

ANALYSIS OF THE THEORY THAT LATIN AMERICA IS TURNING INTO “CHINA'S BACKYARD” AND THE OUTLOOK FOR THE FUTURE

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SUMMARY

- Many Latin American countries are strengthening their economic interdependence with China, unlike Western countries, which are pursuing China de-risking.
- While there is virtually no movement and motivation on the Latin American side to divest from China, in order to prevent Latin America from becoming "China's backyard," the EU has formed a major investment plan for Latin America, and the US is taking measures through an economic security-oriented framework.
- Since the late 2010s, China has been switching its Latin America strategy from one centered on extending loans to an approach focusing on direct investments. In line with this trend, many Latin American countries are stepping up their efforts to attract Chinese capital in the renewable energy sector, including for lithium development.

In recent years, China's influence has been growing around the world, and this is also true in Latin America. However, the extent of its influence in the region is not widely known. This report examines the reality and future prospects of the discussion over Latin America becoming “China’s backyard”.

1. THE IDEA OF LATIN AMERICA BECOMING “CHINA’S BACKYARD”

1-1. Western countries' growing impatience with China's expansion into Latin America

Since the 2000s, China has been strengthening its ties with Latin American countries by building closer economic relations. During the COVID-19 pandemic, the country also used vaccine diplomacy to demonstrate its presence on the social front as well. Since 2017, five Central American countries have established diplomatic relations with China by breaking off official ties with Taiwan¹. With Western countries growing impatient with this situation, the media and think tanks in the West began to point to the threat posed by what they see as the transformation of Latin America, once called “America's backyard”, into “China's backyard”². It is important to note here that this “China threat theory” did not originate from the Latin American side.

Until the 1990s, Latin America was characterized by an overwhelming US dominance, but since the 9/11 terrorist attacks in 2001, US influence (especially development assistance) in Latin America has rapidly declined, resulting in a situation where Latin America can no longer necessarily be described as being under US

¹ The five countries are Panama (2017), El Salvador (2018), Dominican Republic (2018), Nicaragua (2021), and Honduras (2023).

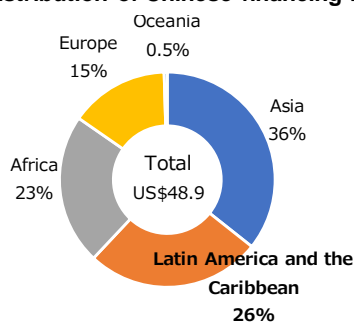
² For example, Chang, Gordon G. 2023. “Latin America Is Now China's ‘Backyard’”, *Newsweek*, January 24, 2023. (<https://www.newsweek.com/latin-america-now-chinas-backyard-opinion-1775772>) (accessed July 7, 2023), Roy, Diana. 2023. “China's Growing Influence in Latin America”, *Council on Foreign Relations*, June 15, 2023. (<https://www.cfr.org/background/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri>) (accessed July 7, 2023)

hegemony³. Against this backdrop, combined with the backlash against the self-righteous diplomatic stance of the George W. Bush administration, anti-US leftist governments emerged in Latin American countries. As if to fill the vacuum left by these developments, China began to expand into Latin America using economic tools such as trade, loans, and investment. China's increased presence through expanded economic relations has accelerated Latin American countries' detachment from the US. These factors, including the decline of US influence and involvement and the rise of anti-US leftist regimes, created favorable conditions for China's expansion into Latin America⁴.

1-2. China's approach in Latin America

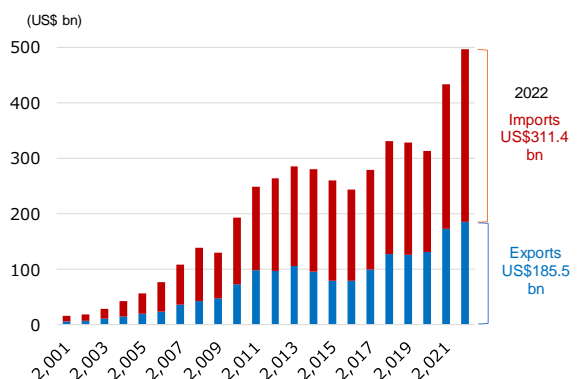
China views Latin America as a source of food and resources. Since the late 2000s, it has focused on investing in and financing the development of mining, energy, and transportation infrastructures in Latin America in order to secure those resources. The distribution of loans by China by region over the period from 2008 to 2021 shows that Latin America ranks second only to Asia (Figure 1). In this way, China has contributed to expanding the production capacity of Latin America, a source of primary commodities, and at the same time has succeeded in increasing its imports of such commodities⁵. For Latin American countries, China has become an important export destination from the perspectives of foreign currency earnings and increased resource-related tax revenues. As a result, between 2001 and 2022, the value of Latin American exports to China increased 33-fold (Figure 2). Even so, Latin American imports from China continue to exceed the region's exports to China, and the manufacturing industries in those Latin American countries frequently voice concerns about the large volume of imports of inexpensive Chinese goods.

