China's Economic Relations with Latin America

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The fall in commodity prices indicates the fragility of the economic relation between China and Latin America that at the present time registers an important deceleration in commercial transactions, a situation that the United States seeks to take advantage of in order to reposition itself in the region. The Chinese government had decided to support the construction of large works of infrastructure in Latin America that would doubtless be built with material coming from China through the creation of various infrastructural funds with Latin American governments that reached a total of 45 billion dollars in 2015.

Thus the interest that China maintains toward Latin America is basically focused on the financing of works of infrastructure that guarantee the provision of commodities. The establishment of ambitious initiatives of a continental scope to transport these natural resources of the region to the Pacific is evidence of this. The building of the Nicaraguan canal will change the geopolitical relation of China with Latin America, since the shipment of merchandise will be realized with the support of the security provided by the Nicaraguan government, with means Washington will have no kind of military control in this zone after 2020 [1].

However, the construction of infrastructure in Latin America with Chinese investments will not lead to a substantial increase in the value added of Latin American exports since these investment projects will only ensure high profits in the short term. This situation will not modify the primary-export structure of the Latin American countries [2]. In addition, the new strategic relations that China has managed to consolidate with various countries of Asia and the Middle East (Russia, Saudi Arabia and Iran) in order to diversify their sources of strategic natural resources, will intensify the competition with the Latin American countries for the Chinese market.

In this sense, the over-production of petroleum driven by international competition continues to contribute to low oil prices, now quoted at 50.35 dollars a barrel in international markets, which has led to further diminishing the rhythm of growth of the Latin American economies. The efforts of the members of the Organization of Petroleum Exporting countries (OPEP) to stabilize the price of oil were insufficient. The petroleum cartel and Russia agreed a reduction of some 700,000 barrels per day, a figure that represents only 1% of world oil production [3].

In addition, the labour-intensive Chinese export companies facing problems of overcapacity register a deceleration of their demand of commodities coming from Latin America, which will make it difficult to relaunch trade relations with China. Pressure from Washington on Beijing provoked a compromise of the Chinese government to reduce excess productive capacity by 13% during the period 2014-2020 in the recent G-20 summit. Hence, there is unlikely to be a substantial increase in the demand of commodities on the part of export companies [4].

On the other hand, Chinese export companies also accentuate the deflationary tendency in the world economy, given the reduced price of their merchandise traded in international markets, in productive sectors that operate with overcapacity. The reduced price of merchandise produced by Chinese export companies in labor-intensive sectors have a strong penetration in Latin American countries, which affects the profits of Latin American enterprises, since it diminishes national production, private investment and the generation of jobs.

In this way Latin American companies have initiated anti-dumping demands due to practices of trade competition on the part of Chinese corporations, since these receive support from their government through state assistance under the form of public subsidies and bank credits [5]. The consequences could be serious for Chinese corporations with the lessening of imports from China to Latin American countries that already has trade restrictions from the United States and even more deceleration of commercial relations between China and Latin America.

The response of the Chinese government was to lessen the regressive effects of overcapacity of labor-intensive sectors through an increase of consumption via increased wages, social assistance and public services, in order to create a middle class favouring the demand for food coming from Latin America. Nevertheless, the productive dislocation of Chinese enterprises in Asian countries with lower wages threatens to destroy the efforts of the Chinese government to change the structure of the new productive model based on internal demand, which will limit the wage increases and the demand for food in China [6].

The economic difficulties of Latin American countries to support exports to China provoked the biggest economies of the region such as Brazil and Argentina to seek closer trade relations with the United States. This trade rapprochement with the United States could be the first step towards opening negotiations on the incorporation of Latin American countries with the largest economies greater into the integration projects promoted by Washington (TPP and Pacific Alliance).

The consolidation of projects of integration supported by the United States would allow for a recovery in the participation of Latin American exports that had dropped from 60 to 40% during the period 2000 to 2014, with the ascent of China as the first trade partner of various Latin American countries, particularly in the Southern Cone [7]. Nevertheless, the delay of approval of the TPP in the US congress due to the pernicious consequences for local industry, wage levels and unemployment, questions the capacity of Washington to overcome the blow dealt by China in Latin America.

