EUI SCHOOL OF TRANSNATIONAL GOVERNANCE

BETWEEN THE CRISES:

The Expanded Chinese Presence in Latin America

Gabriel Cohen

Thesis submitted for assessment with a view to obtaining the degree of Master of Arts in Transnational Governance of the European University Institute.

Florence, 15 May 2022.

European University Institute
School of Transnational Governance

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I confirm that Chapter **5** draws upon an earlier article I published in October 2021, entitled "Latin America's Evolving Relationships with China." The article, co-authored with Emilie Sweigart, was featured in *Americas Quarterly* volume 15, #4, before being subsequently published on the *AQ* website. I contributed 50% of the work.

15 May 2022

Abstract

The arrival of an emerging China into a Latin America that had long been dominated by the United States was a critical development following the 2008 global financial crisis. This thesis contextualizes the rising superpower's entry into a region that had not seen great power competition since the Cold War. It does so by measuring the expansion of Chinese economic presence in the region – as quantified by the Global Presence Index – through trade and investment, with a particular focus on the case countries of Brazil, Colombia, and Mexico. The thesis explores the implications of different shifts in presence between each of the countries, with Brazil integrating significantly more with China than Colombia and Mexico in the same timeframe. It concludes with an assessment of the regional hegemonic replacement seen in Latin America throughout the 2010s, and a look to its role in the global US—China systemic rivalry.

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List of Abbreviations

AEI	American Enterprise Institute
AIIB	Asian Infrastructure Investment Bank
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa (grouping)
CFIUS	Committee on Foreign Investment in the United States
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GFC	global financial crisis
GPI	Global Presence Index
G20	Group of 20
IPE	international political economy
IR	international relations
IT	information technology
LAC	Latin American and the Caribbean
NAFTA	North American Free Trade Agreement
OEC	Observatory of Economic Complexity
OECD	Organization for Economic Co-operation and Development
OFDI	outward foreign direct investment
PRC	People's Republic of China
SOE	state-owned enterprise
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USMCA	United States—Mexico—Canada Agreement
USTR	United States Trade Representative

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1. Introduction: The Hemispheric Shift

Without a doubt, the most critical development of the 21st century thus far has been the inexorable rise of the People's Republic of China (PRC). Surpassing Japan in 2010 and the Eurozone in 2018, today China has the second-largest national economy worldwide when measured by gross domestic product (GDP) and is expected to surpass the United States of America (US) within the next decade.[1]

The first serious challenge to US economic preeminence – and the liberal international order underpinning this preeminence – since the Cold War has had profound implications for the entire world, as both developing and developed countries have witnessed a massive shift in the global economy towards East Asia. This trend accelerated with the 2008 global financial crisis (GFC) and has continued throughout the 2010s, particularly as Chinese leadership introduced sweeping strategic infrastructure plans such as the Belt and Road Initiative (BRI) in order to facilitate a global network of trade and investments with China at the center. No region, no matter its distance, has been left untouched.

As the area that has been most historically impacted by US imperialism and domination, Latin America has been no exception. The region of nearly 700 million inhabitants entered the new century on the heels of a series of large economic recessions, such as the 1994 Mexican peso crisis, 1998-1999 Colombian recession, and 1999 Brazilian financial crisis. The arrival of the new century, however, brought massive economic growth for the major economies of the region, as high demand from emerging markets – particularly China – bolstered the prices of many key resources, from foodstuffs to chemicals to energy products.

While the boom eventually ended in the years following the 2008 recession, China had made its entry into the Latin American market, within a few years displacing the United States as the largest trade partner of major economies such as Brazil, Chile, and Peru. A wave of outward foreign direct investment (OFDI) from Chinese policy banks and state-owned enterprises (SOEs)

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[1] Joseph S. Nye, Jr., *Is The American Century Over?*, Cambridge; Malden, MA: Polity Press, 2015: 48-49

into countries such as Ecuador and Venezuela followed suit, in total pumping over $160 billion into the region.[2,3]

This thesis seeks to quantifiably measure the change in economic presence on the part of the PRC in Latin America, specifically by looking at the cases of Brazil, Colombia, and Mexico. Through measuring the trade relationships and investment patterns between these three countries – which all rank among the region's largest economies – and China, the thesis project endeavors to better understand how the East Asian country has managed to integrate itself into the growth and development of the region between 2008 and 2019. This timeframe was selected in order to concentrate specifically on the period of time between the GFC and the onset of the COVID-19 pandemic and resultant recession.

As with most matters of international political economy (IPE), both commercial and financial tracking come with necessary caveats. Investments are not inherently political by default, and trade even less so, particularly for resources such as soybeans and oil upon which China has become so dependent. However, given Beijing's state capitalist model, in which SOEs such as policy and commercial banks are responsible for a majority of lending,[4] investments – particularly in critical sectors such as energy grids and infrastructure – are essential for understanding overseas economic presence.[5] As for trade, the very process of market diversification among Washington's regional trade partners contributes to a weakening of the US position within Latin America.[6] The geopolitical implications of trade movements between rising and established hegemons will be further outlined in Chapter 3.

Latin America's unique role within the global economy, both historically and today, is key to understanding the significance of China's regional push over the last two dozen years. Following the independence of most of the states south of the US from the Spanish and

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[2] Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Washington: Inter-American Dialogue (2022).
[3] Monitor de la OFDI en ALC, 2019, Red ALC-China, in http://www.redalc-china.org/monitor.
[4] Kevin P. Gallagher and Amos Irwin, "China's Economic Statecraft in Latin America: Evidence from China's Policy Banks," *Pacific Affairs* 88, no. 1 (2015): 102.
[5] Emma Blackmore, Danning Li, and Sara Casallas. *Growing Trade and Investment Between China and Latin America*. London: International Institute for Environment and Development, 2013: 5.
[6] Morten Skumsrud Andersen, "Goods Substitution in the USA's Back Yard: Colombia's Diversification Strategies under Conditions of Hierarchy," in *Undermining American Hegemony: Goods Substitution in World Politics*, eds. Morten Skumsrud Andersen, Alexander Cooley, and Daniel H. Nexon (Cambridge, UK: Cambridge University Press, 2021).

Portuguese empires, Latin America fell under the US sphere of influence, as seen by either the Monroe Doctrine of 1823 – in which the US declared the entire Western Hemisphere off-limits to European colonial powers – or the various coups d'état staged by Washington throughout the twentieth century to secure its economic or political interests.[7]

With this in mind, a potential shift in China's presence within this critically important region, which includes strategic chokepoints such as the Panama Canal as well as the largest national reserves of oil (Venezuela), copper (Chile), lithium (Chile), and soybeans (Brazil), is a key element of rising global transpacific tension between Beijing and Washington.[8] Much like the 5G network debates in the European Union (EU) or the accusations of debt trap diplomacy in South and Central Asia, China's burgeoning role in Latin America promises a new sphere of competition between the world's two economic superpowers. Specifically, this thesis project seeks to answer the primary research question:

To what extent has Chinese economic presence in Latin America since 2008 expanded, and with what implications?

In order to effectively answer this research question, this thesis will first dive into some of the relevant scholarly and analytical literature on China's entry into Latin America (Chapter 2), followed by an exploration of the relevant theoretical and conceptual frameworks that will guide analysis (Chapter 3). Subsequent chapters will outline the methodology employed to measure presence and analyze findings (Chapter 4), before evaluating how results have demonstrated the validity of the tested hypothesis in both trade and investment terms, and with which effects in the case countries (Chapter 5). The paper will conclude by discussing both regional and global implications and subsequent policy recommendations (Chapter 6).

To summarize, this thesis project seeks to test the hypothesis that Chinese economic presence has quantifiably expanded within Latin America between the GFC and the COVID-19 pandemic. In doing so, it seeks to understand the exact nature of this potential expansion, and its

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[7] Tom Long, "The United States in Latin America: Lasting Asymmetries, Waning Influence?" in *External Powers in Latin America: Geopolitics between Neo-extractivism and South-South Cooperation*, ed. Gian Luca Gardini (Oxfordshire, UK: Routledge, 2021).
[8] Mikael Wigell and Ana Soliz Landivar, "China's economic statecraft in Latin America: Geostrategic implications for the United States," in *Geo-Economics and Power Politics in the 21st Century*, eds. Mikael Wigell, Sören Scholvin, and Mika Aaltola, London: Routledge, 2018: 165.

role in the context of the ongoing systemic rivalry between China and the United States. As the world's two largest economies compete for global hegemony, Latin America – which has been historically perceived as Washington's 'backyard' – will indubitably play an important role in this great power competition. And given that China's rise as a global superpower has been the big story of the 21st century thus far, this thesis will serve as a timely contribution to scholarship on regional hegemonic replacement and its domestic and worldwide implications.

2. Literature Review: Latin America's New Connection

The relevant literature for this thesis largely concerns itself with how China's economic expansion in the 21st century has impacted Latin America. Scholars and analysts alike have sought to explain how the modern burgeoning competition between China and the United States has developed within the region and beyond, as well as the role trade blocs have played in the relationships between great powers and regional powers.[9] With this in mind, this chapter will seek to understand the extent to which existing scholarly literature has contributed to a modern understanding of Chinese economic statecraft and resulting presence in Latin America, and its change, in the years directly preceding and following the Great Recession. Specific attention will be paid to literature surrounding the case countries, as well as the triangular relationship between the US, China, and the region.

