

China, Latin America and the EU – a triangular relationship?

Workshop-Seminar

Organised by the EU-LAC Foundation, CAF- Latin-America Development Bank and the German Institute for Global and Area Studies (GIGA)
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Concept Note

China has emerged as a new economic and political power and has become an increasingly active member of the international community. It is a strategic partner of the European Union (EU), and the two parties have established a complex network of bilateral political and sectorial dialogues. These political dialogues include a multi-level system of political consultations with regular summits and meetings among high-level representatives of the Chinese and EU institutions as well as with EU Member States, dealing with a wide spectrum of issues, among others, foreign policy, trade, security and non-proliferation, human rights, and global warming. The President of the Republic of China and the President of the European Council and all Heads of State of the EU meet annually, and the President of the European Commission meets with the same frequency the Chinese Primer Minister. The sectorial dialogues, in turn, cover more than 24 areas in nearly 50 distinct deliberative spaces.

After the United States of America, China has become the second trading partner of the EU, whereas the EU now constitutes the main trading partner of China. Commercial exchange between the two parties almost trebled from 2004 to 2014, and the EU has also become the second recipient of Chinese foreign direct investment, only surpassed as destination by the Asian continent. Some analysts estimate that overseas direct investment flows from China to the EU amounted in 2013 to close to US\$ 10.4 billion¹ and during his visit to Brussels in June this year the Chinese Prime Minister Li Keqiang announced the expansion of purchases of European Investment Bank bonds and stressed his country's willingness to interface with the European Fund for Strategic Investment, an initiative of the President of the European Commission to promote growth through investment in infrastructure. The remark by the Prime Minister on the same occasion "to join hands in exploring third party markets" incentivizes to consider potential links between the EU programme with China's "One Belt, One Road" initiative that includes the "New Silk Road".

Earlier this year, the decision by some of the larger states of the EU to become founding members of the Asia Infrastructure Investment Bank - an initiative attributed to China's aspiration to see a more balanced governance of global issues by multilateral fora - highlighted the relevance of China for these countries.

At the same time, the economic and political relations between China and Latin American and Caribbean have steadily grown. Since 2014/15 the summit of the Americas and the EU-CELAC Summit have been complemented by another summit and interregional forum strengthening the relationship between China and Latin America and the Caribbean. During

¹ GARCIA HERRERO, Alicia. *China's outward foreign direct investment*. 28 June 2015. Online: <http://bruegel.org/2015/06/chinas-outward-foreign-direct-investment/>

a first meeting between China (as member of the BRICS) and the UNASUR (Union of South American Nations) in Brasilia (July 2014), where China's President Xi Jinping also met with the leadership of Community of Latin American and Caribbean States (CELAC), he proposed to jointly build a new "1+3+6" cooperation framework, where "1" referred to the establishment of a China-CELAC cooperation plan for the period 2015-2019, "3" referred to the three engines of cooperation (trade, investment and financial cooperation) and "6" denoted six fields of collaboration priorities (energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, information technologies).

According to statistical data from the Economic Commission for Latin America and the Caribbean (CEPAL), bilateral trade between China and Latin America increased 22-fold between 2000 and 2013. China's share of the region's exports moved up from 1% to 10%; and its share of imports rose from 2% to 16%. For several Latin American countries (such as Argentina, Brazil, Chile, Colombia, Cuba, Peru and Venezuela) China has become the single or second largest destination of exports. On 8-9 January 2015 the First China-CELAC Forum was held in Beijing. On this occasion, the Chinese government pledged to invest \$ 250 billion in the region over the next 10 years and to almost double trade between Latin America and China in the next 10 years from nearly \$ 275 bn (2013) to \$ 500 bn. It also promised to create a \$ 5 billion China-Latin America Cooperation Fund and to raise the credit limit for special loans for China-Latin American and the Caribbean infrastructure projects to \$ 20 billion. Moreover, as demonstrated by a recent study of the World Bank, linkages between China and Latin America and the Caribbean have strengthened, and their business cycles have also become more interrelated: directly through bilateral trade and Chinese FDI, indirectly through rising global commodity prices as a result of Chinese economic growth and demand for commodities.

Therefore, the cooling of China's economy and declining global commodity prices had an impact on the economic slowdown in Latin America in 2014. This fact raises the question regarding the ways in which Latin American economies would respond to lower economic growth rates in the future. Economic forecasts suggest that economies depending heavily on metal exports might be more affected by lower Chinese growth rates than those exporting agricultural products, leading to a rise of food prices because of growing Chinese demand.

China is not only a mayor importer of Latin American raw materials but has also increased its investment in Latin America in strategic sectors, such as the telecommunication and space technology sectors, including the construction of a satellite launch and tracking control centre in the province of Neuquén in Argentina. Huawei has become the largest provider for IP DSLAM and next generation network applications, and is second in market share for optical networks, routers, and LAN switches in Latin America. IT Specialists argue that Chinese firms' security standards are less restrictive than those of their U.S. counterparts.

China has also become a major donor and lender in Latin America. According to estimates by the China-Latin America Finance Database Report, loans of China's state-owned banks to Latin American countries rose by 71% from 2013 (\$ 13 billion) to \$ 22 billion in 2014. Chinese loans exceed the combined value of those extended by the World Bank and the Inter-American Development Bank. Until the moment, Chinese loans have been approved with

few strings attached. But this might change in the future because China's investment in countries with poor credit ratings carries also increasing financial risks.

