

Elementary Analysis of the Current Situation and Prospects of China-Latin America Economic and Trade Cooperation

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Abstract

This paper delves into the problems confronting the development of China-Latin America economic and trade cooperation through an analysis of the short-term impact on the "three principal engines" which are China-Latin America trade, investment and financial cooperation. In epidemic context where crisis and opportunity coexist, trade in medical supplies, investment in hygiene infrastructure, and the "Digital Silk Road" have become new impetus of China-Latin America economic and trade cooperation. Although the development of China-Latin America economic and trade cooperation in the fields of trade, investment and international engineering contracting is facing many challenges, the overall long-term trend remains positive and unchanged and the vision of bilateral cooperation is even more assertive in the current era of rapid change. China and Latin America will continue to take the "Belt and Road" initiative as a guide, make full use of the new opportunities which is brought by digital economy and new development pattern of "Dual Circulation" s for China-Latin America economic and trade cooperation to promote an extensive and deep development of China-Latin America economic and trade cooperation and to achieve optimization and upgrading.

Keywords

China-Latin America Economic and Trade; Strategic Cooperation; Belt and Road Initiative; Digital Silk Road; New Development Pattern of "Double Cycle."

1. Introduction

Under the guidance of "Go Global" strategy and "Belt and Road" initiative, China-Latin America economic and trade cooperation has been deepened. At present, 19 countries in Latin America and the Caribbean (hereinafter referred to as "Latin America"), including Panama, Peru and Chile, have signed cooperation documents or memoranda of understanding with China to build the "Belt and Road", accounting for 79% of the total number of Latin American countries that have established diplomatic relations with China. At present, China is already the second largest trading partner of Latin America, the largest trading partner of Brazil, Chile and other Latin American countries, and Latin America is the second largest destination of China's outward foreign direct investment. However, in recent years, especially due to the impact of the epidemic, China-Latin America trade has shrunk, with total trade in goods between China and Latin America declining 0.3% year-on-year in 2020, and new loans granted by Chinese two major policy banks to Latin America falling to zero in 2020, with China's investment projects in Latin America forced to be postponed or put on hold, and the IMF even warned that "Latin America may experience another round of 'lost decade'." [1] Thus, it can be seen that China-Latin America economic and trade cooperation is facing challenges in multiple areas, and the original driving forces of China-Latin America economic and trade cooperation are restricted, for which we need to turn the crisis into opportunities, seize new development directions, and promote the optimization and upgrading of China-Latin America economic and trade cooperation.

2. Current Development of China-Latin America Economic and Trade Relations

2.1. China-Latin America Trade Relations

Since China's successful admission to the World Trade Organization in December 2001, foreign trade has flourished and trade relations between China and Latin America have become increasingly close. Currently, China is the second largest trading partner of Latin America and even the largest trading partner of some countries in the region. In 2008 the world economy and trade were hit hard by the international financial crisis, and the cycle of super high commodity prices came to an end. [2] Although China's demand for soybeans, iron ore, copper concentrate and crude oil increased, their average prices all decreased sharply, and from 2012 to 2016, the total trade between China and Latin America grew at an average annual rate of 4.5%. In 2017, benefited from the gradual recovery of the world economy and in the " Belt and Road" initiative, the total trade volume between China and Latin America resumed growth, with an average annual growth rate of 10.8% from 2017 to 2019, for which the total bilateral trade volume between China and Latin America in 2019 was 317.62 billion dollars, as high as about 21 times that of 2001, with a year-on-year growth rate of 3.4%. And from 2002 to 2019, the average annual growth rate was 18.5%, see Figure 1.

The trade structure between China and Latin America is relatively stable due to the obvious complementarity of bilateral advantages. China mainly exports industrial manufactured goods to Latin America, while Latin American exports to China are still mainly concentrated in some raw materials products, especially soybeans, copper, oil, etc. In general, the countries that concentrate on exporting these products have a surplus in merchandise trade with China. For example, due to the trade friction between China and the United States in 2017 - 2018 some countries in South America, such as Argentina and Brazil, gained some trade diversion, which stimulated the growth of their soybean export in the short term and brought some economic benefits for these countries, while other countries in Latin America continue to have a deficit in merchandise trade with China.