To start, not all scholars agree on the region's geostrategic situation in the new millennium. For example, Andrés Malamud and Luis L. Schenoni argue in their 2020 *Foreign Policy* article "Latin America Is Off the Global Stage, and That's OK" that the region has become strategically irrelevant in recent years, largely due to a change in priorities from the United States.[10] Per these two scholars, simultaneous shifts throughout the 2000s and 2010s in three key spheres of interest to Washington – essentially Colombian cocaine, Mexican migration, and Venezuelan oil – have contributed to a trend of deprioritization of the region in US foreign policy, and subsequently the foreign policies of other potential great powers. Where once direct and indirect foreign interventions – from European military conquest and blockades to US political machinations during the Cold War – were constants in the region, Malamud and Schenoni argue that the region's relative decline in both economic weight and political relevance in recent years has changed that.[11]

Gian Luca Gardini's 2021 edited volume *External Powers in Latin America: Geopolitics Between Neo-Extractivism and South-South Cooperation* takes an inverse stance, providing a look at how different external powers engage with the region. There is first a focus on the

[9] Lincoln Bizzozero and Sophie Wintgens. "La aproximación político-normativa de la UE y China al Mercosur: ¿un juego de suma positiva?" *Revista CIDOB d'Afers Internacionals* no. 119 (2018): 265-286.
[10] Andrés Malamud and Luis L. Schenoni, "Latin America Is Off the Global Stage, and That's OK," *Foreign Policy*, 10 September 2020.
[11] Malamud and Schenoni, "Off the Global Stage."

historically extractive US role in the region in Tom Long's chapter, which is entitled "The United States in Latin America: Lasting Asymmetries, Waning Influence?" and which covers the state of Washington's economic hegemony following the conclusion of the Cold War. In doing so, Long provides a background as to many of the titular asymmetries that have marked the relationship,[12] which is essential for understanding how other external actors have moved into the Latin American sphere in recent decades.[13] Long's contribution provides a practical context for Carol Wise's subsequent chapter – "China in Latin America: Winning Hearts and Minds Pragmatically" – in which she details how Beijing has coupled its massive spending with wise macroeconomic and diplomatic policies that have furthered the transpacific integration between its South American partners and itself.[14]

Pepe Zhang and Tatiana Lacerda Prazeres form an argument along the same lines in their 2021 World Economic Forum (WEF) column *China's trade with Latin America is bound to keep growing. Here's why that matters*. They explain that Chinese two-way trade with the greater Latin American and Caribbean (LAC) region grew 26-fold in two decades, from a measly $12 billion in 2000 to $315 billion in 2020.[15] This growth resulted in China's entry into the deep supply-chain integration that has marked hemispheric relations between the United States and its southern neighbors for over a century.[16] Per Zhang and Prazeres, China's vitality to the region's economy has grown, as its widening integration with each of the major economies – including Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela – has helped the region to weather crises such as the Great Recession.[17]

In the case of Brazil specifically, the current literature has stressed how Latin America's largest economy – and the largest developing country of the Western Hemisphere – has forged a special relationship with Beijing going back decades. As former Brazilian ambassador to China Marcos Caramuru de Paiva outlines in his 2019 paper *Brazil and China: A Brief Analysis of the*

[12] Long, "United States in Latin America," 2021.
[13] Douglas Farah and Kathryn Babineau, "Extra-Regional Actors in Latin America: The United States Is Not the Only Game in Town," *PRISM* 8, no. 1 (2019): 98.
[14] Carol Wise, "The United States in Latin America: Lasting Asymmetries, Waning Influence?" in *External Powers in Latin America: Geopolitics between Neo-extractivism and South-South Cooperation*, ed. Gian Luca Gardini (Oxfordshire, UK: Routledge, 2021).
[15] Pepe Zhang and Tatiana Lacerda Prazeres, "China's trade with Latin America is bound to keep growing. Here's why that matters," World Economic Forum, June 17, 2021.
[16] Zhang and Prazeres, "China's trade with Latin America."
[17] Zhang and Prazeres, "China's trade with Latin America."

State of Bilateral Relations, the bilateral ties between Beijing and Brasília – which began deepening in 1993 with the Chinese announcement of a strategic partnership[18] with Brazil, its first with any country in the world[19] – have particularly strengthened since the 2008 crisis. Caramuru especially draws detail to elements of the trade and investment relationship that are most essential to understanding how the countries have become inextricably tied.

For example, there is the fact that Brazil is China's third-largest trade partner outside of its geographic neighborhood (East Asia and Oceania), behind just the major economies of the United States and Germany. While three resources – soybeans, iron ore, and oil – account for over four-fifths of Brazil's exports to China, it nonetheless serves as a massive producer across the board for many Chinese needs, providing over 75% of soybean imports, 82% of poultry imports, 31% of beef imports, 9% of petroleum imports, and 19.75% of iron ore imports in 2018.[20]

Turning to investment, Caramuru takes exception to the idea that China's massive investments into his home country carry any political significance, in the process pushing back against assessments by the Committee on Foreign Investments in the United States (CFIUS) or the worries of certain European leaders who have expressed wariness of major Chinese gains in certain sectors of their economies.[21] Rather, he acknowledges the financial exposure these firms have to fluctuations in the Brazilian economy, given that Brazil – which makes up over 40% of Chinese investments in South America – has become the fourth-largest recipient of Chinese investments globally in the 2010-2017 period, per research conducted by Clarissa Lins and Guilherme Ferreira in a companion paper that was published alongside his own in a joint policy brief.[22]

Caramuru explains his view that, with respect to this exposure, the firms in question have seen strong returns on their investments and have been fine with taking short-term financial losses in order to bolster their visibility and prestige inside Brazil on more major projects in the

[18] Margaret Myers and Ricardo Barrios, "How China Ranks Its Partners in LAC," Asia & Latin America, The Inter-American Dialogue, 3 February 2021.
[19] Caramuru de Paiva, Clarissa Lins, and Guilherme Ferreira. *Brasil – China: O Estado da Relacão, Belt and Road, e Lições para o Futuro*. Rio de Janeiro: Centro Brasileiro de Relações Internacionais, 2019: 22.
[20] Caramuru de Paiva et al., *O Estado da Relacão*, 42-44.
[21] Caramuru de Paiva et al., *O Estado da Relacão*, 47.
[22] Caramuru de Paiva et al., *O Estado da Relacão*, 79-80.

country such as ports and power lines. To his perspective, the investments in question have not been borne out of geostrategic ambition, but rather economic interest, a natural expansion of China's capital-heavy economy in the decades following market liberalization and development.[23]

The attention Caramuru, Lins, and Ferreira pay to Chinese investments in Brazil, specifically those tied to the BRI, is reminiscent of similar attention paid by scholars and analysts to the general relationship between China's landmark foreign policy since 2012 and Latin America as a general region. For example, Margaret Myers of the Inter-American Dialogue takes a regional lens to the way in which Latin America has been approached by the backers of the BRI, namely the Silk Road Fund, Asian Infrastructure Investment Bank (AIIB), and national policy banks such as the China Development Bank and China Export-Import Bank.[24] Myers assesses the potential promise of the Initiative for cash-strapped regional players such as Mexico, who was tapped as an "important node" for BRI expansion in 2017. She also delineates some of the signs of hesitation for the BRI within the region, such as the fall-through of major proposed transnational projects backed by China, such as the Bi-Oceanic Railway in Brazil, Bolivia, and Peru, or the fact that existing Chinese investments in the region – roughly $140 billion total between 2005 and 2018[25] –have not been tied to BRI association.[26]

While the current literature covers important ground, ranging from the variety of Chinese economic statecraft in Latin – and especially South – America to the role BRI has played in expanding Chinese presence, there remains a research gap in how this statecraft has impacted US—China competition in the region at large, and particularly in US-dominant countries like Mexico. This research project will seek to contribute to filling this gap in particular, by attempting to evaluate whether there has been a difference in Chinese presence over time between countries more – or less – integrated with the United States.

[23] Caramuru de Paiva et al., *O Estado da Relacão*, 47.
[24] Myers, Margaret. "China's Belt and Road Initiative: What Role for Latin America?" *Journal of Latin American Geography* 17, no. 2 (2018): 239.
[25] Myers, "Belt and Road Initiative Role," 239.
[26] Myers, "Belt and Road Initiative Role," 241.

3. Regional Hegemonic Replacement: The Theoretical Basis

In addition to the scholarly literature outlined in the previous chapter, a number of leading theories within the disciplines of international relations (IR) and IPE have informed the conceptual framework of this thesis project. They range from overarching schools of thought such as realism and liberalism to more specific theories surrounding hegemony and the role different countries play in the global economy. The first section of this chapter will cover the major IR theoretical strands present in this thesis, while the second part will delve into specific IPE dilemmas that have shaped the conceptual framework.

Great Power Politics Within International Relations

Within the IR discipline, three major theoretical schools of thought – realism, liberalism, and constructivism – have emerged in the past few centuries, largely dominating contemporary scholarly discourse on the modern international order. While constructivism is less directly relevant to this subject, realism and liberalism each assist to varying degrees in forming the theoretical framework of this thesis project.

