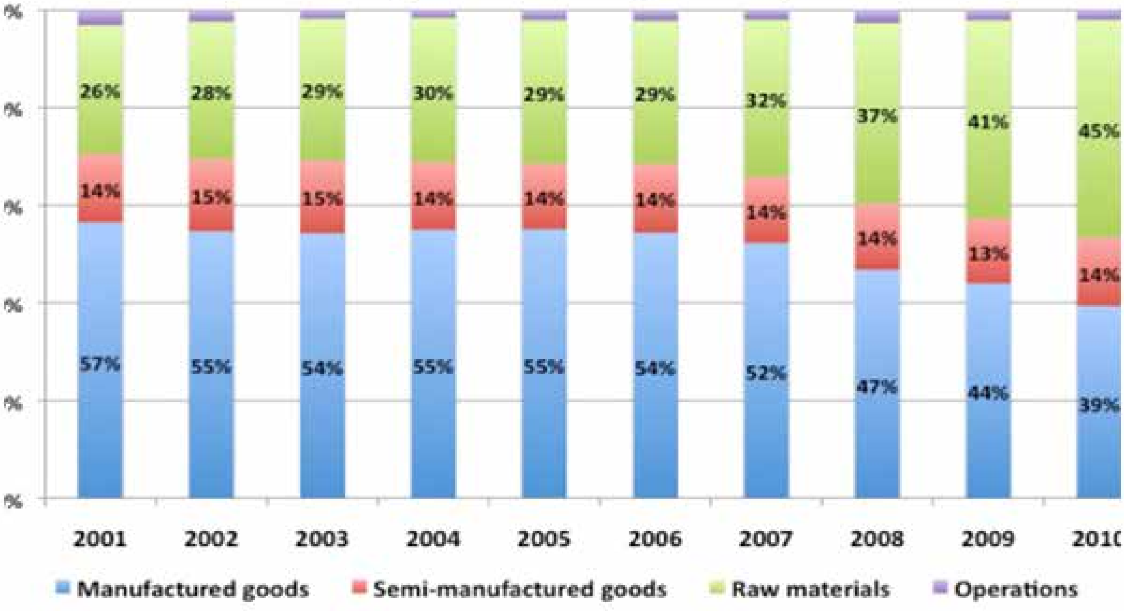
In addition, however, to the undoubtedly positive effects stemming from an export boom driven by Chinese demand for raw materials, the increase in trade between the two economies also incurs risks for Latin America. First, a strong dependence on the Chinese economic cycle has been created, with the exception of Central America, exposing the region to the negative effects of a deceleration in the growth rate of the Chinese economy, and the subsequent declining demand for energy resources and minerals. The growth outlook for China in the years ahead, in the region of 5%-7% per annum, could cause Latin American growth to fall to 2.5%, very similar to the level prevailing before the sales of raw materials to China began.[33] Furthermore, a pronounced reduction of income in the region could not only halt the advance but even reverse the achievements in macroeconomic stability and social welfare in some countries. As well as the slowdown in China there is the fall in the price of some raw materials, especially hydrocarbons, which will have an additional negative impact on countries such as Venezuela and Ecuador. This effect will be less noticeable among exporters of minerals, such as Chile and Peru, since their value has been stable since 2012, or agricultural products, the prices of which have slightly increased since 2011.

Secondly, the asymmetry in trade could act as a barrier to industrial development in Latin America. Whereas the region essentially exports raw materials to China (energy resources, minerals and foodstuffs with scarcely any processing), China sells manufactured goods of varying degrees of technological sophistication, such as electronics, components and parts for vehicles and textile products. This trading pattern could lead to a reprioritising of the export sector in Latin America and the development of various industries may be impeded as a consequence of the wholesale entry of Chinese products. This point is illustrated by the way the structure of Brazilian exports changed between 2001 and 2010, when manufactured products declined from 57% of to 39%, whereas raw materials climbed from 26% to 45%. Other facets of the economic relations between China and Latin America, such as the financing of major infrastructure projects by the former, could also have a negative effect on the development and consolidation of the region's industrial base, owing to the fact that China imposes the use of its equipment as a condition for carrying out work.

32 World Bank.

33 World Bank (2015), 'Latin America Treads a Narrow Path of Growth'.

Figure 3. Evolution of the profile of Brazilian exports



Source: Instituto Brasileiro de Geografia e Estatística.

4.1.5 Other aspects of interest

Trading relations between China and Latin America are now well-consolidated, as is clear from the various summits held between the respective parties' Heads of State and government leaders. There is a growing harmony between the countries involved, resting principally on trade.[34] In the years ahead it is likely that the rebalancing in China's engines of growth will affect the composition of its export profile to Latin America. In this context, a recent study by BBVA Research foresees a drop in Chinese demand for energy resources and basic minerals, such as hydrocarbons, coal, iron and copper, and a rise in the demand for foodstuffs and other consumer goods. This change will affect the countries of the region in different ways. Trade could go into decline in the cases of Chile and Venezuela, major exporters of copper, petroleum and related products, and increase with Uruguay, supplier of food products.[35] The development of China's internal market and greater disposable income will create a considerable increase in demand for consumer goods, presenting Latin American businesses with a major business opportunity.

The way trading relations between China and Latin America unfold, both in terms of their volume and in terms of the products traded, will also be affected by the results of the economic and trade integration processes in which both economies are involved. The most important initiative in the case of China is the attempt to create a large Asia-Pacific Free Trade Area that includes the 21 member-countries of the Asia-Pacific Economic

34 At the first ministerial summit between China and CELAC, in 2014, President Xi Jinping claimed that trade between the two economic blocs would double in a decade, reaching as much as US$500 billion per annum.

35 Deustche Bank Research (2015), 'China rebalancing: Blessing and curse for Latin America'.

Cooperation (APEC) forum.[36] Progress in the negotiations surrounding this project –which is opposed by the US– could contribute to reshaping China's trade flows with certain Latin American countries on the Pacific Rim. The initiative, which was presented in November 2014 at the APEC summit in Beijing, is still at a very early stage, however, and its outcome remains uncertain.

It is also in the Pacific that Latin America is currently going through a renewed process of integration. The Pacific Alliance (PA) is a regional integration initiative set up in 2011 with the current participation of Mexico, Chile, Colombia and Peru, with Costa Rica, Panama and Guatemala all negotiating their future membership. In contrast to the modest progress, protectionist and exclusionary character and sense of fatigue surrounding MERCOSUR, the PA is results-focussed and its member States share an economic model based on principles of openness and respect for free markets, something that is somewhat novel in the region. The various meetings arising from the new accord have manifested a willingness to favour economic and trading ties with Asia in general and China in particular, although for the time being this interest has not given rise to any concrete measures.

4.2 Bilateral investment

4.2.1 Chinese investment in Latin America

Chinese investment in the outside world started to increase gradually in the 1990s, but did not really take off until the 21st century was underway, partly as a result of a determined commitment on the part of the Chinese government to regulatory flexibility, incentives for foreign investment and the financing facilities for these operations, measures that were in part included in the Go Out Policy in 1999. In 2000 China was the 23rd-largest world investor in accumulated terms with a share of just 0.3%, whereas in 2013 it had become the 12th-largest investor, with a share of 2.3%, having increased its accumulated investment in the world by a factor of 22 over the period. In 2014 it was the third-largest world investor with a record US$102.9 billion.[37] China's emergence as one of the world's main investors rests on various macroeconomic, political-strategic and business factors. At the macroeconomic level there is the notably prolonged economic cycle of expansion characterised by high average rates of growth of 10.3% (over the 2000-10 period), a savings rate in excess of 40% of GDP and the largest holding of reserves in the world (close to US$4 trillion), which generated a vast accumulation of Chinese capital ripe for investment.

At the political-strategic level, the Chinese government pushes foreign investment through its State-owned Enterprises (SOEs)[38] in order to have access to a variety of assets in which China is deficient and are deemed necessary for its development process, notably energy resources, minerals and foodstuffs. The investments made by Chinese SOEs are

36 Australia, Brunei, Canada, Chile, China, South Korea, Philippines, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Russia, Singapore, Thailand, Taiwan, US and Vietnam.

37 UNCTAD data for 2013.

38 State-owned Enterprises (SOEs) are deemed to be public enterprises in which the State holds a stake and are supervised by the State-owned Assets Supervision and Administration Commission (SASAC).

weighted towards Latin America due to the concentration of natural-resource operations, and although private companies have been gaining ground as foreign investors, now accounting for 48.8% of the total,[39] they predominantly tend to operate in advanced economies.[40] Notable among the business factors –which also indirectly correspond to a government strategy due to the fact that public enterprises are the largest foreign investors– are the access to capital markets and the new mass-participation stock markets, the diversification of risks and access to know-how, technology and global brands.

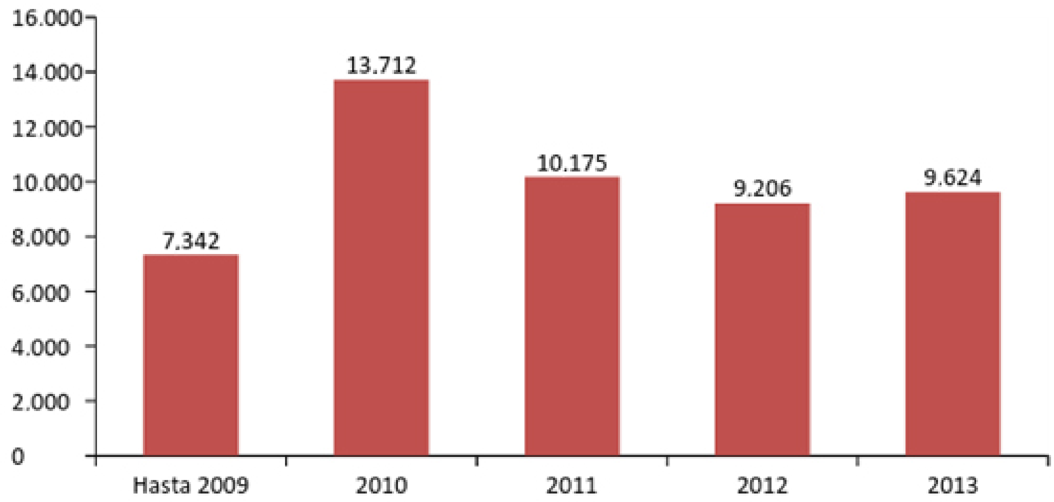
Chinese investments in Latin America are a relatively recent phenomenon, the majority having taken place since 2000. Despite the rapid progress in recent years, the Chinese share of investment in Latin America is minor compared to investments from Europe and the US, whose multinationals have been operating in the region for decades. Chinese investments are heavily concentrated in sectors related to natural resources and extractive industries, in operations led by the SOEs, reflecting a deliberate State policy whose ultimate aim is to secure the provision of raw materials. Once the investments in the primary sectors have been made, the energy resources and minerals are exported to China, so that the investments can be seen as the preparatory step to the exports of these materials analysed in the preceding section.

ECLAC estimates that Chinese investments in Latin America between 1990 and 2009 were only US$7 billion. A tipping point took place in 2010, when a sum of US$14 billion was pumped in, albeit highly weighted that year towards two operations in the petroleum sector in Brazil and Argentina. Since then, China has invested between US$9 and US$10 billion per annum, representing between 5% and 6% of all the investment received by the region. In total the ECLAC data indicate accumulated Chinese FDI in Latin America of US$50 billion.

39 MOFCOM.

40 Besides the SOEs it is worth pointing out the growing importance of other public investment vehicles such as the sovereign wealth funds, particularly the China Investment Corporation (CIC). CIC has assets to the tune of US$200 billion, and up to 17% of its investment portfolio comprises assets in emerging markets, including Brazil. At least three large operations have been conducted in the latter country involving the Vale mining company and the BTG Pactual financial services company. The strategy of the fund has recently pivoted towards a greater interest in agriculture, where Latin America enjoys considerable comparative advantages.

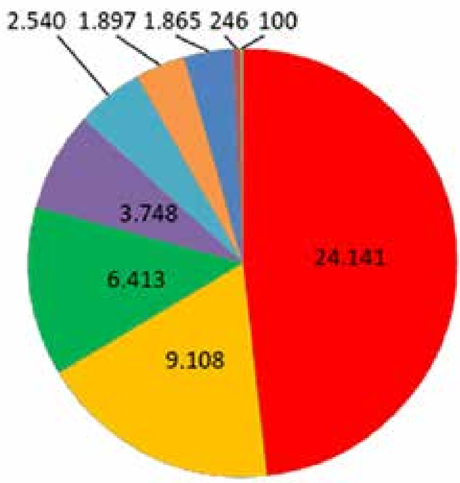
Figure 4. Evolution of Chinese FDI in Latin America



Source: compiled by the authors on the basis of ECLAC data.

