

# The Chinese Initiative for a Twenty-first Century Maritime Silk Road: Opportunities and Challenges for Latin America

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## Introduction

In his visit to Panama in September 2017, after establishment of official diplomatic ties with that Central American nation, Chinese Foreign Minister Wang Yi 王毅 (born 1953) described Latin America as an “important direction for the natural extension of the Maritime Silk Road of the twenty-first Century”.<sup>2</sup> During the past two decades, economic ties between the People’s Republic of China (PRC) and the countries in Latin America and the Caribbean have intensified. China has become the first or second trading partner for most of them, and the region has consolidated its position as one of the largest suppliers of raw materials for the emerging Chinese economy.<sup>3</sup> Similarly, billions of dollars have been invested by Chinese corporations in different projects in the region. Many more have been announced by the leaders of countries in the area in the last few years. Therefore, the idea of extending China’s “Maritime Silk Road Initiative” to that part of the world is seen as a natural step.

Since its announcement in 2013, China’s Belt and Road Initiative (BRI, *yidai yilu* 一帶一路) has attracted the attention not just of China watchers, but of scholars and journalists across the globe. This paper analyses the implications of the BRI, and, within it, the “Maritime Silk Road Initiative”, for Latin America, emphasizing the opportunities and challenges it offers as times change in the

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2 MFA 2017.

3 Gallagher and Pozecanski 2010, 11-37.

macro-region. The first section introduces theoretical considerations that help explain the motivations behind the proposal, and the implementation of the initiative. The discussion takes into consideration not only increasing Chinese power, understood here as accumulation of material capabilities, but also the use and significance of certain key concepts, for example, the idea of a peaceful rise and rejuvenation of the Chinese nation, in terms of the construction of the BRI narrative and the transformation of international institutions.

Section two expounds how the Belt and Road Initiative is commensurate to a new Chinese emphasis on placing China's relations with neighbouring countries on the same level as those maintained by China with the world's major powers. A brief historical assessment is presented. It highlights the way trade between China and Latin America was carried on in past centuries, noting how, for the first time, China is taking an active role in the region, without the traditional intermediation of Western powers, something that was continuous from imperial times as the first Chinese goods arrived in the Americas and Mexican and Peruvian silver became highly valued in China. The third section evaluates the potential benefits of the BRI extension to Latin America, as well as the difficulties the process may entail.

Chinese companies, both state- and private-owned, have acquired a certain experience investing in the region, but their investments remain highly concentrated, by sector and country of destination.<sup>4</sup> Extension of the "Twenty-first Century Maritime Silk Road" (Ershiyi shiji haishang sichoulu 二十一世紀海上絲綢路) should imply diversification of investments, with appropriate mechanisms encouraging transparency and reinforcement of the rule of law, dissipating fears of an imminent Chinese advancement into the region, fears detrimental to sustainable economic development. The final section follows this up by presenting preliminary conclusions.

## **Theoretical Considerations of the Belt and Road Initiative**

During the past four decades, the road to economic modernization in China has been marked by a continuous process of trial and error, with a highly pragmatic vision, replicating those measures that proved successful, and, eventually, modifying or discarding those that have not. The process of Chinese insertion into the international system as an emerging power has followed the same pat-

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4 Pérez Ludeña 2017, 8, 13.

tern. After being admitted to the United Nations in 1971, the government of the People's Republic of China has exhibited a gradual learning process, first experimenting with change on a small scale, before turning to more active involvement in world affairs, as China became assured of its ability to effect positive change, particularly regarding national interests.

The pattern initially followed the strategic thinking of Deng Xiaoping 鄧小平 (1904–1997). He believed in taking a low profile in the international arena, hiding China's real capabilities so that they would not be perceived as a threat to others.<sup>5</sup>

According to the theory of "Hegemonic Stability" in international relations, the hegemon or dominant power is able to maintain its position within the system and gain recognition through the provision of public goods. These ultimately benefit different actors, including those usually considered free-riders.<sup>6</sup> After World War II, the allied winners, and particularly the United States, made sure to provide international public goods through the creation of various institutions, with the UN and the Bretton-Woods System as the most important ones. At the regional level, the US and the Soviet Union also pushed forward other institutions, aimed at the consolidation of their leadership, offering still other actors the opportunity to take advantage of the goods provided through them. In this sense, institution-building became an important factor in the consolidation of dominant power, while offering an opportunity to expand possibilities for cooperation between different actors, confirmed by the theoretical construct in international relations known as Neoliberalism.<sup>7</sup>

Nonetheless, the irruption of constructivism into the study of international relations has rendered important consideration also of other factors, including ideas and perceptions acknowledging that reality is socially constructed, and hence influenced by the people making crucial decisions as well as by different historical trajectories.<sup>8</sup> In fact, despite the increased relevance of non-state actors in the international system, particularly after the economic neoliberal wave of the 1980s, and the deepening of the process of globalization, it is possible to see that the state remains the most important unit of study in international

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5 Economist 2010.

6 Important works introducing the Theory of Hegemonic Stability include Kindleberger 1973 and Eichengreen 1996.

7 Keohane 1984, 135-181.

8 Among the most important theoretical works presenting constructivism are: Wendt 1992 and Campbell 1998.

relations, as well as that force most capable of having an impact on the system as a whole. Therefore, in a system still dominated by sovereign states, the element of power, measured primarily as the accumulation of material capabilities, and ability to use them to advance interests and ideas, can also be considered as a most important one in the relations of these sovereign states, as noted in the theory of structural realism.

In this sense, proponents of a so-called realist constructivism, involving the adoption of a set of constructivist assumptions on how to study politics, as suggested by Barkin, argue that it is necessary to keep in mind that while realism can help explain the process of global institutional change, it is not suitable to interpret the content of the transformations involved.<sup>9</sup> As Sterling-Folker has suggested:

To complete its narratives of social reality, realism must collaborate instead with an approach like constructivism, which is capable of addressing the evolution of particular social content.<sup>10</sup>

For that reason, it is important to understand the content of the institutional change represented by the Chinese Belt and Road Initiative, encompassing the Twenty-first Century Maritime Silk Road, as a way of better appreciating the challenges it poses, as well as the opportunities it offers to the different countries in Latin America.

