

China's Involvement in Latin America: Lessons for India

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Introduction

China's links to Latin America and the Caribbean (LAC) can be traced back 450 years. In 1565, Spaniard Andrés de Urdaneta first found a route eastwards across the Pacific, from Asia to the Americas. The "silk road of the sea" saw 20 to 60 ships sail between China's coastal regions and Mexico's Acapulco every year. Silk, cotton, jewellery and gun powder were shipped to the New World in exchange for shoes, olive oil and wine, creating a trade route that persisted until 1815.¹

During the late 19th to early 20th century, Chinese immigrants arrived as indentured manual laborers known derogatorily as "Coolies." During this period, about 85 percent of the world's silver was produced in the Spanish colonies of the New World – notably Mexico and Peru – and one-third or perhaps more of it ended up in China as a result of this trade. In 1889, the Chinese Yuan was at par with the Mexican dollar.

¹ Romero, Roberto Chao - The History of the Chinese in Mexico 1882-1940

Following the Chinese exclusion act of 1882 passed by the USA, migration from China focussed on Mexico. By 1920, 26,000 Chinese immigrants comprised one of the largest immigrant groups in the nation, second only to natives of Spain.

With the abolition of slavery in the 19th century, while the British, French and Dutch colonies of the Caribbean brought in labourers from India, Latin American countries, especially Peru, and to a lesser extent Brazil, Argentina and Chile imported Chinese labour. Nicaragua and Panama in Central America also received significant Chinese migration .²

The Chinese Republic, established after the overthrow of the monarchy in 1911, was recognized by Brazil and Peru (1913), and by Mexico, Chile, Bolivia, Nicaragua and Guatemala in quick succession. The founding of the People's Republic of China in 1949 elicited some sympathy, but little political support, in a region under the influence of the United States.

India's historical association with LAC was of more recent origin. After the abolition of slavery, the British, French and Dutch sent labourers from India to their colonial possessions in the Caribbean, to work mainly on the plantations. This migration eventually resulted in tens of thousands of indigent Indians, mainly from north and central India, settling down there over the course of

² Mcarnaney, Alex, University of Chicago: A Very Long Engagement: '400 Years of Sino-Latin American Relations' 8/12/2012

decades.

Today between 35 percent and 50 percent of the populations of Trinidad & Tobago, Guyana and Suriname are of Indian origin, as have been several of their political leaders. Apart from these three countries, settler communities of Indian origin can be found elsewhere in the Caribbean. Recruitment for the Panama Canal project brought Indian labour to Panama, which has a significant diaspora. Recent migration to Latin America has been scarce.³

The Chinese diaspora in LAC, more significant than the Indian, provided a historical connection. This partly enabled the Chinese to establish more durable economic ties. In fact India established diplomatic ties with the region soon after Independence in 1947, while communist China did so much later.

Political Relations:

By the 1980s, China had established diplomatic relations with most major States in the region, including Argentina, Brazil, Chile, Mexico and Peru. Beijing's motivation also included the reduction of the diplomatic presence and influence of Taiwan. Of the twenty-three Governments maintaining diplomatic relations with the Republic of China, eleven were in this region.

High-level diplomacy in this century consolidated China's

³ Bhojwani, Deepak. 'Latin America, the Caribbean and India: Promise and Challenge'. Pentagon Press, February 2015. Chapter VIII.

relationships. In 2001, President Jiang Zemin visited Brazil, Cuba, Venezuela, Chile, Argentina and Uruguay. President Hu Jintao visited Chile, Brazil, Cuba and Venezuela in 2004 and Mexico in 2005. During these visits, US\$30 billion worth of investments were committed, and 400 accords signed.⁴

Premier Wen Jiabao visited Brazil, Uruguay, Argentina and Chile on his way to the G20 Summit in Mexico in June 2012. President Xi Jinping made a state visit to Trinidad and Tobago, Costa Rica and Mexico in early June 2013.

In July 2014, President Xi Jinping visited Brazil for bilateral talks and the BRICS Summit. He participated in the first summit between China and the Community of Latin American and Caribbean States (CELAC). He also paid bilateral visits to Argentina, Venezuela and Cuba. In May 2015, Prime Minister Li Keqiang visited Brazil, Chile, Colombia, Peru.

Four landmarks may be identified in the relationship between China and LAC:

The first is the **Policy Paper on Latin America and the Caribbean**, published by the Government of China in **November 2008**.⁵ This paper, which outlines in detail the various aspects of China's policy and relations with LAC, declares: 'China is ready to establish and develop state-to-

⁴ Bhojwani, Deepak – 'Latin America, the Caribbean and India: Promise and Challenge', Chapter IV, page 95.