As far as the recipients of investment are concerned, Brazil is the preferred target for Chinese enterprises and accounts for one out of every two dollars invested in the region. With 18% of the total, Peru takes second place followed by Argentina (13%), Colombia (7%), Venezuela (5%) and Ecuador (4%). There is a notable scarcity of Chinese investment in two of the region's largest economies, Mexico and Chile.

Figure 5. Main recipients of Chinese investment in Latin America

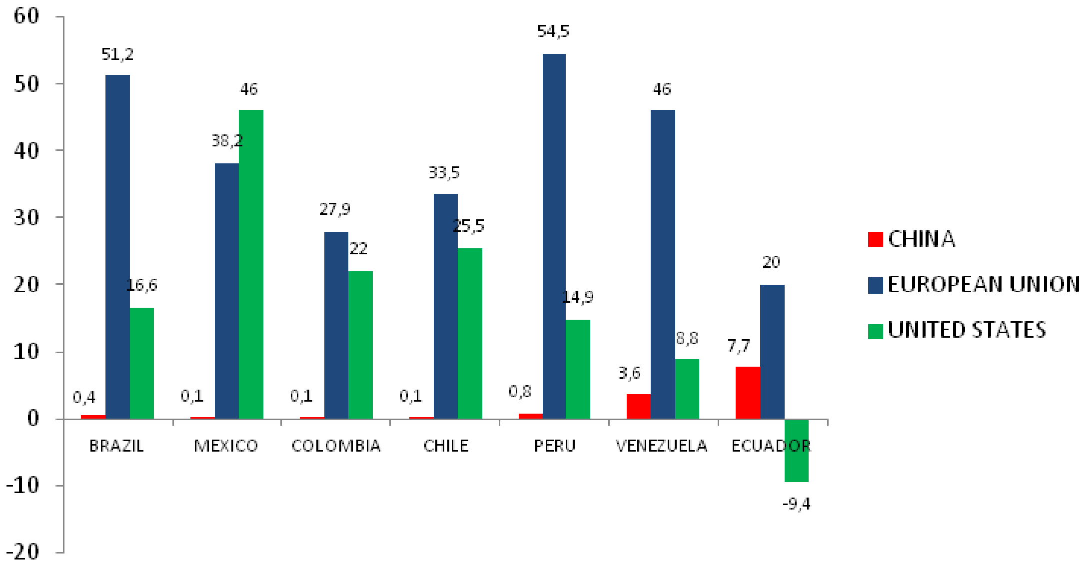


Source: CEPAL.

Unlike in the case of trade records, there is no reliable and standardised database for calculating bilateral investment operations between China and Latin America. The ECLAC statistics, which stem from an analysis of various private databases, are the most exact and provide the best picture of reality, but are also incomplete. The Chinese Ministry of Commerce (MOFCOM) records a total of accumulated investments of US$9,869 million (once the Cayman Islands and the British Virgin Islands are excluded), a figure that is five times lower than the ECLAC number and is possibly undervaluing the presence of Chinese companies in Latin America.

From the perspective of Latin American countries, China is still a very minor investor and of little importance in terms of accumulated investment if it is compared with the EU and US.[41] The EU and US account for between 50% and 80% of the total FDI received by the main economies of the region, whereas China does not exceed 8% anywhere. Investment from the EU is as high as 54.5% of the total in the case of Peru and 51.2% in Brazil, and US investment is 46% of the total received by Mexico. China can only be deemed one of the main investors in the case of Ecuador and Venezuela. The Chinese share of the total invested in Ecuador is 7.6%, ahead of any European country.[42] In the case of Venezuela, China is the seventh-largest investor, with a 2.9% share of the total.[43]

Figure 6. China-EU-US share of FDI in various Latin American countries (% of the total)



It should be noted that the information is not necessarily comparable either for the periods covered for the various countries or because of the methods of counting used by the various sources of information.
Source: authors' own compilation based on data from the Central Bank of Brazil (2001-14), the Economy Secretary of Mexico (1999-2014), the central bank of Colombia (1994-2013), the government of Chile (1974-2012), the government of Peru (2000-14), the Central Bank of Ecuador (2002-14) and UNCTAD data for Venezuela (total accumulated stock).

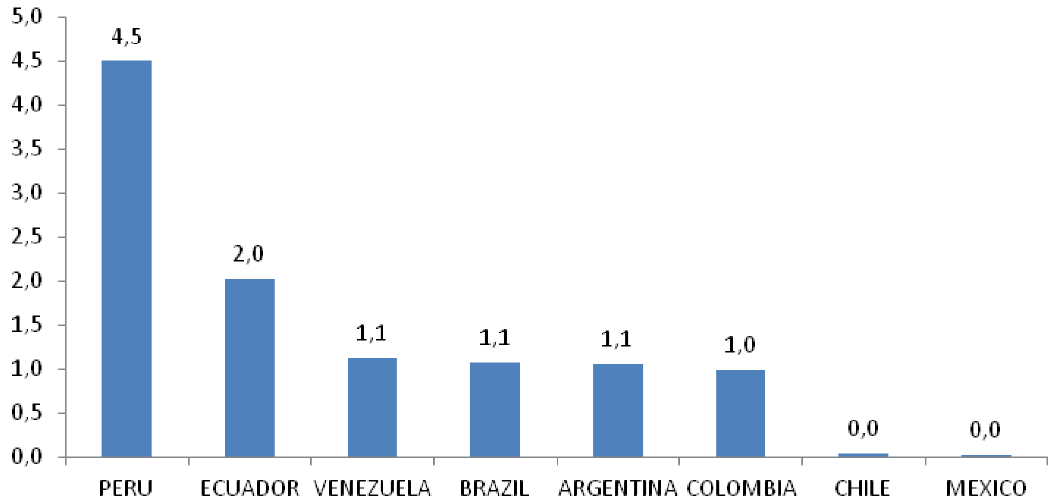
41 In the absence of uniform and comparable data, it was necessary to use various official sources published by the statistical institutes and central banks of the region's main countries in order to analyse the countries investing in Latin America. Specifically, the cases of Brazil, Mexico, Chile, Colombia, Peru, Venezuela and Ecuador have been investigated, because all of them have official statistics and they are the most important economies in the region by size and the main recipients of Chinese investment.

42 Ecuador's balance of payments data for 2002-14.

43 UNCTAD.

In order to measure the impact of Chinese investment on the various Latin American countries, the cumulative Chinese investment has been analysed as a proportion of the economic size of the recipient country. According to this analysis, the country with the greatest Chinese FDI in relative terms is Peru, which receives four times the Chinese investment in Brazil, Venezuela, Argentina and Colombia. There is also a notable degree of investment in Ecuador. Both Mexico and Chile however have received little Chinese investment in relation to the size of their economies.

Figure 7. Ratio of cumulative Chinese FDI/GDP for Latin American countries



The ratio is calculated by cumulative FDI * 100 / GDP, both variables being measured in millions of dollars.
Source: authors' own compilation based on ECLAC data for cumulative FDI and IMF data for 2013 .

As far as economic sectors are concerned, Chinese investments in Latin America are concentrated in the sectors of natural resources and minerals. Between 2010 and 2013 almost 90% of Chinese investments were devoted to the natural resources sector. This investment pattern applies to the whole of Latin America with the exception of Mexico and other Central American countries. The latter countries' relatively low reserves of natural resources in comparison to other countries in the region and the strong economic and business links with the US have resulted in less investment in raw materials and a more diversified investment profile. It is hardly surprising that the absence of diplomatic relations between China and the Central American countries –barring Costa Rica– should have negatively affected the volume of Chinese investments, which in many cases are driven from the public sector via the SOEs and stem from agreements between governments.[44]

The raw materials sector can be subdivided into hydrocarbons and mining companies. China is one of the largest investors in the former in Argentina, Brazil, Colombia, Peru

44 Although not shown in the ECLAC statistics, Central American countries have also been recipients of Chinese investment, albeit on a smaller scale. Sinohydro invested US$300 million in the construction of a hydroelectric plant in Honduras, Shandong Daiyin US$35 million in a textile operation in Guatemala and Shenyang US$4 million in a wind power project in El Salvador. The most important Central American country for Chinese FDI is Costa Rica, where the oil company CNPC invested US$700 million in a refinery.

and Venezuela. The four major Chinese oil companies (CNPC,[45] CNOOC,[46] Sinopec and Sinochem) have been particularly active investors. In terms of mining companies there is a strong weighting towards Brazil and Peru. Prior to 2007 the only investment in mining was that of the metallurgical company Shougang in Peru, which gave rise to environmental and labour disputes with the local population. Since then other groups such as Chinalco, Minmetals and Nanjinzhao have started to mine for copper and iron.

There have essentially been three paths that Chinese companies have used to gain entry to the natural resources sector: (1) direct acquisition of operations (the purchase of the Peruvian mine Las Bambas by Minmetals from GlencoreXtrata); (2) sole or joint exploitation licences (CNPC in the Libra oilfield in Brazil); and (3) stake holding, mergers and acquisitions (Sinopec's purchase of 30% of the assets held by the Portuguese company Galp in Brazil and 40% of Repsol YPF Brazil, transactions valued at US$4,800 million and US$7,111 million respectively), sometimes with other regional or international partners.

Secondly, albeit trailing a long way behind their investments in natural resources, Chinese enterprises have made certain investments in the manufacturing sector, particularly in Brazil and Mexico. Various Chinese industrial firms and conglomerates have opened factories to cater to local markets, especially in MERCOSUR countries. Chinese enterprises have installed factories to build vehicles. SAIC Chery Automobile opened a plant in the interior of São Paulo state with the capacity to manufacture 150,000 vehicles per annum. Also in Brazil, in the free economic zone of Manaos state, Zongshen and China South Industries produce more than 100,000 motorcycles every year. The computer firm Lenovo opened a manufacturing plant and technology centre in Monterrey (Mexico) to service the North American market, taking advantage both of the geographical proximity and the benefits associated with NAFTA.

Thirdly, Chinese enterprises have also carried out certain notable operations in various infrastructure branches of the service industries. The electricity provider State Grid has a holding company in Brazil whose assets include 5,700km of transmission lines, 14 electricity substations and more than 300 employees. The hydroelectricity company Sinohydro (contractor at the Three Gorges Dam) has made significant investments in energy projects in countries such as Ecuador and Venezuela. The Hong Kong company Hutchison Whampoa meanwhile, through its Panama Ports Company subsidiary, is the largest port operator in Panama and operates and invests in the Balboa and San Cristóbal terminals, the Pacific and Atlantic entries to the Panama Canal.

Also in the services sector, in maritime transport, the shipping companies COSCO and China Shipping have subsidiaries in Brazil to facilitate the movement of goods and extend the trade routes between Latin America and Asia. The large State-owned banks are also present in the region, particularly notable being the purchase by ICBC (the largest bank in the world by assets) of 80% of Standard Bank Argentina, as well as subsidiaries and offices opened by Bank of China and China Construction Bank to promote the financing of bilateral trade.

45 China National Petroleum Corporation.

46 China National Offshore Oil Corporation.

The technology giants Huawei and ZTE provide network services in various Latin American countries and the former has opened an R&D centre in Brazil.

Fourthly, despite the importance of agriculture for a country like China, with its shortfall in food production, and the significant potential of various Latin American countries in this sector, the investments that have been made to date are relatively modest. This is in part due to the fact that China does not have a significant number of large State-owned enterprises with the capacity to become global players in the agricultural sector, and nor does the Chinese government use the enterprises in this sector for its foreign interests as it does with those specialising in natural resources, construction, engineering and transport. In addition to this, agriculture is characterised by restrictions on foreign capital in various countries and it is often not possible to establish operations by virtue of not being public entities. Investments to date include that of China Fisheries in its purchase of a factory ship in Peru for US$103 million, the purchase of assets for US$92 million in the sugar cane industry in Jamaica by the Chinese distributor Complant Sugar and the food conglomerate COFCO, which acquired the assets of the Viña Bisquertt winemaker in Chile for US$18 million.

