



China's Economic Engagement with Latin America beyond COVID-19

中国赴秘鲁抗疫医疗专家组
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*Photo credit: Chinese medical experts arrive in Peru to help in the fight against COVID-19:
Twitter — Embassy of the People's Republic of China in Peru, 2020.*

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Haibin Niu

COVID-19 is a serious health, social, and economic challenge to the world. Facing the persistent pandemic challenge, whether China can continue its intensive economic engagement with Latin America has been a great concern.

There are many supportive factors for a deepening China-Latin America economic tie in this pandemic period.

Firstly, both sides are working closely together to address the pandemic and maintain trade dynamics. Latin America, the region with the world's highest coronavirus death toll, is especially vulnerable to the coronavirus. China has extended a helping hand to the region by supplying medical equipment, sending medical teams, organizing online expertise exchanges, and conducting joint research on a vaccine. Besides this medical cooperation, economic ties remain resilient. Trade in June increased 18 percent over the previous month. Chinese demand contributes a lot to the growth of several Latin American countries. There are growing concerns regarding potential risks of exporting COVID-19-polluted foods to China. However, Brazil and Ecuador are working closely with China to address this issue.

Secondly, China is willing to strengthen its economic engagement with the region in the context of fighting COVID-19. When meeting his counterparts in Latin America virtually in July, Chinese Foreign Minister Wang Yi identified public health, food security, digital



*Photo credit: Ambassador Liang Yu meets with Peruvian Foreign Minister Mario López:
Twitter — Embassy of the People's Republic of China in Peru, 2020.*

economy, and clean energy as new priorities for cooperation with the region in the post-epidemic era, in addition to the traditional areas of cooperation, such as infrastructure. These new priorities were already on the bilateral cooperation agenda, but the impacts of COVID-19 have given new impetus to them. By inviting Latin American businesses to attend the third China International Import Expo in November, and facilitating the resumption of commercial flights, China is building a foundation for its economic relationship with Latin America during and beyond COVID-19.

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Thirdly, most Latin American countries are still committed to economic globalization and development. Different from the decoupling and de-globalization approaches that some governments have adopted during COVID-19, most Latin American countries maintain their support for an open world economy. A comprehensive and interdependent development partnership with China is still valued by most countries in the region. COVID-19 has strengthened China’s importance as a major export destination, as well as a critical medical supplier for the region.

Fourthly, Latin America remains an important economic partner for an increasingly globalized China. During COVID-19, China’s recovering domestic manufacturing and increasing consumption will depend partially on imports from Latin American countries. The region’s general political neutrality has safeguarded Latin America as a reliable supplier and an open

destination for Chinese investment. Unlike the situation in some advanced economies, China’s technological progress is generally not treated as a security or economic threat by Latin American countries. In the post-COVID-19 era, China will likely benefit from Latin America’s continued economic openness.

Despite these optimistic factors, there remain misunderstandings and challenges that are also shaping the economic relationship between China and Latin America.

The first misunderstanding relates to China’s capacity for investing in Latin America. Observers have noticed that China’s policy banks have scaled back loans to Latin America, as oil-backed deals wane and new lenders and partnerships emerge. The reduced loans from China’s policy banks represents China’s changing engagement approach, rather than declining capacity. Lower oil prices, political unrest, and external sanctions have made a few Latin American oil producers less attractive to China’s policy banks. Moreover, in recent years, it has been the International Monetary Fund, instead of China, offering massive direct loans to countries like Argentina and Ecuador. China increasingly prefers an investment model involving multiple stakeholders, building local partnerships through joint funds or ventures.

For their part, China’s policy banks have become actively involved in coordination with multilateral development banks, such as the CAF and Inter-American Development Bank. China’s state-to-state interactions are now focused on the coordination of regulations and policies so as to attract private investment to Latin America. For example, in its flagship Belt and Road Initiative, China emphasizes the importance of private sector firms in its economic engagement with Latin America. By adopting this approach, China is gradually diversifying, and enhancing, its role as an emerging investor in the region.

The second misunderstanding might relate to the potential effects of a “dual circulation” development pattern proposed recently by Chinese policymakers. In this new pattern, the domestic economic cycle will play a leading role, with a greater focus on production for internal consumption. Obviously, this new strategy is a response to external uncertainties, such as a prolonged pandemic, rising protectionism, and a global economic downturn. To face these challenges, China needs to make full use of its huge domestic market, though that does not mean China will adopt a closed-door or inward-looking approach.

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In fact, a sustainably growing Chinese economy can’t be cut off from the rest of the world. After a record 6.8 percent decline in the first quarter of the year, China’s GDP grew by 3.2 percent in the second quarter, which makes China the only major economy returning to growth. Data show that China’s second quarter growth relied on both imports and exports. After continuing growth in exports since April, China’s imports began to grow in June. The growth of Chinese imports was a good sign for both domestic and global economic recovery.

The China International Import Expo will be held as scheduled, showing that China wants to open its domestic market rather than close the door. To take advantage of opportunities to export more to China, and to attract Chinese investors, Latin American countries will need to make progress fighting the pandemic and improving the business environment.

Last but not least, there are the challenging geopolitics in the region. The changing triangular relations between China, the United States, and Latin America are disturbing the economic engagement between many Latin American countries and China. There is increasing American pressure on Latin American countries to avoid closer economic ties with China, especially when it comes to 5G technology. China has made it clear that it does not want to have a new Cold War with the United States. China also knows that most Latin American countries want to have the United States back in the region, but not the Monroe Doctrine back.

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China takes a different approach. Its Belt and Road Initiative in Latin America is open to third party cooperation. If “América Crece” is open to a role for China, that would be better, since the region’s infrastructure deficit is too huge to be addressed by either of the two economic superpowers alone.

Haibin Niu is an associate research fellow and deputy director of the Institute for Foreign Policy Studies at the Shanghai Institutes for International Studies, and the vice secretary general of the Chinese Association for Latin American Studies.