⁵ 'China's Policy Paper on Latin America and the Caribbean' 5/11/2008 - <http://in.china-embassy.org/eng/zgbd/t521025.htm>

state relations with all Latin American and Caribbean countries based on the one China principle’.

The second was the **proposal** by Premier Wen Jiabao to **strengthen political, economic and cooperation relations between China and Latin America and the Caribbean, made in June 2012.**

A third milestone was the proposal for an **ambitious cooperation framework, known as “1+3+6”** presented in **July 2014 by President Xi Jinping at the first Summit of Leaders of China and CELAC, in Brasilia.** This was elaborated by PM Li Keqiang in 2015 as the 3x3 model. The first ‘3’ focuses on the joint construction of the three major pathways of logistics, energy and information technology. The second ‘3’ comprises the virtuous interaction between businesses, society and government. The third ‘3’ refers to expansion of the three financing channels of fund, credit and insurance.⁶

The fourth landmark was the adoption, in Beijing in January 2015, of the **Cooperation Plan 2015-2019 between the member States of CELAC and China, and the Institutional Arrangements and Operating Rules of the CELAC – China Forum,** as a framework for dialogue and cooperation.⁷ This document projects *inter alia* that ‘China will invite 1,000

⁶ Premier Li Keqiang: Upgrade Practical Cooperation Between China and Latin America and the Caribbean under the ‘3x3’ model. Communique of the Chinese Foreign Ministry 22/05/2015.
http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1266202.shtml

⁷ Beijing Declaration 23/1/2015
http://www.chinacelacforum.org/eng/zywj_3/t1230938.htm

political leaders of CELAC countries to visit China in the next five years.’⁸

Economic Strategy and Exchanges

The 3x3 model focusses on China’s participation in several vital sectors of LAC economies. One of the principal areas is **infrastructure** - roads, ports and airports, renewable energy, long-distance power transmission, telecom and internet connectivity,

and ‘a railway-based logistic artery spanning Latin America and the Caribbean’.

China’s recent **food security** policy is consistent with the so-called “two markets, two resources” strategy, first described in 1982 by former CCP chairman and general secretary, Hu Yaobang, and later adopted by President Jiang Zemin. It suggests reliance not only on China’s domestic market, but also on international markets for the provision of much-needed raw materials and agricultural resources.

China’s Ministry of Agriculture began formulating a new policy on outward agricultural investment around 2008, during a global food crisis. This strategy included overseas land purchase and leasing to guarantee domestic food supply. Today Chinese companies have made some investments in LAC agriculture but are mainly sourcing

⁸ China CELAC Forum **Cooperation Plan (2015-2019)** 2015/01/23
<http://www.chinacelacforum.org/>

necessary supplies of edible oils and other essential agricultural products.

The state-to-state approach enables China to obtain advantageous terms for Chinese companies, particularly in the ALBA states which are more politically driven. China leverages its strengths in coordinating the efforts of its ministries, banks and companies to secure work commitments and market access without having to bother with competitive bidding and other cumbersome procedures.⁹

With the increasing diversification of India's global trade towards other developing countries, the LAC region has emerged as an important partner for India, both as export destination as also import source. India's engagement with LAC differs from China in that it is based on commercial considerations, driven mainly by the private sector.

India's intrinsic advantages lie in the complementary nature of its economic relationship with LAC. The enormous Indian market suits a region geared to exploit its natural wealth. The global reduction in demand can be compensated by the only big emerging market growing at over seven percent annually.

⁹ Myers, Margaret – InterAmerican Dialogue – www.thedialogue.org

Trade

According to the UN Commission for Latin America and the Caribbean (ECLAC), between 2000 and 2014 bilateral trade between LAC and China expanded 22 times.¹⁰ China is now the second biggest trading partner of the region and the first of Chile and Brazil. It is LAC's second largest source of import and third largest export destination. The declared aim is to raise the bilateral trade to \$500 billion by 2025.

In 2014, merchandise trade between Latin America and the Caribbean and China decreased by two percent in value terms, compared to the 2013 level, marking the first fall since 2009. **Bilateral trade**, which in **2013** totalled nearly **US\$ 274 billion** (an all-time high), fell to **US\$ 269 billion in 2014**. China had a trade **surplus of almost \$90 billion**.¹¹

According to the website of India's Department of Commerce - www.dgft.gov.in - **trade between India and LAC** in FY 2014-15 (April-March) amounted to \$45.11 billion. This was an improvement over the previous financial year's figure of \$ 44.82 billion, short of the **peak \$ 46.67 billion in 2012-13**, and dwarfed the \$1.6 billion of 2000-1. India has run a **trade deficit with LAC over the past decade - \$16.5 billion in 2014-15**.