Table 6. Notable transactions by sector, using sector-based classification

Year	Chinese enterprise	Target company	Sector	Country	Value US$ mn	Type
2010	Sinopec	Repsol YPF Brazil	Petroleum	Brazil	7,111	M&A
2014	Minmetals	Activos Glencore	Copper	Peru	5,850	M&A
2010	Bridas	CNOOC	Petroleum	Argentina	3,100	M&A
2010	Sinochem	Statoil Brazil	Petroleum	Brazil	3,070	M&A
2013	CNPC	Petrobras Peru	Petroleum	Brazil	2,600	
2008	Minmetals & Jiangxi	Northern Peru Copper	Copper	Peru	2,500	M&A
2010	Sinopec	Occidental Argentina	Petroleum	Argentina	2,450	M&A
2007	Chinalco	Peru Copper Inc	Copper	Peru	2,200	M&A
2013	China Railway		Mining	Ecuador	2,050	M&A
2008	Sinohydro		Electricity	Ecuador	2,000	Greenfield
2010	Sinohydro		Electricity	Venezuela	1,800	Greenfield
2010	State Grid	Transmissao Itumbiara	Electricity	Brazil	1,702	M&A
2009	State Grid	Various	Electricity	Brazil	1,700	M&A
2006	Sinopec	Encana Corp-Ecuador	Petroleum	Ecuador	1,420	M&A
1992	Shougang		Iron	Peru	1,000	Greenfield
2007	Lenovo		IT	Brazil	1,000	Greenfield
2009	Golden Dragon		Metallurgy	Mexico	960	Greenfield

Source: the authors.

In general, the increase in Chinese investment brings important benefits to Latin America, such as the direct and indirect creation of employment, the entry of large amounts of capital into the country and the contribution it makes to inserting Latin American products into international value chains. Chinese investments have served to improve some of the infrastructure in Latin America, particularly energy infrastructure, in a region with a growing demand for energy and electricity. Moreover, both trade and investment in the energy sector and the mining industry create greater positive externalities than in previous periods of Latin American economic history. Wherever investment takes place a degree of development in auxiliary industries and business activity is noted, sometimes transformative, which contributes to the insertion of the regional primary sector into international value chains. Finally, the predominance of Chinese investment in industries related to natural resources is aimed at the subsequent export of energy resources and minerals to China, which in turn is crucial for driving Latin America's foreign sales.

An investment pattern that is overly focussed on natural resources brings less beneficial effects to Latin America, however. Since it takes place in the primary sector amid activities with negligible added value it has limited spill-over effects, hardly transferring any technology to the local commercial fabric or producing any significant impact on the development of human capital. The arrival of large investors in these industries has also led to an excessive productive specialisation in raw materials, increasing the risks inherent in a reprioritisation of the economic structure of various countries and reducing the incentives to develop a diversified industrial fabric.

When investments are made in manufacturing, Chinese enterprises tend to operate with very tight cost structures and to finance themselves at source with highly favourable conditions, creating fierce competition for local industries, with which they come to compete both in the domestic and foreign markets. In the automotive industry, China has developed half a dozen enterprises such as SAIC, BAIC, FAW, Geely, Chery and BYD, each with their own brands and increasingly sophisticated vehicles, including electric cars. The competitive threat could turn out to be considerable for those industrial and service businesses with a high technological content, because the technological gulf between the two economies has widened in recent years. China invests 2% of its GDP in R&D, compared with 0.8% in Latin America,[47] and currently has six enterprises among the 100 most innovative in the world (Henan Shuanghui, Tingyi Holding, Hengan International, Baidu, Tencent and Inner Mongolia Yili), more than either Germany or the UK.[48]

The prospects for Chinese investment in Latin America are clearly positive. Various analysts, such as Rhodium Group and Citibank, forecast a pronounced increase in Chinese investment globally in the years ahead. At the start of 2015 President Xi Jinping said in his inaugural address at the first China-CELAC Forum that his aim was to invest US$250 billion dollars in Latin America in the coming decade at the rate of US$25 billion per annum. It is worth noting that this volume of investment, more than double the current one, could give rise to certain protectionist reactions in the governments of the region, if not an explicit rejection by the communities particularly affected as a result of investments in the energy and mineral sectors. Various conflicts have already sprung up. The Ecuadorean government's granting of exploitation rights in the Zamora-Chinchipe mine to Tongling triggered a march on the capital by ecologist groups and indigenous peoples in 2012. In the same year the Venezuelan workers' federation protested about 3,000 Chinese employees being hired and approval being given for another 30,000 to be taken on by CITIC for the Fort Tiuna construction project. Other investments in mining and mining-related activities in Peru (Piura), Bolivia (Colquiri) and Argentina (Cerro Dragón), among others, have also been the subject of violent protests.[49]

47 ECLAC

48 Fortune.

49 R. Evan Ellis (2013), 'The Strategic Dimension of Chinese Investment with Latin America', William J Perry Center for Hemispheric Defense Studies, Washington DC.

4.2.2 Latin American investment in China

Latin American investment abroad has been growing gradually in recent decades, but in a particularly noticeable way since the advent of the 21st century. Despite this, the region's investments in China are highly limited. The cumulative FDI for Latin America in the world at the end of 2013 (US$660 billion) was six times greater than the cumulative figure in 2000 (US$107 billion).[50]

A convergence of factors drove the foreign investments of Latin American enterprises: the favourable economic climate, the financing facilities, the income stemming from the rise in prices of raw materials, the increase in domestic consumption in the region,[51] the appreciation of local currencies and the policies of openness to foreign investment in various sectors of the economy.

Latin American foreign investment tends to be concentrated in a small group of multinationals with the financial muscle and know-how to compete on the world stage; for some years they have been known as *multilatinas* or *translatinas*. Notable among these are those specialising in the extraction, exploitation and marketing of raw materials, where the public sector maintains a stake, such as Petrobras in Brazil, Pemex in Mexico and PDVSA in Venezuela, with investments in 18, 34 and 10 countries respectively. While this is the most common type of business profile, the *multilatinas* are also present in other industries and feature a more diversified ownership structure, such as JBS Friboi (foodstuffs, Brazil), Sudamericana de Vapores (shipping, Chile) and Tenaris (metals, Argentina).

The origins of Latin American foreign investments can mainly be traced back to six countries that jointly account for 96% of the total and provide 95 of the region's 100 most internationalised companies: Brazil, Mexico, Chile, Colombia, Argentina and Venezuela.[52] These countries, in particular Brazil and Mexico and to a lesser extent Chile, have companies of sufficient size and scope to compete on a global stage. Despite significant growth in recent years, the FDI emanating from Latin America is still relatively modest and the region is some way from being an important investor in the world. Latin America's combined share of total FDI in the world is 2.5%, far short of Europe's 46%, North America's 27% and Asia's 13%.[53] A large proportion of the investments take place between countries of the same region, which reduces the impact of their investments outside Latin America.

Latin American investments have been focussed on three fundamental geographical areas: Latin America itself, as the natural market for expansion in both geographical and cultural terms, and because it gives access to new groups of consumers or energy and mineral resources; and the US and the EU, by virtue of their being high purchasing-power markets, with transparent and stable investment environments, offering the possibility of accessing new sources of finance and constructing a global brand. Asia in general, and China in

50 UNCTAD.

51 América Economía's ranking of the top 100 multilatinas, 2014.

52 UNCTAD.

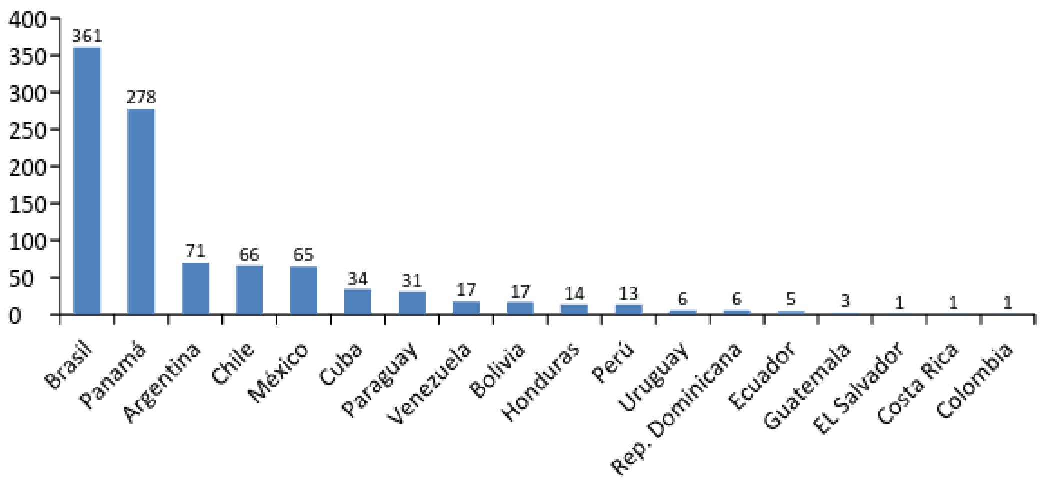
53 UNCTAD.

particular, do not constitute an important destination for Latin American investments, however.[54]

Between 2010 and 2013, a period that was notable for the volume of Latin American investments abroad, none of the region's 20-largest foreign investment operations had China, the world's second-largest economy, as their destination according to ECLAC. According to official Chinese data published by the National Bureau of Statistics, between 2006 and 2013 Latin America invested, leaving out OFCs, US$988 million, only 0.1% of the total received by China for the period. By country, the leading investor was Brazil, with US$361 million, followed by Panama, with US$278 million, and Argentina, Chile and Mexico, which invested in excess of US$50 million.

Analysis of the foreign investment figures contained in the statistics published by the central banks and statistics institutes of the various Latin American countries confirms China's lack of importance as a recipient of FDI. In the case of Brazil (accounting for 44% of the Latin America's outward FDI), its companies boast a notable presence in neighbouring countries and the largest companies show a certain tendency to invest in the EU. As far as China is concerned, recent data indicate that of 76 foreign investments carried out by Brazilian multinationals, not a single one went to China, and between 2007 and 2012 the Central Bank of Brazil records that only 0.1% of total investment ended up in China.[55]

Figure 8. Latin American countries' investment in China, 2006-13 (US$ mn)



Source: National Bureau of Statistics.

In the case of Mexico (which accounts for 22% of Latin America's outward FDI), in addition to their presence in the region the large companies tend to make investments in the US for the reasons pointed out above. As far as their presence in China is concerned, studies of

54 As with Chinese investments in Latin America, analysing the presence of Latin American companies is plagued by numerous statistical gaps. The publically-accessible data released by China's National Bureau of Statistics were used for the purposes of this analysis, complemented by various leading reports in the field published by ECLAC and IADB.

55 Campanario, Stal & Da Silva (2012), 'Outward FDI from Brazil and its policy context, 2012', Vale Columbia Center on Sustainable International Investment.

Mexican businesses indicate that of the 20 largest multinationals only 5% have a presence in East Asia.[56]

Chile (accounting for 15% of Latin America's outward FDI) has a smaller number of companies with the financial and competitive capacity to tackle international markets when compared to Brazil and Mexico. Chilean firms have a foreign investment profile that is highly focussed on neighbouring countries and very few operations outside the region. An analysis carried out between 2007 and 2009 of 53 foreign investment operations found that only two had China as the recipient.[57]

There are few home-grown multinationals in Argentina (6% of the total) and Colombia (5%) that operate on a global scale and there is scant evidence of their companies making investments in China, barring exceptional cases. According to Colombia's Bank of the Republic, between 1994 and 2014 the country invested only US$10 million in China, a modest amount compared with the US$1,954 million invested in Brazil, the US$2,111 million invested in Spain and the US$7,600 million invested in the US.[58]

In the context of the scarcity of Latin American investment in China, the few business deals that have taken place have been characterised by the diversity of industries involved. In mining there is the Chilean firm Codelco and the Brazilian company Vale, in the food business companies like the Mexican firm Bimbo and the Chilean firm Concha y Toro, in manufacturing and materials the Mexican company Grupo Alfa and the Argentine firm Tenaris, Embraer in the aviation industry, and in information technology the Brazilian firm Stefanini. A recent study by the IADB[59] looked at the presence of 98 Latin American companies in China[60] and highlighted not only the heterogeneous nature of the industries in which they operate but also the wide range of activities they engage in.

