

China's Belt and Road Initiative in Latin America: What has Changed?

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Abstract

When China invited the Latin American countries to participate in the Belt and Road Initiative, it fuelled expectations of a much closer and more productive relationship with the region. In practice, however, there is little evidence that this was happening even before the coronavirus disease 2019 pandemic. The article shows that neither the policy statements by China nor the trends in economic relations indicate a substantive change in Sino–Latin American relations and that the Belt and Road Initiative represents a repackaging of existing relations and the continuation of trends that have been underway since the global financial crisis.

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Keywords

China, Latin America, Belt and Road Initiative, economic relations

Introduction

The Belt and Road Initiative (BRI) is a centrepiece of Chinese international diplomacy. It was launched in 2013 by President Xi Jinping with proposals to develop a new Silk Road Economic Belt and a twenty-first century Maritime Silk Road. Latin America was not considered as part of the BRI when it was first established and the Chinese government's policy paper on Latin America, issued in 2016, did not refer to it. Subsequently, China

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invited Latin American countries to participate in the BRI at the China–Community of Latin American and Caribbean States (CELAC) Ministerial Forum in Santiago in January 2018. At the latest count, nineteen Latin American and Caribbean (LAC) countries have signed up to the BRI.

Since it was launched, the BRI has been a source of intense debate. Its supporters claim that it represents a new form of international cooperation intended to create a more inclusive, equitable type of globalisation and development based on “win–win” cooperation in contrast to the type of globalisation led by the West in recent years (Ferdinand, 2016; Liu and Dunford, 2016; Swaine, 2015; Vangeli, 2018; Xu, 2019). Chinese sources refer to the Silk Road Spirit characterised as “peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit” (PRC, 2015).

Critics, particularly in the West, see it in geostrategic terms as a challenge to US hegemony and an attempt to export the Chinese model of development (Clarke, 2017; Fasslabend, 2015; Fukuyama, 2016). Such claims were taken up by members of the Trump administration. In 2018, National Security Adviser John Bolton stated that the BRI was about “advancing Chinese global dominance” (Jones and Hameiri, 2020: 3).

Both sides of the debate view the BRI as a radical shift in China’s international strategy. However, a third perspective questions whether the BRI is really as dramatic a change as both supporters and critics claim, emphasising the continuity with earlier regional policies such as the Great Western Development campaign launched in 1999/2000 (Jones and Zeng, 2019: 1420–1421; Summers, 2016) or the “Go Global” strategy of supporting the overseas expansion of Chinese companies that were launched during the first years of the twenty-first century (Yu, 2017: 3). Some go as far as to claim that the BRI is little more than a rebranding exercise for existing policies and projects, leading to it being described as “Old Wine in a New Bottle” (Chen, 2020).

This raises the question whether the extension of the BRI to Latin America is leading to a significant change in relations between China and the countries of the region. Has it led to closer economic links with China? Have the drivers of China’s relations with Latin America changed? Has the BRI contributed to a change in the nature of China’s involvement in the region, away from the emphasis on trade towards a more comprehensive relation based on infrastructure projects, policy coordination, financial integration, and tourism?

The article avoids the polarised views of Sino–LAC relations that are prevalent in much of the literature by carrying out a detailed analysis of recent trends. It argues that there has not been a step change in China’s engagement in Latin America but rather a continuation of existing trends that have been evolving over the past two decades, particularly since the Global Financial Crisis. This is an important issue because it implies that some of the problems that have affected Sino–Latin American relations in the past, such as the re-commodification of exports and deindustrialisation or the social and environmental impacts of Chinese investment and projects are likely to continue to pose challenges in the foreseeable future.

The next section of the article discusses the origins of the BRI and the way it has evolved over time with particular attention to the literature on its economic impacts.

Section “Latin America and the BRI” considers the extension of the BRI to LAC and identifies the countries that have signed BRI memorandums of understanding (MOUs) with China. It also discusses previous literature on the region’s involvement in the BRI. Section “The Impacts of the BRI on Sino–LAC Economic Relations” discusses whether the BRI represents a significant change in China’s engagement in LAC. It compares the priorities set out in BRI MOUs with earlier Chinese policy statements on the region. It also provides an empirical analysis of the trends in economic relations between China and LAC and considers differences between those countries that have signed BRI MOUs and those that have not. A final section presents some preliminary conclusions regarding the BRI and LAC.

China’s BRI

Background

The key elements of the BRI were announced in two speeches made by President Xi Jinping in 2013 in Kazakhstan and Indonesia. In Kazakhstan, he proposed the development of a new Silk Road Economic Belt linking China, Central Asia, South Asia, Russia, and Europe by land. In Indonesia he announced a plan for a twenty-first century Maritime Silk Road, linking China with South-East Asia, South Asia, the South Pacific, the Middle East, and East Africa by sea. These initiatives were brought together in 2014 under the “One Belt, One Road” (OBOR) label and subsequently referred to as the BRI. In 2015, the Chinese government launched its *Action Plan on the Belt and Road Initiative* (PRC, 2015). The BRI consists of “Five Cooperation Priorities”: policy coordination; facilities connectivity; unimpeded trade; financial integration; and people-to-people bond (see Valderrey et al., 2020).

The conceptualisation of the BRI has broadened geographically since it was first launched. The Silk Road terminology not only evoked the past history of China when it was a leading world power, but also implied a specific geographical context. The early formulations referred to three specific land routes and two sea routes. These were displayed on maps that were drawn up by the Chinese government (see Figure 1).

Some sixty countries were originally identified as being part of the BRI. Over time, however, the BRI came to be defined much more broadly. By January 2021 there were 140 countries signed up for the initiative (Green Belt and Road Initiative Center, 2021). This generally involves an MOU with China. These commit the partners to enhancing coordination and deepening mutually beneficial cooperation and refer to the areas covered by the five cooperation priorities. These agreements are not legally binding but provide a framework for China’s relations with its partners

The Impact of the BRI on Economic Relations with China

There is an extensive and rapidly growing literature on the BRI. A recent bibliometric study covered 1,583 academic articles published in English between 2013 and 2019



Figure 1. Map of the Belt and Road Initiative. Source: *China Daily* (2015)

(Cao and Alon, 2020). When Chinese language sources are included the number of studies of the BRI is much greater with one systematic review identifying 15,930 articles (Teo et al., 2020). The literature has focused on a number of different issues involving a range of disciplines including international relations, politics, economics, geography, management, and environmental studies. Issues discussed include the drivers that led to the adoption of the BRI (Cai, 2017; Johnston, 2019; Swaine, 2015; Yu, 2017); the impact on global governance (Carrai et al., 2020; Chun, 2017); the political implications in terms of the expansion of Chinese influence and “soft power” (Schaffer, 2021; Voon and Xu, 2020); and the environmental consequences of BRI infrastructure projects (Ascensão et al., 2018; Teo et al., 2019, 2020).