The Structural Anarchy of Neorealism

Realism, the oldest of the three major IR strands, serves as the bedrock to this thesis project. The realist school of thought, which traces its origins to scholars and intellectuals such as Thucydides and Niccolò Machiavelli, concerns itself with the way in which, within an anarchic world system with no supranational oversight, states – as the key actor of the international order – will inherently act in their own self-interest, with morality and ideology taking a backseat to national survival. While there are various strands of realist theory that have proven significant over the years, for the purposes of this thesis attention will be drawn specifically to neorealism, which emerged in the 1960s and 1970s through works such as Kenneth Waltz's *Theory of International Politics* (1979).

Criticizing the heavy emphasis placed on human nature in the classical realism proposed by nineteenth- and twentieth-century thinkers such as Hans Morgenthau, neorealism takes a more institutional approach.[27] Neorealist theory eschews the agency of political leaders in favor of structural constraints intrinsic to the international system, constraints which force states to

[27] Kenneth N. Waltz, *Theory of International Politics*, Reading, Mass: Addison-Wesley Pub. Co., 1979.

engage in power politics. These power politics can take the form of defensive realism, best epitomized by Waltz's *Theory*, in which the international system leads states to pursue moderate, reserved policies to defend themselves.[28] However, an alternative view known as offensive realism, originally proposed by political scientist John Mearsheimer in *The Tragedy of Great Power Politics* (2001), argues rather that states will seek to maximize their power within the neorealist model, and in the process attempt to dominate – or become the hegemon of – either their region or the entire world system.[29]

Both the offensive and defensive strands of neorealism play into this thesis project's analysis of Latin America. While the original conception of both strands particularly deals with matters of security and military force, the power politics present in neorealism are essential to understanding the burgeoning Chinese presence in Latin America in the 21st century, particularly given the context of established US hegemony in the region.

The Win-Win Scenarios of Liberal Institutionalism

To contrast, cynical power politics are largely rejected in the other major IR school of thought discussed in this section, liberalism. Liberal theory, which seeks to consider the role supranational and nongovernmental organizations can play in shaping transnational and global cooperation for mutual benefit, is today best epitomized by the so-called liberal international order. This global system, in place since the conclusion of the Second World War, is a rules-based structure that promotes free trade, economic liberalization, security assistance, democratization, and monetary cooperation, largely through multilateral organizations such as the International Monetary Fund, United Nations, and World Trade Organization.[30]

Liberalism holds value for this thesis in filling a theoretical gap left behind by realist theory, in that it argues for the importance of shared institutions and mechanisms – as well as interdependent economics – in modern international politics. Similarly to the structural components intrinsic to neorealism, liberal institutionalism seeks to argue for the presence of non-state actors and institutions in the world order, past simply state actors. However, where neorealism maintains its security component, and above all argues that states will maximize their

[28] Waltz, *Theory of International Politics*.
[29] John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York, NY: WW Norton, 2014.
[30] Nye, *American Century*, 10-11.

gains in a pursuit of self-protection, liberal institutionalist theory argues instead from an economic and environmental standpoint that states can cooperate under the right conditions for mutual benefit, even if all states do not benefit equally.[31]

Both neorealism and liberal institutionalism serve to illustrate how the discipline of international relations has tackled issues of great power politics. With China's indisputable rise as an emerging power (as outlined in the previous chapter), its penetration into Latin American commerce and investment in the past twenty years – and how this has fit into the larger US-dominated liberal international order – can be seen from both lenses. However, with both IR theories there remains a security component, which necessitates a turn to the ways in which IPE has approached power politics from an economic lens.

IPE: The Roles We Play in The Modern World Economy

To overcome what they perceived as the constraints of both modern neorealism and liberal institutionalism, Robert Keohane and Joseph Nye famously proposed the concept of complex interdependence in their 1977 book *Power and Interdependence*.[32] With an eye towards the trend of globalization that marked most of the postwar economies by the 1970s, Keohane and Nye attempted to tie the power politics of their neorealist roots to the post-militarized relationships between developed economies such as Canada, Western Europe, and the United States. The end result was complex interdependence, a concept that incorporated multiple layers of increasingly intricate economic ties. While these ties largely removed the interest of major economies to attack each other (as a resulting crash in one country's economy would likely bring down its trade partners across the world), it did lead to the dynamics of market power and bilateral dependency becoming more prevalent as forms of weaponized interdependence.[33]

Complex interdependence serves as a strong transition from the concepts of international relations that have thus far marked this theoretical framework to the IPE theories that drive this framework. Though both China and Latin America fall into ambiguous positions on the developing-developed binary, the same globalizing of the world economy that spurred the

[31] Nye, *American Century*, 117.
[32] Robert O. Keohane and Joseph S. Nye. 1977. *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown.
[33] Keohane and Nye, *Power and Interdependence*.

conceptualization of complex interdependence has led to a series of debates surrounding Latin America's role in this economy.

Economic historian and sociologist Immanuel Wallerstein drew from the mid-century concepts of modernization theory and dependency theory when he first published on what would become his landmark work, the world-systems theory, in the mid-1970s. Over the next few decades, Wallerstein developed this theory, in which he articulated a global system, which divided the states of the world into core, semi-periphery, or periphery countries.[34] While the periphery – and to an extent the semi-periphery – countries are notable for their exports of labor-intensive natural resources, the core countries import these resources, which power the core's capital-intensive economy based around industrialization and services.

Per Wallerstein, developing countries on the periphery and semi-periphery of the world economy would continue to boost the capital of the developed countries at the core of the market.[35] In a pattern reminiscent of the mercantilist days of empire, developing countries would struggle to industrialize or develop their own productive economies,[36] instead being dependent on a system in which they'd send their raw goods to a developed core country. Wallerstein – in company with scholars such as Antônio Barros de Castro – has explored historical cases of the core countries who have formed the center of the capitalist world system, with both scholars looking to the shift from the Dutch Empire to the British Empire,[37] followed a few centuries later by a similar shift from the British Empire to the United States.[38] Per Barros de Castro, today the global economic center of gravity has already shifted to Asia, specifically to China.[39]

Though the import-substitution industrialization model that it helped birth was later lampooned for its unintended consequences of weakening innovation in developing countries, world-systems theory demonstrates a key component of IPE, particularly in Latin America. This is the central economic role played by a major power, both in the provision of public goods (and capital, in the form of investment) and in the commercial market of the region. This ties together

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[34] Wallerstein, Immanuel. *World-Systems Analysis: An Introduction*. New York, NY: New Press, 2004.
[35] Wallerstein, *World-Systems Analysis*.
[36] Wallerstein, *World-Systems Analysis*.
[37] Nye, *American Century*, 17-18.
[38] Antônio Barros de Castro, "No Espelho da China," *Revista Custo Brasil* (2008): 12.
[39] Barros de Castro, "No Espelho da China," 12.

the IR and IPE concepts of hegemony, of a preeminent dominant power within a region or the world.[40] While globally the concept of hegemons has shifted over the centuries, only the US has ever been able to truly be called a hegemon in the context of postcolonial Latin America.

With this in mind, the final element of the theoretical framework of this thesis project lies in hegemonic stability theory (HST), which deals with the idea of a hegemonic power providing a certain economic stability to the world.[41] Though trade may be perceived as purely apolitical, the HST lens accepts that "waning hegemonies intensify competition for the control of natural resources, which materializes in new trade alliances,"[42] meaning that a rise in proportionate share of a country or region's exports is significant when forming part of hegemonic competition.[43] With a narrow scope oriented towards a regional focus rather than the global landscape, this project seeks to combine HST with world-systems theory to showcase how the case countries, which fall within either the periphery or semi-periphery, interact with hegemonic powers.[44]

From the Monroe Doctrine to the Washington Consensus, the US has consistently served as the economic and security hegemon of Latin America. As a result, China's entry into the region's economic landscape – as seen by its commercial and financial[45] ties with the case countries of Brazil, Colombia, and Mexico – is a massive shift, with profound implications for the region's development and diplomatic orientation. By quantitatively measuring the rise of China in significance for this region's economy, this research project will attempt to see if China's entry into Latin America could serve as a model of regional hegemonic replacement.

[40] Nye, *American Century*, 17.
[41] Nye, *American Century*, 13-14.
[42] Francisco Urdinez et al., "Chinese Economic Statecraft and U.S. Hegemony in Latin America: An Empirical Analysis, 2003–2014." Latin American Politics and Society 58, no. 4 (2016): 5.
[43] Nye, *American Century*, 21.
[44] Wallerstein, *World-Systems Analysis*.
[45] Kevin P. Gallagher and Amos Irwin, "China's Economic Statecraft in Latin America: Evidence from China's Policy Banks," *Pacific Affairs* 88, no. 1 (2015): 100.

4. Methodology: The Tools of Presence

This thesis will employ a mixed-methods research design to test the primary research hypothesis that Chinese economic presence has expanded throughout the selected timeframe. To this effect, this chapter will first explain the choice of case countries, followed by a breakdown of the methodological framework and analytical strategies of the thesis, before concluding with a description of the quantitative sources employed.

Case Country Selection

The case studies chosen for this thesis project have been selected along geographic, commercial, diplomatic, and economic lines. Brazil, Mexico, and Colombia are the three most populous Latin American countries; they also form three of the four largest economies of the region, with Colombia coming just behind Argentina. Brazil and Mexico are both members of the Group of Twenty (G20), while Colombia and Mexico are both members of the Organization for Economic Co-operation and Development (OECD).