Since the foundation of the PRC in 1949, the Chinese Communist Party (CCP, *Zhongguo gongchandang* 中國共產黨) has made sure that it is perceived by the people as the sole actor capable of successfully achieving the so-called great “rejuvenation of the Chinese nation” (*Zhonghua minzu de weida fuxing* 中華民族的偉大復興).

After the death of Mao Zedong 毛澤東 (1893–1976), despite the accession to power of a group of leaders interested in following a different economic approach, the goal of rejuvenating the country remained unchanged. The process of economic reform, and of opening-up China, was intended to increase the material capabilities of the country. It aimed at achieving a higher level of development, and, as was later established by the party leadership, to allow China to reach the status of being a developed economy by 2049.

Despite numerous challenges that persist, both within and outside China, officials and diplomats have developed various tools to contribute to what they

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9 Barkin 2003, 338.

10 Sterling-Folker 2002, 75.

perceive of as the ultimate goal of the nation.<sup>11</sup> With that in mind, the Chinese state eventually joined those very international institutions created after WWII, and has become one of the countries most benefited by the economic liberal international order, one characterized by a constant deepening of the process of globalization.

During the years (2002–2012) when Hu Jintao 胡錦濤 (born 1942) was at the head of the Chinese Communist Party, the term “peaceful rise” (*heping jueqi* 和平崛起) changed to “peaceful development” (*heping fazhan* 和平發展). This phrase was embraced as a state mantra, to portray the Chinese willingness not to change the international order through violent means, emphasizing instead the opportunities of win-win cooperation with developed and developing countries alike.<sup>12</sup> Nonetheless, this message has encountered difficulty in achieving unconditional acceptance by different actors in the international system. Some still hold suspicions regarding the real intentions of Beijing, making the “rise of China” a topic discussed for political reasons at different moments of time, during US electoral cycles, for example. At the same time, in part due to the constant attention paid to the idea by the media and politicians in the West and other parts of the globe, the image of China as one of the most powerful countries in the world has now become common place.

Under such circumstances, changes taking place in the West during the past decade have had a deep influence among Chinese policymakers. After the arrival of Xi Jinping 習近平 (born 1953) in the top leading position in the party, they have shown interest in creating new international institutions, including an Asian Infrastructure Investment Bank (AIIB) and a New Development Bank (NDB). These bodies, despite being a partial response to the refusal of the established powers to give China a higher representative voice within existing organizations, particularly the International Monetary Fund and the World Bank, have also been presented by the Chinese government as complementary to the existing global institutions and not as opposed to them. It is in these terms that the Twenty-first Century Maritime Road initiative, part of the BRI, should be approached.

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11 Wang 2014, 1-13.

12 Shambaugh 2013, 218-219.

## The Evolution of the Belt and Road Initiative

### Institution-building and the BRI

The end of the Cold War placed new strategic considerations in front of the PRC. These grew out of the need to delimit borders with the newly independent states in Central Asia, as well as with Russia. The views of the governments of the latter states coincided with those of the Chinese government in joint expectations of a new multipolar world, with the new states of Central Asia, Russia and China among the most important players.<sup>13</sup>

At the same time, moves towards a unipolar world, as manifested in the US response to the invasion of Kuwait, and later in different US interventions in Africa and the Balkans, made other actors aware of multi-polarity as a long-term process. After 1994, the Chinese leadership expressed its goal of recreation of the Silk Road, using the concept as a first step in the development of stable relations with neighbouring countries in Central Asia, but also keeping in mind the stability of Chinese Xinjiang.<sup>14</sup> Confidence-building measures of this type continued to take place, allowing the Shanghai Five group, established in 1996, to evolve into the “Shanghai Cooperation Organization” (SCO) (Shanghai Hezuo Zuzhi 上海合作組織) in 2001, after admitting Uzbekistan, not a country neighbouring China, as a new member.

Coincidental with a new emphasis in American foreign policy on the fight against terrorism, and after US intervention in Afghanistan, bordering some of the member countries of the SCO, the US began to prioritize the need for cooperation on security issues, in particular the need to avoid radicalization of Islamic groups. Circumstances showed that the Chinese government considered the SCO as an important partner in the security of its western regions, but, at the same time, the economic motivations were more difficult to advance.

After a long time under the control of others, first as part of the Russian Empire, and later of the USSR, the states of Central Asia were at the time still transitioning to market economies. They were also highly dependent on trade with China, and with Russia. During most of the twentieth century, and before the year 2000, China was not among the major trading partners of the countries in Central Asia. Their trade was important but at the same time the export-driven growth model adhered to by the Chinese government since reform

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13 Wohlforth 2009, 55-56.

14 Xing 1998.

and opening, also required access to developed markets in Western Europe and North America. A major breakthrough came in this area in late 2001, with China's admission to the World Trade Organization (WTO). In this regard, the focus on economic growth and the accumulation of material capabilities made China's relationships with developed nations the most important area in Chinese foreign policy-making.

PRC interactions with the major powers, particularly the United States, became the focus of Chinese foreign policy-making during the first decade of the twenty-first century.<sup>15</sup> During those years, China and the United States developed an important economic interdependence. The US became the largest consumer of Chinese manufactured goods, and the PRC grew into the largest creditor of the US government through acquisition of treasury bonds, managing to attract large investments from American pension funds, among other financial institutions.<sup>16</sup> Similarly, the arrival of transnational corporations and foreign investments in China made possible modernization of local industries and adoption of better corporative practices and technologies, enabling Chinese companies, either state-owned, or private or semi-private, to become important competitors, not only domestically, but internationally.

Industrial diversification in the PRC required a constant supply of raw materials that could not be obtained domestically. Chinese corporations began investing abroad, in different regions of the world, seeking to have access to natural resources. These were to be used in the production of manufactured goods back home, both for domestic consumption and for export.

Through commodity importation while exporting industrial goods, eventually, China became the major trading partner, or one of the largest trading partners, of most countries in the world. The neighbouring nations in Central Asia, the main actors for the recreation of a new Silk Road, were not the exception. Being a region well-endowed with natural resources, members of the SCO, especially those in Central Asia, have increased their shares in the supply of commodities to China. Nonetheless, and despite their geographic locations, the countries of the region have not been able to surpass other parts of the world as the most important exporters to the PRC.

Chinese imports from the SCO countries in 2015 were similar in magnitude to those from the South American regional economic organization, Mer-

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15 Xu Liping and Wang Xiaoling 2016, 36.