Figure 1: Distribution of Chinese financing by region



Source: Compiled by MGSSI based on the database of Boston University (<https://www.bu.edu/gdp/chinas-overseas-development-finance/>) (accessed July 7, 2023)

Figure 2: Latin America's imports from and exports to China (2001-2022)



Source: Compiled by MGSSI based on IMF trade statistics (<https://data.imf.org/regular.aspx?key=61013712>) (accessed July 7, 2023)

Since the late 2010s, China has been switching its Latin America strategy from one centered on the extension of loans to an approach focused on direct investments. In line with this development, many Latin American countries are stepping up their efforts to attract Chinese capital in the renewable energy sector, including for lithium development.

China's overall lending has been on a downward trend since 2017 (Figure 3) due to a decline in lending to the mining industry (primarily for crude oil-related projects), which had previously been a priority sector, as a result of the global trend toward decarbonization, as well as the growing momentum in loan recipient countries to emphasize protection of the environment and indigenous peoples, which has made it difficult to form large

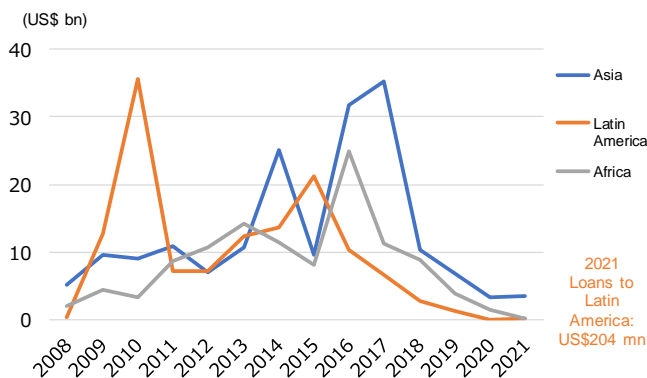
³ Osonoi, Shigeo. 2017. ("The Rise of China in inter-American relations" "US-China trends and US-China relations in an era of unrest in the international order: US-China relations and international relations surrounding the US and China" [in Japanese] (FY2016 subsidy scheme for study/research on foreign policy and security by the Ministry of Foreign Affairs of Japan) Japan Institute of International Affairs, Ed. (https://www2.jiia.or.jp/pdf/research/H28_US-China/16_osenoi.pdf) (accessed July 7, 2023)

⁴ Sono, Motoyoshi. 2023. "Chinese-style multinational companies expanding globally" [in Japanese], Soseisha, Co. Ltd., p. 132.

⁵ China relies on Latin America for most of its imports of copper ore, lithium carbonate, frozen beef, and soybean. Albright, Zara C., Rebecca Ray and Yudong Liu. 2023. "China-Latin America and the Caribbean Economic Bulletin 2023 Edition", Global Development Policy Center, Boston University, Mar 24, 2023, pp. 6-8. (https://www.bu.edu/gdp/files/2023/04/GCI-CH-LAC-Bulletin_2023-FIN.pdf) (accessed July 7, 2023)