Each country forms part of different regional organizations, with Brazil a member of the MERCOSUR trade bloc and BRICS grouping, Colombia a part of both the Andean Community and the Pacific Alliance, and Mexico a part of both the Pacific Alliance and United States—Mexico—Canada Agreement (USMCA). Brazil is the only country of the three to have not signed a free trade agreement (FTA) with the United States,[46] while Mexico is the only case country to be found outside of South America.

Methodological Framework

Since 2014, the Madrid-based Real Instituto Elcano, or Elcano Royal Institute, has hosted the Global Presence Index (GPI), a digital index developed and designed to quantify the international presence of 140 countries, generally selected due to their positions in global rankings of population and economic size (the latter measured by GDP).[47] Pulling from data at five-year intervals between 1990 and 2010, and annual data between 2010 and 2020, the GPI is

[46] United States Trade Representative (USTR). *2021 National Trade Estimate Report on Foreign Trade Barriers*. Washington, D.C.: Office of the United States Trade Representative, 2021.
[47] Elcano Global Presence Index (2021), Real Instituto Elcano, in https://explora.globalpresence.realinstitutoelcano.org/en/country/iepg/global/null/null/2020.

an innovative, multifaceted tool to measure the presence of various countries abroad over a number of years.

The Royal Institute classifies GPI measurements by three categories: economic presence, military presence, and soft presence. Military presence is formed by considering troops and military equipment, while soft power is a composite measurement that integrates variables as diverse as migration, tourism, sports, culture, technology, education, science, and cooperation, in a reference to the well-excavated IR concept of soft power developed by Joseph Nye.[48] Neither military nor soft presence will be examined in this thesis; further scholarship would benefit from approaching these angles.

Instead, focus will be placed rather on an adaptation of the principle of economic presence, as measured by the Institute. Representing the final of the three GPI presence categories, economic presence is measured by five key variables: energy, primary goods, manufactures, services, and investments. A country's economic profile vis-à-vis other countries can be established through a comprehensive overview of these variables.[49]

Per the Institute's methodology, energy refers to the flow of energy exports, including refined products, petroleum, and gas, while primary goods relate to the flow of exports of commodities and unrefined goods such as food, beverages, tobacco, agricultural commodities, metals, pearls, precious stones, and non-monetary gold. The manufacturing variable refers to the flow of exports of machinery, chemical products, and other finished goods, while the services variable deals with financial and commercial services, information technology (IT), insurance, construction, etc. Finally, the investment variable is measured by taking stock of a country's foreign direct investment (FDI) abroad.[50]

Certain modifications to these variables are necessary for the purposes of this thesis project. First and foremost, Chinese economic presence will be measured exclusively within the region of Latin America, specifically in regard to the selected case countries of Brazil, Colombia, and Mexico. With an eye towards illustrating China's significance for the case countries' economic growth throughout the given timeframe of 2008—2019, its share of the case countries'

[48] Nye, *American Century*, 3-4.
[49] Global Presence Index, Real Instituto Elcano (2021).
[50] Global Presence Index, Real Instituto Elcano (2021).

total exports – including energy, primary goods, manufactured goods, and services – will be analyzed, rather than Chinese exports to the region, which have also grown in number and diversity over the years as the country has transitioned[51] from an agricultural exporter in the semi-periphery to a more service-based economy in the core.[52]

Regional realities determine other changes to the index's methodology for this thesis project. For example, while the manufacturing and service sectors have expanded in Latin American countries in recent years, they remain relatively nascent and underdeveloped in most of the region, particularly in comparison to the energy and primary goods sectors. With this in mind, and considering the significance of FDI into a developing region like Latin America, this thesis will place a dual focus on trade – including energy and primary goods exports, as well as exports of manufactured goods and services when applicable – and investments, particularly those in critical sectors such as infrastructure and energy extraction.

It is with this focus that this thesis project will seek to contribute to the fields of IPE and great power politics. By first showcasing change in Chinese economic presence through trade and investment figures, before demonstrating how this change has carried varying impacts for each individual country, the thesis will have crafted an argument for China's entry into Latin American markets in a significant way. Taken with the provisions of public goods by China at the cost of established US dominance, this project will therefore seek to demonstrate a case of regional hegemonic replacement in the given region.[53]

Data Sources

Trade and investment figures providing the backbone of economic presence measurement will be pulled from a variety of sources. Commercial data related to the trade of primary goods, energy exports, manufactured goods, and service exports between the case countries and China will be tracked using data from the Observatory of Economic Complexity (OEC) World index, which tracks bilateral trade relations and economic profiles over the course of a quarter-century from 1995—2020. When needed, additional data on trade and commerce will be pulled from

[51] Barros de Castro, "No Espelho da China," 13-14.
[52] Wallerstein, *World-Systems Analysis*.
[53] Andersen, "Goods Substitution."

official governmental and intergovernmental sources such as the United States Trade Representative (USTR) and United Nations Conference on Trade and Development (UNCTAD).

Meanwhile, Chinese investments into Brazil, Colombia, and Mexico will be tracked using a number of scholarly and institutional indexes. The China-Latin America Finance Database,[54] co-produced by the Inter-American Dialogue and Boston University Global Development Policy Center, will be employed in tandem with the accompanying China-Latin America Commercial Loans Tracker, developed by the Dialogue.[55] This data will be cross-referenced with investments recorded in the 2019 Monitor of Chinese OFDI in Latin America and the Caribbean,[56] which includes investments over the period of time from 2000 to 2018, published by the Red ALC-China (LAC-China Network), as well as the China Global Investment Tracker created by the American Enterprise Institute (AEI) and the Heritage Foundation.[57]

Reports from the Conselho Empresarial Brasil-China (Brazil-China Business Council), Centro de Estudios China-México (Center for China-Mexico Studies), and Centro Brasileiro de Relações Internacionais (Brazilian Center for International Relations) have also been consulted, as well as articles from the *Americas Quarterly* China & Latin America series. Synthesizing research from these institutions will make for a clearer image of the state of Chinese trade and investments in the region.

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[54] Gallagher and Myers, "China-Latin America Finance Database," 2022.
[55] Margaret Myers, "China-Latin America Commercial Loans Tracker," Washington: Inter-American Dialogue, 2021.
[56] OFDI Monitor, Red ALC-China, 2021.
[57] China Global Investment Tracker, AEI/Heritage Foundation, 2022.

5. Analysis: Beijing's Mixed Bag

In this chapter, the methodology previously outlined will be applied to the three case countries of Brazil, Colombia, and Mexico. The presence measurement will initially be focused along commercial lines, evaluating how China's proportionate share of each countries' exports has changed in the decade following the 2008 crisis. Following a pivot to regional Chinese FDI trends within the same timeframe, the chapter will conclude with a look towards the national implications for all three case countries.

Brazil's Global Ascension

Trade

A now-infamous 2009 cover of *The Economist* depicted one of Brazil's cultural icons, the Christ the Redeemer statue in Rio de Janeiro, beginning to fly as if it was a space rocket, alongside a simple three-word caption: "Brazil takes off."[58]

This simple, widely-circulated cover depicted Brazil's position in the midst of the global financial crisis, reflecting how the commodities boom of the previous few years had impacted the giant of South America. Brazil's GDP more than quadrupled in the decade between 2001 and 2011, with Chinese demand for resources playing a massive role in that growth, to the degree that Beijing surpassed Argentina and the US to become Brazil's largest trade partner in 2009.[59]

In 2008, as recession gripped the entire world economy, including Brazil's other largest customers in the United States and Eurozone, China absorbed a mere 8.08% of Brazil's total exports. This percentage represented $16.6 billion worth of products, of which nearly three-quarters consisted of soybeans, iron ore, and crude petroleum.[60]

Fast-forwarding to 2014, halfway through the selected timeframe, the picture had drastically changed in some ways, though not all. A commodity price collapse spurred by a variety of factors – including China's lowered growth rates and continued Eurozone stagnation –

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[58] "Brazil takes off," The Economist, accessed 29 April 2022, https://www.economist.com/leaders/2009/11/12/brazil-takes-off.

[59] Emilie Sweigart and Gabriel Cohen. "Latin America's Evolving Relationships with China." *Americas Quarterly* 15, no. 4 (2021): 42.

[60] AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011): China and Brazil.

led to a Brazilian economic crisis which worsened over the course of the next two years. Brazilian exports to China by this point had ballooned, reaching $40.6 billion and far outpacing Brazilian exports to the US in the same period. Perhaps most significantly, China's share of Brazilian exports more than doubled to 18.10%, with the same three resources as in 2008 – soybeans, iron ore, and crude petroleum – now making up just shy of four-fifths of all exports.[61]

By the dawn of the COVID-19 pandemic in 2019, the trends seen over the previous dozen years had persisted, as Brazil continued a snail's pace recovery from its mid-decade recession. At 27.9%, China now imported over one-quarter of all Brazilian exports, with total imports from its BRICS partner numbering $63.5 billion.[62] The same three resources maintained their dominant share of Brazil's exports, albeit with a higher proportion of crude petroleum at the expense of iron ore. Soybeans, particularly from the state of Mato Grosso, continued to be the dominant Brazilian export headed to China,[63] and from 2018 onwards the soy industry benefitted greatly from the ongoing US—China trade war, as Brazil and the US are the two largest soy producers globally.[64]

Figure 1 reflects the growing significance of the Chinese market for Brazilian exporters following the Great Recession, as it surpassed the traditional markets of Argentina, the European Union (EU), and the US. While Beijing's share of Brazil's exports stagnated in the mid-2010s, impacted by Brazil's recession and its own economic transition, the late 2010s once more saw an uptick amid rising US—China tensions,[65] one that has continued even past 2019 and into the COVID-afflicted 2020s.

