

Contributions to International Relations

Dorotea López
Guoyou Song
Andrés Bórquez
Felipe Muñoz *Editors*

China's Trade Policy in Latin America

Puzzles, Transformations and Impacts



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Contributions to International Relations

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Abbreviations

ACN	Andean Community of Nations
AiIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASOEX	Association of Fruit Exporters
BIE	Bureau International des Expositions
BIT	Bilateral Investment Treaty
BRI	Belt and Road Initiative
CACM	Central American Common Market
CAI	Comprehensive Agreement on Investment
CASCF	China-Arab States Cooperation Forum
CCF	China-CELAC Forum
CCPIT	China Council for the Promotion of International Trade
CECA	China Electronic Commerce Association
CIIECC	China International Electronic Commerce Center
CELAC	Community of Latin American and Caribbean States
CEPA	Closer Economic Partnership Arrangement
CLAC	China and Latin America and the Caribbean
CNNC	China National Nuclear Corporation
COFCO	China Oil and Foodstuffs Corporation
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DAR	Derecho, Ambiente y Recursos
DEPA	Digital Economy Partnership Agreement
DSR	Digital Silk Road
ECLAC	Economic Commission for Latin America and the Caribbean
EPA	Economic Partnership Agreement

EPP	Export promotion programs
EU	European Union
FDI	Foreign direct investment
FOCAC	Forum on China-Africa Cooperation
FTA	Free trade agreements
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GL	Grubel-Lloyd
GMV	Gross merchandise value
GVC	Global value chain
ICT	Information and communications technologies
IDB	Inter-American Development Bank
IIT	Intra-industry trade
ISI	Import substitution industrialization
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
MFN	Most favored nation
MIIT	Ministry of Industry and Information Technology
MoU	Memorandums of Understanding
NAFTA	North American Free Trade Agreement
NDB	New Development Bank
NIE	Newly industrialized economies
OBOR	One Belt, One Road
OECD	Organisation for Economic Co-operation and Development
OFDI	Overseas foreign direct investment
PA	Pacific Alliance
PPP	Public-private Partnership
PTA	Preferential trade agreements
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional trade agreements
SEZ	Special economic zones
SME	Small and medium-sized enterprises
SOE	State-owned enterprises
SRF	Silk Road Fund
TC	Trade Special Coefficient
TEU	Twenty-foot equivalent unit
TFA	Trade Facilitation Agreement
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
USMCA	United States-Mexico-Canada Agreement
VAT	Value-added tax

WCO	World Customs Organization
WHO	World Health Organization
WTO	World Trade Organization
ADEX	Exporters Association
AMS	Accounting and Management Service
PA	Pacific Alliance
BIT	Bilateral Investment Treaties
ASAC	American Subcontractors Association
IBD	Inter-American Development Bank
BRIC	Brazil, Russia, India and China
CAF	Development Bank of Latin America
CAFTA	Central America Free Trade Agreement
CAN	Andean Community of Nations
CARICOM	Caribbean Community
CCCFA	China Chamber of Commerce for Import and Export of Foodstuffs, Native Produce and Animal
CCCPC	Central Committee of the Chinese Communist Party of China
CEPAL	Economic Commission for Latin America and the Caribbean
CIEPLAN	Corporation for the Study of Latin America
CITIC	China International Trust and Investment Corporation
CMAA	Construction Management Association of America
COMEX	Confederation for Production and Commerce
CPFTA	Canada-Peru Free Trade Agreement
FDI	Foreign direct investment
ECA	Export credit agency
EMOL	Newspaper El Mercurio
EXIM	Export-Import Bank
FTAA	Free Trade Agreement of the Americas
HK	Hong Kong
HS	The Harmonized System
IMF	International Monetary Fund
Intel	Integrated Electronic Corporation
IPO	Intellectual Property Office
IP	International Politics
KCG	KCG Holdings, Inc
LPI	Logistics Performance Index
LCAC	Landing Craft Air Cushion
MSME	Micro, small and medium entrepreneur
OAS	Organization of American States
OCD	Organisation for Economic Co-operation and Development
PDR	Popular Democratic Republic
PENX	National Exporting Strategic Plan
PROSUR	Forum for the Progress and Development of South America
RMB	Chinese currency

S&T	System Integration & technology Distribution AG
SICA	Central American Integration System
UNASUR	Union of South American Nations
UNESCAP	United nations Economic and Social Commission for Asia and the Pacific
USMAC	United States Market Access Center
VUCE	Single window for foreign trade
ZTE	Zhongxing Telecommunication Equipment Corporation

Introduction



Dorotea López, Guoyou Song, Andrés Bórquez, and Felipe Muñoz

The increase in global interdependence and market liberation cannot be analyzed without considering the influence of international trade policy. Despite the resurgence of protectionism in Western countries, bilateral, regional, and multilateral trade agreements and policies are multiplying every year. Countries understand that trade policies not only allow the institutional and security framework to be developed, but also systematize cooperation with mutual benefit and reciprocity.

China has increased its trade engagement worldwide, establishing more diverse forms of interaction. China's accession to the World Trade Organization (WTO) in 2001 was considered a turning point for world trade. Its participation in APEC has been relevant to building a framework for its approach toward economies in the region. After this period of adaptation to international dynamics, China began a new phase of participation in international trade policies through the Belt and Road Initiative (BRI). The BRI is a transcontinental, long-term policy and investment program which aims to develop infrastructure and accelerate the economic integration and connectivity of countries along the historic Silk Road.

These reforms and opening up have strengthened Sino-Latin American economic ties. Initially, trade relations were characterized by Latin American countries supplying China with raw materials with a low value-added export basket. These interactions have developed through preferential agreements. China has free trade agreements (FTAs) with three countries in Latin America (Chile 2005; Peru 2009; Costa Rica 2010), and a series of partial agreements and protocols with the main economies of the region. These agreements have allowed China to boost trade with Latin America, establish trade networks, and expand market access. Since 2001,

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China has evolved into the first or second most important trading partner for Argentina, Brazil, Chile, Costa Rica, and Peru.

The scope of China's commercial presence in the region has been expanded into other complementary areas such as foreign investment and the opening of logistics, financial and digital trade platforms. There has been an increase in regional platform initiatives that enhance China's image as a new, sophisticated partner. China has launched hubs for the expansion of the Chinese currency (RMB) and opened a regional, multimodal port, and regional headquarters for strategically selected Chinese companies. China has also begun to dialogue and cooperate based on common interests. The most direct communication at the intergovernmental level is carried out in the China-CELAC Forum (community of Latin American and the Caribbean States). Through this mechanism, China interacts not only with its closest trade partners, but with the 33-member countries of the region.

The following book highlights the need to deepen and systematize these aspects. Through different case studies, a baseline is established for the analysis of the main actors and dynamics around China's trade policy in the region.

The first part of this book reviews China and Latin America trade policies through two chapters, one from each side of the Pacific Ocean. The first chapter reviews Chinese trade policy after its accession to the World Trade Organization in 2001, a determining point for its integration and progress toward the signing of preferential agreements. The second chapter studies the trade policy of Costa Rica, Chile, and Peru, that have signed bilateral free trade agreements with China.

Even though China is considered a latecomer in trade liberalization, its development roadmap has gradually become clearer. China initiated in its early phase by strengthening links with other countries in its own region, the same way Latin American liberalization began. The authors highlight the participation of these countries in the different trade integration processes and the fact that they are all active contributors to the multilateral trading system, each with a significant number of bilateral trade agreements. The challenges generated by the reality of economic multilateralism are also raised, especially for the future development of trade policy. This section provides a framework for the following sections that analyze the trade relations between Latin America and China in greater detail.

The second part of the book explores China's view of the Latin American region. The first chapter assesses the advances in economic cooperation which have evolved from spontaneous to conscious. It also provides some guidance on possible strategies to deepen cooperation. The author highlights the relevance of the BRI and the challenges Latin America faces in diversifying and adding value to its exports, identifying opportunities to innovate in their relationship. It concludes that China should further enhance its level of openness to international society and facilitate investment and trade and that financial cooperation between China and Latin America should be built up. The second chapter explores China's export promotion policies. Coherent with its new role in the international economic system, these have been implemented within its industrial development strategy and embraced its integration into the international market. The chapter acknowledges that Chinese approaches are characterized by their multidimensional character, in which the lines

between industrial development, export, and investment promotion are blurred. Both authors conclude that the BRI presents a great opportunity for Sino Latin-American relations and that China needs to develop a more comprehensive strategy for the region.

In the third part of the book, the authors provide a deeper look into the trade relations between China and the countries of Chile, Peru, Costa Rica, and Mexico. It highlights the benefits for the parties involved, as well as the key role that the FTAs these countries have with China have in providing leverage for the development of international trade and the achievement of a marginal acceleration in the transactions these countries have with China, even during periods of temporary external trade instability. The authors conclude that the benefits reaped and the advancements made in the relationship between the Latin American countries and China have been significant and positive. There remain, however, a variety of improvements that could be implemented in upcoming FTA revisions, particularly with the possible environmental protection chapter in the upcoming revision of the FTA between China and Peru and the challenges it could present to future investments. The authors also analyze the interests that led China and Costa Rica to regularize diplomatic relations and deepen trade instruments. For China, a greater geopolitical presence in the Central American and Caribbean region, and for Costa Rica, a great commercial and cooperation opportunity. The end of the third part of this book provides a thorough analysis of the trade relationship between China, Mexico, and the United States, as the logic of US capital shapes Mexico's imports and exports, and the Chinese investment in Mexico leaves little room for the Mexican government to maneuver.

In the fourth part of the book, the authors focus on the emerging trade agenda between the two regions. Trade facilitation policies and the ways they can help the countries of the Pacific Alliance insert themselves into the Chinese market are discussed, especially the development of unique windows for systematizing export processes, logistics, and port standards, which facilitate shipments to China. The next chapter discusses key elements of agricultural trade and investment. Latin America, and especially South America, is one of the regions with the highest proportion of agricultural trade as a percentage of its total trade. China has become a preferred destination for Latin American agricultural exports, and China sees Latin America as a strategic partner in guaranteeing its food security. The chapter presents an overview of the recent evolution of agricultural export and import flows between China and Latin America and its implications, examining the agricultural investment strategies that China has developed in Latin America and analyzing the agricultural trade agreements China has made with Latin American countries and discussions on joint economic cooperation. The last chapter of this section discusses the future of digital trade in China and the Latin America Region. The patterns in international economic relations have changed in the last decades as the relevance of intangibles increases. There is a growing focus on developing digital trade to diversify and add value to exports. Digital platforms can connect SMEs directly to consumers, expand their market access, or allow traditional services such as education and medicine to be traded across borders. This has become particularly relevant for China and Latin

America, whose trade relations have been characterized by the export of raw materials and commodities from Latin America to China, and the importation of final consumption goods to Latin America from China. A problem with the development of the digital economy is the fragmentation of normative frameworks that promote cross-border exchanges. This chapter analyzes the digital trade dimension of Sino-Latin American relations, emphasizing e-commerce-related provisions in international agreements. It concludes that the Digital Economy Partnership Agreement can be used as a benchmark to guide current and future negotiations between China and Latin American economies.

The fifth part of the book explores the trade challenges between China and Latin American and Caribbean countries (LAC). First, the issues of The Belt and Road Initiative (BRI) and the participation of Latin American and Caribbean countries (LAC) are discussed. This chapter analyzes the achievements of BRI cooperation between LAC and China, the LAC economic and social stagnation during the COVID-19 pandemic and the transformation of the “Belt and Road” joint construction between China and LAC in the post-pandemic era. China faces increasing challenges in developing further relations with LAC countries on the economic, political, and geopolitical levels. Taking the path of sustainable development, mutual benefit, and joint development under the macro vision of building a community with a shared future for humankind is fundamental. The final chapter discusses the challenges that China and LAC countries face in improving their relations from economic, political, and geopolitical points of view. The first section highlights that China should continue the process of enhancing its understanding of Latin America based on its acquired rich knowledge and experience of the region. Through the comparative research of previous Chinese and American studies on Latin America, Chinese researchers should improve domestic Latin American research to build the academic literature on this relation. The second part analyzes the political challenges, revising the left and right-wing movements and CELAC’s relevance in this relationship. The third section deals with the challenges of geopolitics and the international system, mainly with the relations between CLAC and US relevance. As a result, these shared challenges urge the United States, China, and Latin America to push domestic reforms, enhance bilateral and multilateral cooperation, introduce international support, and seek opportunities for trilateral cooperation.

Part I
China and Latin American Countries Trade
Policy

Evolution of China's Trade Policy: From the WTO Accession to Preferential Trade Agreements



Jing Ke

Abstract Since the 1990s, Preferential Trade Agreements have emerged in significant numbers throughout the world. Especially while the Doha Round negotiations are in a deadlock, expanding regionalism becomes necessary to fill in the blanks in WTO rules or further liberalize to meet the rising demand for economic integration. In this context, this chapter offers a look at how China's trade policy has evolved since it entered the WTO in 2001 to the present. The chapter consists of three sections: The first section provides an overview of the preferential trade agreements signed by China. The second section delves into the main reasons behind China's active pursuit of PTAs. Finally, the third section analyzes the main challenges of China's PTA policy in the new situation of international scenario.

Keywords Preferential trade agreement · Economic integration · Challenges · China

Since World War II, various Regional Preferential Trade Agreements (PTAs) have become essential channels for countries to achieve regional economic integration, and the WTO, which is the most important multilateral mechanism for promoting global trade liberalization, has never excluded regionalism. As early as the establishment of the General Agreement on Tariffs and Trade (GATT), regional integration was considered an exception to the most-favored-nation (MFN) treatment and the principle of nondiscrimination. Paragraph 5 of Article XXIV of GATT (1947) stipulates that "the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area" (GATT, 1947). To avoid undermining their core principles, this paragraph also stipulates that when WTO members that are parties to regional PTAs trade with members not included in them, the duties and other regulations of commerce shall not be higher or more restrictive than the corresponding duties and regulations of commerce that existed between the same

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constituent territories before the formation of the free-trade area or interim agreement as the case may be (GATT, 1947). GATT/WTO leaves room for regional PTAs because of the uneven economic development of different countries. The regional PTAs are also intended to promote trade liberalization, which is consistent with the goals of the WTO. Since the 1990s, PTAs have emerged in significant numbers throughout the world. Especially while the Doha Round negotiations are in a deadlock, expanding regionalism becomes necessary to fill in the blanks in WTO rules or further liberalize to meet the rising demand for economic integration. Whether it is a developed economy such as the United States or Europe, or an emerging economy like China and India, they all actively seek to reduce trade barriers through PTAs. This trend shows no signs of slowing. According to WTO statistics, as of October 20th, 2020, 306 RTAs out of the 496 notifications from WTO members, counting goods, services, and accessions separately, had taken effect. Of the 164 members, only Mauritania, South Sudan, and Somalia are yet to reach trade agreements with other economies (WTO, 2020).

Although China's participation in PTAs began relatively late, its progress was fast. Before China's accession to the WTO in 2001, it had barely signed any FTAs, but at present, China has already signed 15 FTAs, has another 12 FTAs under negotiation, and 8 FTAs under study.¹ As the Asia-Pacific region has become an influential part of the global PTA landscape in recent years, signing PTAs inclusively and openly is not only an effective approach to promote China's opening-up and domestic economic reform and deepen its integration into the global economy, but is also an important supplement to the multilateral trading system. The international economic and trade system is undergoing a reconstruction caused by the destructive actions of the United States, bringing about great uncertainty in global trade. Many countries have accelerated their PTA negotiations to mitigate the risks caused by the about-face of American economic policies. Looking ahead, this will be a critical period for the development of multilateral trading systems. This objective review of the evolution of China's trade policy will be an invaluable reference for China's development of regional economic cooperation in the coming years.

1 An Overview of China's PTAs

1.1 *An Overview of the Development of China's PTAs*

Overall, China's accession to the WTO can be seen as a pivotal moment in their PTA policy evolution. Before it acceded to the WTO, China joined the Asia-Pacific Economic Cooperation (APEC) in 1991, Asia-Europe Meeting (ASEM) in 1996, and Association of Southeast Asian Nations (ASEAN) Plus Three Summit (10 + 3) in 1997, none of which were capable of economic integration. These mechanisms

¹See China FTA Network <http://fta.mofcom.gov.cn/>

lack the necessary institutional means to implement trade integration and their cooperation remains at the very first stage. They are not formal bilateral or multilateral regional economic organizations (Quan, 2020). The main reason behind the phenomenon was that China needed to devote itself to the WTO accession process, seeking to participate in the global division of labor system at the multilateral level and global value chain (GVCs) as soon as possible to support its export-oriented strategy. After China acceded to the WTO, the construction of China's free trade areas has accelerated significantly. Asian countries that experienced the Asian financial crisis began to pay more attention to regional economic cooperation, leading to a rapid increase in the number of PTAs. Meanwhile, China's accession to the WTO made it possible to invest more time and energy into regional economic cooperation. Its foreign trade policy has gradually shifted to emphasize globalization and regional integration.

Stage I: In January 2002, China joined the Asia-Pacific Trade Agreement (APTA), formerly known as the "Bangkok Agreement." This is the first regional preferential arrangement in which China has engaged, and its current members are Bangladesh, China, India, the Republic of Korea, Lao People's Democratic Republic, and Sri Lanka. Although APTA is merely a trade agreement with preferential tariffs on goods and does not cover services, as the first regional PTA that China has joined, it has positively affected China's promotion of regional trade negotiations. In 2003, the Central Government of China signed the Closer Economic Partnership Arrangement (CEPA) with the Government of the Special Administrative Region of Hong Kong and the Government of the Special Administrative Region of Macao, respectively, covering both goods and services. The CEPA successfully applies the "One Country, Two Systems" principle, a new pathway for institutional cooperation and a milestone in the economic and trade exchange and cooperation between the mainland, Hong Kong, and Macao. It is an FTA signed by the Central Government with the separate customs territories of Hong Kong and Macao, and also the first FTA to be fully implemented in the Chinese mainland (The Ministry of Commerce, PRC, 2020).²

On July 1, 2004, the amended Foreign Trade Law of the People's Republic of China came into effect, stipulating that China, "on the principle of equality and mutual benefit, promotes and develops trade relations with other countries and regions, concludes or accedes to such regional economic and trade agreements as tariff alliances agreement and free trade zone agreement, and joins regional economic organizations" (The Central People's Government of the PRC, 2011).³ This law laid a legal foundation for China to sign and participate in various regional economic agreements. In November 2004, Chinese Premier Wen Jiabao and leaders of AMS witnessed the signing of the Agreement on Trade in Goods of the China-

²See China FTA Network, "Mainland and Hong Kong Closer Economic and Partnership Arrangement," <http://fta.mofcom.gov.cn/topic/enhongkong.shtml>

³Article 5 of the Amendment to the Foreign Trade Law of the People's Republic of China, http://www.china.org.cn/china/LegislationsForm2001-2010/2011-02/14/content_21917089.htm

ASEAN FTA, which took effect in July 2005. This was the first FTA signed between China and foreign countries. In January 2007, the two parties signed the Agreement on Trade in Services, which took effect in July of the same year. China also signed a preferential agreement on trade in goods with Chile on October 1, 2006, and Pakistan on July 1, 2007. The preliminary stage of China's regional free trade network construction was complete, but the overall strategic plan was not formed.

Stage II: The report of the 17th National Congress of the Chinese Communist Party proposed the "implementation of Free Trade Zone Strategy" for the first time. Since then, the construction of the Free Trade Zone has been officially upgraded to a national strategy, and the pace of China's FTA negotiations has accelerated significantly. China signed a preferential agreement on Trade in Service with Chile in April 2008 and Pakistan in February 2009, broadening the scope of the FTA beyond goods. From this point on, China's FTAs were comprehensive, and the liberalization of trade in services was no longer based on the liberalization of trade in goods. In April 2008, China and New Zealand signed a bilateral FTA. The agreement is the first comprehensive FTA that China signed and the first FTA between China and a developed country. New Zealand was the first developed country to recognize China's market economy status, making this FTA extraordinarily significant in promoting China's FTA strategy. China has since signed FTAs with Singapore (October 2008), Peru (April 2009), and Costa Rica (April 2010). China vigorously launched a series of FTA negotiations, including China-Iceland FTA, China-Norway FTA, China-Gulf Cooperation Council (GCC) FTA, China-Japan-Korea FTA, Regional Comprehensive Economic Partnership (RCEP), etc. After China's Accession to WTO, it has clearly regarded the construction of free trade zones as a vital part of promoting a higher-standard opening up, and FTAs have played an increasingly important role in regional economic cooperation arrangements.

Stage III: In November 2012, the 18th National Congress of the CPC report stressed the "speed up [of] the implementation of the free trade zone strategy." Then the Third Plenary Session of the Eighteenth Central Committee of the CPC issued "Opinions on Speeding up the Implementation of Free Trade Zone Strategy," which systematically presented the overall requirements, basic principles, construction objectives, strategic planning, and main tasks of China's FTA strategy: that the implementation should focus on neighboring countries, to expand cooperation in trade and investment, and radiate from the "Belt and Road" to a wide area of the world, building a new pattern of regional economic integration (Ministry of Commerce, People's Republic of China, 2015). In December 2014, Chinese President Xi Jinping reemphasized the need to adapt to the new trend of economic globalization, accurately judge the new changes in the international situation, deeply grasp the new requirements of domestic reform and development, and take on a more positive and promising role in promoting a higher-standard opening-up, speeding up the implementation of the FTA strategy and the construction of a new system of open economy. China's free trade zone strategy and its development roadmap have gradually become clear, and the pace of trade talks has accelerated. Since 2013, China has signed bilateral FTAs with eight countries, including Iceland, Switzerland, South Korea, Australia, Georgia, Maldives, Mauritius, and Cambodia, and

concluded negotiations on upgraded FTAs with ASEAN, Chile, Singapore, and Pakistan. All of the upgraded FTAs have already taken effect, and China has signed a total of 15 regional PTAs with foreign countries (see Table 1). Significant progress was achieved on November 4, 2019, in the Regional Comprehensive Economic Partnership (RCEP) negotiations. The 15 participating countries, not including India, have concluded text-based negotiations for all 20 chapters and market access issues and entered their domestic legal review procedures. This marks a significant breakthrough in the negotiation of the largest free trade zone by population, the most diversified membership structure, and the greatest development potential in the world. In addition to RCEP, China is advancing negotiations on upgrading FTAs with Korea, Peru, and New Zealand and on new FTAs with Japan-Korea, GCC countries, Palestine, Panama, Moldova FTA, Norway, Israel, and Sri Lanka. A further eight FTAs are under consideration. It is worth mentioning that in October 2017, the 19th National Congress of the CPC report stated that “China would unswervingly safeguard the multilateral trading system, promote the building of free trade areas and an open world economy,” which means that China has closely linked the goal of building a free trade zone with the maintenance of the multilateral trading system. This is because the economic policies of some major economies have made significant shifts in recent years toward internalization and trade protectionism, putting the multilateral trading system into an unprecedented crisis. In the coming period, the pace and strategic goals of the construction of China's free trade zone will be closely linked to the development of the multilateral trading system and the reconstruction of the global trade order.

1.2 The Features of the Development of China's PTAs

China's PTAs were initially concentrated in surrounding areas of Asia, later extending to Latin America, and then to the Asia-Pacific, Europe, and Africa. Since China is in Asia and has close economic and political ties with Asian countries, it started with ASEAN, Pakistan, Singapore, South Korea, etc. As China's free trade zone developed, the scope gradually expanded to geographically distant countries, including Chile, Costa Rica, Peru, Australia, New Zealand, Iceland, and Switzerland. While the Asia Countries account for the overwhelming majority, many are countries along the Belt and Road.

China's PTAs are mainly focused on developing economies and are gradually extending to developed economies. PTAs between China and developed economies are limited to New Zealand, Australia, Iceland, and Switzerland. What is more, the gross domestic product (GDP) share of the contracting parties in the global GDP is relatively small, as is their share of China's total exports and imports. Several of China's largest trading partners, such as the United States, the European Union, and Japan, have yet to sign FTAs with China. Similarly, several important emerging market economies, such as the BRICS, do not have FTAs with China. It can be inferred that, to a certain extent, China's PTA partners still prefer “South-South

Table 1 China signed free trade agreements

No	Agreements	Bilateral/ Regional/ Domestic	Type	Contract date	Effective date	Region
1	Asia-Pacific trade agreement (APTA)	Regional	Tariff preferences for commodities, not FTA	2001/4/12	2002/1/1	Asia
2	Mainland China-Hong Kong	Domestic economic integration	Economic integration agreement (EIA)	2003/6/29	2003/6/30	Asia
3	Mainland China-Macao	Domestic economic integration	Economic integration agreement (EIA)	2003/10/17	2003/10/17	Asia
4	China-ASEAN	Regional	FTA	2004/11/29 (goods)	2005/1/1	Asia
				2007/1/14 (service)	2007/7/1	Asia
				2015/11/22 (updated)	2019/10/22	
5	China-Chile	Bilateral	FTA	2005/11/18 (goods)	2006/10/1	
				2008/4/13 (service)	2010/8/1	Latin America
				2017/11/11 (updated)	2019/3/1	
6	China-Pakistan	Bilateral	FTA	2006/11/24 (goods)	2007/7/1	
				2009/2/21 (service)	2009/10/10	Asia
				2019/4/28 (updated)	2019/12/1	
7	China-New Zealand	Bilateral	FTA	2008/4/7	2008/10/1	Oceania
8	China-Singapore	Bilateral	FTA	2008/10/23	2009/1/1	
				2018/11/12 (updated)	2020/1/1	Asia
9	China-Peru	Bilateral	FTA	2009/4/28	2010/3/1	Latin America
10	China-Costa Rica	Bilateral	FTA	2010/4/8	2011/8/1	Latin America
11	China-Iceland	Bilateral	FTA	2013/4/15	2014/7/1	Europe
12	China-Switzerland	Bilateral	FTA	2013/7/6	2014/7/1	Europe
13	China-Korea	Bilateral	FTA	2015/6/1	2015/12/20	Asia
14	China-Australia	Bilateral	FTA	2015/6/17	2015/12/20	Oceania
15	China-Georgia	Bilateral	FTA	2017/5/13	2018/1/1	Asia
16	China-Maldives	Bilateral	FTA	2017/12/7	TBD	Asia
17	China-Mauritius	Bilateral	FTA	2019/10/17	TBD	Africa
18	China-Cambodia	Bilateral	FTA	2020/10/12	TBD	Asia

Source: Ministry of Commerce, PRC, http://fta.mofcom.gov.cn/english/fta_qianshu.shtml

cooperation” to “South-North cooperation,” and the latter will have to be further expanded in the future.

China has adopted a gradual approach when negotiating FTAs with trading partners: first goods, then services and investment. The Asia-Pacific Trade Agreement (APTA), China-ASEAN FTA (CAFTA), China-Pakistan FTA (CPFTA), and the China-Chile FTA all took this gradual approach. Both CAFTA and CPFTA were preceded by an Early Harvest Program, after which further negotiations around goods, services, and investment took place (Zhang & Shen, 2013). At this stage, the agreement on services lags behind the agreement on goods. It did not take the path of reaching a comprehensive agreement immediately. It was advanced gradually, in phases, instead of reaching a comprehensive agreement immediately, reflecting the cautious and pragmatic characteristics of China's PTA policy. The advantage of this Early Harvest Approach is that it establishes some of the negotiation outcomes so that the parties can enjoy certain benefits of trade liberalization before the negotiations are completed, and it lays a solid foundation for deepening economic ties between parties. In contrast, later FTAs such as China-New Zealand, China-Singapore, and China-Peru FTAs were comprehensive undertakings when they were signed, reflecting that China's PTA policy is gradually becoming self-confident and mature.

China's PTAs mainly center upon new tariff concessions and market access commitments, emphasizing traditional goods trade. Although China has liberalized service trade more than it committed initially under the WTO framework, it is mainly based on “positive lists” as to the specific commitment schedule, which appears to be relatively conservative. With the accelerated pace of building twenty-first-century trade rules by advanced countries, China's PTAs are getting closer to high-standard international trade rules. For example, TRIPS-plus Intellectual Property (IP) Provisions have been introduced into the China-Switzerland FTA and the China-Korea FTA. Behind-the-border issues such as competition policy and environmental protection have gradually been adopted in China's newly signed PTAs. These improvements show that China is determined to build an open economic system and a higher-level market economy. Compared to the twenty-first-century trade rules set by the United States and Europe, however, a significant gap remains. China is paying more attention to the role of PTAs in expanding market access, and progress on behind-the-border regulatory issues is relatively limited. Take the upgraded version of the China-Singapore FTA (2018) as an example. Though two new chapters of competition policy and environment have emerged, they are all “soft” commitments that are not binding.

2 Motivations behind China's PTA Engagements

Before the twenty-first century, China's engagement in formal regional economic cooperation was low, but that is no longer the case. China has negotiated an unprecedented number of PTAs since the beginning of the twenty-first century. In

2007, China officially announced for the first time that FTAs would be an integral part of a national strategy for economic development, acknowledging their significance to China's overall economic wellbeing and continued growth. In doing so, China has developed closer economic connections with neighboring countries in Asia and has also developed free trade ties throughout the globe. The primary reasons behind China's active pursuit of PTA are as follows.

The first is as a response to the worldwide trend of regional economic integration. Both economic theory and history have proven that PTAs can help facilitate trade liberalization, promote the international flow of production factors, and create new opportunities for economic development. Since the 1990s, many countries have participated in regional economic cooperation arrangements, and many PTAs have emerged. The United States, for example, promoted multilateral negotiations through the WTO framework during the George H. W. Bush administration while encouraging bilateral negotiations under its Trade Promotion Act (Chai et al., 2006). In the first 2 years of the Clinton administration, the United States was also very active in establishing regional free trade ties. The North American Free Trade Agreement (NAFTA) came into effect on Jan. 1, 1994, becoming the world's largest free trade zone. Compared to Europe and America, regional economic cooperation in Asia in the early 1990s was stagnant. China's top priority was resuming its status as a GATT contracting party from 1986. When this proved impossible with the establishment of the WTO in 1995, China devoted most of its resources toward the WTO accession process. Due to the complicated accession process and the history of the GATT and WTO, China did not have the luxury of engaging in other PTA negotiations. However, after experiencing the Asian Financial Crisis in mid-1997, Asian countries lost faith, to some extent, in global institutions such as the IMF and World Bank, whose intrusive policy suggestions were allegedly responsible for the crisis. Instead, they started to formulate regional economic cooperation mechanisms, which gave rise to the accelerated pace of PTA advancement in Asia. This trend expedited the construction of China's free trade zone as it attempted to avoid being excluded from the PTA network, which would bring about unfavorable trade diversion effects. Moreover, with the slow progress of the Doha Round, RTAs became an inevitable way of liberalizing trade for WTO members, and China is no exception.

The second reason for China's active pursuit of PTAs was to meet the practical needs of China's opening-up policy. It was evident by the 1990s that China's opening-up policy had brought substantial economic success and interest from the west in incorporating China into the global economy through the WTO. Between 1985 and 1996, foreign investment in exports had risen from 1% to a staggering 40%. Exports had surged from \$5.1 billion⁴ in 1976 to \$22.3 billion in 1997, and gross domestic product (GDP) had skyrocketed from \$148.8 billion in 1976 to \$935 billion by 1997. China's accession to the WTO deepened China's integration into the world economy and spurred massive growth in foreign direct investment (FDI) and exports (Sigurðsson, 2014). By signing PTAs with many countries and organizations

⁴All dollar amounts are in US Dollars unless otherwise specified.

worldwide, China has shown its willingness to integrate into the world economy and its determination to deepen its economic cooperation. With China's gradual integration into the global economy, especially its adoption of "going out" and "bringing in" development strategies, China's PTA footprint has expanded, extending from the Asian continent to the Americas, Oceania, Europe, and Africa. Accordingly, the text of China's PTAs has also been liberalized step by step: first goods, successively services, then becoming comprehensive single undertakings upon signing, and gradually incorporating higher standards of IP protection. The newest PTAs have introduced "negative lists," and separate chapters for competition policy and environmental protection, cautiously stepping toward higher standards of international trade rules. The detailed changes in the text of the agreement show that China has begun to pay more attention to the role of PTAs in promoting trade and investment liberalization, and the practice is entering a new stage. In the future, China's PTAs could make substantial breakthroughs in enhancing market liberalization, improving investor protection, and promoting sustainable development while maintaining an emphasis on sovereignty. This reflects China's changing status in the world economy and the trends in international economic and trade rule systems. It also helps enhance market competition, accelerates the domestic reform process, and helps build a new open economy.

The third reason for China's active pursuit of PTAs is to develop sound political and diplomatic relations with the outside world. Generally speaking, many factors motivate a country's FTA strategy. In addition to economic efficiency, they are often related to certain foreign policy goals. China is no exception. Except for ASEAN, both the GDP share and the trade volume share of China's PTA partners are small and have a limited impact on China's export market, but almost all of them have good political and diplomatic relationships with China. For example, Pakistan may not be China's most attractive market economically, but they have common interests in many political issues such as counterterrorism and national security. Moreover, Pakistan's geographical location has significant strategic value to China, and it is a gateway for China to the oil-rich regions of Central Asia and the Middle East. Singapore is not only an important business hub in the Asia-Pacific region, but it is also a country dominated by ethnically Chinese citizens and has maintained good relations with China during the past few decades. Similarly, New Zealand may not be a very economically important trading partner for China, but it was the first WTO Member to conclude the bilateral talk in China's accession process, the first developed country to recognize China's market economy status, as well as the first developed country to propose FTA negotiations with China.⁵ Thus, this agreement has deep political and diplomatic connotations, reflecting China's determination to establish good economic and trade cooperation with other countries, including developed countries.

The fourth reason for China's active pursuit of PTAs is to eliminate the negative impact of the discriminatory provisions in the Protocol on China's Accession to the

⁵Source: <http://gov.people.com.cn/GB/7093066.html>

WTO. According to Article 15 of the protocol, the “Surrogate Country” approach⁶ can be used when calculating the normal value of Chinese exports in the antidumping investigation procedure. In the meantime, it also said that this approach “shall expire 15 years after the date of accession” (WTO, 2001).⁷ Since there is no clear definition for the standards of a “Surrogate Country,” the administrative authority of the country that initiates an investigation has a lot of discretion in judging this, which frequently results in high dumping margins on Chinese goods, leading to a substantial increase in the costs and risks for Chinese export companies. To avoid the application of this discriminative “Surrogate Country” approach, the producers under investigation must prove that market economy conditions prevail in manufacturing, production, and sales in the comparable industry producing the like product, once China has established, under the national law of the importing WTO Member, that it is a market economy (WTO, 2001).⁸ This regulation makes China’s market economy status a sensitive legal and political issue. In December 2016, China had officially been in the WTO for 15 years, but this discriminatory “Surrogate Country Approach” for Chinese producers did not end as scheduled. According to WTO statistics, as of June 30, 2019, China was the country with the most antidumping and countervailing investigations in the world for many years.⁹ Through the PTA negotiation, China and the contracting parties agree to recognize China’s market economy status, which can help Chinese companies strive for a favorable export environment. This helps eliminate the unfair use of third-party proxy rates triggered by discriminatory provisions in the accession protocol.

The fifth reason for China’s active pursuit of PTAs is that it enables China to achieve its strategic energy security goals. A sufficient energy supply is crucial for China’s economic growth. China cannot meet its own demand, and due to its energy deficiencies, imports of oil and other raw materials have continued to rise. China’s annual increase in oil consumption between 2000 and 2009 was 6.78%, and its dependence on imports for that oil rose from 24.8% to 51.29%, making it the second-largest oil importing country in the world (Sigurðsson, 2014). Access to energy is an important driver for China’s PTA practice. Chile, meanwhile, is abundantly rich in

⁶ A methodology that is not based on a strict comparison with domestic prices or costs in China, see Article 15 of the Protocol on China’s Accession to the WTO.

⁷ Article 15 (d) of the Protocol on China’s Accession to the WTO, <http://www.worldtradelaw.net/misc/ChinaAccessionProtocol.pdf.download>

⁸ Article 15 of the Protocol on China’s Accession to the WTO, <http://www.worldtradelaw.net/misc/ChinaAccessionProtocol.pdf.download>

⁹ From China’s Accession to the WTO to June 30, 2019, there have been 1361 antidumping investigations and 166 countervailing investigations against China, accounting for 23.3% and 29.3% of the total global antidumping and countervailing investigations, respectively. According to the WTO’s Anti-Dumping Agreement, a product is to be considered as being dumped, i.e., introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country. See WTO, Article 2.1 of Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994, https://www.wto.org/english/docs_e/legal_e/19-adp_01_e.htm#ArticleII

copper reserves, while Peru is endowed with vast deposits of silver, iron ore, and copper (Zhao & Webster, 2011). Australia has plentiful mineral reserves and an ever-expanding natural gas industry, whereas New Zealand has healthy mineral resources and increasing oil exports and exploration. Pakistan is potentially an important player in China's access to Central Asian and Middle Eastern oil routes (Sigurðsson, 2014). Iceland, which has rich geothermal resources and mature clean energy technology development and utilization, is also an ideal FTA partner for China. The FTA would help strengthen cooperation between the two countries in geothermal utilization, and oil and gas exploration and development (China5e, 2013).¹⁰ As for Georgia, mineral resources and manufactured products are China's main imports from Georgia. According to statistics from the Georgian Customs Department, in 2016, China imported \$22.72 million worth of ore, slag, and ash. The import value of copper and copper products was \$9.09 million, and together these categories accounted for 61.21% of China's total imports from Georgia (The Ministry of Commerce, PRC, 2018).¹¹ The PTA between China and ASEAN also contributes to China's energy security. Several of the ASEAN countries are abundant in natural gas and petroleum and export numerous types of minerals (Guiguo, 2011). At present, this factor still influences China's selection of PTA partners. Among the FTA negotiations which are under consideration, Norway is a significant oil producer in Northern Europe. The Gulf Cooperation Council (GCC) member countries have rich oil and natural gas resources, which could contribute a lot to China's energy security.

The last reason for China's active pursuit of PTAs is to harness external pressure to promote its domestic reform process. Globalization has gradually blurred the boundaries between domestic law and international law. WTO and other international rules are continuing to become part of the domestic law of sovereign countries. Traditional international law often evolves from international practice and *opinio juris* into rules of international law. In contrast, modern international law often lifts domestic law from certain countries and elevates it to international law, then promotes it to other sovereign countries' domestic laws. Such countries usually have economic strength, and their position in international society gives them the power of international rulemaking (Sornarajah, 2010). For some countries that need to carry out internal reforms but encounter huge domestic resistance, this phenomenon can break the deadlock in the reform process. Before and after China's accession to the WTO, China revised 2300 regulations by the central government and 19,000 regulations by local governments to fulfill its WTO obligations. Incorporating external pressure to promote domestic reform proved to be an effective approach for China, making it one of the main beneficiaries of globalization, and promoting

¹⁰“China and Iceland Signed FTA to Promote Energy Cooperation,”2013-4-16, <https://www.china5e.com/news/news-335575-1.html>

¹¹“Interpretation of FTA between the Government of the People's Republic of China and the Government of Georgia,” 2018-1-1, <http://fta.mofcom.gov.cn/inforimages/201801/20180102090633444.pdf>

the overall development of its economy. In the coming years, the sustained and healthy development of China's economy requires further opening-up, continuous improvement of the domestic investment and business environment, and the transformation of government functions. Signing High-Standards PTAs and exerting certain external pressure on domestic reform is a necessary step for China.

3 The Main Challenges of China's PTA Policy under the New Situation

According to the plans issued by the Chinese Ministry of Commerce, in addition to advancing the RCEP legal text review process, China is actively engaging in several other negotiations, including upgrades to the China-Norway and China-Korea FTA, and promoting the China-Japan-Korea FTA talks. Meanwhile, the China-EU Comprehensive Agreement on Investment (CAI) negotiations are at every critical moment. Whether the two sides can complete the negotiations as scheduled depends on whether China and Europe can initiate FTA negotiations.¹² Although China's PTA policy has achieved a lot, the rapid changes in international relations create challenges for the expansion of China's PTA network.

3.1 The Continuous Emergence of Competitive Regional Agreements Worldwide

The stagnation of negotiations at the multilateral level has given rise to a substantial increase in regional trade rules to meet the growing demand for economic integration. After Trump took office, US foreign policy took a sharp turn. The administration pursued an "America first" strategy, not assuming the responsibilities of a world power, and lacking interest in the public good. Trump withdrew from a series of international organizations. The administration's trade policy was economically nationalist and repeatedly imposed unilateral protective tariffs on products from other countries, including its allies, causing extraordinary chaos in the global trade order. To mitigate the adverse effects of US policy, many economies have sped up FTA negotiations, leading to an accelerated emergence of competitive regional agreements. For example, after Trump pulled the United States out of the Trans-Pacific Partnership (TPP), the remaining 11 members proceeded, promoting the revised TPP, the Comprehensive and Progressive Trans-Pacific Partnership Agreement, (CPTPP), which took effect at the end of 2018. The EU-Japan Economic Partnership Agreement (EPA) was signed on July 17, 2018, and the EU-Vietnam

¹²In July 2019, the French ambassador to China stated that if China and the EU successfully reach the China-EU Investment Agreement in 2020, they can enter the negotiation of the China-EU FTA.

FTA was signed on June 30, 2019. The same is true for Japan. In addition to the EPA and the US-Japan trade deals signed under the pressure of the Trump administration, Japan and the United Kingdom reached the UK-Japan Comprehensive Economic Partnership Agreement on September 11, 2020. It is worth noting that the negotiation only took 3 months from start to finish. In May 2020, Elizabeth Truss, the UK Secretary of State for International Trade, expressed that UK is seeking to join the CPTPP as soon as possible, and regarded it as an important strategy for the UK to develop ties with like-minded partners in the Pacific region such as Japan, Canada, Mexico, Australia, and New Zealand (Liz, 2020). If the PTA negotiation at the regional level progresses smoothly, it will weaken the importance of multilateral talks to a certain extent. As a result, there may be insufficient motivation for parties to participate in multilateral negotiations, making the WTO reform process harder and prolonging the uncertainty of the global trade order.

3.2 Establishment of “Free Trade Network among Free Countries” by the United States

During the 2016 US presidential campaign, Trump lashed out at US globalist trade policies and FTAs concluded since the 1990s, ascribing domestic unemployment and the downturn of the US economy to bad trade policies made by the previous administration (Time, 2016).¹³ He also claimed that the Clinton administration's decision to allow China into the WTO gave China an unfair competitive advantage (USTR, 2018). Trump stated that he would negotiate a series of bilateral FTAs that strictly followed the principle of “America First” and endeavor to reconstruct a “reciprocal” and “fair” free trade network for the American people (USTR, 2020). As of August 2020, the upgraded United States-Korea FTA, initial United States-Japan FTA, and United States-China FTA, United States-Japan Digital Trade Agreement, United States-Mexico-Canada FTA have taken effect. The United States and Brazil also signed a mini trade agreement on October 19, 2020. There is an obvious bias against China by the United States in building a “free trade network among free countries,” which would directly and adversely impact China's PTA policy. As the United States defines China as a “strategic competitor” and declares a complete failure of its engagement strategy with China, it has included marginalizing China in its FTA strategic vision, which is reflected in the “non-market economy” clause in United States-Mexico-Canada Agreement (USMCA). According to the clause, the basis for determining whether a country is a “market economy” is the domestic law of the contracting party. According to the definition of “market economy” in the United States Tariff Act of 1930, the US Department of Commerce has great discretion in the ruling. Its decision is final and not subject to judicial

¹³“Read Donald Trump's Speech on Trade,” June 28, 2016, <https://time.com/4386335/donald-trump-trade-speech-transcript/>, 最后访问时间:2020年7月20日.

review (Legal Information Institute, 2020).¹⁴ In this way, China can be excluded from the “free trade network of free countries” dominated by the United States. The United States intends to force other countries to choose between the two major trading blocs, leading to the gradual decoupling of the two major economies while splitting the international economic and trade rule system. For example, the United States clearly expressed its intention to challenge China’s narrative in Africa when negotiating an FTA with Kenya, which would be used as an FTA template for the African continent.¹⁵ In addition, the National Security Strategy Report of the United States pointed out that China was seeking to replace the United States in the Indo-Pacific region. In response, the United States hoped to conclude bilateral trade agreements with countries in this region to, as they put it, build a free market network among free countries, countering China’s unfair trade practices and restricting China’s access to sensitive technology (The White House, 2017). Containing China’s influence in the Asia-Pacific is also an important factor when evaluating the value of FTAs with India, the Philippines, and Vietnam. Given that the view of China as a “strategic competitor” has become a bipartisan consensus, the idea of marginalizing China through a high-standard FTA network was reflected in the previous TPP, and the “non-market economy” clause in USMAC has been accepted as a template for US FTAs. The outcome of the 2020 US election did not change the strategic vision of containing and marginalizing China through an FTA network, which will hurt China’s PTA policy rollout.

3.3 The New International Economic and Trade Rules Set by Advanced Economies

Although some rules in China’s PTAs have surpassed the WTO standards, they still place too much emphasis on traditional tariff barriers reduction and expanding market access. They lag behind the twenty-first-century trade rules led by advanced economies, which began to adopt competition policies and pay more attention to the coordination of domestic nontariff barriers. Though two new chapters of competition policy and environment have been introduced in the upgraded version of the China-Singapore FTA (2018), they are all “soft” commitments and have no substantial legal effect. The issue of competitive neutrality in competition policy is a bigger challenge. In recent years, competitive neutrality rules referring to state-owned enterprises have been adopted increasingly in RTAs. In 2017, the GDP share of countries applying the principle of competitive neutrality was already over 58% of global GDP. First, the United States has introduced competitive neutrality in its

¹⁴“(18)(D) of 19 U.S. Code § 1677—Definitions; Special Rules,” <https://www.law.cornell.edu/uscode/text/19/1677>, 最后访问时间:2020年9月1日.

¹⁵“Kenyan Official: Trade Deal with U.S. Needed in Case AGOA Ends,”*Inside US Trade Daily Report*, Mar. 4. 2020.

bilateral FTAs signed with 18 countries, including Australia, South Korea, Israel, and Chile (YICAI, 2019). Although the Trump administration withdrew from the TPP, the CPTPP, which includes the principle, has already come into effect. Moreover, competitive neutrality is still a key issue in the bilateral/small regional FTAs established by the Trump administration. What can be inferred is that a separate chapter on state-owned enterprises will be introduced in future FTAs by the United States. Second, the European Union (EU) has regulated state-owned enterprises in its bilateral FTAs with Vietnam, Singapore, Canada, Kazakhstan, and Japan (The Ministry of Commerce of the People's Republic of China, 2017). Within the EU, the basic rules on competition in the Treaty on European Union (Maastricht Treaty), the specific implementation rules formulated by the European Council for the application of the aforementioned basic rules, and the competition rules, directives, and decisions set by the European Commission, have formed a complete and consistent competition policy system. Government aid, regulations, and government behavior principles are mainly used to limit government actions that weaken competition. They can deal with financial government aid and the more general transfer of government resources, as well as other types of government activities that are not within the scope of government aid regulations but do harm competition (Kovaacic et al., 2017). The Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) have successively issued nine documents in the form of guidelines, articles, and research reports dedicated to promoting the application of the principle of competitive neutrality globally (YICAI, 2019). Therefore, it has become a worldwide trend that commercial activities by state-owned enterprises follow the principle of competitive neutrality. With the continuous expansion of the FTA network led by the United States, the EU, and Japan, competitive neutrality policies will be more common, and standards will become stricter. Given China's need to deepen its integration into the world economy, responding to the impact of new international trade rules will be a critical challenge in China's PTA construction.

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Latin American Trade Policy: Chile, Costa Rica, and Peru



Dorotea López

Abstract This chapter reviews the trade policy of Chile, Costa Rica, and Peru in recent years, focusing on the insertion processes followed by each country with respect to Latin American integration, their approach to multilateralism, the major players on the trade scene and their trade. These countries were selected because they can be classified as like-minded, for having adopted a similar strategy for their insertion in international trade, defining open trade as a state policy, based on liberalization and active participation in the world trade system. Furthermore, all three have signed FTAs with China.

It is important to bear in mind in this brief survey that Costa Rica is part of Central America, while the other two countries share borders in the south of the continent, therefore, they are part of two distinct Americas that are historically divided by their relationship with the United States.

Finally, the main challenges currently faced by these countries are reviewed, where modernity and backwardness in trade matters coexist.

Keywords Latin American trade policy · Like-minded countries · Chile · Costa Rica · Perú

1 Introduction

The term *like-minded* has been used in the literature to describe countries whose principles, visions, interests, and the manner in which they choose to integrate into the world economy coincide (Carmen Domínguez, et al., 2015). This chapter reviews the trade policy of Chile, Costa Rica, and Peru in recent years. The common strategy they have adopted for their insertion into global commerce, a strategy closely related to their model of development, could well make them like-minded. They were selected because of their integration strategies and because they share an

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FTA with China. Their trade decisions have many similarities and differences that will be reviewed. Commonalities include their choice of: a primary-export model in the 1950s; import substitution industrialization (ISI) in the 1960s and 1970s; and their transition to commercial opening and insertion in recent years, which currently faces a complex domestic and international context that could be another turning point. Within this framework, Latin American integration has been a wide-ranging objective since the mid-1950s. It was believed that intra-regional trade liberalization had to be implemented to favor the process of intra-industrial specialization to drive the transformation of production (ECLAC, 1994).

The ISI model implemented by these countries consisted of raising tariff and nontariff barriers to limit imports and foreign trade or restrict imports to inputs and capital goods aimed at protecting some sectors. Differential exchange rates benefited certain products and subsidies were given to protected sectors (Guevara Lam & Novak, 2010). In short, the goal was to provide the national industry with the protection it needed to develop. The results varied, but by the end of the 1960s, there were clear signs of exhaustion that have been studied in the difficulties many countries in Latin America experienced in continuing with the inward-development model they had adopted in the 1960s and 1970s (Agosin & Ffrench-Davis, 1993). These resulted from the insufficient size of internal markets, the need for external resources, and especially foreign direct investment, among other reasons. The international crises of the 1970s, after the definitive breakdown of the dollar standard and the oil crisis, also had an impact (Gomes et al., 1998).