One of the central themes covered in the literature has been the economic impacts of the BRI in terms of trade, foreign investment, infrastructure projects, and financing. Since this is the focus of this article, these studies are discussed in more detail in this section. Surprisingly, although eight years have passed since the BRI was first launched, there have been relatively few studies that have carried out ex post analyses of the effects on economic relations with China. Many of the existing studies are predictions based on simulation models of potential effects, rather than empirical analyses of actual impacts. Studies have looked at bilateral trade, Chinese Outward Foreign Direct Investment (OFDI), infrastructure projects, and debt.

There are a number of reasons to expect participation in the BRI to lead to closer ties with China, not least the fact that it has been a signature policy of President Xi Jinping. More specifically trade is promoted through policy coordination that explicitly includes trade facilitation, the reduction in trade barriers, and the promotion of Special Economic Zones. Trade is also expected to increase in the longer term because of the reductions in transport and logistic costs brought about by the infrastructure investment that is central to the BRI. Several empirical studies of the countries originally included in the BRI have

estimated that trade will increase significantly as a result (Baniya et al., 2020; Cui and Song, 2019; Konings, 2018; World Bank, 2019; Yu et al., 2020).

The promotion of investment is also an important part of policy coordination through facilitation measures, reductions in barriers to investment, and signing of investment and double taxation agreements. It has been suggested that it is easier for Chinese firms to obtain investment approval and to get it more quickly where projects can be classed as BRI-related transactions (Hillman, 2018: 3). Participation in the BRI can also provide greater security to investors because of the signal that it sends in terms of reduced uncertainty and political risk (Du and Zhang, 2018). New infrastructure projects create opportunities for Chinese firms to enter the market as suppliers and service providers. Several empirical studies have found that the BRI has led to increased Chinese OFDI in the countries that were initially covered by the initiative (Chen and Lin, 2018; Du and Zhang, 2018; Sutherland et al., 2020; Yu et al., 2019). In another study, Kang et al. (2018) find that the BRI has contributed to a shift in the type of Chinese investment in participating countries from resource-seeking to market-seeking.

Since infrastructure plays such a central role in the BRI, there is a strong expectation that it will boost the involvement of Chinese firms in construction projects in participating countries. Research on the implications of the BRI in terms of infrastructure has focused on the impacts of improved connectivity on trade and investment, rather than whether it has led to an increase in infrastructure projects per se. Nevertheless, it has been claimed that 90 per cent of Chinese construction abroad between 2014 and 2019 was in countries involved in the BRI (Scissors, 2020: 5).

The final aspect that has been discussed in the recent literature on the economic impacts of the BRI has been the role of Chinese finance (Lai et al., 2020; Liu et al., 2020). Much of the infrastructure has been financed by the Chinese policy and commercial banks and a significant share of Chinese loans in recent years has gone to BRI countries. One empirical study has found that countries that sign up for the BRI have received significantly more loans from China than those that have not (Zhang and Fang, 2020). The other side of increased loans is the growing indebtedness of the countries involved, giving rise to concerns over debt sustainability for a number of countries (Bandiera and Tsiropoulos, 2020; Hurley et al., 2018). However, the view that China is practising “debt trap diplomacy” through the implementation of the BRI has been challenged (Brautigam, 2020; Jones and Hameiri, 2020).

Latin America and the BRI

The Extension of the BRI to LAC

Latin America was not included in the original concept of OBOR and there was some concern that the initiative would divert China’s attention away from the region (Jenkins, 2019: 324). China’s second Policy Paper on Latin America issued in 2016 did not refer to it (PRC, 2016). However, in May 2017, in a meeting with Argentina’s President Macri at the Belt and Road Forum in Beijing, Chinese President Xi Jinping described Latin America as a “natural extension of the 21st Century Maritime Silk Road” (IISS, 2018).

In January 2018 at the China–CELAC Forum in Santiago, the Chinese Minister of Foreign Affairs invited Latin American countries to participate in the BRI and the participants signed a “Special Declaration on the Belt and Road Initiative” (CELAC, 2018).

Panama, which broke with Taiwan and established diplomatic relations with Beijing in 2017 had already become the first LAC country to sign a BRI MOU with China in November 2017, before the China–CELAC meeting. In 2018, fifteen more countries in the region signed MOUs (Antigua and Barbuda, Bolivia, Chile, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guyana, Peru, Surinam, Trinidad and Tobago, Uruguay, and Venezuela), and a further three in 2019 (Barbados, Jamaica, and Peru). At the latest count nineteen countries in the region had signed BRI agreements with China. However, there are fourteen LAC countries that have not done so. Nine of these are countries that still maintain diplomatic relations with Taiwan, but they also include the region’s largest economies, Brazil, Mexico, Argentina (although there have been reports that it is about to join), and Colombia.

These MOUs follow a common format, providing a broad general framework without specific commitments. They start with a general preamble about cooperation with China. The first section then sets out the objectives, including closer political ties and economic links, and principles of cooperation such as win–win progress, respect for the concerns of each other, and respect for national laws and international commitments. The second part of the MOU identifies the five areas of cooperation that are central to the BRI: policy coordination; facilities connectivity; unimpeded trade; financial integration; and people-to-people bond. Two further sections set out the modes of cooperation including high-level exchanges, information exchange and training, and cooperation mechanisms. The modes and mechanisms are discussed in very general terms with no mention of specific institutional arrangements.

The inclusion of LAC as part of the BRI raised considerable expectations in the region. These included not only a significant expansion of economic relations but also changes in their form that would solve some of the problems posed by these relations in the past. The Executive Secretary of Economic Commission for Latin American and the Caribbean, Alicia Bárcena, speaking at the 2018 Silk Road Forum in Paris, stated that for LAC “BRI offers opportunities to diversify and improve the quality of its economic links with China and, more specifically, it can help attract much-needed investment in infrastructure, industry and services.” (CEPAL, 2018). It has even been claimed by Bolivian foreign minister Diego Pary Rodríguez that “The Belt and Road Initiative and Latin America and the Caribbean’s cooperation with China will play a decisive role in achieving the Sustainable Development Goals” (quoted in Bermúdez Liévano, 2019).

Studies of the BRI in Latin America and the Caribbean

Not surprisingly given that the BRI was only extended to LAC so recently, most of the literature discussed in the previous section does not cover the region. None of the articles

cited in the survey by Blanchard (2021) or the systematic review by Cao and Alon (2020) focus on LAC. Nevertheless, there has been a growing literature on the BRI and LAC including both edited books, and journal articles. Some of the themes that have dominated the literature on the BRI more generally can also be found in the case of LAC, although the fact that it has only recently come to the region means that the analysis of actual impacts has been limited.

Several edited collections on the BRI and Latin America appeared in the same year that the initiative was extended to the region (Guo and Mera, 2018; Jiang and Mallimaci, 2018; Orozpeza, 2018). These volumes brought together contributions by academics from China and Latin America that discussed the nature of the BRI and the opportunities and challenges that it presented for LAC. Individual chapters considered different aspects of the BRI or the implications for China's relations with particular countries within the region. Although many of the countries that have signed BRI MOUs are in the Caribbean, there have been relatively few studies that have focused specifically on the area (Gonzalez-Vicente, 2021; Oosterveld et al., 2018)

Many of the commentators on the BRI in LAC regard it as a significant change in the relationship with China (see, e.g. Herreros, 2018; Oropeza et al., 2018; Zhang, 2019; Zottele and Zottele, 2020). Some however have questioned this, suggesting that the inclusion of LAC in the BRI does not reflect a major change and is merely a new label for the relations that already existed between China and the region (Ferchen, 2021; Serrano-Moreno et al., 2020). This parallels the international debate over whether the BRI is really new, discussed earlier.