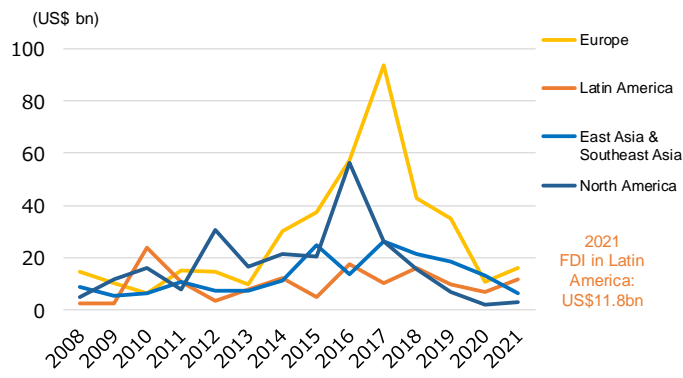
projects⁶. While China's outward foreign direct investment (FDI) also peaked in 2016 and has been declining overall, its FDI in Latin America has generally remained at the level of \$10-20 billion per year, and the region was China's second leading investment destination after Europe in 2021 (Figure 4). One of the reasons China's FDI in Latin America has been more stable than its FDI in Europe is that Chinese companies have made a series of investments in the automotive and power sectors since 2020, including for EV plant construction (Figure 5). Also, in 2022, China's Ganfeng Lithium announced plans to invest US\$960 million in a lithium production project in Argentina.

Figure 3: Chinese financing by region (2008-2021)



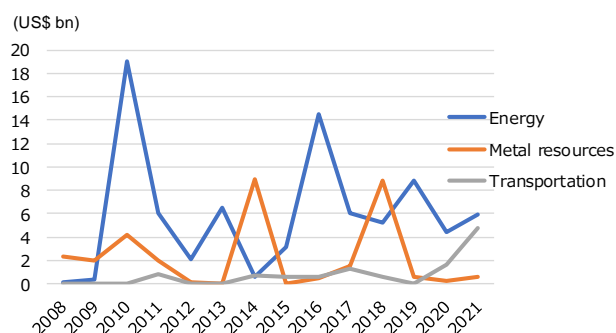
Note: Amount pledged
 Source: Compiled by MGSSI based on the database of Boston University (<https://www.bu.edu/gdp/chinas-overseas-development-finance/>) (accessed July 7, 2023)

Figure 4: Chinese FDI by region (2008-2021)



Source: Compiled by MGSSI based on database of the American Enterprise Institute (<https://www.aei.org/china-global-investment-tracker/>) (accessed July 7, 2023)

Figure 5: China's FDI in Latin America (three main sectors) (2008-2021)



Source: Compiled by MGSSI based on the database of the American Enterprise Institute (<https://www.aei.org/china-global-investment-tracker/>) (accessed July 7, 2023)

Western countries' concerns about Latin America becoming "China's backyard" can be attributed to their impatience with China's rising share of inward direct investment, in addition to trade trends. China's share of FDI received by Latin America was only 0.1% in 2000, but had risen to 4.9% by 2010 and 8.5% by 2021⁷.

1-3. Characteristics of countries in the region

As discussed in the previous section, it is true that China's influence in Latin America is growing, but the nature and degree of interdependence varies from country to country in the region. For example, among the eight largest economies, Brazil, Chile, and Peru had exports to China that exceeded imports from China in 2021, while Mexico, Argentina, Colombia, Ecuador, and Venezuela had imports in excess of exports⁸. Figure 6

⁶ Ray, Rebecca. 2023. "Small is Beautiful": A New Era in China's Overseas Development Finance?", Global Development Policy Center, Boston University, Jan 17, 2023, pp. 11-15. (https://www.bu.edu/gdp/files/2023/01/GCI_PB_017_CODF_EN_FIN.pdf) (accessed July 7, 2023)

⁷ Peters, Enrique Dussel. 2023. "Monitor of Chinese OFDI in Latin America and the Caribbean 2023", RED ALC-China, April 15, 2023. (https://www.redalc-china.org/monitor/images/pdfs/menuprincipal/DusselPeters_MonitorOFDI_2023_Eng.pdf) (accessed July 7, 2023)

⁸ IMF Data, Direction of Trade Statistics. (<https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85>) (accessed July 7, 2023)

provides a summary of the value of exports to and imports from China by the eight leading Latin American economies, and the value of Chinese investments and loans received by those countries.