In the 1970s, some countries, including Chile, Costa Rica, and Peru, abandoned the ISI model, and each started to liberalize in their way. The effects of this help make sense of China's growing closeness with them and their position in the system of international trade. This trade opening took place during the export boom of the late 1970s, but was later reversed somewhat, especially after the 1983 crisis. After the 1990s, trade openness and promotion of export sector competitiveness became the focus of growth policies as part of an ambitious program of economic reforms (Segura & García, 2004). There were various attempts at regional and world integration, which coincided in multiple respects. The 1990s were a significant decade for trade policy, with the creation of the World Trade Organization (WTO) in 1995 and the signing of the North American Free Trade Agreement (NAFTA) in 1994. The latter was the first reciprocal free trade agreement signed between a developed and a developing country and was considered a regional precedent.

In Latin America, these were years of heterogeneity or fragmentation—there were several axes of regional integration with markedly different economic models. In such a context, the differences between Chile, Costa Rica, and Peru were of relatively little importance. The most relevant were those related to their attachment to Latin American regional integration; while Peru participated in the Andean Community and Costa Rica in the Central American integration process, Chile began an open regionalism policy, which was later followed by the other countries. These countries have been classified as like-minded, for having opted for models of liberalization and active participation in the world trading system.

The following is a review of general aspects of trade policy, the processes of insertion followed by each country with respect to Latin American integration; their approach to multilateralism, to the major players on the trade scene, their trade, and their challenges. It is important to bear in mind in this brief survey that Costa Rica is part of Central America, while the other two countries share borders in the south of the continent. They are part of two distinct Americas that are historically divided by their relationship with the United States. While for Central America and Mexico the United States is their main commercial, tourism, and investment partner, for the south it is much less relevant and has even been overtaken by the surging relationship with China (Russell, 2010, p. 173).

2 Chile, Costa Rica, and Peru

These are small economies, each representing less than 0.05% of world exports (Chile 0.37%, Costa Rica 0.06%, and Peru 0.22%, OMC, 2020). They are price takers and are oriented toward free trade, with low tariff levels and openness coefficients above 50%, in which the external sector is key to their future. They have defined open trade as a state policy, that is, their commitment to openness and integration extends beyond the current government. As founders and active participants in the multilateral system, they have signed preferential trade agreements (PTAs)¹ with a wide network of countries and regions, including China, the United States, and the European Union. Their strategies have ranged from unilateral openings that meant changes in trade policy without involving negotiations or third-party reciprocity, to negotiate openings with the signing of various preferential trade agreements and active multilateral work.

Each country has proceeded differently and at different speeds. During the Pinochet dictatorship, Chile established an aggressive trade opening plan following the paradigms of liberalism and state nonintervention. Since then, economic integration has been one of the pillars of its development strategy. During the 1970s, it carried out a profound, unilateral reduction of the country's existing tariff and nontariff barriers. The beginning of the democratic period in 1990 was a decisive moment for Chile, with a consensus on the need to continue insertion, but in a concerted way, allowing the new government to differentiate itself from the dictatorship, while taking advantage of the recovery of many of the country's diplomatic relations. The possibility of entering NAFTA (today, the United States-Mexico-Canada Agreement, (USMCA)) was a key element in the development of its future commercial alignments. While the project did not materialize, it led Canada and

¹For the purposes of this chapter, PTAs are understood to include Economic Complementation Agreements (ECAs), Free Trade Agreements (FTAs), Association Agreements (AAs), and those that establish trade preferences between countries. The PTAs the countries have signed address disciplines other than goods, such as positive and negative lists for services, investments, and intellectual property.

Table 1 Chile, Costa Rica, and Peru bilateral, plurilateral, and multilateral participation

	Chile	Costa Rica	Peru
PTAs	Twenty-six trade agreements and others under negotiation or pending ratification. https://www.subrei.gob.cl/acuerdos-comerciales/acuerdos-comerciales-vigentes	Sixteen commercial treaties and others under negotiation or pending ratification. https://www.comex.go.cr/tratados/	Twenty-one trade agreements and others under negotiation or pending ratification. http://www.acuerdoscomerciales.gob.pe/
PA, APEC, CPTPP	Active member	No	Active member
WTO entry	January 01, 1995	January 01, 1995	January 01, 1995
OECD	2007–2009 period of accession	In process of accession	Proposed for accession
Dispute settlement cases	Claimant 10 cases Respondent 13 cases Third-party 49 cases	Claimant 6 cases Respondent 1 case Third-party 19 cases	Claimant 4 cases Respondent 6 cases Third-party 19 cases
Member of CACM	No	Since 1960	No
Member of CAN	Estado miembro 1969–1976, observador 2004–2006, miembro asociado desde 2006	No	Desde 1969

Source: Compiled with data from the web pages indicated of each ministry and the WTO

Mexico to approach Chile individually. Since then, Chile has signed more PTAs than any other country in the world, and was the first country to sign a PTA with China in the region (Table 1).

Currently, the Undersecretariat of International Economic Relations (SUBREI)² of the Ministry of Foreign Affairs is mandated to execute and coordinate government policy on international economic relations; defend Chile's interests in multilateral forums; and negotiate and implement the network of free trade agreements (SUBREI, 2020). Chile is drafting a new constitution that safeguards international commitments, but many issues are up for debate. The current Political Constitution of the Republic of Chile of 1980 delegated the formulation of foreign trade policy as a responsibility of the executive branch. Foreign investment faces no major barriers,

²Previously known as the Economic Directorate of International Relations, it was granted the rank of Undersecretariat on July 01, 2019, following the modernization of the Ministry. PROCHILE, the institution of the Ministry of Foreign Affairs in charge of promoting exports, investment and tourism was founded. The Manufacturers' Association (SOFOFA) created the National Export Development Council, a public-private association whose objective is to promote the strengthening of Chilean exports, especially of MSMEs. In December 2014, the Public-Private Council for Export Competitiveness was created, chaired by the Minister of Economy, Development and Tourism, aimed at generating new investment opportunities in the current low-growth scenario.

receives national consideration, and in some periods, even greater benefits. Likewise, the country has signed investment chapters and bilateral agreements on this matter.

Since the 1980s, in response to the Latin American debt crisis, Costa Rica has promoted a development strategy closely tied to trade and involving three strategies: the negotiation, implementation, and administration of trade agreements; the development and promotion of exports of goods and services; and the attraction of foreign direct investment (OMC, 2019). In 1990, the economy underwent a significant change due to the importance of trade in its economy, which grew at a high average of 5.4% during the decade, largely driven by exports that quadrupled (Granados et al., 2007). Costa Rican trade policy objectives are set out in the National Development Plan for the period 2019–2022, which views trade as a tool to promote the economic and social development of the country. It is impossible to analyze this country without understanding its distinct position in Central American integration.

The Ministry of Foreign Trade (COMEX) is in charge of formulating and implementing foreign trade and investment policy in Costa Rica³ (COMEX, 2020). Their Political Constitution has supremacy over other laws, and is followed, in order of importance, by international treaties, laws, decrees, regulations, and other rules subordinate to the regulations. Foreign investors do not require prior authorization to invest in Costa Rica. There are no exchange restrictions or limitations on the repatriation of profits or capital from the liquidation of investments (OMC, 2019).

Peru abandoned the import substitution strategy with a unilateral reduction of its tariffs—a drop in average tariffs from 66% to 26%—and there were important reforms eliminating nontariff barriers, quantitative restrictions, and exchange controls (Araoz, 2005). Beginning in 1990, tariffs fell and became more uniform (Segura & García, 2004). Araoz (2005) points out that Peru’s outward-oriented growth strategy was not immediate but rather emerged out of their trade relationship with the United States and the negotiation of an FTA, which initiated a more active trade strategy. Peru’s entry into the Andean Community of Nations (ACN), together with Bolivia, Colombia, Ecuador, and Venezuela, was very relevant⁴ in its trade policy.

The Ministry of Foreign Trade and Tourism is responsible for defining, directing, executing, coordinating, and supervising the country’s foreign trade and tourism policy as the sector’s governing body (Mincetur, 2020).⁵ The Political Constitution

³There are other ministries that collaborate with COMEX on this task, such as the Ministry of Foreign Affairs, the Ministry of Economy, Industry and Commerce (MEIC) and the Ministry of Agriculture and Livestock (MAG). Some trade policy decisions are made jointly, between various ministries. For example, to alter tariffs an executive decree issued by COMEX, MEIC, and MAG is required.

⁴Peru separated from the ACN in 1992 but rejoined in 1997.

⁵Another institution that supports the promotion of exports in Peru is the Commission for the Promotion of Exports (PROMPEX). PROINVERSIÓN is the body responsible for strategic promotion, services to investors and the promotion of private investment in projects and public assets.

of Peru establishes that prevailing international treaties have the force of law; they form part of national law and may be invoked before national courts. Treaties are in the second level of hierarchy with laws and regulations with the rank of law, including legislative decrees, decree-laws, emergency decrees, and legislative resolutions. The Peruvian regime is open to private national and foreign investment, which promotes competition and equal treatment.

As a whole, Chile, Costa Rica, and Peru have generally enjoyed consensus between the various sectors over matters of trade policy, even though there have been some internal conflicts such as the opening of telecommunications or entry into the Pacific Alliance in Costa Rica, the ratification of the TPP-11 in Chile, or differences over agricultural matters with MERCOSUR, and Peru in the crisis years as discussed below. They face common future challenges that bear a close relationship with their trade policy and a complex global environment.

3 Chile, Costa Rica, and Peru in Latin American Integration

Since the 1950s, the trade integration of Latin America has been frustrated on several occasions. In 1956, the Economic Commission for Latin America and the Caribbean (ECLAC) created the Trade Committee to investigate the commercial problems in the region. This led to integration systems such as the Latin American Free Trade Association (LAFTA) or the Central American Common Market (CACM), which Chile, Costa Rica, and Peru joined.

Peru and Chile were founding members of LAFTA, which in 1960 was the first genuine attempt to form a regional integration program that went on to create a common market by 1972 (Salgado, 1990, (Briceño Ruiz, 2013)). Given the impossibility of achieving the project in 1980 with the Treaty of Montevideo,⁶ the Latin American Integration Association (LAIA) was formed, which established a progressive convergence of partial actions geared toward the formation of a Latin American common market with differential treatments based on its member countries' level of development and different commercial approaches (Le Clainche, 1984). LAIA promoted the creation of preferential tariff schemes, in which countries subscribe to Economic Cooperation Agreements or Partial Scope Agreements (Ffrench-Davis, 2003). These mainly relate to goods and are the oldest agreements still in effect (See Table 1).

⁶The Treaty of Montevideo (1980) is open to accession by any Latin American country. However, Costa Rica, which has been a close country and has an observer role, has not acceded. It consists of 13 member countries: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela, together representing 20 million square kilometers and more than 510 million inhabitants (ALADI, 2020).

The Central American Common Market (CACM) emerged in parallel. Considered one of the most successful initiatives, it was created in the General Treaty on Central American Economic Integration with Costa Rica as a founding member. It would have several permutations over the years. In 1991, the creation of the Economic Integration Subsystem (SICA), and the Tegucigalpa Protocol (that replaced the 1962 Charter of the Organization of Central American States, ODECA) provided a framework for the integration process. In 1993, the General Treaty on Central American Economic Integration (Guatemala Protocol) was signed. SICA was consolidated and adapted to the new institutional framework to increase competitiveness and achieve efficient and dynamic reinsertion of Central America into the international economy. The Central American integration initiative is peculiar in that it was frequently described as an attempt to reunite separated members of a disunited nation (López Cervantes, 2012). Within this framework, Costa Rica is part of various trade agreements with the rest of the countries (see Table 1). Even though exceptions and tax relief lists are negotiated individually, the general frameworks are within Central America.

The 1990s gave rise to what has been called open regionalism,⁷ which was characterized by the creation and deepening of regional blocs in America that aimed to achieve more beneficial insertion into the increasingly globalized economy (ECLAC, 1994; Van Klaveren, 1997). This has resulted in a complex web of regional, subregional, and bilateral agreements whose goal is the gradual liberalization of mutual trade (Van Klaveren, 1997).

As Russell (2010) points out, this period was special for Latin America since a certain homogeneity existed in the benefits of a development strategy based on the free market and open trade. The period must be analyzed case by case because the strategy was applied at different speeds (Briceño Ruiz, 2013). A fundamental role was played by the United States, which in 1991 proposed the creation of the Free Trade Area of the Americas (FTAA), which hoped to achieve economic reforms, the opening of free trade zones, and active trade policies, establishing the concept of like-minded countries to refer to those that shared this idea or the principles of the Washington Consensus. Negotiations began in 1994, but after bringing together 34 countries, they failed to come to fruition in 2003, without any possibility of resuscitation. This initiative was replaced by the signing of bilateral or multilateral free trade agreements. Although some have wanted to see a renaissance in the Pacific Alliance (Russell, 2010), the FTAA marks a failure to engineer true regional integration on the continent. This aspiration still has not been achieved.

Of these multiple attempts at Latin American integration, other initiatives were pursued in which these three countries participated in one way or another, such as the Southern Common Market (MERCOSUR), an integration agreement signed

⁷“Open regionalism” refers to the process that arises when reconciling “the interdependence that stems from special preferential agreements and that which basically arises from the market signals that are produced by trade liberalization in general. What open regionalism seeks to accomplish is to make explicit integration policies compatible with, and complementary to, policies to enhance international competitiveness” (ECLAC, 1994, p. 12).

between Argentina, Brazil, Paraguay, and Uruguay in 1991. Chile remained an associated country, but did not join due to its trade policy choice and not sharing a common tariff. Peru signed a complementation agreement with the bloc in 2003.

In 2011, the Pacific Alliance (PA) was created, in which Peru, Chile, Colombia, and Mexico, also considered like-minded countries, advanced their economic and commercial integration. In 2014, the framework agreement was signed at the Cartagena de Indias summit, aimed at integrating and adopting a common approach to Asia. In the early years, Costa Rica took steps toward joining, but has halted. Experts have pointed out that agricultural interests and the food industry pressured against it. Although there is no substantive progress, the PA remains an active process. At some point, the idea that countries should converge in their diversity was raised, a gradual rapprochement between the Pacific Alliance and MERCOSUR that would bring benefits not only for those countries that comprise them, but would also be a historic opportunity to advance toward true regional integration (Rosales, 2014).

Chile, Peru, and Costa Rica have various PTAs signed and under negotiation (Table 1). Peru signed one with Central America in 2013 and Chile in 1999. All three have separate PTAs with Mexico. Between Peru and Chile, an ECA signed in 1996 grew in complexity into more of an FTA that has advanced due to the two countries' close relationship as neighbors.

After the end of 1990, another more politically and socially focused cooperation agenda emerged. This included the Union of South American Nations (UNASUR)⁸ and the Bolivarian Alliance for America (ALBA),⁹ which propose a break from the traditional agenda of open regionalism oriented toward trade and economic integration of the 1990s.

Many of the reasons that led these countries to prioritize integration in the early 1990s are still present (Sanahuja, 2007). The functions and powers of the countries in the region overlap in many aspects, however, as a result of the simultaneous existence of various agreements in addition to the bilateral ones, such as the UNASUR, MERCOSUR, CAN, CACM, LAIA, the Latin American and Caribbean Economic System (SELA), ALBA, the Pacific Alliance, and the Community of Latin American and Caribbean States (CELAC). At this time, Costa Rica is notably more commercially integrated with its region than Chile or Peru.

Chile, Costa Rica, and Peru continue to advance their integration at different speeds. They have some clarity that the possibilities for diversifying the region's production and export structure are closely linked to the success of their future integration. They are held back, however, by domestic inequity problems, and are critical of the economic models implemented in recent decades.

⁸Since 2017, UNASUR has experienced a marked crisis, first with the failure to reach consensus on the election of a general secretary, followed by the request by Argentina, Brazil, Chile, Colombia, Paraguay, and Peru in April 2018 for temporary withdrawal from the organization.

⁹The Bolivarian Alternative for Latin America and the Caribbean (ALBA) is a project that was created to counteract the FTAA.

4 Chile, Costa Rica, and Peru in Multilateralism

The multilateral commitment of these three countries to advance in areas that are not only bilateral or regional has been shown through their trade policy, both in the profile of their institutions' objectives and in their early and active participation.

Chile, Costa Rica, and Peru were founders of the World Trade Organization and have been active members since January 01, 1995. Participating in the Dispute Settlement System, rarely falling into conflict with other forums on trade issues, and primarily acting as third parties in the WTO (see Table 1), they have consistently expressed their concern about the problems within the WTO and its future. Problems such as when the organization's appellate body faced inoperancy at the end of 2019 due to the United States' refusal to approve new members for the examination of dispute settlement appeals and blocked the appointment of a new director-general after the anticipated resignation of the Director (Sáez, 2020). This volatility has been waning with the recently elected President Biden, who supported the candidacy of a new female director. The change of leadership is expected to lead to a stronger impulse by the appointed authorities and a closer relationship with the region.

Within this framework, Chile, Costa Rica, and Peru maintain few tariff and nontariff barriers for goods. Services have had an important place in their trade policy, at least in speeches, with a regime that is increasingly open but still has barriers. Peru in particular has made progress in the telecommunications and financial intermediation sectors. In Costa Rica, state participation in the banking and insurance sectors continues to be important. Both public and private companies operate in telecommunications, but the state company maintains a monopoly on fixed telephone lines. In Chile, the opening has been significant, with the biggest challenge being exporting. They are all members of the Trade in Services Agreement (TISA), which is still under negotiation. They are also members of various groups promoting the opening of the services sector in the wide range configured by the variable geometry of the trade system. None of them are key players in intellectual property, but in general they have legislation aiming to advance on this front.

All three countries participate in other areas with a more plurilateral profile. Chile was the first to join the Organization for Economic Cooperation and Development (OECD) in 2009. Costa Rica was invited to join the OECD as its 38th member in 2020 and has signed an accession protocol that will become effective once it has adopted necessary measures and submitted its document (Pandiella et al., 2020). Peru has been recognized by the OECD as an active member, being one of the first countries to collaborate with it through an OECD Country Program, and is probably looking to join.

In the Asia-Pacific Economic Cooperation (APEC) forum, although Costa Rica does not participate because it has remained a closed forum, it has consistently defined Asia as a focus of interest. Chile and Peru belong to the forum's founding group, have organized annual meetings, and used it as an arena to approach different Asian countries and sign trade agreements. As long as the entry moratorium

continues, Chile, Peru, and Mexico will remain the only Latin American APEC members.

As they have demonstrated in their positions in the international arena, Chile, Costa Rica, and Peru have had a strong multilateral vocation, whose intensity has depended on electoral cycles and has varied in emphasis, but has rested on the premise that a small country must successfully build spaces that grant it certainties in the sphere of commerce.

5 Chile, Costa Rica, Peru, and the Big Players in the World of Commerce

In their relationship with the so-called great powers, or at least with the most important actors in trade: the United States, China, the European Union, Chile, Costa Rica, and Peru have many similarities. The three giants (China, United States and European Union) are their main partners in both investment and trade. Geographic and export basket differences are reflected in the relationship with each country.

The United States has historically been the main trading partner for Latin American countries in general and has had a close relationship in terms of defining Latin American trade policy. This reality has shifted over the last 10 years. The United States has been overtaken by China and has now become Peru and Chile's second largest trading partner. It is still solidly Costa Rica's biggest partner, receiving 40% of Costa Rican exports (Table 2). Direct foreign investment is a different matter: the United States remains a fundamental investor in these countries. The three countries maintain an FTA with the United States¹⁰ and an expectation that the new Biden administration will improve the terms of their relationship.

Table 2 Trade relationship between Chile, Costa Rica, Peru, and world powers 2019-2020

Country	Chile	Costa Rica	Peru
United States	13.6% total exports 19.3% imports 2nd partner	41.1% total exports 39.1% imports First partner	12.5% total exports 20.8% imports 2nd partner
China	32.4% total exports 23.8% imports First partner	5% total exports 13.7% imports	29.4% total exports 24.2% imports First partner
EU	9.7% total exports 14.7% imports 3rd partner	19.4% total exports 8.9% imports 2nd partner	12.4% total exports 10.6% imports 3rd partner

Source: Compilation based on WTO profile data, 2021

¹⁰Costa Rica's FTA was signed in the context of the relationship with Central America (CAFTA-DR) in 2009, Chile in 2004, and Peru in 2009.

All three countries have agreements with the European Union that were signed in 2003 by Chile and in 2012 by Peru and Costa Rica,¹¹ and deal with issues beyond the purely commercial. As a partner, the European Union occupies second or third place in its commercial relationship, is considered in aggregate and has characteristics of being a little more diversified, while still based on natural resources. For Costa Rica, the EU is its second largest trading partner, surpassing the Central American countries and concentrating 20% of the country's total exports (Table 2).

China, with its relatively recent irruption into the world of commerce, has had a cultural, educational, political, and economic impact on all three countries (Ramírez Grisales et al., 2020). In barely a decade, trade between China and Latin America has increased more than 20-fold and agreements and projects have been signed in energy, transport, and infrastructure in strategic locations. At the end of the 1970s, China began a strategy of insertion which has led to its ever-increasing integration into the global economy (Dussel Peters, 2019; Weinhardt & ten Brink, 2020).

According to Dussel Peters (2019), two factors characterize China's policy toward Latin America and the Caribbean: first, advancing comprehensive strategic partnership relationships; cooperation and shared profit in economic and commercial matters; mutual learning of cultures; close coordination at the international level. The second factor was defined in the China-CELAC 2015-2019 cooperation plan, "1 + 3 + 6," a pragmatic cooperation between China and Latin America and the Caribbeans.¹² In the new plans, the Chinese authorities have devised different strategies such as the Belt and Road Initiative, which was expected to provide financial support for energy, highways, and ports, among other benefits, as an axis of cooperation in the scaling-up of the bilateral free trade agreements. Also, the promotion of joint investments and large-scale cooperation projects in the construction of infrastructure, connection and coordination, clean energy, and communication/information technology (Laufer, 2020). This has not necessarily been the case so far, however, and Chinese funding has dwindled in recent years.

Costa Rica was the first Central American country to establish diplomatic relations with China, which led to the signing of an FTA. Chile was the first in South America, and also supported China's inclusion in the WTO, a defining event in China's participation in trade (Dussel Peters, 2019; Monge González & Rivera Valerio, 2020). There are studies that show that there the signing of these agreements, especially with China, has a positive impact, but it decreases over time because new partners sign similar agreements and obtain the same benefits (Lopez & Munoz, 2020).

Within the framework of their FTAs with China—Costa Rica (2011), Chile (2005), and Peru (2010)—other agreements such as sanitary protocols have been approved that have opened the doors of the Chinese market to a variety of plant and

¹¹ Agreements with Peru and Costa Rica were negotiated in the context of regional negotiations.

¹² In the China-LAC Cooperation Plan, numbers 1 and 3 represent the engines of the relationship: trade, investment and financial cooperation; number 6 represents resources, infrastructure, agriculture, manufacturing, technological innovation, and computer technology.

animal origin products or native products that can exploit smaller and more specialized market niches (Monge González & Rivera Valerio, 2020). In the case of Chile, two modernization processes have taken place.

6 Chile, Costa Rica, and Peru in Trade and their Challenges

The defining characteristic of Latin American exports is that they are highly concentrated in primary products, mainly mining, agriculture, and fisheries, with manufacturing of mostly low technological intensity (Table 3). Such products are generally exposed to significant variations in international volumes and prices. In 2019, according to WTO data, Chilean exports were 54% fuels and extractive industry products and 32% agricultural products, Peru's were 54% fuels and 21% agricultural products (Table 3).

Costa Rica has been different: nontraditional products, especially manufactured ones such as medical supplies and materials, have gained increasing dynamism in

Table 3 Trade characteristics of the selected countries

Country	Chile	Costa Rica	Peru	United States
Position in trade	Goods 44 Services 62	Goods 85 Services 71	Goods 53 Services 71	Goods 2 Services 1
Complexity index	-0.18	0.33	-0.81	1.55
Share of world trade %	0.3	0.06	0.25	10
Patents	3100	498	1222	597,141
Trade (goods)	Extractive industries and fuels (copper) 54% Agricultural products (wine, fruit, meat): 32% Manufactures: 13,1%	Extractive industries and fuels: 1.5% Agricultural products (dates, figs, bananas): 39.2% Manufactures: 59%	Extractive industries and fuels (copper and derivatives): 53.3% Agricultural products (flour powder, pellets): 20.8% Manufactures: 9.2%	Extractive industries and fuels (copper and derivatives): 14.3% Agricultural products (flour powder, pellets): 10.3% Manufactures: 70.6%
Trade (services)	Transport: 33.3% Travel: 25.9% Other commercial services: 41.8%	Transport: 5.2% Travel: 42% Other commercial services: 50.4%	Transport: 21.4% Travel: 23,7% Other commercial services: 41.8%	Transport: 10.7% Travel: 22,7% Other commercial services: 63.9%
Tariffs		Tariff applied 7% in 2019	Tariff applied 3,2% in 2013, 2,2% in 2019	

Source: Compilation based on WTO profile data, 2021. Economic Complexity Index

recent years (López & Muñoz, 2012). Costa Rica went from exporting ten products in 1980 to 4500 in 2019, with a significant increase in investment. This growth has been linked to the investment that the company INTEL made at the time,¹³ although it is difficult to separate its impact from other factors that helped diversify the export basket, which today is made up of medical equipment and other higher-value exports (Gutiérrez Alvarado, 2011). Manufactured goods made up 59% of Costa Rican exports in 2019.

The low value added export baskets in the Chilean and Peruvian cases and the higher percentage of manufactures in Costa Rica's export composition is reflected in the economic complexity index results (Table 3). The tariffs of the three countries are at one-digit levels on average, and less if their PTAs are factored in.

All three have expressed a willingness to increase their exports of knowledge-based services. Considering their high value-added in other commercial services, Costa Rica and Chile have made an effort to access international markets via services, offering an alternative development path (Table 3).

The challenge of adding value and diversifying, thereby joining global value chains, is of a more institutional nature. Examples include:

- (a) Improving civil society participation and its effectiveness, for which existing mechanisms have been insufficient. In Chile, the SUBREI Civil Society Council was created in 2011,¹⁴ a consultative citizen participation mechanism whose main objective is to advise on trade negotiations, the implementation of free trade agreements, services and programs for the promotion of exports, and Chile's participation in multilateral economic bodies. "Side rooms" are maintained in each of the negotiations. With the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), Costa Rica had groups like the Chamber of Industrialists, the Chamber of Exporters, and other civil society associations and organizations, but these were essentially ad hoc in nature. In Peru, the Permanent Mixed Multisector Commission of the Strategic National Export Plan (PENX) has existed with public and private participation since 2009.¹⁵ It supervises the implementation of what is established in PENX commercial matters.

¹³In 1996, Intel began a crusade to determine the location of new operations for the assembly and testing of microprocessors. Specifically, it explored the possibility of setting up in Costa Rica, Brazil, Chile, Indonesia, Mexico, and the Philippines. Intel chose Costa Rica and acquired 62 hectares in a community close to the international airport, with an initial investment of around US \$300 million.

¹⁴Previously, Direcon.

¹⁵As far as the public sector is concerned, the Commission is made up of MINCETUR, which chairs it; the Commission for the Promotion of Peru for Exports and Tourism (PROMPERU), which serves as its technical secretariat; the Presidency of the Council of Ministers; the Ministries of Production, Foreign Relations, Transportation and Communications, and Agriculture; and the National Competitiveness Council. Private sector participants include business associations such as the Association of Exporters (ADEX), the National Society of Industries (SNI), the Foreign Trade Society (COMEX), and the Lima Chamber of Commerce (CCL), among others.

- (b) Improving the participation of their exports through promotional agencies, not only in more countries but with greater inclusion of regions and departments within them. In Chile, ProChile has been working since the 1970s and currently maintains 16 regional offices, working hand-in-hand with exporting companies through various instruments in order to strengthen their export capacity, and with a network of 57 offices and commercial representations in the biggest global economies (ProChile, 2020). Costa Rica's Procomer, founded in 1996, actively promotes their country on different continents. Its Shanghai office operates for the whole of China and the region. In the case of Peru, Promperu, created in 1993 and with various commercial offices, has conducted a successful campaign to position the country's image.
- (c) Improving the participation of small and medium-sized enterprises (MSMEs) in foreign trade is another shared challenge. Chile and Peru have various programs and negotiated a chapter on this in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP). Costa Rica designed a program for the innovation of entrepreneurial MSMEs as a complement to its strategy of improving the offer of Costa Rican exports. MSMEs employ most of the working population in these countries, making this issue one of basic importance in their trade.
- (d) Increasing the participation of women in trade. In recent years Chile, Costa Rica, and Peru have taken actions aimed at gender issues. Chile has pioneered treaties with chapters on this subject: Chile-Uruguay, Chile-Argentina, Chile-Canada, and Chile-EU. Studies on their true effect have not yet been published, but they are undoubtedly a way of channeling improvements in equity for women in the region (Barafani & Verna, 2020). Costa Rica supports the Women's Export program and Peru has participated in the Andean Community (CAN) efforts in this direction.
- (e) Defining state participation, particularly in the case of Costa Rica. They have 62 state-owned companies and 50 non-state public entities. The COVID pandemic brought this issue to the fore in all countries and it will undoubtedly have an impact on future commitments on trade policy.
- (f) Addressing trade issues related to countries' environmental and energy position. Trade can contribute to environmental sustainability and reduce the effects of climate change.
- (g) Finally, improving their digital economies and electronic commerce. The ability to get back on track and respond to the technological war will have major repercussions.

7 Conclusions

Chile, Costa Rica, and Peru coincide more than they differ in the mechanisms they have chosen to become players in international trade. From their abandonment of the ISI model to opening through multiple channels, as well as facing the current crisis.

They are countries that consider the stability of the multilateral trading system to be essential to their development, yet they face complex challenges in their social structures, with high rates of social inequality. Modernity and backwardness in trade matters coexist.

There are differences in the results achieved in their export baskets. Costa Rica has achieved greater diversification than Chile and Peru, which are both still anchored to extractive industries. Costa Rica's ability to maintain this momentum still seems very vulnerable, however.

The international context has been problematic for these countries. The trade war and the attack on the multilateral trade system initiated by the United States at the end of 2019 raised uncertainty about trade policies to historic levels. There is ample evidence in the academic literature on the negative effect on GDP and company investment decisions of uncertainty about trade policy (Agosin & Ffrench-Davis, 1993; López & Muñoz, 2007). The future will mean working to maintain stable and independent relationships with their main trading partners, the big powers.

The COVID-19 pandemic has forced the partial or complete closure of economic activities to stop the spread, and this has affected the international trade of these three countries powerfully. There may be some opportunities such as relocations due to the cost of supply disruptions and the decoupling of the Chinese and US economies, but they are not clear.

In this uncertain context, other factors such as the signing of the Regional Comprehensive Economic Partnership Treaty (RCEP) may be more of a disadvantage for regions that join it, while ours continues to fail to do so. Also problematic is the new NAFTA (T-MEC) which prohibits countries from signing agreements with others that do not have a free market economy, causing concern regarding the consequences this may have on the relationship between the United States and China if it is replicated. These developments affect a region that is already experiencing a period of political, economic, and social uncertainties.

Since the 1990s, Chile, Costa Rica, and Peru have focused on the market and its exports. A recurring criticism that is reflected in evaluations is that they fail to contemplate the effects of this strategy beyond an increase in trade of goods, leading this policy to be questioned.

The path Latin America has followed over the last two decades to achieve integration tells a story about the difficulties of processes that have had some results, but end up in a quagmire. It is the same story for each of the countries whose trade policy we have reviewed, in which integration is, and will continue to be, an extremely important factor in their development.

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Part II
China's Trade Policy Towards Latin
America

Development and Assessment of Sino-Latin America and the Caribbean Economic and Trade Cooperation



Yue Yunxia and Yao Chen

Abstract The objective of this chapter is to review the evolution and challenges of economic and trade cooperation between China and Latin America. First, the main periods of cooperation between the two regions are reviewed. Second, the main economic sectors where China participates in the region are analyzed. Third, the main economies of the region that establish trade with China are presented. Finally, the main challenges for the deepening of relations between both regions are discussed.

Keywords Sino-Latin American relations · Trade and economic cooperation · Challenges

1 Development of Sino-Latin America and the Caribbean Economic and Trade Cooperation

China-Latin America and the Caribbean (CLAC) economic and trade cooperation began in the late sixteenth century due to China-Philippines-Mexico maritime traffic and trade. In the early nineteenth century, the Manila galleon trade ushered in a maritime Silk Road in the Pacific Ocean. For a long period afterward, international trade, a crucial form of CLAC economic and trade cooperation, has played an essential role in the bilateral relationship. Since the beginning, the CLAC diplomatic relationship has transformed from cumulative to leapfrogging, forming a new comprehensive cooperation model (Bingwen et al., 2009). Today, CLAC economic and trade cooperation has switched from emphasizing trade to balancing trade, investment, and finance.

CLAC economic and trade cooperation evolved through four periods: the trial period (1949–1977), the cumulative period (1978–2001), the leapfrogging period

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(2002–2011), and the China initiative period (2012–Present) (Yunxia, 2018; Lu, 2018).

1. The Trial Period of CLAC Economic and Trade Cooperation (1949–1977)

During the trial period, China and Latin American countries were mainly focused on internally oriented economic development. Economic and trade cooperation was impelled by the establishment of diplomatic relations between China and Latin American countries. In the late 1970s, CLAC economic and trade cooperation took shape, while the bilateral interactions were mostly trade cooperation.

2. The Cumulative Period of CLAC Economic and Trade Cooperation (1978–2001)

After the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party in 1978, China revealed a new plan for reform and opening up. At this time, the Latin American countries were suffering from the drawbacks of import substitution industrialization and shifting to an export-oriented economic development. The coincidentally simultaneous decision to open up China and Latin America drove the CLAC economic and trade relations closer. During this period, the total amount of CLAC trade soared significantly. The accumulated total amount of CLAC trade between 1978 and 2001 was \$76.7 billion in 2000. The total amount of bilateral trade passed the \$10 billion mark as China invested in bigger industries like mining, forestry, fishing, and textiles, and set up joint venture projects. The China-to-LAC total export–import volume took a smaller proportion of China’s total export–import volume than the period before the reform and opening up and developed slower than the overall growth (Yunxia, 2018).

3. The Leapfrogging Period of CLAC Economic and Trade Cooperation (2002–2011)

As a member of the World Trade Organization (WTO) since Dec. 11th, 2001, China ushered in a new era of comprehensive opening up, international integration, and CLAC economic and trade relations with 10-years of rapid growth starting in 2002. China signed Free Trade Agreements (FTAs) with Chile in 2006, Peru in 2010, and Costa Rica in 2011, which boosted bilateral trade tremendously, passing the \$100 billion mark in 2007 and the \$200 billion mark in 2011. The average annual growth rate of CLAC trade soared to 33.2% during these 10 years, 12.4% higher than the average annual growth rate of China’s total trade during the same period (Lu, 2018).

4. The China initiative period of CLAC economic and trade cooperation (2012–Present)

In 2012 China’s economic development shifted its emphasis from high speed to medium-high speed with quality (Yiping et al., 2013). Meanwhile, Latin America gradually stepped into the structural adjustment period, which opened the door for a new economic and trade cooperation mechanism. During his visit to Latin America in July 2014, President Xi Jinping proposed the “1 + 3 + 6” cooperation scheme to promote the docking of development strategies and

industries, escalating CLAC economic and trade cooperation to a new stage.^{1, 2} In January 2015, the first ministerial meeting of the China-CELAC Forum was held, launching the overall initiative of CLAC cooperation. In the same year, to promote CLAC productivity cooperation, Premier Li Keqiang proposed a “3 × 3” Cooperation Framework at the China-Pakistan Cooperation Business Summit, which aimed to promote the CLAC cooperation in logistics, electricity, and information technology with the joint effort of enterprises, society, and government through the capital, loans, and insurance cooperation (Lei & Yincai, 2016). Since 2017, Latin America has gradually become an indispensable part of the Belt and Road Initiative. Today, 19 Latin American and Caribbean countries³ have signed cooperation agreements and MOUs under the Belt and Road Initiative (BRI-MOUs), and several Latin American countries reached a consensus on BRI-MOUs. Between 2012 and 2016, CLAC trade suffered a decline. The trade rebounded in 2017 and continued its momentum to 2019 when it reached a record high of \$317.4 billion, making China the second-largest trading partner with Latin American and Caribbean countries. During this period, China upgraded their FTAs with Chile and Peru, negotiating trade agreements in commodity, services, economic and technical cooperation, rules of origin, trade facilitation and competition policy, environment, e-commerce, government procurement, etc. Simultaneously, The CLAC trade structure gradually optimized, allowing Latin America to increase exports of value-added products to China, improving CLAC trade from quantity-oriented to a balance of quantity and quality. In turn, China’s investment in Latin America flowed from energy resources to diversified international production cooperation. During this period, CLAC economic and trade cooperation emphasized both quantity and quality, transforming from the traditional, complementary cooperation to production capacity cooperation, introducing the CLAC economic and trade cooperation into a case review period.

2 Contemporary and Future Trade Between CLAC

2.1 Contemporary CLAC Trade

In the past decade, CLAC commodity trade generally rose. Impacted by the financial crisis, CLAC commodity trade slumped 15% in 2009 and gradually recovered

¹“1 + 3 + 6”: “1” plan (CELAC’s Cooperation Plan for 2015–2019), three driving forces (trade, investment, and financial cooperation), and six key fields of cooperation (energy, resources, infrastructure projects, manufacturing, scientific innovation, and technical innovation).

²“Full Text from Xi Jinping’s Keynote Speech on the China-LAC leaders’ meeting,” Xin Hua News, 2014.7.18, http://www.xinhuanet.com/world/2014-07/18/c_1111688827.htm

³The 19 Latin American countries: Bolivia, Panama, Peru, Barbados, Ecuador, Dominica, Grenada, Cuba, El Salvador, Chile, Suriname, Venezuela, Guyana, Costa Rica, Uruguay, Dominica, Trinidad and Tobago, Antigua and Barbuda, Jamaica.

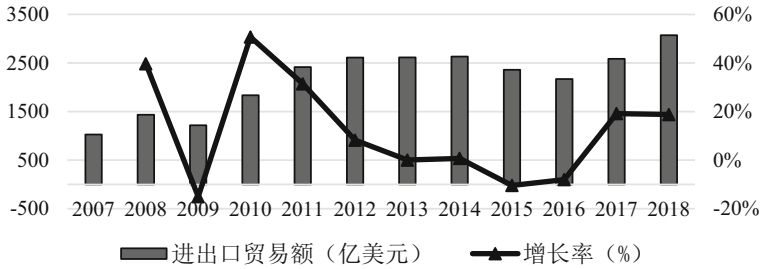
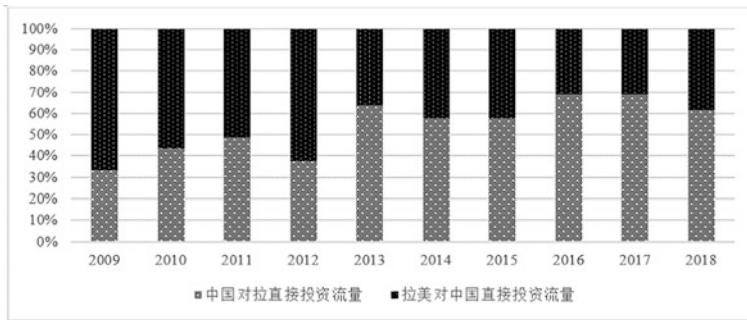


Fig. 1 Total export–import volume and growth of China and Latin America. Total export–import volume (\$10 million); growth rate (%). Source: 2007–2018 China Statistical Yearbook



China Foreign Direct Investment Flows in LAC; LAC Countries Foreign Direct Investment Flows in China

Fig. 2 The comparison of CLAC in Foreign Direct Invest Flows (2009–2018). Note: With no access to 2019 Latin America to China FDI, the authors analyze the data from 2009 to 2018. Source: 2009–2018 China Statistical Yearbook. China Foreign Direct Investment Flows in LAC; LAC Countries Foreign Direct Investment Flows in China

afterward. The commodity super cycle ebbed away, the CLAC industry structures readjusted, and the growth in CLAC commodity trade slowed. Between 2009 and 2016, the CLAC total import–export volume witnessed an inverted-U growth. With the exception of 2010, the growth in CLAC trade slowed and even dropped below zero in 2015 and 2016 (see Fig. 1). Due to the plunge in commodity prices, the CLAC total import–export volume hit bottom in 2016. The trend reversed in 2017–2018 against the bear market, reaching a record high in 2019 with a growth rate of 19% (Fig. 2). Brazil is China’s biggest trading partner in Latin America, followed by Mexico and Chile (Fig. 2). These three trading partners alone concentrated 68.4% of CLAC’s total import–export volume in 2018.⁴

China witnessed a trade deficit in CLAC commodity trade in 2009 and 2018. Given the unbalanced development in Latin America, CLAC commodity trade varied country by country. China’s trade deficit remained with resource-exporting

⁴Source: China Statistical Yearbook.

economies such as Brazil, Chile, and Peru, while China maintained a trade surplus with Mexico, Panama, and Colombia. China's trade deficit with Brazil grew steadily until 2015, then widening rapidly until it reached a stable growth in 2018. Meanwhile, China's trade surplus with Mexico climbed steadily (except in 2016).

2.2 Future CLAC Trade

LCAC commodity trade depends on the differences in the endowment of natural resources. With significant disparities come more opportunities for cooperation, whereas fewer differences lead to less cooperation. In this thesis, two methods are adopted to measure the structural differences of CLAC commodity trade. The authors utilize the Trade Special Coefficient (TC)⁵ to indicate the difference in resource endowment⁶ while adopting the Index of Intra-industry Trade (IIT) and the Grubel-Lloyd Index (GL)⁷ to value the difference in the intra-industrial division of labor.⁸

1. The Strength and Potentiality of CLAC Agricultural Trade

With the impressive agricultural resource endowment of Latin America, Chinese agricultural products lacked competitiveness, resulting in China being a net importer in CLAC agricultural trade. From the TC's perspective, China was weak in agricultural trade to most Latin American countries except Colombia (0.43) and Panama (0.52). Rating -0.99 with Argentina, -0.97 with Brazil, -0.89 with Peru, and -0.86 with Chile, China is at a complete disadvantage in agricultural trade with these countries (see Table 1).

Table 2 (agricultural products divided into Four Sections based on HS code) shows that China enjoyed a high degree of intra-industry trade with Argentina (GL = 0.32), Brazil (GL = 0.17), and Chile (GL = 0.55) in Section IV products (Prepared Foodstuffs; Beverages, Spirits, And Vinegar; Tobacco and Manufactured Tobacco Substitutes). China had a high degree of intra-industry trade with Chile (GL = 0.74) in Section III products (animal and vegetable oils, fats and their breakdown products, and refined edible fats and oils). In contrast,

⁵Resource endowment variety encourages complementary trade in resources.

⁶ $TC_{i=x} = \frac{X_i - M_i}{X_i + M_i}$ (TC_i represents the competitiveness of product *i*; *X_i* represents the amount of export of product *i*; *M_i* represents the amount of import of product *i*. If $TC > 0$, then this country is the product *i* net exporter, therefore, product *i* of this countries is of strong international competitiveness. Otherwise, the other way around.).

⁷Intra-industrial division of labor variety encourages intra-industrial trade.

⁸ $GL_{ij} = 1 - \frac{|X_{ij} - M_{ij}|}{X_{ij} + M_{ij}}$ (*X_{ij}* represents the amount of export of country I industry *j*; *M_{ij}* import. The value of *GL_{ij}* ranges between 0 and 1. If *GL_{ij}* approaches 1, the index indicates a high degree of intra-industrial trade; otherwise, the other way around. Generally, if $GL_{ij} > 0.8$, designate the product as most traded goods in the industry.).

Table 1 Agricultural commodities of Latin American countries (\$10 million)

Country	Import	Export	Net exports	Total export–import volume	TC
Argentina	65.07	0.42	−64.65	65.49	−0.99
Brazil	285.61	4.02	−281.59	289.62	−0.97
Chile	34.49	2.59	−31.90	37.08	−0.86
Colombia	0.50	1.25	0.75	1.75	0.43
Mexico	7.90	7.78	−0.12	15.68	−0.01
Panama	0.30	0.94	0.64	1.24	0.52
Peru	18.58	1.06	−17.52	19.64	−0.89

Revealed Comparative Advantage (2019)

Note: Adjust DRCNET data and MOA data with a consistent unit at the exchange rate of 7 RMB = 1 USD

This chapter adopts HS Code in data analysis. The authors accumulate and analyze data from MOA Database according to HS Code. DRCNET Database can offer data according to HS Code

Source: Argentina, Brazil, Chile data from DRCNET Database; Colombia, Mexico, Panama, Peru data from MOA Database

China-Argentina intra-industry trade in Section I–III products were of low GL, indicating little cooperation in these products.

2. *The Strength and Potentiality of CLAC Minerals and the Products Trade*

To some extent, the industrial structures of China and Latin American countries are similar, relying heavily on the export of labor-intensive products, which causes competition between China and Brazil, Argentina, Chile, and other major industrial, Latin American powers. However, with the transformation and development of the economic structure of China and Latin America, industries will witness the rise of a specialized division of labor.

(a) Mineral Products Trade

The 2019 trade in mineral products of China with Argentina, Brazil, and Chile indicated that China's mineral exports were not competitive compared to Latin American countries with rich mineral resources. China imported 265 times the mineral products from Brazil than it exported, and 164 times more from Chile than China exported to Chile in 2009 alone. This was much higher than Argentina to China mineral export–import ratio of 14. From GL's perspective, China scored a low intra-industry trade in mineral products between China and Latin America (see Table 3). China's imports of Chapter 27 products from Brazil represented 44.5% of its imported Section V products from Brazil, while exports of Chapter 27 products only represented 0.1% of Section V products to Brazil. Besides the major mineral exporters in Latin America, China was the leading exporter of Chapter 27 products to Chile, which took 91.9% of total exports of Section V products. Brazil imports of Chapter 27 products from China took 85.4% of their imports of Section V products. It can be seen in Table 3 that China had a high degree of intra-industry trade with Chile (GL = 0.35) in Chapter 27 products and low intra-industry trade in Section V products (GL = 0.01).

Table 2 The Grubel-Lloyd Index: China and Latin American major economies trade in products of Section I-IV agricultural products (2019) (million \$)

Countries	Section I			Section II			Section III			Section IV		
	Imports	Exports	GL	Imports	Exports	GL	Imports	Exports	GL	Imports	Exports	GL
Argentina	2391.54	1.12	0.00	3650.55	19.92	0.01	355.82	0.12	0.00	109.48	20.90	0.32
Brazil	4070.22	152.24	0.07	23,095.21	146.79	0.01	291.93	2.40	0.02	1103.21	100.15	0.17
Chile	899.99	24.06	0.05	2063.69	38.90	0.04	8.33	14.15	0.74	477.00	181.49	0.55

Note: In HS Code, Section I Products, including Live Animals; Animal Products; Section II Products, including Vegetable Products; Section III Products, including Animal or Vegetable Fats and Oils and Their Cleavage Products; Prepared Edible Fats; Animal or Vegetable Waxes; Section IV Products, including Prepared Foodstuffs; Beverages, Spirits, And Vinegar; Tobacco and Manufactured Tobacco Substitutes

Source: China's General Administration of Customs, DRCNET database

Table 3 The Grubel-Lloyd Index: China and Latin American major economies trade in products of Section V mineral products (2019) (million \$, %)

Countries	Section V: mineral products			Chapter 27			GL
	Imports	Exports	GL	Imports	Percentage (1)	Exports	
Argentina	257.18	18.58	0.13	256.98	99.9	10.57	56.9
Brazil	42,790.25	161.77	0.01	19,038.54	44.5	138.15	85.4
Chile	12,882.73	78.45	0.01	15.48	0.1	72.13	91.9

Note: Percentage (1) = Imports of Chapter 27/Imports of Section V Products; Percentage (2) = Exports of Chapter 27/Exports of Section V Products
 In HS Code, Section V Mineral Products, including Chapter 25 Salt; sulfur; earth and stone; plastering materials, lime, and cement. Chapter 26 Ores, slag, and ash. Chapter 27 Mineral fuels, mineral oils, and products of their distillation; bituminous substances; mineral waxes
 Source: China's General Administration of Customs, DRCNET database

(b) The potentiality of China-Argentina trade in manufactured goods

Chemical or allied industry products represented the majority of China-Argentina manufacture goods trade. China's imports of Section VI products of the chemical or allied industries were highest. The second-largest imported products group was Section XI products, textiles, and textile articles, which were four times lower than chemicals. These two sections were also the highest in China's exports to Argentina. The total volume of imports of Section VI products was 5.7 times the exports, while the imports of Section XI were 8.4 times the exports (see Table 4).

The degree of China-Argentina intra-industry trade in manufactured goods was low with few exceptions (see Table 4). China-Argentina scored a low degree of intra-industry trade in textiles and textile articles (Section XI) (GL = 0.21), while cotton's GL (Section XI, Chapter 52), the most traded good in this section, scored as high as 0.86. The same situation appeared for trade in Section XVII vehicles, aircraft, vessels, and associated transport equipment. Chapter 86 (Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds) and Chapter 87 (Vehicles other than railway or tramway rolling stock, and parts and accessories thereof) products scored high volumes in GL: 0.79 and 0.99, respectively.

(c) The potentiality of China-Brazil trade in manufactured goods

The top two most traded goods between China and Brazil were base metals and articles of base metal (Section XV) and textiles and textile articles (Section XI). China's export volume of Section VI products of the chemical or allied industries was highest, and Section XI products of textiles and textile articles were second. China's export volume of Section VI chemical or allied industries products was 13.5 times higher than imports (see Table 5).