Studies of the BRI in LAC also discuss the motives that led to its extension to the region. As in the general literature on the BRI, drivers identified include geostrategic factors, economic interests, and Chinese domestic politics (Fonseca, 2017; GREFI, 2019; Herreros, 2018). However, while at the global level the BRI is discussed mainly in terms of China's economic and geostrategic interests, its extension to LAC was partly at the behest of regional actors that lobbied to have the region included (Myers, 2018). This suggests that the inclusion of LAC in the BRI was not part of a Chinese "grand strategy" but rather the outcome of the interests of a range of actors in both China and LAC (Oliveira and Myers, 2021). The role of local agency is also important in understanding why some countries in the region have not signed BRI MOUs with China (Serrano-Moreno et al., 2020).

Discussion of the impacts of the BRI has focused on the opportunities and challenges that it represents for the region. These include the range of issues that are discussed in the general literature on the BRI. In terms of economic impacts, Zhang (2019: 8) comments that "BRI could bring about greater connectivity and trade and investment flows – a major boost to these economies."

In terms of trade, there is an expectation that not only will bilateral flows increase, but that there will also be diversification of the exports from the region away from its current concentration in a small number of primary products that have led to criticism of Sino-LAC trade relations. There is a similar hope that the BRI will lead not only to an increase in the amount of Chinese OFDI in the region but also to a greater emphasis on manufacturing and service sectors as opposed to the extractive industries.

The greatest expectations of the BRI in LAC have revolved around the impact that it can have on infrastructure (Jiang and Mallimaci, 2018, Segundo Parte; Leiva, 2020). The region is characterised by a serious infrastructure gap that is seen as a key factor in economic underperformance. The Inter-American Development Bank estimates that the deficit is around USD 150 billion a year or around 2.5 per cent of the region's gross domestic product (GDP; Cavallo and Powell, 2019; Serebrisky et al., 2015: Ch. 6). The lack of infrastructure investment in a sample of six LAC countries has been estimated to have reduced the rate of GDP growth by around 1 per cent a year (Cavallo and Powell, 2019: Ch. 7). Given the BRI's emphasis on infrastructure connectivity and the global expansion of Chinese firms in the sector, particularly in Africa, it is not surprising that it is seen as a major potential benefit from LAC participation.

Linked to the expectations of Chinese involvement in infrastructure has been the hope that the region will receive increased funding from the Chinese policy or commercial banks. In the past, Chinese loans to the region have been concentrated in relatively few countries (Venezuela, Ecuador, Brazil, and Argentina). Given the scale of the financing required to close the infrastructure gap, increased resources are vital.

Those authors who do not regard the BRI as a major change in Sino–LAC relations are sceptical about its likely economic impacts (Ferchen, 2021; Serrano Moreno et al., 2020). Similarly, the International Institute for Strategic Studies comments that “the recent wave of BRI-themed activities in the LAC region is unlikely to bring fundamental change to China–LAC economic relations” (IISS, 2018: ix).

A number of potential economic problems that could arise with the BRI have been identified. These include a deepening of unequal trade relations, greater competition for local firms, and increased indebtedness. However, advocates of the region's participation in the BRI believe that these problems can be avoided or mitigated through appropriate policies (Fonseca, 2017; Zhang, 2019). Critics of the extension of the BRI to LAC have drawn parallels with earlier colonial relationships, highlighting the fact that it will intensify dependence on commodity exports and imports of high-value goods and services from China, rather than strengthening regional connectivity (Ellis, 2019). They also point to a lack of transparency in the agreements signed with China (Dreyer, 2019).

As elsewhere, questions have also been raised over the geopolitical implications of the extension of the BRI to LAC. Such concerns are particularly prevalent in the USA where right-wing politicians see the BRI as a further expansion of Chinese influence in the region and a challenge to US hegemony. In 2018, the then US Secretary of State Mike Pompeo warned LAC countries of the risks of closer links with China (King, 2018). There have also been concerns over the potential environmental impacts of the BRI in the region. These have been focused particularly on infrastructure projects. None of these are new issues in the context of debates about Sino–LAC relations (Jenkins, 2019: Ch. 11).

The Impacts of the BRI on Sino–LAC Economic Relations

This section considers whether China's economic relations with Latin America have changed significantly with the inclusion of the region within the BRI. It does so in

several ways. First, in line with the general literature on whether the BRI is really “new,” it considers the extent to which the “Five Cooperation Priorities” of the BRI differ from previous priorities identified in Chinese relations with the region, both in terms of official statements and practice. Second, it analyses whether there has been a significant increase in Chinese trade, OFDI, infrastructure projects, and loans in Latin America since the region was included as part of the BRI and whether there has been a change in the relative importance of the different types of economic relations. Finally, it looks at the differences between countries in the region that have signed BRI MOUs with China and those that have not done so.

What’s “new” in the BRI in Latin America?

Although China’s foreign policy has become more assertive under President Xi Jinping, relations with the Global South continue to be based on the Five Principles of Peaceful Coexistence first set out by Zhou Enlai in the 1950s. These are mutual respect for each other’s sovereignty and territorial integrity; mutual non-aggression; mutual non-interference in internal affairs; equality and mutual benefit; and peaceful coexistence. They were reiterated in the *Action Plan on the Belt and Road Initiative* (PRC, 2015).

In its relations with Latin America, official Chinese statements over the past two decades have consistently referred to “common development,” “mutual benefit,” and “win-win” in what Strauss (2012) refers to as a logic of complementarity. The two Chinese Policy Papers on Latin America and the Caribbean (PRC, 2008, 2016) both refer to a comprehensive and cooperative partnership involving equality, mutual benefit, and common development. Similar references to mutual benefit and common development appear in the BRI MOUs signed between China and various LAC countries. There is clear continuity in the way in which China frames its relations with the region before and after the BRI was extended to include LAC. More specifically, as is shown in the rest of this subsection, the five cooperation priorities of the BRI are not that different from earlier areas of cooperation highlighted in Sino–LAC relations.

Policy Coordination. While policy coordination is regarded as an important guarantee for implementing the BRI, what this means in practice is left rather vague. The *Action Plan on the Belt and Road Initiative* refers to the alignment of development strategies and policies at a regional level and building macroeconomic policy exchange and communication mechanisms (PRC, 2015). One Chinese commentator identifies four aspects of China–Latin America policy coordination: communication of development strategies; alignment of development plans; linkages of mechanisms and platforms; and cooperation in specific projects (Xu, 2019). However, many of the examples of policy coordination given by Xu, pre-date the entry of LAC countries into the BRI. These include the China–Latin America Cooperation fund, the China–Latin America Production Capacity Cooperation Fund, the China–Brazil Product Cooperation Fund, and the China–Latin America Special Loan for Infrastructure Development, all of which were set up in 2014 or 2015. Similarly, examples of cooperation in specific projects include

the Coca Codo Sinclair Hydroelectric Project in Ecuador awarded in 2009 and completed in 2016, and the Bi-Oceanic Railway project, proposed by President Xi in 2014 and still not agreed. There is no evidence that the signing of BRI MOUs with China has led to increased coordination with individual LAC countries.