16 Fonseca 2014, 257-274.

cosur. Latin America in general was a more important trading partner for China than the countries in Central and South Asia (tables 1 and 2).

Table 1 Evolution of China's foreign trade with specific regions, 1995–2015 (millions USD)<sup>17</sup>

Region	1995		2005		2015		2015 (% of total)	
	Exports	Imports	Exports	Imports	Exports	Imports	X	M
World	148,779	132,083	761,953	659,953	2,281,856	1,681,671	100.00	100.00
East Asia	84,853	61,102	314,815	338,923	910,369	754,073	39.90	44.84
North America	26,262	18,800	174,956	56,253	440,599	176,825	19.31	10.51
Europe and Central Asia	22,426	26,810	175,184	100,354	438,234	311,159	19.21	18.5
Latin America and Caribbean	3,123	2,967	23,268	26,665	130,946	103,802	5.74	6.17
South Asia	2,511	685	15,961	10,725	94,333	16,972	4.13	1.01

A critical juncture in China's foreign economic relations were the 2008–2009 financial crises in the United States and Europe. The difficult situation in those developed economies not only boosted confidence among Chinese leaders about the viability of their model, but also pushed them to action regarding the need to find alternative places for trade to resume the Chinese path to high economic growth. The implementation of a mega stimulus-package in the Chinese economy, and diversification of import sources and export markets, together with a gradual withdrawal or pause of Western investment, led the PRC to become the third largest source of foreign direct investment (FDI) in the world, after the United States and Japan.<sup>18</sup> The recently acquired competitiveness of Chinese corporations also moved them to engage in the four different types of foreign investment as defined by Dunning, namely: 1) investment for the acquisition of natural resources; 2) investment for the procurement of strategic assets; 3) investment for access to third markets; and, 4) investment for the reduction of costs.<sup>19</sup> Due to the special position of China as an emerging economy, with a still important role for the state in it, Chinese FDI has tended to be concentrated in the first three types, although with an increasing emphasis on the development of its domestic market, but the ensuing increase of labour

17 Source: Data obtained from The World Bank – World Integrated Trade Solution, 2017.

18 Pérez Ludeña 2017, 9.

19 Dunning 1981.

costs are making the fourth type of investment more attractive for many companies, primarily those in the private sector.

This situation has led to an important change in Chinese foreign policy, particularly with the arrival of Xi Jinping in the CCP top leadership position, elevating relations with neighbouring countries to the same level as those with the major powers, particularly the United States.<sup>20</sup> A more assertive behavior of the Chinese leadership when dealing with regional issues has been observed since 2009, including a more visible Chinese presence and the reinforcement of Chinese claims in the disputes in the South China Sea. This has raised fears among its neighbours. These circumstances prompted, in part, a response from the Obama administration in the form of its Pivot to Asia policy, whereby it devoted more material and human resources to increasing the US presence in the region, looking to reassure its traditional allies in East Asia regarding the American commitment to regional peace and security. At the same time, the new importance of good relations with its neighbours has led Beijing to push for the implementation of the Belt and Road Initiative, seeking to offer better protections for increased Chinese investment abroad, as well as buttress China's image as a power concerned with win-win relationships, and in economic cooperation with the rest of the world. Nonetheless, some analysts also point to a concealed goal of decreasing US influence in the region.<sup>21</sup>

An important part in the process of rapid economic growth in the PRC during the past four decades is related to massive investments in infrastructure projects. The economic stimulus package also consisted in accelerating the construction and modernization of infrastructure at all levels, allowing domestic companies to elevate their competitiveness, while improving skills and practices, and motivating them to continue their expansion within China and beyond. The BRI also offers a platform for those companies to improve their performance, and by maintaining an open attitude towards enterprises from other countries, it also allows them to learn from others, with a strong emphasis in emulation and innovation. Similarly, it encourages emerging and developing countries across the belt and road to invest in projects that may contribute to economic growth, and hence to social stability, in the future.<sup>22</sup>

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20 Xu Liping and Wang Xiaoling 2016, 36.

21 Zhao Jiangle 2017, 147-157.

22 Huang 2017.

Criticism of China in this connection tends to pay attention to how many of its investments are still concentrated in the exploitation of natural resources, and in the infrastructure needed to support their exportation to China, without any attempt to offer better alternatives leading to a sustainable path of economic growth. The situation could have a negative impact on the future development of some of the countries involved; in spite of increasing levels in infrastructure spending, the strengthening of domestic inclusive institutions remains weak or non-existent among them.

This situation means that some projects end up becoming white elephants, with states unable to attract further domestic and foreign investments, therefore making it hard for them to recover the necessary means to fulfil their original obligations. Projects in Sri Lanka and Nepal have been pointed out as possible future shortfalls for the BRI.<sup>23</sup>

The Twenty-first Century Silk Road Maritime Initiative, as presented in October 2013, focuses on the creation and modernization of ports, tourist centres, and oil terminals, among other things, to create an interlinked passage crossing the South China Sea, the Malacca Strait, the South Pacific Ocean, the Indian Ocean, the coastal area of East Africa, the Red Sea, and finally, the eastern Mediterranean Sea. The initiative overall was received positively; nevertheless, its institutionalization has proven to be a slow process, and not an easy one. Unlike other major powers and developed economies, the PRC does not possess a single, unified institution in charge of centralizing its international cooperation and aid.<sup>24</sup> Related activities are carried on by multiple institutions, at different levels, making it difficult to provide any continuity or trace failures and successes, as well as deal with matters of transparency, or identify any potential overlapping of functions.<sup>25</sup> The BRI can thus be seen as a step in the right direction. The creation of the Asian Infrastructure Investment Bank (AIIB), with the inclusion of most of the beneficiaries of the BRI, serves the purpose of funding projects within the maritime initiative, as well as in terms of the Silk Road Fund. These institutions are also thought of as the financial pillars of the BRI. It is under such circumstances that the potential incorporation of Latin America into the Chinese initiative should be considered.

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23 Parameswaran 2017.