The degree of China-Brazil intra-industrial trade exceeded that of China-Argentina trade.⁹ To be more specific, among the eight chosen sections, Section XVII vehicles, aircraft, vessels, and associated transport equipment enjoyed the highest degree of intra-industry trade (GL = 0.67). China and Brazil also had a high intra-industry degree in a few sectors. China-Brazil had a relatively low degree of intra-industry trade in textiles and textile articles (Section XI, GL = 0.44), while cotton (Section XI, Chapter 52), the most traded good in this section, scored as high as 0.79. The same situation appeared in the trade in Section XV (GL = 0.06), and Section XVI (GL = 0.34) products, Chapter 74 (Copper and articles thereof; products of machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, including Chapter 84 Nuclear reactors, boilers, machinery, and mechanical appliances; parts

⁹The average GL of 8 chosen sections of China-Argentina trade scored 0.13, while China-Brazil scored 0.26.

Table 4 The Grubel-Lloyd Index: China-Argentina major import and export products (2019) (million \$, %)

Products ^a		China imports from Argentina		China exports to Argentina		GL
		Amount	Percentage (1)	Amount	Percentage (2)	
Section VI	Section VI	226.13	/	1282.28	/	0.30
	Chapter 29	20.39	9.0	771.03	60.1	0.05
Section VII	Section VII	19.73	/	284.52	/	0.13
	Chapter 39	19.16	97.1	214.49	75.4	0.16
	Chapter 40	0.57	2.9	70.03	24.6	0.02
Section XI	Section XI	59.81	/	502.40	/	0.21
	Chapter 51	50.55	84.5	0.47	0.1	0.02
	Chapter 52	8.99	15.0	11.82	2.4	0.86
	Chapter 60	0.09	0.2	7.27	1.4	0.02
Section XII	Section XII	0.08	/	40.56	/	0.00
Section XV	Section XV	9.31	/	/	/	/
	Chapter 72	0.04	0.5	3.93	/	0.02
	Chapter 73	8.86	95.2	48.86	/	0.31
	Chapter 74	0.28	3.0	48.34	/	0.01
Section XVI	Section XVI	3.95	/	232.35	/	0.03
	Chapter 84	3.80	96.3	220.87	95.1	0.03
	Chapter 85	0.15	3.7	4.54	2.0	0.06
Section XVII	Section XVII	1.56	/	6.95	/	0.37
	Chapter 86	0.63	40.4	0.96	13.8	0.79
	Chapter 87	0.93	59.7	0.96	13.8	0.99
Section XVIII	Section XVIII	0.89	/	165.56	/	0.01
	Chapter 90	0.81	90.8	54.25	32.8	0.03

Note:

Percentage (1) = Amount of the Section (Chapter)/China's imports from Argentina;

Percentage (2) = Amount of the Section (Chapter)/China's exports to Argentina

In this chapter, the authors designate it as “/” if the value of “Percentage” is too small to take into consideration.

Source: China's General Administration of Customs, DRCNET database

^aIn HS Code, Section VI products of the chemical or allied industries, including: Chapter 29 Organic chemicals; Section VII products of plastics and articles thereof; rubber and articles thereof, including: Chapter 39 Rubber and articles thereof; Chapter 40 Plastics and articles thereof; Section XI products of textiles and textile articles, including: Chapter 51 Wool, fine or coarse animal hair; horsehair yarn and woven fabric; Chapter 52 Cotton; Chapter 60 Knitted or crocheted fabrics; Section XII products footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair; Section XV products of base metals and articles of base metal, including: Chapter 72 Iron and steel; Chapter 73 Articles of iron or steel; Chapter 74 Copper and articles thereof; Section XVI products of machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, including: Chapter 84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; Chapter 85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; Section XVII products of

(continued)

Table 4 (continued)

vehicles, aircraft, vessels and associated transport equipment, including: Chapter 86 Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds; Chapter 87 Vehicles other than railway or tramway rolling stock, and parts and accessories thereof; Section XVIII products of optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof, including: Chapter 90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof

Table 5 The Grubel-Lloyd Index: China-Brazil major import and export products (2019) (million \$, %)

Products		China imports from Brazil		China exports to Brazil		GL
		Amount	Percentage	Amount	Percentage	
Section VI	Section VI	352.19	/	4757.83	/	0.14
	Chapter 29	212.09	60.2	2554.58	53.7	0.15
Section VII	Section VII	246.91	/	1646.87	/	0.26
	Chapter 39	211.42	85.6	1140.19	69.2	0.31
	Chapter 40	35.49	14.4	506.67	30.8	0.13
Section XI	Section XI	973.24	/	3435.09	/	0.44
	Chapter 51	1.79	0.2	1.17	0.0	0.79
	Chapter 52	930.26	95.6	50.59	1.5	0.10
	Chapter 60	0.07	0.0	136.03	4.0	0.00
Section XII	Section XII	18.44	/	257.29	/	0.13
Section XV	Section XV	1692.66	/	/	/	/
	Chapter 72	1326.79	78.4	41.05	/	0.06
	Chapter 73	16.63	1.0	343.81	/	0.09
	Chapter 74	314.32	18.6	333.28	/	0.97
Section XVI	Section XVI	347.66	/	1725.59	/	0.34
	Chapter 84	292.56	84.2	1643.79	95.3	0.30
	Chapter 85	55.10	15.8	31.79	1.8	0.73
Section XVII	Section XVII	25.07	/	50.01	/	0.67
	Chapter 86	1.61	6.4	3.73	7.5	0.60
	Chapter 87	9.42	37.6	3.73	7.5	0.57
Section XVIII	Section XVIII	37.09	/	752.48	/	0.09
	Chapter 90	37.05	99.9	274.66	36.5	0.24

Note:

Percentage (1) = Amount of the Section (Chapter)/China's imports from Argentina;

Percentage (2) = Amount of the Section (Chapter)/China's exports to Argentina

In this article, the authors designate it as "/" if the value of "Percentage" is too small to take into consideration.

Source: China's General Administration of Customs, DRCnet database

Table 6 The Grubel-Lloyd Index: China-Argentina major import and export products (2019) (million \$, %)

Products		China imports from Chile		China exports from Chile		GL
		Amount	Percentage	Amount	Percentage	
Section VI	Section VI	409.75	/	816.49	/	0.67
	Chapter 29	64.01	15.6	231.89	28.4	0.43
Section VII	Section VII	1.81	/	879.45	/	0.00
	Chapter 39	1.71	94.4	616.72	70.1	0.01
	Chapter 40	0.10	5.6	262.73	29.9	0.00
Section XI	Section XI	15.19	/	2899.77	/	0.01
	Chapter 51	14.56	95.9	2.67	0.1	0.31
	Chapter 52	0.00	0.0	29.54	1.0	0.00
	Chapter 60	0.00	0.0	16.43	0.6	0.00
Section XII	Section XII	0.01	/	137.27	/	0.00
Section XV	Section XV	7408.55	/	/	/	/
	Chapter 72	1.91	0.0	1.28	/	0.80
	Chapter 73	0.21	0.0	111.46	/	0.00
	Chapter 74	7402.11	99.9	104.34	/	0.03
Section XVI	Section XVI	2.90	/	178.59	/	0.03
	Chapter 84	1.30	44.7	150.66	84.4	0.02
	Chapter 85	1.61	55.3	12.17	6.8	0.23
Section XVII	Section XVII	0.43	/	15.76	/	0.05
	Chapter 86	0.00	0.0	1.82	11.6	0.00
	Chapter 87	0.43	100.0	1.82	11.6	0.38
Section XVIII	Section XVIII	0.18	/	573.08	/	0.00
	Chapter 90	0.17	96.6	159.50	27.8	0.00

Note:

Percentage (1) = Amount of the Section (Chapter)/China's imports from Argentina;

Percentage (2) = Amount of the Section (Chapter)/China's exports to Argentina

In this chapter, the authors designate it as “/” if the value of “Percentage” is too small to take into consideration

Source: China's General Administration of Customs, DRCnet database

thereof) and Chapter 85 (Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles) scored high volumes in GL: 0.97 and 0.73, respectively.

(d) The potentiality of China-Chile trade in manufactured goods

In China-Chile trade in manufactured goods, the top two most traded goods were base metals and articles of base metal (Section XV) and the chemical or allied industries (Section VI). China exported most in textiles and

textile articles (Section XI), the volume of which was 190.9 times higher than their imports (see Table 6).

The degree of China-Chile intra-industry trade was lower than that of China-Argentina and China-Brazil trade.¹⁰ Among the eight chosen sections, Section VI products of the chemical or allied industries enjoyed the highest degree of intra-industry trade ($GL = 0.67$), while iron and steel's GL (Section XV, Chapter 72), the most traded good between China and Chile, scored as high as 0.8.

3 The Present and Future of CLAC Trade in Services

3.1 *Present-Day CLAC Trade in Services*

Over the past decade, throughout the wavy fluctuations in bilateral trade in services, China's total service trade climbed amidst the changes, while that of Latin America declined. China's development in trade in services surpassed that of Latin America, and the gap has widened. In 2018–2019, China's total trade volume in services was twice the volume of LAC countries (see Table 7).

3.2 *The Potentiality of CLAC Trade in Services*

The competitiveness of trade in services on both sides was generally weak (see Table 8). However, since 2011, the competitiveness of China's trade in services has declined, while the competitiveness of Latin America's increased in fluctuation.

Every Latin American country had its competitiveness in the service trade, but its competitiveness varied. From a major economies' perspective, against the bear market, the competitiveness of Argentina in trade in services developed beyond China and the rest of the Latin American countries. Brazil's competitiveness was weak in trade in services, but in 2015 it improved. Mexico and Chile had consistently weak competitiveness in this sector, while the competitiveness of Peru was declining (see Table 8).

Within the service trade are several sectors. Trade varied in volume by the sector among Latin American countries. Figure 3 shows that these six countries' goods and commercial services accounted for a larger percentage than tourism and transportation services. In some countries, goods and commercial services were hundreds of times higher than domestic tourism and transportation services. It is worth noting that most major Latin American countries achieved a balance of goods and

¹⁰The average GL of 8 chosen sections of China-Argentina trade scored 0.13, China-Brazil scored 0.26, China-Chile scored 0.10.

Table 7 The Comparison of CLAC Trade in Services (2011–2019) (\$10 million, %)

Year	China's trade in service			LAC trade in services					Ratio
	Exports	Imports	Total export-import volume	Total export-import volume growth rate	Exports	Imports	Total export-import volume	Total export-import volume growth rate	
2011	24,094	23,205	47,299	/	15,681	16,808	32,489	/	1.46
2012	25,763	25,038	50,800	7.40	16,186	17,645	33,832	4.13	1.50
2013	27,672	27,791	55,462	9.18	16,255	18,284	34,539	2.09	1.61
2014	28,991	31,033	60,024	8.23	16,207	18,318	34,525	-0.04	1.74
2015	27,965	28,681	56,646	-5.63	14,445	16,308	30,753	-10.93	1.84
2016	26,157	28,512	54,669	-3.49	14,231	15,152	29,383	-4.45	1.86
2017	28,971	31,361	60,332	10.36	15,675	16,502	32,176	9.51	1.88
2018	32,283	35,888	68,171	12.99	16,752	17,681	34,432	7.01	1.98
2019	32,438	34,662	67,100	-1.57	16,563	17,015	33,578	-2.48	2.00

Note: In this table, LAC refers to Mexico, South America, Central America, and the Caribbean. Total Export-Import Volume (of Trade in Services) = Commercial Trade Services (Commodity Services, Transportation Services, Tourism-related Services, and Other Related Commercial Services) + Memorandum Item: Service Industry (Other Service Industry and Commercial Service) + Memorandum Item: Goods and commercial services

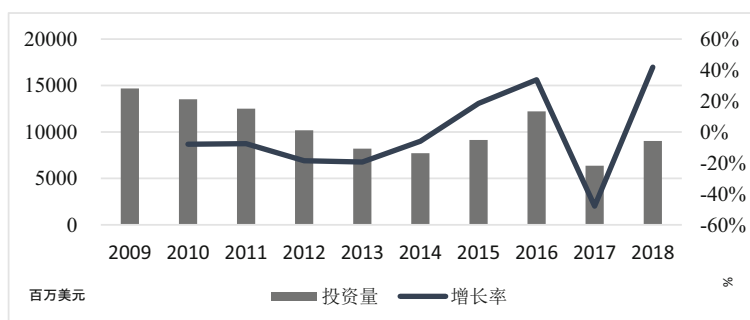
Ratio=The total volume of China's export-import of trade in services/The total volume of Latin American export-import of trade in services

Source: WTO-BPM6

Table 8 The service trade special coefficient: selected countries and regions (2011–2019)

Countries and regions	2011	2012	2013	2014	2015	2016	2017	2018	2019
China	0.02	0.01	0.00	-0.03	-0.01	-0.04	-0.04	-0.05	-0.03
Argentina	0.01	0.01	-0.04	-0.04	-0.09	-0.10	-0.14	-0.12	0.01
Brazil	-0.10	-0.12	-0.16	-0.18	-0.14	-0.07	-0.07	-0.07	-0.09
Mexico	-0.06	-0.05	-0.05	-0.04	-0.05	-0.04	-0.04	-0.04	-0.01
Peru	0.03	-0.01	-0.04	-0.06	-0.08	-0.03	0.02	0.00	-0.01
Chile	0.01	-0.02	-0.04	-0.02	-0.04	-0.03	-0.01	-0.03	-0.04
LAC	-0.03	-0.04	-0.06	-0.06	-0.06	-0.03	-0.03	-0.03	-0.01

Source: WTO-BPM6



Million \$; Investment; Growth Rate

Fig. 3 The total amount and growth rate of Latin American foreign direct investment in China (2009–2018). Million \$; Investment; growth rate. Source: 2009–2018 China Statistical Yearbook

commercial services, while the transport services and tourism-related services varied. Except for Mexico and Peru, all other countries had a trade deficit in these two sectors. In terms of exports, transportation services exports accounted for a large share of total commercial services exported from Panama and Chile, but made up a smaller share of commercial service exports in Argentina, Brazil, and Peru. However, it only represented a small share of services exports in Mexico. With the exception of Chile, Latin American countries attached significance to tourism-related service exports. In Panama, tourism-related service exports were the highest percentage of commercial service exports among Latin American countries. In terms of imports, Latin American countries imported the highest amount of goods and commercial services. Argentina, Brazil, Panama, and Peru had higher imports of tourism-related service trade, accounting for a higher percentage of their trade in service imports, while Chile and Mexico were the opposite. Panama, Peru, Chile, and Argentina imported more trade in transportation services than they exported.

China and Latin America possessed strengths in different sectors of the service trade. China was more competitive in information, ocean freight, and construction services than Latin America. With the exotic features of Latin American tourism and

Table 9 The total amount of Latin American major economies' foreign direct investment to China (\$0.001 million)

	Argentina	Brazil	Chile	Mexico	Peru	Panama
2011	732	4304	1679	453	87	3845
2012	830	5760	2075	1487	16	3281
2013	52	2304	2094	1580	0	2594
2014	305	2811	625	319	39	600
2015	0	5084	526	731	28	2064
2016	3	4667	300	74	1	2427
2017	0	4228	516	1204	1	2137
2018	65	3119	1279	1731	1	2115

Source: China Statistical Yearbook from National Bureau of Statistics of China

transportation (ocean freight) services, both sides can promote cooperation in these two sectors, enhancing CLAC trade in services (see Fig. 3).

4 The Present and Future of CLAC Investment Cooperation

With its rich natural resources, huge consumer market, unique geopolitics, and most importantly, the indispensable extension of the Belt and Road Initiative (BRI), and the Chinese government advocating for companies to “go global,” Latin America has been attracting investment from a growing number of Chinese enterprises. This encourages Chinese and Latin American enterprises to seize opportunities while embracing the challenges.

4.1 Latin American Investment in China

Latin American Investment in China presented a “Uv” curve (see Fig. 3). With negative growth for years, the total investment volume reached the bottom of the first “U” curve in 2014, recovering to 2011 levels in 2016. In 2017, investments plummeted to -50% from 30% in 2016. After the fluctuation of 2017, 2018 witnessed a surge in investment, with a growth rate of 42% .

Among the representative countries in Latin America, Brazil was first in investment in China (except in 2013), followed by Panama (except in 2014). In 2014, Panama, Chile, and Mexico pulled their direct investment in China, while Argentina, Brazil, and Peru increased their investment, bucking the trend. The individual Latin American economies differed significantly in their investment in China, with major Latin American countries (except for Panama) taking the lead in investing in China. Since 2001, Argentina's investment in China had a cliff-like drop-off, with no

investment at all for some time. Brazil's investment in China fluctuated, while Peru injected limited investment in China. Panama (except for in 2014) had relatively stable investments in China, with no significant increase in investment, even in the big event of the establishment of diplomatic relations in 2017. Mexico and Chile witnessed significant fluctuations in China between 2011 and 2018 (see Table 9).

4.2 China's Investment in Latin America

Before 2012, Latin American foreign direct investment (FDI) in China outweighed Chinese FDI in Latin America. By the end of 2019, Latin America became the second-largest destination for Chinese FDI after Asia, with an overseas foreign direct investment (OFDI) stock of \$436.047 billion, 19.8% of China's OFDI stock.¹¹

China's FDI in Latin America was concentrated and increasing gradually. The Chinese FDI flowed to limited sectors, with the top five sectors of Chinese FDI stock accounting for more than 80% of the total stock (even reaching 92% in 2017). New and emerging technology might attract more Chinese investment. More specifically, leasing and business services ranked top in the Chinese OFDI stock in Latin America in 2016, accounting for 33.3%. Since 2017, the information transmission, software, information technology services sector has become the biggest sector in Latin America. Despite a decrease in its share in 2018 and 2019, it is still the biggest. It is worth noting that scientific research and technical services managed to make the list in 2019, coming in fifth in China's FDI stock to Latin America (see Table 10). Overall, the concentration and transformation of China's investment sectors in Latin America indicated that China is transforming and upgrading its investment in Latin America, gradually focusing on nontraditional sectors.

Most of China's direct investment in Latin America has been changing from Chinese state-owned enterprises to private enterprises. Sinopec, CNPC, CNOOC, and Sinohydro were the advocates and pioneers of mergers and acquisitions in Latin America. With the growing strength of Chinese private enterprises and the support of China's go-global strategy, Chinese private enterprises began to take the lead in China's OFDI, gradually expanding the scale of investment and diversifying and deepening the investment areas. For example, in 2018, Drip acquired "99," the largest local shared travel company in Brazil. Since August 2019, "Huawei Cloud" has opened services in Chile, Mexico, Brazil, and Peru, accelerating rollout in Latin America.

Scrutinizing the changes in China's investment in Latin America, it is safe to conclude that China's investment in Latin America is long-term, not speculative, encouraging Chinese enterprises to carry out deep reforms in the region and adapt to the local conditions.

¹¹ Source: 2019 Statistical Bulletin of China's Outward Foreign Direct Investment.

Table 10 Top 5 industry with most China-to-LAC OFDI Stock (2016–2019) (10 million \$, %)

Industry	2016		2017		2018		2019	
	Stock	Percentage	Stock	Percentage	Stock	Percentage	Stock	Percentage
Leasing and business services	690.4	33.3	765.7	19.8	886.7	21.8	991.5	22.7
Information Transmission/Software Information technology services	380.2	18.4	1865.7	48.2	1559.6	38.3	1561.0	35.8
Wholesale and retail trade	371.4	17.9	594.5	15.4	593.0	14.6	606.3	13.9
Financial Industry	242.6	11.7	251.3	6.5	256.9	6.3	266.5	6.1
Mining industry	159.3	7.7	87.7	2.3	231	5.7	N/A	N/A
Scientific research and technical services	N/A	N/A	N/A	N/A	N/A	N/A	257.0	5.9
Sum	1843.9	89.0	3564.9	92.2	3527.2	86.7	3682.3	84.4

Source: 2016–2019 Statistical Bulletin of China's Outward Foreign Direct Investment

5 The Plausible Choice to Improve CLAC Economic and Trade Cooperation

In contemporary international society, the global economic landscape has entered a phase of profound adjustment and change, while CLAC economic and trade cooperation has evolved from a spontaneous cooperation phase to a conscious one. Embracing the new reality, China should consider the following suggestions to deepen CLAC economic and trade cooperation.

China has readjusted its economic growth from speed to quality. China equips itself with a new window of cooperation opportunities through supply-side reform by reallocating misplaced factors and rebalancing the supply and demand structure. China must steadfastly push its economy toward high-quality development, empowering China to upgrade domestic production through supply-side reform and facilitate an upgraded, expanding consumption market for Latin America. China's transformation of capital flows will also boost upgraded investment in Latin America. Today, China emphasizes improving industrial infrastructure, expecting to use innovative technologies and scale to increase competitiveness and further integrate advanced manufacturing and modern service industries, providing more opportunities for Latin America under the "go global" policy. It is safe to conclude that China should utilize the "Belt and Road" Initiative (BRI) to support Latin America. In the short term, Latin America is still heavily dependent on foreign capital, which fits well with a platform like BRI. With matching bilateral demands and requirements, China can seize the opportunity to enhance bilateral economic and trade cooperation. Thus, China's investment in Latin America can flow from energy resources to diversified international production cooperation. Furthermore, China can further cooperate with Latin American countries in infrastructure, agriculture, advanced manufacturing, and digital economy.

From the Latin American perspective, slowed down by a primary products export economy and a long-term, low-technology production structure, Latin America has been burdened with domestic friction. Therefore, Latin American countries need to upgrade domestic industries and reindustrialization strategies. With the advantage of steady natural resource endowments, in order to integrate into the global industrial high-end value chain quickly and efficiently, Latin American countries should upgrade industry faster, balance the ratio of capital, labor, natural resources, and technology through structural reform, improve technological progress and institutional innovation, and participate actively in intra-industrial trade.

Based on these observations, China and Latin America should continue improving economic and trade cooperation in two ways. First, China and Latin America should further enhance openness to the international society and facilitate investment and trade. A higher degree of openness between China and Latin America can promote bilateral cooperation, boost cooperation in service trade, improve investment, and facilitate trade. In the future, China and Latin America need to focus on comprehensive industry cooperation and strive to combine digital infrastructure and high-end manufacturing to drive CLAC economic development. Second, China and

Latin America should strengthen their financial cooperation. Embracing the spontaneous cooperation that happened after the financial crisis, China and Latin America should explore innovative ways of financial cooperation in the post-crisis era and transform the model of CLAC economic and trade cooperation from one that is driven by trade to one that balances trade, investment, and finance.

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Chinese Export Promotion Policies Toward Latin America: The Belt and Road Initiative



Javiera Cáceres

Abstract China has become the main trading partner for most Latin American economies, on the one hand, due to the growth in natural resources imports, and on the other, as a supplier of final consumption and industrial goods. During the last years, this participation has not only grown in aggregated terms, but China has also been able to develop a more complex export matrix, increasing its participation in highly innovative and technological sectors. This is the result of the implementation of various policies, among which export promotion policies become fundamental for its development. The objective of this chapter is to understand how the Belt and Road Initiative has become a fundamental element within Chinese export promotion policies toward Latin America. As some BRI projects in the region have been stalled, the Digital Silk Road appears as an alternative to enhance export promotion through cooperation between China and the Latin American region.

Keywords Export promotion policies · Digital economy · Digital Silk Road

1 Introduction

Export promotion policies are public measures that motivate countries' business or industrial activities. Governments use various means to facilitate international trade, including export promotion programs (EPPs), which are public policy measures that seek to enhance the export activities of industry through the reduction or removal of barriers, creation of promotional incentives, and assistance for potential and current exporters (Ahmed et al., 2002). Export orientation obliges producers to respond to global competition and improve the allocation of resources within the country and the firms, boosting productive specialization (Li & Jiang, 2018; Melitz, 2003).

China has implemented export promotion policies as part of its industrial development strategy and its integration into international markets. The literature supports

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this strategy, which shows the bidirectional causality between export expansion and economic growth in China (Mah, 2005; Shan & Sun, 1998). As the country has reached new development stages, traditional export promotion policies do not suit the upcoming challenges.

China maintains relevant economic and financial ties with Latin America and the Caribbean (LAC), being the largest trading partner for various countries in the region (Li & Zhu, 2019). China's attention to LAC has grown in the last decade, moving from traditional trade exchanges to a more comprehensive approach that covers investment and cooperation. LAC's inclusion in the Belt and Road Initiative (BRI) in 2018, after not being considered in 2013 in the original plan by President Xi Jinping, marked a milestone in LAC-China relations.

This initiative can be analyzed not only as an investment promotion policy, but also as an export promotion strategy, which respond to China's new role in the international economic system. Chinese strategies are characterized by their multidimensional approach in which the borders between industrial development, export, and investment promotion are blurred. BRI brings the promotion of Chinese investment and the export of its goods and services together within a comprehensive development strategy.

One of the most dynamic sectors of the last decade has been electronic commerce, which has benefited from technological and connectivity advances. In the current pandemic, the relevance of the digital economy has grown, introducing new challenges and opportunities for LAC-China relations. The Digital Silk Road, the latest dimension included within BRI, has gained significance as trade and investment-related sectors are expected to expand their participation in the economy.

To understand how the BRI has become a fundamental element within Chinese export promotion policies toward Latin America, this chapter is structured as follows: After the introduction, the literature review will focus on export promotion policies, including its relationship with industrial development. From here, the evolution of Chinese export promotion within the industrial policy will be analyzed. Then, BRI is characterized as China's export promotion strategy toward the Latin American region. Finally, policy recommendations will be proposed to strengthen Sino-Latin American relations.

2 Export Promotion Policies

Export promotion policies help companies overcome barriers such as lack of experience, limited resources, low production volumes, or other perceived obstacles in the internationalization process (Martínez, 2007). Some export promotion measures like duty drawbacks, tax refunds, and special financing plans can be found. The activities of export promotion agencies (EPAs) can be classified in those providing financial assistance (credit, insurance), market intelligence (firms and products), and technical assistance, which include support for transport logistics, product certification, and participation in trade fairs (Olarreaga et al., 2017). Although governments

promote these policies, their administration and implementation may be in the hands of public, private, or mixed institutions. For example, EPAs are governmental in Spain, the United States, Canada, and the United Kingdom. In Austria, they comprise private and quasi-governmental organizations. In Sweden and Turkey, EPAs are public–private organizations (Martínez, 2007).

Export promotion models have been implemented since the 1980s by countries with a more liberal and globalized economy (Czinkota, 1982; Seringhaus, 1985). Some export promotion models include the Diamantopoulos et al. (1993) model, which determines the links that exist between knowledge, expectations, and the use of export promotion; the Singer and Czinkota (1994) model, which demonstrates the predominance of company management on the effective use of export promotion; and the Czinkota (1994) model, which refers to the relationship between export promotion and the export performance of companies (Martínez, 2007).

Copeland (2008) claims that international market imperfections and externalities justify state intervention. In particular, externalities relate to the insufficiency and asymmetry of companies' information in their export processes. Among the benefits derived from export promotion, Titus et al. (2013) highlight foreign exchange earnings, a favorable balance of payment positions, reduced burden of foreign indebtedness, increased employment opportunities, the attraction of foreign direct investment, stimulation of efficiency through exposure to foreign competition and technology, internal economies of scale to local industries, technology transfer, and trade linkages with international markets. Hence, EPPs have been embraced to diversify the economy, generate employment, accelerate economic growth, and increase foreign exchange earnings. According to Martínez (2007), export promotion has become a priority policy for the governments of developed, newly industrialized, and, especially, developing countries, considering the strong implications that exports have on the economic policy of a nation (p. 2).

Martínez (2007) mentions that exports contribute to improving innovation and development at a business level, increasing organizational and managerial skills, diversifying the risk related to domestic market activities, optimizing the use of organizational resources, and increasing the financial and competitive position. Shamsuddoha and Yunus (2006) mentioned that EPPs help managers develop a positive attitude toward exporting, overcoming preconceived negative dispositions. They also help companies reduce uncertainty and perceived risks and improve competitiveness. EPPs, including export credit guarantee schemes, duty drawbacks, and income tax relief, make exports more profitable and attractive. Therefore, EPPs have had positive results at the administrative level and with business development of firms.

These policies are implemented at the enterprises/industry level and the country-wide level (Titus et al., 2013). The first level aims to increase exports of existing products and develop new exportable products, which can have benefits such as economies of scale and market diversification. In the second level, export promotion is evaluated from a macro perspective, as countries establish the export dimension of their trade development strategy. In this context, countries identify the economic instruments and EPPs that are relevant to their national export performance.

The literature has shown that EPPs are much more effective in developed countries (Hiller, 2012; Munch & Schaur, 2018; Van Biesebroeck et al., 2015, 2016). These results were obtained from an analysis of the effects of export promotion using company-level data from developed countries in different export margins, such as the number of target countries, the number of products exported, or the export volume within the target product for the companies that already export. According to Munch and Schaur (2018), based on the experience of Denmark, export promotion activities for small exporters increased export performance, added value, employment, and productivity. If the added value is considered, the benefits of promotion programs tripled the direct costs. Export performance does not necessarily equal company performance. For instance, companies with 20–50 employees who had help entering export markets through sales saw the largest increase in export values due to promotional activities. Meanwhile, for companies with less than 20 employees, gains came most from help with employment and adding value. Hence, if the goal is to add value and create jobs, export promotion should concentrate on small companies.

For developing countries, Volpe and Carballo (2010) mention that the benefits of added value are much greater. The lack of information presents a roadblock, however. Companies are likely to have more serious information problems trying to enter new export markets or sell new products overseas than when exporting traditional, known goods or expanding into countries already in their target markets. Compared with developed countries, companies in developing countries are less trained in export topics, such as requirements and processes for export. Although efforts by EPAs are being made to diversify products and expand to new markets, the study indicates no significant effect on export growth. It was also concluded that investment in expanding technology, training, and physical capital, when large enough, effectively increases total exports of all exporting companies but does not encourage new companies to enter international markets.

To understand the extent of trade promotion policies, it is necessary to refer to industrial development. Fliss (1999) highlights that the industrialization of a country or region is a process that requires conditions such as resources, political and economic stability, market conditions, and infrastructure. Aiginger (2014) argues that it considers societies' goals and innovation to promote changes and foster higher incomes when referring to the new industrial policy.

The relation between industrial policy and export promotion has been addressed by Chang (2011), as he states that economic development is impossible without good export performance. The success of effective export promotion policies relies on importing or creating advanced technologies, including for industries where the country possesses a comparative advantage, particularly if these sectors are nontraditional. To achieve economic development, Chang (2011) identifies four ways the state may support exporters: marketing, sharing risks, meeting high standards for quality required in export markets, and legal and financial support.

Chang (2003), by analyzing East Asian countries, argues that export promotion was a key element in their industrial policy. When differentiating East Asian countries from other developing countries, trade liberalization, export promotion,

and infant industry protection were balanced in cross-sectional terms and over time. The author concludes that countries need to “discuss the factors that determine the optimal mix of these three types of trade policy and the timing of switching between them” (Chang, 2011, p. 30).

A particularly relevant example for China is the establishment of Special Economic Zones (SEZs). A SEZ is a geographic region with more liberal economic laws than the rest of a country (Shah, 2009). These zones are strategic tools to accelerate countries’ industrialization processes and deal with deficiencies of the monetary, commercial, fiscal, tributary, tariff, and labor policies affecting the investment climate, production, and transaction costs. They offer benefits such as tax incentives, public services, leasing facilities, and simplified processes (Aggarwal, 2006). In addition, SEZs encourage foreign direct investment (FDI), manufacturing, and export services (Wang, 2013).

Export promotion has become a relevant element within countries’ industrial development policies. The increase in export earnings and export diversification may translate into a large-scale industry, especially with industry-level policy. These policies are linked to growth in competitiveness and innovation in a country. This is important when the overall goal is to influence value creation, employment, and business growth, as the combination of both policies will allow.

3 An Overview on Chinese Export Promotion Policies Within Industrial Policy

Although China has emerged as one of the top players in the trading system thanks to the implementation of export and industrial development policies, its current development stage obliges it to upgrade its strategy. The BRI and its geographical and scope extensions toward LAC and the digital economy were formulated for this purpose. To understand how China reached this turning point, this section reviews the evolution of the industrial development and export promotion policies that were implemented.

The role of the Chinese government in their industrial policy and development process considered four main facts: structural change; state ownership and control over economic activities; state capacity; and the evolution of demand regimes (Lo & Li, 2011; Lo & Wu, 2014; Lo & Zhang, 2011). For this purpose, China implemented a major tax reform in 1994 by introducing a new value added tax (VAT). This resulted in the adoption of tax adjustments such as export tax and export VAT rebate for achieving their industrial policy. The export taxes structure for sophisticated, high-technology products and export VAT rebates were written to promote technology protection. This strategy comprised other complementary policies such as subsidies for sectors within these value chains (Gourdon et al., 2016).

Before 1978, a centrally planned economic system for agriculture and industry prevailed in China (Akteruzzaman, 2006). The state set production targets and prices

and allocated resources in most parts of the economy. It did not have a significant presence in world trade, and in line with the socialist thinking, the government-controlled international trade (Mah, 2007a). The government implemented an import substitution strategy which was already large when the reforms began. Despite its scale, these industries were not competitive in international markets (Long, 2010).

According to Claudio (2009), at the end of 1978, Xiaoping formulated an international integration reform based on “four modernizations” proposed by Prime Minister Zhou Enlai in 1964. The policy was oriented to modernize agriculture, technology, industry, and defense. This reform and opening process, also known as the “Socialist Market Economy System”, motivated the market to play a fundamental role in the allocation of resources under strict monitoring of macroeconomic policy by the state (Galindo, 2014).

The first reforms were implemented to allow the transition toward a market economy, including the adjustment of the pricing system; the abandonment of the community agricultural system; the internationalization of the economy; the establishment of stock exchanges and A-share markets for foreign companies or other joint ventures; changes in the banking system; and reforms in the industrial sector focused on agricultural and consumer goods (Akteruzzaman, 2006). The 1990s saw substantial technological growth related to the Decision Accelerating on S&T Development adopted by the State Council, emphasizing that scientific and technological research must be closely linked to the market (Fan & Watanabe, 2006).

China implemented a series of EPPs. These were oriented toward promoting fiscal and financial benefits, incentives for foreigners who invest in industries related to exports, duty refunds, export insurance, and exchange rate management (Mah, 2007b). It also covered export-related services such as foreign trade statistics, development marketing capabilities, and the interpretation of policies and regulations (Wang et al., 2017). According to Yao (2006), the export promotion policy comprised radical reforms to develop the sectors where China had a comparative advantage, including promoting FDI and industrial restructuring. The Chinese strategy followed Asian newly industrialized economies (NIEs), such as Korea, Hong Kong, and Singapore, focusing on labor-intensive manufacturing for export. While the duty reductions, exchange rate systems, liberalization of foreign trade rights, trade facilitation, and tax rebates for exports can be identified, the establishment of special economic zones is particularly relevant. While tax rebates for VAT vary between 0 and 17%, more than 70% of exported goods benefit from reliefs between 15 and 17% (WTO, 2018).

In the Chinese context, SEZs have become a relevant development strategy that combines both industrial and export promotion policies. In the late seventies, SEZ policy began in the cities of Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen in Fujian province. These areas were considered a test for trade liberalization, taxes, and other policies at the national level. Wang (2013) mentioned that the main objectives of the SEZs are “attracting and utilizing foreign capital; primary economic forms are Sino-foreign joint ventures and partnerships as well as wholly foreign-owned enterprises; products are primarily export-oriented; economic activities are primarily driven by market forces” (p. 136). After the first regulations

for the Guangdong SEZs were issued in 1980, the door was opened to expand SEZs to other provinces. In 2017, the government approved seven new zones of different prioritized sectors: Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan, and Shaanxi (WTO, 2018). The benefits applied to foreign investors were protection of private property: assets, accumulated earnings, and other rights; tax incentives: differentiated income tax rates, customs duties, and tariff exemptions for production materials; and land use policy: obtaining rights for the development of the land and its commercial use (Wang, 2013).

Regarding trade policies, China's participation in regional and multilateral forums has been instrumental for its integration into international markets. In the context of APEC, China was able to demonstrate its reform process and gain credibility to enter the World Trade Organization (WTO) (Drysdale & Hardwick, 2018). Joining the WTO was a longstanding objective of the Chinese economy, as the country could not benefit from the most favored nation treatment and needed to expand its market access abroad for its growing industry. In 2001, China entered the WTO after over a decade of negotiations, conducting large-scale national economic reforms to adapt to WTO obligations, but challenges in sectors such as banking, stock market, insurance, telecommunications, transportation, and messaging persist (Li & Jiang, 2018).

As a result of these reforms, China strategically adjusted its industrial structure, upgrading traditional industries using modern technology and reducing low-value-added production (WTO, 2006). The liberalization of trade in goods and services has led to rapid growth in trade and investment, increasing the level of product sophistication as China's reforms have provided incentives for FDI, export expansion, and private sector development (Lin & Wang, 2009). Chinese companies have become an integral part of global supply chains.

China has established different institutions to promote the development of its export sector. These range in scope from trade policymaking to export finance, including technical assistance and trade administration. In 1952, the China Council for the Promotion of International Trade (CCPIT) was created. CCPIT is responsible for implementing national development strategies to promote international trade, FDI, and economic and technological cooperation (CCPIT, 2016). It also organizes China's participation in international economic and commercial delegations, exhibitions of Chinese companies abroad, forums, fairs, and international conferences. It represents domestic industries in foreign trade spaces such as the Bureau International des Expositions (BIE) and World Expo. This agency is part of international negotiations, formulates related policies, provides certificates of origin or other documents, and supports exporters. Its Trade Promotion and Investment Department offers companies services that include interpreting government policies, commercial information, and training programs to improve their management and competitiveness (CCPIT, 2016).

The Trade Promotion Bureau has been established to promote foreign trade (Long, 2010). According to the ministry, the objective of the bureau is to implement relevant policies for trade promotion and serve as a platform to promote exchanges and cooperation between enterprises in China and other countries. The bureau

organizes exhibitions in emerging markets and training activities oriented toward exports (WTO, 2018). In addition, it provides information on foreign trade policies and other relevant business information through numerous publications and a WeChat digital platform. Finally, it maintains the “China Trade Promotion” website, which provides general information on foreign markets.

Recognizing the relevance of trade finance in the development of an export-oriented sector (Auboin, 2007; Auboin & Engemann, 2013), China has established entities to provide financing, insurance, and guarantees to exporters, specifically, the China Export & Credit Insurance Corporation (SINOSURE) and the Export-Import Bank of China (EXIM). SINOSURE, created in 2001, is a state insurance company oriented to promote development, foreign trade, and economic cooperation of China (SINOSURE, 2020). While its objective is to promote Chinese exports, it focuses on high-tech, high-added-value capital goods, helping domestic companies establish overseas (WTO, 2018). This institution has experienced significant growth, allowing the financing of strategic projects in the world. Currently, SINOSURE has aligned its operations with China’s BRI. EXIM, on the other hand, is a state bank led by the state council but with the status of an independent entity. It supports foreign trade, investment, and international economic cooperation (EXIM, 2020). EXIM offers export credits for the acquisition of Chinese goods and services to foreign buyers or domestic producers and construction projects and investments abroad by Chinese companies (WTO, 2018). Following President Xi Jinping’s BRI, EXIM provided \$149 billion to more than 1800 projects between 2013 and 2019.

4 Belt and Road Initiative as an Export Promotion Policy

China’s growth and productivity upgrades have demonstrated the need for a strategy that goes beyond traditional export promotion. The BRI aims to respond to China’s new role in the international economic system by bringing the promotion of Chinese investment and the export of its goods and services together under a comprehensive development strategy.

In 2013, President Xi Jinping announced the creation of a new cooperation model as a way of deepening global trade and promoting two trade and development challenges for China and the surrounding region: the Silk Road Economic Belt and the Twenty-First-Century Maritime Silk Road, known as the One Belt, One Road (OBOR) Initiative or the Belt and Road Initiative (BRI). China identified six economic corridors¹ that connect the Silk Road Economic Belt and the Maritime

¹New Eurasian Land Bridge, the China-Mongolia-Russia Economic Corridor (CMREC), the China-Pakistan Economic Corridor (CPEC), the China-Central and Western Asia Economic Corridor, the China-Indochina Peninsula Economic Corridor, the Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC).

Silk Road, and it has established financial institutions, such as the Asian Infrastructure and Investment Bank (AIIB) and the Silk Road Fund (SRF) (Clarke, 2017).

This initiative is projected to promote international exchanges, development, and prosperity (Yunlong, 2020). In 2015, *The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* were published. This document proposed five areas of cooperation: policy dialogue, which intends to create an intergovernmental mechanism for discussions; infrastructure connectivity to link the sub-regions in Asia, Europe, and Africa; unimpeded trade to eliminate trade and investment barriers; financial support to promote the stability of Asian monetary, investment, and credit systems; and people-to-people exchange to build mechanisms for academic and cultural exchanges (Huang, 2016). According to Yunlong (2020), the BRI aims to achieve closer economic ties, greater political trust, deeper cultural exchanges, and friendly understanding between countries. In the context of the exposition of China's policies to the WTO, Xi Jinping declared that BRI "should be a route towards peace, prosperity, openness, innovation, and contact between different civilizations" (WTO, 2018, p. 13).

Among the objectives of BRI is assisting Chinese enterprises in expanding their goods and services into new markets and improving their trade relations with partner economies in Asia, Africa, and Eastern Europe to sustain their export growth (Liu & Dunford, 2016; Xing, 2019). This will compensate for the domestic overinvestment in products like steel or aluminum and promote new high-value-added sectors (Du & Zhang, 2018; Yu, 2017). Mainly recognized as an investment initiative, promoting Chinese products and services abroad is a crucial element of BRI which can be seen in its main characteristics. The primary objective of BRI is the construction of infrastructure which enables trade. Secondly, financial assistance, which, through special loans and concessions from Chinese institutions, is directly involved in exporting Chinese products on a more competitive basis (Chaisse & Matsushita, 2018; Hillman, 2018). Third, the positioning of the Yuan as an accepted international currency and vehicle for international trade (Correa, 2019; Lei, 2020; Mathews, 2019). Finally, the implementation of Chinese technical standards will improve the competitive position of key sectors (transport, railroad, telecommunications, etc.) and companies in the recipient markets (Cai, 2017; Chai & Liu, 2019; Chaisse & Matsushita, 2018). The BRI may change enterprises' export behaviors due to its expected investment and trade connections, particularly in state-owned enterprises, fostering exports to those economies in which these kinds of projects are being implemented (Görg & Mao, 2020).

Although initially based on six corridors, the BRI has adjusted and expanded its coverage. LAC was originally omitted from the BRI, but it was recently included (Myers, 2018; Shixue, 2017). During the Second Ministerial Meeting of the China and the Community of Latin American and Caribbean States (CELAC) Forum 2018 in Chile, China officially invited LAC countries to join the BRI. Wang Yi, China's Minister of Foreign Affairs, stated that the LAC region was considered "a natural extension of the Maritime Silk Road", turning the BRI into a geographically inclusive platform. During this meeting, three documents were adopted: *The Declaration of Santiago*, *The Joint Action Plan of China-LAC Cooperation*

(2019–2021), and *The Special Statement on the Belt and Road Initiative*. Specific measures on priority areas such as trade, politics, security, investment, finance, infrastructure, and others were also established. China had already established the importance of promoting cooperation with Latin America in 2015 when the China-LAC Cooperation Fund was launched. Later, the 2016-Policy Paper established the standards for their relationship, pointing out trade, investment, and financial cooperation as the leading forces (Gélvez & Gachúz, 2020).

Panama was the first country that signed a Belt and Road Cooperation Agreement in 2017, even before the official invitation made in the China-CELAC Forum 2018. Between 2018 and 2019, 18 countries signed the BRI Memorandums of Understanding (MOU). Even though 24 out of 33 CELAC countries maintain diplomatic relations with China, countries such as Argentina, Brazil, The Bahamas, Colombia, and Mexico have not yet signed an MOU, in part due to the influence of the United States (Montoya et al., 2019; Serrano et al., 2020). Nevertheless, both Argentina and Brazil participate in the BRI through the AIIB and BRI forums. While Chile-China diplomatic relations can be traced back to the 1970s, Chile officially signed the BRI MOU in 2018. Chile participated at a presidential level in both the Belt and Road International Cooperation Forums held in Beijing in 2016 and 2019.

According to Li and Zhu (2019), the LAC region could benefit from the BRI's comprehensive cooperative partnership as it will improve trade, promote international cooperation in technology, science, and innovation, and boost LAC connections with Asia, Europe, and Africa. Within the LAC region, the actors that have conducted this initiative are the China-CELAC Forum, AIIB, Chinese state-owned enterprises (SOE), Chinese government agencies in the region, China Development Bank, and the Export-Import Bank of China (Serrano et al., 2020). The CCPIT has organized China-LAC trade exhibitions to promote economic and trade exchanges between both regions and enhance their communication channels. The main topic of the XII Summit, held in Zhuhai of Guangdong Province in 2018, was promoting the BRI and global cooperation (China-LAC Business Summit, 2018). In 2020, the CCPIT sponsored the China-LAC (Mexico) International Trade Digital Expo. This activity was held during the pandemic, focusing on promoting digital trade and its importance to the economic development of China and LAC. The exhibition gathered around 2000 domestic enterprises and 5000 overseas companies, integrating online digital consultation, negotiation opportunities, and matching services. These kinds of initiatives are expected to repeat in the future to help build new platforms and enhance cooperation (CCPIT, 2020; China.org.cn, 2020).

The BRI mainly comprises FDI projects, mostly related to infrastructure, energy, and natural resource exploitation. Although Chinese investment in the region has grown, the share of projects undertaken in Latin America is relatively small (Dussel Peters, 2020). This may be explained by the region's late inclusion in BRI and the influence of the United States within the region. Nevertheless, Chinese projects in Latin America may be found in energy production, electrical transmission, ports, channels, railroads, and oil and gas refineries (Dussel Peters, 2020; Laufer, 2020). Some scientific, regulatory, and other cooperation mechanisms are also being applied. According to Gélvez and Gachúz (2020), between 2000 and 2014, Latin

America represented 10% of the 6190 Chinese cooperation projects, and China has lent \$150 billion to Latin America from 2007 to 2017. It has been estimated that \$170–260 billion will be invested in infrastructure in the next 10 years (GREFI, 2019).

Chinese presence in the region has been growing in the last years, and it can be considered that the expansion of the BRI toward the LAC has prompted previous projects to revitalize and continue. In Peru, Yangtze Power acquired Sempra Energy's power assets in an operation that included a \$4 billion bridge loan with the Bank of China, Industrial Commercial Bank of China, Santander in Hong Kong, and MUFG. The Peruvian government has also expressed interest in constructing the interoceanic railroad with Brazil and Bolivia or investing in mega ports in Chancay and Ilo. Furthermore, funds have been granted to support the Chinese Peruvian community (Gélvez & Gachúz, 2020). Venezuela and China have maintained a longstanding, cooperative relationship, including the La Cabrera thermoelectric plant and the El Vigía power plant projects. Still, their progress is not very clear as they have not reached their full capacity. By 2017, loans from China to Venezuela reached \$50 billion (Gélvez & Gachúz, 2020). China and Ecuador announced the reconstruction of the Manta airport, two bridges in the Manabí province, and the highway between the provinces of Esmeraldas and Imbabura. Another 12 ongoing projects, such as hydroelectric plants and copper mines, will be made part of the BRI (Bermúdez, 2019). The projects between China and Bolivia are mostly roads like *El Sillar*, *Rurrenabaque*, and *El Espino*, through concessional borrowing and loans. There are also some steel plants and lithium extraction in the southern salt flats (Bermúdez, 2019). Chile has signed agreements with China on taxes, information and communication technology (ICT), scientific cooperation, and more (Zhang, 2019). Chinese investors have expressed interest in infrastructure and mining projects, but these are under study for feasibility.

There have been mixed results when analyzing China-LAC projects. Railroad investment in Mexico, the construction of the Nicaragua channel, and infrastructure projects in Venezuela have all been frozen (Leiva, 2020). Furthermore, the COVID-19 pandemic has affected the BRI due to supply chain disruptions and restrictions on the free movement of people and goods, stalling several projects in Latin America. This has accelerated the role of the digital economy within the Chinese industrial development strategy and the BRI, considering that cross-border e-commerce was already relevant in China's economic development before the pandemic (Liu & Walsh, 2019; Song & Yanyan, 2015).

In 2015, China's National Development and Reform Commission, the Ministry of Commerce, and the Ministry of Foreign Affairs issued a declaration on the creation of an Information Silk Road. This meant the construction of bilateral cable networks and the development of satellite passageways (Shen, 2018). In 2016, the 13th Five-Year Plan for National Informatization included a section on an online Silk Road promoting the participation of Chinese internet companies. At the Belt and Road Forum for International Cooperation in 2017, President Xi Jinping asked countries to "pursue innovation-driven development and intensify cooperation in frontier areas such as digital economy, artificial intelligence, nanotechnology, and

quantum computing, and advance the development of big data, cloud computing, and smart cities to turn them into a Digital Silk Road (DSR) of the 21st century” (Jinping, 2017). DSR was extended to Latin America and the Caribbean in the China-CELAC Forum in 2018.

According to Xiangfei (2019), promoting cooperation to build a DSR will help LAC and China achieve their sustainable development objectives and diversify and integrate trade relations. The advancement of cross-border e-commerce will help Latin American high-added-value products enter the Chinese market, and granting access to Chinese ICT companies will allow ICT integration in industrial chains.

Even though the DSR is in its foundational stage in LAC, China has used it to promote its technology and service exports to the region, including companies such as Huawei, Alibaba, Didi, ZTE, and Tencent. The COVID-19 crisis has accelerated the use of digital technologies and e-commerce, hastening the discussion on interoperability standards and access and the need for ICT infrastructure to develop the digital economy in LAC.

5 Final Remarks

China’s export promotion policies are implemented within its industrial development strategy. This has allowed rapid economic expansion since China shifted its economic model to one that embraces its integration into international markets. Among the traditional strategies implemented, SEZs have been identified as one of the most important within China’s productive transformation.