Primary sector companies engage in two kinds of activity: commercial support for their sales networks, as in the case of the Chilean company Codelco and the Brazilian firm Petrobras, and direct investment in assets or the acquisition of exploitation rights. Manufacturing companies engage in production as well as sales and marketing activities, and in some cases have invested in distribution and R&D. Service companies meanwhile maintain a presence in China mainly to provide their services –technological, financial and commercial, among others– either directly or through a subsidiary, with the aim of establishing the greatest degree of proximity to the customer.

The scarcity of Latin American investment in China is due to numerous reasons, such as geographical distance, the language barrier, a distinct business culture and, until a few years

56 Basavey & Gutiérrez-Haces (2012), 'Survey of Mexican multinationals, 2012', Vale Columbia Center on Sustainable International Investment.

57 Razo & Calderón (2012), 'Chile's outward FDI and its policy context', Vale Columbia Center on Sustainable International Investment.

58 See http://www.banrep.gov.co/es/inversion-directa.

59 Inter-American Development Bank (IADB) (2014), 'LAC Firms in China: Firm Strategies and Typologies'.

60 The sample includes 32 Brazilian, 30 Chilean, 21 Mexican and 11 Argentine companies, which jointly account for 96% of the total. Most of them are manufacturing companies, followed by service providers and to a lesser extent the primary sector.

ago, the lack of Latin American firms' capacity to invest abroad. Furthermore, the many restrictions placed on investment as well as the operating restrictions in China have not surprisingly disincentivised a larger number of undertakings. Chinese industries are heavily regulated and FDI is classified as either prohibited, restricted, permitted or incentivised, with the consequence that some industries are permanently closed to foreign capital and others have barriers that are difficult to overcome. China is the most restrictive country for foreign investment according to the OECD's FDI Restrictiveness Index, which collates barriers to investment –including equity caps– in 22 economic sectors for 58 countries.[61]

Looking ahead to the next few years, China's growing acceptance of foreign capital in a larger number of economic sectors could have the effect of increasing investments where they had previously been restricted or prohibited. In accordance with the change in the economic model, greater business opportunities should emerge in areas linked to private consumption. Chinese consumers' greater purchasing power will stimulate demand for a large number of products and services, representing a huge business opportunity for those Latin American companies that manage to enter the market, not only through exports but also by directly establishing themselves in China. In the food industry the consumption of chicken increased by 54% between 2005 and 2010, and China currently consumes 12 million tonnes of chicken per annum, making it a larger market than the US. In the telecoms industry there were seven mobile telephone-line subscribers per 100 inhabitants in 2000, whereas the current figure has shot up to 89.

On the other hand, the increase in labour costs will undermine the attractions of investments in labour-intensive manufacturing. Various US companies' production lines have returned to their home country and many European firms with investments in China are carrying out so-called re-shoring operations[62] (the minimum hourly wage in China is US$1.19, compared with US$0.28 in India, US$0.52 in Indonesia, US$0.73 in the Philippines and US$0.64 in Vietnam).[63] [64] The China whose attractions rested on low labour costs will gradually give way to a different country where the main attraction will be the greater amount of private consumption in its large domestic market.

EThis new playing field will affect Latin American companies in two ways. Those whose principal objective in China is to service the local market and insert their products will have a greater incentive to invest. Those that are engaged in labour-intensive activities, however, will need to explore alternative homes for their investments, where labour costs continue to be competitive. Large relocation operations or the repatriation of production is not in any event to be expected in the case of Latin American firms since their presence in manufacturing in China is extremely modest. Lastly, the rearrangement of international investment patterns stemming from the increase in Chinese labour costs could indirectly

61 For more information see http://www.oecd.org/investment/fdiindex.htm.

62 PricewaterhouseCoopers (2014), 'Fit for business: preparing for dramatic change within the Eurozone'.

63 See http://www.china-briefing.com/news/2014/06/03/china-asean-wage-comparisons-70-production-capacity-benchmark.html.

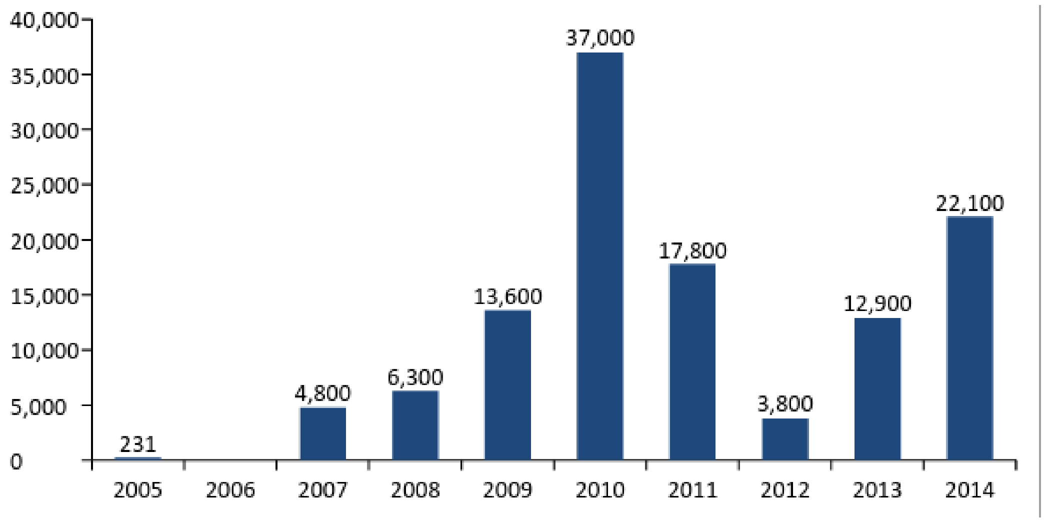
64 The increase in Chinese labour costs has triggered a lively debate concerning China's current competitiveness in terms of attracting labour-intensive investments and recently the Economist and the Wall Street Journal have both published articles in this vein ('China loses its allure' and 'China loses edge as world's factory floor', respectively).

benefit Latin American countries located relatively close to the US frontier, such as Mexico and the Central American countries. These countries have lower logistics and regulatory costs, which should be a significant incentive for attracting US investment once China's relative advantage in labour costs vanishes.

4.3 Financing

Chinese financing in Latin America has grown substantially in the last decade, reaching the level of US$119 billion in 2014.[65]

Figure 9. Evolution of Chinese lending in Latin America (US$ mn)



Source: Inter-American Dialogue.

An irregular pattern emerges from the 2005-14 period, with total loans varying enormously from one year to the next. There seems to be an increase in later years, peaking in 2010 with US$37 billion issued in lending, and the most recent year, 2014, also standing out with US$22.1 billion. The figures for 2015 will also be highly significant bearing in mind the financing agreements announced over the course of the year, with the China-CELAC summit in January, President Cristina Fernández's visit to China in February and Prime Minister Li Keqiang's tour of various South American countries in May.

65 For the purposes of this analysis, the China-Latin America Finance Database, a joint project of Inter-American Dialogue and the Global Economic Governance Initiative (GEGI), was used. The limitations of this database are the absence of follow-up of the execution of loans and the non-inclusion of operations below US$50 million, but despite this it remains the most reliable and reputable source of information regarding Chinese loans issued in Latin America. Its data are consistent with those released by borrower governments through their Finance Ministries' statements and websites.

In comparative terms, with an annual average between 2009 and 2013 of US$19,547 million, China has become the largest financer of Latin American development, exceeding any other country and even overtaking the IABD, the traditional leader in international public financing in the region.

4.3.1 How does China channel its financing?

The lending is carried out fundamentally through two Chinese State-owned banks, the China Development Bank (CDB) and to a lesser degree the Export-Import Bank of China (EXIM Bank). It should be noted that these banks are the property of China Central Huijin, a holding company 100% owned by the Chinese State. The CDB focuses on eight areas of development, and the loans are issued under various of these headings: electricity production and distribution, highways, railway infrastructure, coal mining and production, telecommunications and postal services, agribusiness and public infrastructure. Loans predicated on the transfer of petroleum (commodity-backed loans) involve a loan agreement and an agreement to sell petroleum and involve the State-owned banks and oil companies of both countries. This type of agreement, previously used by Japan in its lending to China in the 1970s, works as follows: the CDB issues a US$1 billion loan to Ecuador. To repay it, the State-owned oil company Petroecuador supplies the agreed number of daily barrels to the Chinese oil companies, which remit payment for the barrels to the Petroecuador account at the CDB. The CDB then directly withdraws the amount paid into the account for the repayment of the loan. Large oil companies such as Petrobras in Brazil and Petróleos de Venezuela have taken part in this type of operation, usually with the CDB as the Chinese counterparty. There is certain evidence to suggest that the price paid by China for the oil is a market price in the majority of cases. The contracts signed for this type of loan have not been made public in the majority of cases, however, so that important characteristics bearing upon their nature and conditions have not been revealed.

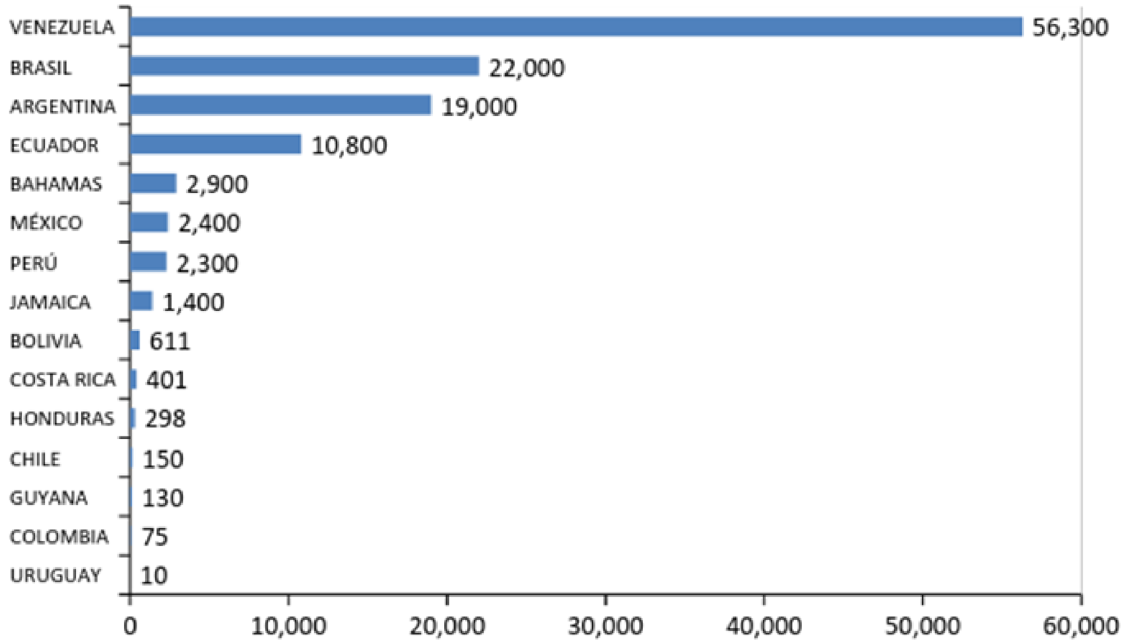
EXIM Bank's mandate meanwhile is to facilitate the export and import of a diverse range of Chinese products, a strategy that makes a good fit with the operation of many loans, which are predicated on the purchase of material and equipment from Chinese enterprises. This manner of proceeding minimises the risks of the operation and differentiates it from traditional donors, which have significantly reduced tied aid and are committed to aid that is more effective in helping the recipient to develop, based on such principles as results-based development and local ownership.

The fact that the supply of petroleum and the use of Chinese machinery in projects act as guarantees for the loans has enabled Chinese banks to provide financing at interest rates that are significantly lower than those that such countries and companies could find in the marketplace. This accounts for CDB lending US$20 billion to Venezuela at a floating interest rate of 85-285 base points above Libor, a fraction of the 1,220 base points demanded of Venezuelan sovereign debt on the debt markets. As far as the risk of non-payment is concerned, it is also noteworthy that China tends to avoid arbitration tribunals, opting instead to impose sanctions or export embargoes on a country potentially in default of the contractual obligations arising from a loan. Here the key factor in China's negotiating strength stems from it being an extremely large recipient of Latin American countries' exports.

4.3.2 Where does Chinese financing go?

Chinese financing is unevenly distributed from the geographical perspective. Venezuela accounts for 45%, Brazil, Argentina and Ecuador between them share another 45%, and a large number of small countries, like Jamaica, and not so small, like Bolivia, share the remaining 10%.

Figure 10. Countries receiving Chinese loans in Latin America (US$ mn)



Source: Inter-American Dialogue .