Figure 6: Eight major Latin American countries' exports to and imports from China and the value of Chinese investments and loans received by those countries

Country	GDP (2021, US\$ bn)	Trade (2021)				Loans (2008-2021)	FDI (2008-2021)
		Exports to China (US\$ bn)	As a percentage of GDP	Imports from China (US\$ bn)	As a percentage of GDP	Loans from China (financial flows, US\$ bn) (Note 2)	FDI by China (financial flows, US\$ bn)
Brazil	1,648.7	109.0	7%	53.6	3%	29.5	64.0
Mexico	1,272.8	19.0	1%	67.5	5%	1.0	3.8
Argentina (Note 1)	486.7	7.1	1%	10.7	2%	16.9	10.3
Colombia	318.5	5.6	2%	14.4	5%	0	5.9
Chile	316.7	38.4	12%	26.3	8%	0	15.1
Peru (Note 1)	225.9	23.4	10%	13.3	6%	0.1	25.6
Ecuador (Note 1)	106.2	5.4	5%	5.5	5%	18.2	4.8
Venezuela	57.1	1.0	2%	2.2	4%	56.0	4.6

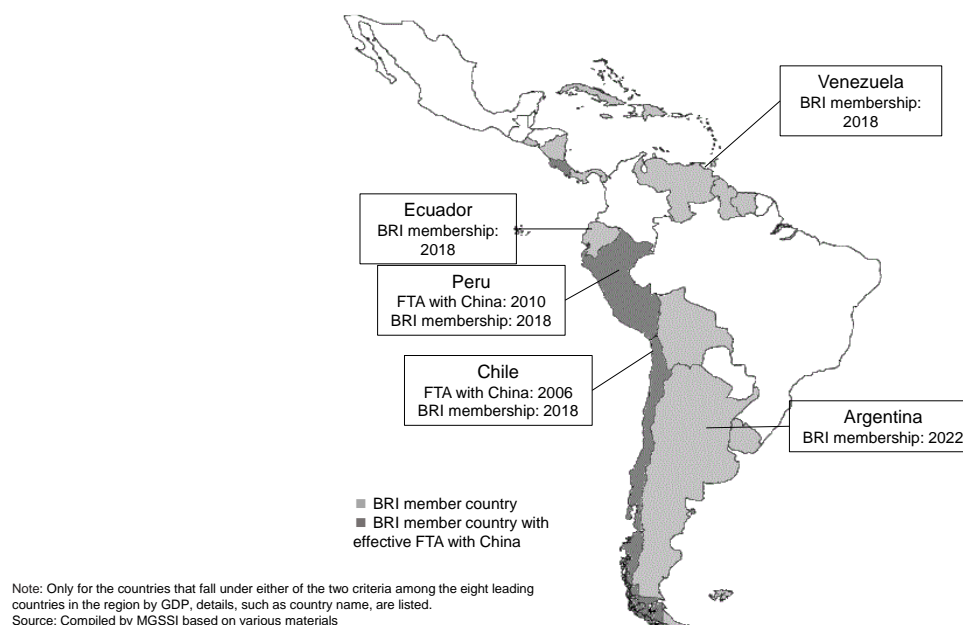
Note 1: GDP figures are IMF estimates

Note 2: Amount pledged

Source: Compiled by MGSSI based on the IMF World Economic Outlook Database (April 2023) and various other materials

Of the 33 Latin American countries, 21 have joined China's Belt and Road Initiative (BRI) (Figure 7). The Council on Foreign Relations (CFR), a US think tank, is concerned that member nations may fall into the so-called debt trap⁹. Three Latin American countries have effective Free Trade Agreements (FTAs) with China: Chile (2006), Peru (2010), and Costa Rica (2011), and Ecuador concluded negotiations in 2023. FTAs with China are expected to play a key role in facilitating trade between China and Latin American countries.

Figure 7: Latin American member countries of China's Belt and Road Initiative (BRI) and those with FTAs in effect with China



2. RECENT MOVES BY CHINESE COMPANIES

2-1. Recent developments in the renewable energy sector

Traditional industry sectors, such as those related to agricultural products and metal resources, are expected to retain their importance in the economic relationship between Latin America and China. In addition, in recent years, Chinese companies have been making significant inroads into the renewable energy sector, including in

⁹ Roy, Diana. 2023. "China's Growing Influence in Latin America", *Council on Foreign Relations*.

lithium development, EV manufacturing, green hydrogen development, and solar power generation. In particular, China, the world's largest producer of lithium batteries, which are indispensable for EV manufacturing, is scrambling to buy up mining interests in Latin America and other lithium-producing countries as Western countries implement China de-risking measures¹⁰. Of the world's lithium reserves, 70% is concentrated in five Latin American countries (Chile, Argentina, Bolivia, Mexico, and Brazil).