Despite the long-standing success of these policies, as China developed, the need arose for a more comprehensive strategy. China had reached a stage in which its domestic market and current policies were insufficient to advance in global value chains. Therefore, a broad policy that could address the different dimensions was established. The Belt and Road Initiative managed to bring together the expansion of Chinese industry and its export and investment promotion. Initially, the partner countries’ participation in the BRI has been established through MOUs with China. Recently, China incorporated a BRI chapter within its free trade agreement with Cambodia, reinforcing the relevance of the BRI in its development strategy.

While first focused on Africa, Asia, and Europe, it came naturally to expand the BRI to the Latin American region. This was motivated by increasing trade and investment ties and the need to diversify existing partners. Even though China-LAC cooperation has grown in areas such as energy, infrastructure, telecommunications, and natural resources, investment projects within the region have faced some obstacles.

The COVID pandemic has stressed the need for rethinking China-LAC relations. It has disrupted current BRI projects in the region, but on the other hand, it has boosted the development of digital economy-related sectors that have thrived within China’s technological progress. Both China and LAC may benefit from the DSR for a sustainable economic recovery post-pandemic. E-commerce has proved to be more

resilient to the crisis, and the digital economy has enabled different sectors to continue operating despite sanitary restrictions. Moreover, digital technologies have increased market access for SMEs, working as a tool for their development.

Finally, export and investment promotion under DSR can bring China-LAC relations to a new era, as it may help LAC economies diversify from a natural resources-based productive structure. For this purpose, Chinese cooperation to build a necessary digital infrastructure is required, as LAC maintains an access gap, particularly among rural and less-developed areas.

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Part III
Assessing China's Trade Impacts in Pacific
Alliance Countries

The Peru-China FTA



Otto Regalado-Pezúa and María Rosa Morán Macedo

Abstract The Free Trade Agreement (FTA) between Peru and China was signed on April 28, 2009, in Beijing city and entered into force on March 01, 2010. Ten years after its implementation, it is possible to make a diagnosis of its impact on trade between both countries and propose some recommendations for improvement in the trade agreement. In this sense, this chapter has two main objectives: (1) to carry out an analysis and balance of the Peru-China FTA, focusing on the study of the main aspects in which the agreement has impacted during its validity, and (2) to take a look at the future of trade relations between Peru and China in order to optimize their use. To respond to these objectives, secondary sources were used, such as documents from business associations, academic articles, and official reports; as well as, primary sources, interviewing experts on international trade issues from various economic sectors (see Appendix). In the case of secondary sources, official figures referring to trade and investment between the two countries were also reviewed and analyzed, to corroborate and support the analyzed information with statistics.

Keywords Holistic impact · Harnessing · China · Peru · Improvements

1 Context

In 2019, Peruvian exports increased by 2.53% compared to the previous year, comprising only 21.77% of the national gross domestic product (GDP) (Expansión, n.d.). This implies that external sales make up a low percentage of the Peruvian GDP compared to other nations' export-to-GDP ratios, putting Peru in 101st place out of 191 countries in the ranking of exports to GDP (Expansión, n.d.).

There is consensus that one of the main drivers of growth in the Peruvian economy has been the export sector. In 2019, according to the figures from Trade

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Table 1 Peruvian exports (in Billions of USD)

Exported value in 2015	Exported value in 2016	Exported value in 2017	Exported value in 2018	Exported value in 2019
33.25	36.04	44.24	47.2 2	45.14

Source: Trade Map

Map (n.d.) presented in Table 1, Peru exported more than \$45 billion, becoming the most rapidly growing exporter in the Western hemisphere.

In this context, the international trade agreements that Peru has signed become very relevant. To date, the country has 22 trade agreements in effect, with five that will soon take effect and six under negotiation (Mincetur, n.d.-a). Among those already in effect is the FTA with China.

To understand the holistic impact of the Peru-China FTA, it is important to contextualize the Peruvian export sector's commercial openness and the Peruvian government's promotion of competition as state policy, a trend that began at the end of the 1990s (Segura Vasi & García Carpio, 2004). This reference to state policy is not offhand, as this type of treaty falls within the official framework of the National Exportation Strategic Plan, whose goal is developing and diversifying the supply of exportable products in Peru, as stated in the information provided by the Ministry of External Trade and Tourism, Mincetur (2003).

Within this framework of trade openness, Asia, especially China, is seen as a strategic priority for Peru. In 2010, the year the Peru-China FTA came into effect, the Chinese economy grew 10.4%, the fourth-highest rate this century.

Before the negotiation of the FTA, Peruvian exports to China, although unsteady, had increased at an average annual rate of 5.6% from 1990 to 1999, and an average of 15.3% from 2000 to 2009 (Torres Cuzcano, 2010). This led China to become an enticing market for Peru, whose importance rivaled or surpassed the United States, Peru's main trade partner at the time. As for imports, the relative participation of Chinese products trended sharply upward, rising from 2.6% in 1993–1999 to 15% in 2009 (Torres Cuzcano, 2010).

Until 1992, Chinese investment in Peru was inconsequential. That year, Chinese investors began a targeted investment plan in the metal mining and oil drilling sectors in Peru. The second and more important wave of Chinese investment began in 2005, the main protagonists being transnational Chinese mining companies.

When the FTA came into effect in 2010, it was framed within the context of the international post-crisis. Even so, in the 11 years since it came into effect, Peruvian trade with China has experienced exponential growth (see Fig. 1).

China went from second to first place in terms of the destination for Peruvian exports in 2011, displacing the United States. Its share of exports continued to grow from 15 to 21.7% between 2011 and 2017 (ComexPerú, 2020). Without a doubt, the FTA signed by China and Peru was fundamental in fomenting this growth. To truly comprehend these events, it is important to understand first how the FTA negotiations were conducted before the agreement itself was signed.

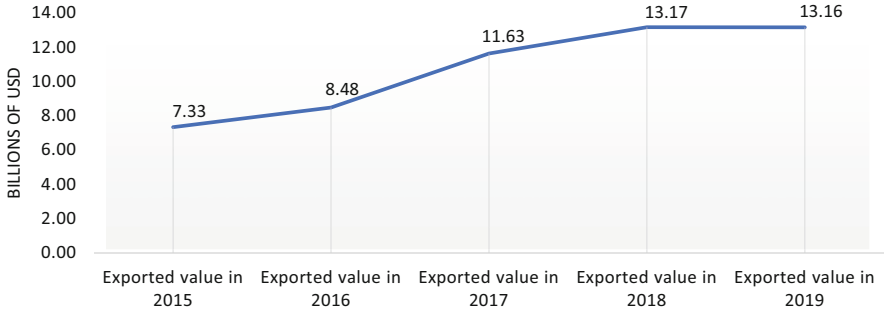


Fig. 1 Exportations from Peru to China from 2015 to 2019. Source: Trade Map

2 The Beginning

The process of Peru signing this trade agreement began in February 2007 when the two countries agreed to conduct a joint feasibility study (Mincetur, n.d.-c), which concluded on December 06, 2009, when Peru ratified the FTA.

The study analyzed the potential impact of the FTA with China. It concluded that it would be necessary to put in place special clauses regarding sensitive products for Peru like textiles, clothing, footwear, and metallurgical products. The study left no doubt, however, that the Peru-China FTA would be beneficial for both countries.

Before the FTA negotiations began, China demanded that Peru recognize it as “a market economy,” a requirement that the Chinese government usually makes of countries seeking to sign an FTA. This implies that Peru agrees not to take measures against Chinese imports that might have been subsidized or dumped. This change in the methodology could become very onerous to Peruvian manufacturers. Also, it implies that Peru agrees not to apply quotas on the importation of textiles and clothing. All of this worried Peruvian textile executives.

These concessions on the part of the Peruvian state were necessary to reach an agreement on the FTA. Not all the concessions in the FTA were made by Peru, as Peru also benefited from measures implemented after the negotiations that facilitated the signing of the treaty.

3 The Free Trade Agreement

According to Julio Chan, ex-Director of Multilateral Affairs of the General Directorate of Mincetur’s International Trade Negotiations, the FTA between Peru and China can be characterized as having had a long gestation and short negotiation (Chan, 2019).

The FTA was the result of six rounds of negotiation, finding common ground through 15 workgroups [(1) Market Access, (2) Rules of Origin, (3) Customs

Proceedings and Trade Facilitation, (4) Trade Defense, (5) Sanitary and Phytosanitary Measures, (6) Technical Obstacles to Trade, (7) Services Trade, (8) Temporary Entrance of Businesspeople, (9) Investment, (10) Intellectual Property Rights, (11) Cooperation, (12) Transparency, (13) Treaty Administration, (14) Solution of Controversies, (15) Exceptions], the hardest one being the tariff negotiations (Chan, 2019). The main matters to resolve included the fact that Peru sought to exclude a list of sensitive items, and China demanded that the list does not consist of more than a certain percentage of Chinese imports and that certain products be removed from the list of sensitive products, including textiles, clothing, and footwear.

In response to these demands, Peru had to accept a reduction in the percentage of imports to be exempted from the tariff liberalization policy, from 13.89 to 10%. It was still able to include 592 sensitive products in the exemption, including a large percentage of textiles, clothing items, shoes, and some metallurgical products (Chan, 2019).

After all was said and done, Peru achieved an immediate tariff reduction for 83.52% of its exports to China, although 1.02% were excluded from this process. On the other hand, merchandise produced in the customs-free zones could benefit from the FTA. That is to say, Chinese products that enjoy tax benefits, a practice that has drawn criticism from the World Trade Organization, the WTO, could be sold in Peru.

As of January 01, 2019, the date of the tenth tax reduction, 93.6% of Chinese tariff lines have been eliminated for Peruvian products. Additionally, China gave a total and immediate tariff reduction to 94.5% of Peruvian products. There remain 5.4% of tariff lines that China will not reduce, however.

In summary, many Peruvian agricultural, fishing, and industrial products can now enter the Chinese market with preferential and competitive conditions compared to other countries that also have an FTA with China. The treaty also allows Peruvian consumers to purchase cheaper supplies, which increases the efficiency of local industry. This should facilitate the integration of its productions into productive chains (Chan, 2019).

Among the most striking features of the FTA is that it grants Peru the indefinite possibility of applying a drawback, which is a system of price tiers and temporary import and export regimes that facilitates trade through customs procedures that simplify the paperwork for the temporary admission of merchandise, and that China will not be able to maintain, introduce, or reintroduce subsidies for exports.

The agreement allows both parties to use trade defense measures such as anti-dumping safeguards. These are to be applied only within the general framework established by the WTO, which has been argued that could negatively affect Peru's actual ability to apply trade defense measures (Torres Cuzcano, 2010). This is in spite of the fact that China has insisted that, to negotiate the FTA, Peru should expressly renounce its right to apply the provisions of the WTO's Articles 15 and 16 of the Chinese Accession Protocol and Article 242 of the Work Group Report on the admission of China to the WTO (Torres Cuzcano, 2010).

One topic to keep in mind is that, in contrast with other FTAs signed by China, this agreement does include the service sector. In this way, it resembles the Chile-China agreement, and has a different focus than that used by Peru in other FTAs. This inclusion of the service sector implies that each country registers only the services it seeks to liberalize while other sectors remain protected (Torres Cuzcano, 2010).

As for investments, almost all of them have been covered by the Agreements for the Promotion and Reciprocal Protection of Investment (APPRI) signed by both countries in 1994, which reciprocally protects investments. However, China introduced a broad definition of investors, including companies from countries other than China, as long as they are controlled by Chinese investors. This policy is not reciprocal for Peruvian companies. The broad definition of investors seeks to protect companies controlled by Chinese capital that invest in Peru but are technically based in tax havens in other countries.

Any complaint that a Chinese investor makes against the Peruvian state before international tribunals would mean—in practice—a lawsuit filed by the Chinese state against Peru, as the majority of Chinese companies that directly invest in other parts of the world are run by the state (Torres Cuzcano, 2010).

Finally, it is important to mention that the FTA with China counts as mutual administrative assistance in customs matters (CMAA) regarding the exchange and validation of information. In this way, the cooperation necessary for the investigation of alleged customs offenses can be achieved.

Notwithstanding the aforementioned, an analysis is urgently needed, however, to determine whether or not the FTA has been beneficial and in what ways each country has benefited. This is the focus of the next section.

4 Harnessing the FTA

During the years since the FTA was signed, the value of Peruvian exports to China has grown by an annual average of 11.6% (Mincetur, n.d.-b), and Peru has become one of the main recipients of Chinese investment in Latin America (ComexPerú, 2019). Without any doubt, an important tool in obtaining these results has been the FTA, which in March 2021 turned 11 years old.

Secondary sources and the pre and post-FTA exports and imports by both countries were analyzed, and seven experts in international trade, all from different sectors, were interviewed at length.

In general, they highlighted the wide-ranging benefits of the FTA between Peru and China, not only due to the increase in trade, but also the increase in investments and cultural exchange. Juan Luis Kuyeng and Diana Pita, Peruvian economic trade counselors in Taipei and Beijing, respectively, indicated that Peru is home to the largest Chinese immigrant community in Latin America. The FTA has allowed a new range of business opportunities for both countries.

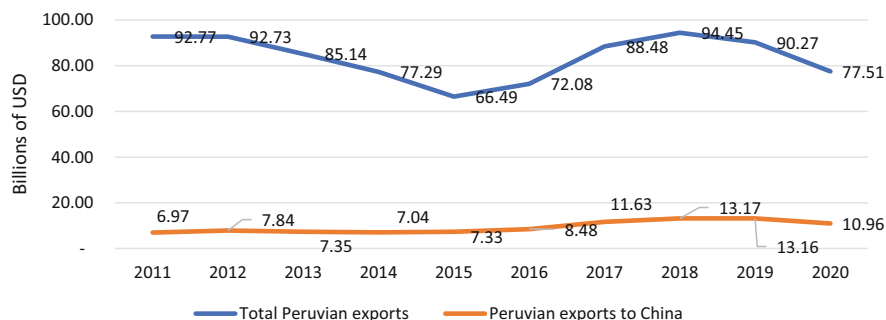


Fig. 2 The evolution of total exports and exports to China from 2011 to 2020. Source: Trade Map

For Gerardo Meza, the Director of Mincetur, the change brought about by the FTA is not only reflected in the statistics but also in the increased closeness between Peru and China. It is common now for small, medium, and microenterprises to look for trade opportunities with China, be they opportunities for exportation or importation. Despite distance, language, and cultural differences, businesspeople and the public are increasingly aware of innumerable opportunities with China.

In the 11 years following the signing of the FTA, Peruvian exports to China have enjoyed steady growth, in addition to becoming more relevant in terms of Peru's total exports. In 2010, Peruvian exports to China made up barely 15% of Peruvian exports. In 2019, this number had increased to 30%. China has become Peru's most important trade partner, as it receives almost a third of Peruvian exports. Figure 2 compares Peruvian exports to China and total Peruvian exports over time.

It is also important to note that the FTA has been a major tool in establishing the steadiness of this growth since exports to China have grown by an average of 11% over a period of 11 years. Even deficits in the international market between 2013 and 2015 did not affect trade relations with China very much, as shown in Fig. 2.

Although most of the interviewed experts attributed the growth in trade to Peru and China taking advantage of the FTA, it should be emphasized that these 11 years of increase in trade coincides with a period in which China has experienced significant overall growth in its imports in general, which cannot all be attributed to Peru.

Peru was not the only country that benefited from the FTA, as China also obtained an advantage from having Peru as a trading partner. As shown in Fig. 3, market fluctuations for both imports and exports are more or less the same. In other words, just as Peruvian exports to China grew, Chinese exports to Peru also experienced significant growth, averaging around 8% annually, totaling 24% of all Peruvian imports.

Rubén Tang, a consultant from the Pontificia Universidad Católica del Peru, says that the signing of an FTA is quite complex and involves much more than just the economy. He explains that this tool has not only allowed for an increase in exports to China but has also meant a step toward market diversification, as every time tariff

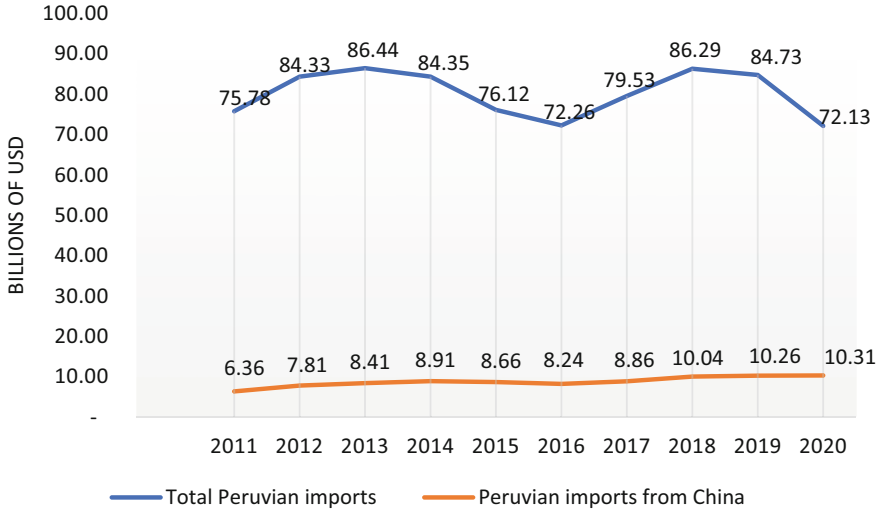


Fig. 3 The evolution of total imports and imports from China between 2011 and 2020. Source: Trade Map

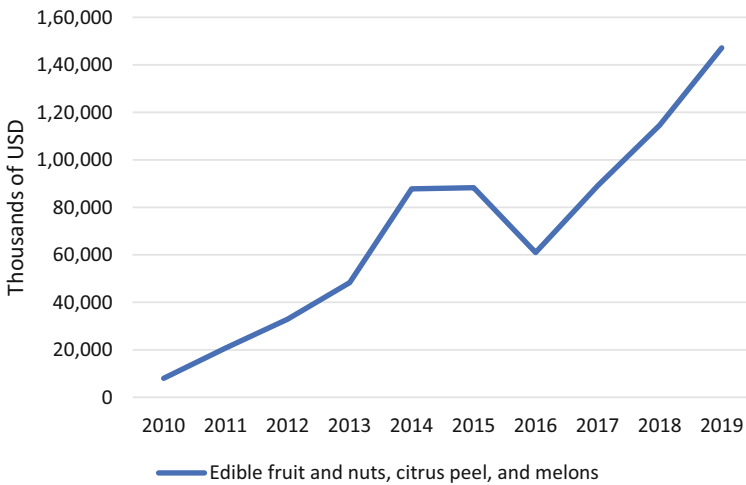


Fig. 4 Fruits and nuts exported to China. Source: Trade Map

barriers are eliminated, agro-industrial producers find new demand for their products in China.

One example was cited by Kuyeng and Pita: the FTA has allowed for non-traditional Peruvian products, like fresh avocados, blueberries, mangos, grapes, and other fruits, to be marketed to Chinese consumers, creating a growing demand in the fresh fruit category of exports to China (see Fig. 4).

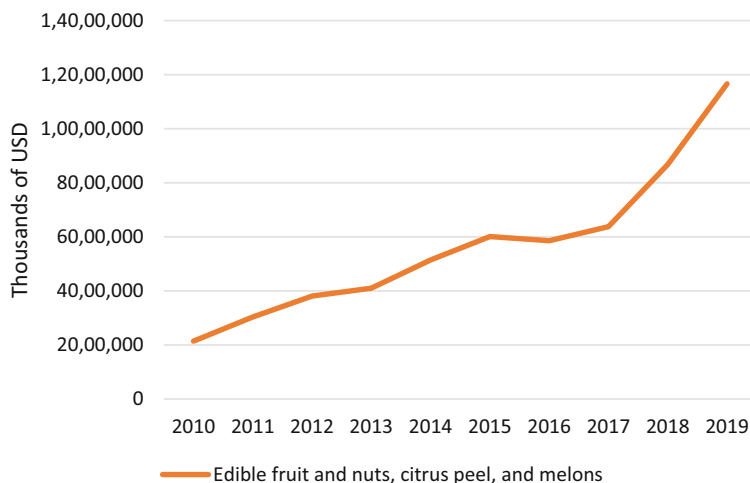


Fig. 5 Fruits and nuts imported by China from other parts of the world. Source: Trade Map

From the moment the FTA was signed, there has been constant trade, and total Chinese imports of fresh fruit have increased by an average of 13% (See Fig. 5).

Counselors Kuyeng and Pita have stated that how many companies can take advantage of tariff benefits also depends on factors like Chinese phytosanitary protocols. In recent years, Peruvian avocados, blueberries, shrimp, and quinoa have been approved to enter China. Even so, the phytosanitary protocols for frozen fruit, other fresh fruits and vegetables, nuts, grains, and meats, which are products in high demand by international buyers, have not yet been agreed upon. The state uses phytosanitary protocols to protect the health and wellbeing of its people, plants, and animals. For agricultural products and fish, these measures are set in place to prove that they are fit for human consumption (Heller Legard et al., 2018).

Peru's climate diversity allows it to produce a diverse variety of food products all year long, so Peru can position itself as a reliable producer of safe, healthy, high-quality food for China. However, for this to occur, a greater number of Peruvian food products must obtain sanitary authorization.

The trade agreement also deals with sensitive sectors like textiles and footwear. Of the 972 tariff lines related to the textile and clothing industry that Peru mentioned in negotiations, close to 45% were not excluded from the FTA. This was 37% of the value of the textiles and clothes that Peru imported from China in 2007. When the FTA came into effect, 7.4% of these items (7.6% of imports) immediately became tariff-free; 30.4% of these items (13.4% of imports) experienced a gradual lifting of tariffs over the course of 5–10 years; and 6.9% of the rest (15.8% of imports) are having applicable tariffs lifted over a period of 16 years (Torres Cuzcano, 2010).

The shoe industry was also deemed sensitive, and if the 23 sub-items that make up this industry are taken together, Chinese shoe imports to Peru increased from \$7.5 million in 2000 to \$90.3 million in 2008. That was a 1107% increase, growing by a little more than 65% in 2008 alone (Torres Cuzcano, 2010).

The key question is if the growth in Peruvian exports to China was due to the FTA or just the constant growth of Chinese imports from various parts of the world, making Peru simply one of many countries that have benefited. In most of the subcategories in the all-important fresh fruit category, Peruvian fruit does not account for more than 5% of total Chinese fresh fruit imports.

Carlos Aquino, the coordinator of the San Marcos Asian Study Center, thinks the FTA reduced or eliminated tariffs on agro-industrial exports for which Peru was already competitive, but not much is currently being sold to China due to the lack of exportable supply.

Additionally, Aquino calls into question whether the FTA created enough of an incentive to stimulate the sustainable development of trade between the two countries, as well as the bidirectional benefit for internal production.

Despite this, there is consensus that signing the FTA reduced the drain on Peru-China trade generated by the agreements China had signed with other countries that compete with Peru since eliminating tariffs allowed Peruvian products to enter the Chinese market more competitively (Peñaranda Castañeda, 2018). It has also stimulated foreign investment in Peru. Even if this is not necessarily reflected in the exportation of goods, new investment opportunities have opened up. Aquino also believes the FTA has promoted Chinese investment in Peru.

As Kuyeng and Pita point out, China is the number one investor in Peru, and Peru is the second-greatest recipient of Chinese investment in South America, after Brazil. Indeed, approximately 150 Chinese businesses in diverse sectors have been established in Peru, most notably in the mining and finance industries. Another important topic to keep in mind is that, after the FTA came into effect, it encouraged a number of mostly small and medium-sized companies to start exporting, as well as the innovation of new products to export. Just 7 years after the FTA went into effect, 1083 new export companies had been founded in Peru (Peñaranda Castañeda, 2018).

Figure 6 shows that exports of goods from Peru to China were already growing steadily before the Peru-China FTA, although from 2010 on that growth intensified considerably. It can be concluded that the FTA, more than a *cause* of current exports, could have been the inevitable *consequence* of an existing trade relationship that had been experiencing continuous growth in both directions.

These figures coincide with what Jorge Chian, the Director of the Peruvian-Chinese Chamber (Capechi), indicated. Despite the deceleration of the world economy, exports from Peru to China have been growing by 13% annually, and imports of Chinese goods have increased by 12% annually.

Rubén Tang affirmed that the FTA has generated an increase in Chinese investment in Peru. In other words, Chinese investors have identified Peru as an attractive market and a trade ally in which Chinese firms can develop entrepreneurial ventures. Tang clarifies that, despite the bidirectional, mutual benefit resulting from the FTA, China has benefited more. In agreement with other experts, like Aquino, Pita, Kuyeng, and Jorge Urbina, the ex-director of ADEX, he claimed that the main Peruvian exports have been traditional products like copper, iron, and even fishmeal, that is to say, primary products, while Chinese exports to Peru are processed, value added products, mostly technology.

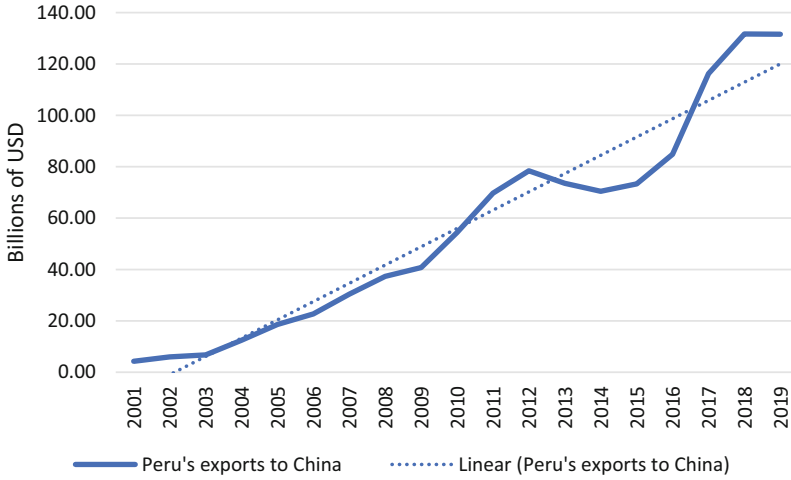


Fig. 6 Exports of Peruvian goods to China between 2001 and 2019. Source: Trade Map

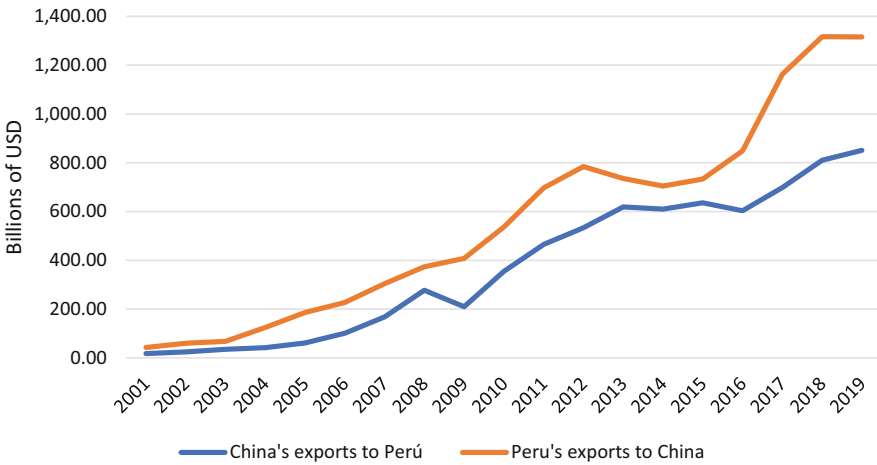


Fig. 7 Comparison of mutual exportations between Peru and China between 2001 and 2009. Source: Trade Map

Figure 7 presents the main Peruvian products that are exported to China. Copper and copper concentrates are the most notable exports. The five most important products after copper, powdered meat, meat meal, and offal; fish meal, crustacean meal, and mollusk meal; and other related products; refined copper and copper alloys; zinc and zinc concentrate; and precious metals and precious metal concentrates during the FTA can be observed in Figs. 8 and 9.

The analysis of the trade that has taken place between China and Peru confirms that Peru exports more products to China, as it has since even before the signing of

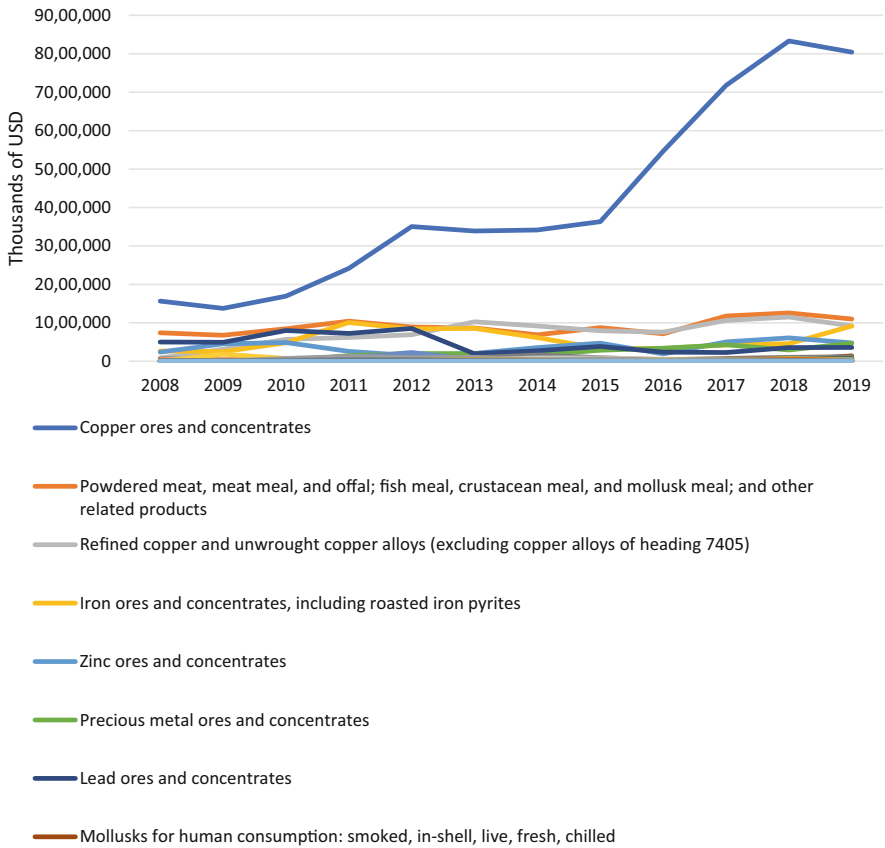


Fig. 8 The 20 main Peru-China exports. Source: Trade Map

the FTA. Peru has not focused much on the export of nontraditional products, however. The benefit China has drawn can be seen in its broad development of a foundation for world transformation and trade using primary materials imported from Peru.

For example, among the primary exports from Peru to China is copper, while the main Chinese export products to Peru are technological. It can be intuited that Chinese companies are using Peruvian copper to build electronics that are later sold to other countries with great added value (Mincetur, 2017).

To summarize, the Chinese economy is leading global growth and has been Peru’s main trading partner since 2011, just 1 year after the FTA came into effect. Therefore, the FTA between Peru and China has played a major role in developing trade relations between the two countries. Even so, there is still room for improvement, and the following section will review the FTA.

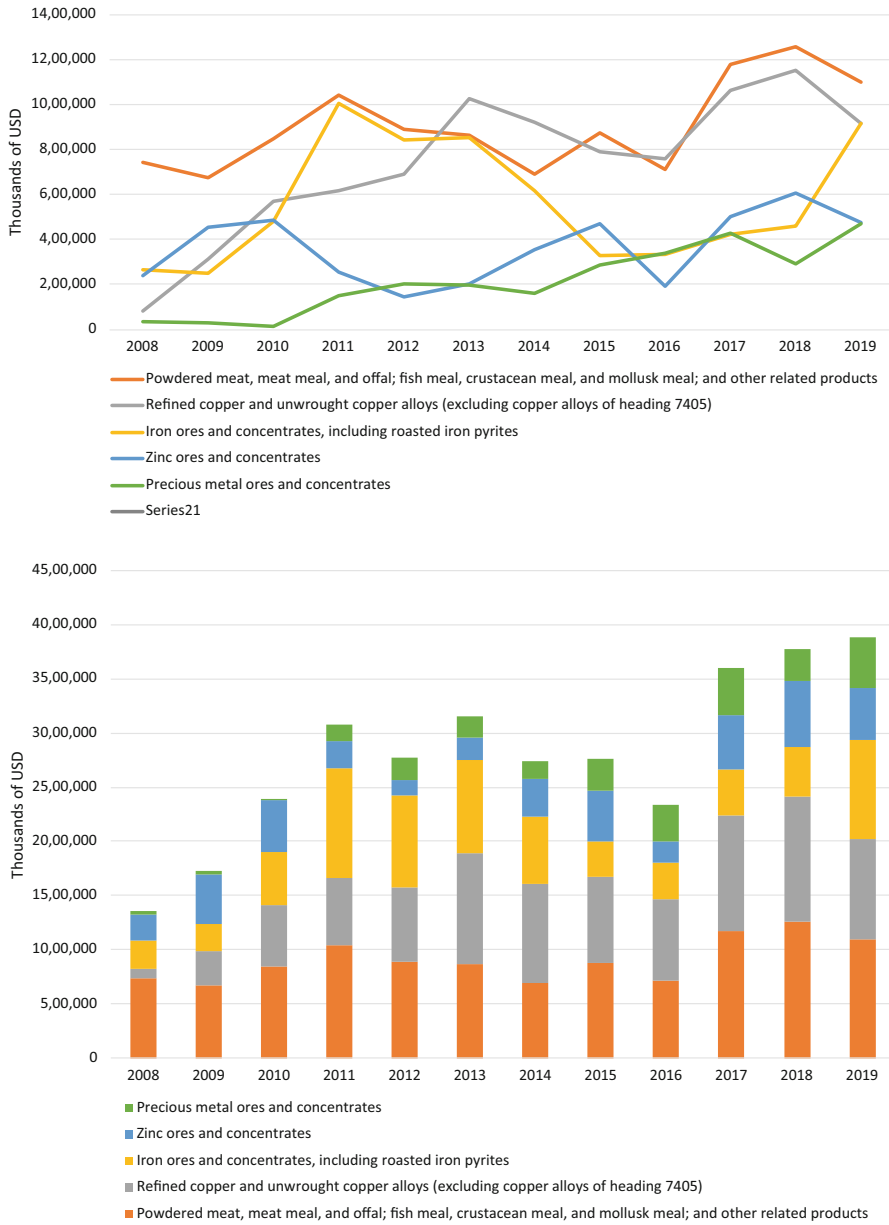


Fig. 9 The five main Peru-China exports, excluding copper. Source: Trade Map

5 Looking to the Future

So far, the FTA has benefited Peru due to the relationship it has facilitated with China. During the 11 years since the FTA came into effect, exports to China have grown by an average of 11.6%. Additionally, Peru has become one of the biggest receivers of Chinese investment in Latin America. It is also important to mention that these balances are due in great part to the exportation of Peruvian precious metals and fishmeal.

There have not been enormous trade benefits for multiple reasons. The first one is that in all other sectors, the trade balance has not been so rosy. Current bilateral trade reproduces the traditional economic link between a primary export economy and an industrialized economy.

According to the experts interviewed, these economic results cannot be directly attributed to the Peru-China FTA, especially since the 11 years of the FTA also correspond to a period of growth in global trade, during which China has experienced significant generalized growth in its imports. The overall Chinese context has also had an important influence on the success of the Peru-China trade relationship.

The agreement has allowed many Peruvian agricultural, fishing, and industrial products to enter the Chinese market under preferential conditions that make Peru competitive with other countries that possess an FTA with China. The Peru-China FTA has also allowed access to cheaper inputs that have improved Peruvian industrial efficiency.

Even so, Peru has not achieved real integration of its productive chains, even when there have been efforts to optimize the global supply chain. As Jorge Chian says, future efforts should focus on incentivizing companies to adopt this type of supply chain system and optimizing imports and exports to ensure a safe and stable flow of supplies.

One of the achievements of the FTA has been the advancement of the phytosanitary approvals for Peruvian products in China, even though there is still room for improvement. Various experts, including Kuyeng and Pita, say it is necessary to focus not only on exploring new products that could be traded on the Chinese market, but also on transportation and refrigeration mechanisms and procedures. More complex logistics and procedures that allow the global value chain to be duly standardized and regulated must be managed.

Despite the optimistic view of some of the experts interviewed, like Kuyeng, Pita, and Tang, optimism is not the majority position. The common view is that Peru is still not exploiting all of the potential benefits of the FTA due to Peruvian companies' deficiencies in terms of infrastructure. Among those who hold this view are Aquino, Chian, Meza, and Urbina.

While China engages in a great deal of e-commerce, Peruvian companies are still adapting to this type of business. Meza emphasizes that it is necessary, after 11 years, to include new sections on e-commerce in the FTA, especially to benefit small and medium-sized enterprises. Another critical issue is the phytosanitary approval to

ensure market access, and the strengthening of protective measures when faced with a sharp increase in certain Chinese imports.

As with any trade agreement, what the experts do agree on is that there is room for improvement and that both countries are working on optimizing the FTA. Most experts agree with the decision to begin negotiations to optimize the agreement, starting with rounds of negotiations on the chapters on Customs Procedures and Trade Facilitation, Rules of Origin, Intellectual Property, Investment, Competition Policies, Services Commerce, and E-commerce. Thanks to pressure from Peru, conversations were included for the first time on the global supply chain to promote an environment favorable for the development of logistics corridors and connectivity between different modes of transportation. Additionally, as Chian says, improvements to the Customs Agreement regarding consultations and verification of prices to minimize poor practices, like undervaluation and contraband, are important.

Finally, good management and the experience gained in recent years will also promote other Peru-China investment projects, like the BRI, which Peru joined in 2019 (Regalado-Pezúa & Toro, 2020). The Latin America and Caribbean region in general can benefit from different infrastructure projects such as the Bi-Oceanic Corridor that will connect the Peruvian Pacific coast with the Brazilian Atlantic coast and allow the region to experience economic growth.

6 Conclusions

Trade relations with China set a favorable precedent since before the FTA. However, once the FTA was signed, both Peru and China discovered a window of opportunities for trade that benefited both countries. In particular, the role that the FTA played to sustain trade stability and the consistency of the FTA allowed for sustained growth in exports and imports on both sides, which was not affected during periods of temporary instability of external trade.

The establishment of the agreement freed participants from tariffs, incentivized the growth of private investment, and allowed an international supply chain system to develop, which already existed before the treaty, but which intensified during the 11 years after the signing of the FTA. In this way, the FTA can be credited with a leverage effect that allowed international trade to develop. The achievement of a marginal acceleration of the transactions between the two countries, which was seen not only in those industries that were exporting before 2009 but also in market development and the inclusion of new entrepreneurial sectors that are now established exporters due to the FTA.

These 11 years have been fruitful for both countries and can be seen as the first step to opening business and growth opportunities. However, there is still room for improvement. The economic link with China presents Peru with both opportunities and challenges in the long term. The challenge consists of achieving an equitable relationship between the two countries that goes beyond the old model of a primary-export economy and an industrialized economy, and also beyond Chinese demands

for loyalty in terms of bilateral trade and in terms of the social and environmental responsibility of its investments.

When looking toward the future, 11 years after implementing the FTA, some parts need review. Both sides view this as opportune, as in November 2016, during a visit by President Xi Jinping to Peru, the Ministers of External Trade of both countries agreed to begin an update to the agreement that would implement certain provisions, for example regarding customs and e-commerce, to allow for better commercial integration and the development of investment projects like the OBOR Initiative.

The FTA has broadly favored bilateral trade in goods, but the same bilateral reality has not occurred in other relevant sectors like investment. In effect, the objective of a treaty of this type is, in addition to removing barriers to bilateral trade, the stimulation of mutually beneficial investments through various protective, fiscally beneficial mechanisms.

Of course, the promotion and protection of investments make up an entire chapter of the Peru-China FTA in the form of a Bilateral Investment Treaty (BIT) embedded within the FTA. This is because an FTA is much broader and more comprehensive than a BIT, but in terms of investment, they have the same goals.

It would also be desirable to include the concerns voiced by Peru in a chapter specifically on environmental protection. The importance of this matter for Peru, the 17th most biodiverse country in the world, cannot be overlooked. Following the new trend of incorporating measures to protect the environment and indigenous communities into international treaties would address the international community's concerns about sustainable development.

What could impede the inclusion of this type of chapter is the fact that it could stunt investments. This is because clauses are generally included that impede environmental protection in favor of promoting investments. It could be said that, if the emphasis of the negotiations is on investment, the environmental clauses should be held in check so as not to deter investment. This line of thinking is fallacious, however, as it is possible for both types of norms to coexist.

As a result, it is possible to state that the benefits reaped and the advancements made in the relationship between Peru and China have been significant and, without a shadow of a doubt, positive. Nevertheless, there is still a long way to go, with possible improvements being analyzed by both countries over the past 5 years. In the upcoming revision of the FTA they should seek to weigh the achievements and the drawbacks so that the modifications do not harm the sectors that have benefited due to the FTA.

Appendix: List of Experts Interviewed

Name	Position	Institution
Carlos Aquino	Coordinator (2018–Present)	San Marcos Asian Studies Center (CEAS)
Jorge Chian	Director (2018–Present)	Peruvian Chinese Chamber—Capechi
Juan Luis Kuyeng	Counselor (2017–Present)	Commercial Office of Peru Abroad—OCEX Taipei
Gerardo Meza	Advisor I (2020–Present)	Vice-ministerial Office of External Trade and the Ministry of External Trade and Tourism—Mincetur
Diana Pita	Counsellor (2012–Present)	Commercial Office of Peru Abroad—OCEX Beijing
Rubén Tang	Advisor (2019–Present)	Research Vice rectorate—Universidad Católica del Perú—PUCP—Asia Relations Project
Jorge Urbina	Ex-Manager of Central Exportations and Ex-General Manager (2015–2019)	Exporters Association—ADEX

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Costa Rica-China Free Trade Agreement: Analysis of the Results from the First 10 Years of the Agreement



Hugo Fonseca, Roy Mora, and Rosmery Hernández

Abstract The Republic of Costa Rica and the People's Republic of China resumed diplomatic relations in 2007. These relations, beyond the possible commercial benefits, are of strong political interest from China in order to have a presence in the Latin American region, and in this case, particularly in Central America and the Caribbean. However, one of the most tangible expressions of cooperation between the two countries has been the commercial dimension.

Although Costa Rica and China have had trade relations since the early 1990s, it is since the incorporation of China to the World Trade Organization (WTO) in 2001, when trade exchanges experienced constant growth, with a consolidation in 2008, when the negotiations for a free trade agreement and investment protection agreement between the two countries were launched. The FTA entered into force on August 1st, 2011, while the bilateral Investment Promotion and Protection agreement was approved by Costa Rica in March 2016. This gradual approach has led China to become the second trade partner of Costa Rica after the United States.

Therefore, this chapter seeks to evaluate the business impacts that the FTA signed with China have represented for the Costa Rican economy, as well as to reflect on the commercial opportunities that Costa Rica can promote with the existence of this commercial instrument. This will be achieved by a quantitative analysis which will allow characterizing and evaluating the trade relations between the two economies.

Keywords Free trade agreement · Costa Rica · China · Trade impacts

1 Introduction

Costa Rica is a country that promotes a trade policy of opening and diversifying markets. Despite being a very small economy it has been very active in trade negotiations, both within the framework of the multilateral trading system and the

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regional trade agreements (RTAs). It has been a contracting party in the General Agreement on Tariffs and Trade (GATT) since May 22, 1991, and was a founding member of the World Trade Organization (WTO). It has 15 additional RTAs in effect, and two in process (COMEX, 2020b).

These RTAs include the Costa Rica-China Free Trade Agreement, which came into effect after these countries re-established their diplomatic relations in 2007. China is the second largest trading partner for Costa Rica (COMEX, 2020a), which came about due to China's entry into the World Trade Organization in 2001, and the Costa Rica-China FTA coming into effect in 2011.

Trade with China has been growing, mainly in the last decade as a consequence of the better conditions offered by the FTA, which has resulted in the diversification of exchanged goods and services. Foreign Direct Investment (FDI), however, has not been so constant, and an irregular dynamic is observed (COMEX, 2020a).

This chapter aims to assess the impact on trade flows that the FTA between Costa Rica and China has had in terms of trade in goods and FDI, as well as to reflect on the trade opportunities that Costa Rica could engage in with this commercial instrument. Therefore, the behavior of some variables before and after the FTA took effect is analyzed.

For this quantitative study, a review of official secondary sources, scientific articles, and specialized databases of national and international organizations was carried out.

The study uses the referential model of analysis to explore trade (Álvarez, 2012). For this, the year 1994 is taken as the baseline, to establish the parameters of the change in trade and other variables that were impacted by the signing of the FTA. The analysis ends in 2019.

The study begins with a brief contextualization of the diplomatic and commercial relations between the two countries before the FTA, and subsequently analyzes the first 10 years of operation of this instrument.

2 Costa Rica: China Relations

The decision to establish diplomatic relations between Costa Rica and the People's Republic of China in 2007 was made by the administration of Mr. Oscar Arias Sánchez. This can be described as a pragmatic bet since it recognized China's growing position and importance in the world.

This approach turned out to be of mutual benefit for both countries, although their main motivations were different. It was more of a political strategy for China, while Costa Rica envisioned a commercial and cooperative opportunity.

To consider the Chinese interest in mere commercial terms would be simplistic since Costa Rica is not an important supplier for that country, and it is not a relevant market for its exports. The reestablishment of diplomatic relations allowed China to have a greater presence in the Latin American region, however. Costa Rica was the first Central American country with which China re-established relations, which was

a change of course in the diplomatic and economic program the region had been promoting (Arias, 2009).

According to Bo, the strategic alliance between China and Costa Rica wants to show a more global vision within the framework of China's relationship with the countries of America. China's goals and principles are based on the concept of a harmonious world with lasting peace and common prosperity. China's projections about the relationship between China and Latin America must be understood with content at the highest level and a depth and breadth of cooperation (Bo, 2009).

China also sought to strengthen cultural diplomacy, improving the understanding and positioning of the ancient Chinese culture in the region, which is part of China's vision for Latin America. This approach is established in the so-called *White Paper*, which sets out elements that China considers central to international relations, such as peace, development, a peaceful rise as a power, the existence of a multipolar world, harmony as the space for cooperation, trust, and mutual benefits, and the consideration that China, just like Latin America, is a developing country. According to this vision, both regions have similar levels of development, which can deepen cooperation (Urcuyo, 2009). The White Paper establishes that in order to initiate and maintain these relations, the principle of One-China must be recognized, a fact that Costa Rica accepted when breaking diplomatic relations with Taiwan in 2007.

For Costa Rica to decide to initiate diplomatic relations with China, in addition to considering the high rates of economic growth of that country, it had to contemplate its growing presence in various international forums and organizations (Arias, 2009). But to promote this change in its organization and foreign policy, Costa Rica also evaluated some strategic elements, such as the commercial opportunities that a country with consistent growth in exports since 2000 represented. Likewise, from the beginning of the negotiations, cooperation was raised as central to the bilateral relationship (Burgués, 2009).

According to Rodrigo Arias (2009), Minister of the Presidency during the Arias Sánchez administration, the crux of this decision was not to recognize the principle of One-China, but instead to reach political agreements and technical and financial assistance, as two sovereign nations that mutually recognize their strengths and weaknesses. Arias, from a very pragmatic position, said that recognizing this principle was only a natural consequence of Costa Rica's realignment with international reality. More than 160 countries recognized the existence of only one China. Among his reasons, he said the first and most evident was that the People's Republic of China is one of the three main economic powers in the world.

He complements this by mentioning that it is the largest market to which any entrepreneur would aspire. He also points out that, since the early 1980s, its annual growth rate is around 10%. Besides, the rates of both attraction and export of investment are counted in billions of dollars (Arias, 2009, p. 25).

Another aspect that the Arias Sánchez Administration considered was the incorporation of China into the multilateral trading system in 2001, which meant there was a possibility of improving bilateral trade relations. This came when Costa Rican

exports to China had increased sixfold since the Chinese incorporation (Arias, 2009).

Between 2007 and 2011, the economic relations between Costa Rica and China focused on negotiating agreements. Firstly, these countries signed the Agreement for the Promotion and Protection of Investments in October 2007, though Costa Rica only ratified it through Executive Decree No. 39857 until July of 2016 (COMEX, n. d.). The agreement seeks to promote and protect investments made by Costa Rican or Chinese investors in the other territory, establishing a framework of obligations for both countries.

Second, a joint study was developed to determine the feasibility of negotiating an FTA, starting in 2008. It concluded that there were important complementarities between both economies and that the signing of a bilateral agreement would have strategic connotations for each party:

In the case of China, it helps to strengthen economic and commercial relations with Latin America, especially with Central America. In the case of Costa Rica, it is an important step to strengthen ties with China. For both countries, it is expected to cause a win-win effect, in terms of trade exchange, economic cooperation and mutual investment (COMEX, 2008, p.195).

The study also indicates that the establishment of the FTA could improve the business climate and offer new business and investment opportunities, stimulating economic and commercial relations, as there would be clear rules that would provide greater security.

This FTA negotiation process was carried out in six rounds that ended with the signing of the final text in April 2010. For Costa Rica, it took effect on August 1st, 2011, through Law No. 8953 (COMEX, 2017).

The reestablishment of diplomatic relations between Costa Rica and China was a relevant event for Costa Rica. It regularized cooperation ties with one of the most important powers in the international system while providing access to an important market. For China it was relevant in that it gave them a greater presence in Central America and the Caribbean, since later, countries such as Panama and El Salvador resumed diplomatic relations with China (Solis, 2021).

The following sections deal with the main aspects of cooperative relations in development aid, trade, and investment between the two countries.

3 International Cooperation for the Development of China in Costa Rica

International development through cooperative relations is a central aspect of Costa Rica's interests. Since diplomatic relations were resumed, this issue was considered strategic, not just a trade issue.