24 Shambaugh 2013, 202-205.

25 Lancaster 2007.

### Historical Developments in China-Latin America Trade Relations

Despite scholars claiming that the Chinese arrived in the Americas much earlier than Christopher Columbus,<sup>26</sup> supposedly as a result of the vast investment made in navigation and exploration during the early Ming Dynasty 明朝 (1368–1644), particularly during the reign of Emperor Yongle 永樂 (1402–1424), there are no specific discoveries or signs showing direct contacts between Chinese subjects and American indigenous populations before the arrival of the Spaniards in 1492. In fact, to the contrary, the main purpose of Columbus' travels was to explore a new maritime route to Asia. Even after Hernán Cortés (1485–1547) conquest of Mexico in 1521, Spanish explorers continued to look for ways to access Chinese goods, using one of the few products sought after by Chinese merchants: New World silver. The discovery of large silver deposits in what is now Mexico, Peru and Bolivia, enabled the Spanish Empire to become a world power in the sixteenth and seventeenth centuries, establishing a sustained large scale trade between China and the Americas for the first time in history.

After the discovery of the *tornaviaje*, the way for a voyage to the Philippines and back, by Andrés de Urdaneta in 1565, the Manila Galleon trade was established three years later. This made Spanish-controlled Manila into one of the most prominent trade centres in East Asia. Thousands of Chinese, mainly from the southern part of Fujian 福建 province, established themselves there at El Parián, right next to the Spanish settlement, now known under the name of Intramuros.<sup>27</sup> In spite of limitations imposed by the Ming 明 and Qing 清 courts on Chinese settlement in coastal regions, as well as on trade with the outside world, many Fujianese or Hokkien people continued migrating to Manila, looking for the silver and other goods arriving every year from Acapulco, in exchange for Chinese silk, porcelain, tea, lacquerware, ivory and other luxury goods that were later sent to Mexico, and then transported to Spain through the Caribbean Sea and the Atlantic Ocean.

The Chinese community became one of the most important economic actors in the Philippines, regardless of failed and sporadic Spanish attempts to control its growth and penetration, as can still be witnessed from the streets of Binondo. The colonial administration of the Philippines, as supported through Mexico City, also facilitated human exchanges. Some indigenous Americans and *mestizos* born in Mexico established themselves in Cebu, Manila and other

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26 Kahn 2006.

27 Abinales and Amoroso 2005, 41-74.

parts of the archipelago, and some native Filipinos and Chinese travelling to Mexico established small communities, particularly in Acapulco and Mexico City, as early as the 1620s.<sup>28</sup> Due to the policy of closed seas, *Mare Clausum*, observed by the Iberian powers through the treaties of Tordesillas and Zaragoza, most of the trade between China and the Americas, particularly trans-Pacific commerce, was carried out in Spanish galleons.<sup>29</sup> Spanish mercantilism made sure that all the trade between the Philippines and the Spanish dominions was carried only through Acapulco. Some of the Chinese traded goods remained in the Americas. The rest crossed the Atlantic Ocean to Europe. The influence of powerful guilds and other organized interest groups in Spain also moved the Crown to impose a monopoly on trade, with severe restrictions at different periods of time, giving way to an important black market of counterfeited goods traded on both sides of the Pacific Ocean.<sup>30</sup>

For almost three hundred years, the galleons sailed at least once every year between Manila and Acapulco, providing China with the silver it much needed for its daily transactions. In 1815, as a result of the Mexican War of Independence, the galleon trade stopped. For centuries, Spanish officials kept to themselves not only the sailing routes but also discoveries made during their trans-Pacific journeys, to protect their goods from piracy and prevent the incursions of other European powers. The British government promoted the concept of freedom of the seas or *Mare Liberum*, thus defying Iberian control of the sea routes connecting Europe with the rest of the world.<sup>31</sup>

Even the New World was out of the loop. As a way of keeping tighter control while maximizing resources, Spanish authorities promoted the galleon-construction industry in the Philippines. They limited the creation or expansion of shipyards in Acapulco or at other ports on the Pacific coast of the Americas. Therefore, once Mexico and other countries in Latin America became independent, their fragile finances and difficult state-building processes made it impossible for them to develop a prosperous shipbuilding industry to support maritime trade during the nineteenth century.

Aware of the importance of the Philippines as a go-between in their trade with Asia, particularly with China, the leaders of the newly independent nations in Latin America declared their willingness, as early as 1826, during the

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28 See the discoveries made by Dubs and Smith 1942.

29 Flynn and Giráldez 1995, 209-213.

30 McMaster 1959, 376.

31 Hayton 2014, 38-39.

Congress of Panama, to support the independence of the archipelago and the other Spanish possessions in the Western Pacific.<sup>32</sup> Despite this, facing difficulties due to multiple domestic challenges, as well as pressure from European powers, Latin American governments never advanced an organized opposition to Spanish control of the Philippines. The loss of its former colonies in the New World, and the emergence of Britain as the hegemonic power in world trade, also led Madrid to change its economic institutions in the Philippines. The changes promoted a boom of the plantation economy in that part of the world.<sup>33</sup> As a result, while goods produced by Latin America, mainly minerals, continued to arrive to China, it was now in ships controlled by the British, Dutch, French, and later, Americans.

As has been noted by Eduardo Galeano, as well as by other prominent Latin American historians, British diplomats and businessmen played influential roles in the foreign trade of the nascent republics, particularly in terms of some of their decisions regarding the adoption of the principles of *laissez-faire* commerce and in free trade policies.<sup>34</sup> New ports in the Western Hemisphere were now fully open to trade, and soon dominated by European entrepreneurs, in what later became a new era of gunboat diplomacy. Goods exported by Latin American countries were consumed across the world and the Mexican and Peruvian silver was still much appreciated in Qing China, but it was now transported through Europe, and, later in the nineteenth century via the Suez Canal, India and the Malacca Strait.

The Opium Wars (1839–1842; 1858–1860), changed the balance of power in East Asia, affecting also the way trade was carried out in that part of the world. British control of Hong Kong (Chin. Xianggang 香港) and the opening of ports generally to foreign trade in China further enabled the European powers to take the lead in a profitable trade with the East. These changes also made them the best positioned actors for negotiating with Latin America.

The British were the largest foreign investors there, having also a strong influence in infrastructure, mainly in terms of ports and the development of important trade routes. In fact, when Latin American governments, for example, Mexico during the years of Porfirio Díaz (1830–1915; president of Mexico 1877–1880, 1884–1911), attempted to promote creation of domestic shipping companies, their efforts usually failed and local firms involved rarely prospered.