The main recipients of Chinese financing in the region (Venezuela, Brazil, Argentina and Ecuador) have abundant reserves of raw materials, a certain degree of political affinity and/or problems accessing finance on the international markets. Countries with governments, political systems and institutions of a more liberal hue, such as Mexico, Chile and Colombia, have received a smaller amount of financing, with the exception of Costa Rica, which has been on the receiving end of special attention in terms of Chinese cooperation as compensation for severing its diplomatic relations with Taiwan.

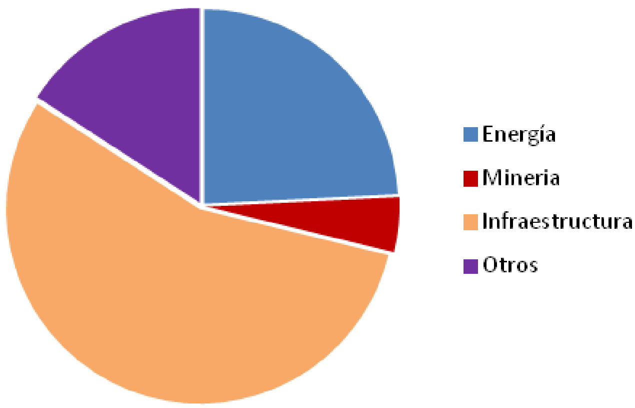
In the case of Venezuela, the largest recipient of Chinese financing in the region with US$56.3 billion, two differentiating factors converge. First, Venezuela has endured various episodes of difficulty accessing financing on the markets, enabling China to play a complementary role to and even replacing the wholesale finance markets. Secondly, Venezuela has one of the largest proved reserves of oil in the world, at 316 billion barrels.

The other countries that have received a level of investment in excess of US$10 billion are Brazil, Argentina and Ecuador. The majority of the finance in the case of Brazil stems from Chinese participation in financing the development and exploration of the Pre-Salt deposits, which could turn the country into one of the world's largest oil producers. Argentina has received financing mainly for the development of rail and wind power infrastructure projects. Ecuador meanwhile was able to obtain Chinese financing in the wake of breaking off relations with the World Bank and its difficulties in accessing international credit markets after defaulting on its debt in 2008. In the years to come, the loss of borrowing capacity on the part of some Latin American countries arising from reduced income from raw materials could enhance the role of China in the region as a source of replacement or complementary finance.

There is also a high degree of concentration in terms of the economic sectors affected. The sector that receives most Chinese financing is infrastructure, with 55% of the total investment, aimed primarily at transport projects such as railways and roads. It is worth pointing out that this sector also includes what Inter-American Dialogue refers to as 'Funding infrastructure, other projects', which has a rather loose definition. These large infrastructure projects are set to favour regional development, because it is the infrastructure shortfall that constitutes one of the most substantial obstacles to economic growth in Latin America. According to the IABD, if the region manages to double its investment in infrastructure, the real annual growth in GDP could increase by two additional percentage points. ECLAC estimates the infrastructure shortfall in the region requires an investment of 5.2% in GDP, as opposed to the 3.5% of recent years, to meet the needs of the region's businesses and inhabitants, and 7.9% to match the levels of infrastructure investment per inhabitant prevailing in South-East Asia.

In second place, the energy sector accounts for almost 25% of financing and includes operations with oil companies with which China signs agreements for the supply of crude oil. Another sector accounting for a substantial share of financing is mining, with 5% of the loans. These projects have a positive regional impact in terms of transfer of income from the exterior once the aforementioned energy resources and minerals are exported.

Figure 11. Distribution of Chinese financing by sector in Latin America, 2009-13



Source: authors' own compilation based on http://thedialogue.org/.

Just as with Chinese direct investment, these operations focus on sectors involving high degrees of social and environmental risk. This is an issue that concerns the Chinese authorities owing to the repercussions it could have on the country's image and on the sustainability of relations between China and the region over the mid- to long-term. This is evident from the various announcements issued by the Chinese embassies in the region to Chinese communities reminding them to abide by local laws and in some of the speeches delivered by Chinese leaders during their tours of the region.

4.3.3 What is the weight of Chinese financing in the region?

Bearing in mind the uneven distribution of Chinese financing and its qualitative differences compared with that of the remaining international sources of public finance, the above data can be completed with the official sources of the recipient countries, which usually provide information regarding the foreign financing of their budgets through their Ministries of Finance. Assembling data in this way enables the absence of Chinese information in international databases to be overcome and an estimate to be made of its relative weight on a country-by-country basis.

Such an analysis shows, first, that Chinese financing continues to play a secondary role if it is compared with the ensemble of foreign financing, which is heavily weighted towards multilateral banking and, broken down into blocks, continues to be dominated by traditional donors, in terms of bilateral sources and influential members of international organisations such as the World Bank and the International Development Bank. Among the principal recipients, only Ecuador seems to have a strong dependence on China, which acquired 40% of the debt issued in 2012 and 70% in 2011[66].

4.3.4 What are the goals of Chinese financing?

Chinese financing of development cannot be understood without the context of Chinese macro-finances and its problems of over-production in such industries as construction and infrastructure. The greatest reserves of currency in the world, almost US$4 trillion, which show no prospect of diminishing by means of the balance of trade, combined with a policy of controlling exchange rates, cannot but lead to a strong and strengthening investment stance vis-à-vis the rest of the world. Latin America is, moreover, a particularly attractive target for Chinese investment by virtue of the complementary nature of their economies. Latin America is a region rich in natural resources and minerals but with insufficient borrowing capacity in many cases to tackle large energy, extraction and infrastructure projects. China on the other hand is characterised by its ample lending capacity and an appetite for the natural resources needed for its economic development. Furthermore, a substantial part of this investment is used to promote the internationalisation of companies in such industries as construction and infrastructure where the domestic Chinese market has been saturated. Beijing is also taking advantage of these loans to boost the internationalisation of the yuan. In 2014, for instance, the Argentine government reached an agreement to exchange currency with the Chinese

66 For an approximation of the relative weight of Chinese financing in certain Latin American countries, country-specific dossiers have been compiled summarising the key data found in the official sources available for each case, mainly the Finance Ministries of the recipient countries.

government to the value of US$11 billion,[67] and the Chilean government did the same for an amount worth US$3.6 billion in 2015. It is worth noting that the availability of yuans in Latin America acts as a facilitator of trade and investment by reducing transaction costs.

The management of these Chinese loans does not only follow financial criteria; it also forms part of an overall foreign policy that takes into account factors beyond economic ones. This is why China is trying to frame its financing activities within a narrative of South-South cooperation that will reap dividends in the form of political influence, just like any other official donor.

4.3.5 The impact of Chinese financing

Although access to Chinese financing constitutes good news for the region in general terms, inasmuch as it broadens the scope for financing large-scale projects at competitive rates of borrowing, Chinese lending is beset by lack of control and transparency vis-à-vis the projects being financed, and few incentives for reform and good governance, especially if it is compared to the loans granted by the international lending institutions. This had led to various incidents with local communities triggered both by environmental degradation and the displacement of rural populations, by the contractual imposition of having to hire Chinese personnel and the absence of transparency in the way some of the projects have been awarded. This limits the potential positive effects that might otherwise have befallen the host countries.

Sino-Latin American economic relations may, however, be entering a new phase that, in theory at least, should enable the imbalances and problems mentioned above to be gradually corrected. The announcements and commitments recently made in Beijing and the countries of the region in the context of the first China-CELAC ministerial summit and the visit of Li Keqiang to four Latin American countries embrace some of the sectors that are most hampering the region's development: infrastructure, R&D and education.[68] The way these projects unfold, therefore, has the potential to have a substantial impact on the way the region evolves. The impact in question may turn out to be positive or negative. In the case of large infrastructure projects, for example, like the Nicaragua canal project or the rail corridor between Brazil and Peru, reasonable doubt exists about basic aspects such as their economic viability and their environmental impact.

As far as the impact of these loans on the development of recipient countries is concerned, two readings of the situations can be made, with opposing conclusions for the interests of Spain. A positive reading casts China as a support to these countries at an especially delicate moment in their economic development, enabling them to have the flexibility they need to lay down the foundations for more sustainable development. A negative reading sees China as an obstacle to the prospects of these countries addressing the profound structural reforms of their economies without which it will be impossible to attain this more sustainable pattern of development.

67 The increase in the use of the yuan as a medium of exchange in commercial transactions, as a currency in which investments are denominated and as reserve currency forms part of the 12th Five-Year Plan (2011-15).

68 The China-CELAC Cooperation Plan (2015-19) is a clear case in point of this new tendency. See http://www.politica-china.org/imxd/noticias/doc/1422442529CELAC_China_Plan_de_Cooperacion_2015-2019.pdf.

4.4 Risks and opportunities for Spanish companies

According to ECLAC data, Spain is the world's second-largest investor in Latin America, with an investment capital of US$145 billion, constituting 8.9% of the total received by the region, behind only the US.[69] Spanish investment in Latin America is highly focused both geographically and in terms of industries. According to Spain's Ministry of Economy and Competitiveness, four countries account for 82% of the total invested by Spain in Latin America: Brazil (30%), Argentina (24%), Mexico (19%) and Chile (9%). Meanwhile, four industries account for 53% of the total: finance (18%), telecommunications (17%), electricity supply (10%) and the oil and natural gas industry (8%). These data reflect the substantial investments made by the main Spanish multinationals from the 1990s onwards, when the processes of privatisation and liberalisation of the strategic sectors in the region were set in train. The Latin American market has become the main source of profits for many Spanish multinationals.

The amount of Chinese investment in Latin America is still less than a third of the Spanish figure, but it is gathering pace at great speed, attaining in recent years an annual level of US$9-10 billion, which exceeds the amount invested by Spain in some years. The recent arrival of a growing number of Chinese companies in the region has not translated for the time being into any pronounced competition between Chinese and Spanish firms, mainly due to the fact that they operate in quite distinct industries and activities. Up to 90% of Chinese investment focuses on the natural-resources sector and extractive activities, with the ultimate aim of satisfying domestic demand for energy resources and raw materials. Spanish companies, on the other hand, while having a significant presence in the raw materials and extractive sector in the guise of Repsol, also operate in the financial, telecoms and electricity supply industries, where the presence of Chinese companies is limited.

Spanish firms have generally sought out synergies and shared interests with Chinese companies and a positive perception of the potential benefits that China's growing presence in Latin America represents is widespread among Spanish businesses. In a survey recently conducted by the Instituto de Empresa among 38 Spanish multinationals with investments in Latin America, 51% of the companies said that the greater presence of Chinese and Asian companies in the region constituted an opportunity, whereas 31% perceived it as a threat and the remaining 14% answered that it did not affect their business.[70] The only sector in which a greater degree of competition between Chinese and Spanish companies has been evident up to now is in infrastructure and civil engineering projects.

The market position of Spanish companies in other industries has not come under threat; rather the opposite, it has opened up the possibility of mutually beneficial cooperation for the firms of both countries. To date this collaboration between Spanish and Chinese companies has taken place in a wide range of operations and mainly between multinationals on the Spanish side and large State-owned enterprises on the Chinese side. In one form of such cooperation Chinese companies, which tend to be highly competitive in specific niches, have supplied services and complemented the offer of Spanish multinationals. Various

69 The Netherlands has an FDI total that exceeds Spain's, but it is not the ultimate origin of the investments in 91% of cases.

70 Instituto de Empresa (2014), '2013: Panorama de la Inversión Española en Latinoamérica', Madrid.

Chinese enterprises in the ICT[71] industry, for example, have acted as suppliers to Telefónica in Latin America, a region where the Spanish firm is one of the main telecoms operators and boasts 225 million customers. Thus the Chinese company Huawei supplies broadband services and 3G equipment to the Telefónica group's subsidiaries in the region, and ZTE has been selling Movistar-branded telephones manufactured by the Chinese firm in 12 Latin American countries since 2010. It is worth pointing out that in addition to Telefónica, Chinese companies collaborate with other large telecoms groups in the region such as América Móvil, Millicom, Nextel, TIM, Digicel, CANTV and CNT.

Secondly, Chinese companies have become partners of their Spanish counterparts, contributing capital to take on large projects in Latin America. For example, in 2010 Repsol Brazil launched a capital expansion worth more than US$7.1 billion which was taken up in its entirety by Sinopec, giving rise to an oil giant with a value of US$17.8 billion. In the wake of the transaction, Repsol maintained 60% of the company's share capital and Sinopec had 40%. This injection of funds into the operation enabled the Spanish company to make the investments needed to develop its assets in Brazil, including some of the largest discoveries in the world, such as the Guará and Carioca fields.[72] It is worth noting that executives of both companies have expressed their willingness to broaden the channels of cooperation in the future.