Table 1 Donation of the Republic of China in Costa Rica (US\$ millions)

Project	Year	US\$
National Stadium of Costa Rica	2011	111
China town	2012	1
Policy National School	2017	16.5
National Stadium of Costa Rica (remodeling)	2020	10
Medical material for combat the COVID-19 pandemic	2020	3
Specific protein for COVID-19 investigations for University of Costa Rica	2020	0.134
	TOTAL	141.63

Source: Elaborated by the author with data and information from Presidency of the Republic of Costa Rica (2020), General Comptroller of the Republic of Costa Rica (2020), Embassy of Costa Rica in China (2020), Chinese Embassy in Costa Rica (2020), University of Costa Rica (2020), Ministry of Foreign Affairs of Costa Rica (2020)

It is relevant to consider that international cooperation offered by China to Costa Rica for the purpose of development amounts to more than \$141 million, for an annual average of \$15 million between 2010 and 2020.

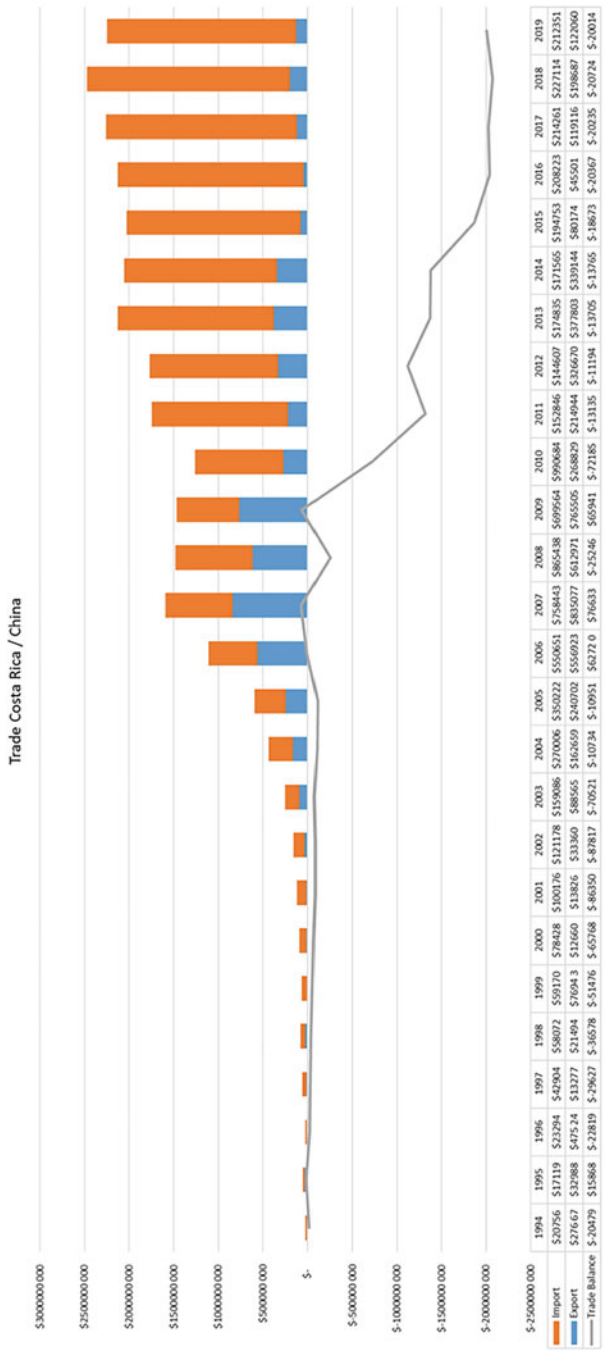
Regarding the unilateral cooperation of China with Costa Rica, a large contribution was made to the construction of the national stadium in 2011. The exchange was inaugurated with a free trade agreement. In Table 1, between 2010 and 2020, the national stadium and its remodeling alone represents more than 85% of contributions, totaling \$121 million. The second area of cooperation is support for the national police force with the donation of a new building for the professionalization of the security sector that is so important to the country. As a third important and recent item was a large contribution to fight COVID-19 through donations of supplies and to various research efforts.

4 Costa Rica-China Commercial Exchange

One of the central axes of the restoration of diplomatic relations between Costa Rica and China is associated with cooperation and commercial exchange. This section will discuss the evolution of trade between the two countries.

The trade balance of payments has grown over the last decade. Although relations between both countries were resumed in 2007, the commercial exchange started growing much earlier (See Graph 1). When the FTA was approved by both nations in 2011, the commercial exchange already totaled \$1023 million. In 2019 it reached \$2245 million. On average, trade grew at an annual rate of 9.1% over the last 10 years, which is the result of the 12.6% growth in exports and 9.0% in imports (COMEX, 2020a).

Imports grew at a sustained rate, especially after the FTA was signed, growing from about \$1 billion in 2010 to \$2.245 billion in 2019. Exports during this same period had their ups and downs. In 2010 the value was almost \$27 million, and in 2019 it was \$122 million, a five-fold increase (UN Comtrade, 2020).



Graph 1 Trade Flow between Costa Rica-China. Source: UN Comtrade, 2020

Table 2 Costa Rica-China Trade Exchange Index (US \$ millions)

China-Costa Rica Trade Exchange	Pre-FTA (1994)	FTA Signed	Signed (2019)
Imports	20	991	2123
Exports	27	269	122
Total	47	1260	2145
Index*		26	47

* Imports plus exports between base year 1994

Source: Elaborated by the authors with data from Trademap (2019), BCCR (2021), and PROCOMER (2020)

Imports grew notably after the free trade agreement. Initially, eliminating tariffs for most products and services led to greater exchange and more access to products from China in Costa Rica, growing from almost \$1 billion in 2010 to more than \$2.1 billion, doubling in almost ten years.

When analyzing the net position of international trade between China and Costa Rica before and after the FTA based on the indicator analysis model and adding exports plus imports, the following data is obtained:

Analyzing the trade exchange indicator, it can be observed that trading grew 26 times between the base year of (1994) and the year the FTA was signed (2010). During the ninth year of the application of the FTA (2019), a 47-fold growth is observed. That is, a continuous, accelerated, and almost linear growth.

Although both imports and exports have indeed grown in value and product diversification (see Table 2 and Graph 1 for exports), the gap in the trade balance has increased over the years. When the agreement was signed it closed at almost -\$1 billion, and by 2019 it increased to -\$2 billion.

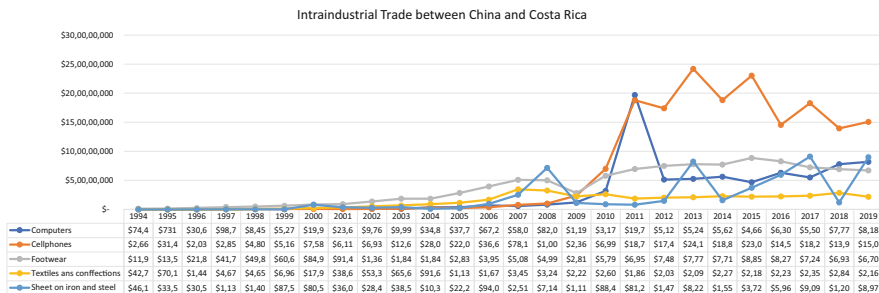
5 Costa Rica's Imports from China

In the following graph, which shows this general level of commercial exchange, disaggregated by intra-industrial trade sector (in imports from China to Costa Rica), it is noteworthy that the FTA expanded the exchange margins in the main items that had been present with time, mainly the trade of iron sheets, cloth, footwear, telephones, and computers.

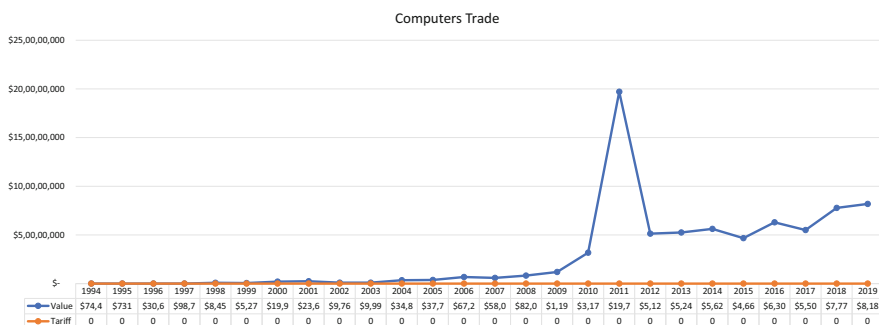
In Graph 2 it can be observed that the main product imported by Costa Rica from China is cell phones, followed by computers. Regarding phones, there were sales of \$150 million by 2019, partially due to the access to Chinese communication technologies, artifacts, and electronic devices in Costa Rica.

These five products grew exponentially after the signing of the FTA, and the amounts traded in recent years have more than doubled the trend between 1994 and 2009 (Graph 3).

After the signing of the FTA, imports of computers from China to Costa Rica grew, and it showed a significant jump in 2010, growing fivefold from \$31.7 million



Graph 2 Main Intra-industrial Trade of Costa Rica- China. Imported products with more weight since FTA. Source: UN, Comtrade (2020)



Graph 3 Breakdown by Computer Products. Source: UN, Comtrade (2020)



Graph 4 Disaggregation by Telephone Products. Source: UN, Comtrade (2020)

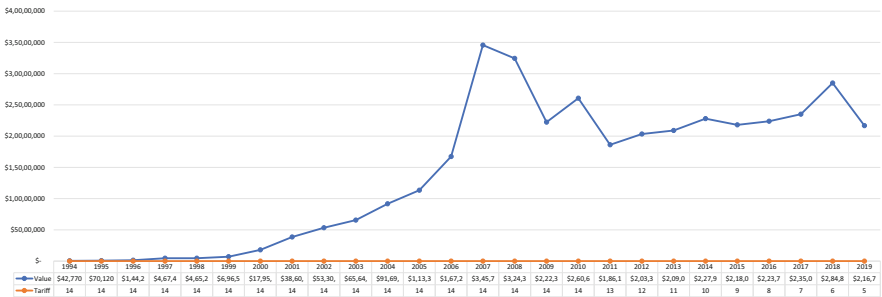
to \$197 million in 2011. This was due to the elimination of tariffs resulting from the signing of the FTA (See Table 2).

Due to the importance of communications in the last years, and to the disaggregation of all the data of imports/exports between the two countries under study, it was found that telephones products followed a unique trend (Graph 4).

Although the tariff on cell phones has always been zero, the increase in imports occurred after the signing of the FTA. Even so, the phone trade began growing in 2006, increasing exponentially in 2009, surging from \$23 million to \$150 million in



Graph 5 Breakdown by Footwear Products. Source: UN, Comtrade (2020)



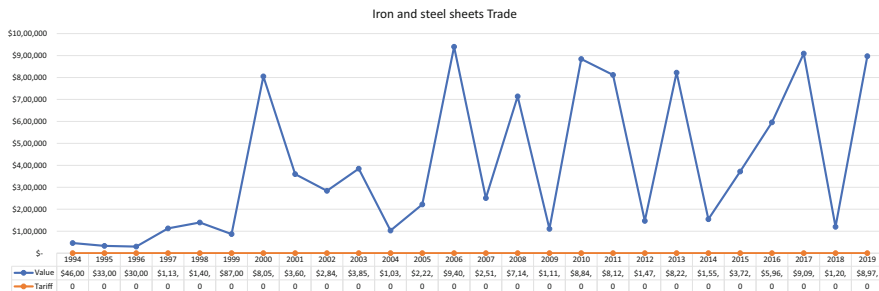
Graph 6 Disaggregation by Textile and Apparel Products. Source: UN, Comtrade (2020)

2019. Huawei’s entry and its contribution to telecommunications, its business with the Costa Rican Electricity Institute (ICE), and its retail sale in shopping centers made this growth possible.

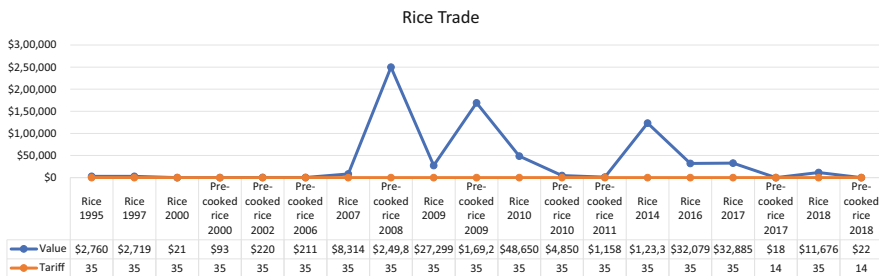
Footwear sales have been on the rise since 1994, even with a 14% tariff, growing from \$1.19 million in 2010 to \$67 million in 2019. This growth can be attributable to the elimination of tariffs in 2011 as a result of the FTA, which generated purchases in greater amounts than those prior to the signing of the agreement (see Graph 5).

Clothing and apparel products have continuously moved, even years before the FTA (see Graph 6), though growth in imports started in 2000 from an import value of \$one million to \$21 million in 2019. Starting from 14%, these tariffs were continuously decreased after the FTA was signed and will fall to zero by 2026. Despite this, the growth in these sectors is not reflected by the reduction in tariffs, but rather their net increase between the years of the FTA has been 17% based on the value traded in 2011.

When looking at graph 7 on the import of steel and iron sheets, these products had no tariff even before the FTA. Their growth took off from \$15.58 million in 2014, when there was a worldwide price drop on these products, to \$89.79 in 2019 (World Index, monthly iron price, 2020).



Graph 7 Breakdown by Products of Steel and Iron Sheets. Source: UN, Comtrade (2020)



Graph 8 Disaggregation, commercial value and tariff of rice in Costa Rica. Source: UN, Comtrade (2020)

6 Rice, a Particular Case

The following graph shows the breakdown and commercial value of rice. It has been a sensitive product in FTA negotiations due to its weight in the Costa Rican basic basket and has not had any reduction in tariffs, with a continuous import tariff of 35% bulk rice and 14% for parboiled rice (see Graph 8). As part of the FTA negotiations, this product was excluded from the tariff reduction because in Costa Rica rice is a sensitive product that is price-controlled by the government (Graph 8).

Tariffs on footwear and clothing will be reduced to zero during the second quinquennium. Most of the products negotiated in the FTA had their tariffs automatically reduced to zero after signing (See Table 3).

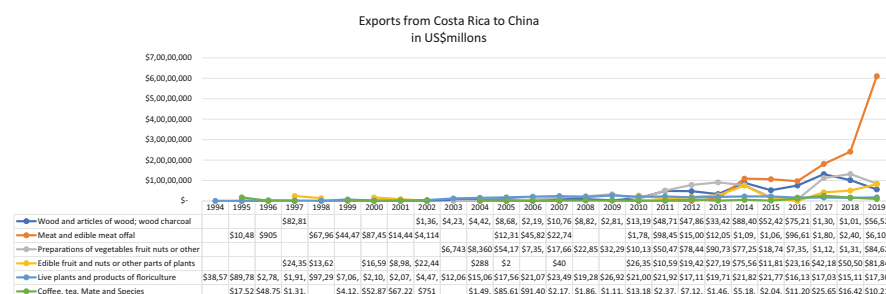
7 Costa Rica’s Exports to China

Six items stand out in the export products from Costa Rica to China: wood and its subproducts, meats, vegetable preparations, fruits, live plants, and coffee. Their continuous export is noticeable from the signing of FTA, take off starting 2 years

Table 3 Costa Rica-China free trade agreement

Year	Free	2011–2016	2016–2021	2021–2026	Exclusion	Contingency	Exclusion*
Category	A	B	C	D	E	F	G
Rice					X		
Telephones	X						
Computers	X						
Footwear	X		X				
Iron Sheets	X						
Cloth			X				
Ovens (Parr)							X
Black Beans						X	
Category	Description						
A	Free						
B	Linear first 5 years						
C	Linear first 10 years						
D	Linear first 15 years						
E	Exclusion						
F	Contingency						
G	Exclusion, except table templates and grills that will be in free trade right now						

Source: Own elaboration based on data from the FTA signed Costa Rica-China



Graph 9 Main products exported from Costa Rica to China. Source: UN, Comtrade (2020)

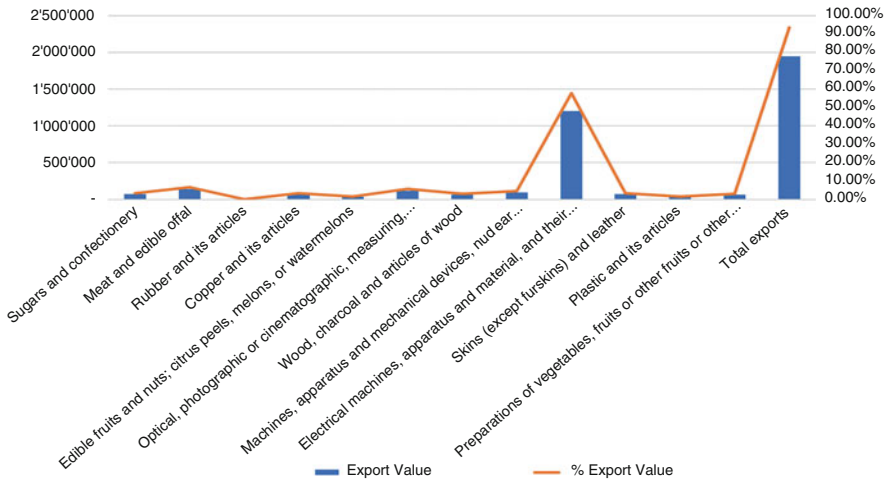
after it was signed. The sector that has taken the biggest advantage of this agreement has been meats, which grew from just \$98,000 to more than \$61 million. In second place, fruit exports have exceeded \$50 million during the last 2 years. Log wood and subproducts are still important in contributing to commercial exchange (UN, Comtrade, 2020) (Graph 9).

Table 4 shows the weight of exports to China compared to the total exported by Costa Rica to the world. An average of 2% of Costa Rican exports have gone to China during the last 10 years, with a high of 3.29% in 2013 and falling to 1% in 2019.

Table 4 Relationship of exports from Costa Rica to China and their weight in the commercial value (US \$ millions)

	Exported valued										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019
World	9044,84	10,222,2	11,250,8	11,472,0	11,251,8	9587,04	9914,29	10,607,3	11,255,8	11,452,817	11,452,817
China	268,82	214,9	326,6	377,8	339,1	80,17	45,50	111,7	198,6	122,060	122,060
% of exports	2,97%	2,1%	2,9%	3,29%	3,01%	0,84%	0,46%	1,05%	1,77%	1,07%	1,07%

Source: Elaborated by the authors with data from Trademap (2019), BCCR (2021), and PROCOMER (2020)



Graph 10 Value of exports from 2010 to 2019 in total in US \$ millions and percentages of weight. Source: Elaborated by the authors with data from Trademap (2019), BCCR (2021), and PROCOMER (2020)

Of Costa Rica’s more than \$11 billion in total exports worldwide, China receives just a small part of the total (1.07%), as seen in Graph 10 where they are hardly noticeable.

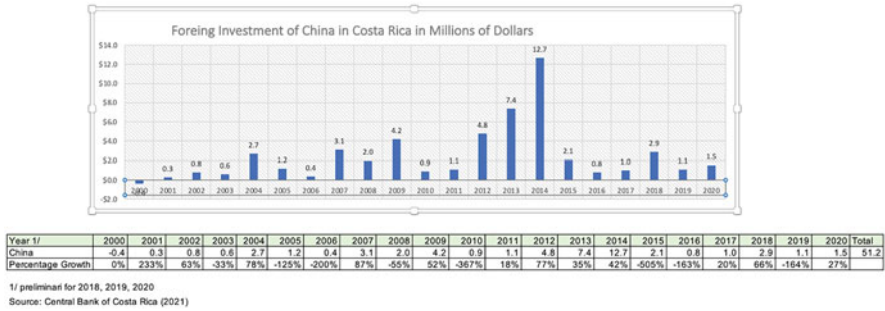
Of all exports in the period between the signing of the FTA and 2019, 72 different types of products were exported. Of these, a little more than 90% by value came from eight main product groups: machines (62.23%), optical, photography or cinematographic instruments and devices with (5.65%), wood, vegetable preparations, hides and skins, sugars, copper and their manufactures (between 3% and 4%) and finally, at a lower percentage, fruits.

8 Evolution of Chinese Foreign Direct Investment (FDI) in Costa Rica

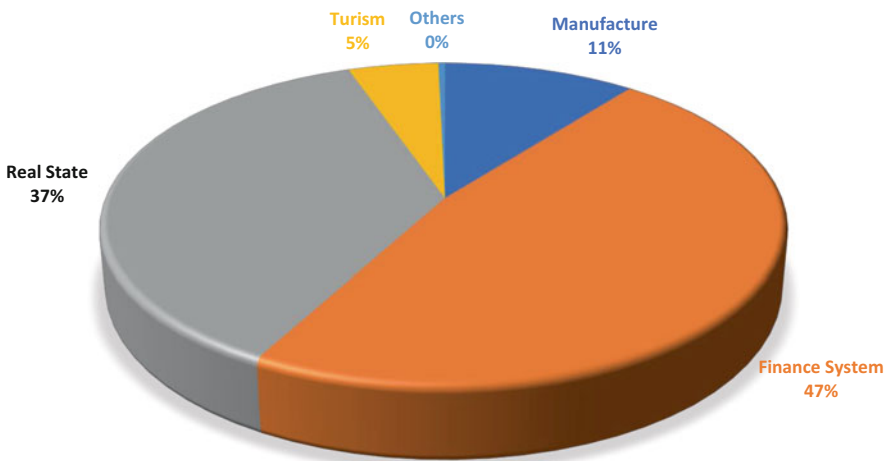
The FDI received by Costa Rica between 2000 and 2020 totaled \$51.2 million (BCCR, 2021). A very irregular behavior is reflected, since in 2004, \$2.7 million were received, in 2014 \$12.7 million was registered, and in 2020 it was \$1.5 million.

The total FDI received post FTA has been \$35.4 million, with an annual average of \$3.5 million. During the first year of the FTA, this item grew by 18%, however, in the fifth year the FDI decreased by 333%, and in the tenth year there was a 214% drop (Graph 11).

When comparing different economic sectors, there has been no FDI in commerce, agroindustry, or agriculture, and since 2014 there has been nothing in the finance system or real estate. These last two sectors represent almost 85% of total FID during



Graph 11 Foreign Direct Investment (FDI) of China in Costa Rica (US \$ millions). Source: Sanabria, (personal communication, April, 2021)



Graph 12 Foreign Direct Investment (FDI) Distribution per Economic Sector from 2000 to 2020 (in US\$ mm). Source: Sanabria, (personal communication, April, 2021)

the time studied. The drop in FDI has impacted all economic sectors, especially the finance system and real estate sector, since 2014 (BCCR, 2021).

Graph 12 shows that the finance system represents almost 50% of total FDI (\$24.4 million) since 2000, followed by real estate with 37% (\$18.9 million), manufacturing with 11% (\$5.4 million), and tourism with 5% (\$2.5 million) (BCCR, 2021).

9 Conclusions

Despite being a small economy, Costa Rica has an important foreign trade policy platform that includes participation in the multilateral trading system and a significant number of regional trade agreements, among which the FTA with China stands out. The reestablishment of diplomatic relations and the negotiation of the FTA with China positioned Costa Rica as the first state in the Central American region to change the paradigm of international and trade policy with respect to China, which later was followed by other Central American and Caribbean countries.

The prioritization of the interests that led both countries to regularize diplomatic relations and deepen trade instruments may differ for each. In the case of China, a greater geopolitical presence was sought in Central America and the Caribbean, while Costa Rica saw a commercial and cooperative opportunity. Costa Rica considered China's strong economic growth and positioning on the international scene, while China sought to reaffirm its strategic, global, and long-term vision for the world.

The data shows that there was growth in trade since China's entry into the WTO. However, as of 2007, with the regularization of diplomatic relations, a greater dynamism is reflected in significant areas, which was consolidated when the FTA took effect in 2011. Between that year and 2019, trade grew at an average rate of 9.1%, the growth of exports (12.6%) being higher than that of imports (9.0%). Despite this, Costa Rica continues to have a deficit trade balance with China.

The flow of FDI seems to have been irregular during the time studied, as is shown in the data registered in this chapter. There is no visible trend before or after the FTA was signed. Almost 85% of it focuses on the financial system and real estate sector, followed by manufacturing.

By observing the imports from China to Costa Rica, computers and cellphones are the main products that have substantially increased, especially in the first years after the signing of the FTA. Regarding exports, meats and fruit are the main products that increased, followed by wood logs.

The impact of the FTA has been positive for Costa Rica as an instrument that allows greater legal certainty and clearer rules for commercial exchange. The FTA was not the initial trigger for trade relations between the two countries, but it was a turning point to increase trade. Since then, there has been an irregular growth in Costa Rican exports to China and sustained growth in imports. The FTA has not represented a sustained impulse for FDI over time since China has been a very irregular and insignificant investor compared to other countries.

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The Complex Trade Relations between China, Mexico, and the United States: A Geopolitical Approach



Miguel A. Montoya, Daniel Lemus, and Evodio Kaltenecker

Abstract China has become one of the engines of the world economy and the principal global player in trade as a supplier and as a market. This fast growth of China is radically changing the global geopolitical ecology of investment, production, and trade (Palat, R. A., *Futures* 40:721–734, 2008). In this context, this chapter presents some reflections on the influence of geopolitical factors in the economic relations between China and Mexico. The chapter is divided into four different sections. The first is a literature review about the importance of geopolitics to understanding the reasons behind China's actions in the region. Second is an analysis of the dynamics of imports and exports between Mexico and China between 2010 and 2018. Third is an analysis of the possibilities of Chinese FDI in Mexico to balance the trade deficit, considering the role of Mexico as a platform to the US market, and how the Mexican government can rethink its strategy to rebalance the trade deficit. Finally, the conclusion discusses the geopolitical limitations and opportunities for Mexico's commercial relationship with China.

Keywords China · Mexico · US · Geopolitical · FDI · Trade relations

1 Introduction: Trade Relations between China and Mexico

In recent years, China has considerably increased its weight in the world economy. In terms of nominal GDP, in 2010 China managed to surpass Japan, Germany, the United Kingdom, and France to become the second largest economy in the world

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after the United States (Rosales & Kuyuwama, 2012). In 2009, China became the world's largest exporter of goods, and since 2013 it is the largest trading nation in goods. Its share of global trade of goods increased from 1.9% in 2000 to 11.4% in 2017 (Woetzel et al., 2019). Consequently, China has become one of the engines of the world economy and the principal global player in trade as a supplier and as a market. In an analysis of 186 countries, China is the largest export destination for 33 countries, and the most significant import source for 65 (Woetzel et al., 2019).

The fast growth of China is radically changing the global geopolitical ecology of investment, production, and trade (Palat, 2008). At the same time, China's considerably expanded scale of operations has generated, in many parts of the world, massive demand for capital, goods, raw materials, and energy that have pushed up commodity prices with important implications (Power & Mohan, 2010). This irruption of China in global trade contributed to the boom in commodity prices that sustained many Latin American economies in the first decade of the 2000s. Thus, Chinese demand for Latin American primary products has emanated from its industrialization process, in which metals have played a leading role (Jenkins, 2011). The dynamism of this process has led not only to increases in the quantities demanded but also a significant upward pressure on the prices of primary goods and minerals, resulting in a substantial improvement in trade for many Latin American Countries (LAC) (Durán Lima & Pellandra, 2017). The economic slowdown in China in recent years, however, has hit the price of raw materials hard and has left the economies in the region in a very vulnerable situation, especially after their deindustrialization process (Perroti, 2015). Besides, Latin America continues to add very little value to the products exported to China. FDI from China in energy and natural resources comes with the condition of favoring Chinese companies, and this is generally not reciprocated for Latin American companies that want to invest in China (Durán Lima & Pellandra, 2017). In this context, the total China-Latin America trade increased from \$17 billion in 2002 to almost \$315 billion in 2019 (Lum, 2020).

Trade relations between China and Mexico are different, although this does not mean that Mexico can avoid global trade trends. The role of China is indisputable. Three factors make Sino-Mexican commercial links notably different from those between China and the rest of LAC. The first factor is that the economies of China and Mexico compete in the US market. There is no complementarity between Mexican and Chinese economies that allows Mexico to export primary and low value-added products to China. Second, the perspective of global value chains can explain an essential part of the trade between China and Mexico. Many Chinese products imported by Mexico serve to complement final Mexican products exported to the US market. Third, Mexico is a partner in the United States-Mexico-Canada Agreement (USMCA or T-MEC as Mexico calls it). This agreement took effect in all member countries on July 1, 2020 (Office of the United States Trade Representative, 2020). These factors have limited the expansion of China in Mexico (Montoya et al., 2020). In the current context of rivalry between the United States and China that began with the government trade war of President Trump in 2017, the United States government pressures other countries away from any commercial or strategic

agreement that benefits China's foreign trade. These circumstances have notably affected the trade balance between Mexico and China. In the words of the Mexican Ambassador to China, José Luis Bernal, in the commercial exchange between Mexico and China, which reached \$100 billion in 2019, Mexico had an almost 8 to 1 deficit (Lozano, 2020).

This chapter presents some reflections on the influence of geopolitical factors in the economic relations between China and Mexico. In other words, without ignoring the importance of economic ties within the framework of an economically interdependent and globalized world, we explore how and why geopolitical factors are essential when we analyze the China–Mexico relationship. To analyze the complex commercial relationship between China and Mexico, this chapter is divided into four different sections. The first is a literature review about the importance of geopolitics to understanding the reasons behind China's actions in the region. Second is an analysis of the dynamics of imports and exports between Mexico and China between 2010 and 2018. Third is an analysis of the possibilities of Chinese FDI in Mexico to balance the trade deficit, considering the role of Mexico as a platform to the US market, and how the Mexican government can rethink its strategy to rebalance the trade deficit. Finally, the conclusion discusses the geopolitical limitations and opportunities for Mexico's commercial relationship with China.

2 China, Mexico, and the United States: Geopolitical Factors behind Trade Relations

Scholars have analyzed the complex and dynamic trade relations between China and Mexico from different perspectives. Hernández (2012) suggests the analysis of Mexico's trade relationship with China under the increasing role of foreign companies and international capital in crucial segments of the economy in both countries, reflecting the integration into global production chains. Gallagher and Dussel (2013) adopt a vision of a "triangular relationship" to trade analysis. They suggest that "China is rapidly outcompeting Mexico in the U.S. market, as well as the United States in the Mexican market. Trade falling under the category of 'direct threat' suggests that these trends will continue in the future" (Gallagher & Dussel, 2013: 23). Carrillo Garcia et al. (2011) discuss the relationship between China and Mexico, emphasizing that Mexico plays a small role in China's view. However, China looms large in Mexico's worldview, and they suggested that a bilateral perspective may not be the most effective way to understand the interaction or potential interactions between Mexico and China. Based on the paradigm of complex interdependence, Ellis (2013) takes a broader perspective, considering how trade intersects with investment, crime, and security in a mutually influencing relationship in the United States, China, and Mexico. Taking the context of NAFTA as a starting point, González et al. (2015) demonstrate that even though China has influenced the trade relationship between the United States and Mexico, the Chinese presence is

not the only factor responsible for the trade dynamics in the North American region. Mexico and China are not competitors in all Mexican exports to the United States. Muñoz et al. (2015) analyzes trade relations under Mexican and Chinese economic openness. Although these processes were simultaneous, they led to very different results due to each country's particular political and economic system. Finally, Bernal (2020) suggests that the new Chinese growth model based on a "dual circulation" economy offers optimal conditions to promote a concerted production that will increase Mexican sales, focusing on long-term market complementation in Mexico and China.

Despite the richness of the analyses above, a fundamental aspect of the commercial relationship between China and Mexico is geopolitical. Geopolitics encompasses the study of exterior spatial relationships of states. It refers mainly to the geographical aspects of these external relations and the way problems in some states impact the rest of the world (Cairo, 1993).

Rudolf Kjellen, a classical intellectual of geopolitics, claimed that geography plays a central role in the relationships of each nation-state, proposing that geopolitics could be the concept that links the world of geography with the political elements of the nation-state (Tuathail, 1996). On the other hand, Mackinder highlighted the relevance of Geopolitics as a discipline that explains the critical influence of geographical conditions on human activities, including political activities (Tuathail, 1996). Haushofer concentrated on the relationship between access to and possession of resources to survive the "great nations." He indicated that politicians should understand jurisprudence and political science, but an understanding of geopolitics as an essential element of foreign policy because space has been a defining element in the history of humanity (Haushofer, 2009). Finally, Nicholas Spykman, another classic geopolitical thinker, suggested that geography is the essential element in foreign policy formulation (Cairo, 1993). From the perspective of these classic authors, the relationship between the geographic factors and the decisions and actions of foreign policy determines the development of the great powers. So, from a traditional point of view, geopolitics justifies the expansionism and militarism of countries in a chaotic world. Consequently, geopolitics implies the practice of countries controlling and competing for territories (Blanchard & Flint, 2017). As a last resort, each state in the international arena is looking for power, and the geopolitical logic of the power is the management and preservation of territorial integrity (Lee et al., 2018).

However, the end of the Cold War decimated the perceived importance of geographical elements to explain the behavior of governments. As Russell (2014) showed, the optimistic vision of the end of a bipolar war and the rise of international liberalism generated a common idea that geopolitics does not matter anymore. From that moment on, countries would concentrate on other goals like promoting Human Rights or establishing an international regime.

As a social construct, geopolitics justifies national interests on the international stage, determining how the world should be, and the role of world powers. In this context, how countries orient themselves toward the world is denominated by a geopolitical code (Flint, 2012). The territory is a physical and an imagined space

(Lemus & Bravo, 2017). Countries employ some behavioral codes in their international relations, including geopolitical codes. These geopolitical codes are the geographical–political assumptions about the global interests of any one country, the potential threats to these interests, the suitable responses to these threats, and the justification for those responses (Naji & Jawan, 2011). Therefore, the dynamics, scope, and possibilities of the trade expansion of China in Latin America, including in Mexico, is determined by economic and geopolitical factors.

The rise of China and its increasing presence in Latin America presents a new confrontation with the United States. This dispute goes beyond an economic row over financial benefits or trade surplus. In Mexico, geopolitics assume crucial relevance.

China seeks to expand its presence in Mexico by increasing its commercial activities, investing in infrastructure, and even providing cooperation in the health sector by providing medical equipment and vaccines against COVID-19. The United States, on the other hand, intends to maintain significant influence in Mexico by limiting China’s presence. Before discussing how political factors influence trade relations between China and Mexico, the next section focuses on the commercial relationship between Mexico and China, and how Mexico can attract Chinese FDI to balance the trade deficit.

3 The Trade Relations between Mexico and China

The commercial relationship between Mexico and China dates back to the seventeenth century. However, there are records of foreign investment between Mexico and China from the early 1970s until the resumption of diplomatic relations. With the change in its industrial matrix and its acceptance to the World Trade Organization (WTO) in 2001, China focused on global markets. Consequently, its trade with Mexico, as with the rest of the world, multiplied. Data from The Atlas of Economic Complexity of The Growth Lab at the Harvard University (the source of all of the statistics in this section for China, Mexico, and other Latin American countries) shows that the exchange of goods and services between Mexico and China has multiplied almost thirty times from 2000 to 2018, growing from \$2 billion to \$56.4 billion. The trade in goods has always been in deficit for Mexico. The negative balance for Mexico has multiplied by thirty in this period, growing from \$1.2 billion to \$39.7 billion, the most significant trade deficit with China of any country in the region, followed by Argentina with a value of only \$4.6 billion.

The following parts of this section discuss the trade of goods between Mexico and China, from 2000 to 2018, the latest data available, together with simple comparisons to other essential economies in Latin America. In this context, it should be noted that in 2018, Mexico was the 12th exporter of manufactured goods globally, accounting for 2.3% of the world’s industrial exports. No other Latin American country appears in the top twenty manufacturing exporting countries.

3.1 Exports of Goods from Mexico to China

The flow of agricultural exports from Mexico to China show modest accelerated growth. Between 2000 and 2009, the figures were below \$100 million annually but grew to \$200 million in 2015 and \$700 million in 2018. These figures represent a notable paucity compared to other Latin American countries like Brazil (\$33.7 billion), Chile (\$4.6 billion), and Argentina (2.7 billion). Mexico has a relatively small role as a source of farmed goods compared to Latin American agricultural powerhouses, but shows a 39-fold increase in its exports of agricultural products between 2000 and 2018 (Table 1).

Ninety-five percent of the total exports of goods from Mexico to the Chinese market come from the fast-growing metals and minerals sectors, as well as the manufacturing sectors. This segment also grew 30-fold, from \$358 million in 2000 to \$10.4 billion in 2018. The metals, minerals, stones, and chemicals grouping represented approximately one-third of the flow during this period, and manufactured goods (electronics, machinery, vehicles, and textiles) accounted for the remaining two-thirds.

Minerals and metals account for most exports in this subsector, with copper and its derivatives being the main products. Unexpectedly, due to Mexico's large oil reserves and history as an oil exporter, hydrocarbons have never been essential products in trade flows between Mexico and China. Mexican exports of minerals to China behave very differently from those of other Latin American countries where minerals are vital in total sales to China: Brazil (33% of exports) or Chile, Peru, and Colombia. In these countries, minerals and metals represent the vast majority of exports to China. Textile exports to China from Mexico are minor and do not reach

Table 1 Mexican exports to China

Figures in US \$Billion					
	2000	2005	2010	2015	2018
<i>Agriculture</i>	0.02	0.04	0.10	0.23	0.65
Metals	0.02	0.24	0.65	0.35	0.72
Minerals	0.01	0.14	1.59	1.33	2.29
Stone	0.00	0.02	0.01	0.02	0.02
Chemicals	0.03	0.19	0.38	0.28	0.44
<i>Metals and Minerals</i>	0.06	0.59	2.63	1.98	3.46
<i>Textiles</i>	0.03	0.10	0.08	0.07	0.11
Vehicles	0.00	0.05	0.60	1.39	1.15
Machinery	0.17	0.38	0.58	1.07	1.76
Electronics	0.09	0.53	1.37	2.51	3.87
<i>Manufactured goods</i>	0.26	0.96	2.55	4.97	6.78
Other	0.00	0.00	0.00	0.47	0.04
<i>Total</i>	0.36	1.68	5.37	7.71	11.04

Source: The Growth Lab at Harvard University (n.d.). The Atlas of Economic Complexity. <http://www.atlas.cid.harvard.edu>

1% of the total trade flow (US \$112 M in 2018), much lower than other Latin American countries as well.

The manufactured goods that Mexico exports to China can be divided into three broad groups: electronics (50%), machinery (25%), and vehicles (20%). These three sectors grew fast, from \$300 million in 2000 to almost \$7 billion in 2018. Mexico's export performance in 2018 in these sectors was higher than the other Latin American countries combined (Brazil—\$434 M, Chile—\$19 M, Colombia—\$8 M, Argentina—\$6 M, and Peru—\$2 M).

In summary, Mexican exports to China are relevant and grew 30 times from 2000 to 2018. Manufactured products account for 95% of that flow, with the electronics, machinery, and vehicles being the most important items. The increase in Mexican exports is in line with other significant Latin American economies, however, their composition is very different as mineral and agricultural exports play less of a critical role in the total flow. In the period analyzed, Mexican exports to China reflected the characteristics of the Mexican export industry. Two-thirds of the flow are manufactured goods, which is consistent with Mexico's exports in general: 80% of Mexico's exports are industrial products.

3.2 Exports of Goods from China to Mexico

Chinese exports to Mexico in the agricultural sector show small flows with sustained growth. Figures were below \$100 million annually until the year 2000, but reached \$1 billion by 2010 and \$1.6 billion by 2018, in line with Chinese exports of agricultural goods to Brazil (\$1.3B), Chile (\$810 M), and Argentina (\$230 M) (Table 2).

Chinese sales to Mexico in the metals, minerals, stones, and chemicals sectors have grown from a little over \$300 million in 2000 to more than \$7.5 billion in 2018, accounting for about 17% of Chinese exports to Mexico during this period. China's exports of chemicals and metals are the largest part of this subsector. Chinese exports from these two subsectors behave like Chinese exports to the rest of the large countries of Latin America, where sales of plastics, fertilizers, aluminum, iron, steel, and pipes make up approximately a fifth of total exports to the region.

Textile exports to Mexico from China also had accelerated growth, rising from \$290 million in 2000 to \$4.1 billion in 2018. This is one of the most dynamic sectors in the Sino-Mexican commercial relationship and represents approximately 10% of total exports from China to Mexico. Interestingly, not all textiles are finished goods. Some are intermediate products such as seats and materials for the interior of automobiles, clothing, and furniture, which play an essential role in the balance.

Manufacturing is the most critical part of the trade flows from China to Mexico. This segment grew almost 40-fold during 2000–2018 period, from \$830 million to nearly \$32 billion. China's vehicle sales started to stand out and grow continuously because many exporting companies with production in Mexico began to import parts from China. Ortiz (2017) finds that China is the leading supplier of most industries

Table 2 Chinese exports to Mexico

US\$ B	2000	2005	2010	2015	2018
<i>Agriculture</i>	0.09	0.37	0.85	1.46	1.60
Metals	0.08	0.40	0.99	2.29	2.62
Minerals	0.07	0.10	0.12	0.18	0.79
Stone	0.03	0.13	0.27	0.72	0.61
Chemicals	0.14	0.69	1.56	3.33	3.51
<i>Metals and Minerals</i>	0.31	1.32	2.93	6.52	7.54
<i>Textiles</i>	0.29	0.85	1.76	4.45	4.10
Vehicles	0.03	0.21	0.71	2.20	3.32
Machinery	0.36	1.59	6.77	11.20	12.70
Electronics	0.44	1.66	5.63	9.26	15.90
<i>Manufactured goods</i>	0.82	3.46	13.11	22.66	31.92
Other	0.09	0.02	0.03	0.16	0.17
<i>Total</i>	1.59	6.02	18.69	35.24	45.32

Source: The Growth Lab at Harvard University (n.d.). The Atlas of Economic Complexity. <http://www.atlas.cid.harvard.edu>

operating in Mexico, of which many are export industries whose ultimate destination is the United States. In other words, Chinese inputs are a vital component of the Mexican manufacturing export sector. Mexico imports \$32 billion in manufactured goods from China, which is approximately equivalent to Brazil, Chile, Argentina, and Peru combined.

Chinese exports to Mexico during this period reflect the role of China in the world. Manufacturing plays a vital role in the flow, in line with China's global leadership in manufacturing exports. Electronics, machinery, textiles and, in recent years, vehicles, make up most of the sales to Mexico, displacing other trading partners and becoming the second supplier of intermediate goods to the country. Concerning final consumer goods, China takes advantage of a growing domestic market since Mexico increased the value of its economy by 50% in this period (Bolt & Luiten van Zanden, 2020).

3.3 Trade Balance

The trade balance between Mexico and China presents a deficit for Mexico in all items except for minerals (Table 3). The deficit increased from \$1.2 billion in 2000 to \$34.3 billion in 2018. Balances in machinery and electronics contribute to more than 60% of this deficit, and textiles and chemicals explain another 25% of the Chinese surplus. The T-MEC trade agreement with the United States and Canada has enabled Chinese intermediate products for subsequent export to the US market, especially in the electronics, machinery, and textiles sectors (Valderrey, 2020).

Table 3 Mexico's trade balance with China

US\$ B	2000	2005	2010	2015	2018
<i>Agriculture</i>	-0.07	-0.33	-0.75	-1.23	-0.95
Metals	-0.06	-0.16	-0.34	-1.94	-1.90
Minerals	-0.06	0.04	1.47	1.16	1.50
Stone	-0.03	-0.11	-0.25	-0.70	-0.60
Chemicals	-0.10	-0.50	-1.18	-3.05	-3.07
<i>Metals and Minerals</i>	-0.25	-0.74	-0.30	-4.54	-4.08
<i>Textiles</i>	-0.26	-0.75	-1.68	-4.38	-3.99
Vehicles	-0.02	-0.16	-0.11	-0.81	-2.17
Machinery	-0.19	-1.21	-6.19	-10.13	-10.94
Electronics	-0.35	-1.14	-4.26	-6.75	-12.03
<i>Manufactured goods</i>	-0.56	-2.50	-10.56	-17.69	-25.14
Other	-0.09	-0.02	-0.03	0.31	-0.12
<i>Total</i>	-1.23	-4.34	-13.32	-27.53	-34.28

Source: The Growth Lab at Harvard University (n.d.). The Atlas of Economic Complexity. <http://www.atlas.cid.harvard.edu>

The trade balance between Mexico and China behaves differently than other countries in Latin America, such as Brazil, Chile, and Peru, which enjoyed large surpluses with China (\$30B, \$7B, and \$4B, respectively, in 2018). Argentina and Colombia each have an approximately \$4 billion deficit as well.

4 Mexico as a Platform: Possibilities for Chinese FDI in Mexico to Balance the Trade Deficit

Mexico has a large trade deficit with the United States because Mexico has played a role as an assembler of products for the United States market. At the same time, Mexico needs inputs from China. The asymmetry between these two economies is so significant that Mexico has always shaped its export activities depending on the US market. Additionally, due to its proximity to the United States, the majority of agricultural exports are destined for the US market. In this way, there is little margin in the global context of trade to increase the exportation of Mexican products to China. However, due to its geographical location, Mexico can use the fundamental advantage of its proximity to the United States by implementing a double geopolitical game. On the one hand, Mexico can attract Mexican territory factories to replace the US capital that is leaving China due to attempts to collate the economies of the United States and China in the context of current tensions between these countries. On the other hand, Mexico can favor investments from Chinese multinationals that are looking to take advantage of locating in the Mexican territory.

Mexico could increase the volume of products already exported to China through a policy of attracting Chinese FDI to grow Mexican exports to China. Although Mexico is not an essential destination for Chinese investment, and the Chinese influence in Mexico is limited due to the United States' power, there are several growth opportunities to export to the Chinese market (Montoya et al., 2020).

From the agricultural and commodities perspective, meat, fish, edible fruits, and metals are already active in the Chinese market (Trading Economics, 2021). Given that China mainly imports mainly commodities and agricultural goods from the Latin American region, Mexico could take advantage of China's resource seeking strategy, already implemented on several continents, and pursue access to the Chinese food market (Kang & Liu, 2016). Chinese FDI in Africa is evidence of this strategy. Africa produces more than a third of China's oil and 20% of their cotton (Shepard, 2019). Africa also has roughly half of the world's stock of manganese, an essential ingredient for steel production, a vital industry for China. Mexico should also leverage its active automotive industry because it is already the fourth largest exporter of automotive parts to China. Bimbo, the world's largest multinational company in the bakery industry, provides evidence of this strategy. The firm handled an entire ecosystem: building a local presence, establishing joint ventures or alliances with local companies, recruiting local talent, developing new business models, reshaping the value proposition, developing new brands or introducing traditional ones with a local flavor, and understanding the supply chain and routes to the Chinese market (Rivera & Cacho-Elizondo, 2015).

From a service perspective, the Mexican tourism sector is a promising market for Chinese visitors. Mexico is already a preferential destination for tourism but remains an under-visited destination for Chinese tourists due primarily to safety concerns (Lubin, 2019). The diverse offer of culture, entertainment, and leisure provided by Mexican destinations is a critical strategic advantage. Mexican Hotel Chains such as Grupo Posadas and Camino Real Hotels could participate in this initiative, with the Mexican government promoting their infrastructure to potential Chinese tourists. Africa provides an example of regional marketing strategies to attract tourists (Matiza & Oni, 2014; Rose, 2007).

There is also the possibility of using Chinese companies to connect Mexican producers and Chinese consumers. The Alibaba group provides an example of support offered by a Chinese company to Mexican small and medium-sized enterprises (SMEs) in Business to Business (B2B) and Business to Consumers (B2C) segments. The e-commerce platform handles sales and payments online, improving their cross-border transaction capabilities and logistics (Rojas, 2017). Mexican SMEs should achieve the status of "Verified Supplier" on Alibaba's platform to increase their sales to China.

Mexico should be more present in trade shows in China to promote Mexican products, services, and tourism. Participation in trade shows can be an effective channel to access the Chinese markets because they offer a single, short-term venue to network and market. The Mexican government could also use its network of embassies worldwide to promote Mexico's exports.

Table 4 Possibilities of Chinese FDI in Mexico to balance the trade deficit

Impact	Description	Evidence
Commodities, minerals	The attraction of Chinese FDI	• Chinese resource-seeking strategy in Africa.
Manufacturing, consumer products	Participation in Chinese value chains	• Automotive industry in Mexico with presence in China. • Mexican multinationals (Bimbo, Gruma).
Services (tourism)	The attraction of Chinese tourist	• Africa. • Use of Mexican embassies to promote tourism.
e-Commerce	Participation in Chinese e-commerce platforms	• Mexican SME joining Alibaba's e-commerce platform.
General	Participation in trade shows in China	• Use of Mexican embassies to promote trade.
General	Mexican Multinationals	• Bimbo, Gruma.

Source: Authors

Finally, Mexico could explore prominent Mexican multinationals in China, such as Bimbo, the world's largest bread maker since the acquisition of US baker Sara Lee, and Gruma, the world's largest tortilla maker, to increase Mexican exports to China. Mexican multinationals can increase exports to China by taking the opportunity to fit themselves into the Chinese transition and domestic consumption. The *dual circulation* strategy is likely to take center stage in China as a way toward more sustainable growth, making China less reliant on factors outside of its control. Transitioning the Mexican economy toward Asia will require FDI in infrastructure, logistics, and export capacity, which Beijing should provide. Table 4 presents proposals to balance the trade deficit.