Facilities Connectivity. The second pillar of the BRI and the one that has received most attention is infrastructure, including roads, railways, ports, oil and gas pipelines, power grids, optical cables, and other communication networks. Infrastructure was also one of the main areas identified for Sino–LAC cooperation from the 2008 Policy Paper onwards. It was one of the areas listed in the China–CELAC Cooperation Plan for 2015–2019, drawn up before LAC was invited to participate in the BRI. The Plan included a specific reference to encouraging “Chinese and CELAC’s enterprises to participate in key projects for the integration of Latin America and the Caribbean and the improvement of connectivity and intercommunication between China and CELAC countries” (China–CELAC Forum, 2015). The China–LAC Infrastructure Cooperation Forum was set up in 2015 and has been held annually since then. Thus, China’s push for greater involvement in infrastructure development in LAC was already underway before the region’s inclusion as part of the BRI.

Unimpeded Trade and Investment. The BRI aims to increase trade and investment through reduced barriers and increased facilitation. Measures proposed include free trade agreements and bilateral investment and double taxation agreements with other countries (PRC, 2015). Trade has been at the centre of economic relations between LAC and China over the past two decades. It was the first area of economic cooperation listed in both the 2008 and 2016 Policy Papers on the region with free trade agreements (FTAs) and the facilitation of trade specifically mentioned. China had already signed three FTAs in LAC with Chile (2006), Peru (2010), and Costa Rica (2011) before the BRI was first announced. Since then there have been negotiations for an FTA with Panama and a joint feasibility study with Colombia, but as yet no further trade agreements have been signed with countries in the region. Although China has a number of International Investment Agreements with LAC countries, in addition to the investment chapters contained in a bilateral trade agreement, these were all already in force before any countries in the region signed BRI MOUs with China. There is no evidence that the BRI has played a significant role in reducing barriers to trade and investment with China.

Financial Integration. The BRI aims for greater financial integration between China and participating countries through currency swaps and greater cooperation in financial regulation. Both the 2008 and 2016 Policy Papers on Latin America and the Caribbean also identified financial cooperation as an area to be strengthened and called for greater regulatory cooperation. The China–CELAC Cooperation Plan for 2015–2019 also explicitly mentions collaboration between financial regulatory authorities and Central Banks. Although there is no explicit mention of currency swap arrangements in any of these

documents, China has established currency swap arrangements with some LAC countries as part of its efforts to internationalise the renminbi. The most important of these is with Argentina for CNY 130 billion (Garcia Herrero et al., 2020:12). The arrangement with Argentina was not related to the BRI having originally been signed in 2009 and subsequently renewed and expanded in 2018. At the time of writing Argentina has still not signed a BRI MOU. Chile has a CNY 50 billion swap, which was originally agreed in 2015 and subsequently increased in 2020, but there is no indication that this increase was BRI related.

People-to-People Bond. The final priority identified as part of the BRI covers a variety of relations including student exchanges, tourism, cooperation in health and in science and technology, as well as exchanges between political organisations, local governments, and non-governmental organisations. None of these are new in terms of Chinese policy toward LAC having been highlighted in both the 2008 and 2016 Policy Papers and the China–CELAC Cooperation Plan for 2015–2019. Even the earliest of these documents contains sections on exchanges between legislatures, political parties, and local governments, on tourism, on science, technology, and education, on health, and on people-to-people exchanges (PRC, 2008).

None of the key priorities identified in the official Chinese framing of the BRI represent a new departure for Sino–LAC relations. They have all been part of China’s policy statements and joint initiatives with the region before LAC countries were invited to participate in the BRI. Nevertheless, although the rhetoric has not changed, it is still possible that the reality on the ground has been altered and this is discussed in the next section.

Trends in Sino–LAC Economic Relations

Significant growth in China’s economic relations with Latin America dates back to the beginning of the twenty-first century and its accession to the World Trade Organisation (WTO) in 2001. Initially, these economic relations were almost entirely based on trade with a rapid expansion of both Latin American imports from China and, with the commodity boom that started in 2002, increasing exports from the region to China. In the aftermath of the Global Financial Crisis of 2008, Chinese OFDI and bank loans to the region began to grow significantly as did involvement by Chinese construction and engineering companies in infrastructure projects (Hiratuka, 2018).

This section considers the way in which Sino–LAC relations have evolved over the past two decades and asks whether there are any indications of a significant change since the region was invited to participate in the BRI at the beginning of 2018. A significant problem in analysing the impact of the BRI in LAC is the short period of time since the region was invited to join. This together with the disruptive impact of the coronavirus disease 2019 (COVID-19) pandemic on the global economy in 2020, means that in effect there is only one year, 2019, on which to base an empirical analysis of the changes brought about by the BRI. It is important therefore to put recent

developments in the context of longer-term trends and patterns in Sino–LAC economic relations.

Trade. Chinese exports to, and imports from LAC grew rapidly from the time that China joined the WTO until the global financial crisis that led to a blip in 2009. Growth quickly resumed after 2009 until the end of the commodity boom in 2012 when trade began to stagnate and then fall as both the Chinese and LAC economies slowed down and commodity prices fell. Both imports and exports fell to their lowest level in 2016 before recovering again as commodity prices started to pick up (see Figure 2).

As Figure 2 shows, Sino–LAC trade increased significantly between 2017 and 2019. Chinese imports from the region rose by more than half and exports to LAC by 30 per cent over two years. The fact that trade began to pick up before any Latin American countries were involved in the BRI suggests that this was not necessarily a significant factor in the renewed growth of trade. Bilateral trade began to recover from 2016 and by 2019 had reached record levels. In the case of Chinese imports, this can be partly explained by the recovery in commodity prices.

Figure 2 also shows the steady increase in the share of China in LAC trade since 2001. By 2019 it accounted for 18 per cent of the region's imports and 12 per cent of its exports. However, China's share of both imports and exports has not increased significantly since 2018.

Foreign Investment. The growth of Chinese OFDI in LAC began later than the growth of trade, only becoming significant in the aftermath of the global financial crisis. The official Chinese data on the distribution of OFDI by country is problematic because it is based on the initial country and not the ultimate destination of the investment (Jenkins, 2019: Box 4.1). Since a large part of the outward investment is recorded by Ministry of Commerce (MOFCOM) as going to Hong Kong and various tax havens, particularly the British Virgin Islands and the Cayman Islands, the ultimate destination is unclear. This means that the official level of Chinese OFDI in LAC (excluding the Caribbean tax havens) underestimates the true extent of the involvement of Chinese firms in the region. A study by the Brazilian Central Bank estimated that around 90 per cent of investment by Chinese firms in Brazil between 2010 and 2016 was made through third countries and not therefore included in the MOFCOM figures (BCB, 2018: Figure 14).