In addition, the Chinese government wants to maintain its economic influence in Latin America with the incorporation of Brazil and the candidacy of various Latin American countries (Venezuela, Chile, Colombia) in the Asian Infrastructure Investment Bank (AIIB), announced at the beginning of 2016 [8]. In this way, the participation of Latin American countries in the value chains of Asia will strengthen economic relations with China and would increase transactions in intra-regional trade with the financing of projects that support productive integration in the Asian continent.

Nevertheless the investment projects financed by AIIB are moving slowly, given that they involve only the financing of four small projects in the Asian continent, so that they do not contemplate large investment projects in Latin America in 2016. In addition, the projects for investment financed by AIIB were co-financed by the World Bank, the Asian Development Bank and the Department of International Development of the United Kingdom, institutions that are strongly influenced by the United States, which limits the autonomy of China in the investment in projects in Latin America.

Similarly, the New Bank of Development of BRICS financed projects of investment for barely 811 million dollars in member countries (Brazil, Russia, India, China and South Africa) and signed a memorandum of intent with the World Bank to finance common projects in the upcoming operations of the financial entity [9]. Hence the will of Beijing moves to strengthen relations with financial institutions dominated by Washington that still have an important role in Latin America, which weakens the possibilities of China to establish relations in Latin America that are autonomous with respect to the United States.

Finally, the role of China as an exporter of capital continues to increase its presence in Latin America, where the state banks of China made loans to Latin American countries for an amount equivalent to 29 billion dollars in 2015, a quantity that was larger than the loans provided by the World Bank and the Inter-American Development Bank [10]. But the new phase of the world economic crisis characterized by falling commodity prices has modified the operations of Chinese state banks in Latin America, since the loans are supported by commodities, a situation that previously had benefited Latin American countries due to the high prices of commodities.

For this reason, the repayment of the loans has required the increased exploitation of natural resources of Latin American countries, which are seriously exposed to Chinese state banks, with the case of Venezuela being representative because of the fall of commodity prices, which faces the opposition of the popular classes. In addition, the ambition of China to incorporate the yuan in the basket of currencies of the Special Withdrawal Rights was accompanied by an increase in the participation in the financing of the International Monetary Fund that came almost to duplicate its financial resources to 659 billion dollars at the end of 2015, and which gave Washington renewed power to intervene in Latin American countries in the future [11].

In conclusion, the global economic turbulence maintained the close cohesion of China with the United States that resulted in a common approach in the new financial architecture at a global level, and which has posed the question of the role that will be assumed by both powers in Latin America.

Translation: Jordan Bishop

Notes

[1] Asia Times. Nicaragua canal boosts China power. Publication date: 22/11/2013.

[2] Xinhua Investment Fund for Cooperation in Productive Capacity China- Latin America points out sustainability and control of risks. Publication date: 6/06/2016.

[3] The New York Times. OPEC Agrees to Cut Production, Sending Oil Prices Soaring. Publication date: 28/9/2016.

[4] Bloomberg. Global Steel Glut Concerns Raised in G-20 Draft Statement. Publication date: 3/09/2016.

[5] Alacero. Anti-dumping investigations against China: Advances toward a just competition in the steel industry of Latin America. Publication date: 22/06/2015.

[6] Wall Street Journal. China struggles to avoid that their factories change. Publication date: 13/06/2016.

[7] Economic Commission for Latin America and the Caribbean. Latin America and the Caribbean and China: toward a new era of economic cooperation. Publication date: 22/05/2015.

[8] Financial Times. AIIB gathers for inaugural annual meeting. Publication date: 24/06/2016.

[9] Xinhua. World Bank, BRICS bank to enhance co-op in infrastructure development. Publication date: 10/09/2016.

[10] Financial Times. China doubles bets on ailing Latin America economies. Publication date: 12/02/2016.

[11] International Monetary Fund. Historical Reforms that duplicate resources of their quotas and will reinforce the representation of emerging and developing economies. Publication date: 27/01/2016.

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