4.1 Labor Costs China Versus Mexico

While the rise of labor costs in China reduces a significant comparative advantage for them, it presents a commercial opportunity for Mexican exports to replace some Chinese exports. "Made in China" is no longer a synonym for low prices, as labor costs have risen rapidly (China Labor cost index, 2019). Several factors caused this: (i) the spectacular economic growth that occurred in China; (ii) the increase in demand for labor reducing its availability in the long run; (iii) the economic transformation of the Chinese economy, which became more innovative and service-based, moving up in the value chain and away from mass manufacturing of low-quality products, requiring a more skilled and more expensive pool of employees (Chipman & Zhou, 2019). Consequently, the rise in labor costs in China decreases China's cost advantage, creating a business opportunity for Mexican exports.

Mexican labor costs in the manufacturing sector, on the other hand, are not rising. Chinese labor costs were lower than Mexico until 2009. Since then, the Mexican labor rate has stagnated or slightly fallen, while China's rates have consistently increased every year and will continue to rise due to the reasons mentioned in the previous paragraph (Hunkar, 2018).

4.2 Global Value Chains that Include China, Mexico, and the United States

The cheap labor cost, the T-MEC agreement, and the proximity to the United States have been the main reasons why big manufacturing companies from China and other countries have established assembly plants in Mexico. Seventy percent of Mexico's imports from China are intermediate or capital goods used or repurposed for re-export (Villareal, 2020). Global manufacturers that previously produced in China and shipped their products to the United States may move production from China to Mexico in pursuit of three advantages: (i) to take full advantage of duty-free export to the United States; (ii) to take advantage of Mexican wages, and (iii) the lower shipping costs that a Mexican location provides (Webber, 2019). Consequently, Mexico is at the crossroads in the "new triangular relationship" of trade, manufacturing, and global value chains. Trade figures with the United States show that Mexico, as part of Latin America and the Caribbean, has achieved substantial results, exporting more medium and high-tech goods to the United States from parts that Mexico has imported from China (Peters, 2019).

4.3 China and the Mexican Export Success in Latin America and beyond

Mexico, an export-driven country, produces and exports the same amount of goods as the rest of Latin America combined. Foreign trade is a bigger percentage of Mexico's economy than any other large country. Mexico's international trade, exports plus imports, equals 78% of the country's GDP, much higher than Brazil's 23% or even China's 48% (Trade as % of GDP, 2020). Mexican companies have access to the US market and share a common language with the rest of Latin America (Amadeo & Estevez, 2020). Consequently, Mexico is a manufacturing and export platform because many plants in Mexico are part of the global value chains of multinational companies that target the US market.

Moreover, Mexico's production capacity can target non-US customers as the country has the logistic advantage of access to both the Atlantic and the Pacific Oceans. Mexico's eleven free trade agreements involving 46 countries, including Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, El Salvador, Honduras,

Japan, Israel, and the European Union is solid evidence of Mexico's capacity to be one of the world's manufacturing platforms (Villareal, 2017). Finally, due to the recent escalation of commercial tensions between the United States and China, which imposed tariffs on Chinese products, consumers of Chinese products were driven away, creating demand for Mexican-manufactured products.

5 Conclusions

Mexico differs from other Latin American countries because of several factors: (i) the solid commercial links between Mexico and the United States; (ii) the profile of the Mexican economy, which leans toward the production of goods, therefore becoming a competitor of China as a platform for global manufacturing; and (iii) Mexico's limited production of commodities.

Despite these circumstances, several areas offer growth opportunities to improve trade between Mexico and China. First, Mexico can export more of its oil production to China, which still depends on oil imports for its economy. Long-term deals between Mexico City and Beijing could lock in the large Chinese appetite for oil, decreasing the Mexican trade deficit. Second, Mexico, an essential destination in the global tourism industry, could easily attract more Chinese tourists due to the infrastructure, expertise, and brand awareness. Cancun, Puerto Vallarta, Los Cabos, and the rich pre-Columbian historical sites are potential destinations that already attract thousands of tourists worldwide. Third, to reduce trade imbalances with other countries, Mexico must diversify its exports to other regions, such as Europe and Africa, made possible by Mexico's location and Atlantic and the Pacific coasts. Mexico could take advantage of the redesign of global value chains to become a competitor to China as one of the international hubs of manufacturing (Kaltenecker, 2020). Finally, Mexico could take advantage of the low wages still present in the Mexican economy. There is no evidence that Mexican wages will increase in the short or mid-term. In these ways, Mexico is different than other Latin American countries.

Although it is not the only reason, the geopolitical factor is a fundamental part of the difference between economic and commercial relations between Mexico and China. Historically, the United States has considered Mexican territory one of its essential areas of influence. Sharing a 3000-kilometer border means multiple challenges such as migration, drug trafficking, and weapons. At the same time, this border allows vigorous commercial exchange and deep interaction between the two sides of the border. The logic of US capital shapes Mexico's imports and exports, the Chinese investment in Mexico, and the narrow room the Mexican government has for maneuvering. An example of this reality is the new clauses in the trade agreement between Mexico, the United States, and Canada, including labor inspection on Mexican soil by US authorities and a clause that prevents trade agreements with non-free market economies, like that of China, under penalty of being excluded from the trilateral deal. Traditionally, Mexico and China have maintained cordial

diplomatic relations, which has not helped improve the trade balance for Mexico or increased Chinese investment in Mexico. However, this situation could be changing with the Chinese government's help with acquiring COVID-19 vaccines; help that the US government did not grant despite formal requests for it. This situation opens a small window for the Mexican government to be bolder in negotiating certain prerogatives with China on issues sensitive to US interests in the Mexican territory. Now Mexico could play a geopolitical card to balance its commercial relationship with China. As this chapter showed, Mexico's economic and commercial relationship with China is very unfavorable. A first step to change this situation could be for Mexico to attract investment from Chinese plants that want to produce inputs in Mexico that allow greater access to the US market. A second step is to attract even more American diversions now that decoupling the United States and Chinese economies in some sectors are possible. The potential is there, but for it to be realized the Mexican government must bear in mind that the game behind the trade is geopolitics.

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Part IV
Emerging Agenda

Trade Facilitation Under the Pacific Alliance Framework: Seaports Case



Andrés Bórquez

Abstract This chapter presents a descriptive study through a multifaceted approach whose purpose is to discuss how the strengthening of trade facilitation has become a key policy to deepen and diversify the Pacific Alliance countries' trade with China during and after the COVID-19 pandemic. It highlights the importance of trade facilitation as a complement to trade agreements and as one of the axes for strengthening economic integration within the framework of the Pacific Alliance.

The chapter consists of four sections: The first reviews the concept of trade facilitation. The second section focuses on the characterization of trade facilitation policies in the framework of the Pacific Alliance. The third section reviews trade facilitation in the main ports of the Pacific Alliance. Finally, the fourth section discusses the challenges that need to be overcome to strengthen the export performance of Pacific Alliance member countries to China.

The elements reviewed in this chapter contribute to a roadmap that will help Pacific Alliance countries better integrate infrastructure improvements and optimize facilitation measures to obtain greater profits and benefits from trade.

Keywords Trade facilitation · Pacific Alliance · Diversification · Exports

1 Introduction

According to the Inter-American Institute for Cooperation on Agriculture, exports from member countries of the Pacific Alliance have fallen by 20% during the first year of the pandemic. Mitigating the economic impact of COVID-19 will require using all necessary tools to regain sustainable growth. This includes measures to keep economies open, support the expansion of international trade, and optimize the operational aspects of export processes. Thus, the reduction of tariffs or the elimination of import quotas should be complemented with other measures to facilitate

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trade. The following chapter provides a descriptive study whose purpose is to discuss how the strengthening of trade facilitation has become a key policy for deepening and diversifying Pacific Alliance countries' trade with China during and after the COVID-19 pandemic.

During the first decade of the Pacific Alliance (2011–2021), intra and extra-regional trade networks were established and agreements and standards were generated to operationalize trade. Members maintain a network of trade agreements with each other and promote commercial exchange with the most competitive economies of the world (Official website Pacific Alliance, 2021a, b, Nicoll, 2014). In 2019, the bloc exported USD 531 million, mainly to the USA (69.3%), China (5.5%), and Canada (2.8%) (Ministry of Commerce of Colombia, 2019). Even though trade facilitation has been considered one of the bloc's priority actions, there are still a series of gaps, especially in aspects of physical and digital infrastructure in seaports. Among the main difficulties cited in the international reports are low levels of infrastructure and logistics, low levels of digital data submission procedures, duplication of documentation, and nontransparent nontariff measures (OECD, 2013; Perry, 2013; UN-OHRLLS, 2015).

The combination of these elements means that the costs associated with foreign trade of the coalition countries are higher than other regions that also export a similar basket of products to China. This chapter considers it relevant to review the facilitation measures under the Pacific Alliance framework to analyze eventual reductions in trade costs as well as to seek improvements in export flows to China to contribute to the trade facilitation policy evaluation process of the member countries of the Pacific Alliance. Special attention is paid to the case of trade facilitation in the seaports of the members of the Pacific Alliance. This is because these are the places where there are the greatest gaps according to the international reports mentioned above.

This chapter consists of four sections. First, the concept of trade facilitation is reviewed. The second section focuses on the characterization of trade facilitation policies under the framework of the Pacific Alliance. The third section is a revision of the facilitation of trade in the main ports of the Pacific Alliance that send cargo to China. Finally, challenges that need to be overcome in order to strengthen the performance of exports from member countries of the Pacific Alliance to China are discussed.

2 Trade Facilitation Concept

There is no standard definition of trade facilitation in the international trade policy narrative. However, gradually a series of international organizations have been defining this concept with similar objectives and meanings (Rudjanakanoknad & Suksirivoraboot, 2012). The concept of trade facilitation refers to the dynamics of logistics and documentation in the movement of goods so that they are transported and shipped more expeditiously. In recent years, the definition has been broadened

to include harmonizing standards and developing institutional and digital infrastructure (Wilson et al., 2003; Iwanow & Colin, 2007).

According to the WTO, trade facilitation refers to the simplification, standardization, and harmonization of import and export procedures. WTO conceptualizes this as a vehicle that reduces the time and cost to trade, and that increases developing countries' trade competitiveness and insertion into international trade (WTO, 2017). In operational terms, the WTO provided a Trade Facilitation Agreement (TFA), which took effect in 2017 and contains provisions for expediting the movement and clearance of goods. It further contains provisions for technical assistance and custom compliance issues. It should be noted that the Trade Facilitation Agreement (TFA) is the first multilateral agreement concerted since the WTO was established 25 years ago (Pacific Alliance, 2015, 2021a, b). Moreover, the OECD conceptualizes trade facilitation as the processes and mechanisms that allow governments to improve their border procedures, reduce trade costs and obtain greater benefits from trade. This entity emphasizes the role of trade facilitation so that governments and technical institutions can encourage competition and participation in the international trading system (OECD, 2001, 2003). Other definitions, such as the one proposed by the World Customs Organization (WCO, 2016), emphasize trade facilitation as the avoidance of unnecessary trade restrictiveness, which can be reduced by applying modern techniques and technologies while improving the quality of controls in an internationally harmonized manner. AP uses a similar approach to the WTO/OECD/WCO to delimit the concept of trade facilitation. The official document of the AP refers to trade facilitation as "procedures to achieve international standards, improve the level of competitiveness and strengthen its insertion in international trade." It proposes that member countries enhance customs cooperation through information exchange, mutual recognition of regulations, and mutual assistance in law enforcement.

This study supports a multifaceted approach to trade facilitation based on two central axes: the improvement of trade infrastructure, and the rationalization of customs management. This chapter includes an inductive exercise under the case of the analysis of the main ports of the Pacific Alliance. This approach is based on previous work by Fink et al. (2002), Clark et al. (2004), Shepard & Wilson et al. (2005), Rudjanakanoknad and Suksirivoraboot (2012), and Cheng et al. (2018). They provide a framework to compare and analyze the digital and physical infrastructure of the ports, as well as their trade facilitation policies. Furthermore, a series of studies show that the optimization of trade facilitation helps mitigate global demand crises, which in the context of the COVID-19 pandemic makes it vital to reduce the negative impacts on international trade (UNCTAD, 2002; Wilson et al., 2003; Iwanow & Colin, 2007; Dennis, 2010). Special attention is paid to four trade facilitation measures for this case analysis: port efficiency, customs environment, regulatory environment, and digital infrastructure, which is represented by the internet and use of electronic commerce by companies.

3 Trade Facilitation Under the Pacific Alliance Framework

The formation of the Pacific Alliance (PA) in 2011 was one of the greatest milestones of regional integration in Latin America. Combined, the PA countries represent a bloc of 212 million people, equivalent to the eighth largest economy in the world (Foxley & Meller, 2014). This organization constitutes one of the multiple efforts of the region to seek formulas for cross-border cooperation (García, 2013; Pastrana, 2015). The central objective declared in the framework agreement raises the importance of consensually building an area of commercial integration that strengthens the free movement of goods, services, capital, and people (Bernal & Muñoz, 2015). Furthermore, the Pacific Alliance tries to integrate at various levels under the parameters of open regionalism and in a scenario of a growing multiplication of multilateral agreements and initiatives, such as the Trade Facilitation Agreement (TFA), Trans-Pacific Economic Cooperation Agreement (TPP), the Regional Integral Economic Association (RCEP) and Belt and Road. Thus, the Pacific Alliance regards these agreements as competition frameworks and opportunities to reach new markets.

The Pacific Alliance has proposed to advance trade facilitation to meet international standards, improve the level of competitiveness and strengthen its insertion in the multilateral system. Indeed, member countries have seen trade facilitation as one of their main axes of cooperation and systematization of coordination among their members (Coutin & Terán, 2016). This approach is based on two political orientations within the framework of the group's objectives. Firstly, the Pacific Alliance tries to focus on pragmatic integration. Latin America is a very diverse region, and the achievement of common standards in the development of cooperation policies has never been easy. Trade facilitation policies emerge as an accessible mechanism to dispense with barriers. Because, unlike FTAs, trade facilitation does not require formal negotiations, it is more feasible politically to enforce in a region with diverse political and administrative systems (Estevadeordal, 2016).

For members of the Pacific Alliance, facilitation can be seen as a multinational and regional mechanism that enables Latin American countries to integrate competitively into new trends in foreign trade. The member countries have been predisposed to continue adapting to international standards. This is reflected in the fact that all of its members have ratified the Agreement on Trade Facilitation (TFA) negotiated by the World Trade Organization (WTO). The TFA establishes a series of measures to expedite movement, to release and clear goods, including goods in transit, as well as to optimize the provisions for cooperation between customs authorities and other competent authorities in matters relating to the facilitation of the trade and compliance with customs procedures (WTO, 2015, 2017).

Trade facilitation is seen as an opportunity to bridge the gap in physical and digital infrastructure. This issue has been widely declared to be critical in this region in specialist reports, which indicate that infrastructure can represent 40% of transport costs in coastal cities (Limo & Venables, 2001). This is not only focused on reducing costs, at present, but adequate planning in port infrastructure and logistics is also

vital for global supply chains and new processes of insertion into digital commerce (Cominetti, 2002; Cipolleta et al., 2010).

4 Areas of Trade Facilitation Being Done Under the Framework of the Pacific Alliance

As PA members reduce tariffs, which by 2019 already covered more than 98% of traded products, the PA has developed programs to optimize and coordinate integration (Mejia & Maday, 2019). Members assume that facilitation is complex because a country's trade flow will change not only through its own reforms but also through interaction and coordination with its trade partners (Blanco, 2015). There are three areas of trade facilitation under the framework of the PA that seek to promote deep trade integration among members.

4.1 Single Window for Foreign Trade (VUCE)

In 2015, the search for intra-regional interconnection was established through the creation of VUCE. This tool allows foreign trade such as exports, imports, and the transit of goods to be processed through an electronic system that facilitates remote connection and can be accessed at any time (Ministerio de Hacienda de Chile, 2016).

The countries formed technical teams to homologate the certificates and adjust their individual regulatory and technological frameworks (Mejia & Maday, 2019). This interconnection is carried out bilaterally without a central entity, highlighting bureaucratization and promoting the standardization of processes between its members. This union also allows other countries in the region to join, so VUCE is positioning itself as a regional public good that facilitates productive integration at competitive costs in the global economy (Foxley & Meller, 2014). An evaluation of the PA's VUCE carried out by the Inter-American Development Bank (IDB) estimated that the exchange of phytosanitary certificate data through the platform generated an average cost saving of 30% for economic operators. The same report found that this mechanism also reduced corruption and improved the security of user data (Mejia & Maday, 2019).

4.2 Disclosure of Facilitation and Mutual Assistance Standards

The PA has proposed permanent dialogue and coordination mechanisms that adjust the flow of information and flexibility of rules and procedures. Bureaucratic delays

and cumbersome paperwork are a burden for the different actors involved in cross-border goods trade. Therefore, a continuous consultation protocol has been established which includes coordination between customs authorities and other authorities related to compliance with customs procedures, mutual assistance in customs matters, and expert consultations for improving inspection flow rates. Furthermore, the protocol elaborates common data in accordance with the Customs Data Model of the World Customs Organization (WCO). These processes are stipulated in section B of the additional protocol to the Pacific Alliance framework agreement, which took effect in 2016 (Aduana Chilena, 2016).

4.3 Optimization of the Dispatch of Goods in Ports

The PA has proposed trade facilitation solutions focused on port and maritime services so that companies can trade their goods easily, transparently, and economically. A set of joint policies has been established to foresee that the dispatch of goods is made within a period no longer than that required to ensure compliance with its customs legislation (Aduana chilena, 2016). Emphasis has been placed on optimizing inspection processes, avoiding temporary transfer to warehouses or other areas, and rapid delivery processes. There is an additional focus on a regional approach to maritime services, including maritime transport such as port services. It seeks to promote efficiency and agility in the recognition of documentation, automation, and exchange of customs information. The details of these solutions can be explored in Chap. 5 of the *Additional Protocol to the Framework Agreement of the Pacific Alliance* (Aduana chilena, 2014).

5 Trade Facilitation Indicators of the Pacific Alliance members

In 2013, the OECD developed a series of indicators that assess the trade facilitation performance of 107 countries. These indicators seek to identify and evaluate areas that have not yet been optimized for the development of international trade. Figure 1 shows the performance of the trade facilitation of the four members of the Pacific Alliance in 2019. All members had a relatively similar level of performance. Among the most even variables are the *governance and impartiality* indicator. This indicator measures customs structures and functions and their respective ethics policy. This is then followed by the *procedure* and *documentation* indicators. The procedural indicator measures the streamlining of border controls based on single submission points for all required documentation (single window). The documentation indicator measures the availability of information based on the information points and information publication. These results are consistent with the policies reviewed in the

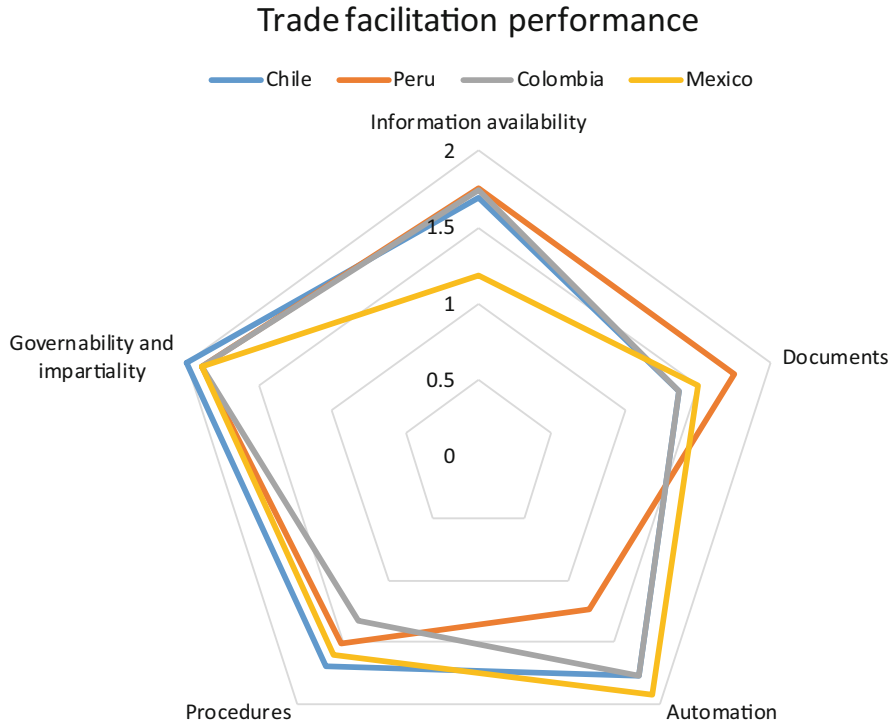


Fig. 1 Trade Facilitation Indicators of the Pacific Alliance members. 2 = better performance (Trade Facilitation Performance, OCDE 2020)

previous section. The PA has emphasized sharing information and developing a one-stop shop that standardizes procedures and document handling. Greater disparities can be observed in the *automation* and *availability of information* indicators. The *automation* variable assesses the level of electronic data interchange and automated border procedures. In automation, Peru appears significantly behind. The latest reports show gradual incorporation of technology in Peru, however, making it the country that exchanges the most information digitally in the group. The *availability of information* indicator measures the information points available as well as the updating and publication of this information. In this Mexico appears behind the rest of the other members. Of the 10,379 documents exchanged on the single window virtual certificate exchange, Mexico has only issued 201.

In terms of trade facilitation in maritime ports in Latin America, the ports of the Pacific Alliance are second only to Panama in efficiency. When compared to the most developed OECD countries or the most advanced countries in Asia, they are still quite far behind. This can be seen in the *Logistic Performance Index 2018*, where the AP members have the most competitive ports in this region, but compared to Japan, Korea, and China, they are still far behind (see Table 1). This indicator is

Table 1 Global logistic performance

País	Rank	Score
Germany	1	4,20
Sweden	2	4,05
Belgium	3	4,04
Japón	5	4,03
Corea	25	3,61
China	26	3,61
Chile	34	3,32
México	51	3,05
Colombia	58	2,94
Peru	83	2,69

Source: LPI Global Ranking, [2018](#)

one of the most used tools to diagnose the performance of ports and terminals at a comparative level and measures six analysis variables: (1) efficiency of the clearance process by border control agencies including customs, (2) quality of trade and transport-related infrastructure, (3) ease of arranging competitively priced international shipment logistics, (4) competence and quality of logistics services, (5) consignment tracking and tracing ability, and (6) timeliness of shipments in reaching their destination (LPI Global Ranking, [2018](#)).

6 Case Study on Trade Facilitation in the Seaports of the Pacific Alliance

A descriptive analysis of the biggest maritime ports that manage the cargo that is directed from Chile, Peru, Colombia, and Mexico to Asia, and in particular China, expose the main differences and similarities between PA ports. These ports were selected because they are the main ports of loading to Asia in each of the member countries. They are: Manzanillo in Mexico, Buenaventura in Colombia, Callao in Peru, and San Antonio in Chile. The results of this comparison can be seen in Table 2. To complete this comparative table, primary and secondary sources from 2018 to 2020 were used. The primary sources are interviews with four experts in trade facilitation and port management, one from each country.

During the last decade, the ports of the Pacific Alliance have made progress in public–private institutional management, placing the members of this bloc up with Panama at the regional port vanguard. The ports of the Pacific Alliance have made advances in infrastructure related to loading and unloading, connectivity with productive areas, and distribution to consumers. This can be seen above in the cases of Mexico, Peru, and Chile. In the case of Colombia, however, there is still a lack of coordination, and the port is far from the production centers. This has prevented them from reaching the level of the other members. Chile and Mexico

Table 2 Summary of interviews and qualitative content analysis on Trade Facilitation in the seaports of the Pacific Alliance

Variable	Manzanillo Mexico	Buenaventura Colombia	Callao Peru	San Antonio Chile
General information				
Location	Pacific Coast, State of Colima	Littoral District in the Pacific, Valle del Cauca	Central coast of Peru	Central coast of Chile
Type of goods	Minerals, Containers, storage, and frozen	Transfer. Multi-modal except for fluids (coal, bulk, solids, and hydrocarbons)	Minerals, container transfer, storage, and frozen	Container transfer, general cargo, solid and liquid bulk, chemical transfer
Freight volume	3,one million TEU	2.8 million de TEU s	2,three million TEU	1,seven million TEU
Wait time (export)	3,5 h	4 to 8 h	12 to 14 h	3 h
Main gate (port control)	PAT and Custom	Private operator and Custom	-----	PAT and Custom
Port infrastructure				
Area Km ²	4.7	6.2	1.76	---
Berth length	21 berths	12 berths	17 berths	14 berths
Water deep	17 m	14 m	16 m	15 m
Access modes	Highway and rail lines	Highway Loboguerrero Cali o Medellin	Highway, rail lines	Highway, rail lines
Customs X-ray machines	4 VACIS full scan gamma equipment	1 X-ray equipment Rapiscan Eagle P60 system	2 NUCTECH THSCAN MB 1215HL 12 radiological and nuclear scanners	3 fixed equipment and one mobile
Customs and port management				
Port highlight	120 TEU / hour 1000 Ton / hour Frigo 3000 ton Connectivity with urban and productive centers 75% Asia 15 cranes 8 SPP 4 PP 3	Expansion from 2012 to 2018 of 180% in its container capacity and 68% of other cargo 4 post panamax 16 patio cranes	Container and bulk cargo No coordination problem	Container and bulk cargo No coordination problem
Problems and obstacles	Lack of direct roads between sectors of the port. Road congestion Transshipment 40% from Mexico	Lack of channel dredging for larger drafts Lack of coordination with the government Away from export	Lack of coordination with the government Congestion problems and the lack of road connectivity	Increasing the size of the vessels is a key factor to developing a different infrastructure, with deeper, wider sites and

(continued)

Table 2 (continued)

Variable	Manzanillo Mexico	Buenaventura Colombia	Callao Peru	San Antonio Chile
		production points and consumption centers (cost increases)		with greater dredging needs
Development plant	<p>Master Plan 2015–2020: Construction of a railway tunnel and level crossings to solve inconvenience and traffic cuts due to railway traffic.</p> <p>It projects a growth of 7.1 for the 2014–2035 period. Double by 2023</p>	<p>District Development Plan 2020–2023: Improve traffic circulation. Provide other related logistics service</p>	<p>Puerto Callao Master Plan 2019–2048: Implement the Large-Scale Port</p> <p>Invest in new technologies and infrastructure to migrate toward a 4.0 port industry</p>	<p>National Plan for Port Development 2020: Implement the Large-Scale Port</p> <p>Improve traffic circulation.</p> <p>Invest in new technologies to migrate toward a 4.0 port industry</p>

Sources: Elaborated by the authors based on port official website data and interviews

San Antonio Port: <https://www.puertosanantonio.com/>

Buena Aventura Port: <http://www.sprbun.com/web/portal/inicio>

Callao Port: <https://www.apmterminalsallao.com.pe/>

Manzanillo Port: <https://www.puertomanzanillo.com.mx/espi/0000001/inicio>

Complementary sources:

Plan Maestro del terminal portuario del callao. Diciembre 2020 disponible en <https://www.gob.pe/institucion/apn/informes-publicaciones/1423305-plan-maestro-del-terminal-portuario-del-callao>

Observatorio Nacional de Logística: <https://onl.dnp.gov.co/es/Publicaciones/Paginas/CapacidadPortuaria.aspx>

Programa maestro de desarrollo portuario de los puertos de manzanillo y laguna Cuyutlán 2015–2020 disponible en <https://www.puertomanzanillo.com.mx/espi/0000001/inicio>

Análisis de puertos. Subsecretaría de industria y comercio México disponible en https://www.gob.mx/cms/uploads/attachment/file/323755/An_lisis3-5.pdf

have invested heavily in the development of highways and railways to enhance the logistics chain. Peru has made these areas a priority in its development plan.

It can be inferred that the ports of the Pacific Alliance have gained a substantial advantage from the single window documentation system. This measure has simplified processes and improved documentary and institutional coordination. However, many documents and processes still need to be standardized and investments to even out the technological level between members.

Although Panama leads the region in transshipment and has large ports, the members of the Pacific Alliance have been competing for transshipment and enlarging their operational capacities, especially for ships arriving from Asia. The port of Manzanilla in Mexico and that of Callao in Peru plan to configure these ports as logistics hubs or multimodal platforms. Chile plans to transform the Port of San Antonio into a Large-Scale port. These approaches involve enabling new functions to the port and investing in new technologies to migrate toward a port industry 4.0.

The PA port administrations all view these challenges as a combined task between public entities and private companies. The search for alliances to invest in technologies and applications to digitalize processes can be inferred from the development plans as one of their long-term goals. Meaning there are already first developments, such as the formation of a public–private alliance to invest in nonintrusive inspection processes both in Mexico, as well as in Chile and Peru.

7 Final Remarks

Two of the most complex difficulties encountered in the Latin American trade integration have been maintaining the balance between the different political cultures of its member countries and the search for homogeneous channels of communication and cooperation (Borquez, 2020). Trade facilitation policies emerge as an accessible and effective mechanism to dispense with these barriers. This chapter has highlighted the importance of trade facilitation as a complement to trade agreements and as one of the axes for strengthening economic integration under the framework of the Pacific Alliance. However, developing trade-related infrastructure and reducing costs and delays remain a challenge for alliance members.

The member countries of the Pacific Alliance have derived the highest levels of competitiveness in the region from their investments in transport networks and logistics structures. When comparing the competitiveness indices with other regions, however, difficulties and shortcomings are reflected in the facilitation of trade and port development.

Trade facilitation policies may vary at the port level between the different ports of a country, but the comparison framework proposed by this chapter shows that the PA ports that send merchandise to the Asian market are quite homogeneous.

The elements reviewed in this chapter contribute to a roadmap that will help Pacific Alliance countries better integrate infrastructure improvements and optimize facilitation measures to obtain greater profits and benefits from trade. This entails a long-term perspective and the opportunity to develop improvements in customs efficiency and infrastructure.

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Agricultural Trade and Investments between Latin America and China: Development, Implications, and Challenges



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Abstract Agriculture has progressively decreased in its proportion of the value of international trade flows, being largely surpassed by extractive industries and, above all, manufacturing. Latin America, and especially South America, however, is one of the regions where the highest percentage of total trade comes from agricultural trade. China has become a preferred destination for Latin American agricultural exports, with China seeing Latin America as a strategic partner in guaranteeing its food security. The objective of this chapter is to analyze the agricultural trade and investment relationship between China and Latin America, starting with an overview of the recent evolution of agricultural export and import flows between China and Latin America and its implications, followed by an analysis of the agricultural investment strategies that China has developed in Latin America and the agricultural trade agreements China has made with Latin American countries, and finishing with an exploration of the effects of COVID-19 on Sino-Latin American agricultural trade and some adaptation strategies that have been implemented.

Keywords Agricultural trade and investment · Food security · Trade agreements · Center–periphery dependency relationships

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1 Introduction

For China, the development of international trade is strategic to ensure national food security. According to the White Paper on Food Security published in 2019 by the State Council Information Office of the People's Republic of China (n.d.), the country "strictly abides by WTO rules and fulfills its commitments to the organization, sharing its huge food market with major food-producing countries." After the global food security crisis of 2008, China decided to increase foreign investment in agriculture, including the sector more strongly in its "going out" or "go global" strategy (Mora, 2019). As Li (2018) states, the rapid rise of Chinese foreign investment is creating both anxieties based on the suspicion that China intends to dominate the world market, but also great economic opportunities.

Latin America is a net exporter of agricultural products. Today, one of its main markets is China, with explosive growth over the last two decades. China sees Latin America as a strategic partner to guarantee national food security, motivating not only trade but also agricultural investments. Currently, however, there are still only a few Latin American countries that have trade agreements with China, and except for certain products, it remains an unfamiliar destination for many exporting companies in the region. There is much more literature exploring the commercial relationship between the United States and the European Union, traditional markets for Latin American agricultural exports. The academic review and analysis of Latin American agricultural exports to China and of Chinese agricultural investments to Latin America need to go further considering its recent development, implications, and regulatory framework.

The objective of this chapter is then to analyze the agricultural trade and investment between China and Latin America. The chapter is divided into three main sections:

1. The recent evolution of agricultural export and import flows between China and Latin America based on international databases, the relevance and evolution of agricultural-related investment strategies that China has developed in Latin America, and some implications of these economic relationships for Latin America.
2. Analysis of the agricultural content of China's trade agreements with Latin American countries.
3. The effects of COVID-19-related quarantines in China on Sino-Latin American agricultural import–export flows.

2 Overview of Sino-Latin American Agricultural Trade and Investments

2.1 *Evolution of Agricultural Trade between China and Latin America*

China sees agriculture, food security, and self-sufficiency, as strategic sectors. This was demonstrated in its first national medium-to-long-term food security plan (2008–2020), in which the government reiterated its goal of achieving a self-sufficiency rate of 95% of grains and 100% of cereals for national consumption. Recognizing internal constraints for achieving this, China had to redefine its strategy for food security, maintaining the commitment to self-sufficiency in essential agricultural goods like rice and wheat, but admitting the need to import others (Zhang & Cheng, 2016). International trade of agricultural products became relevant for China, and it became a major trading partner for Latin America.

Chinese demand for Latin American agricultural products has dramatically grown in the last decade, alongside the traditional destination markets of the United States and the European Union (Castaneda, 2017). In 2008, agricultural exports from Latin America were mostly sent to the European Union (25%), the United States (15%), and China (9%). By 2018, the United States (22%) and China (17%) increased their share, while the European Union's share decreased (17%). The growth in the proportion of Latin American agricultural exports going to China is even sharper when looking back a few more decades, considering that it was only 1.1% in 1990, and 2.5% in 2000.

Chinese exports to Latin America have also grown. Chinese agricultural imports from Latin America increased by almost a 7.0% CAGR (Compound Annual Growth Rate) from 2008 to 2018, while Chinese agricultural exports to Latin America increased by approximately 8.4% CAGR during the same period (Fig. 1). Despite a higher growth rate in exports to the region, Chinese agricultural imports are significantly higher than exports: in 2018 they imported \$43 trillion and exported only \$2.122 billion. China has been steadily increasing its negative balance of agricultural trade with Latin America.

In 2018, the main origin of Chinese agricultural imports from Latin America was Brazil, which represented around 76% of the total, followed by Chile (7%), Argentina (5%), Peru (4%), Ecuador (2%), and Mexico (2%) (Fig. 2). The concentration in Brazil has increased over the years. Back in 2008, Brazil and Argentina were the leading Latin American agricultural suppliers of China, each about even at nearly 45% (WITS, 2020). The importance of a Latin American country in the Chinese market might indicate its ability to insert into Chinese value chains, but by doing so it assumes the risk and sensitivity to changes in Chinese demand. Brazil is particularly sensitive because its exports contribute substantially to China's agricultural value chain, and that might affect the dynamics of its production (Castaneda, 2017).

Chinese agricultural exports to Latin American countries, by contrast, were not very concentrated at any point in this period. Mexico was the leading destination



Fig. 1 Evolution of Chinese trade with Latin American countries. Source: Prepared by authors based on data from WITS (2020)

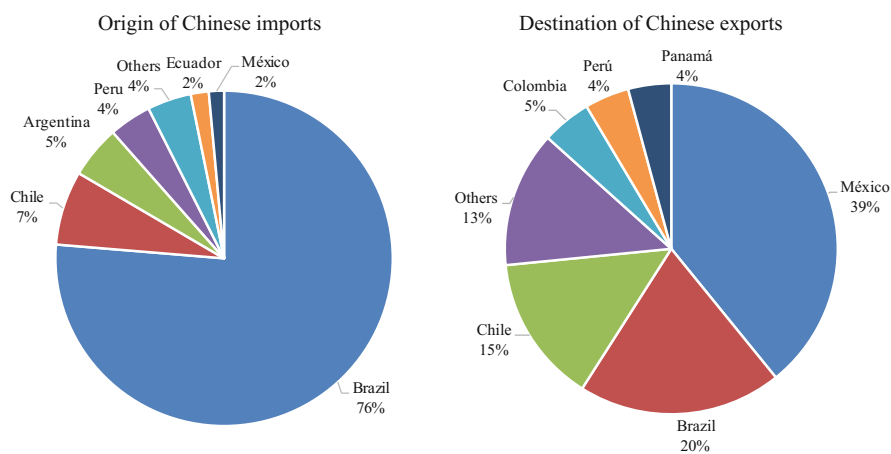


Fig. 2 Latin American importing and exporting countries from/to China (2018). Source: Prepared by authors based on data from WITS (2020)

with 39%, followed by Brazil (20%), Chile (15%), Colombia (5%), Peru (4%), and Panama (4%) in 2018 (Fig. 2). Mexico and Brazil have interchanged as the first and second export destinations over the years, while Chile has grown steadily.

Chinese agricultural imports from Latin America are highly concentrated in HS Chap. 12, i.e., “oilseeds and others” (70.4%), which contains mainly soybeans. Soybeans are an essential part of the Chinese diet and are also used for feeding livestock. Recently, soybeans and soybean-based meals have provided new export opportunities for countries such as Brazil and Argentina that produce them,

especially due to the trade tensions between the United States and China (OCDE-FAO, 2019). HS Chap. 02, i.e., “Meat and edible offal,” represents 11% of Chinese agricultural imports from Latin America, including frozen beef and poultry. The consumption of animal protein in China has multiplied by four in the last 30 years, in step with higher living standards (Casanova et al., 2016).

Chinese agricultural exports to Latin America are more diversified than their imports. The most important categories are HS Chap. 16 “Prepared meat, fish, others” (29%) and HS Chap. 03 “Fish and crustacean” (14%), followed by HS Chap. 7 “Edible vegetables and certain roots” (9%), including vegetable saps, onions, and peppers (Fig. 3).

China has become an essential destination for agricultural exports from Latin America. China has diversified both the Latin American destination markets for its exports (e.g., Mexico, Brazil, and Chile) and its agricultural exported products to Latin America (e.g., fish and vegetables). Latin America, meanwhile, has not been able to diversify the origin countries or export products. Most of the exports to China from the region are from Brazil, and most of the agricultural products are soybeans. According to Economic Commission for Latin America and the Caribbean (ECLAC) (2016), this might reflect missed opportunities for Latin American agricultural exports to China.

2.2 Chinese Agricultural Foreign Direct Investment (FDI) in Latin America

China must feed 19% of the world population but has only 7% of the arable land and 6% of the world’s water resources within its borders. In order to face its productive limitations, as well as respond to its growing demand, China has expanded and strengthened ties with foreign partners. There was a significant shift from local investment to global investment, specifically, the “going out” or “go global” strategy has encouraged Chinese companies to move into global markets since the 1990s.

Since 2006, Chinese authorities have encouraged outward agricultural investment. As early as 2007, the Chinese Communist Party boosted agricultural investment abroad for the first time through policy. Even so, Chinese investment in the agricultural sector in foreign countries is not as significant as in other sectors. According to official Chinese information, agriculture accounted for a relatively constant 1 to 2 percent of China’s total foreign investment during the most rapid growth years (2010–2016). These results may be an underestimate due to investments that are not counted as agricultural but are directly related to the manufacture and logistics of foods (Gooch & Gale, 2018).

Some researchers have identified commonalities that explain why China’s outward FDI has been concentrated in neighboring areas, especially Southeast Asia and Russia, while Latin America receives only around 6%. FDI from China in agriculture is generally targeted toward zones with abundant natural resources that have

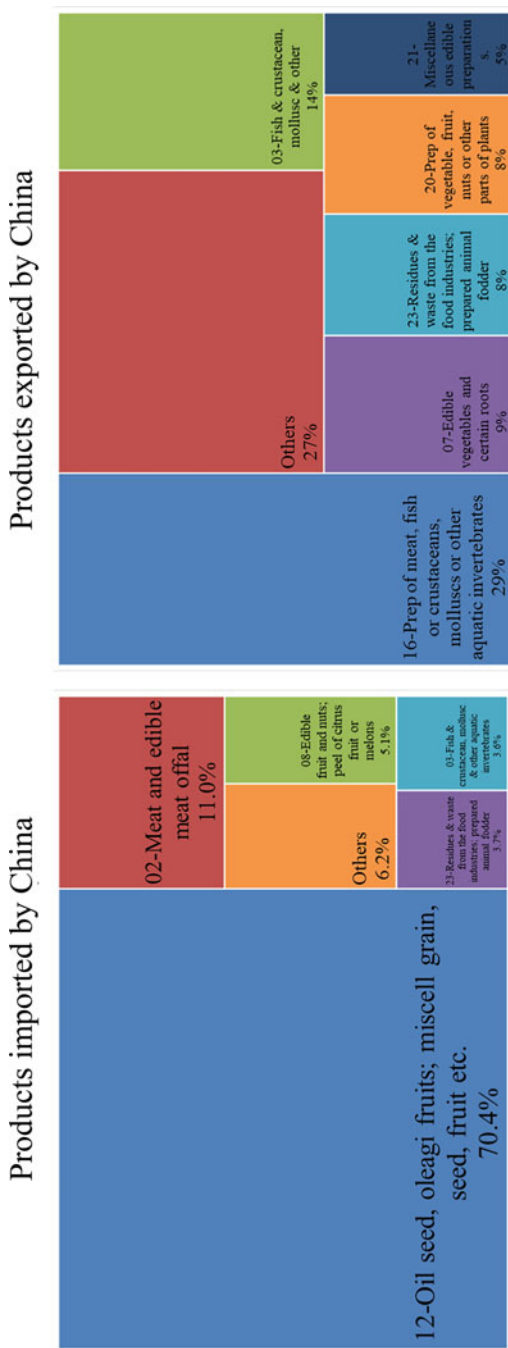


Fig. 3 Imported and exported agricultural products by China from/to LA (2018). Source: Prepared by authors based on data from WITS (2020)

Chinese companies in the “whole industry chain,” countries targeted for technical assistance in agriculture, and where agricultural ventures may be tied to diplomatic overtures or initiatives like One Belt One Road (Gooch & Gale, 2018).

Chinese agricultural FDI includes those operations aimed at producing food and nonfood products through agriculture and livestock, such as the cultivation of seeds, horticulture, industrial products, and agricultural services such as irrigation systems. Activities that are part of agricultural value chains such as the supply of seeds, fertilizers and equipment, logistics, sales, and processing are also included (UNCTAD, 2010). In other words, Chinese agricultural investments go from buying or leasing arable land to trading agricultural products.

Following the “going out” or “go global” strategy, China is expanding its agricultural frontier through its Asian periphery, Africa, Australia, and Latin America, within the framework of land grabbing (Trápaga Delfín, 2014). Contrary to general perception, Chinese companies, including both small and private companies, as well as large and public companies, had bought or leased less than 0.2% of all arable land in Latin America by 2015 (Myers & Jie, 2015). Land grabbing is a particularly controversial materialization of Chinese investment in Latin America, however. Large investments from groups such as China’s Chongqing Grain Group in Brazil and Beidahuang in Argentina were stalled or rejected due to opposition from environmental groups and accusations of local land ownership law violations (Zhang, 2019).

Another expansion of Chinese investment has been through participation in the commercialization of Latin American agricultural products. The largest food processing and trading company in China, China Oil and Foodstuffs Corporation (COFCO), progressively acquired all of the agricultural assets of Noble and Nidera by 2016. COFCO then obtained total control of two important Argentine grain exporters that are world renowned. In this way, COFCO guaranteed access to a supply, storage, and logistics network in key producing regions (Gooch & Gale, 2018; Mora, 2019). Another example of China’s investment expansion occurred when Shanghai Pengxin Group Co. acquired the renowned agro-industrial companies Fiagril and Belagricola in Brazil for more than \$500 million (Ellis, 2018).

Chinese FDI in Latin America has thereby pursued production and food security objectives. The agricultural FDI strategy has materialized in different forms, and with higher relevance in countries with certain characteristics like Argentina and Brazil. In the first phase, the investment was oriented toward land grabbing, which was replaced more recently by other modalities such as control of the value and logistics chains.

2.3 *Implications of Agricultural Trade with China for Latin America*

Although some authors are cautious when referring to a new dependency relationship between China and Latin America (Ferchen, 2011; Giraudo, 2020), it is undeniable that China has become a strategic trading partner for the region and the rest of the world due to its demand volume (Bórquez, 2019). China is therefore capable of influencing prices significantly for natural resources and agricultural products that Latin America exports. For example, Chinese demand for oilseeds and soybeans has sometimes caused earnings for these exports to exceed crude oil and iron, due more to high prices than volume (Casanova et al., 2016). The last commodity price boom was driven by growing Chinese demand, which, without a doubt, benefited the performance of Latin American exports and could have been an opportunity to create the basis for long-term, sustainable growth.

Growing Chinese demand and profitable prices have clear downsides: increasing natural resource exploitation, intensifying agricultural production, further concentrating on exports with low added value, and the reprimarization of Latin American production (Wilkinson & Wesz Junior, 2013; Menezes & Bragatti, 2020). Crude oil, iron ore, and soybeans accounted for more than 80% of Brazil's exports to China in 2014, which limits sustained economic growth, as those sectors are vulnerable to external shocks and price volatility (Casanova et al., 2016). Although trade between China and Latin America is generally celebrated as an opportunity to increase income and promote regional development, according to Jenkins (2015), China represents a threat to exporters of manufactured goods from the Global South. There is a risk of recreating the "center-periphery" relationship, this time with China, traditionally referred to by ECLAC as the North-South dependence (ECLAC, 2016).

As for the environmental implications of the China-Latin America trade relationship, it promotes the expansion of mono-crops, such as the so-called "republic of soybeans," which includes arable land in Brazil, Paraguay, Bolivia, Argentina, and Uruguay (McKay et al., 2016). The social resistance of local populations has limited land grabbing by Chinese foreign investors for mass-producing soybeans, especially since laws related to land tenure in Brazil (2010) and Argentina (2011) took effect (Giraudo, 2020). The proliferation of extensive mono-crops driven by Chinese demand has aggravated severe social and environmental conflicts such as water, deforestation, and land use disputes (Fearnside et al., 2013).

Socio and environmental conflicts are not often directly related to Chinese foreign investments. Local companies also generate water scarcity problems and deforestation in their attempts to meet the increasing Chinese demand. In 2017, China imported about 32 thousand tons of avocados, mainly from Chile, Mexico, and Peru. Avocados are highly desired in China, where it is known as "butter fruit," however, its production consumes a lot of water. According to the National Institute of Forestry, Agriculture and Fisheries Research of Mexico, it is estimated that about 2000 liters of water are required to produce one kilo of avocados, which is four times

more than a kilo of oranges. A Chilean town well-known for mass-producing avocados is Petorca, where the rivers have almost completely dried up. Not only have people lost access to water for daily use, but there is no water to produce other crops, causing a challenging economic and social scenario (Cuéllar, 2018).

3 Agricultural-Related Content from Free Trade Agreements and Economic Cooperation Forums

This section is a review of the content related to agricultural trade from the three Free Trade Agreements that China has signed with Latin American countries (Chile, Peru, and Costa Rica). Each agreement contains tariff preferences, technical nontariff measures, appellations of origin, and cooperation.

3.1 China-Chile Free Trade Agreement

The immediate effect of the 2005 China-Chile FTA was that more than 90% of the products that Chile was exporting to China started entering the country duty-free (Heine, 2006). An important part of those exports were agricultural products, a sector which has undergone a huge expansion since. In 2006, Chile exported \$443 million FOB worth of agricultural and forestry products, and by 2019 they had grown to \$4.825 billion FOB. Since 2018, China has been the largest importer of Chilean agricultural and forestry products. Grapes, wine, and berries are the agricultural exports with the highest growth. Fresh cherries, for instance, grew from \$1.2 million FOB in 2006 to 1.5 billion FOB in 2019. Chinese cherries are out of season during Chinese New Year, which has created a crucial market for Chilean cherries.

Another aspect of the China-Chile FTA that affects this segment are sanitary and phytosanitary measures. Both countries agreed to increase communication, cooperation, understanding, and transparency. They established a committee, coordinated in China by the Administration of Quality Supervision Inspection and Quarantine (AQSIQ) and in Chile by the International Economic Relations Undersecretary. The FTA also establishes a Committee on Technical Barriers to Trade, which is relevant for agricultural trade, coordinated by the AQSIQ and the Chilean Foreign Trade Department.

Research has shown the importance of these communication and cooperation mechanisms on SPS/TBT, as the impact of technical, nontariff measures depends on their level of harmonization (Kinzius et al., 2019; Arita et al., 2017). Thanks to the good relationship between the Chilean and Chinese food safety agencies, we can see some recent and specific results that benefit Chilean exporters: paperless electronic certification for Chilean livestock products, sanitary approval for European hazelnuts exported from Chile, approval for fruit exports by sea-air shipments with

a stop in a third country, the procedure for Chilean fruit exports in ships' warehouses, and the agreement for the export of Chilean bee products (Márquez Molina, 2019).

The Chilean fruit industry has also taken part in increasing cooperation with China to facilitate trade. In July 2020, a Memorandum of Understanding was signed between the Chilean Association of Fruit Exporters (ASOEX) and the Chinese Chamber of Commerce for the Import and Export of Food (CCCFNA), which strengthens the commercial relations between both parties. This agreement seeks to expand the exchange of technology, technical expertise, statistical and regulatory information, as well as advertising, promotion, and cross visits.

3.2 China-Peru Free Trade Agreement

An important group of agricultural products were allowed to enter China duty free after the signing of the China-Peru FTA in 2009, including grapes, asparagus, citrus fruits, peppers, tomato, cocoa, nuts, beans, artichokes, garlic, onions, avocados, and strawberries (CAPECHI, 2008). China excluded some agricultural products such as coffee, rice, corn, sugar, and vegetable oil; however, these accounted for only 1% of Peruvian exports (Wise, 2012).

In less than a decade, Peruvian agricultural exports to China multiplied. In 2010, the value of the Peruvian agricultural exports to China was \$34 million, and in 2018 it was \$180 million. The main exported product was table grapes, but others are emerging, such as avocados, berries, tangerines, and asparagus (León Carrasco, 2019). Another Peruvian primary product with huge growth in exports to China has been fish flour and oil. The Chinese market imports 80% of Peruvian fish flour and oil, which is intended for its aquaculture industry (GLOBEFISH-FAO, 2019).