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32 For a comprehensive study of the Congress of Panama see de la Reza 2006.

33 Abinales and Amoroso 2005, 102-132.

34 Galeano 2004, 225-236.

The experience convinced Latin American countries about the difficulties involved in competing with the Europeans, who possessed vast experience and could offer lower prices for the shipment of goods to Asia and other parts of the world.<sup>35</sup> It was also the Europeans who had the highest profit margins in the trade, making it even harder for Latin American countries to accumulate the resources to strengthen public treasuries and promote needed protectionist measures. Still by the late nineteenth century, commodities from Latin America were again crossing the Pacific Ocean, but were mainly traded in Hong Kong and Yokohama, and not Manila. Simultaneously, Latin America's neighbour to the north began to take the lead.

Having achieved independence under very different circumstances than its southern neighbours, the United States was able to send its own merchant ship to Asia as soon as 1784–1785. The voyage of the “Empress of China” made an important case for the profitability of developing direct trade routes between New York and Guangzhou 廣州.<sup>36</sup> Part of that success contributed to the development of the idea of Manifest Destiny, which, among other things, made American leaders conscious of the need for access to the Pacific Ocean, shortening travel time to East Asia, among other important political and ideological considerations. Similarly, a latecomer in the China trade, the US government became the major promoter of a China “Open Door Policy”. This policy opposed further creation of spheres of influence within China, and defended the idea of free trade in all of China. By the end of the century, US control of the Philippines and Guam, gained during the American war against Spain, and the construction and control of the Panama Canal in the early twentieth century, finally made Washington an important player in trans-Pacific trade, and dominant power in the Western Hemisphere.

The first half of the twentieth century also saw a major increase in US investment in Latin America. The US shared a similar position to the UK, including dominion of the sea lanes connecting South America with North America and Europe, and connecting the Latin American ports in the Pacific Ocean with those from East Asia. Similarly, due to its impressive industrial growth and economic development, the United States became the largest trading partner of the Latin American countries, thereby decreasing the importance of their trade with China, and Asia in general. Another outcome of the US economic rise, combined with the British hegemony in world trade, was the adoption of the gold

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35 Mandujano López 2012, 70-104.

36 Schmidt 2017.

standard universally. Mexico and China were among the last countries to adopt it, abandoning silver as the major means of exchange between 1895 and 1910, thereby decreasing Chinese demand for silver, particularly Mexican pesos.<sup>37</sup>

Revolutions and world and other wars in the twentieth century further disrupted trade between China and Latin America. Besides the political changes taking place domestically in Latin America and China, European and American economic intermediaries were also busy struggling in other parts of the world, often interrupting the free flow of goods from them. The import-substitution industrialization (ISI) policies followed by some Latin American governments after the 1940s, especially those of Mexico and Brazil, involved use of protectionist measures, was also reducing trade. Another important event was the triumph of the Communist Party in the Chinese Civil War (1945–1949). The change made it almost impossible to resume bilateral trade during those years. Latin American goods had to wait until the late 1970s to begin entering the Chinese market again. Two decades later, Chinese manufactures were increasingly in demand in Latin America.

The 1982 financial crisis in Latin America and its terrible consequences, forced countries in the region to adopt neoliberal policies fully, opening up their economies and abandoning the former efforts at protectionism. Nonetheless, despite having successfully developed local industries for the provision of domestic markets, Latin American companies were still unable to achieve an export-driven growth similar to that observed in Japan and in the newly industrialized economies of East Asia, namely in Hong Kong, Singapore, South Korea and Taiwan.<sup>38</sup> In a weakened position, governments in Latin America once more decided that the best choice for them was to adhere to policies of free trade. Hence they welcomed again foreign investments in ports and other important infrastructure projects.

Therefore, in the 1980s and 1990s, Latin American goods were again being taken to Asia, not only on European and American ships, but increasingly on ships from Asian companies.<sup>39</sup> The PRC would soon learn from the developing

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37 McMaster 1959, 393.

38 See Haggard 1990, 191-222.

39 The current world container shipping industry is dominated by European and Asian firms. During past decades, companies from Hong Kong, Japan and Taiwan have emerged as among the largest in the world. Of the top ten container shipping companies by market share, 6 of them are based in Asia, encompassing almost 25% of total turnover. Nonetheless, the turnover of these companies was still well below that of the top three, a ranking dominated by European companies, with 45.5% of the total market. The China COSCO Shipping Corporation has become the

states in East Asia, and PRC economic reforms would include similar policies, though assigning a strategic importance to state-owned corporations, and to the need to preserve a one-party rule in the country. This was named “Socialism with Chinese characteristics” (*You Zhongguo tese de shehui zhuyi* 有中國特色的社會主義). The impressive economic growth of China that resulted had an impact on international commodity prices, especially after Chinese membership in the WTO, in 2001. Chinese policy turned Latin America into one of its most important providers of certain types of goods. The Chinese strategy of “going out” (*zouchuqu* 走出去) made it possible, for the first time, for companies from China to become interested in investing in Latin American ports, whereby China gained important influence in Latin American regional markets. The expansion of the proposed Belt and Road Initiative, particularly the new maritime silk road, should be analysed taking this historical background into consideration.

## **Implications of the Twenty-first Century “Maritime Silk Road Initiative” for Latin America**

### **Opportunities Derived from the “Maritime Silk Road Initiative”**

The attendance of the presidents of Argentina, Mauricio Macri, and of Chile, Michelle Bachelet, in the Belt and Road Forum for International Cooperation (BRF), held in Beijing 北京 on May 2017, was presented as a potential base for expansion of the BRI to include Latin America. The latter has increased its importance for the economic development of the PRC during the past decade, with China becoming an important source of investments and credits for some of the countries in the region. South America has consolidated itself as an important provider of natural resources for China, with the sub-region supplying more than 6% of Chinese imports. This is much more than the amount of imports from all the countries of the SCO combined (3.32%, see table 1). Therefore, if we consider the BRI as an important step in the centralization of China’s international cooperation, it is natural to consider the inclusion of Latin

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largest Asian company, with 8.5% of world market share. See “Alphaliner Top 100,” in *AlphaLiner Sarlu*, online, [alphaliner.axsmarine.com/PublicTop100](http://alphaliner.axsmarine.com/PublicTop100) (accessed 1 January, 2018). On the other hand, through their developmental policies of past decades, South Korea, Japan and China, in that order, have become the largest shipbuilding nations in the world, having an increasingly influential role in world maritime trade. See “Largest shipbuilding nations in 2016, based on completions in gross tonnage (in 1,000s),” in *Statista*, online, [www.statista.com/statistics/263895/shipbuilding-nations-worldwide-by-cgt](http://www.statista.com/statistics/263895/shipbuilding-nations-worldwide-by-cgt) (accessed 1 January, 2018).