Thirdly, Chinese companies sometimes enter the Latin American market to purchase assets in the hands of European and Latin American multinationals. This type of operation provides liquidity to the Latin American assets in the ownership of Spanish companies, enabling the latter to cash in their investments and reposition their strategy in Latin America. In the electricity supply industry, for example, the Chinese State enterprise State Grid bought the Brazilian electricity transmission assets of the Spanish company ACS in 2012, also taking on the debt associated with operating these assets. Other Spanish companies such as Elecnor, Isolux, Cobra and Abengoa have also had dealings with State Grid, which bought their shares in seven transmission lines in Brazil. Meanwhile, in 2014, Leighton, a company belonging to the ACS group, offloaded its construction arm, selling it to the China Communications Construction Company (CCCC) for a sum of €770 million.[73]

Fourthly, service companies such as Spanish law partnerships and consultancy firms have taken advantage of their intimate knowledge of the Latin American market, putting it at the disposal of Chinese companies interested in doing business in the region. Currently all the large Spanish law practices have offices in the main cities in China, where they help Chinese enterprises set up not only in Spain but also in Latin America. This work has also been carried out by other Spanish companies such as financial and consultancy firms with broad Latin American experience, which Chinese companies have been able to put to their advantage.

71 Information and communications technology.

72 J. Shixue (2011), 'La triangulación China-España-América Latina desde una perspectiva china', Real Instituto Elcano.

73 It was reported in 2015 that ACS may want the Chinese sovereign wealth fund to take a stake in its renewable energy business, Saeta Renovables.

Separate mention should be made of the infrastructure and civil engineering industry, where instances of cooperation between Spanish and Chinese companies have occurred as in the cases mentioned above, but where the firms of the two countries have also competed in tender processes. As far as partnerships are concerned, there is the case of the Panama metro system, where the Spanish firm Isolux-Corsán joined forces with a group of Chinese enterprises led by China Harbour Engineering Company to bid for the contract.[74] In this instance, Spanish businesses were competing against each other, because the tender was awarded to the Spanish company FCC and its Brazilian partner Odebrecht, which was preferred to the Isolux-Corsán consortium's bid. Beyond Latin America it is notable that Spanish and Chinese companies also cooperate on large infrastructure projects, such as the Spanish engineering company INECO and other Spanish firms working with the China Railway Construction Corporation to build the metro in Riyadh.[75]

The cooperation that has taken place to date in this industry between Spanish and Chinese companies in Latin America has been modest, however. The lengthy experience of Spanish businesses in the region, the excellent institutional relations with many of its governments and the unreliability of certain Chinese partners have acted as a brake on the formation of a greater number of partnerships between the two countries' companies. On the contrary, there have been cases where the two countries' companies have competed for public tenders and currently Spanish and Chinese construction firms are vying for the contract to build a new airport in Mexico City[76] and the construction of new sections of highway in Colombia.[77] As well as competition for infrastructure and public-works contracts, Spanish and Chinese companies also compete for supply contracts. For example, in 2013 the Spanish company CAF won a contract to supply trains to the state of São Paulo beating the Chinese enterprise Changchun Railway Vehicles. It is worth pointing out that the potential competition between Chinese and Spanish companies in these industries is for the moment being offset by the vast size of the Latin American infrastructure market, thought to be worth as much as US$260 billion,[78] and in which there seems to be enough business for both Spanish and Chinese enterprises.

74 See http://www.dirigentesdigital.com/articulo/economia-y-empresas/223239/consorcio/chino/puede/hacer/peligrar/adjudicacion/metro/panama/fcc.html.

75 See http://www.dirigentesdigital.com/articulo/economia-y-empresas/223239/consorcio/chino/puede/hacer/peligrar/adjudicacion/metro/panama/fcc.html.

76 At the time of writing, Ferrovial, with its experience in controlling and operating airports, is the Spanish company that has expressed its interest most clearly.

77 The Spanish companies Sacyr and FCC are vying with the Chinese enterprise Sinohydro and another two firms.

78 ECLAC (2011), 'The infrastructure gap in Latin America'.

Table 7. Notable agreements between Spanish and Chinese companies in Latin America

Spanish company	Chinese company	Relationship in Latin America
Repsol	Sinopec	Expansion of capital and establishment of a large hydrocarbons group
Telefónica	Huawei	3G and broadband supply
Telefónica	ZTE	Development and sales of smartphones
Telefónica	China Unicom	Innovation projects together with Tsinghua Holdings Technology and Innovation (THTI)
ACS	State Grid	Acquisition of electricity assets by the Chinese firm
Isolux-Corsán	State Grid	Acquisition of electricity assets by the Chinese firm
Elecnor	State Grid	Acquisition of electricity assets by the Chinese firm
Cobra	State Grid	Acquisition of electricity assets by the Chinese firm
Abengoa	State Grid	Acquisition of electricity assets by the Chinese firm
BBVA	China Development Bank	Financing of projects, commercial services, derivatives and corporate banking
Isolux-Corsán	Consortium led by the China Harbour Engineering Company	Development of the Panama metro

Source: the authors.

The announcements that have been made this year, however, during the first ministerial China-CELAC summit and Li Keqiang's Latin American tour concerning a substantial increase over the next few years in the volume and range of Chinese investment in the region have created a new scenario with significant opportunities for Spain and its companies. The Chinese strategy in the region seems to be prioritising higher-quality investments, incorporating industries with a higher technological and more knowledge-based content, which should assist the region to achieve a qualitative step-change in its productive base. The 2015-19 Cooperation Plan signed at the China-CELAC forum in 2015[79] includes commitments to mutual investment in manufacturing construction equipment, petrochemicals, agricultural product processing, clean energies, mechanical equipment, automotive, aviation, ship and marine engineering equipment, transport equipment, electronics, digital medical equipment, information and communication technology, reciprocal transfer of technology and know-how, biotechnology, food and medicine. These investments will be supported in the Made in China 2025 plan for the development of an 'Industry 4.0', which seeks to give China world leadership in 10 high added-value economic sectors by 2049.[80] The financial backing for the development of these projects could be driven by the creation of an investment fund for the manufacturing and capital equipment sectors to the tune of US$30 billion.[81]

79 See http://www.chinacelacforum.org/chn/zywj/t1230945.htm.

80 Information technologies, robotics, aerospace equipment, maritime equipment and high-speed shipping, railway equipment, alternative-energy vehicles, power equipment, new materials and medical equipment.

81 See http://spanish.peopledaily.com.cn/n/2015/0521/c31617-8895431.html.

Experience and knowledge of the terrain, combined with greater cultural and linguistic proximity, place Spanish companies in an advantageous position to cooperate with the Chinese companies that will be arriving in the region in the years ahead. In this regard, the Chinese enterprises that come to operate or expand their activities in industries such as technology, aviation, renewable energies and banking will find in these Spanish multinationals with ample experience in the region –Indra, Hispasat, Gamesa, BBVA and Santander– the ideal partner for developing certain projects and activities.

On the other hand, Chinese entry into new areas of activity brings greater competitive threats in its train. The episodes that have occurred to date involving Spanish and Chinese enterprises in the infrastructure industry could extend to other areas of the economy where there are large Chinese projects underway. One example could be the hotel industry, particularly in the Caribbean, where the Spanish chains NH and Barceló have numerous hotels and where Chinese investors have announced large-scale investment projects. The largest of these to date has been the Baha Mar tourist complex in the Bahamas, with an estimated total cost of US$3.5 billion, which is set to double the hotel capacity in the Bahamas, and the project to construct a resort in Cuba by the firm Beijing Enterprises Holdings Limited together with the Cuban group Palmares.

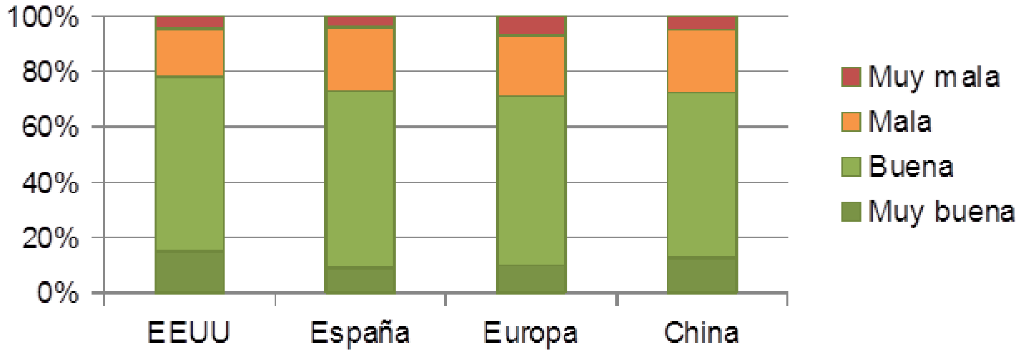
5. Sociocultural relationships and public diplomacy

5.1. The image of China in Latin America: defenders and detractors

The US, Spain, Europe and China enjoy a positive perception in Latin America, although clearly there are significant national differences. The evaluation of China and Spain in the region is very similar, being in both cases marginally inferior to that of the US.

According to Latinobarómetro, the image of China in Latin America gradually improved from 2003, but started to deteriorate in 2013, which contrasts with a certain fall in the image of Spain and a significant improvement in that of the US.

Figure 12. Opinion on the US, Spain, Europe and China in Latin America, 2013



Source: Latinobarómetro, 2013 edition.

There are only three countries –Argentina, Ecuador and Venezuela– in which the percentage of people with a good or very good perception of China is at least 5% greater than those who have a good or very good perception of Spain. By contrast there are five countries where the perception of Spain is significantly better than that of China: Brazil, Nicaragua, Panama, Paraguay and El Salvador. The contrast is especially striking in Panama, with 77.3% as opposed to 60.1% in Spain's favour, and in Argentina, with 71.5% as opposed to 53% in China's favour. When Latin Americans are asked which country they would like their own to be similar to, with the exception of Brazil and Mexico, where an additional 2% and 2.5% would prefer their country to resemble China, a greater percentage of the population in all the other countries would like to resemble Spain. Even in countries belonging to the ALBA Bolivarian Alliance there is a significantly higher number of people who see Spain, rather than China, as the better model to follow for their country.

Table 8. Which country would you most like your country to resemble? (%)

	Bolivia	Brazil	Ecuador	Mexico	Nicaragua	Venezuela
Spain	20.2	11	15.4	13.8	30.7	18.5
China	10.5	13.1	6.9	16.2	8.8	8.3
US	15.4	44.1	36.5	40.7	28.7	16.6
Brazil	14.0	–	8.6	6.5	6.6	13.1
France	3.4	16.1	4.6	11.0	2.7	5.1
Venezuela	6.2	2.2	2.8	1.5	19.4	–

Source: Latinobarómetro, 2011 edition.

Up to 72.3% of Latin Americans have a good or very good perception of China, whereas only 27.7% have a bad or very bad perception. A total of 12.6% of Latin Americans have a very high opinion of China, whereas barely 4.7% have a very bad opinion. In fact, in all the Latin American countries the percentage of the population that has a very positive opinion of China clearly outweighs the percentage with a highly negative opinion, except in Colombia (6.4% in both cases), Chile (9.5% very good and 7.1% very bad) and Panama (7.4% very good and 5.4% very bad). It should be noted that these three countries have close links with the US in the region.

The typical pattern is around 70%-75% with a positive or very positive perception of China and 25%-30% with a bad or very bad perception: Venezuela 76.5%, Uruguay 74.5%, Ecuador 72%, Argentina 71.5%, Bolivia 71.3%, Peru 70.4%, Brazil 69.8% and Costa Rica 69%. Many of these countries are especially proactive in terms of diversifying their foreign relations to reduce their ties with the US and promoting a more multilateral international order. Except in Panama, the evaluation of China is even better among the countries of the region that do not recognise China, all having over 75% of the population with a good or very good perception of China, reaching 90% in the case of Honduras. Chileans, Colombians and Mexicans, three of the four members of the Pacific Alliance, are, together with the Panamanians, those who have the most negative perception of China. The populations of Latin American countries that are more closely aligned to the US politically are less likely to have a positive or very positive perception of China: 67% in Mexico, 64% in Colombia and 60% in Chile and Panama.