Because the official figures underestimate the true extent of Chinese OFDI in LAC two non-official estimates based on media reports and corporate announcements are included in Figure 3. The American Enterprise Institute (2020) *China Global Investment Tracker* (CGIT) provides data on Chinese investments worth USD 100 million or more, based on corporate sources (see Scissors, 2020, for a discussion of the difference between this data and the official MOFCOM figures). A second non-official source is the *Monitor de la OFDI China en America Latina y el Caribe* produced by the Red Académica de América Latina y el Caribe sobre China (2020). The database is not restricted to investments of over USD 100 million and it includes significantly more transactions than the CGIT.

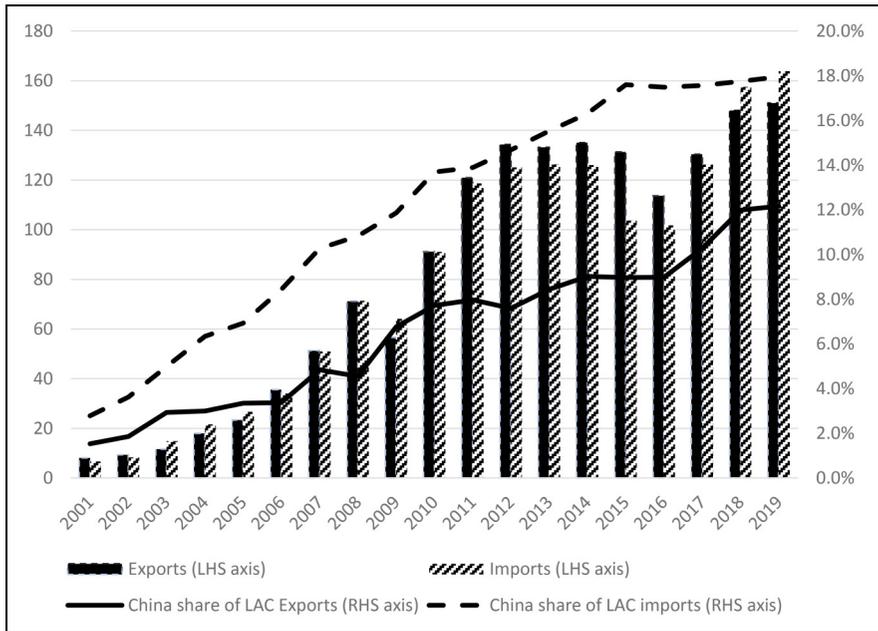


Figure 2. China’s Trade with Latin America and Caribbean (LAC) 2001–2019 (USD billion) and China’s Share of Total LAC Trade (%). *Source:* International Trade Centre (2020).

For example, it records 136 Chinese investments in the region between 2017 and 2019 compared to only 38 in the CGIT database.

There are also limitations to these non-official sources since planned projects may not be carried out in the end and the amounts of investment quoted may not always be reliable. This approach is also biased towards large projects and may miss smaller investments.

Figure 3 shows the annual flows of Chinese OFDI to LAC since 2003. It confirms that the figures reported by MOFCOM (excluding the Cayman Islands and the British Virgin Islands) are considerably lower than the unofficial estimates. Although the exact value of OFDI transactions recorded each year by the CGIT and the Monitor differ, partly because of differences in the time at which they are recorded, the trends are broadly similar. The cumulative amount of Chinese investment in LAC between 2005 and 2019 was virtually identical for the two unofficial sources at USD 130 billion, despite the fact that the monitor records more transactions. (This may be because some of the transactions included in the CGIT database never actually materialise and the Monitor excludes these transactions.)

All three sources confirm that Chinese investment flows have been higher since the Global Financial Crisis. However, as Figure 3 shows, there has been no significant increase in Chinese OFDI flows to LAC as a whole in recent years. According to the

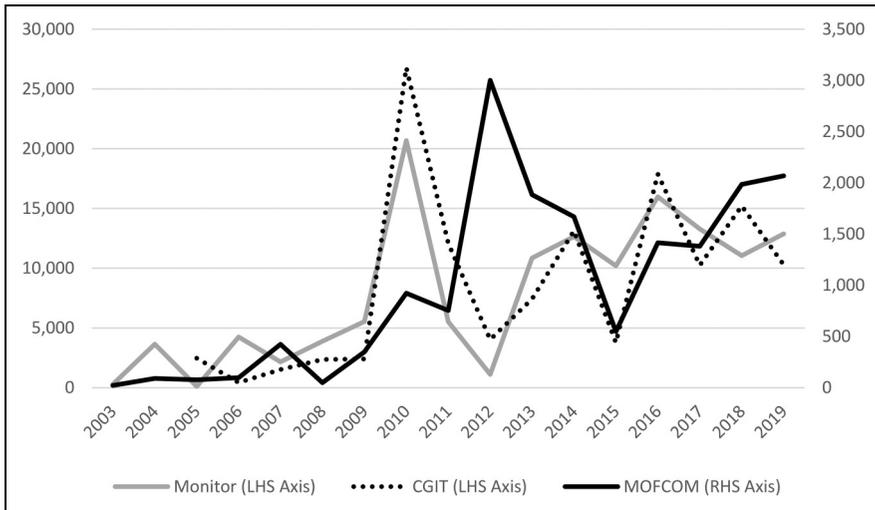


Figure 3. Estimates of Chinese OFDI in LAC 2003–2019 (USD million). *Source:* Own elaboration from Red Académica de América Latina y el Caribe sobre China (2020), American Enterprise Institute (2020), and MOFCOM. *Note:* OFDI=Outward Foreign Direct Investment; LAC=Latin American and Caribbean.

monitor, investment was 2.3 per cent higher in 2019 than the average for 2013–2017, while the CGIT data show a fall of 2 per cent over the same period.

China remains far less significant as a source of OFDI for the region than it is in terms of trade. It was not ranked amongst the top ten investors in the region in 2018 according to the United Nations Conference on Trade And Development, *World Investment Report, 2020*. Even if the higher, unofficial estimates of Chinese OFDI are used, China still lags a long way behind the European Union and the United States as a source of OFDI for LAC (Jenkins, 2019: 229). There is no evidence that the overall level of Chinese OFDI has been boosted by the arrival of the BRI in the region.

Projects. Increased Chinese involvement in infrastructure projects is one of the key opportunities identified in the literature on the BRI in LAC. Is there any evidence so far that such hopes are being realised? As was the case with Chinese OFDI, there are both official and unofficial estimates available for Chinese projects. The Chinese National Bureau of Statistics publishes figures on what is termed “economic cooperation,” which are projects completed by Chinese companies abroad. The two non-official sources providing information on Chinese OFDI also provide data on Chinese contracts. The American Enterprise Institute has included contracts in its database for a number of years. Recently, the Red Académica de América Latina y el Caribe sobre-China has added a *Monitor de la infraestructura China en América Latina y el Caribe* report and database to its *Monitor del OFDI China* (Dussel Peters, 2020).