On Sanitary and Phytosanitary Measures, the FTA establishes that relevant Chinese and Peruvian authorities work together to achieve cooperation and coordination in order to facilitate trade. For this, they established a joint Committee on Sanitary and Phytosanitary Measures coordinated by the Chinese AQSIQ and the Peruvian Ministry of Foreign Trade and Tourism. This committee meets at least every two years, or more if necessary. The chapter on Technical Barriers to Trade also establishes a joint committee between the same offices to enhance cooperation and information exchange.

China recognizes some Peruvian agricultural-related appellations of origin, such as the Giant White Corn of Cusco and Pisco, a type of brandy. China also recognizes the appellation of origin of Chilean Pisco in the FTA with Chile.

China and Peru are committed to collaborating on agriculture. Specifically, to exchange experience, foster partnership, and execute joint projects in innovation and technology for small-scale farmers, water management, good agricultural and agro-industrial practices, and gender diversity. They also committed to exchange information relevant to exports and to develop a training program for the application of

new technologies. China and Peru currently have a Joint Agricultural Commission working on these goals.

3.3 China-Costa Rica Free Trade Agreement

The 2010 China-Costa Rica FTA granted immediate, duty-free access for 99.6% of Costa Rican exports to China (65% of tariff lines). Among them were relevant food exports such as frozen orange juice and pulp, tilapia, shrimp, cacao, flowers, and plants (Ministerio de Comercio Exterior, 2010). Costa Rica is a net exporter of agricultural products, but China is not a traditional market. Until China entered the WTO in 2001, the tariffs applied to Costa Rica were too high and their trade relations were practically nonexistent. Worldwide exports of Costa Rican agricultural products in 2018 had a value of \$4.91 billion, making up 43% of their total exports. The main markets were the United States and the European Union. China had grown in its participation in the previous decade but was still under 2% (SEPSA, 2019). Sugar and beef are the main Costa Rican agricultural products exported to China, but according to PROCOMER (2019) there are relevant market opportunities for other food products such as pork, beer, coffee, baby formula, and sauces. However, Costa Rican exporters still seem to treat the Chinese market with reluctance and unfamiliarity.

On Sanitary and Phytosanitary Measures, China and Costa Rica committed to exchanging information and cooperating. They established a Committee on Sanitary and Phytosanitary Measures coordinated by the Chinese AQSIQ and the Costa Rican Directorate for the Application of International Trade Agreements of the Ministry of Foreign Trade. The Technical Barriers to Trade chapter established a joint committee between these same offices. In 2013, China and Costa Rica approved a common sanitary protocol. Today, Costa Rica has authorized beef, dairy, tuna, shrimp, and, since 2019, pork facilities to export to China.

China recognizes Costa Rican agricultural appellations of origin such as the Banana of Costa Rica and the Coffee of Costa Rica, Tarrazú, Guanacaste, Orosi. The Costa Rican coffee industry has a strong export bias, with well-known brands like Café Britt which highlight the origin of their products.

Both countries agree on the importance of the agriculture sector. They are committed to cooperating on strengthening institutional capacities for the development of the sector, promoting joint research projects in areas of mutual and complementary interest, promoting the use of new technologies, ensuring risk management in agribusiness chains, boosting strategic alliances between the public, private, and academic sectors to support the development of innovative products and services, supporting nontraditional crop production, and strengthening cooperation on SPS-related issues.

4 Implications of the COVID-19 Outbreak on Sino-Latin American Agricultural Trade

The 2020 Chinese New Year or Spring Festival was celebrated between January 24th and 30th. This holiday was interrupted by the drastic sanitary actions implemented when the COVID-19 quarantine was officially declared in the city of Wuhan on January 23rd. Among the measures taken was a prolonged closure of shops and streets, and a ban on interprovincial travel. These situations prevented workers from returning to their activities, including those engaged in importation, logistics, and customs, affecting the movement of imported goods. One of the most important ports for the reception of agricultural products in China, the Guangzhou Port, which in 2019 moved a volume of 22.83 million TEUs (Twenty-foot Equivalent Unit), was affected by health measures. This is the port where most agricultural products enter mainland China (iContainers., 2018; MundoMarítimo, 2020).

The Chinese stock up in advance for this holiday because they know that stores close for a week. For this reason, in the days before the holiday, there is a large volume of transactions of all kinds of products that are distributed by a broad and extensive logistics chain. Before the holiday, importers generally decrease their stock due to the fact that trade slows down. As the holiday coincided with the quarantine, and the rest of the country was worried about the events that occurred in Wuhan, many workers were unable to return to their jobs, slowing logistics down more than anticipated, and causing loads of agricultural products, especially fresh items like fruits, to be unloaded and cleared more slowly. There were also shortages in the rest of the logistics chain, in particular, motorcycle and trolley delivery personnel called *kuaidi* (快递 –urgent delivery–). In large cities like Beijing and Shanghai, these workers are the ones who make the e-commerce chain work, taking products the last mile to the consumer's door.

Due to the strict quarantine measures, demand for agricultural products in brick and mortar stores such as supermarkets decreased. Although they were still authorized to operate, citizens preferred to make their purchases online. E-commerce is highly developed in China, in large cities, secondary cities, and inland towns. It is very popular, especially with younger generations, and played an important and growing role during this period. Because of the quarantine, many people aged above 40 years who previously did not know about or use these channels began to use platforms such as Taobao, Pinduoduo, and JD.com to make food purchases. Alipay and WeChat are used for payments and have a smartphone application associated with a bank account. In these applications, Chinese consumers can find a greater variety of both national and imported products at lower prices than in physical stores such as supermarkets, greengrocers, and convenience stores. At the time of this writing, there are four times more e-commerce users in China than in the United States (Schmidt, 2020).

One of the Latin American agricultural exports that were most acutely affected by the quarantines was wine. This was due to the reduced operation of HORECA channels (Hotels, Restaurants, and Cafeterias). Bottled wine, meanwhile, is mostly

bought to give away or consume with family and friends in China (Schmidt, 2020). Countries like Chile that have logistic and postharvest chains for the commercialization of fresh fruits in China had the greatest difficulties in distributing the loads that arrived in port. During January there were at least 1500 refrigerated containers (reefers), mostly cherries, and another 1500 that were in transit, all with little possibility to redirect the shipments to other markets due to the large volume (Marchetti, 2020). Chile had exported 96% of its 2019–2020 cherry harvest to China (Ledger, 2020). Chilean exporters were concerned that a highly perishable product such as cherries would be processed slower than expected, decreasing quality and reducing the selling price. Chilean fresh fruit sales in China during the COVID-19 outbreak crisis decreased between 50% and 60% (Guerrero, 2020). This problem was mainly to do with the loads that arrived a few days before the national holiday. The reefers accumulated in the terminals and container yards because there was not enough staff to move an average of 200 to 350 containers of Chilean cherries per day. The government authorized only 30 to 40 containers to land per day (Flores et al., 2020), which made the marketing of this product much slower.

Other products such as stone fruits (nectarines, peaches, and plums) and blueberries did not have major difficulties in landing and marketing. In general, the fruit business did not stop, and there were no major problems given the magnitude of the situation that was occurring. Mainly, prices were reduced on what should have been a premium product, and there was a loss of fruit.

There was no food shortage, as such. The final customer simply found a lower quality and reduced supply of imported fruits. The Chilean fruit industry sold 879,000 tons of fresh fruits to China between January and March 2020, with sales worth \$2.069 billion. This was a decrease of 0.8% in volume and 19% in value when compared to the same period from the previous year (Ledger, 2020). Argentina sends 75% of its meat to China, but this trade has slowed down since November 2019 due to diverse commercial factors, including problems with foot-and-mouth disease that reduced meat production. In addition, Argentinian exporters were diverting their products to the Russian market and exporting lower volumes to reduce supply and raise prices (Martínez, 2020). Ecuador, which mainly exports bananas and shrimp to China, increased crustacean shipments by ten million pounds over January 2019. It should be noted that 67% of its shrimp production is exported to China, and in turn, 55% of the shrimp imported from China is of Ecuadorian origin. In the case of bananas, there was a 6% decrease in exports due to delayed payments by Chinese importers; a situation that was later resolved (El Universo, 2020). Something similar happened with Peruvian shipments of grapes and mangos, which in some cases were redirected to Europe or canceled altogether (MasContainer, 2020). Mexico increased the value of its agricultural sector exports by 3.5%. Brazil also increased the value and volume of exports of agricultural products. In sum, between January and May, the value of agricultural shipments from Latin America increased 0.9% because they are essential goods. To increase the flow of these goods, some airlines used their passenger planes as air freighters (CEPAL, 2020).

5 Concluding Remarks

China is an increasing economic power with a growing middle class and transitioning dietary habits and food demand. Chinese agriculture is still not prepared to completely supply this growing market, especially in the meat, dairy, grain, and fruit categories. In contrast, Latin America, especially South America, is a net agricultural exporter specialized in some of the products that China lacks. Consequently, China recognizes Latin America as a major provider of food products, which has manifested in a dramatic increase in imports, as well as investment initiatives. Both of these have been focused on certain countries, mainly Brazil, and on certain products, such as soybeans.

The size of the Chinese food demand causes it to impact food systems all over the world. Latin America is an excellent example. The expansion of agricultural exports to China represents a big opportunity for businesses. However, the internal imbalances that are generated by this in these countries must also be addressed. In the most extreme cases, these have led to environmental and social conflicts. It is also important to diversify exports, add value to traded goods, and look for win-win investments that contribute to long-term, non-predatory relationships. It is undesirable to replicate the center-periphery dependency relationships that are well known in Latin America. Trade agreements, as well as international economic forums, have been used to build a framework for positive relationships. TLCs with Chile, Peru, and Costa Rica show an interest in cooperation, and in the cases of Chile and Peru, deep, long-term diplomatic relations have a clear impact on the expansion of agricultural exports to China.

Finally, on the COVID-19 contingency, the initial sanitary restrictions and subsequent delays negatively impacted unloading at ports. Some highly perishable products such as Chilean cherries were badly affected. However, the constraints were quickly resolved, and overall agricultural trade from Latin America to China recovered. The effects on the demand in the United States and the European Union of the COVID-19-related economic crisis could even strengthen China as a trading partner for Latin America.

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An Analysis of E-commerce Provisions in Sino-Latin American Relations



Felipe Muñoz and Javiera Cáceres

Abstract The patterns in international economic relations have changed in the last decades as the relevance of intangibles rises. There is a growing concern on developing digital trade which may help to diversify and add value to exports. The use of digital platforms may directly connect SMEs with consumers, expanding their market access or allowing traditional services such as education, medicine, among others, to be traded across borders. This has become particularly relevant for China and Latin America, which trade relations have been characterized by the exchange of raw materials (export of commodities from Latin America to China) and final consumption goods (imported from China to the region). A problem toward the development of digital economy is the fragmentation of normative frameworks that will promote cross-border exchanges. In this context, the objective of this chapter is to analyze the digital trade dimension of Sino-Latin American relations, with special emphasis on the inclusion of e-commerce-related provisions in their international agreements. It is concluded that the Digital Economy Partnership Agreement can be used as a benchmark to guide the current and future negotiations between China and Latin American economies.

Keywords E-commerce · China · Latin America · Free trade agreements · DEPA

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1 Introduction

At the Second Ministerial Conference of the World Trade Organization in May of 1998, members were quick to recognize the importance of electronic commerce and its impact on trade. They adopted the Declaration on Global Electronic Commerce that called for the creation of a work program on e-commerce. Since this moment, international forums including WTO and APEC have continuously worked on addressing this issue. Nevertheless, as WTO negotiations have stalled, most policymaking has been shifted to preferential agreements.

According to data estimated by UNCTAD (2020), e-commerce sales reached \$25.6 trillion globally in 2018, equivalent to 30% of the global gross domestic product (GDP) of that year. While the value of business-to-business (B2B) e-commerce represented 83% of all e-commerce, with \$21 trillion in sales, business-to-consumer (B2C) amounted to \$4.4 trillion, and cross-border B2C sales were \$404 billion. China ranked as the third-largest e-commerce sales economy, reporting \$2.3 trillion. Moreover, the country led the sales of B2C e-commerce with a total of \$1.3 trillion, with the Chinese company Alibaba generating a gross merchandise value (GMV) of \$866 billion on its own (UNCTAD, 2020).

In UNCTAD's B2C E-commerce Index 2019, which measures an economy's preparedness to support online shopping, China scored 68.8 points, well over the world average of 55. The special administrative region of China, Hong Kong, achieved 90.5 points, standing out in the share of individuals using the Internet and having a bank account. The Latin American region averaged 48 points, mainly due to its lack of postal reliability.

Research regarding the impact of e-commerce and the incorporation of digital tools indicates that Internet usage has a positive impact on trade, which indirectly affects economic growth (Meijers, 2014). Despite the differing impact of technology across countries, there is evidence that suggests that a 1% increase in Internet usage leads to a 0.06% increase in GDP (Kumar et al., 2020).

The use of e-commerce and digital tools have also increased the tradability of goods and the ability to aggregate overseas demand through e-commerce platforms. This has lowered the marginal cost of the export process, allowing the participation of actors previously excluded from international trade, such as micro and small enterprises (Lee-Makiyama, 2018). E-commerce also has implications on the labor market, as it can help raise the quality of employment and create new jobs, especially in developing countries, though it may also eliminate jobs due to the reduced need for intermediaries (Singh, 2008).

The Latin American region has started a digitalization process, along with industrial policies to regulate the digital sector, however, this usually relies on lower-ranking agencies located in the Ministry of Economy or the ministry in charge of production, as well as each ministry that decided individually to incorporate digital tools. This fragmentation in the elaboration of digital policies is a major threat to the integration and coordination of a long-term strategy (Katz, 2015). Cooperation with China may become particularly relevant in developing a long-

term strategy. The rise of one of the major e-commerce platforms, Alibaba, was facilitated by China's advanced infrastructure in logistics and information technology (Dussel Peters et al., 2018). Latin America may learn from the Chinese experience to develop its digital economy.

The COVID-19 pandemic has highlighted the relevance of e-commerce as an important tool to face times of crisis, not only to sustain consumption through digital means but also as an economic driver that promotes the inclusion of small businesses. While the sales of B2B and B2C companies have increased due to demand for certain products, the supply chains have been disrupted by the measures applied by governments to contain the spread of the virus. These challenges and the reinigorated benefits of digital trade could be a further incentive for multilateral cooperation, especially in terms of policymaking, access to markets, consumer confidence, and the overall development of the digital economy (WTO, 2020).

The objective of this chapter is to analyze the digital trade dimension of Sino-Latin American relations. First, an overview of the digital trade in China which characterizes the four main e-commerce development stages is presented. Then, the digital development of Latin American countries and their international commitments are analyzed. After that, the digital economy relations between China and Latin America are analyzed with emphasis on the Chinese inclusion of electronic commerce provisions in their free trade agreements. Finally, considering the current pandemic crisis, some recommendations toward improving the digital economy environment will be drawn.

2 China's Digital Trade Development

According to Yue (2017), e-commerce is a starting point for China's economic restructuring and development and a driver for its economy. In 2017, China was home to 42% of global e-commerce. Its 731 million Internet users outnumbered those in the European Union and the United States combined. China's rich digital ecosystem, regulations, and government initiatives supported one-third of the most successful tech startups (Sheng & Geng, 2018).

The National Report on E-commerce Development in China issued by the United Nations Industrial Development Organization (2017) summarized four major stages agreed by most scholars (Baoyi, 2017; Kim & Chen, 2018; Ming & Zhongtao, 2017). These stages describe essential key policies and events in the development of cross-border e-commerce in China.

2.1 The Initial Stage (1996–2000)

The establishment of Nanjing Focus Technology Development Company in 1996 as the first B2B company in China has been called the start of the Chinese e-commerce

development. Although it was not led by the government, it aligned with its 1993 “golden projects” initiative. These projects aimed to modernize the country and build an information-based economy through the development of a data communications network, not only by providing Internet access but also by allowing electronic transactions and paperless trade (Van’t Kloosteraugust, 2017). At the same time, the Chinese government established the China International Electronic Commerce Center (CEICC), a technical support entity for the Ministry of Commerce, which was given the mission of standardizing the administration of trade and e-commerce (China International Electronic Commerce Center, 2005).

Other companies followed suit and decided to use the Internet to expand their businesses. By 1999, China had e-commerce website providers, including the first B2C website “8848,” and the B2B company, Alibaba. However, these companies faced three major challenges: low rates of Internet users, the absence of logistic and distribution networks, and a lack of trust in the online payment system (Yue, 2017).

The establishment of the China Electronic Commerce Association (CECA) in 2000 recognized electronic commerce as a proper industry and allowed its promotion. CECA, despite being a nationwide nonprofit organization related to e-commerce, had an important role in the standardization of better practices in the e-commerce industry. The government assigned CECA the role to evaluate companies that conduct electronic transactions through a rating system (Zhang et al., 2013).

2.2 *The Accelerated Development Stage (2000–2007)*

The early 2000s saw an exponential growth in Internet users, which meant a broad expansion of e-commerce, and was a key factor in the development of online retail. In the Third Plenary Session of the 16th Central Committee, 2003, the CCCPC endorsed Hu Jintao’s vision for China’s development model (Fewsmith, 2004). His vision was based on the theory of “Scientific Outlook on Development” (*Kēxué Fāzhǎn Guān*), and stressed the relevance of “take people as the main thing (*yiren weiben*), establish a concept of comprehensive, coordinated, sustainable development, and promote comprehensive economic, social, and human development” (Xinhua News Agency, 2003). This theory shaped Chinese development policy.

During this period (2000–2007), the Chinese government started initiatives to regulate and facilitate e-commerce. In 2003, the Chinese company Alibaba invested in a customer-to-customer (C2C) business model, Taobao. In 2004, the Law of the People’s Republic of China on Electronic Signature was adopted at the 11th meeting of the Standing Committee of the Tenth National People’s Congress of the People’s Republic of China. In 2005, CECA, under the supervision of the Ministry of Industry and Information Technology (MIIT) and the Ministry of Civil Affairs, released the Standards for Online Transaction Platform Services known as the OTPS Standards, an industrial code of practice that clarifies the general comprehensive standards for e-commerce in China (Zhang et al., 2013).

The Chinese government wanted to actively develop e-commerce, so the State Council Information Office issued the E-commerce Development Five-Year plan in 2007. E-commerce was also mentioned in the 11th Five-Year Plan for National Economic and Social Development. This policy sought to improve the e-commerce infrastructure, legal environment and develop a safety certification system for payment service platforms. These initiatives wanted to increase the use of third-party electronic commerce transactions and services, particularly among medium and small enterprises and key industries and regions (China's National People's Congress, 2006).

2.3 The Standardization Stage (2008–2014)

The fast development of e-commerce, due to the large market in China, led the government to dictate norms and regulations that were gradually turned into a National Policy Management System of the E-commerce Industry (Yue, 2017). Some of the major policies like the e-commerce model specification and online shopping service standards, which provided more detailed guidance for B2B, B2C, and C2C transaction models, were launched by the Ministry of Commerce in 2009. These policies stipulated the operating requirements for online payment platform providers, as well as the real ID and authentication requirements for online transactions (Zhang et al., 2013). In 2013, a group was established to draft the e-commerce law. The Guidance on the Development of Mobile Payment Business of People's Bank of China was issued by the People's Bank of China in 2014.

As stated by Yi (2017), the progress toward the creation of e-commerce platforms and other infrastructure facilities, including online payment and logistics, helped to promote cross-border e-commerce, including SME access to international markets and integration into global value chains.

2.4 Globalization Stage (2014–present)

Many regions started to develop cross-border e-commerce after learning how. In June 2015, the State Council issued the Guidance on the Promotion of Cross-border E-commerce Healthy and Rapid Development. At the international level, the Chinese delegation formally entered the discussion at the 30th session of the third working group of the United Nations Commission on International Trade Law in 2014 and joined the working group on Cross-border E-commerce Transaction Dispute Resolution: Rules of Procedure. The same year, China hosted the Asia-Pacific Economic Cooperation and Development Initiative for E-commerce at the 22nd APEC Economic Leaders' Informal Meeting held in Beijing (Lin, 2017).

The Chinese government has shown strong support for the construction of e-commerce platforms and has aimed to reduce the barriers that limit the

development of digital trade. This has been made possible through the establishment of logistical terminals and intelligent platforms, including the promotion of transregional and cross-industry logistical platforms, encouraging community management systems, and supporting the construction of express distributing stations (Yue, 2017).

This environment has promoted the development of the “platform economy” or “platform society,” which has modified how people share information, conduct trade, and consume services (Keane & Yu, 2019). New platforms or digital tools for e-commerce businesses facilitate commercial transactions by allowing interaction between several users. Electronic wallets, such as WeChat Pay and Alipay have increased the use of digital money in mobile payment contexts in China (Kow et al., 2017). The app Pinduoduo has favored rural trade as it connects producers with local buyers. It promotes tailor-made production, targeting niche markets of cheap products and SMEs in small cities (Chang et al., 2019). The use of social networks such as Duoyin and Kuaishou allows influencers to promote brands and products and to perform live sales and auctions. The access to new consumers through Internet short video platforms allows companies to gain sustainable competitive advantages (Fengquan & Jihai, 2021). The Chinese transformation of digital transactions is being expanded to other economies as the previously mentioned platforms export new e-commerce practices (Keane & Yu, 2019).

In the context of the pandemic, China has improved its digital industrial transformation. President Xi Jinping’s keynote speech on control measures for the COVID-19 pandemic presented initiatives for new digital infrastructure. He announced 20 showcase examples of digital networks available for connecting industrial enterprises and highlighted the importance of 5G networking to transform China’s industrial Internet across all enterprises. In May of 2020, the Digital Transformation Partnership Action Plan 2020 was launched. This plan, besides accelerating the digital transformation, has focused on helping SMEs. It has provided support on open resource networking, software and hardware, and supply chain management. This partnership program goes further than previous Chinese government industrial upgrading programs, as it includes high-tech private enterprises (Savic, 2020).

3 Latin America’s Digital Trade Development

The Latin American Development Bank (CAF) has supported the elaboration of a comprehensive digitization index to assess the development of the digital ecosystem in the region based on the affordability, reliability, accessibility, capacity, and utilization of digital technologies, as well as the human capital of the countries. Latin America has progressed at an annual rate of 6.8% in its level of digitization, increasing from 20.9% in 2004 to a 45.5% in 2017. 54.4% of the Latin American population has direct Internet access, well below the 77.2% average of OCDE countries (Banco de Desarrollo de América Latina, 2017). As shown in Table 1,

Table 1 E-commerce indicators in Latin American selected economies

	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Population	44.5 M	209.3 M	19 M	49.1 M	129.2 M	33 M
Smartphone penetration	55%	48%	70%	70%	72%	65%
Internet penetration	92%	70.2%	85%	70%	68%	72.9%
E-commerce as share of total retail	2.8%	3%	5%	3%	3%	2.3%
Billing 2019 (USD)	6.2 M	17.2 M	6 M	7.6 M	24.8 M	4 M
Average spending (USD)	120	145	158	140	148	167

Source: Ecommerce Foundation and CISCO (2019)

there are gaps between Latin American economies. Chile is recognized as the country with the best conditions to develop the digital economy. E-commerce has grown from 0.1% in 2000 to 9.5% in 2020 (pre-pandemic) for large retailers, which can be explained by the high levels of Internet access, bank account access, and smartphone use.

Although there is significant growth in the use of digital technologies in the region, the infrastructural gap, the adoption of digital tools, and the development of necessary human capital to improve innovation are the main challenges that countries face in promoting an appropriate digital ecosystem (Katz & Callorda, 2017). The lack of postal reliability in the region also limits e-commerce and highlights the importance of overcoming the infrastructural gap and adopting new technologies (UNCTAD, 2019).

3.1 Latin America Commitments on Digital Trade

This section reviews Latin American countries' international commitments on digital trade in order to analyze their development in this area. To promote regional coordination, the countries began a political dialogue within the framework of the Preparatory Regional Ministerial Conference of the Latin America and the Caribbean World Summit on the Information Society held in the Dominican Republic and with the assistance of ECLAC that culminated in the Plan of Action for the Information Society in Latin America and the Caribbean (eLAC2007). At the fifth Ministerial Conference on the Information Society in Latin America and the Caribbean, the countries approved the Digital Agenda for Latin America and the Caribbean. The latest version of the agenda is intended to be a tool for catalyzing regional cooperation efforts on digital matters (eLAC2020, 2018).

Despite these coordination efforts, most countries have focused their attention on WTO regulations and preferential agreements to expand their market access, incorporating new issues into their trade agreements (Muñoz et al., 2020). This approach has been used in the digital economy as Latin American countries have sought to regulate and promote digital trade through economic agreements.

The analysis of digital provisions in free trade agreements (FTAs) is classified according to trading partners. The first provisions on e-commerce within the region are in the FTA signed by Chile and the European Union (EU) in 2003. Since this agreement, which only focused solely on e-commerce cooperation, EU agreements have incorporated the moratorium on Custom Duties to Digital products. In 2008, the EU negotiated an agreement that extended its provisions to Online Consumer Protection with CARICOM and the Dominican Republic, which has been replicated in their latest agreements with Colombia and Peru (2013).

Six FTAs signed by Latin American countries with the United States have incorporated digital provisions. These provisions have been included since the first generation (signed between 2003 and 2007). FTAs with Chile, Colombia, Peru, Central America, and Panama include provisions to avoid imposing customs duties or discriminatory treatment to digital products (Herreros, 2019). In 2009, the FTA signed between the United States and Peru also included provisions related to electronic authentication, electronic signatures, online consumer protection, and paperless trade. These were replicated in the agreement signed with Colombia in 2012. In July of 2020, the United States-Mexico-Canada Agreement (USMCA), also known as NAFTA 2.0, took effect. The updated FTA introduced a chapter on digital commerce that addressed the national framework for electronic transactions, principles on access and use of the Internet, and the location of computing facilities. These provisions seek to strengthen and promote digital commerce through a legal scheme for electronic operations, a better digital environment, and innovation (Pimentel, 2020).

The inclusion of digital provisions in Canada's agreements with Latin America aimed to facilitate e-commerce and ensure its performance within the region. In 2009, the Canada-Peru FTA included a full chapter on e-commerce. Since then, the FTAs signed between Canada-Colombia (2011), Canada-Panama (2011), and Canada-Honduras (2014) have all included a chapter on this, addressing not only the moratorium but in most cases expanding to online consumer protection and paperless trade. The Canadian approach, though similar to the EU, promotes the development of autoregulated mechanisms and the role of the private sector to provide trust (Herreros, 2019). It can be acknowledged that the Canada-Chile FTA does not include a digital chapter, even after it was modernized, as these issues were covered within the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

For Latin American economies, the Asia-Pacific region has increased its relevance in their international trade relations. Various FTAs that include digital provisions and chapters have been signed. FTAs between Chile-Australia, Peru-Singapore, Costa Rica-Singapore, Peru-South Korea, and Colombia-South Korea all incorporate chapters with a moratorium on customs duties for digital products, online consumer protection, and paperless trade provisions, among others. Although the CPTPP has not yet taken effect, the agreement set a milestone for interregional negotiations and is particularly relevant because it includes common digital regulations for all its members.

The Pacific Alliance is an intra-regional framework under which Chile, Colombia, Mexico, and Peru signed a Commercial Protocol in 2014. This protocol not only includes the dispositions previously discussed, but also incorporates new provisions that allow the cross-border transfer of information by electronic means and prohibits requiring companies to install computer facilities within a territory to do business there (Subsecretaría de Relaciones Económicas Internacionales, 2020a).

Chile in particular has over ten signed FTAs that include an e-commerce chapter. At the intra-regional level, Chile participates as a signatory member in five out of the nine FTAs that include e-commerce chapters (Foreign Trade Information System, 2020). In 2009, Chile negotiated an e-commerce chapter with Colombia that in addition to the moratorium on customs duties and nondiscriminatory treatment of digital products, also addressed electronic authentication and signatures and online protection. Since then, Chile has included a chapter on e-commerce in its FTAs with Uruguay, Argentina, and Brazil, covering issues of online consumer and private information protection, location of computing facilities, and unsolicited commercial electronic messages.

3.2 The Digital Economy Partnership Agreement

Digital Economy Partnership Agreement (DEPA) was signed between New Zealand, Chile, and Singapore in 2020, becoming the first international agreement to solely address the digital economy. The purpose of this agreement was to build a modern regulatory and cooperation framework to promote the digital economy among its members. The agreement is open to new members and seeks to complement the WTO negotiations on e-commerce and build on the digital economy work underway within APEC, the OECD, and other international forums (Muñoz et al., 2020).

This agreement directly addresses the barriers to digital trade and supports the inclusion of SMEs in international trade (Subsecretaría de Relaciones Económicas Internacionales, 2020b). It expands existing definitions and incorporates new topics not addressed in previous agreements. DEPA is structured into the following modules: Business and Trade Facilitation; Treatment of Digital Products and Related Issues; Data Issues; Wider Trust Environment; Business and Consumer Trust; Digital Identities; Emerging Trends and Technologies; Innovation and the Digital Economy; Small and Medium Enterprises Cooperation; Digital Inclusion; Exceptions; Transparency; and Dispute Settlement.

DEPA can be considered a benchmark to establish a modern trade agreement that may promote interoperability, digitalization, and build trusted technology for all users with particular emphasis on privacy protection (Muñoz et al., 2020). The incorporation of these new issues aims to deepen the governance framework to allow for a Regional Digital Market that may help member economies cope with the post-pandemic economic recovery and serve in the case of future health or other crises (Ziyang & Gallaher, 2020).

4 Digital Economy in China: Latin America Relations

Although the inclusion of electronic commerce has been addressed in multilateral and regional forums such as the WTO and APEC, it has not been further developed due to their respective characteristics. WTO negotiations have stalled and electronic commerce was part of the Doha Agenda, so there has not been a multilateral agreement on this topic. A moratorium on customs for digital products has been agreed upon, but it depends on member states to renew their commitment. In 2020, in the context of the World Economic Forum, 76 WTO members issued a joint statement on the need to continue negotiations under the WTO to achieve multilateral rules on e-commerce (Muñoz et al., 2020). APEC has served as a forum to exchange best practices, and APEC's nonbinding characteristic promotes the incorporation of new topics into the trade agenda. In 2017, APEC adopted the Internet and Digital Economy Roadmap and has established working groups related to data privacy, cross-border privacy rules, privacy recognition for processors, and privacy frameworks.

Because of the dearth of multilateral agreements on the subject, e-commerce policymaking has to advance through preferential trade agreements. To analyze digital economy relations between China and Latin America, this section focus on commitments included in FTAs. Understanding China's approach toward the region and current investment in this sector requires some context. The first digital ties between China and Latin America and the Caribbean (LAC) began in 1988 through cooperation in information and communication technologies (ICT), when China and Brazil agreed on the joint development of earth resource satellites. Since then, China has worked alongside Argentina and Venezuela in satellite communications (Lou, 2019).

China issued its first policy paper on LAC in 2008, aiming to achieve a comprehensive and cooperative partnership featuring equality, mutual benefit and common development. A second policy paper issued in 2016 stated its commitment to deepening its cooperation with trade and investment promotion institutions and business associations in LAC countries and develop Intergovernmental Dialogue and Consultation Mechanisms (People's Republic of China State Council, 2016). China also stated its support and promotion of competent enterprises and financial institutions to actively participate in the planning and construction of logistics, power, and information passages in LAC countries. It also actively explored new ways of cooperation, such as the Public-Private Partnership (PPP) model, to promote the connectivity of infrastructure in Latin America and the Caribbean (China's National People's Congress, 2006; People's Republic of China State Council, 2016).

The Chinese government stated the need for a Digital Silk Road to boost digital trade and cross-border e-commerce (Cheney, 2019). This idea was reiterated by President Xi Jinping in his speech at the opening of the first Belt and Road forum in 2017. He claimed that China should "pursue innovation-driven development and intensify cooperation in frontiers such as digital economy, artificial intelligence, nanotechnology, and quantum computing, and advance the development of big data,

cloud computing, and smart cities to turn them into a digital silk road of the 21st century” (Xi, 2017). The President of Chile, Sebastián Piñera, and the President of Argentina, Mauricio Macri, were invited to this event due to the natural interest of China to integrate the region into the Chinese framework of global digital economic governance and cooperation approach (Lou, 2019).

By the end of 2016, the Chinese investment in information, software, and technology services in Latin America was \$38.02 billion, which was 18.4% of Chinese direct investment in the region (Lou, 2019). From 2000 to 2018, 60% of the overseas foreign direct investment (OFDI) was directed toward raw materials and 30.7% toward services, and during this period these segments grew each year (Dussel Peters, 2019).

Following China’s digital transformation plan, Chinese investments in the region are shifting from natural resources to new technological areas, involving companies like ZTE, Huawei, ChinaMobil, Tencent, and Alibaba (Dua, 2020). This is part of China’s plan to invest over US\$3.78 trillion in the upcoming years in new infrastructure and related investments for 5G base stations, data centers, industrial Internet, artificial intelligence, new energy vehicle charging infrastructure, and intercity high-speed rail networks (Marquez, 2020). Latin America is a natural expansion for the Digital Silk Road, and further investment in e-commerce should be expected. As of April 2020, purchases of overseas-made electronic components had risen by 10.1% to a value of \$115 billion, integrated circuits had risen 11.2% to \$99 billion, and imported audio and visual equipment had increased 30% to \$4.5 billion (Savic, 2020).

4.1 Analysis China FTAs

When analyzing China’s approach to e-commerce provisions in bilateral FTAs, it is not extensive and tends to align with its domestic laws (Mukherjee & Avantika, 2018). As shown in Table 2, the first agreements by China between 2004 and 2014 did not include e-commerce provisions in specific chapters or cooperation activities. In their FTA with New Zealand, there is an exception, as the annex on “Cooperation in the Field of Conformity Assessment in Relation to Electrical and Electronic Equipment” was designed to reduce technical barriers to trade in electrical and electronic equipment (Huang, 2017). China has FTAs with only three Latin American economies: Chile, Peru, and Costa Rica. Only their upgrade with Chile covers e-commerce.

As China’s position in the international digital economy grows, its interest in international law-making for e-commerce and avoiding the classification difficulty of digital products has led it to include this topic in its negotiations. In 2015, motivated by the robust overseas expansion of Chinese e-commerce companies, China signed their first two FTAs that contained a chapter on e-commerce with Australia and South Korea (Huang, 2017). These chapters crystalized the will to maintain the WTO’s practice of not imposing customs duties on electronic transfers

Table 2 China's e-commerce provisions in FTAs

Agreement	Included	Provisions included in cooperation chapter	Chapter in the Agreement										Principles on Access to and Use of the Internet	Location of Computing Facilities		
			Localization	Moratorium on Customs Duties to Digital Products	Non-discriminatory treatment of Digital Products	Transparency	National Framework for Electronic Transactions	Electronic Authentication and Electronic Signatures	Online Consumer Protection	Personal Information Protection	Paperless Trade	Cooperation/ Consultations on Electronic Commerce				
Hong Kong (2004)	No															
Macao (2004)	No															
ASEAN (2005)	No															
Chile (2006)	No															
Pakistan (2007)	No															
New Zealand (2008)	No															
Singapore (2009)	No															
Peru (2010)	No															
Costa Rica (2011)	No															
Switzerland (2014)	No															
Iceland (2014)	No															
South Korea (2015)	Yes		Ch. 13	X					X				X		X	
Australia (2015)	Yes		Ch. 12	X			X		X			X		X		X

Table 2 (continued)

Agreement	Chapter in the Agreement											Is the chapter on electronic commerce subject to dispute resolution?		
	Unsolicited Commercial Electronic Messages	Cybersecurity	Open Government Data	Digital Identities	Financial Technology Cooperation	Cooperation on Competition Policy	Small and Medium Enterprises Cooperation	Digital Inclusion Cooperation	Artificial Intelligence Cooperation	Government Procurement Cooperation	Data Innovation Cooperation		Public Domain Cooperation	Online Safety and Security Cooperation
Switzerland (2014)														
Iceland (2014)														
South Korea (2015)														No
Australia (2015)														No
ASEAN (2015)														
Georgia (2018)														
Singapore (2019)														No
Chile (2019)														No

Source: Authors' elaboration with information MOFCOM (2020)

and minimizing the regulatory burden on e-commerce (Monteiro & Teh, 2017). Both chapters share some similarities. They prohibit customs duties on electronic transmissions based on paragraph 5 of the WTO Ministerial Decision of December 07, 2013, in relation to the Work Program on Electronic Commerce. They also agree to maintain laws regulating electronic signatures and authentication methods and work toward mutually recognize digital certificates and promote their use in the business sector. They cite the relevance of personal information protection, encourage the electronic availability of trade administration documents and cooperation activities to enhance electronic commerce, and share best practices between the parties. The FTA with Australia has additional commitments such as transparency, requiring both parties to make all measures on the application of the chapter publicly available and respond promptly to requests, the establishment of a national framework for electronic transactions based on UNCITRAL Model Law on Electronic Commerce (1996) which will support industry-led development of electronic commerce, and online consumer protection, for which each party shall protect consumers using e-commerce under their respective laws, regulations, and policies. Both the China-Australia and the China-South Korea chapters are not subjected to dispute resolution under the agreements.

China has followed this strategy of incorporating e-commerce chapters in its agreements and incorporated similar commitments within the cooperation chapters of FTAs with ASEAN and Georgia. In the Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation and Certain Agreements thereunder between the People's Republic of China and the Association of Southeast Asian Nations (ASEAN), Article 7 (III) was incorporated into the Economic and Technical Cooperation chapter. This article included the recognition of e-commerce opportunities for economic growth, the importance of sharing information and conducting dialogue on issues related to e-commerce, the relevance of encouraging business participation in e-commerce platforms to enhance trade and investment relations, and encouraging capacity-building cooperation, especially for MSMEs. In addition to the previous elements, Chapter 12, Areas of Cooperation, of the China-Georgia FTA, states in Article 12.2 that the WTO Agreement will be applicable for measures affecting e-commerce and the parties' participation in regional and multi-lateral forums to promote the development of e-commerce in a cooperative manner.

China has also included e-commerce chapters when upgrading existing FTAs, as they did with Singapore and Chile. Singapore's FTA chapter 15 replicates the structure and content included in the China-Australia FTA. Chapter 4 of the China-Chile FTA includes all the previous dispositions with the exception of the moratorium customs duties to digital products. Article 52, the domestic electronic transaction framework, incorporates nonarbitrary discrimination between different forms of electronic transactions.

More recent negotiations have incorporated e-commerce as a topic of cooperation in FTAs that have yet to take effect that China signed with Maldives and Mauritius. It may also be stated that with Panama and Peru, e-commerce has been included within negotiating mandates in their agendas.

5 Final Remarks

China's digital economy evolution was characterized into four state-oriented stages. The first stages focused on the establishment of the basis for institutional programs to develop e-commerce, enabling the expansion of new and existing private enterprises. The standardization stage set built a domestic framework to rein in policymaking efforts in order to avoid fragmenting the digital. This allowed China to enter the globalization stage in which Chinese companies started to invest abroad. China gained interest in international policymaking on e-commerce, leading to the establishment of the Digital Silk Road. This has made the development of the digital economy part of the core of the Chinese post-pandemic recovery.

Although addressed in other forums such as the WTO and APEC, preferential agreements have been the main instruments for new trade regulations in the last years. The development of electronic commerce regulations has not been a priority in Latin America. Lower-ranking agencies in charge of its promotion and the fragmentation of digital regulations have led Latin American economies to adopt frameworks derived from international trade negotiations. This incorporation has been directed by their trading partners, and it has progressively included new e-commerce provisions. Nevertheless, Chinese cooperation ties with the region can be identified for the development of a digital market, particularly in the Digital Silk Road Initiative.

China is a latecomer in incorporating e-commerce provisions in its preferential trade agreements. In 2014, it included the first provisions through specific e-commerce chapters in its agreements with Australia and South Korea. Then it included e-commerce in its cooperation chapters with Georgia and upgrade with ASEAN. However, China has not significantly expanded the coverage of these chapters. The latest upgraded agreements with Chile and Singapore incorporated similar provisions in e-commerce chapters. Chile is the only country in the region to include these provisions in its agreement with China, but currently, Peru and Panama are negotiating these issues.

As a result of China's focus on internal e-commerce development, Latin American drafting of e-commerce provisions within trade agreements has been more dynamic with other trading partners. New issues relevant for the achievement of a common digital market have been addressed in these agreements, and DEPA has become a benchmark for policymaking. DEPA has deepened previous topics of discussion, such as paperless trading, and introduced new elements, such as principles on access to and use of the Internet, cryptography, computing facilities location, unsolicited commercial electronic messages, cybersecurity, open government data, and digital identities. It has also included cooperation in fintech, competition policy, SMEs, artificial intelligence, government procurement, data innovation, public domain, and digital inclusion.

As Chinese relevance increases in international digital markets, it has become crucial that China participates in the drafting of these new provisions to avoid fragmenting digital markets. China can contribute to e-commerce development by

sharing its experience and enhancing its cooperation within cutting-edge topics. DEPA addresses a series of topics that may be included in ongoing and future negotiations between China and Latin American economies. For these topics to be fully implemented, dispute settlement mechanisms should not be excluded.

Taking into consideration Chinese influence on the e-commerce landscape, further research can analyze how Chinese digital platforms and technologies have entered and adapted to Latin American consumption patterns.

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Part V

Challenges

China-LAC Countries' "Belt and Road" Cooperation in the Post-Pandemic Era: BRI in Transformation



Peng Xiao

Abstract The Belt and Road Initiative (BRI) is considered one of the most important public goods that China has contributed to the world in the twenty-first century, attracting the attention and participation of countries around the world. Latin American and Caribbean countries (LAC) are important partners for the BRI. In recent years, the relationship between China and LAC has been heating up, and cooperation in various fields has fully developed, providing a guarantee for the mutually beneficial development of China and LAC. The BRI has become a development opportunity that Latin America's political, business, academic, and nongovernmental communities are focused on.

In 2020, the novel coronavirus (COVID-19) ravaged the world, causing serious losses, economic stagnation, and social problems in many countries. On September 8, 2020, the number of confirmed cases of COVID-19 in LAC countries was close to 7.87 million, of which Brazil, the largest country in Latin America, had more than 4.19 million confirmed cases. Due to the economic and social turmoil caused by the pandemic, the LAC economy declined by 7.9% in 2020 according to a new report from World Bank, making it a far deeper recession than the 2008–2009 global financial crisis or the Latin America debt crisis in the 1980s, erasing the growth achieved in the prior 10 years. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) pointed out that international trade continues to shrink, and LAC exports are expected to drop by 23%, which greatly hinders normal economic cooperation between China and Latin American countries. Under such circumstances, there needs to be a new vision of the BRI and China-LAC cooperation.

This chapter analyzes the achievements of BRI cooperation between LAC and China, the LAC economic and social stagnation during the COVID-19 pandemic and the transformation of the "Belt and Road" joint construction between China and LAC in the post-pandemic era.

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Keywords Belt and Road Initiative · Cooperation · Latin American and Caribbean countries

1 China-LAC Pre-pandemic BRI Cooperation

The BRI did not originally include Latin American and Caribbean countries as partners. However, both sides' desire to cooperate has grown stronger, and the BRI eventually included LAC countries, demonstrating that the BRI is a flexible and inclusive platform for cooperation. The 3 years since China and the LAC built the BRI together have been very fruitful. By the end of 2019, China had signed MOUs on the construction of the BRI with 19 LAC countries.

As early as the middle of the sixteenth century, the Pacific Maritime Silk Road connected China and Latin America. Chinese specialty products like silk, porcelain, and handicrafts, arrived in Latin America by sea, and Latin American corn, peppers, and other crops entered China. In the following 450 years, the exchanges between the two sides have not stopped, and the Pacific Silk Road has become a model for cross-regional cooperation.

The Chinese-LAC history was influenced by the construction of the Panama Canal and the Latin American Railway was built on the backs of Chinese laborers. The establishment of diplomatic relations between China and Cuba in 1960 marked a new stage in the history of China-LAC exchanges. After China's reform and opening-up policy of 1978, bilateral relations have become smoother.

Currently, China has established strategic partnerships with nine LAC countries, and the BRI, jointly built by China and LAC countries, is a solid foundation. It is not only a continuation of historical cooperation, but also an inevitable result of the changing times.

China and LAC have a high degree of economic complementarity and are both committed to achieving economic growth and national transformation. The BRI provides opportunities for both sides. China has entered a new stage of opening up to the outside world. High-quality, wealth-producing capacity needs to be released to ease the pressure of capacity reduction, de-stocking, and deleveraging in domestic construction, and to sell high-quality products made in China to LAC countries to enhance the international competitiveness of enterprises. The Latin American region has out-of-date infrastructure, slow economic growth, strong demand for capital and technology, and is also facing economic transformation.

1.1 BRI and the Joining of LAC Countries

Chinese President Xi Jinping proposed the "Silk Road Economic Belt" and "21st Century Maritime Silk Road" during his visit to Central Asia and Southeast Asia in 2013, which attracted global attention. The purpose of the BRI was to deal with the complex domestic economic inflection point China was in and to break through

the offensive containment built by the United States around China. In the name of the Ancient Silk Road, China wants to open up the Asia-Europe channel in the western region and reverse the unfavorable situation at home and abroad. This is why the Latin American region was not in the original BRI strategic plan (Hongying, 2017). In 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce jointly issued the "Vision and proposed actions outlined on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road." The BRI had entered a stage of substantive advancement. Discussions on whether the LAC should join the BRI have been fierce in different circles in all Latin American countries (Leguizamón, 2017).

When Xi Jinping visited Latin America in 2014, he proposed the "1 + 3 + 6" cooperation system, three engines, and six areas for promoting China-LAC relationship, and promoted the comprehensive development of China-LAC practical cooperation and industrial docking.¹ In 2015, Premier Li Keqiang visited South America and proposed a new "3 × 3" model for China-LAC capacity cooperation.² In 2016, President Xi Jinping visited three Latin American countries and established comprehensive strategic partnerships with Ecuador and Chile. In the context of such frequent, high-level visits, the "China-CELAC Forum" was established in 2014. The first ministerial meeting was held in 2015, where China and LAC countries established a dialogue and cooperation framework. The "China-Latin America Cultural Year" held in 2016 opened a new era of mutual learning between Chinese and LAC civilizations. These governmental and nongovernmental exchanges have built momentum for the LAC's participation in the BRI.

In May 2017, the "Belt and Road" International Cooperation Forum was held in Beijing. More than 20 presidents or ministerial officials from Latin American and Caribbean countries were invited to participate. During the forum, Xi Jinping pointed out that "Latin America is a natural extension of the Belt and Road Initiative." A series of expositions made by President Xi Jinping were the starting point for a consensus on the inclusion of LAC countries in the BRI. In 2018, the Second Ministerial Meeting of the China-CELAC Forum (CCF) was held in Santiago, the capital of Chile. The "Belt and Road Special Statement" expressing LAC countries' sincere wishes to join in the construction of the BRI, was presented at the forum. The meeting also adopted the "Santiago Declaration" and the "Joint Action

¹1 + 3 + 6: One plan refer to the establishment of the China-Latin American Countries and Caribbean States Cooperation Plan (2015–2019); Three engines refer to promoting the comprehensive development of China-Latin America practical cooperation with trade, investment and financial cooperation as the impetus; Six fields refer to boosting China-Latin America industrial connections with energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies as cooperation priorities.

²3 × 3: First, domestic demand in Latin America will be met through three passages of logistics, power and information; Second, the rules of the market economy will be followed, and a cooperation paradigm will be devised for positive interaction among enterprises, society and government; Third, three financing channels: funds, loans, and insurance, should be expanded when focusing on bilateral projects.

Plan of China-LAC Cooperation” (Priority Areas) (2019–2021). In the forum the participants reaffirmed their commitment to multilateralism, the free trade system, building an open world economy, and promoting economic globalization in a way that is inclusive, balanced, and win-win. Some specific cooperation proposals in key areas such as politics and security, trade, investment, finance, infrastructure, and transportation were also made. There was also cooperation in emerging fields such as aerospace, renewable energy, artificial intelligence, big data, and biomedicine. The BRI built by China and LAC countries has entered a new stage of rapid development, and China-LAC cooperation in various fields has gradually improved.

The BRI will promote the interconnection of China and LAC. It will help LAC countries introduce more products to the Chinese market, reversing the deteriorating LAC foreign trade environment in the last few years. China’s international influence can be further enhanced through cooperation with LAC. Compared to Asia, Europe, and North America, China’s international influence has always been relatively weak in Latin America, and the Latin American and Caribbean people even misunderstand China’s development. Through China and LAC’s joint construction of the BRI, China’s development philosophy of peace, cooperation, and win–win will be deeply rooted in the hearts of the people, and the Chinese model will further strengthen China’s international leadership and global governance capabilities. The internationalization of the Chinese economy will also become more stable. LAC integration continues to suffer from constant twists and turns. It is difficult for Latin American and Caribbean countries to get rid of the asymmetry of the United States. Through the cooperation of the BRI, LAC will be able to get rid of excessive dependence on the United States, create new opportunities for integrated development, and realize the overall revival of the LAC region. Most importantly, China and LAC countries are all developing countries, deeply hopeful about economic development and social progress, and want to get rid of the economic control of developed capitalist countries to achieve political autonomy.

1.2 Achievements of BRI Jointly Built by China and LAC Countries

Before the COVID-19 outbreak in 2020, China-LAC cooperation achieved great results. In 2002, the trade volume between China and Latin America was only \$12.6 billion, but by 2016 it had reached \$217 billion. By 2019 it had reached \$317.3 billion (Ministry of Commerce of Peoples’ Republic of China, 2020). China has become the largest trading partner of Brazil, Chile, and Peru, and the second-largest trading partner of Argentina, Mexico, and Venezuela. LAC has become one of the most important import regions for Chinese commodities, and the fastest-growing region in exports to China. This region is China’s second-largest overseas investment destination after Asia. China’s direct investment in LAC exceeds \$410 billion, and there are more than 2500 Chinese-funded enterprises in Latin American and

Caribbean countries (Yunxia, Zhaowei & Lingwei, 2019). The success of China-LAC cooperation since BRI is gratifying. The LAC's inclusion in the BRI is based on the "Five-Pronged Approach," namely: policy coordination, connectivity, free trade, financial integration, and people-to-people bonds.