America in this process. The opportunities for the increased cooperation of both sides of the Pacific Ocean are significant.

The first decade of the twenty-first century was a time of rapid economic growth for many countries in Latin America, mainly due to the high prices paid for their natural resources, major export goods for nations in the region. With Chinese demand one of the main reasons for the surge in commodity prices, countries like Argentina, Brazil, Chile, Peru and Uruguay managed to maintain a surplus in bilateral trade with the PRC. Similarly, the arrival of left-wing governments in those countries contributed to a sustained growth of their middle classes, due to the implementation of poverty alleviation policies benefitting millions of households. At the same time, radicalization of some governments in the region, following the lead of Venezuela in the creation of a Bolivarian alternative to the free trade policies defended by the United States, and some of its regional allies, offered an important opportunity for cooperation with China.

Reluctance of international financial institutions to extend credit to countries such as Argentina, Bolivia, Ecuador, and Venezuela, among others, that, combined with the withdrawal of Western investors during post 2008-crises years, made those countries turn to the PRC for loans and investments. Chinese officials and entrepreneurs also saw a great chance to access natural resources in the countries, and to promote exports, and expand PRC companies capacities through the increasing exchanges with those nations. The PRC's major oil companies became the largest foreign investor in Ecuador and Venezuela.<sup>40</sup>

The Chinese government has also promoted creation of strategic partnerships with the largest countries in the region, including Argentina (2001), Brazil (1993), Chile (2012), Mexico (2003), and Peru (2008), later upgrading some of the partnerships to the level of comprehensive strategic partnerships.<sup>41</sup> Economic cooperation has become an important component in those partnerships, but results remain uneven.

Since the earlier visits of Chinese leaders to the region, billion USD investments have been announced, but many of them have failed to go through or materialize, in many cases, due to the lack of knowledge of local practices, the changing plans of corporations, as well as domestic developments in receiving countries in terms of opposing social movements. Similarly, as a recent study has shown, those investments which have materialized have been highly concentrated in the mining and hydrocarbons (90% of the total) industries, as well

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40 Chen and Pérez Ludeña 2014, 17-19.

41 Feng and Huang 2014, 18.

as being mostly destined for only four countries: Brazil, Peru, Venezuela and Argentina (fig. 1). The analysis commissioned by the UN Economic Commission for Latin America, and the Caribbean (ECLAC), also notes that after 2010, Chinese investment in the region has stagnated, with inflows from the PRC averaging about 8 billion USD a year. There is major room for growth and diversification of sectors and countries of destination.<sup>42</sup>

The official historical justification for the Belt and Road Initiative is the millenarian Silk Roads, once connecting Eurasia and serving as transmission routes for goods, people and ideas, with China occupying a predominant position within the eastern half of the routes. Nonetheless, as noted in the previous section, the relationship between China and Latin America also has its own historical component. The historically more recent maritime route known as Galleon Trade provided Asian goods to be used throughout the Americas, while also taking thousands of Chinese families off to find new opportunities. It has become the historical foundation for a deeper cooperation between China and Latin America, in an extension to the Belt and Road Initiative.

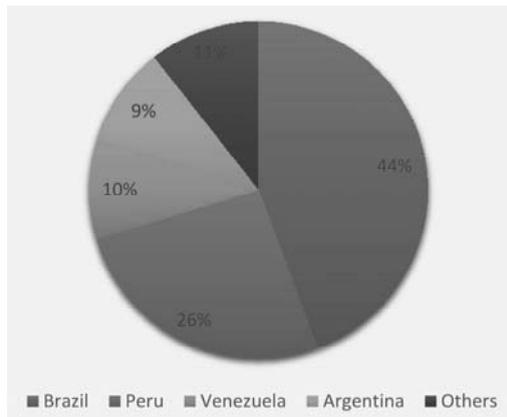


Figure 1 Composition of Accumulated Chinese FDI in Latin America by country of destination, 1990-2015<sup>43</sup>

It is relevant to note that, different from the prevailing situation during the Cold War, ideological considerations have been put aside by the Chinese government when extending offers of cooperation to Latin America. As it can be seen from the establishment of strategic partnerships, Beijing has encouraged

<sup>42</sup> Pérez Ludeña 2017, 7-13.

<sup>43</sup> Source elaborated with data found in Pérez Ludeña 2017, 13.

deeper ties with governments from different political orientations, and with different visions of economic integration. Since its creation in 2011, the Pacific Alliance, formed by Chile, Colombia, Mexico and Peru, has been presented as an alternative model of regional integration, based on open markets, encouraging foreign investment and the creation of public-private partnerships. The rapid progress of this trade pact has contrasted with the perception of a stagnated Mercosur, originally formed by Argentina, Brazil, Paraguay and Uruguay. Its future has been constantly challenged by the inability of its members to agree on a common free trade agreement with the European Union. A third option, the Bolivarian Alternative for the Peoples of our America, or ALBA, led by Venezuela, and incorporating Bolivia, Cuba, Ecuador, and Nicaragua, among others, represents a firm opposition to indiscriminate free trade, and has served as an important forum working against US-sponsored policies in the region, but it has recently lost some of its influence.