¹⁰ China Bets On Strategic Ties with Latin America and the Caribbean 25/5/2015 - <http://www.cepal.org/en/comunicados>

¹¹ Statistics from ECLAC - www.cepal.org

The region's exports to China in 2014 fell much more steeply than its exports to the world as a whole (two percent). In fact, 2014 was the first year in which exports from Latin America and the Caribbean to China had decreased in this century, having grown even in 2009 and 2013, when exports to the rest of the world had faltered.

According to ECLAC, in the first semester of 2015, LAC exports to China, at \$40.58 billion fell 24.2% over the previous year's \$53.55 billion. The average drop in LAC exports to the Asia Pacific region in this period was 21.9%. The drop in exports to the other two principal export destinations for LAC – Japan and South Korea – was only 12.2% and 5.8% respectively. In the same period, exports from China to LAC grew 2.7% to \$82.6 billion from \$ 80.46 billion the previous year. In the first semester of 2014, exports from China to LAC had grown 5% over 2013.¹²

India's exports to the Latin American and Caribbean region increased from \$ 13 billion in financial year (April-March) 2013-14 to **\$ 14.39 billion in 2014-15. India's imports** from LAC fell during this period from \$ 31,800.5 million to **\$ 30,724.3 million**. The top ten exports accounted for 66.36% and the top ten imports for 94.40% in terms of value. Imports in the first five months of FY 2015-16 also show a declining trend over 2014-15, principally on account

¹² Boletín N° 7 Primer semestre 2015, Observatorio América Latina Asia Pacífico – ALADI, Montevideo Uruguay – www.observatorioasiapacifico.com

of reduced figures for crude oil.¹³

The range of goods that LAC exports to China is much less sophisticated than its worldwide export basket. In 2013, commodities accounted for 73 percent of the region's exports to China, compared to 41 percent of its worldwide sales. In contrast, low-medium- and high-technology manufactures accounted for just 6 percent of the region's exports to China, compared to 42 percent of its global exports. In the case of imports, whereas low-, medium- and high-technology manufactures accounted for 91 percent of regional imports from China in 2013, they represented just 69 percent of its global imports. In other words, trade between Latin America and the Caribbean and China is clearly inter-industry: commodities in exchange for manufactures.

Just five products, all commodities – crude oil, iron ore and concentrates, soya beans, copper ores and concentrates and refined copper, accounted for 75 percent of the value of regional sales to China in 2013. The same five products generated just 47 percent of the value of the region's exports to that country in 2000, thereby demonstrating the strong reprimarization process that has occurred since then.

The abrupt fall in LAC exports to China – and to some extent India – is explained by this phenomenon. ECLAC figures reveal that while crude oil and derivatives export to Asia

¹³ Department of Commerce Government of India – Export-Import Data Bank - www.dgft.gov.in

Pacific in 2015 over 2014 fell 45 percent, iron ore exports fell 40 percent; copper, nickel and tin between 20 percent and 30 percent. In the case of soya and other agricultural products like wheat, leather, palm oil, the fall in price realization was between 20 percent and 25 percent.

Investment

Until 2010, very little foreign direct investment (FDI) flowed from China to Latin America and the Caribbean. It has increased significantly since then. ECLAC estimates that in the two decades prior to 2010, the region's inward FDI from China totaled some US\$ 7 billion. Subsequently, Chinese FDI has continued to flow into the region, at an estimated US\$ 9 billion to US\$ 10 billion annually. These figures make up five to six percent of the region's total inward FDI flows.¹⁴.

In January 2015, the CELAC member countries and China agreed to aim for a mutual investment stock target of at least US\$ 250 billion by 2025. A study by the Inter American Development Bank (IDB), revealed that LAC investment in China between 2002 and 2012 amounted to a mere \$ 917 million.¹⁵ Several LAC companies in fact established a presence in China to channelize exports from there to LAC.

According to the Washington DC based think tank, Inter-American Dialogue 'Chinese banks have provided

¹⁴ UN ECLAC March 2015

¹⁵ LAC Investment in China: A New Chapter in Latin America and the Caribbean-China Relations' Inter American Development Bank 2014 <https://publications.iadb.org>

approximately \$119 billion in finance to the region since 2005'. Almost 90 percent of estimated Chinese investments between 2010 and 2013 went to natural resources. China is one of the major foreign investors in oil and gas extraction in Argentina, Venezuela, Brazil, Colombia, Ecuador and Peru. China's investments in mining have focused on Peru and, to a lesser extent, Brazil.¹⁶

Chinese companies are involved in prestigious projects all over the region. In 2014, Nicaragua announced that a Chinese consortium would build an interoceanic canal cutting through the central American isthmus in Nicaragua, with a projected investment of \$50 billion. The Coca Codo Sinclair hydroelectric project in Ecuador, and the Atlantic-Pacific railway to link Brazilian and Peruvian ports across the South American continent, are to be financed and executed by Chinese companies.