Policy Coordination At the bilateral level, China and LAC countries have established policy communication mechanisms such as intergovernmental and interdepartmental dialogue and consultation mechanisms. At the multilateral level, the China-CELAC Forum is the most important mechanism. The specification of policy communication is very high, and coverage is wide.

Connectivity Infrastructure interconnectivity is a priority for the BRI. The China-Latin America Cooperation Fund was launched in July 2014 to provide financial support for Chinese companies to invest in LAC. There is also the China-Latin America Infrastructure Cooperation Fund and the China-Latin America Capacity Cooperation Fund. In many Latin American and Caribbean countries, cooperation in infrastructures such as electricity, water conservancy, and transportation is increasing. Transnational cooperation projects such as the Twin Ocean Railroad Connection project and Aconcagua Bi-Oceanic Center are also being steadily carried out.

Free Trade The volume of China-LAC trade continues to increase and is expected to reach \$500 billion in 2025 through the BRI. At present, China has signed free trade agreements with Chile, Peru, and Costa Rica, and the China-Chile FTA has been upgraded once. These three agreements have achieved a win-win situation and promoted the practical development of China-LAC trade. The feasibility study of the China-Colombia free trade agreement is underway.

Financial Integration Within the "1 + 3 + 6" cooperation framework advocated by China, the three major engines of cooperation include trade, finance and investment, and financial integration. The People's Bank of China has signed local currency swap agreements with Brazil, Argentina, Suriname, and Chile. In May 2017, the jointly funded and managed China-Brazil Capacity Expansion Cooperation Fund was officially launched. As the largest economy in Latin America, Brazil's investment and financing cooperation with China has set an example for other Latin American countries.

People-to-People Links People-to-people links are the social foundation for China and LAC countries to jointly build the BRI. The relationship between countries is based on the attraction between civilians. Various cultural activities such as scholarships, student exchange programs, art festivals, tourism festivals, and Confucius Institutes are constantly emerging under the promotion of BRI, which enriches the lives of the people of both sides, connects people, and enhances mutual understanding. Since the COVID-19 outbreak, it is imperative to strengthen cooperation in pandemic information communication, disease prevention and control, and personnel training, to improving the handling of public health emergencies.

2 LAC Economic and Social Stagnation during the COVID-19 Pandemic

According to the timeline released by the World Health Organization (WHO), a group of COVID-19 pneumonia cases were reported in Wuhan, China on December 31, 2019. After that, the WHO organized expert assessments and field visits in a timely manner to provide technical assistance to countries around the world in a variety of ways. On March 11, 2020, the Director-General of the World Health Organization, Tedros Adhanom Ghebreyesus, announced that the WHO believed that the COVID-19 pneumonia epidemic could be called a pandemic. Some countries were able to contain the pandemic soon after it broke out, but it lasted for much longer in other countries, and at the time of this writing, is raging on and producing huge negative consequences. On September 17th, 2020, Latin America accounted for five of the ten countries with the largest number of confirmed cases, namely Brazil, Peru, Colombia, Mexico, and Argentina. Among them, Brazil is the country with the most severe situation. Brazilian President Jair Messias Bolsonaro also had COVID-19 pneumonia and was the first head of state in the world to be diagnosed with the infection.

2.1 *The COVID-19 Pandemic in LAC*

On February 25, 2020, the first case of COVID-19 in LAC was reported in Brazil. Peru and Argentina reported their first cases in early March. Since then, the COVID-19 has spread rapidly. By the end of March, all 33 countries in Latin America and the Caribbean had cases and entered the community transmission stage. Since the first case was confirmed on February 25, the cumulative number of confirmed cases in LAC reached 10,000 by March 27th. By April 1st, more than 20,000 people were diagnosed in less than 6 days. Less than 3 days after that it exceeded 30,000. By September 8th, 2020, the number of confirmed cases of COVID-19 in LAC countries was close to 7.87 million, of which the cumulative number of confirmed cases in Brazil alone exceeded 4.19 million. The total number of confirmed cases was second only to the United States and India, but the number of deaths reached 130,000, second only to the United States. According to a ranking published by Johns Hopkins University, Peru has 93.28 deaths per 100,000 inhabitants, the highest death rate in the region (Reeves, 2020).

Most LAC countries have declared public disasters or national emergencies and have imposed curfews, closed borders, and prohibited gatherings. However, some countries have low medical and health standards, insufficient stocks of pandemic prevention materials, and unfavorable mobilization for pandemic prevention, which has caused the pandemic to spread more quickly and inflict more damage. There is a lack of pandemic prevention coordination between countries, and with rapidly rising unemployment, some countries have rushed to reopen the economy, which has also

aggravated the severity of the problem. Another important point is that the detection rate of the COVID-19 in LAC countries is low, and many more people are infected with the virus than are counted. Chile is the country with the highest testing rate in the LAC region, testing an average of 143 people out of 1000. Only 26 out of 1000 people in Brazil are tested, and in Mexico, only 10 out of every 1000 people are tested. In short, LAC countries are facing complex and arduous pandemic prevention tasks.

In addition to substantial casualties, the pandemic has also affected economic development, social order, and political stability. The pandemic has led to a sharp decline in economic activities, and the economic growth expectations in the LAC region are not optimistic. In the second quarter of this year, Peru's GDP fell by 27.2%, Brazil by 9.7%, Chile by 13.2%, Mexico by 17.1%, and Colombia by 14.9% (Cordeiro, 2020). The ECLAC estimated in April 2020 that the GDP of South American countries will decline by an average of 5.2%, Mexico and Central American countries will decline by 5.5%, and Caribbean countries will decline by 2.3% (CEPAL, 2020). Behind these figures are the sharp increase in unemployment in various economies in the region, the increase in poverty, and the further deterioration of the already weak financial situation. Due to the unfavorable pandemic fighting capacity of governments or ruling parties, economic recovery has been slow, causing public dissatisfaction and continuous social protests. Governments are stretched beyond their capacity, and social distancing cannot be implemented at all, which has increased the spread of the pandemic. Continued sluggish economic growth has caused social and political turmoil and weakened the credibility of governments.

2.2 Pandemic Fighting Cooperation Between China and LAC Countries

Due to the sudden outbreak of the pandemic, a lot of the cooperation between China and LAC on the construction of the BRI has been stalled, trade has reduced, and infrastructure projects have been suspended. In such an unfavorable situation, China and LAC countries have strengthened public health and pandemic prevention cooperation and have actively worked to ensure the smooth flow of trade to stabilize the hard-won economic results in order to resume cooperation as soon as possible.

On July 23rd, 2020, foreign ministers from China and Latin American and Caribbean countries held a special video conference on COVID-19. Representatives of all countries said that the solidarity and mutual assistance of China and LAC countries during the pandemic demonstrated the development momentum of China-LAC relations. The consensus between China and LAC countries has increased and entered a new stage. China provides a lot of medical equipment to Brazil, Chile, and other countries, including masks, protective clothing, test kits, and ventilators. China has sent teams of pandemic medical experts to Venezuela, Peru, and other countries

to provide experience in prevention and treatment. Venezuela received five batches of pandemic fighting materials from China within 2 months of the outbreak. LAC countries also received a promise that they would receive China's vaccines when it came into production, which they did, allowing countries like Uruguay and Chile to be two of the most vaccinated countries in the world as of September 2021. In addition, China cooperated with Brazil, Argentina, and other countries on vaccine research and development. Although the pandemic has caused difficulties for the BRI, the cooperation between LAC countries and China in the field of public health has increased mutual trust, which will be helpful for post-pandemic cooperation.

Due to the stagnation of some economic activities, China's economy fell by 6.8% in the first quarter of this year, and trade with LAC countries declined, especially in agriculture and natural resources. Also due to the large-scale shutdown in China, LAC cannot obtain Chinese manufacturing products, and the industrial chain is in crisis. According to data from the Chilean Central Bank, in the first half of March 2020, Chile's exports fell by 14.63% year-over-year to \$2.677 billion, while imports fell by 22.1% to \$2.185 billion.³ As China resumed economic order, it achieved 3.2% positive growth in the second quarter, and trade with LAC began to recover. Although LAC countries' exports to the United States, Europe, Japan, and regional markets have fallen sharply, China's stable demand for soybeans, iron ore, meat, copper, and other commodities have prevented the collapse of the regional foreign trade system. In the first half of 2020, Argentina's exports to China increased by 20.6%, while their exports to Brazil, the United States, and the European Union fell by 31.7%, 22%, and 19.7%, respectively (Cordeiro, 2020).

By strengthening public health cooperation and maintaining bilateral trade, China and LAC's BRI cooperation has not been greatly affected. With the backdrop of the COVID-19 pandemic is still raging around the world, the form and content of the joint construction of the BRI will inevitably undergo new changes to meet the development requirements of the future post-pandemic era.

3 Transformation of the Joint Construction of the Belt and Road Between China and LAC in the Post-Pandemic Era

Transformation is an adjustment made in the face of a crisis. While maintaining the successes of the last 3 years of the BRI, we need to explore new territory, systematically reverse the disadvantages, and make the BRI stable and long-term. The BRI transformation needs to solve the current pandemic dilemma around us and face problems such as how to accelerate the economy again and eliminate obstacles to cooperation, which is no small feat.

³“COVID-19 Affects Chile's Foreign Trade: both Imports and Exports Decline, Domestic Demand May Slow Down,” Mar 27, 2020, http://www.br-cn.com/news/nm_news/20200327/145307.html

3.1 Accelerate the Joint Construction of the BRI Driven by the Promotion of LAC Integration

Although there are public health coordination mechanisms for LAC, the pandemic still exposes the systemic problems in joint prevention and control. For example, the Forum for the Progress and Development of South America (PROSUR), established in 2019, has only eight member countries, which is not enough. The Union of South American Nations (UNASUR), which was once regarded as an important mechanism for LAC cooperation, now exists only in name. The Community of Latin American and the Caribbean States, the largest integrated organization in the Western Hemisphere, established in 2011, encompasses all 33 countries in the region, but because it is not as flexible, streamlined, and efficient as the other two, it does not propose a satisfactory coordinated strategy for pandemic prevention and control. This is a consequence of different levels of development, diverse interests in Latin American and Caribbean countries, and the lack of internal cohesion. The United States continues to divide politics in the region, cultivating pro-American forces, and creating tension. For these reasons, the integration of Latin America and the Caribbean countries has been advancing through twists and turns. If the BRI is to achieve greater success, it is bound to be transformed in a direction that strengthens overall cooperation and coordination among LAC countries.

The win-win results of the BRI in the past few years show how American interference with the in-depth cooperation between China and LAC countries is an obstacle to Latin American integration. Combating this requires enhancing the BRI communication channels between China and LAC countries. There are still a few countries in the LAC region that have not established diplomatic relations with China. They are concentrated in Central America and the Caribbean. The overall cooperation between China and LAC will help to realize the BRI by enhancing the competitiveness of LAC countries. The full coverage of partner countries has made LAC no longer a weak link in China's diplomacy and China no longer a weak link in LAC's foreign trade, and strengthened both sides' voices in the international arena.

3.2 Responding to the Domestic Political Risks of LAC Countries

In recent years, right-wing political forces in LAC countries have come to power, and new changes have taken place in the regional structure. The left-wing tends to push for change, and the right-wing tends to maintain the status quo. The left-wing tends toward social justice, and the right-wing tends toward economic growth. However, both adopted a pragmatic approach and strengthened cooperation with China. When faced with intractable problems like domestic corruption and people's livelihoods, due to fierce political party competition, some conservative political

forces criticize and question China-LAC cooperation through public or other media, and this wins the support of some voters.

In the eyes of some politicians in Latin America, the BRI is only used in exchange for Chinese investment and trade. In 2015, Argentine right-wing President Mauricio Macri launched a purge of former politicians in the name of anti-corruption, accusing China of having a “secret agreement” with the former government of Argentina, and threatening to cancel nuclear power plant construction cooperation. Some Brazilian officials also claimed that the pandemic was part of “China’s plan to rule the world.”

The political risks brought about by regional political changes are challenges that China and Latin America and the Caribbean countries must face, and the BRI requires transformation. Channels and mechanisms for timely communication between leaders of China and LAC must be strengthened. Although the current China-LAC cooperation mechanism is relatively complete and thorough, it is not flexible enough. It is impossible to cope with the ever-changing problems by relying only on mechanisms such as regular leader meetings. From the mid-level perspective, the training of “people with knowledge of China” needs to be improved. Regardless of whether the people come from political circles, the business community, the media, or academia will improve cooperation by increasing their understanding of China, clarifying the mutual interests of the consensus, and avoiding misjudgments. In the future of the BRI, cooperation in the social and cultural fields should be supplemented. From a grassroots perspective, we must increase nongovernmental exchanges and cooperation. The BRI is not only an intergovernmental cooperation and corporate project, but also an important part of nongovernmental exchanges, and its importance should be re-examined. Only through continuous exchanges can public opinions curb the voices that are not conducive to cooperation. China and LAC countries should respect each other’s political systems and development paths cooperate in a pragmatic manner. The transformation of BRI should focus on dealing with uncertain political risks, which is a necessary condition for mutual success.

3.3 Taking the Opportunity of Cooperation on Fighting the Pandemic to Promote Cooperation in All Fields of BRI

The present cooperation between China and other countries on the joint construction of the BRI is mainly concentrated in the economic field, and there is relatively little cooperation in social, cultural, and health aspects, which reflects an imbalance in the areas of cooperation. Since the outbreak of COVID-19, shortcomings in public health cooperation have gradually been exposed, and have failed to effectively prevent the spread of the pandemic. In the face of the threat of the pandemic, we realized the importance of strengthening public health security cooperation. China’s

current efforts are mostly focused on humanitarian assistance in the treatment of diseases.

As early as 2017, the "Healthy Silk Road" high-level seminar was held in Beijing, and the "Belt and Road" Health Cooperation and "Healthy Silk Road" Beijing Communiqué were released. Health is the core of development and an effective indicator for measuring sustainable development. Developing and maintaining the vitality of national health systems and promoting cooperation in the health field are not only conducive to improving people's health but also promote economic development. Taking pandemic prevention as an opportunity, it would be good to advocate for the establishment of public health cooperation and mutual assistance mechanisms for countries along the BRI, strengthen cooperation in the process of major health and safety incidents, and avoid unnecessary chain reactions and economic and social losses caused by panic. It would also be good to further strengthen infrastructure cooperation in the field of public health, build cooperative research and development institutions, jointly develop vaccines and drugs, use digital technology to share public health information, and conduct global biological threat monitoring. Formulating common measures and mechanisms to prevent global health security incidents will help avoid the threat of catastrophic public health consequences. It would also be good to strengthen the monitoring, prevention, response, assessment, and various experience tracking and sharing of major health incidents. Taking the improvement of public health cooperation as a model can make up for the lack of cooperation in other nontraditional security fields such as environmental security, cyber security, food security, and anti-terrorism. By strengthening cooperation to tackle such problems, the comprehensiveness of BRI cooperation will be effectively improved.

3.4 Transformation and Challenges of Economic and Trade Cooperation

Economic growth and trade, as the top priorities of BRI cooperation, are also facing transformational issues.

Investment Due to the relatively low economic growth in LAC in recent years, the countries with more Chinese investment are facing severe economic risks due to problems such as a price decline in energy and minerals, and other commodities in the international market, imbalances in domestic governance, poor fiscal conditions, and high external debt pressure. The Venezuelan high-speed rail project undertaken by China was stranded due to a break in the capital chain of Venezuelan investors, and China's loans to Venezuela are at risk of default. In addition, although China is the second-largest investor country after the United States, its investments are mostly resource-based investments by state-owned enterprises concentrated in resource-rich countries with limited local economic drive and insufficient investment diversification.

Trade Bilateral trade frictions are inevitable when you have such a deep development of trade cooperation, and LAC countries have increasingly conducted anti-dumping investigations against China. This is caused by China's large trade surplus. China's relatively large proportion of exports of mechanical and electrical equipment, etc., have a competitive advantage in the LAC region, while the prices of agricultural products and industrial products exported by Latin American countries to China are relatively low.

The above-mentioned investment and trade issues have always existed and hindered the deepening of cooperation under the BRI. In a global crisis like COVID-19, this kind of cooperation is extremely fragile and sensitive, and both investment and trade will stagnate due to global market fluctuations.

For this reason, the transformation of the BRI needs to be carried out in two ways. First, investments need to be made in advanced manufacturing, digital economy, technology, and economic and financial services, instead of continuing solely with traditional resource, agriculture, and infrastructure investment. Exploring a variety of new forms of cooperation to make full use of the BRI platform will support the establishment of local industrial systems, especially emerging industrial systems. For example, building 5G base station construction, intercity high-speed railway, and urban rail transit, UHV, big data center, artificial intelligence, industrial Internet, and other new infrastructure fields. The trade should shift more toward services. The development of services trade must be based on actively expanding traditional trade in goods, and service trade can not only be launched in the Cayman Islands. There is already huge demand in the fields of service trade between China and LAC countries in finance, education, communications, environment, health, and tourism, which is a new engine for igniting China-LAC trade cooperation. In the context of the COVID-19, global service trade will further strengthen. The adaptation of new technologies and the digitization of labor, especially the expansion of 5G networks, will promote the growth of cross-border service trade and enhance the international trade possibilities for professional services. This requires the BRI to pivot to the field of service trade, sign free trade agreements with more countries, and attract the Chinese consumer market with improved service trade offerings from LAC countries.

The Belt and Road cooperation between China and LAC countries is facing huge difficulties and opportunities. In the post-pandemic era, integrating new changes and transforming the Belt and Road Initiative to adapt to the development of both sides is a new challenge for China and Latin American and Caribbean countries.

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Challenges in Future China-Latin America and the Caribbean (CLAC) Relations



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Abstract China faces increasing challenges in developing further relations with LAC countries on the economic, political, and geopolitical levels. Taking the path of sustainable development, mutual benefit, and joint development under the macro vision of building a community with a shared future for humankind is fundamental. This chapter discusses the challenges that China and LAC countries face in improving their relations from economic, political, and geopolitical points of view. The first section highlights that China should continue the process of enhancing its understanding of Latin America based on its acquired rich knowledge and experience of the region. Through the comparative research of previous Chinese and American studies on Latin America, Chinese researchers should improve domestic Latin American research to build the academic literature on this relation. The second part analyzes the political challenges, the evolving left- and right-wing movements and CELAC's relevance in this relationship. The third section deals with the challenges of geopolitics and the international system, mainly with the relations between CLAC and US. As a result, these shared challenges urge the United States, China, and Latin America to push domestic reforms, enhance bilateral and multilateral cooperation, introduce international support, and seek opportunities for trilateral cooperation.

Keywords China-Latin America and the Caribbean relations · Challenges · Mutual benefit

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1 The Challenges of Building a More Sustainable CLAC Economic Relations

Despite the impressive expansion of CLAC economic relations, there is still room for improvement. Inspired by the establishment of the China–Brazil Strategic Partnership in 1993, the economic agenda has become a core issue when it comes to CLAC relationships. The shift in focus of the cooperation entails that the established bilateral strategic partnerships feature the institutionalization of bilateral economic ties instead of security cooperation or strategic cooperation, like when China overtook the United States as Brazil's largest trading partner in 2009. Both countries are the founding members of newly established multilateral investment banks, the New Development Bank (NDB) and the AIIB. These two multilateral development banks, in turn, arouse Latin American interests, and they have evolved to be more inclusive as Ecuador and Uruguay became the AIIB new members, and Argentina, Brazil, and four other countries have expressed a willingness to join. China also has bilateral free trade agreements (FTAs) and upgrade agreements with Chile, Peru, and Costa Rica, which bolster solid development partnerships based on the same understanding of economic relations from the reciprocal and developing perspectives. This CLAC cooperation best demonstrates the Belt and Road Initiative (BRI) and attracts more countries to join. In the next decades, CLAC economic relations will encounter the following challenges.

First, CLAC economic relationships are becoming more profound, requiring balance between trade, investment, and finance, a better investment climate, and the institutionalization of economic relations. China is Brazil, Peru, and Chile's largest trading partner and an increasingly important lender and investor in the region. Despite this deep connection, China's investment and financial cooperation in the Latin American region are hampered by outmoded investment and financial cooperation. From loan-for-oil deals between Venezuela, Ecuador, and Brazil, to a more market-oriented investment approach, China-Latin American investment and lending cooperation need to upgrade and adapt a broad and localized strategy. In recent years, Chinese investments in Brazil have made remarkable progress toward a market-oriented investment approach. Through mergers and acquisitions, China relies on local market partners to increase business participation in Brazil. A fundamental challenge for Chinese enterprises to develop the Latin American market is to improve investment cooperation.

Heavily relying on raw materials and primary products and lacking competitiveness in manufacturing, Latin American countries' economic structures add vulnerable and unstable elements to CLAC trade relations. China exports industrial products and imports energy, minerals, and raw materials from Latin American countries, resulting in the misinterpretation of China as a threat. The deepening of CLAC cooperation was thought to result in Dutch Disease in the region. Chinese state-owned enterprises' agricultural investments in the Latin American region are considered a threat to the national food security of local governments who issue

restrictions on foreign ownership of agricultural land. A fundamental challenge for CLAC economic relations is to develop a sustainable cooperation model.

Latin American countries are interested in benefiting from Chinese investment and financial cooperation to cope with local financial hardships and lay the foundations for sustainable development. With the low rate of capital formation, persistently low economic growth over the past decade, and high demand for government spending due to the COVID-19 pandemic, Latin American governments are challenged by the difficulties of boosting the local economies to maintain a robust financial system. China's financial assistance to Latin American countries can empower local governments to cope with the fiscal difficulties and Chinese investment can boost local infrastructure development and science and technology innovation, improving productivity in the long run. Despite the financial demand in the Latin American region, CLAC investment and financial cooperation still face challenges. First, the slow economic growth, low international credit ratings, complex tax and labor systems, and inadequate social security hamper Chinese enterprises from investing in the region. Second, frequent regime changes, political instability, and frequent policy changes quench Chinese enterprises' interest in participating in large local projects. Third, large infrastructure projects are hindered by financial problems, the lack of regional consensus, and domestic political factors. Examples include the failure of the Chinese bullet train project in Venezuela and Mexico and the Bi-Oceanic Railway project. Overcoming these interferences requires time.

The complementary trade relations between China and Latin American countries will continue in the following years as China's demand for raw materials and primary products from Latin America grows. To keep delivering on the people's aspirations for a better life, China has an enormous need for diverse and high-quality agricultural commodities from around the world, which rely heavily on convenient logistics, favorable customs clearance, and FTAs. Latin American countries must develop institutionalized, bilateral economic ties with China to compete with Asian countries that enjoy shorter distances and policy incentives such as Regional Comprehensive Economic Partnership (RCEP). More FTAs also facilitate the CLAC trade relations. FTAs have mainly been signed with the smaller economies such as Chile, Peru, and Costa Rica, while FTAs with big economies like Argentina and Brazil have yet to manifest. Brazil has concerns about its domestic manufacturing sector suffering when its Chinese counterparts enter the market. Indeed, under the framework of RCEP, a growing number of countries have signed FTAs with China, which inevitably reduces CLAC trade priority in China's international trade.

China seeks to build sustainable CLAC economic relations in infrastructure, innovation, and renewable energy, which requires China to provide diverse and high-quality investment in the region. According to *Latin America and the Rising South: Changing World, Changing Priorities*, a World Bank report, the rise of Latin American countries echoes the trend of other developing countries (De la Torre et al., 2015). In China, the expansion of the middle class and their increased consumption, capital, management, and technology accumulation set a new stage for CLAC economic ties.

As indispensable components of the world economy, China and Latin America have long been downstream in the global value chain, and thus their benefits have been constrained by developed countries' economic performance and openness. To build an independent and resilient economy, China and Latin American countries prioritize domestic industrialization, technological innovation, and productivity improvement. Through reform, opening up, and integration into the world, China has made significant progress in science and technology innovation. The achievements in advanced manufacturing and the digital economy equip Chinese enterprises with the technological support to participate more broadly in Latin America, ushering in sustainable CLAC cooperation. In *Brazil–China 2.0*, China's investments in LAC mirror the rapid technological advancement in its domestic production over the past decade (Myers, 2015). Most Latin American countries are uncompetitive in manufacturing products for the international market, having insufficient infrastructure, substantial inequality, limited products, and weak innovation. China, meanwhile, has built up advantages in infrastructure development, scientific and technological innovation, and diversified industrial structure, laying the foundation for complementary cooperation.

Apart from the pursuit of mutual benefits, Latin American countries also look forward to profiting by establishing a sustainable economic relationship with China. In *China's Evolving Role in Latin America: Can It Be a Win–Win?*, an Atlantic Council report, the author questions whether China's diversified investment can reduce the social cost of Latin America's development, and whether China can shoulder the responsibility of boosting Latin America industrialization in the long run. The report recommends building a long-term CLAC development agenda (Dussel, 2015).

In 2001, China became a member of the World Trade Organization (WTO), which forced premature Chinese enterprises to face tremendous external pressure from overseas market competition. This event created an opportunity to quickly reform and opening up, accelerating technological progress and enhancing competitiveness. This experience can act as an example to Latin American counterparts who can follow the path of opening up to China and overseas economic partners to promote long-term regional development. As for a lack of investment capital, insufficient infrastructure, and low productivity, China's investments can make up for these shortfalls on the condition that both sides collaborate effectively and take their cooperation to the next level. Under the joint efforts of Chinese enterprises' social responsibility and local policy support, Chinese capital can flow into environmental and social sectors to support Latin American long-term development.

A crucial factor affecting the prospect of large projects with Chinese involvement in Latin America is the complex relationship between infrastructure development and environmental protection. In August 2014, Mexico's environmental regulatory agency sanctioned the Dragon Mart Cancun (Dragon City) project, a China–Mexico joint venture trade center. The project was halted entirely for violating environmental regulations and not paying their fines. The HK Nicaragua Canal Development Investment also aroused public attention. Some scientific institutions and environmental organizations issued independent, third-party assessments of the

environmental impact of the Nicaragua Canal project, which hindered the progress of the canal development. From Peru in the Pacific to Brazil in the Atlantic, the Bi-Oceanic Railway project was delayed by the concerns over the deforestation of the Amazon rainforest along the railway. Latin American civil society's environmental awareness requires Chinese enterprises to conduct a thorough survey on the environmental impact before making commercial decisions.

Chinese enterprises should explore local markets with awareness about environmental protection, diversified economic development, and clean energy promotion through local partnerships and localization strategies to benefit the long-term development of their business. Research by the China-Brazil Business Council indicates that partnership is the mother of success, which is embodied by the success of the Brazilian enterprises that have Chinese partners and investment in China. With local support, Chinese enterprises should complete preliminary research of local markets, prepare their investment strategy, build a positive enterprise image, and most importantly, cultivate their core competitiveness to embrace local price competition before investing in Latin America.

The Chinese government clearly expresses its willingness to help Latin American partners develop their domestic industry. Chinese loans and investments in Venezuela mostly flow to the agriculture, infrastructure, housing, and energy sectors. The Brazil and China 2015–2021 Joint Action Plan focuses on industrial innovation and investment those are Brazil's the national development priorities. Nowadays, Chinese investments in Brazil flow to automobile manufacturing, electrical power transmission, oil, railroads, ports, and information technology, which are no longer restricted in raw materials like iron ore and soybeans. What is more, China National Nuclear Corporation (CNNC) signed a \$6 billion cooperation agreement on the transfer of Chinese technology and capital to boost Argentina's nuclear power industry. Since 2008, the Chinese government has issued two policies to improve the framework for CLAC cooperation. The policies aim for mutual benefit based on Latin American conditions. One of them is President Xi Jinping's "1 + 3 + 6" Cooperation Framework which prioritizes cooperation in six areas: energy and resources, infrastructure, agriculture, manufacturing, science and technology, and information technology. The other, proposed by Premier Li Keqiang, is the "3 × 3" Cooperation Framework, emphasizing CLAC cooperation in infrastructure, electricity, and information technology, with the joint effort of businesses, society, and government through capital, loans, and insurance cooperation. These efforts show China's policy preferences and its expectation for CLAC economic relations.

In this critical stage of bilateral economic reconstruction, China and Latin America need to explore a new cooperation model. With Venezuela, Argentina, Brazil, and essential Latin American economic partners experiencing economic slowdowns, China is challenged by the demand to explore new commercial opportunities in the region. To help their Latin American partners who are trapped in economic difficulties, China tries to empower its Latin American partners to develop independently through deepening bilateral economic cooperation through the platform of the Forum of China and Community of Latin American and Caribbean States (China-CELAC Forum).

Furthermore, economic cooperation is a joint effort of economic theory and social connection, a crucial factor of increasing importance. Overseas scholars have limited access to Chinese Latin American research in international academic journals, as most of them are published in Chinese. From the Latin American perspective, a growing number of academic institutions and think tanks devote themselves to researching China with the deepening CLAC cooperation. To reduce bilateral misunderstandings, both sides should provide more opportunities to enhance governmental, social, and cultural exchange.

2 The Political Challenges in Improving of Overall CLAC Cooperation

China and Latin American countries co-founded the Forum of China and Community of Latin American and Caribbean States (China-CELAC Forum). Early in 2008, China issued its first Latin American policy paper signaling its expectations for cooperation in the region. At that time, however, in the absence of a regional institution, a CLAC dialogue mechanism like the China-CELAC Forum was urgently needed. The establishment of the Community of Latin American and Caribbean States (CELAC) supported regional development and its need for international cooperation with China. China established CLAC cooperation funds and exchange programs under the China-CELAC Forum framework. This cooperation generated outcomes such as a series subforum on infrastructure, science and technology innovation, and agriculture, two ministerial meetings, and 2015–2021 joint action plans.

As the co-founder of the China-CELAC Forum, China has a bigger say in agenda-setting and cooperation than in the Organization of American States and Inter-American Development Bank (IDB) where China is a marginalized member. The China-CELAC Forum paves the way for CLAC supply and demand cooperation as China multiplies financial assistance to regional public goods. Under the China-CELAC forum framework, China provided a \$10 billion special loan for local infrastructure development, a \$10 billion concessional loan, a \$5 billion CLAC Cooperation Fund, and a \$50 million CLAC Agricultural Cooperation Fund. China also invested heavily in social and cultural exchange programs, providing 6000 students with national scholarships, professional training for 6000 Latin American professionals, financially supporting 400 postgraduates to study in Chinese universities, arranging 1000 visits to Chinese local party organizations and governments, and supporting 1000 students through the Bridge of the Future program (Shixue, 2015a, b).

The China-CELAC Forum provides Latin American countries with bargaining chips in CLAC negotiation, empowering them to voice their demands and points of view. A report by the Institute of Latin American Studies, Chinese Academy of Social Sciences suggests that despite the dialogue on coordinating Latin American

countries' development with Asian market demands, Latin American countries should adjust trade asymmetries and construct regional dialogue platforms to get more benefits from cooperation. The gradually intertwined cooperation calls for the China-CELAC Forum to build a platform to exchange respective demands and development strategies, providing legitimacy to China's activities in the region through improving organizational transparency, exchanging mutual understanding, and blueprinting cooperation regulations.

With all the listed benefits of the China-CELAC Forum, CLAC cooperation is still hindered by regional politics and the fragmentation of regional cooperation.

The Left's Pink Tide in Latin America has a profound impact on regional economic and social development, which speeds up the process of overall CLAC cooperation. Carlos de la Torre and Cynthia J Arnsen (2013) proposes that Latin American populism evolved from nationalism to anti-globalization, anti-liberalism, and different levels of anti-Americanism (De la Torre & Arnsen, 2013). Regardless of their attitudes toward the United States, most Latin American politicians who have witnessed the rise and fall of the Pink Tide are internationalists. They seek international cooperation beyond the American continent with extraterritorial superpowers like China, diversifying Latin American countries' foreign relations. What is more, through the rise of neoliberalism, Latin American countries begin absorbing the experiences of advanced development models and reaping the political and economic benefits from regional cooperation. China's stimulation of Latin American development is recognized as a significant and lasting process of regional cooperation in policymaking (Bonilla & Milet, 2014).

The flourishing historical period ended when pro-American and neoliberal right-wing parties seized control of Latin America. The regimes swiftly halted regional cooperation, dividing Latin American countries into two rival groups based on their position on the legitimacy of Maduro's regime, which the Lima Group opposed. Latin American powers remapped the sphere of influence, reaching a deadlock between the left and right. Lacking regional leaders to break the stalemate, CELAC cooperation stalled and its influence was dramatically impaired by regional segregation, but bilateral cooperation moved forward. In 2019, the IDB canceled the annual meeting in Chengdu due to the failure to reach a consensus on Venezuela's participation. Despite the cooperation setbacks, CELAC can exert its influence on regional cooperation with China if China is willing to provide political cooperation and public goods through the China-CELAC Forum.

Despite the left and right political confrontation, the core task in the region is sustainable economic growth. Unlike the United States' bring-manufacturing-back and primary goods export-oriented economic plan, Latin American leaders of different political stances cherish economic ties with China, which has become an irreplaceable investment and trade partner. Meanwhile, China gradually builds a base of understanding about the Latin American political map with assistance from Latin American academics and political cooperation with Latin American counterparts through the International Department of the Central Committee of the Communist Party of China (CCCPC). China can cooperate with most Latin American political parties when both sides seek common ground based on mutual respect and

reciprocal diplomacy while reserving differences in ideology (Haibin, 2014). The democratic political system in Latin American countries balances the power and interests of different interest groups. Pro-China interest groups can cement friendly relations with China in national and local governments, preventing negative impacts from counter-ideological and pro-US interest groups. China maintains stable relations with the Argentinian Mauricio Macri regime and the Brazilian Jair Bolsonaro regime despite their delays in economic cooperation with China.

Most Latin American politicians expect to derive benefits from CLAC economic cooperation to boost local development toward diversification, industrialization, and sustainability through improved market access, increased openness, and conducive policy. Major economies in Latin America have found their way to the redistribution of income and wealth and infrastructure investment from a market-oriented perspective. New regimes in countries such as Brazil and Argentina expect to benefit from infrastructure cooperation with China. As a result, Brazil strives to create a friendly political environment for foreign investment flowing into the domestic market, and Bolsonaro administration has made efforts to enact foreign-capital-friendly trade policies and improve the domestic business environment.

The Latin American business environment raises new challenges for Chinese enterprises such as regime instability and dramatic policy shift from a political perspective, and safety, security, environmental protection, and labor rights from a social perspective (Shixue, 2015a, b). Chinese investors hold back their investment due to the unstable political and business environment in Latin America (Cordeiro Rires & Paulino, 2010). The pro-market reforms promoted by right-wing regimes in Latin America amplify the domestic advantages of capital, productivity, technology, and mature markets, and China encourages the CLAC economic cooperation based on mutual benefits. In general, right-wing regimes prefer to export value-added products to the United States instead of primary products to China. Therefore, China should keep its strategy of balancing the “Troika” of trade, investment, and finance, diversifying the commodities export to China, reinforcing the combination of capital and productivity in infrastructure, clean energy, information technology, and improving local industrial competitiveness. The right-wing regimes require a new bilateral cooperation mechanism, in which the market economy rules plays a crucial role.

The ebbing of the Pink Tide in Latin America makes CLAC intergovernmental cooperation more difficult, leaving space for market-driven economic ties which can only flourish in a friendly business environment. In 2014, as the representative of China’s advanced manufacturing in the going out policy, the unexpectedly failed bid for the Mexican bullet train project highlights the indispensability of political stability in international economic cooperation. Infrastructure development in Latin American countries creates ample investment opportunities accompanied by the political risks generated by the economic slowdown, bad domestic governance, and political struggles. To avoid these political risks in international investments, Chinese enterprises, as new players in overseas investments, should assess the political landscape in overseas investment, improve their international cooperation ability, and seek joint bids with local counterparts.

3 The Challenges of Geopolitics and International System

International societal changes have profoundly influenced CLAC relations. CLAC interaction went through a period of low interaction with both sides lacking willingness and resources to improve bilateral relations. The famous Maritime Silk Road (1565–1865) between China and Mexico was under the domain of the Europeans. In the nineteenth century, thousands of Chinese laborers were shipped to Latin America by European colonizers to construct the local railroads and canals. After the founding of the People's Republic of China in 1949, the CLAC relationship was sporadic in the cultural and economic fields due to the Western embargo. To gain more international support against the embargo, China actively cooperated with the Soviet Union, its allies, and some Latin American countries. Some scholars argue therefore that China's foreign policy toward Latin America is primarily based on historical geopolitics (Lanxin, 2008). CLAC relations have been structurally constrained by Sino-United States and Sino-Soviet relations. Benefiting from improved Sino-United States relations and the significant changes in the international system represented by China's return to the United Nations, there was a boom in diplomatic relations between China and Latin American countries in the 1970s. The international geopolitical landscape profoundly influenced China's relations with Latin America.

Regardless of whether China intends to pursue a geopolitical strategy in Latin America, changes in the geopolitical map, with major power relations at their core, will affect the development of CLAC relations. For the foreseeable future of the international society, the most prominent external factor affecting CLAC relations remains the United States. The United States has always played a crucial role in China's development and security environment. In 2017, Chinese President Xi Jinping emphasized the importance of the Sino-United States relations when he said that "we have a thousand reasons to improve Sino-United States relations, while not a single reason to worsen the friendship."¹ From the perspective of Latin American countries, the United States, the dominant superpower in the Western Hemisphere, is the most important foreign policy partner, but many Latin American countries crave China's assistance in developing greater national independence (Bonilla Soria & Milet García, 2014). Throughout the twenty-first century, economic globalization, the rise of the south, and the global governance represented by the G20 has cultivated a favorable international environment for the development of CLAC relations. As the most influential global hegemon in the Western Hemisphere, the United States has taken a neutral or encouraging stance toward the development of CLAC relations, which used to be the most crucial external impetus for the development of CLAC relations. However, in recent years, with the rise of global right-wing populism and major setbacks in economic globalization and global governance, the United States has changed its strategic position with China and

¹"Xi says ready to boost China-U.S. ties from new starting point with Trump," <http://chinaplus.cri.cn/news/politics/11/20170407/2637.html>. (Access Date: Oct. 20, 2020)

considers the expansion of Chinese influence in Latin America as a threat, which represents a new challenge for the future of CLAC relations.

During the George W. Bush and Obama administrations, the United States adopted a more objective and inclusive approach to the development of CLAC relations, which created a relatively friendly geopolitical environment for CLAC interaction. Despite neglecting Latin America to a certain degree as the result of the US international counterterrorism agenda, the United States did not attribute the estrangement of United States-Latin America relations to China's expansion in the region, deeming China's presence in Latin America as a natural consequence of its economic growth rather than a threat to US geopolitical security. China even joined the OAS and the IDB, two important regional organizations in the Western Hemisphere. Senior diplomats from the United States and China held regular strategic dialogues on Latin American affairs, sharing their mutual interests and policy options in the region. In 2013, when the Obama administration formally announced the end of the Monroe Doctrine and the readjustment of its policy toward Cuba, both China and Latin America welcomed the United States (Kerry, 2013). China expressed its willingness to cooperate with third parties in Latin America. In this permissive geopolitical environment, the interaction between China, the United States, and Latin America generally echoed the zeitgeist of economic globalization and international cooperation. Besides, international opinion recognized China's contribution to peace and prosperity in Latin America. Unlike the extreme, geo-competitive environment in East Asia, China's economic engagement in Latin America faced less geostrategic pressure. Furthermore, Latin American countries have been actively participating in globalization and cultivating diverse international partners with China and other countries.

This encouraging geostrategic environment was doomed when the Trump administration, which pursued a great power competition and "America First" strategy, came to power. The "America First" approach emphasized economic nationalism with trade protection as a key feature, the great power competition strategy, and the view of China's economic activities in developing regions such as Latin America as a zero-sum game. Senior officials in the Trump administration publicly criticized China's intentions, practices, and influence in Latin America, coercing Latin American countries into alienating themselves from China and abandoning economic ties with China, especially by sabotaging the CLAC cooperation on 5G. The Trump administration took an increasingly skeptical and unfriendly attitude toward CLAC relations, and thus it withdrew several important and active policies initiated by the Obama administration on engagement with Latin America, such as restraining economic engagement with Cuba and reaffirming the effectiveness of the Monroe Doctrine, which fundamentally deteriorated the geostrategic environment in the Western Hemisphere. The Trump administration's Western Hemisphere policy shift had an incalculably negative impact on the tripartite relationship of China, the United States, and Latin America.

Rather than being a sign of genuine interest in the region, the Trump administration's policies in Latin America echoed US domestic politics and an anti-China agenda. During Trump's Presidency, he only attended the G20 summit in Buenos

Aires and did not make bilateral visits to Latin American countries. Instead, he preferred to elaborate his Latin American policies and particularly Venezuela's policies in Florida, a battleground state in the presidential election. The anti-socialist campaign involving the Havana and Caracas regimes was mainly delivered to United States voters, while Trump's diplomatic and security team focused on "holding China and others to account and not to allow China to play by its own rules" (Breier, 2019). The Trump administration decided to improve cooperation with the Bolsonaro administration that shared their ideology to tackle Chinese concerns jointly. The United States also proposed a whole-of-government strategy, the "America Crece" Initiative, in Latin America to compete with China's BRI (The White House, 2020). The first response of the United States to the initial spread of coronavirus in Latin America frustrated the locals.

The US mindset of pursuing a geo-competitive strategy had negative impacts on China's involvement in mega-infrastructure projects in Latin America. The Trump administration saw Chinese participation in port projects in countries such as Israel, Sri Lanka, Pakistan, and Greece as strategic competition and military power projection. Under this negative and competitive mindset, China's interests in Latin American mega-infrastructure projects such as the Panama Canal expansion, the Nicaragua Canal construction, and the Bi-Oceanic Railway project, were sabotaged by the United States' government. Latin America lags behind the regional economic integration of East Asia and Western Europe, which results to a large extent from the lack of infrastructure in the region. The Pan-American Highway, initiated by the United States, was a major contribution of the United States to the Latin American economy. If the United States can adopt a regional economic integration strategy and enhance closer economic relations between the Americas and the Asia-Pacific region, it will encourage the construction of submarine cables from Latin America to Asia and mega-infrastructure projects with Chinese involvement.

The adjustment of the US-China economic relationship will inevitably impact the prospects of CLAC economic relations. A good, stable, and rule-based US-China economic relationship is beneficial to the economic development of Latin American countries. In the short term, countries such as Brazil and Argentina may benefit from a US-initiated trade war with China, but policymakers and the private enterprises in Latin America are concerned about the uncertainty and negative impacts associated with it. A US-China trade agreement could reduce China's energy and agricultural imports from Latin America, given that the United States is a competitor to Latin American countries in these two sectors.

To ensure the sustainable development of CLAC relations, it is vital to avoid China-US geostrategic competition in Latin America. From a geostrategic perspective, a positive attitude from the United States will provide more space for CLAC political and economic interaction. In a world still driven by economic globalization, most Latin American countries prefer to maintain good relations with both major economies as opposed to choosing between them. Given this situation, China faces the challenge of managing power shifts and superpower interactions in the region. China needs to improve effective strategic communication with the United States to clarify the intent and national interest of China's policies in Latin America while

striving to resolve or reduce US concerns about the rapid development of CLAC relations so the United States does not initiate geostrategic competition against China in the region. On the other hand, China needs to persuade Latin American countries to move away from the US strategy of containing China, encouraging Latin American partners to defend their national strategic independence. Avoiding the negative influence of third parties, China and Latin American countries should actively promote bilateral economic and trade relations based on independence, mutual benefit, and win–win cooperation.

China's approach to developing CLAC relations will remain pragmatic and cooperative, cooperating based on national interests and mutual benefits rather than dividing according to ideology and values. Deeply influenced by Western culture and values, Latin America is evolving into a region with a fully developed market economy and democratic political system, which has no negative influence on CLAC exchanges and cooperation.

China respects Latin America's institutional and cultural choices when it seeks to promote closer relations with Latin America. When China decides to cultivate a strategic partnership with Latin America, that decision would be primarily based on the partner countries' economic development potential, regional influence, and participation in global governance, rather than their political system or ideology. In developing its relationship with Latin America, China adheres to the philosophy of constructing a new model for international relations which emphasizes the pursuit of international cooperation, mutual respect, and co-development. This pragmatic approach to diplomacy enables China to avoid the trap of the "new Cold War" initiated by the United States while reserving respect for Latin American independence.

In the coming years, China is inclined to value Latin America as an independent region rather than the US's backyard. There is a heated debate over whether China should refer to Latin America to the US's backyard in their international relations studies. In previous studies, Chinese scholars clarified that China has no intention to interfere with the United S's "backyard," which focused on declaring China's strategic cooperation in Latin America instead of challenging the notion that Latin America is the US's "backyard" or sphere of influence (Shixue, 2015a, b). Today, Latin American countries have jumped out of the "backyard" mentality and promoted national independence, especially in South America. In CLAC relation studies, a growing number of Chinese scholars have remarked on the increasing independence of Latin America and the inappropriateness of Latin America's stigma as the US's "backyard." China recognizes the strategic importance of Latin America in global governance. Therefore, China should build a strategic, sustainable, and institutionalized relationship with its LAC counterparts (Haibin, 2013). Today, China actively participates in building ties with Latin American multilateral institutions, achieving consensus on regional development, providing public goods, and sharing development opportunities with regional counterparts.

The key to building a more positive and constructive interaction between the United States, China, and Latin America is to uphold the spirit of mutual learning and mutual benefit. The United States and China should establish a development

partnership that boosts Latin American development, as sustainable co-development is on both of their agendas. It is equally essential to maintain good US–China international relations. China needs to learn to be a major power, while the United States needs to maintain consistent interactions with countries of different domestic orders (Kissinger, 2015). The United States is coming to realize that neither China nor Latin America intends to forge an anti-American alliance that would restrain United States access to Latin America, which is in nobody’s interest (Stallings, 2008). Latin American countries also recognize the deep economic interdependence of China and the United States, as Latin American countries with close economic ties to China, including Brazil, Chile, Peru, and Colombia, all maintain good diplomatic relations with the United States. The interaction between China and the United States in Latin America is part of the transformation of the current international system, and all parties should have equal opportunities to interact and construct a meaningful future together. Despite being at different stages of development, China, the United States, and Latin America all face the challenges of narrowing the income gap, blazing a clean development path, and building sustainable financial systems.

4 Conclusion

Latin American countries have relatively unconventional views in international affairs, with good resource endowments and increasing alignment with the international community. As Latin America is strengthening its infrastructure and promoting economic transformation, it assumes an essential role in the international community, with more opportunities and a major driving force for the sustainable development negotiation on climate change and international financial mechanism reform. This leaves a lot of space for CLAC cooperation in the future against the transformation of the international system, for which both sides need to adhere to the following philosophies to meet the challenges ahead.

First, CLAC cooperation should seize the opportunity of development. The international financial crisis of 2008 and the coronavirus pandemic of 2020 have exerted a comprehensive and complex influence and increased the uncertainty of Latin America’s prospects. Today, this region faces multiple challenges of inflation, slow growth, the uncertainty of industrial transformation, unstable macroeconomic situation, and an underdeveloped society. These challenges call for China and Latin American countries to pull through together and tide over bad times. Meanwhile, both sides need to seize the golden opportunities for cooperation and avoid misinterpreting each other strategically. As a vital supplier of resources and energy for China’s development, Latin America is also an indispensable participant in China’s go-global strategy and economic transformation.

The goal of CLAC economic cooperation lies in promoting sustainable co-development, increasing social welfare, and boosting economic growth. To tackle the trade disputes and break the investment barriers in CLAC economic interaction, steps must be taken to relieve the concerns of Latin American countries

about de-industrialization and other potential impacts on their economic security and enhance the spillover of economic cooperation dividends. China's experience has shown that infrastructure development plays a significant role in stimulating economic development. With a vast territory but insufficient infrastructure, Latin America is challenged by the lack of regional transportation and communication networks.

Second, both sides should respect differences in ideology and national interests. Latin America is trapped in the dispute between different paths forward under the framework of multiparty politics and democratic systems. Even so, the moderate and pragmatic forces tend to pull forward in Latin American politics, and their biggest concern is to achieving sustainable development in the region. During the "China Boom" in Latin America, studies from both sides should go deeper and broader, promoting effective exchanges in governance and development and exploring development paths in accordance with domestic conditions.

The longstanding disparities in values and ideologies between China and Latin America are undeniable facts. Nevertheless, Latin American countries have advanced in issues of human rights, democracy, and human security. Though the population of Latin American exchange students in China remains small, both sides should nurture mutual respect and seek common ground while reserving existing differences in bilateral interaction.

The smooth-running of the China-CELAC Forum is only possible under the joint efforts of the Latin American major economies. Maintaining a positive interaction with major powers in Latin America remains a great challenge for China's future interaction with the region. It is crucial for both sides to build up more strategic mutual trust. Brazil introduced a series of economic regulations that objectively made it more difficult for Chinese enterprises to doing business in that country. Brazil's decisions on issues such as the COVID-19 vaccines and 5G bidding will be a testament to the level of strategic mutual trust between the two countries.

Third, it is particularly important to ensure the sustainability of CLAC relations and avoid the trap of antagonistic competition between China and the United States in Latin America. In recent years, both the United States and China have tried to strengthen their relations with Latin America. In general, China welcomed the Obama administration's regional policy which focused on improving political and economic relations with Latin American countries and opposed the Trump administration's anti-China agenda in the region. From China's perspective, it is understandable that the United States pays special attention to relations with Latin America. Nevertheless, the United States should take an open, cooperative, and win-win attitude toward the development of Latin America's relations with other major powers outside the region, especially with China. CLAC economic cooperation is a win-win one for the United States to address the root causes of problems such as illegal immigration and drug trafficking. Both the United States and China, the two most important foreign investors in Latin America, have common interests in constructing a better business environment and achieving benevolent governance in the region. The development of Latin America requires a mutually beneficial,

trilateral relationship among China, the United States, and Latin America where they can all work together.

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