Unlike the official figures, which refer to completed projects, the unofficial sources include projects when the contracts are announced or signed.

Historically Chinese involvement in infrastructure projects in LAC has been quite limited. All three series indicate higher levels of activity since the global financial crisis. However, they all peaked in 2015 and there is no evidence that they have been boosted in recent years due to the BRI (Figure 4). Chinese involvement in infrastructure projects in LAC has been much more limited than in sub-Saharan Africa (Jenkins, 2019: 259).

Loans. The final area where China’s economic presence in LAC has expanded is finance. Unfortunately, there is no official published figure on Chinese lending to the region or the amount of debt that the region owes to China. The China–Latin America Finance Database provides estimates of the loans made by the China Development Bank (CDB) and China Exim Bank to LAC governments and state-owned enterprises annually. The data are collected from a range of sources including government, bank, and press reports in both China and the borrowing countries. It does not cover all Chinese lending to the region since the Chinese commercial banks have also started lending in recent years. The database may underestimate Chinese finance in LAC by failing to include some loans, but equally may be an overestimate because loans are cancelled or a line of credit is not fully utilised. However, the data are carefully cross-checked and it is the only source available to indicate the amounts involved on an annual basis. As

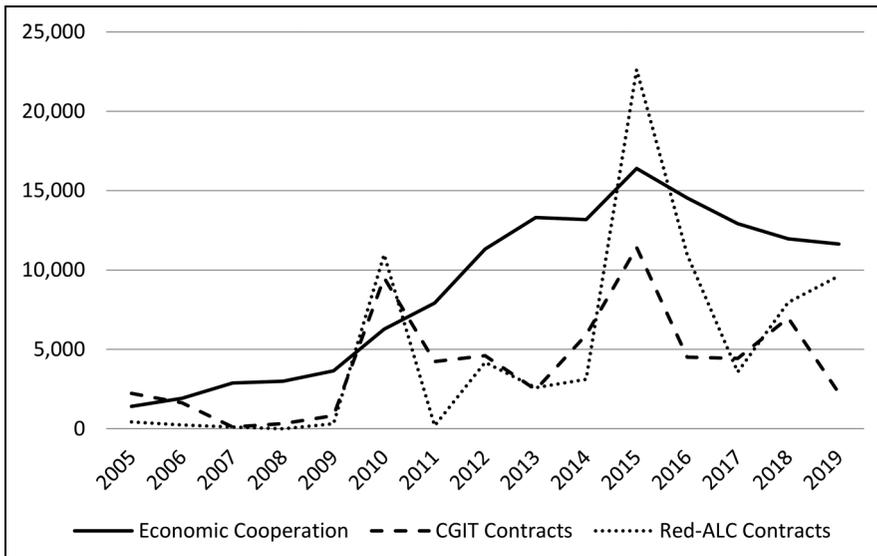


Figure 4. Estimates of the Value of Chinese Infrastructure Contracts in Latin American and Caribbean (LAC) 2005–2019 (USD million). *Source:* Own elaboration from Dussel Peters (2020), American Enterprise Institute (2020), and National Bureau of Statistics.

Figure 5 shows, Chinese lending was minimal before 2007 but became substantial at the time of the global financial crisis. At its peak in 2010, Chinese loans to LAC were significantly greater than those made by the World Bank or the Inter-American Development Bank (Gallagher et al., 2012: 7). Although lending declined after 2010, it peaked again in 2015.

Chinese finance from the CDB and the China Exim Bank has fallen drastically since 2015. This fall has continued since LAC countries started to join the BRI so that the level in 2019 was the lowest since 2008 (Figure 5). The slowdown in lending is partly due to the policy banks taking measures to reduce lending risk and protect their existing assets in the region. The economic crisis in Venezuela, the major destination for Chinese loans in the past, has meant that the country has not received any new loans since 2016. Delays in major projects in Bolivia and Peru have also influenced Chinese lending. There are also signs that demand for Chinese loans by LAC governments has decreased (Myers and Gallagher, 2020: 4). Internal factors within China leading to pressure on the banks to deleverage have also contributed to the slowdown in lending overseas (Mingey and Kratz, 2021).

A second indicator of China's financial involvement in LAC is the total outstanding sovereign debt of the region to China. A recent study by Horn et al. (2019) has estimated the total indebtedness of countries to China and Figure 5 shows the total for LAC extracted from their database. This shows that debt grew from very low levels in the middle of the first decade of the twenty-first century to almost USD 110 billion in 2016. However, the indications are that as new lending declined and old loans were paid off, the total debt to China has fallen in recent years. Although these data only go

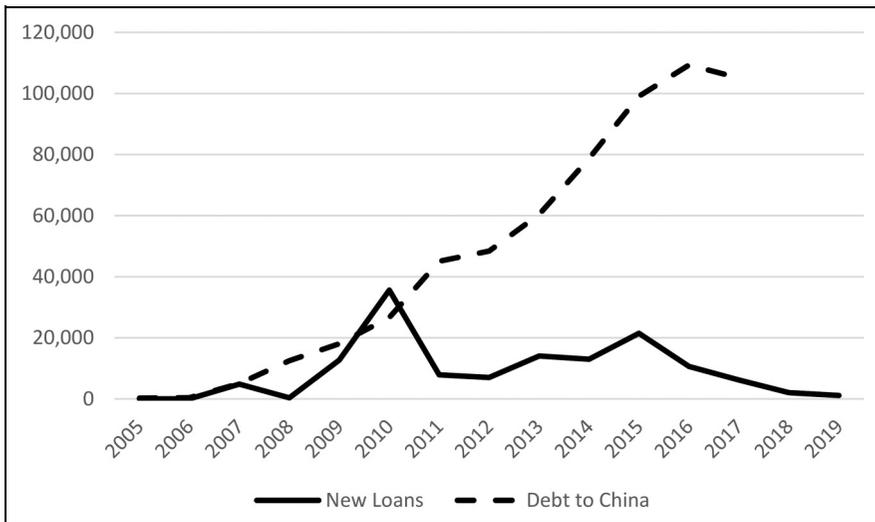


Figure 5. New Loans and Outstanding Debt of China in Latin American and Caribbean (LAC) 2005–2019 (USD million). *Source:* Inter-American Dialogue (2020) and Horn et al. (2019).

up to 2017, there is no reason to believe that the BRI has increased LAC access to Chinese finance and the overall level of indebtedness to China.

Relative Importance of Different Economic Relations. The BRI raised expectations in Latin America that it would lead to a broadening of relations with China away from the previous emphasis on trade relations, through greater Chinese involvement in investment and infrastructure projects. In fact, changes in the relative importance of different types of economic relations were already taking place in the aftermath of the Global Financial Crisis. This is illustrated by Figure 6 that shows the size of the stock of Chinese OFDI in the region, the outstanding debt to China, and the annual value of contracts fulfilled relative to total trade between China and LAC. All these ratios increased significantly after 2008 indicating a broadening of the economic relations between China and LAC away from the heavy emphasis on trade. However, this upward trend only lasted until 2015 or 2016 before being reversed. OFDI, loans, and contracts do remain more important, both in absolute terms and relative to trade, than they were before the financial crisis. However, there is no indication that the BRI has contributed to a more balanced relationship between trade and other economic links between China and the region.