However, many of the leftist governments that have taken office in Latin America in recent years have tended to advocate the protection of the environment and indigenous populations, and Latin America has historically had strong nationalist sentiment on resources. The Mexican and Chilean governments announced the nationalization of lithium development projects in 2022 and 2023, respectively. Further, in March 2023, the Bolivian government proposed the establishment of a lithium version of OPEC to encourage an alliance among countries producing it, and talks are continuing among them.

This growing sentiment of resource nationalism is an element that cannot be overlooked, not only by China but also by other countries seeking to acquire lithium. In Argentina and Brazil, where nationalization plans have yet to be announced, Chinese companies have been making a series of investments in lithium production and battery manufacturing since 2022.

2-2. Challenges for Chinese companies

In addition to the rise of resource nationalism in Latin American countries, other difficulties and barriers encountered by Chinese companies in their efforts to promote business in the region include forced withdrawal or stagnation of business due to labor disputes and political unrest. For example, a Chinese-financed dam project in Argentina was severely delayed due to labor lawsuits and systematic defaults on payments by the Argentine government¹¹. In Bolivia, a lithium mining project that had been agreed upon between the Bolivian government and a Chinese company was forced to be cancelled due to the ouster of President Evo Morales, who had promoted the project¹². Labor disputes and political unrest in these countries are problems that plague non-Chinese companies as well, of course, but it is notable that even Chinese companies are not equipped to deal with such issues successfully.

Chinese companies face the urgent need to dispel the negative reputations they have invited in Ecuador, in particular, where they have been accused of causing significant environmental destruction through the use of pesticides, mismanagement of ecosystems, and deforestation¹³.

3. FUTURE PROSPECTS

Latin America will continue to be a major supplier of resources and food for China. From a geopolitical perspective, the more the West pursues China de-risking, the greater the incentive for China to strengthen its access to Latin American countries that are part of the Global South in order to minimize its risks in acquiring primary commodities. From the Latin American side, maintaining good economic relations with China is the rational choice, as it will bring an increase in exports and inward FDI, both of which are important for economic growth. In other words, there is almost no motivation on the Latin America side to detach from China, and unless other countries reinforce their approaches to Latin America, the region's interdependence with China will only continue to grow. Against this backdrop, the EU plans to invest €45 billion in Latin America as part of its "Global

¹⁰ Hua, Sha. 2023. "China's Risky Strategy to Control One-Third of the World's Lithium Supply", *The Wall Street Journal*, May 24, 2023. (<https://www.wsj.com/articles/china-spends-billions-on-risky-bets-to-lock-down-worlds-lithium-39e174e8>) (accessed July 7, 2023)

¹¹ Giusto, Patricio and Juan M. Harán. 2023. "Argentina's Failed China Policy", *The Diplomat*, Feb 28, 2023. (<https://thediplomat.com/2023/02/argentinas-failed-china-policy/>) (accessed July 7, 2023)

¹² Hua 2023, op. cit.

¹³ Lu, Christina and Rocio Fabbro. 2023. "China's Latin American Gold Rush Is All About Clean Energy", *Foreign Policy*, Feb 27, 2023. (<https://foreignpolicy.com/2023/02/27/china-latin-america-lithium-clean-energy-trade-investment/>) (accessed July 7, 2023)

Gateway” infrastructure investment initiative to counter China's BRI. It has been reported that the plan includes a lithium development project.

Regarding the discussion on the return of a “wave of leftward shifts” in Latin American politics in recent years, in light of the first leftward political shift that occurred after the late 1990s, it cannot be denied that there is a possibility that leftist governments in Latin America may try to re-engage with China, mainly in the political and diplomatic spheres¹⁴. However, it is expected that there will be friction with China on the matters of protection of the environment and indigenous populations, and that the Chinese side will be required to modify its actions. In addition to these domestic factors, the outlook for future relations between Latin American countries and China must also take into account the further deepening of the economic dependence on China that has built up over more than a decade and has become an integral part of Latin American economies. It is also important to note that Latin American countries have shown little interest in the American Partnership for Economic Prosperity (APEP), the US-led economic and security framework¹⁵.

¹⁴ The number of leftist regimes in Latin America increased from 7 in January 2018 to 11 in July 2023.

¹⁵ US President Joe Biden announced the “Americas Partnership for Economic Prosperity” at the 9th Summit of the Americas in June 2022, and the initiative was launched in January 2023. The framework is an economic and security agreement based on friendshoring, and reflects an awareness of the rise of China. Participants are the US, Canada, and 10 Latin American countries out of the 35 member countries of the Organization of American States.