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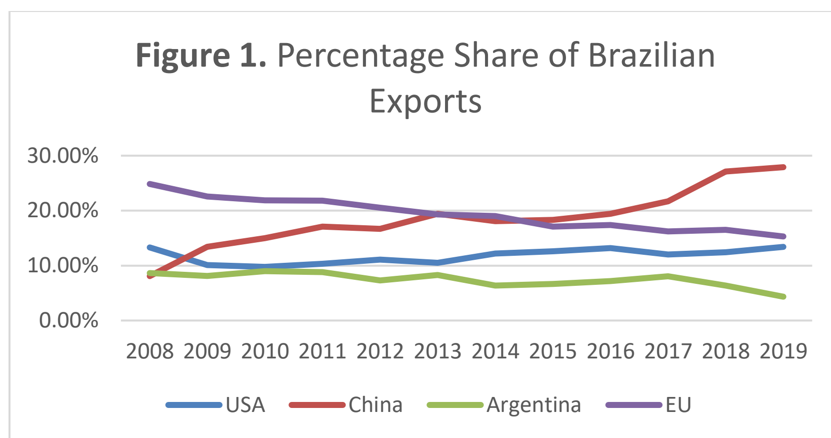
[61] Simoes and Hidalgo, "Economic Complexity Observatory," China and Brazil.
[62] Simoes and Hidalgo, "Economic Complexity Observatory," China and Brazil.
[63] Blackmore, Li, and Casallas, *Growing Trade and Investment*, 5.
[64] Sintia Radu, "These Economies Are Benefiting From the U.S.-China Trade War," U.S. News & World Report, 23 August 2019.
[65] Radu, "U.S.-China Trade War."



Source: Author's elaboration based upon data from the OEC.[66]

Setting aside Brazil's dismal decade of stagnation in the 2010s, two primary trends marked Sino—Brazilian bilateral trade, which first reached $100 billion in 2018, in the selected timeframe.[67] The first is the growth of China's share of Brazilian exports, which more than tripled from 8.08% in 2008 to 27.9% in 2019, as reflected in Figure 1. As China began to dominate the Brazilian exporting market, the country's trade balance with its BRICS partner grew increasingly lopsided, from a trade surplus of $4.2 billion in 2008 to a rare (for China) trade deficit of $25.1 billion in 2019.[68]

The second key trend is the consolidation of three resources – soybeans, crude petroleum, and iron ore, which are all primary resources, or commodities – as a lion's share of Brazil's exports to China.[69] In contrast, Brazilian imports from China range from electronics and vehicles to clothing to fertilizers and chemicals, with no single good forming more than eight percent of total imports between 2008 and 2019.[70] Furthering the ideas of world-systems theory, China's transition from the periphery to the core of the global market is made more apparent through its diverse exports, while Brazil's dependence on agricultural, energy, and mined resources demonstrate its status as a periphery country in the 21st century. As certain Brazilian scholars and analysts have worried,[71] it would appear that Brazil's development is not following the Chinese

[66] Simoes and Hidalgo, "Economic Complexity Observatory," China and Brazil.
[67] Sweigart and Cohen, "Latin America's Evolving Relationships," 42.
[68] Simoes and Hidalgo, "Economic Complexity Observatory," China and Brazil.
[69] Rhys Jenkins and Alexandre de Freitas Barbosa, "Fear for Manufacturing? China and the Future of Industry in Brazil and Latin America," *The China Quarterly* no. 209 (2012): 60.
[70] Simoes and Hidalgo, "Economic Complexity Observatory," China and Brazil.
[71] Jenkins and de Freitas Barbosa, "Fear for Manufacturing?", 62-63.

model of industrialization,[72] instead being left in a periphery country status in which it tends to export raw goods over high-value exports such as manufactured products.[73]

Investment

In November 2019, Brazil hosted its largest-ever oil auction, hoping to bring in large bids from over a dozen registered major oil firms including ExxonMobil, Total, BP, and Shell. However, the only foreign offers submitted throughout the entire auction came from two Chinese SOEs, whose respective five-percent bids on the largest oil block up for auction likely spared Brasília the humiliation of having the only bidder be national state-owned oil firm Petrobras.[74]

This is not an isolated trend. Since the first reported $240 million investment by a Chinese SOE in Brazil in 2005,[75] the country has benefitted from a flow of investments from its BRICS partner to the tune of over $66 billion over the course of the 2010s.[76] This figure represents 47% – nearly half – of all Chinese investment in Latin America over the same period, despite Brazil struggling throughout the 2010s with the second-worst recession of its history.[77]

Just under half (48%) of the total value of this investment went towards the electricity sector, while oil extraction attracted 28%, mining 7%, and infrastructure works 5% of the money. While 23 out of Brazil's 27 federative units obtained some share of Chinese investment, the country's southeast region, home to its two largest cities, received a slim majority of the total investment, with the state of São Paulo leading with roughly a third of all investment.[78]

When measuring investment value, the peak year was 2010, at $13 billion, while 2018 represented the highest number of total projects at 32.[79] The fluctuations throughout the entire period from 2008 to 2019 showcase potential shifts in the investment strategies of Chinese SOEs, particularly the two leaders within the country: the China Three Gorges Corporation

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[72] Barros de Castro, "No Espelho da China," 16-17.
[73] Curado, Marcelo, and Luis Alberto Hernández. "China Rising: Threats and Opportunities for Brazil," *Latin American Perspectives* 42, no. 6 (2015): 94-95.
[74] Sweigart and Cohen, "Latin America's Evolving Relationships with China," 42.
[75] China Global Investment Tracker.
[76] Tulio Cariello. *Investimentos Chineses no Brasil: Histórico, Tendências, e Desafios Globais (2007-2020)*, Rio de Janeiro: Conselho Empresarial Brasil-China, 2021, 10.
[77] Vincius Neder, "Com revisão, última recessão deixa de ser a maior da história," Economia & Negócios, O Estado de S. Paulo, 1 December 2018.
[78] Cariello, *Investimentos Chineses no Brasil*, 10-11.
[79] Cariello, *Investimentos Chineses no Brasil*, 10.

(CTG) and the State Grid Corporation of China (SGCC). Three-fifths of CTG's total foreign investment is in Brazil's hydroelectric and electric industries, while nearly half (48%) of the foreign assets of State Grid – the second-largest company in the world by total revenue – are located in Brazil, also primarily in the energy sector.[80]

The dominance of critical sectors such as energy, infrastructure, and extractive industries in the scope of Chinese investment in Brazil is significant.[81] While debates continue across Washington, Brussels,[82] and Brasília[83] on the risks associated with such investments by Chinese SOEs, Brazil today has been the largest beneficiary of Chinese capital in the region by far.[84] Today the Brazilian reliance on China has never been steeper, even as bilateral relations have been strained at times since 2019 due to the election of Brazilian president Jair Bolsonaro.

The Colombian Pivot to China – And Oil

Trade

At the height of the Great Recession, Sino—Colombian bilateral trade paled in comparison to US—Colombian two-way trade, and for obvious reasons. Colombia has historically been the US's most ardent ally in South America, and the commercial ties between the two countries have been extensive for over a century, with the US remaining Colombia's largest trade partner even today. Meanwhile, Colombian exports to China, predominantly mined goods such as ferroalloys and scrap copper, totaled just $447 million in 2008, a fraction of the nearly $15 billion worth of Colombian exports to its North American ally. In contrast, Colombian imports from China topped over $4 billion in value that year.[85]

However, the story had changed significantly six years later, halfway through the selected timeframe. In 2014, Colombia exported $5.76 billion worth of goods to China, with Beijing's share of Colombia's overall exports growing nearly tenfold from 1.10% to 10.30%. Perhaps even more stark was the change in the types of exports, as crude petroleum now formed over 90% of exports to China, with the formerly dominant metals of ferroalloys and scrap metals forming less

[80] Cariello, *Investimentos Chineses no Brasil*, 11.
[81] Curado et al. "China Rising," 95-96.
[82] Caramuru de Paiva et al., *O Estado da Relação*, 47.
[83] Emilie Sweigart. "China-Latin American Relations: How Leaders Are Playing It." *Americas Quarterly* 13, no. 2 (2019).
[84] Myers and Barrios, "China Ranks its Partners."
[85] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.

than ten percent total.[86] The emergence of crude petroleum as the key resource of Colombia's exports to China, shifting from 13.7% in 2008 to a whopping 90.3% in 2014, is without a doubt the most critical development of the Sino—Colombian commercial relationship following the global financial crisis.