A Comparison of BRI and non-BRI Countries in Latin America and the Caribbean

Although there is no evidence that the economic relations of LAC as a whole have changed significantly since the region was included as part of the BRI, it is possible

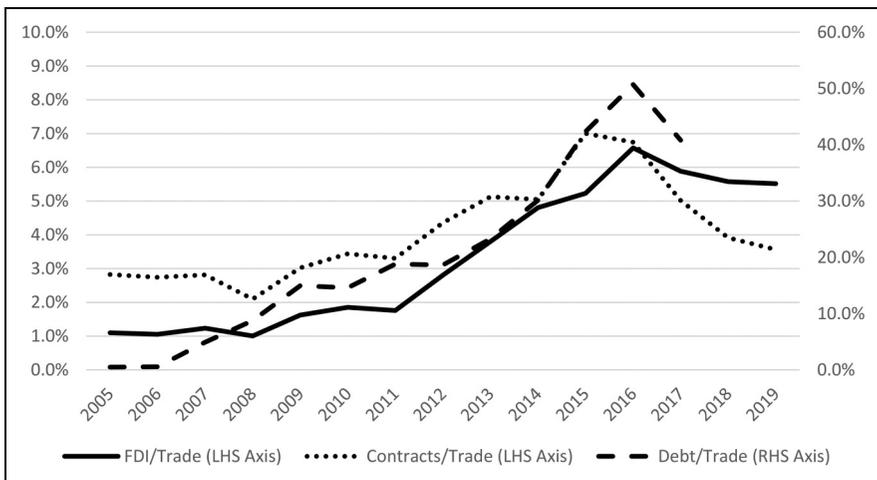


Figure 6. Ratio of Foreign Direct Investment (FDI), Contracts and Debt to Trade 2005–2019. Source: See Figures 2 to 5.

that this reflects the fact that some countries, including the region's largest economies, have not signed BRI MOUs with China. This offers an opportunity to compare the situation of the two groups of countries.

This is done by taking a “difference-in-difference” approach, which is a widely used technique to evaluate the impact of policy changes (Fredriksson and de Oliveira, 2019). This involves identifying a treatment group that has been subject to a particular policy and a control group that has not. In this case, the treatment group consists of those countries that have signed a BRI MOU with China while the control group is the remaining LAC countries that had not done so. The first “difference” in this method is that between the treatment and control groups. The second “difference” refers to the changes that take place over time, in other words, a “before and after” comparison. By looking at changes in outcomes in the two groups, the “difference-in-difference” approach controls for other unobserved differences between countries that affect their economic relations with China such as specialisation in products such as minerals that are in high demand in China. This method is used in this section to analyse the effects of the BRI on the growth of Chinese trade, OFDI, projects, and loans with the LAC countries.

The period over which it is possible to make comparisons is a limitation in applying this method. As noted earlier, since most LAC countries signed BRI MOUs in 2018, there is only a very short period for which it is possible to make a comparison. The latest year for which it is possible to do so is 2019 because of data availability and the impact of the coronavirus pandemic. Since several of the key indicators of economic relations between China and LAC fluctuate from year to year, the average annual values between 2013 and 2017 were used to indicate the situation before countries joined the BRI. It would be desirable to have also had several years of post-BRI data for comparative purposes.

Another reason why it would have been preferable to have been able to analyse a longer period is that there may be a lag between the signing of a BRI MOU and the impact being felt. While it is possible for trade to respond quite quickly to changes brought about by involvement in the BRI, other changes are likely to take longer time to come to fruition. In what follows, actual trade flows are analysed, but the focus in terms of OFDI, loans, and projects is on announcements rather than amounts actually carried out.

Trade. Although trade with China as a whole increased after 2017, a comparison of countries that signed BRI MOUs and those that had not, suggests that this was not a consequence of the BRI. In the former group of countries, total trade with China was 15 per cent higher in 2019 than it had been on average in the five-year period ending in 2017, whereas in the latter group the increase in trade was more than double that level (see Table 1). More than two-thirds of China's trade with LAC in 2019 was with countries that had not signed a BRI MOU.

When individual country trends are considered, it emerges that although the total trade between China and the region increased significantly, ten countries saw a

Table 1. Chinese Trade with BRI and non-BRI countries in LAC, 2013–2017 and 2019.

| | BRI | Non-BRI | Total |
|----------------------------|-------------------|-------------------|-------------------|
| Average 2013–2017 | USD 89.7 billion | USD 155.6 billion | USD 245.3 billion |
| 2019 | USD 102.9 billion | USD 211.9 billion | USD 314.8 billion |
| % change over 2013–2017 | 14.8% | 36.2% | 28.4% |
| No. of countries – total | 19 | 14 | 33 |
| – Increase since 2013–2017 | 13 | 10 | 23 |
| – Decrease since 2013–2017 | 6 | 4 | 10 |

Source: Own elaboration from International Trade Centre (2020).

Note: BRI = Belt and Road Initiative; LAC = Latin American and Caribbean.

reduction in trade in 2019 compared to earlier. Of these ten countries that did not see trade grow, six had signed MOUs with China. Thus signing a BRI MOU did not guarantee that trade with China would grow. At the same time, ten of the fourteen countries that did not have MOUs were able to increase their trade with China. Such an agreement was therefore neither a necessary nor a sufficient condition for expanded trade.

Foreign Investment. As was seen above, there has not been a significant increase in the annual flows of Chinese OFDI to LAC in recent years, although because of its cumulative nature, the stock has increased. However, when the evolution of OFDI in countries with BRI MOUs with China is compared to that of non-BRI countries, there is a clear divergence. According to the Monitor database, in the period 2013–2017, those countries that subsequently joined accounted for 40 per cent of Chinese OFDI inflows to the region. In contrast, in 2019, the same group of countries increased their share to over 80 per cent. While the non-BRI countries saw new OFDI fall by over 70 per cent between 2013–2017 and 2019, the BRI countries more than doubled their inward investment from China (Table 2). A similar pattern, although not quite so marked, is revealed by the CGIT data. The share of BRI countries in new Chinese OFDI increased from just over a third to almost 60 per cent over the same period.

Although this suggests that countries that joined the BRI were more favoured destinations for Chinese OFDI, this is not always the case. When Chinese investment is disaggregated by country, it can be seen that two countries, Chile and Peru accounted for the bulk of the increased OFDI in BRI countries in the region. The majority of countries with BRI MOUs with China had a lower level of investment in 2019 than the average for 2013–2017. On the other hand, none of the countries that had not signed an MOU by 2019 had a higher investment than in the earlier period.