Table 2 China's Foreign Trade with Latin American Countries, 1995–2015 (millions USD)<sup>44</sup>

Country	1995		2005		2015		2015 (% of total)	
	Exports	Imports	Exports	Imports	Exports	Imports	X	M
Argentina	274	370	1,324	3,799	8,890	5,714	0.39	0.35
Brazil	759	1,231	4,827	9,993	27,428	44,339	1.20	2.64
Uruguay	47	85	283	173	1,959	2,410	0.09	0.14
Paraguay	105	27	253	59	1,273	42	0.06	0.00
Venezuela	69	16	908	1,234	5,315	6,888	0.23	0.41
Mercosur	1,254	1,729	7,595	15,258	44,865	59,393	1.97	3.54
Chile	410	230	2,149	4,992	13,296	18,680	0.58	1.11
Colombia	52	14	930	205	7,588	3,539	0.33	0.21
Mexico	195	194	5,538	2,225	33,810	10,082	1.48	0.60
Peru	146	460	609	2,278	6,355	8,181	0.28	0.49
Pacific Alliance	803	898	9,226	9,700	61,049	40,482	2.67	2.41
Latin America and Caribbean	3,123	2,967	23,268	26,665	130,946	103,802	5.74	6.17

Despite this difference in the political landscape within the region, the Chinese government, characterized by an increasing pragmatism, has tried to maintain good relations with all the countries from the indicated blocs, as noted by the

<sup>44</sup> Source: Data obtained from The World Bank – World Integrated Trade Solution, 2017.

surge in bilateral trade with members of both the Pacific Alliance and Mercosur (table 2). The current changing scenario, with countries like Brazil and Argentina turning to the right, and other governments moderating their policies, is in part due to the financial crises caused by the decreasing price of commodities during past years. This fact also demonstrates that continued Chinese cooperation with the region goes beyond ideological considerations. In fact, countries from the different sub-regional blocs have been invited to take part in the institutionalization process of the initiatives, with Brazil becoming a prospective founding member of the Asian Infrastructure Investment Bank (AIIB). Argentina, Bolivia, Chile, Peru and Venezuela, have also been admitted as non-regional prospective members during past months. Similarly, Sino-Brazilian cooperation has expanded through the institutionalization of BRICS, The Association of Brazil, Russia, India, China and South Africa, while the Mexican president, Enrique Peña Nieto, was invited to attend a 2017 summit. He was a participant in the Dialogue of Emerging Market and Developing Countries, in Xiamen 廈門, taking place between the BRICS and other strategic actors, signalling a mutual approach of the two largest economies of Latin America and China.<sup>45</sup> Such circumstances offer important space for an extension of the BRI to Latin America, although there are also challenges to be considered as well.

### **The BRI in a Changing Regional Scenario in Latin America**

Governments in Latin America have been increasing their expenditures in infrastructure during the past decade. Nonetheless, they are still far from reaching levels comparable to those of the East Asian newly industrializing countries (NICs) and China, where building and modernization of infrastructure has been seen as an important component of sustained economic growth.<sup>46</sup> Investments in this sector are also one of the major investment elements for the BRI, and the possible inclusion of Latin America in the initiative could represent a great opportunity for states in the region to enhance their economic development.

Chinese corporations have been investing in infrastructure in some parts of Latin America since 2010. They have mostly been interested in the acquisition of existing facilities for the generation and distribution of electricity, through hydropower plants and grids. During the worst years of the European crisis, Chinese companies also secured infrastructure sold by third parties, especially

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45 NDB 2017.

46 ECLAC 2017.

Spanish firms, who nonetheless still remain among the largest foreign investors in the region.<sup>47</sup> Minor investments from Chinese companies have also been made in roads, railways, and ports, where there is substantial room for growth and improvement. This can be seen as complementary projects within the Twenty-first Century “Maritime Silk Road Initiative”.

Nevertheless, Chinese companies have struggled to become successful bidders in infrastructure projects across the region, and some of their winning tenders ended up being cancelled or halted, mainly for domestic reasons. One example was the projected first high-speed railways in Mexico and Brazil presented between 2013 and 2014. Similarly, the ambitious construction of a railroad connecting the Brazilian Atlantic with the Peruvian Pacific coasts, another important project where Chinese interests are deeply involved and promises of huge investments were made by Premier Li Keqiang 李克強 in 2015, is still far from becoming a reality.<sup>48</sup> The same could be said for the construction of an interoceanic canal in Nicaragua, announced by that Central American country in 2013, as a viable alternative to the increasingly saturated Panama Canal. The project was assigned to the Chinese entrepreneur Wang Jing 王靖, and his Hong-Kong-based company, HKND (Hong Kong Nicaragua Canal Development Group – Xianggang Nijialagua yunhe kaifa touzi youxian gongsi 香港尼加拉瓜運河開發投資有限公司) but the project has encountered the fierce opposition of local environmental organizations and civic groups, including potentially affected peasants, and construction has been virtually stopped, owing partly to the fears of Wang’s insolvency. He lost part of his fortune after the bursting of the Chinese stock market bubble in the summer of 2015.<sup>49</sup>

Other strategic and political considerations are involved in the future of Chinese investments in infrastructure in Latin America as well. One of the main concerns lying behind the decision to choose Fuzhou 福州, in Fujian Province, as the starting point of the planned “Maritime Silk Road Initiative” is related to security matters, particularly regarding the situation in the Taiwan Strait. Cross-strait relations have deteriorated since the return to power of the Democratic Progressive Party (DPP – Minjindang 民進黨) in the island, in 2016, including a break in the so-called “diplomatic truce,” as demonstrated with the establishment of official diplomatic relations between Beijing and Panama in June 2017. Of the 20 countries that currently maintain diplomatic

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47 Pérez Ludeña 2017, 8.

48 Lissardy 2015; Martínez 2016.

49 Reischke 2017.

ties with Taipei (Taipei 台北), half of them are located in Latin America and the Caribbean, making it hard for companies from the mainland to obtain full guarantees when approaching or investing in those nations. Nevertheless, through the creation of the China-CELAC Forum, established after the first China-Latin America and the Caribbean nations summit in 2014, a platform for interaction between the PRC and the Community of States of Latin America and the Caribbean (CELAC) was offered, as well as for announcement of special programs such as Preferential Loan (US\$ 10 billion), a Special Loan Program for China-Latin America Infrastructure Project (US\$ 20 billion), and the China-Latin America and the Caribbean Fund (US\$ 5 billion). Through the forum, the Chinese government had a chance to approach countries it has no official diplomatic relations with, as well as improve the chances of cooperation with the region in general.<sup>50</sup>

The conditions for those loans and the implementation of the funding still need to be detailed, with persisting fears among scholars and officials regarding the feasibility of some of the projects.<sup>51</sup> One of the main concerns, regarding the current political situation in most of the region, is related to official corruption and increasing social discontent. The Brazilian political crisis, initiated after judicial investigations of a corruption scheme known in Portuguese as *Operação Lava-Jato* (Operation Carwash), has involved politicians from all levels and from all political parties. It has now spread to the rest of Latin America and the Caribbean through a scandal connecting the Brazilian construction conglomerate, Odebrecht, with other regional governments. In an investigation, carried out by Brazilian, American and Swiss authorities, high profile politicians and bureaucrats from Argentina, Colombia, Ecuador, Mexico, Peru and Venezuela, among other countries, have been identified as beneficiaries of corrupt practices, largely bribes and donations from Odebrecht, involved in the awards of lucrative infrastructure projects in those countries. Local investigations in those states have advanced at different speeds, with a former Peruvian president currently in jail, and incumbent President Pedro P. Kuczynski recently accused of having received money from the Brazilian conglomerate. Similarly, many nations in the region have started suggesting and debating legal reforms to reinforce the fight against corruption and strengthening the rule of law.