Latin American crude is increasingly exported to Asian markets, with ten percent of China's total crude imports coming from Latin America in 2013. Venezuela, Colombia and Brazil – China's top three Latin American suppliers – contributed almost 350,000 barrels per day of Chinese crude imports in 2014. Much of this oil is already hypothecated against Chinese loans to these countries. China's involvement in trans-regional infrastructure could eventually carry more energy resources to Pacific ports.

¹⁶ InterAmerican Dialogue – www.thedialogue.org

Chinese credit and investment in ALBA countries, through deals in which the state plays a leading role, since 2005, have accounted for 75 percent of the \$119 billion lent to the region by the China Development Bank and China's Ex-Im bank.

Investments between India and LAC have built up slowly. A recent paper commissioned by the Federation of Indian Chambers of Commerce and Industry (FICCI) reveals that FDI by Latin America to India in the period 2003-13 amounted to \$ 2.68 billion or 0.8 percent of the FDI outflow of that region, and 1.0 percent of the total FDI received by India in that period. Indian FDI in Latin America in the same period amounted to \$ 8.4 billion or 7.4 percent of India's total FDI outflow, but 0.7 percent of Latin America's FDI inflow.

Indian companies do not all have high profile nor success in LAC. While some public and private sector oil investments have been viable, even profitable, political and financial considerations have resulted in suspension of some heavy investments. The unfortunate experience of the 2 billion dollar Jindal steel project in Bolivia was the most prominent. Renuka Sugars in Brazil has also faced problems and seeks to disinvest. Other failures have been the ESSAR steel plant in Trinidad & Tobago, Reliance's oil concessions in Colombia and Peru, and ONGC in Cuba and Trinidad. Chinese investments in LAC may not all be profitable, but they are sustained by political determination and deep pockets of the Chinese state.

CULTURE

In 2014, China proposed raising mutual awareness about each others' civilizations, in addition to political and economic cooperation. It offered 6,000 scholarships for Latin American students to study in China for the 2015-2019 period, invited another 6,000 Latin Americans to take training courses, and an additional 400 candidates to take part in postgraduate courses. China also plans to launch a program called "Bridge towards the Future," which is designed to train some 1,000 young Chinese and Latin American students. 2016 will be designated as the Year of China-Latin America Cultural Exchange.¹⁷

During his Latin American tour in May 2015, Premier Li Keqiang oversaw cultural events in Colombia and Peru that linked literary personalities of both sides. There has been considerable effort to translate and popularize literary works from both sides.¹⁸ One of the principal instrumentalities of Chinese cultural diplomacy is the **Confucius Institute**.

Over 400 Confucius Institutes have been established in schools across 115 countries. The institutes are owned and overseen by the Office of Chinese Language Council International, known as Hanban. **Beginning with Mexico in 2006, 33 CIs have been established in 11 countries in the LAC region.** The promotion of the 'one-China' policy in

¹⁷ **China-LatAm cultural exchange to usher in new era** - Xinhua, May 31, 2015

¹⁸ *Ibid*

CIs is especially important for Latin America and the Caribbean.

An area which China leverages with advantage is tourism. Chinese tourism, a lucrative source of income for many countries, is controlled by the state. Chinese can only visit those countries which the state permits. This offers the Chinese government a handle to bargain with. Chinese tourism to LAC has been increasing gradually, as has been Latin American tourism to China.

Comparison and Contrast

China and India are seen as emerging Asian giants in LAC. They are both considered important markets for LAC resources and sources of viable and relevant technologies, in areas such as renewable energy, pharmaceuticals, communications, software, etc.

Latin Americans have a fascination for oriental cultures, both Chinese and Indian. Latin American governments also do not tend to be intrusive or judgmental. This has helped establish solid political relations, and promote economic and cultural ties. The collaboration of China and India in BRICS, G77 and other multilateral forums representing interests of the developing world has created common cause on several issues of concern to LAC.