There are two caveats that need to be made. First, it is still early days and only one year's data is available since most countries in the region entered the BRI. Second,

Table 2. Chinese OFDI in BRI and Non-BRI countries in LAC, 2013–2017 and 2019.

| | BRI | Non-BRI | Total |
|----------------------------|--------------------|-------------------|--------------------|
| Average 2013–2017 | USD 5,027 million | USD 7,565 million | USD 12,591 million |
| 2019 | USD 10,749 million | USD 2,127 million | USD 12,876 million |
| % Change over 2013–2017 | 113.8% | –71.9% | 2.3% |
| No. of countries – total | 14 | 7 | 21 |
| – Increase since 2013–2017 | 4 | 0 | 4 |
| – Decrease since 2013–2017 | 10 | 7 | 17 |

Source: Own elaboration from Red Académica de América Latina y el Caribe sobre China (2020).

Note: OFDI = Outward Foreign Direct Investment; BRI = Belt and Road Initiative; LAC = Latin American and Caribbean.

entry into the BRI was not necessarily the main cause of new investment into those countries where it did increase. The fact that only a few countries saw an increased level of investment suggests that other factors may have been at play.

Infrastructure Projects. Given the underreporting of contracts in 2019 in the CGIT database, the Monitor data are more useful in terms of analysing the impact of BRI. Overall the level of contracts in LAC announced in 2019 was 12 per cent higher than the average for 2013–2017. Even more strikingly when the countries that had signed BRI MOUs with China are considered, the value of contracts rose by more than 80 per cent over the same period while those countries that had not done so saw a fall of 15 per cent. Thus, as with investment, there is a relatively small change in the overall level accompanied by a significant shift in distribution towards countries that are signed up to the BRI.

Looking at the changes in Chinese projects in individual countries reveals a more complex pattern. Between 2013 and 2019, Chinese construction was reported in seventeen LAC countries, of which ten had signed BRI MOUs by 2019 (Table 3). Of these four

Table 3. Chinese Infrastructure Contracts in BRI and Non-BRI Countries in LAC, 2013–2017 and 2019.

| | BRI | Non-BRI | Total |
|----------------------------|-------------------|-------------------|-------------------|
| Average 2013–2017 | USD 2,363 million | USD 6,208 million | USD 8,571 million |
| 2019 | USD 4,359 million | USD 5,258 million | USD 9,617 million |
| % Change over 2013–2017 | 84.5% | –15.3% | 12.2% |
| No. of countries – total | 10 | 7 | 17 |
| – Increase since 2013–2017 | 4 | 4 | 8 |
| – Decrease since 2013–2017 | 6 | 3 | 9 |

Source: Own elaboration from Dussel Peters (2020).

Note: BRI = Belt and Road Initiative; LAC = Latin American and Caribbean.

Table 4. China Development Bank (CDB) and China Exim Bank loans to BRI and Non-BRI countries in LAC, 2013–2017 and 2019.

| | BRI | Non-BRI | Total |
|----------------------------|-------------------|-------------------|--------------------|
| Average 2013–2017 | USD 7,666 million | USD 5,408 million | USD 13,074 million |
| 2019 | USD 904 million | USD 236 million | USD 1,140 million |
| % Change over 2013–2017 | –88.2% | –95.6% | –91.3% |
| No. of countries – total | 11 | 3 | 14 |
| – Increase since 2013–2017 | 2 | 0 | 2 |
| – Decrease since 2013–2017 | 9 | 3 | 12 |

Source: Own elaboration from Inter-American Dialogue (2020).

had a higher value of projects in 2019 than the average in 2013–2017, while six had a lower total value. In the case of the seven countries without such MOUs, four also reported an increase, while the level fell over the same period in the other three. As in the case of OFDI, the aggregate results reflect changes in a small number of countries. The increase in the BRI countries is a result of a large rise in Peru, while the fall in non-BRI countries reflects a large drop in Argentina (partly offset by a significant increase in Colombia). This again suggests that participation in the BRI has not been a key determinant of the location of projects.

Loans. As Table 4 shows, overall lending by the policy banks to LAC in 2019 was less than ten per cent of their average loans to the region between 2013 and 2017. Loans fell dramatically both to countries with BRI MOUs and those that had not signed an agreement with China. Only four countries received any new loans from the Chinese policy banks in 2019 and only two received more in that year than in 2013–2017. The largest recipient in 2019 was the Dominican Republic with a loan of USD 600 million to upgrade the country's electricity distribution system. This followed the government switching diplomatic recognition from Taiwan to People's Republic of China (PRC). Most of the countries that had signed BRI MOUs did not get any new loans from China in 2019 or received significantly less than they got in the earlier period. It is clear that the inclusion of LAC in the BRI did not unleash a new wave of lending to the region by the Chinese policy banks.

Conclusion

The BRI came late to LAC, five years after it was launched by President Xi Jinping. When the countries of the region were invited to participate in 2018, there were expectations raised that this would bring about significant changes in Sino–LAC relations. However, as this article shows, there are grounds for scepticism concerning the impact that the BRI is having in the region. None of the cooperation priorities of the BRI are novel compared to earlier Chinese policies towards the region. There has not been a

step change in Sino–LAC economic relations compared to the trends that have been observed since the Global Financial Crisis a decade earlier nor has there been any systematic differences between those countries that have signed BRI MOUs with China and those that have not.

This raises the question of why so many countries in the region have chosen to participate in the BRI in the absence of any clear benefits from doing so. The countries that have signed MOUs with China tend to be the smaller countries of the region and those that are most dependent on China for export markets, inward investment or loans. It is possible that they feared that non-participation in the BRI might have led to a loss of ground compared to those that did join. The countries that do not have BRI MOUs were either ineligible because they continue to recognise Taiwan and do not have diplomatic relations with the PRC, or were the largest economies in the region. They have more diversified economies and were likely to attract Chinese investment and projects regardless of whether they officially participated in the BRI. A more detailed analysis at the country level of the decision-making involved in participation in the BRI would be an important topic for further research.

A second question is why the BRI has not had a more significant economic impact in the region. When it was first announced, the BRI was focused on the development of links between China and Europe through Central Asia, the Middle East, and the Indian Ocean. The evidence from the countries that were initially involved in the BRI, before its expansion to LAC, indicates that there were positive effects in terms of increased Chinese OFDI, projects, and loans (see section “The Impact of the BRI on Economic Relations with China”). However, over time this focus was diluted with the extension to a growing number of countries so that by the time that the BRI arrived in LAC, many other countries were already involved. As the BRI expanded, it is possible that the Chinese resources available were spread more thinly, reducing the gains from participation. The concern expressed in China about the overextension of the BRI reflects this (Oliveira and Myers, 2021). Thus, although the broader conception of the BRI made it possible for LAC countries to join, it also reduced the advantages of involvement.

There has only been a short time period within which to evaluate the impact of the BRI on LAC, however, the evidence reviewed here does not suggest that it has led to a step change in relations. Given the impacts of the COVID-19 pandemic on the Chinese economy and on LAC it is difficult to predict how Sino–LAC economic relations will evolve in the immediate future. Research will be needed to disentangle the effects of the pandemic and the BRI as further data become available and there is time to assess the longer-term impacts. Future research could also concentrate on a more detailed analysis of the way in which individual countries in the region have responded to the BRI and to understand why some countries have chosen not to formally sign up to it.

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