As is evident from the section on the associations that have been set up by Latin American civil societies to foster relations between their countries and China, the Chinese communities in the region and the business elites have been two especially active groups. As far as the role of the Chinese community in promoting China's image is concerned, two distinct phenomena emerge. On the one hand, those communities with a longstanding tradition and are completely integrated into the collective imagination of the country, Peru being the perfect example, can contribute directly –through their associations– and indirectly to inculcating a positive image of China. On the other hand, in the majority of Latin American countries there has been a rapid increase in Chinese immigration in recent years. This usually generates resentment on the part of a significant section of the local population, which perceives it as a threat to the national economy. Such migratory flows, which become the target of various pejorative stereotypes, have a negative influence on China's image in the region.[82]

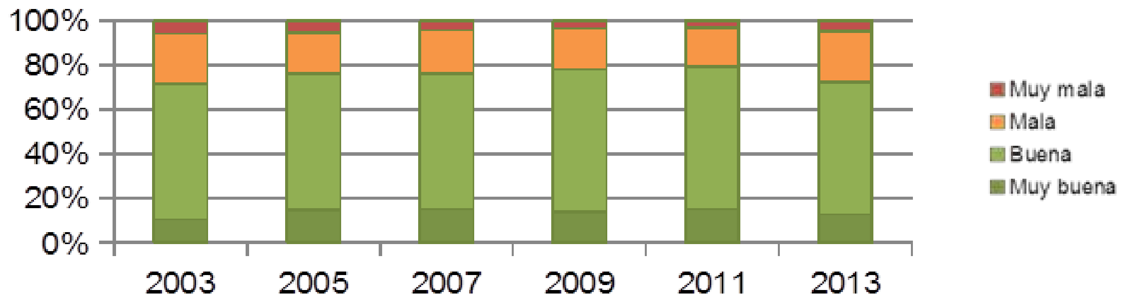
The domestic business elites are especially active in the debate on how their country should relate to China, owing to the direct bearing that this could have on their interests. One of the key factors in explaining the assessment Latin Americans make of China is their perception of how the relationship affects their economic situation. This emerges particularly starkly in the stances taken by the business lobbies on the appropriateness or otherwise of strengthening ties with Beijing. Business people from the agricultural, mining and energy sectors, together with those with an interest in finding Chinese investors or partners are

82 President Cristina Fernández herself became caught up in this type of controversy for a particularly unfortunate Tweet. See http://www.abc.es/internacional/20150205/abci-chinos-responden-kirchner-201502050617.html.

usually among the chief defenders of strengthening bilateral ties. Prominent among the South American businesspeople who have conducted business with Chinese companies are Carlos Bulgheroni, Franco Macri, Norberto Feldman, Nuria Quintela and Sergio Spadone in Argentina, Aike Bautista in Brazil, Guillermo Vélez, Gustavo Gaviria and Martín Ibarra in Colombia, and Alejandro Luksic, Jean Ponce LeRou and Ricardo Claro in Chile. Those involved in manufacturing industries in direct competition with Chinese enterprises, on the other hand, have been more inclined to question the wisdom of promoting economic exchanges with Beijing.

Turning next to the way that the Latin Americans' evaluation of China has changed between 2003 and 2013, there was evidently a progressive improvement up until 2011, but the strengthening of bilateral relations in recent years seems to have reversed the tendency. This concerns the Chinese authorities, who fear that the bilateral ties are not fulfilling the expectations that have been aroused.

Figure 13. Evolution of China's image in Latin America, 2003-13



Source: Latinobarómetro, 2003, 2005, 2007, 2009, 2011 and 2013 editions.

Focussing on the way the perception of China changed between 2003 and 2013 among the various Latin American countries that maintain diplomatic relations with Beijing, it is evident that it typically improved until 2009 and 2011, depending on the country, and then later deteriorated. In the case of Colombia it deteriorated to such an extent that the perception of China in 2013 was worse than in 2003, whereas in Ecuador and Venezuela China's image was better in 2013 than in 2003. In Bolivia, Mexico and Peru the 2013 rating of China fell to levels similar to those of 2003, and the same is true of Chile and Costa Rica, although with greater polarisation. In Argentina and Brazil there was scarcely any fluctuation in the perception of China over the course of the 10 years, although opinions on China are polarising in Brazil, while Uruguay is the only country where there has been a progressive improvement in China's image.

The Chinese authorities ascribe this situation to the non-fulfilment of the unrealistic expectations generated in the region regarding China's impact on local development and the manifold protests that have taken place, several of a violent nature, against Chinese companies that fail to respect the environmental and/or local labour regulations.[83] They are

83 Ellis (2014b), p. 148-152.

also aware that their image is damaged by the opacity surrounding many of the agreements they reach with the region's governments and the shortage of synergies being generated by many of their projects in the local economies. As well as enjoining Chinese companies to abide by the laws of the countries in which they operate, the Chinese government is also organising various programmes of visits to enhance its image in the region, such as the China-Latin America and the Caribbean Young Political Leaders' Forum. In total, Beijing has made commitments at the CELAC Forum to invite 1,000 political leaders and 1,000 leaders from other sectors from these countries to visit China over the next five years.

5.2 Linguistic and cultural promotion

Cultural relations between China and Latin America have kept pace with the Asian country's growing presence in the region over the last decade. Cultural aspects form part of the joint summits and indeed the first China-CELAC Forum held in Beijing in January 2015 mentioned culture as one of the spheres in which cooperation will be fomented[84] and in its Five-Year Plan China has designated 2016 as the 'Year of China-Latin America and the Caribbean Cultural Exchange'; other plans include the exchange of creators, cooperation in the protection of heritage and the strengthening of exchanges of cultural products and joint translations.[85]

China's cultural presence in Latin America is by no means new, however, and is becoming stronger all the time. The Chinese Cultural Centre was unveiled in Mexico in 2013, the only one that has opened to date in Latin America. It is possible that more will be opened in the region over the medium term, because in February 2015 China announced a plan to invest CNY360 million (some €52 million) in the creation of new cultural centres throughout the world, with the aim of doubling their current number and reaching 50 by 2020.

As well as its cultural centres, China promotes its language and culture through 465 Confucius Institutes and 713 Confucius Classrooms (known in Latin America as *Salones Confucio*),[86] located in 123 countries and organised through cooperation between a Chinese university and a local institution.[87] This bilateral design is an important aspect, because unlike the case of the Chinese Cultural Centres, the Confucius system involves the establishment of a link between Chinese and host-country universities. Consequently, not only is the Chinese presence activated in the recipient country, but also the Chinese university that plays the

role of partner develops structures fostering cooperation between the scientists of the two institutions and the teaching of Spanish in China.

84 Beijing Declaration from the First Ministerial Meeting of the China-CELAC Forum, 23/I/2015, http://www.chinacelacforum.org/chn/zywj/t1230940.htm.

85 China-CELAC Cooperation Plan, 23/I/2015,http://www.chinacelacforum.org/chn/zywj/t1230945.htm.

86 These centres come under the Chinese National Office for Teaching Chinese as a Foreign Language (Hanban), which in turn comes under the Chinese Ministry of Education.

87 Article 9 of the Confucius Institute constitution states: 'Any corporate entity outside of China capable of facilitating language instruction, conducting educational and cultural exchange activities, and meeting the requirements for application as stated in this Constitution and By-Laws may apply to the Confucius Institute Headquarters for permission to establish a Confucius Institute'. Article 19 specifies the conditions that local institutions need to fulfil in order to be eligible as Confucius centres. See http://spanish.hanban.org/confuciousinstitutes/node_8173.htm.

The Confucius Institutes continue growing in response to the increasing demand for Chinese courses: today there are thought to be 100 million students of Chinese throughout the world.[88] Since the first Confucius Institute was opened in Mexico City in 2006, in cooperation with the National Autonomous University of Mexico's Linguistics Studies Centre, some 30 centres have been opened in the region that today provide services such as language teaching, martial arts, traditional medicine and Chinese opera to approximately 70,000 people,[89] although more than a million have participated in such activities.

Since May 2014 Chile has been the Regional Centre of the Confucius Institutes for Latin America (Spanish acronym: CRICAL), which provides services to more than 200 teachers and coordinates activities throughout Latin America through an office located at the Santo Tomás University.[90] The creation of new Confucius Institutes and Classrooms features among the aims of the new Five-Year Plan signed by CELAC and China in January 2015.

The data published in 2015 regarding the image of these centres in the world show that Brazil –which has eight Centres and two Classrooms– rates the activities of the Confucius Institutes higher than any other country in the world, with 78% of responses being positive.[91]

88 Xinhua (2014), 'China Focus: Mandarin Chinese talent popular worldwide', 7/VI/2014, https://global.factiva.com/redir/default.aspx?P=sa&an=XNHA000020140607ea6700034&cat=a&ep=ASE.

89 Hanban News (2015), '"China Craze" sweeps across Latin America', 9/VI/2015, http://english.hanban.org/article/2015-06/09/content_603336.htm.

90 China Daily (2014), 'Confucius Inst launches Latin American hub', 13/V/2014.

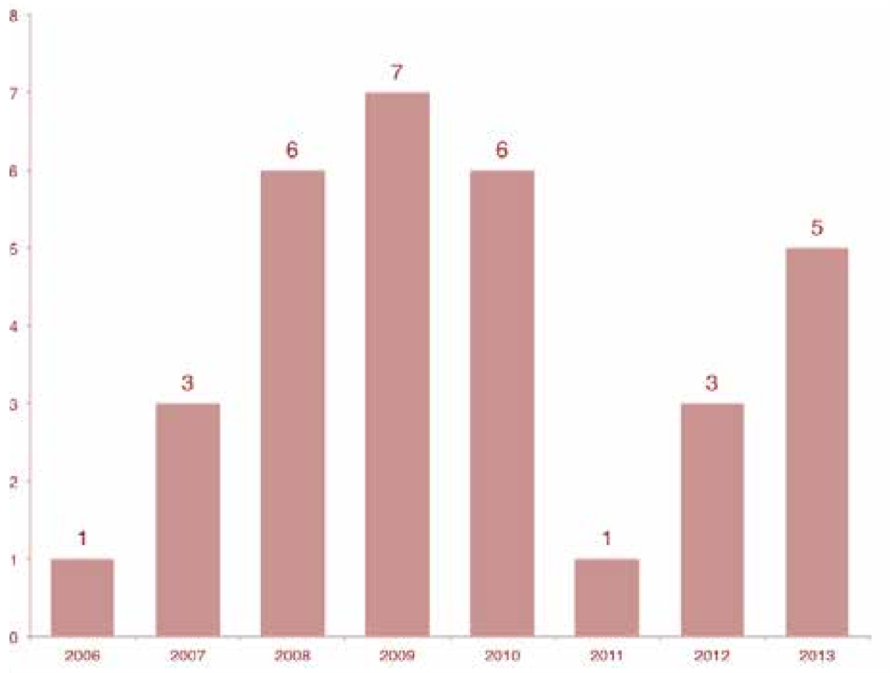
91 China Daily US (2015), 'China finds acceptance in LatAm', 23/III/2015, http://usa.chinadaily.com.cn/world/2015-03/23/content_19877548.htm.

Table 9. Presence of Confucius Institutes and Classrooms in Latin America, June 2015

	Confucius Institutes	Confucius Classrooms	Total
Argentina	La Plata University, Buenos Aires University		2
Bolivia	San Simón University		1
Brazil	FAAP, Minas Gerais University, Rio Grande do Sul University, Brazilia University, Campinas University, Estadual Paulista University, Pernambuco University, Pontifical Catholic University of Río de Janeiro	Cultural Centre of Asia in São Paulo, Chinese Language and Culture Centre in São Paulo	10
Chile	Catholic University, Santo Tomás University		2
Colombia	Medellin, Jorge Tadeo Lozano University Los Andes University	Nueva Granada College	4
Costa Rica	Costa Rica University		1
Cuba	La Habana University		1
Ecuador	San Francisco University	Siyuan Chinese Language Academy	2
Mexico	Mexico DF, Autonomous National University, Autonomous University of Chihuahua, Nuevo León Autonomous University, Yucatán Autonomous University		5
Peru	Catholic University, Santa María University, Ricardo Palma University, Piura University		4
Total	28	4	32

Source: Hanban, 2015.

Figure 14. Creation of Confucius Classrooms and Institutes in Latin America, by year



Source: CRICAL, 2015.