The explosion of Colombian exports did more than simply turn China into Colombia's second-largest trade partner, however.[87] It also contributed, along with the entry into force of a long-anticipated FTA with the United States in 2012,[88] to Colombia becoming the fastest-growing Western and Latin American economy, and the second-fastest growing economy worldwide (ironically, behind China), in 2014.[89]

While Colombia's economic growth greatly slowed in the second half of the decade, the commercial integration with China did not, as in 2019, at $4.65 billion, Beijing maintained its position as Colombia's second-largest trade partner, absorbing 11.40% of Colombia's overall exports. Ferroalloys rallied a bit in importance as a Colombian good, forming nearly nine percent of China-headed exports, though still paling in comparison to the roughly 85% share occupied by crude petroleum.[90]

Similarly to its southeastern neighbor, the era between the Great Recession and the COVID-19 pandemic saw China's vitality to the Colombian economy blossom, from a 1.10% share of exports in 2008 to an 11.40% share in 2019. The tenfold increase of Colombian exports to Beijing within this time – from a sparse $447 million to $4.65 billion – also coincided with a growing importance on crude petroleum,[91] as neighboring Venezuela's collapse led to a need for supply diversification from customers such as China.[92]

Figures 2 and 3 serve to showcase the evolution of importance of crude petroleum in Colombia's China-bound exports between 2008 and 2019. The result is a loss of product diversity (as seen with copper and metallic goods such as ferroalloys), and a consolidation of the

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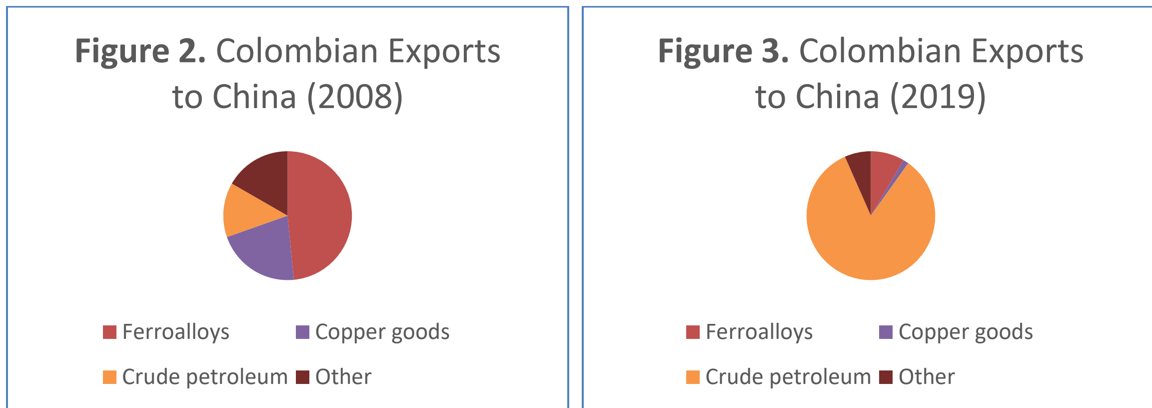
[86] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.
[87] Luis Fernando Mejía, "Colombia, Washington's 'Closest Ally,' Looks to Beijing." Americas Quarterly. AS/COA, 27 October 2021.
[88] USTR, *2021 National Trade Estimate Report on Foreign Trade Barriers*, 131.
[89] "Passing the baton," The Economist, accessed 28 April 2022.
[90] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.
[91] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.
[92] Sweigart and Cohen, "Latin America's Evolving Relationships," 43, 45.

Andean country's role as a periphery country whose extractive industries – and their fluctuations – shape its economic performance.[93]



Source: Author's elaborations based upon data from the OEC.[94]

Interestingly, Colombian export trends to its two largest trade partners differed in the dozen years analyzed in this thesis analysis. While – as seen in Figures 2 and 3 – crude petroleum increased by more than six-fold in total export share to China, the resource decreased in total export share to the US from 49.3% in 2008 to 39.6% in 2019. Essentially, the homogenization of Colombia's exports is visible in its commercial relationship with Beijing, but not, critically, with Washington, where the bilateral FTA appears to have helped in export diversification.[95]

Much as in the case of Brazil, the end result of closer ties with Beijing is that Colombia has turned to exporting more primary goods – in this case, the commodity of oil – at the cost[96] of developing its own industrialization and services sector; as opposed to Brazil, however, Colombia still maintains tighter trade relations with Washington than with Beijing. This latter commercial relationship, marked by Colombian exports of oil but also flowers, coffee, coal, and gold,[97] has its own set of implications for the Andean country's role within the world-system.

[93] Meija, "Colombia Looks to Beijing."
[94] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.
[95] USTR, *2021 National Trade Estimate Report on Foreign Trade Barriers*, 131.
[96] Eduardo Velosa, "Espacios y roles en la triangulación China-Brasil-Colombia," *Iberoamericana* no. 60 (2015): 196.
[97] Simoes and Hidalgo, "Economic Complexity Observatory," China and Colombia.

Investment

While smaller investments have been tracked going back to the early 2000s,[98] the 2019 announcement that Bogotá's long-awaited multibillion-dollar elevated metro line would be built by a consortium of two Chinese SOEs was noted by numerous observers as the true arrival of Chinese investment in Colombia, which signed an OECD accession agreement in 2018.[99]

The metro line, long a goal out of reach for the municipal government of Colombia's bustling capital, emerged as one of a few major transportation investment victories and public-private partnerships backed by Chinese financing over the course of the year.[100] The others included a tram line connecting Bogotá to its suburbs, as well as fleets of electric buses in the country's three biggest cities and the Mar 2 highway financed in part by China Development Bank, connecting Medellín to Colombia's Atlantic ports.[101] While a long cry from the massive transcontinental projects proposed by Chinese firms in the rest of South America, such as the Bi-Oceanic Railway in Brazil and Peru, these various transportation projects are nonetheless significant in the Colombian context,[102] adding at least an estimated $6.5 billion[103] to the reported $1-3 billion[104] of Chinese capital already estimated to be within the country.[105]

Highways, electric bus fleets, and metro lines add to a PRC investment portfolio in Colombia that has not been particularly impressive since the Great Recession,[106] especially when compared to Colombia's neighbors in Brazil, Ecuador, Panama, Peru, and Venezuela (although all but one of these form part of the BRI).[107] Between 70 and 100 Chinese companies operate within Colombia as of the late 2010s, with a great portion of these entering the market following document liberalization efforts in 2015 and 2017.[108] Most assessments note a comparatively modest level of Chinese FDI interest in Colombia by regional standards, despite a 2008 bilateral investment treaty that entered into force in 2013, and a growing momentum since the 2016 peace

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[98] China Global Investment Tracker.
[99] Sweigart and Cohen, "Evolving Relationships," 43.
[100] Carolina Urrego-Sandoval, "New Horizons for Chinese Investment in Colombia: Public-Private Partnerships," Dialogo Chino, China Dialogue Trust, 1 September 2021.
[101] Sweigart and Cohen, "Evolving Relationships," 43.
[102] Myers, "Belt and Road Initiative Role," 41.
[103] Sweigart and Cohen, "Evolving Relationships," 43.
[104] China Global Investment Tracker.
[105] Dussel Peters, *China's FDI: Conditions and Challenges*, 197.
[106] Andersen, "Goods Substitution."
[107] Sweigart and Cohen, "Evolving Relationships," 42-45.
[108] Dussel Peters, ed., *China's FDI: Conditions and Challenges*, 197.

agreement that reduced fighting between the Colombian government and armed rebel groups in the country.[109]

As with Brazil, energy has been the most productive sector for Chinese investments between 2008 and 2019; unlike with Brazil, however, oil extraction has been the dominant recipient of Chinese FDI, with Chinese-owned firms responsible for roughly seven percent of Colombian petroleum exports. This investment strategy has been strategic, matching the growing amounts of crude petroleum exported annually from Colombia to China, particularly from 2009 onwards. In a stark contrast from the experience of neighboring Peru over the same timeframe,[110] Chinese firms have shown low interest[111] in non-oil extractive industries in Colombia.[112]

Overall, Chinese investments in Colombia were slow to pick up in the selected timeframe between 2008 and 2019, even with interest on both sides and an investment treaty designed to facilitate transnational financing. The second half of the 2010s, beginning with the drop in violence that accompanied the 2016 peace deal and followed by the active steps taken by the administration of President Iván Duque, featured the greatest increase in Chinese OFDI towards Colombia.[113] Investment particularly targeted the critical sectors of energy and transportation, with the latter – which includes everything from metropolitan public transportation[114] to airports – showcasing the infrastructural priorities associated with the BRI for Chinese leadership.[115]

Mexico's Complex Relationship(s)

Trade

While it is true that Colombia is particularly tied to Washington in economic and security terms, this pales in comparison to the integration of the US and Mexico, who have been in a free trade area since the entry into force of the North American Free Trade Agreement (NAFTA) in 1994. NAFTA, which was renegotiated into the USMCA[116] in 2018 along largely the same lines, has been instrumental to the further deepening of the bordering US and Mexican economies,

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[109] Dussel Peters, ed., *China's FDI: Conditions and Challenges*, 202.
[110] Blackmore, Li, and Casallas, *Growing Trade and Investment*, 6.
[111] Myers, China-Latin America Commercial Loans," 2021.
[112] Dussel Peters, *China's FDI: Conditions and Challenges*, 201.
[113] Mejía, "Colombia Looks to Beijing."
[114] Sweigart and Cohen, "Latin America's Evolving Relationships," 43.
[115] Dussel Peters, *China's FDI: Conditions and Challenges*, 196.
[116] USTR, *2021 National Trade Estimate Report on Foreign Trade Barriers*, 353.

with the end result being that the United States has been Mexico's largest trade partner for decades.[117]

The flip side of this deep interconnection is that Mexico is understandably impacted by fluctuations in the US economy, which is what occurred in 2008, when its GDP contracted by over five percent as a result of the Great Recession's impact up north. Due to its integration with the US, which remains the largest economy worldwide, Mexico occupies a unique position in Latin America as the region's largest importer and exporter, generally exporting as much as the five next-largest exporters in the region (Argentina, Brazil, Chile, Colombia, and Peru) combined. Trade is disproportionately significant in the Mexican economy by Latin American standards, with imports and exports generating 78% of national GDP in 2019; of this trade, 80% of exports go to USMCA partners, while 50% of imports come in from the same countries.[118]

With this in mind, it's little surprise that the $2.24 billion worth of Mexican exports – particularly various mined minerals and electronics, but also vehicles, chemicals, and synthetic materials, among other products – that headed to China in 2008 represented just three-quarters of a percent of Mexico's total exports that year.[119] To put in reference, Mexican exports to the US in the same year numbered roughly $228 billion, or roughly 100 times the figure for China's share of Mexican exports.[120] Similarly to Colombia, Mexican imports from China greatly outweighed its exports to the country in 2008.