If Latin America is to be included as an extension of the Twenty-first Century “Maritime Silk Road Initiative”, it is vital that governments in the region

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50 MFA 2016, 39-47.

51 ECLAC 2015.

commit themselves to more transparency regarding infrastructure projects, in order to ensure the quality of public works, and to safeguard investments made by third parties, both public and private firms, and to contribute to the economic development of local communities and the people in general effectively. Institutional strength in the region, despite being weak in comparison to Western Europe and North America, is still more advanced than in other sub-regions included within the BRI, hence through solving pending issues, Latin America could transform itself into a more reliable partner, and a model for other emerging and developing economies. At the same time, the region has been presented with the challenge of definition of the future of its own integration, facing a northern neighbour which has changed its priorities and has not been able to redefine its policy towards Latin America since the arrival of Donald Trump in the White House and his “America First” narrative.<sup>52</sup>

Uncertainties arising from threats to impose protectionist measures, and the president’s insistence on terminating the legacy of the previous Obama administration, have made the United States seem lose direction in its relations with the other countries in the Western hemisphere, particularly in the economic field.

Aware of the need to maintain open markets and free exchanges, many governments in the region have turned to Europe and Asia-Pacific, including China, as powerful alternatives to the perceived US retreat from Latin America. American interests will still be protected and advanced in the region, but the negative effects provoked by the current qualms in Washington, including the possible suspension of the free trade agreement with Mexico (NAFTA), will take years to be reversed. Therefore, nations in the region should work together to improve the institutionalization of multilateral cooperation, including, as the leaders of Argentina and Chile have suggested, a convergence of the different mechanisms of integration, particularly Mercosur and the Pacific Alliance. As part of its “Maritime Silk Road Initiative”, the Chinese government could contribute to this process, by encouraging the nations in the region to remain open to trade, while also fulfilling their own potentials, in order to achieve sustainable economic growth, thereby helping to alleviate numerous problems in the region, arising from its lack. There is also the need for these countries to learn from each other regarding the best roads for strengthening inclusive institutions and the rule of law in their own countries.

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52 Hsiang and Fonseca 2017.

## Concluding Remarks

The Twenty-first Century “Maritime Silk Road Initiative” is consistent with the Chinese government’s goal of rejuvenating the nation, meaning a consolidation of the country as a world power, and as one of the supports of an evolving multipolar world. The constant accumulation of material capabilities during the past decades has allowed Chinese corporations, both public and private, to expand their horizons and join the ranks of transnational firms from developed countries, in their search for better investment opportunities at home and abroad. At the same time, lacking a centralized body in charge of its international cooperation, the Chinese authorities can advance the idea of the BRI as an important step in the institutionalization of its collaboration with foreign nations, while reinforcing a Chinese narrative of win-win relations and the Chinese interest in peaceful coexistence. Many challenges remain to an effective implementation of the initiative, including its further institutionalization.

Being a region in urgent need of the creation and modernization of infrastructure, Latin America offers itself as a natural expansion of the “Maritime Silk Road Initiative”. The expansion of bilateral trade between China and the region during the last fifteen years has created many opportunities, with many nations in South America benefiting greatly from the rise in commodity prices as a result of an increasing Chinese demand.

With companies from the West holding back in investment projects as a reaction to the 2008–2009 financial crises, China, for its part, became an important source of FDI for the region, although this investment has been highly concentrated in minerals and oil, and has shown a particular focus on Brazil, Peru, Argentina and Venezuela. Therefore, the Chinese initiative presents the opportunity to diversify investments and their destination, by including projects in various countries, looking thereby to integrate the region’s economy not only with China, but also among the regional countries themselves, and with other nations in the Asia-Pacific. Other steps in multilateral cooperation between the PRC and Latin America, such as the China-CELAC Forum, are also powerful incentives in the expansion of the “Maritime Silk Road Initiative” into the region and its institutionalization.

Nonetheless, many challenges lie ahead. Previous failures to materialize Chinese planned investments in the region show the complexities involved in expanding the initiative, not in terms of the changing plans of the companies involved, but also due to shifting circumstances in the receiving societies, including powerful local interests or mobilized civic groups opposing some of the projects. Important ventures have failed to evolve, or have advanced at an

unusually slow pace, in spite of grandiose announcements, the case with the Trans-Amazonian Train, an extensive railway line connecting the Atlantic and Pacific oceans across the Amazon rainforest and the Andes. Similarly, fears of an overconcentration on projects designed to access strategic natural resources for export to China have also created suspicions between groups concerned with environmental protection, sustainable development, and national security issues. Overcoming those challenges will require a joint effort by the different states in the region, which may prove more difficult in a changing political scenario throughout Latin America. These matters have now become more urgent, especially after the emergence of an enhanced social awareness of the need to end corrupt practices in those countries, combined with the US government's lack of clarity in its relations with the region under the Trump administration. If those difficulties are taken into consideration, and eventually tackled in a positive way, the extension of the Chinese "Maritime Silk Road Initiative" to include Latin America can prove truly valuable for the economic development of all the nations involved.

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China-CELAC Forum Portal: [www.chinacelacforum.org/eng](http://www.chinacelacforum.org/eng).

NDB (New Development Bank): [www.ndb.int](http://www.ndb.int).

Shanghai Cooperation Organization: [eng.sectsco.org](http://eng.sectsco.org).

The World Bank – *World Integrated Trade Solution*: [wits.worldbank.org](http://wits.worldbank.org).