5.3. Educational and cultural relations

Between 1978 and 2014 more than 3.5 million Chinese citizens left their country to study,[92] a figure that has not ceased climbing in recent years: the number of Chinese students studying abroad, according to the Beijing authorities, was around 459,800 in 2014, 92% of whom were paid for by themselves or by their families.[93] Chinese students have been doing postgraduate courses at foreign universities for years, but the economic growth of the last decade has led to an increase in those who study outside China, and starting at an earlier age, at the undergraduate and even secondary school stages, as a way of increasing their chances of being admitted into foreign universities, above all in the US, where there are now almost 24,000 secondary school students of Chinese origin.[94] The Chinese government has been working to persuade universities and educational systems throughout the world to recognise the Chinese university entrance exam ("Gaokao") as valid for the purposes of admission to other universities. In countries such as Australia, 60% of the universities already accept the Gaokao, together with an English level test, for admitting Chinese students.[95]

The majority of Chinese students studying abroad attend US, Japanese, Australian, British and Canadian universities (these five countries accounted for 70% of the total in 2012 according to UNESCO).[96] The Institute of International Education's (IIE)[97] Open Doors report for 2013-14 shows that around 275,000 Chinese students attend American universities. Going in the opposite direction, the IIE data show that China is the fifth most popular destination for US students abroad,[98] 6% of whom (somewhat less than 14,500) chose Chinese campuses for their studies in the 2012-13 academic year.

92 CCG (2014), 'Chinese are the World's Largest Foreign Student Group', 31/XII/2014, http://en.ccg.org.cn/Research/view.aspx?Id=1448. ECNS (2015), '459,800 Chinese left for study abroad last year', 5/III/2015, http://www.ecns.cn/2015/03-05/156896.shtml.

93 ICEF Monitor (2014), 'Number of Chinese outbound students up by 11% in 2014', 31/III/2014, http://monitor.icef.com/2015/03/number-of-chinese-outbound-students-up-by-11-in-2014/.

94 CCG (2014), 'Young Students Choose to Study Abroad', 31/XII/2014, http://en.ccg.org.cn/Research/view.aspx?Id=1466.

95 China Daily US (2014), 'Gaokao gets accepted by overseas universities', 24/II/2014, http://usa.chinadaily.com.cn/2014-02/24/content_17300027.htm.

96 Comparing a range of sources reveals a great variation in the figure, and hence the UNESCO figure for 2012 is used. See UIS, 'International student mobility in tertiary education: Inbound internationally mobile students by country of origin', http://data.uis.unesco.org/Index.aspx.

97 See Institute of International Education (2014), 'Top 25 Places of Origin of International Students, 2012/13-2013/14', Open Doors Report on International Educational Exchange, http://www.iie.org/opendoors.

98 The four most important destinations for US students are the UK, Italy, Spain and France. Institute of International Education (2014), 'Top 25 Destinations of US Study Abroad Students, 2011/12-2012/13', Open Doors Report on International Educational Exchange, http://www.iie.org/opendoors, http://www.iie.org/Research-and-Publications/Open-Doors/Data/US-Study-Abroad/Leading-Destinations/2011-13.

Table 10. China/rest of the world student balance

	2008	2009	2010	2011	2012	2013	2014
International students in China	223,499	238,184	265,090	292,611	328,330	356,499	377,054
Chinese students abroad	179,843	229,300	284,700	340,000	399,600	413,900	459,800

Source: Institute of International Education, China Scholarship Council and Chinese Ministry of Education.[99]

Latin America does not feature among the main international destinations of Chinese students. The UNESCO figures show that the countries that received most Chinese university students in 2012[100] were Cuba (1,651), Brazil (314), Ecuador (26), Chile (seven) and the Dominican Republic (seven). What about students travelling in the opposite direction? Despite the efforts made on both sides, the Latin American families who send their offspring abroad tend to choose North American and European institutions, and to a far lesser degree Asia. The figures are still very modest, albeit increasing: according to data from the China Education Association for International Exchange, the number of grants awarded to Latin American students to study in Chinese universities amounted to 1,200, half of them to study for official qualifications and half to study Chinese, with Colombia (110 grants) and Mexico (107) occupying the first two places.

Table 11. Grants awarded to Latin American students in China, 2012

Country	Grants awarded
Colombia	110
Mexico	107
Costa Rica	86
Chile	85
Brazil	70
Cuba	70
Venezuela	56

Source: China Education Association for International Exchange.

Meanwhile some of the region's institutions are trying to attract interested Latin American students by creating specialist centres. Thus, recent years have seen the creation of UNAM's Institute of China-Mexico Studies (CECHIMEX, 2006), UFRJ's China-Brazil Centre (2009) and, in Chile, Andrés Bello University's Latin American Studies of China Centre (2011), to mention only a few, in addition to the research centres focussing on the Asia Pacific and numerous postgraduate programmes. At the same time the agreements between Hanban and local administrations have enabled teachers of Chinese to be sent to Latin American universities and secondary schools to promote the teaching of Chinese culture and language. The creation of these centres and programmes shows the growing interest in China on the part of Latin American educational institutions.

99 Data taken from the Institute of International Education's Project Atlas, http://www.iie.org/Services/Project-Atlas/China/International-Students-In-China.

100 Data from UNESCO for 2012. See UIS, 'International student mobility in tertiary education: inbound internationally mobile students by country of origin', http://data.uis.unesco.org/Index.aspx.

A significant increase in student movements between the two regions may be confidently expected in the wake of the CELAC-China summit in July 2014 and the ministerial forum in January 2015, with the agreement to award 6,000 government grants to Latin American students between 2015 and 2019, 6,000 places to receive training in China and 400 on-the-job Master's degree places. This is in addition to the 'Bridge of the Future' programme aimed at training '1,000 young leaders from China, Latin America and the Caribbean'.[101]

Will this student mobility between China and the Latin America-Caribbean region have a bearing on education in Spain? The data show that students from Latin America and the Caribbean form the second largest group of students matriculating in Spanish universities after those from the EU. In the current academic year, of the 1.36 million students enrolled in undergraduate degrees in the Spanish university system, 13,558 come from Latin America and the Caribbean,[102] a figure that, at about 1% of the total, has remained stable over recent years. There is a greater representation of Latin American students at the postgraduate level, with the percentage of matriculations in Master's degrees fluctuating between 8% and 9% in recent academic years. While it is still too early to evaluate the impact of the China-CELAC agreements on this field, it is worth pointing out that the number of grants China offers to Latin American countries matches all the postgraduate students from Latin America and the Caribbean studying in Spain put together.

Culture is one of the weaknesses of China's soft power in the region: knowledge of Chinese culture is extremely superficial and limited in this part of the world, and most people who interest themselves in Chinese culture do so because of China's economic fortitude. In other words, interest in Chinese culture does not serve as a draw for other dimensions of relations. To date China's efforts to disseminate cultural content on a wide scale have been extremely hesitant and have been virtually confined to the broadcasting of Central China Television's CCTV-E Spanish-language television channel,[103] which was set up in 2004 but has only broadcast programmes in Spanish aimed at Latin America since 1 October 2007. Among its programmes are documentaries on the country, interviews and reports on Chinese culture and programmes for learning Chinese.[104] It is a free, terrestrial channel in Venezuela and Cuba –where it is accompanied by CCTV's channels 4 and 9–[105] whereas in the rest of the continent it is transmitted by the main cable and satellite multi-channel systems and is a paid-for service.

101 Section VIII of the CELAC-China Cooperation Plan, 23/I/2015, http://www.chinacelacforum.org/chn/zywj/t1230945.htm.

102 See 'Número total de estudiantes matriculados en Estudios de Grado y 1º y 2º Ciclo, avance de la Estadística de estudiantes universitarios, curso 2014/2015', https://www.educacion.gob.es/educabase/menu.do?type=pcaxis&path=/Universitaria/Alumnado/Avance/2014-2015/CapituloI&file=pcaxis&l=s0.

103 A live signal of the channel can be viewed at http://espanol.cntv.cn/endirecto/index.shtml.

104 http://espanol.cntv.cn/20101227/107551.shtml.

105 BBC Monitoring Asia Pacific (2008), 'China's CCTV opens three channels in Cuba; Cuban TV in 16 Chinese provinces', 18/II/2008.

Table 12. Latin American students attending Spanish universities, undergraduate and Master's degrees

	2012/13	2013/14	2014/15
Total undergraduate students	1,434,729	1,416,827	1,361,340
Total Latin American and Caribbean students	13,962	13,427	13,558
Total students graduating with Master's degrees	60,420	67,530	–
Total Latin American and Caribbean students	5,489	5,750	–

Source: Educabase, Spanish Ministry of Education, Culture and Sport.

6. Conclusions

Interactions between China and Latin America have strengthened at a remarkable rate in recent years, especially in the areas of trade and finance. It has reached the point that economic growth in Latin America is so closely bound up with China's that, according to the World Bank, a fall of one percentage point in the growth rate of Chinese GDP reduces Latin American growth by 0.6%. It is hardly surprising therefore that the economic dimension is the most important facet for both sides. This, however, does not prevent China from taking advantage of its considerable economic sway in the region, combined with the Latin American countries' interest in diversifying their foreign relations, to strengthen its political influence and its ties in more sensitive areas such as security and defence.

In all likelihood relations will continue to become both wider and deeper in the future; this will give China an increasing influence not only upon the way Latin American countries evolve but also upon the configuration of the region by, for example, sponsoring infrastructure projects that will substantially enhance transport links within Latin America. There can be no doubt that this has given rise to enormous expectations in the region, as the following pronouncement from Alicia Bárcena, executive secretary of ECLAC, makes clear: 'The keen interest shown by the Chinese authorities in strengthening ties with Latin America and the Caribbean provides the region with a historic opportunity to address the challenges of infrastructure, innovation and human resources, spur productivity and competitiveness and diversify exports'.[106]

If these expectations are to be realised, however, the terms of relations will need to be modified somewhat. While it is true that bilateral relations remain essentially positive for both sides, a certain degree of fatigue seems to beset the strategy used by Beijing to foster its presence in the region. China has used an approach similar to the one employed in Africa, based on a State-to-State model of interaction as a means of opening doors for its companies. Clear evidence for this comes from the fact that the total loans Beijing has granted to Caracas alone is the equivalent of China's accumulated foreign direct investment in the whole of Latin America. Beijing thus makes use of its vast liquidity to underwrite contracts for its enterprises in circumstances that are characterised by opacity and a lack of competition and with labour and environmental standards that are relatively lax. In other words, aware of its enterprises' lack of international experience, particularly in Latin America, Beijing endeavours to make up for the shortfall with financing opportunities and diplomatic support. Owing to the more robust nature of civil society and the judicial system in Latin America, however, this manner of proceeding is having much less traction and success than in Africa.

106 Economic Commission for Latin America (2015), p. 7.

It is hardly surprising, therefore, that Chinese enterprises have had a relatively limited impact in those countries less in need of Beijing's financial and/or diplomatic support, with the exception of the mining industries in Peru and Colombia. Chinese companies have notched up failures throughout the region, including the ALBA countries, something that worries the Chinese authorities because of the impact it has on China's image and on the prospects of signing future agreements. Similarly, Beijing is also questioning the sustainability of its financial support for some countries in the region, particularly Venezuela, if these countries do not substantially reform their economic policies.

In this context, Beijing realises that its relations with the region will be more effective if: (1) it is able to draw on better regional knowledge; (2) its enterprises are capable of deploying themselves better in these markets and observe local laws and regulations more rigorously; and (3) its financial commitments can translate into greater economic development for the recipient countries. It is a matter therefore of operating within parameters that approximate more closely to those of the traditional powers, while being able to draw on a financial capacity that is currently without equal in the region.

This scenario has a double-edged impact on Spain's interests. On the one hand, the inroads China is making in the region mean that Spain has lost its attraction and influence in relative terms; this process may gather pace in a highly pronounced fashion in those countries whose prospects of insertion into global value chains stand to be substantially boosted by China. On the other hand, China's greater presence has the capacity to contribute to the development of the region and is giving rise to opportunities for cooperation and synergies with Spanish players, both public and private, across multiple spheres. It is important, therefore, to avoid simplifying China's presence in Latin America, with the danger of succumbing to all-or-nothing interpretations that have little connection to reality and the consequence that attractive opportunities for cooperation are overlooked. Spain is confronted by an open-ended and complex process, the outcome of which is as yet uncertain. Whatever the outcome proves to be, it will be shaped by the actions that Spain chooses to adopt to address this challenge.

1 Comisión Económica para América Latina (2015), p. 7.

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