However, unlike Colombia, Mexico's gradual recovery from the global financial crisis did not involve a massively flourishing export trend to Beijing. In 2014, China's share of Mexican exports tripled to $7.08 billion, consisting of cars, vehicle parts, various energy resources, and a smattering of other goods. Cross-border exports to the US in the same time period, meanwhile, numbered roughly $306 billion, showcasing a 25% increase in exports. Regardless, despite China's share of total Mexican exports still only reflecting 1.77%, by this point China had already become Mexico's third-largest export destination after the US and

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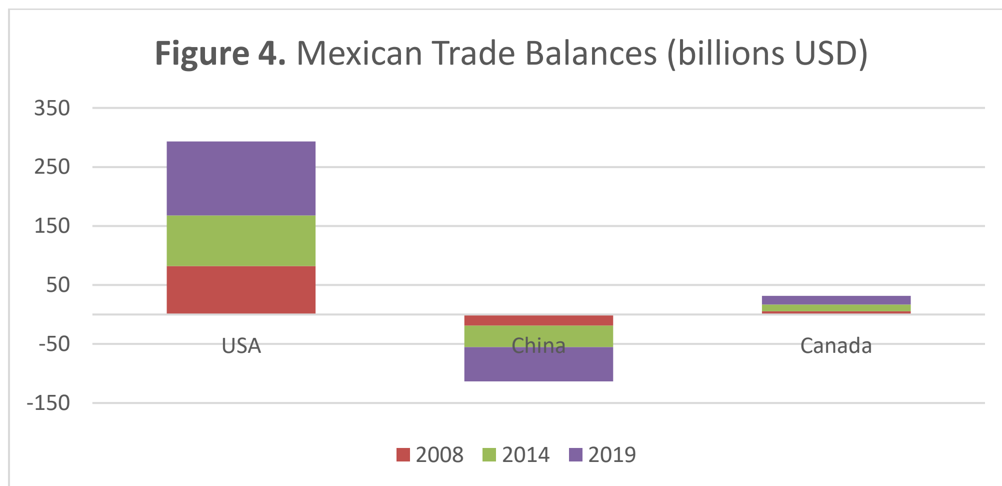
[117] USTR, *2021 National Trade Estimate Report on Foreign Trade Barriers*, 353.
[118] Simoes and Hidalgo, "Economic Complexity Observatory," China and Mexico.
[119] Simoes and Hidalgo, "Economic Complexity Observatory," China and Mexico.
[120] Simoes and Hidalgo, "Economic Complexity Observatory," Mexico and United States.

Canada; in overall two-way trade China displaced Canada as early as 2003 to become Mexico's overall second-largest trade partner, based largely on Mexican imports from China.[121]

China's share of Mexican exports largely remained the same in the next few years leading up to the arrival of the COVID-19 pandemic, peaking in 2018 at 1.90% before slipping slightly to 1.86% in 2019. In overall value, this represented $8.85 billion, a substantial fourfold increase on 2008 exports, albeit one that did nothing to narrow Mexico's trade deficit with China, which widened from $18.96 billion in 2008 to $58.05 billion in 2019.[122]

Owing in part to its industrialization history and integration with its developed North American neighbors, Mexico serves as a unique commercial case study. It has managed to avoid the commodity trap that the other two case studies find themselves in, providing the first true example of a case study within Latin America that has successfully transitioned from the periphery to the semi-periphery. However, as seen in Figure 4 (which outlines Mexico's trade balances in three specific years within the thesis timeframe), it has also accrued the largest trade deficit with China in the process, in comparison to Brazil's trade surplus and Colombia's significantly smaller trade deficit.



Source: Author's elaboration based upon data from the Observatory of Economic Complexity (OEC).[123]

[121] Dussel Peters, *China's FDI: Conditions and Challenges*, 311.
[122] Simoes and Hidalgo, "Economic Complexity Observatory," China and Mexico.
[123] Simoes and Hidalgo, "Economic Complexity Observatory," China and Mexico.

Perhaps most importantly, China's economic penetration into the market share of Mexico's exports has been the weakest of all case studies, reaching a miniscule 1.86% in comparison to Brazil's 27.90% and Colombia's 11.40%. This wide variance showcases that occupying different roles in the world's economic system leads to different integration results, particularly when an economy is so intertwined with a rising power's hegemonic rival as Mexico is with the US.[124] There will likely be no commercial hegemonic replacement in the Mexican case – at least, not anytime soon.

Investment

Chinese financing has been very limited in Mexico, going back decades, and has struggled even in recent years. Per some analysts, back-to-back failures of two major mid-2010s infrastructure projects, the Mexico City—Querétaro high-speed train line in 2014 and the Chicoasén II electric power plant in 2016, have soured the FDI appetite for Chinese firms in Mexico.[125]

Nonetheless, while for much of the 2008—2019 timeframe Chinese FDI was largely negligible in Mexico, investment flows began to pick up in the second half of the 2010s, with the most dynamic years having reported to be 2015 and 2017. In total, estimates for the 2008—2019 timeframe included between $3.14 billion[126] and $6.64 billion[127] in investments over roughly 80 transactions,[128] a significant increase over the previous decade, albeit significantly less than other major Latin American economies such as Argentina, Brazil, and Chile.[129]

A few elements have made the Chinese FDI situation in Mexico especially unique. The first is that, unlike in much of Latin America and the Caribbean, raw material extraction has not been the focus of Chinese investment flows, making up just 6% of FDI in the selected timeframe. Instead, manufacturing has been the primary target of Chinese investment, at 68.85% of the total FDI value, followed by services and the domestic market at 20.23%.[130]

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[124] Francisco Dominguez, "Latin America and China: What Next for China–Latin American Strategic Relationship?" *Journal of Global Faultlines* 4, no. 1 (2017), 22..
[125] Dussel Peters, *China's FDI: Conditions and Challenges*, 312.
[126] China Global Investment Tracker.
[127] Dussel Peters, *China's FDI: Conditions and Challenges*, 323.
[128] Dussel Peters, *China's FDI: Conditions and Challenges*, 320.
[129] Sweigart and Cohen, "Latin America's Evolving Relationships," 42-45.
[130] Dussel Peters, *China's FDI: Conditions and Challenges*, 321-322.

All in all, while Chinese investment figures have been smaller than those reported in Colombia – to say nothing of the nearly tenfold figures reported for Brazil – between 2008 and 2019, Mexico has seen a boost in recent years to its FDI inflows from Chinese firms.[131] Furthermore, big announcements in 2019 of plans for Chinese SOEs to modernize Line 1 of Mexico City's subway system – adding 30 new train cars – and build a plant in the state of Nuevo León for the production of buses powered by natural gas indicate the direction Chinese investments have gone in this era. With focuses on infrastructure, transport, and – in a unique twist for Latin America – domestic manufacturing – beginning in the 2010s, it is clear that Chinese SOEs seek a greater role in the massive Mexican traders' economy.

Contextualization and Implications

The findings of this chapter paint a few intersecting pictures for Chinese presence within Latin America in the timeframe of 2008 to 2019. Having applied the analytical lens of the GPI measurements of economic presence – investments, as well as exports of commodities and other goods – to the case countries, it is clear that China's presence has expanded in all three cases, though particularly in Brazil, and to a lesser degree in Colombia and Mexico. The variance in results in the three cases is likely due to a combination of elements, including innate structural factors surrounding the countries' natural resources and competitive advantages, existing political and financial ties to the US,[132] and domestic stability on the economic front.[133]

Brazil, as a large G20 economy based around extractive industries such as agriculture and mining, has been perfectly-suited to accommodate China's rising demand for commodities such as soybeans, oil, and iron ore.[134] The two countries' closer ties, which spun out from a strategic partnership in 1993 before solidifying through annual BRICS summits in the 2000s and 2010s, have been able to survive a massive Brazilian recession and the highly nationalist – and at times Sino-skeptic – government of Jair Bolsonaro.[135] Today Brazil's economy is more dependent on China than ever before, with a third of exports heading to its largest trade partner in 2020.[136]

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[131] Monitor OFDI, Red ALC-China, 2021.
[132] J.F. Hornbeck, *US-Latin America Trade and Investment in the 21st Century: What's Next for Deepening Integration?* Washington, D.C: The Inter-American Dialogue, 2014: 1, 3.
[133] Dominguez, "China-Latin American Strategic Relationship," 23.
[134] Blackmore et al., "Growing Trade and Investment," 5-6.
[135] Sweigart and Cohen, "Latin America's Evolving Relationships," 42.
[136] Sweigart and Cohen, "Latin America's Evolving Relationships."