At the same time, rather than depending on exports and a capital-intensive economy, which was accompanied by distortions and imbalances, China also needs to engage in the search for new "engines" of growth. A more balanced global trade implies to save less and spend more on consumption, whereas the replacement of a capital-intensive model would require new domestic dynamics through economic restructuring. Some advances have already been achieved in both directions. However, the dismantling of old models and developing new ones imply risks – including the hard-landing risk – and expanding into new sectors such as services or consumer spending, can be extremely difficult amidst an economic downturn in certain regions of this country. These developments raise valid questions about the impact these changes might have for China's partners around the world, and particularly for the EU and Latin America and the Caribbean.

China is also interested to increase the scientific and cultural cooperation with Latin America. In his keynote speech at the 2014 China-CELAC meeting in Brasilia Xi Jinping proposed to jointly organize a China-Latin America Cultural Exchange Year in 2016. In the five years to come, the Chinese President also pledged to provide Latin American and Caribbean countries with a significant number of government scholarships, professional training and possibilities to study a Master's degree in China.

Some of the outlined aspects are highly welcomed advancements, while others call for closer attention and analysis; but without doubt these developments impinge on pre-established patterns of political dialogue as well as flows of trade, investment and finance, with eventual consequences for the dynamics of pre-existing alliances and strategic partnerships, in particular between the EU and CELAC. The workshop aims to discuss the current political and economic dynamics between the three parties and their implications for the EU, Latin America and the Caribbean and China. By identifying potential scenarios, opportunities, risks and challenges, the workshop seeks to assess whether there might be room for an enhanced political and economic collaboration between the three parties involved.

In order to discuss the aforementioned theses, the conveners have invited distinguished experts, scholars and entrepreneurs from the EU, China and Latin America and the Caribbean to share their know-how, views and experiences with the audience. The workshop will include three panels. The **first panel** shall address the state of the art and the contours of an eventually looming triangular relationship between the European Union, China and Latin America and the Caribbean and speakers are invited to respond to the following questions:

- *Which implications does China's rise as a new global political and economic player have for the EU and CELAC and for their bi-regional relations?*
- *Assuming China's interest in the increase and intensification of its cooperation with the EU and CELAC, which measures on part of the EU and CELAC would be required in order to facilitate this objective? How could more trust be built among the three parties?*
- *Which policy areas of the existing fields of cooperation among the three parties would deserve an upscale? How could this be achieved?*
- *Which role has China played in respect to the provision with financial resources of countries that do not have an access to traditional financial instruments? And how will China react to*

the fact that some countries will soon no longer belong to the group of receivers of traditional financial support?

- *What would be the foreseeable effects of the eventual internationalization of the Chinese and Latin American currencies (which has already become manifest in instruments such as SWAP agreements)?*
- *To which extent can we speak about an emerging triangular relationship between the EU, China and Latin America and the Caribbean? If so, what would be the specific potentialities or risks of this relationship? And what would be required to strengthen the potentialities and diminish the anticipated risks? Or, to the contrary, is it more appropriate to qualify the current patterns of cooperation between EU and China, China and CELAC, and CELAC and EU as competitive projects?*

In the **second panel** participants are invited to evaluate the political opportunities and challenges implied in a potentially looming triangular relationship. This panel will thus address the following questions:

- *To which extent have the ongoing and recently established political dialogues between the EU and CELAC, China and EU, and CELAC and China met the expectations of their respective societies?*
- *If comparing the recently launched China–CELAC Forum with the more consolidated EU–CELAC Summit and the China–EU Summit, which are the converging and diverging topics and results?*
- *Do the converging topics allow for an aligned and joint advancement of key issues at the global level (such as UNFCCC, Post-2015 Development Agenda, etc.)? And in how far is China’s definition as “developing country” (even though it is a major producer of manufactured goods, and not an exporter of commodities) helpful for an aligned action in the global arena?*
- *To which extent does there exist scope for triangular cooperation in areas such as Corporate Social Responsibility (CSR); food security; or the sustainability of Chinese and Latin American (mega)cities – in view of EU’s SMART cities and communities programme?*
- *What is the state of Chinese–CELAC, CELAC–EU, and EU–Chinese scientific and cultural cooperation? Do there exist possibilities to intensify these areas of cooperation by triangulating these ties?*

The **third panel** shall address the economic opportunities and challenges of the EU–China–LAC relationship. During the discussion, speakers and participants could reply to the following questions:

- *How does China’s increased economic and financial engagement with CELAC affect the EU as the first investor in CELAC?*
- *Are Latin America’s terms of trade vulnerabilities with regard to China similar to the traditional terms of trade between industrialised countries (China as a major exporter of manufactured products) and developing countries (Latin America as major exporter of commodities)?*
- *Which has been the impact of China’s presence and investments in the Caribbean?*
- *Does there exist an intention to diversify the Chinese investments in CELAC?*
- *Could a triangulation of value-chains in specific sectors between the three parties support CELAC in overcoming its vulnerabilities in its prevailing production structures? If so, what*



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is needed in order to promote this triangulation? What have been the respective experiences of the invited Chinese, European and Latin American entrepreneurs with respect to the possibilities and limitations of triangulating value chains in their respective business sectors?

- *What are the broader strategic implications of China's presence in the Latin American telecommunication sector, and which are the repercussions for European companies?*
- *Many of the Chinese loans in CELAC have been directed to infrastructure projects. Will this trend continue? What are the effects for the Latin American economies? What are the possible repercussions in the Caribbean of the Nicaragua Gran Canal (new ports etc.)? What are the long-term effects of such mega projects for international trade?*
- *What are the future scenarios of Chinese investments and loans in Latin America? What are the implications for Europe?*
- *As China seeks to build up the services sector as an important component of its future economic growth, does it imply an opportunity for expanded business from the EU and Latin America in the Chinese economy? If not, what are the constraints limiting that possibility?*

The conveners of the Workshop are looking forward to a stimulating debate among the invited speakers, discussants, and the audience. The results of the Workshop shall be later compiled in form of resumed conference proceedings.