There is however an undeniable difference in the reality, and even **perceptions, of India and China within LAC:**

- The sheer scale of Chinese presence dwarfs that of India. China's presence in LAC has also grown considerably in this century. Indian investment has been selective and cautious.
- The Chinese establishment (basically official) has evolved and articulated a well-defined strategy to pursue its interests in that region. India has still to do so.
- Chinese interaction with LAC has been elevated to the highest level, through regular visits, as well as with the representatives of the entire region through the CELAC-China Summits. India's interaction with CELAC has been sporadic and only at the level of Foreign Ministers.
- Chinese investment in LAC today challenges even that of the established powers, the US and Europe. Indian investment is marginal by comparison.
- China's trade with LAC is not only more than five times that of India's, but is growing at a faster pace. Despite having a trade surplus with LAC, compared with India, which suffers a huge deficit, China still attracts more attention. China has full free trade agreements with Chile, Peru and Costa Rica. India only has partial tariff reduction agreements with Chile and four members of MERCOSUR.
- Chinese financial institutions have been providing funds to LAC partners for a variety of projects, enabling Chinese companies to gain a foothold and a reputation in that region. China is a member of the Inter American Development Bank since 2008, having contributed

about \$2.5 billion to the bank's finances. Chinese lending to LAC is not subject to any policy prescriptions, unlike the World Bank and IMF. It has lent more in recent years to LAC than the World Bank and BID combined.

- China's hefty presence in the New Development Bank and the formation of the Asian Infrastructure Investment Bank, have elevated its profile even higher. The growing strength of the Renmimbi in international finance, and its prospects as a reserve currency, will be another factor in China's favor in the coming years.
- China has undertaken strategic exchanges in the areas of defence (Bolivia, Peru, Ecuador, Argentina, Venezuela), outer space and aviation (Brazil, Argentina) and other areas with some LAC countries. It has convened multilateral defence related meetings with LAC countries in 2012, 2014 and 2015.¹⁹ India's strategic engagement has been minimal, with no significant project nor sales, apart from the sale of seven Dhruv helicopters to Ecuador in 2008. Ecuador declared in 2015 it would not buy any more helicopters from HAL.
- China has undertaken a concerted campaign to enhance mutual cultural appreciation with LAC through its Confucius Institutes, positioning of Chinese teachers and other steps. India has five cultural centres in the region, of which three are in the diaspora

¹⁹ 'China-Latin America Military Logistics Forum kicks off in Beijing' 23/10/2015 , China Military Online - <http://english.chinamil.com.cn/>

countries of T&T, Guyana and Suriname. Only two – Brazil and Mexico – are in Latin America.

Lessons for India

Ever since its creation, the People's Republic of China has single-mindedly followed policies it has declared to the world at large. In this century, its doctrine of a peaceful rise has challenged the established powers, even as it has sought to allay their apprehensions, with varying degrees of success.

While engagement with Africa, primarily embodied in the Forum on China-Africa Cooperation (FOCAC), predates that with Latin America and the Caribbean, the latter region has not been left behind. Economic engagement has been guided and conditioned by political imperatives for the most part. Friendly and like-minded regimes, such as the ALBA grouping, have been the greatest recipients of Chinese funding and technical assistance. In return, China has been assured of staunch political support in a region that has begun to assert its independence from the US and Europe.

India needs a vision and a strategy for LAC. For the present, engagement is largely restricted to the official establishment headed by the Ministry of External Affairs, which is ill-equipped for the task. The business establishment functions independently, very often without adequate awareness of the LAC politico-economic reality. Setbacks suffered then redound on the reputation of that region and its

governments, which are seen as overly protective or even uncooperative.

Lack of understanding and preparation are also reasons for the lack of a proper matrix in the form of agreements to protect investments, avoid double taxation, lower barriers to trade, promote connectivity, etc. The official establishment - whether the Ministry of Commerce, Defence, Agriculture, Civil Aviation, or other agencies - does not possess the human or technical resources to project and negotiate its interests in that region.

China probably faces more daunting barriers to its exports than does India. It is also geographically more distant than India. For historical and ideological reasons, it has to contend with suspicious official establishments in several LAC countries. Its growing presence and clout has provoked the US and Europe to take measures to regain influence in the region. India faces little or no resistance of this sort. China is also highly leveraged through its loans and investments in the region. It seems to have calculated the risks involved in its dealings, including the prospects of bad loans, failed projects, etc. This prevents abrupt breakdowns or political embarrassment.

China's determined and focussed methodology with LAC is an object lesson for India. China disaggregates and deals with countries, sub-regional and regional organisations after acquiring an understanding of their priorities and expectations. It has then subsumed the aggregate of its

relations under the banner of the China-CELAC Summit forum. This helps it enunciate and project clear goals and methods, leaving no room for ambiguity nor vacillation on the part of its interlocutors.

India needs to undertake an official campaign at the highest level, with a focus of the sort that has been applied to its relations with South East Asia or Africa, to make up for lost time.