In contrast, the results in both Colombia and Mexico have been far less favorable for Beijing. While China has been able to nearly triple its share of Mexican exports – and grow its share of Colombian exports by nearly ten-fold – between 2008 and 2019, it still lags behind the bilateral commercial relationships both countries have with the United States,[137] with whom they each share an FTA.[138] In Mexico in particular, China has found rather a destination for its own exports rather than a source of key commodities such as oil and minerals, leaving Mexico with the largest trade deficit of the three case countries. Indeed, while all three countries are solidly impacted by the markets of the core economies to their north and across the Pacific, Mexico remains the only economy which could be classified as semi-periphery, owing in particular to its more developed manufacturing sector. For now, Brazil and Colombia will likely remain in the periphery classification, owing to their continued dependence upon primary goods exports.[139]

In investments, China's burgeoning OFDI sector of over $2.2 trillion overseas has clearly not left Latin America untouched,[140] with nearly $200 billion heading to the region between 2005 and 2021. In the selected intra-crisis timeframe specifically, Brazil has emerged as the case country with the highest amount of FDI by far, with investments in the energy and oil sectors attracting a majority of funds from Chinese SOEs. Figure 5 demonstrates Brazil's unique position within the Chinese financing schemes of Latin America, contextualizing its high numbers amidst other major regional economies.[141]

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[137] Hornbeck, *Deepening Integration*, 3-4.
[138] USTR, *2021 National Trade Estimate Report on Foreign Trade Barriers*, 131, 353.
[139] Jenkins and Barbosa, "Fear for Manufacturing?", 70.
[140] China Global Investment Tracker.
[141] Stephen B. Kaplan, "Banking Unconditionally: the political economy of Chinese finance in Latin America," *Review of International Political Economy* 23, no. 4 (2016): 645.

Source: Author's elaboration based upon data from the China Global Investment Tracker.[142]

As Figure 5 shows, China's investment in both Colombia and Mexico is miniscule in comparison and, indeed, even by regional standards.[143] Mexico, as Latin America's second-largest economy and a member of both the G20 and OECD, has seen none of the high-value investments seen in Brazil. As for Colombia, the Andean country needs only look to neighboring Ecuador, which – despite having an economy and population roughly a third in size – has received nearly ten times as much investment in the same period. The story is the same for Colombia's other major Andean Community partner, Peru, whose similarly extractive economy has seen a flush of Chinese FDI particularly in the mining sector,[144] as well as for Venezuela, whose economic meltdown in the 2010s has not prevented it from receiving roughly $20 billion in Chinese FDI in the decade following the Great Recession.[145]

A country's relationship with the US is clearly by no means the sole factor impacting these investment trends, given that regional leaders in Chinese FDI such as Chile and Ecuador[146] have long-lasting ties with Washington going back even to the mid-twentieth century.[147] Indubitably, other factors such as a country's natural resources and largest industries play a role, as do basic political questions such as recognition of Taiwan (as seen in the case of Paraguay).

[142] China Global Investment Tracker.
[143] Urrego-Sandoval, "Public-Private Partnerships."
[144] Monitor OFDI, Red ALC-China, 2021.
[145] Kaplan, "Banking Unconditionally," 647.
[146] Sweigart and Cohen, "Latin America's Evolving Relationships."
[147] Hornbeck, *Deepening Integration*, 5.

However, as certain leading scholars have already argued, there remains an inverse relationship between diminished US presence and rising Chinese presence.[148] National governments in Bogotá, Brasília, and Mexico City will have to juggle their relations with the two superpowers going forward, particularly as the US—China bilateral relationship grows frostier and increasingly complex.

[148] Urdinez et al., "Chinese Economic Statecraft," 2.

6. Conclusion: Washington's Backyard No More

"Let China sleep. For when she wakes, the world will tremble."

This quote, often attributed to Napoleon Bonaparte despite remarkably low evidence that the French Emperor originated it, has been proven true throughout the first two decades of the 21st century. China's Asian neighbors, from Japan and India to Vietnam and South Korea, have seen the consequences of Beijing's explosive rise on the world stage. The standard-bearers of the liberal international order, from the United States to the European Union, have seen it. Even far-off developing regions across the world have seen it, as the countries of Africa and Latin America can attest.

As this thesis has found, the 2000s commodities boom – driven by Chinese demand for fuel, soy, oil, iron, beef, and metal – that lifted the latter of these two regions out of recession served as a starting point for the deepening of financial ties that would bind many of its countries to the East Asian giant. In the years since the GFC, China has become the largest trade partner of economies ranging from Brazil and Chile to Ecuador and Peru, while its state-backed policy and commercial banks have taken leading roles in the financing of the region's largest infrastructure and energy extraction projects. In the process, Beijing has largely displaced the historical hegemon of the Western Hemisphere, the United States, whose neoliberal development model fell out of favor for many countries in the lead-up to the 2008 recession.

While economic power – along with military and soft power – remains but one form of power projection, its effects should not be understated. China's expansion of economic presence in Mexico, Colombia, and particularly Brazil carries profound implications for both US and Latin American policymakers.[149] The bilateral relationships between China and its partners in Bogotá, Brasília, and Mexico City have been far more balanced – and less exploitative – than its relationships with, for example, various East African countries. Nonetheless, Beijing's continued transition from the socioeconomic periphery to the global core of the world's economy has led to a continuation of the extractive, commodity-based macroeconomic trends seen for centuries in both Brazil and Colombia, carrying heavy developmental implications for these countries if China's regional hegemonic replacement of the US is to continue. Meanwhile, as this thesis has

[149] Wigell and Landivar, "Geostrategic Implications," 169.

analyzed, Mexico's current integration with the US through their shared FTA has led to it escaping this commodity trap and actually diversifying its exports, albeit at the cost of being subject to fluctuations in the US economy, something unlikely to change in the coming years.

While the COVID-19 pandemic has greatly slowed the rate of Chinese – and global – FDI in Latin America,[150] it has done very little to decouple the commercial ties that bind it to the region's countries, as made evident by Beijing snagging up one-third of Brazil's 2020 exports.[151] Furthermore, as the United States retreated over the course of the pandemic (especially over the first year), China – along other great power rivals, such as Russia – stepped up its medical diplomacy, adding new dimensions to its strategic partnerships in the region, and even courting pro-Taiwan holdouts such as Paraguay with offers of vaccines and ventilators.

There are potential takeaways for policymakers in the US, China, and Latin America. For the US government, erosion of its position within Latin America is more severe than in nearly any other region globally, as its economic preeminence is undermined by a revisionist power whose BRI-engineered network of trade and investments[152] threatens to spell the end of its nearly century-long liberal order.[153] Owing to its authoritarian political system and state capitalist economic model, China's larger presence in Latin America carries profound implications for the way in which the region develops, both economically and politically (as seen by the entrenchment of rising autocratic leaders in Nicaragua and El Salvador).

The implications extend past the region, even, as the hegemonic competition between China and the US impacts global governance and institutions. To counter this weakening of its position in the Western Hemisphere, US reorientation towards – and strategic reengagement with – Latin American partners such as Mexico and Colombia is essential.[154] While multilateral forums such as the Organization of American States or Inter-American Development Bank can

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[150] UNCTAD, *World Investment Report 2021: Investing in Sustainable Investment*, (Geneva: United Nations, 2021), 12.
[151] Sweigart and Cohen, "Latin America's Evolving Relationships," 42.
[152] Gallagher and Irwin, "China's Policy Banks," 121.
[153] Nye, *American Century*, 51.
[154] Wigell and Landivar, "Geostrategic Implications," 170.

assist in this process, competent bilateral policy that avoids a zero-sum mentality and Cold War-era mistakes is essential, as is a boost in US investments.[155]

For Latin American states such as the case countries of Brazil and Colombia, regional solidarity and ensuring internal sovereignty is key. Over the course of the research process for this thesis, Brazil's MERCOSUR partner Uruguay began negotiations for a FTA with China, while the region's third-largest economy – Argentina – announced it was at last joining the BRI in February 2022. While complete alignment with either the US or China is largely unthinkable due to the complex interdependence of the global economy today, the major economies of the area should ensure their ideological divides do not leave them susceptible to exploitation by either Washington or Beijing.

Meanwhile, for China the key takeaway is to ensure that investments deliver the political and economic returns anticipated. The Brazilian and Argentine recessions of the 2010s, paired with the ongoing meltdown from a Venezuelan regime that still owes Beijing $20 billion, have hurt Chinese returns in recent years, leading in part to the current drop in OFDI towards the region. However, as shown by stalling ties in Panama,[156] competition with the US can be costly if objectives are not clear, or if political objectives – such as rejecting recognition of Taipei – take precedence over economic orthodoxy.

Naturally, there remains a sizable gap in scholarship on this subject, particularly on how the regional hegemonic replacement seen in Latin America could be transposed to similar cases in Central Africa (between France and Russia) or Central Asia (between Russia and China). In addition, the effects of future economic developments such as China's incoming demographic crisis will need to be considered in future study of this dilemma,[157] as well as how the region's eventual industrialization will impact this competition.

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[155] Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2018* (LC/PUB.2018/13-P), Santiago, 2018.
[156] Sweigart and Cohen, "Latin America's Evolving Relationships," 44.
[157] Nye, *American Century*, 53.

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