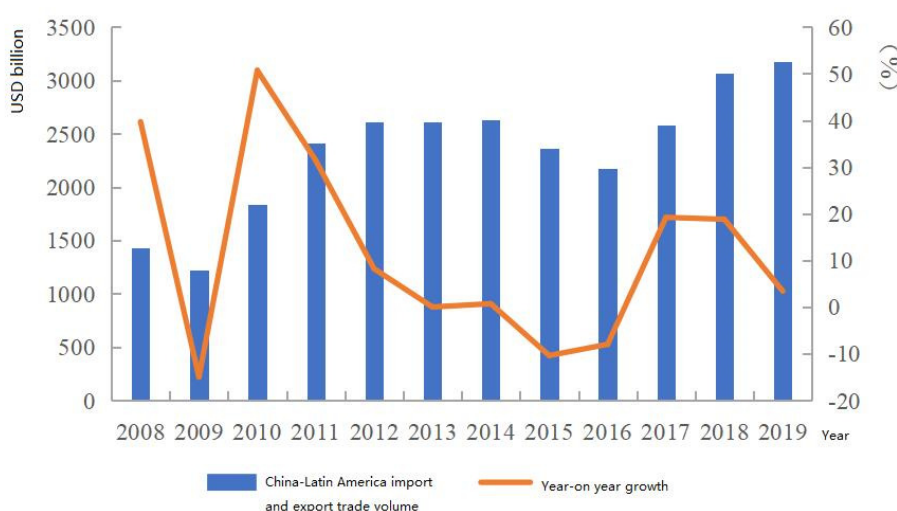


Fig 1-1.China Latin America Import and export trade volume and its growth rate from 2008 to 2019

Source: wind database

Figure 1. Sino-Latin America import and export trade volume and its growth rate from 2008-2019

Source: The Wind database

2.2. China-Latin America Investment Relations

China's investment activities in Latin America are guided by the "Go Global" strategy. With rapid development of China-Latin America trade, China-Latin America investment has become one of the impulses to promote China-Latin America economic and trade cooperation, its scale has been expanding and Latin America has become the second largest destination of China's outward foreign investment after Asia. [3] The stock of China's OFDI in Latin America was only 24.7 billion dollars by the end of 2007, but it surpassed the 200 billion dollars, 300 billion dollars and 400 billion dollars in 2016, 2017 and 2018 respectively, achieving a leap-type growth. And it reached 436.05 billion dollars which accounted for 19.8% of the total stock of China's outward foreign investment at the end of 2019. In terms of flows, China-Latin America trade was affected by the global financial crisis in 2008, but China's OFDI flows to Latin America grew against the trend, increasing by 99.2% year-on-year in 2009 and setting the highest record since the 21st century in 2016, reaching 27.23 billion dollars, but declining to 6.39 billion dollars in 2019, see Figure 2.

China's OFDI in Latin America is characterized by a diversified but concentrated investment structure, an uneven distribution of countries (regions) and a predominantly M&A approach. From the perspective of investment stock, the Cayman Islands and the British Virgin Islands are the main distribution locations, with a total stock of 418.03 billion dollars by the end of 2019, accounting for 95.8% of the total investment stock in Latin America, followed by Brazil and Venezuela.[4] At the end of 2019, investments are mainly concentrated in five industries, see Figure 3, with a total share of 84.4% and scientific research industry and technical services industry overtake mining industry to enter the top five. Faced with institutional barriers to entry, cultural differences, laws, language and other factors, China's companies mainly adopt M&A approach to invest in Latin America with the aim of reducing investment costs, entering the local market as soon as possible, and avoiding the risk of uncertainty. M&A activities in 2019 mainly concentrated in Brazil, but greenfield investment projects are growing in recent years, predominated by infrastructure investment.

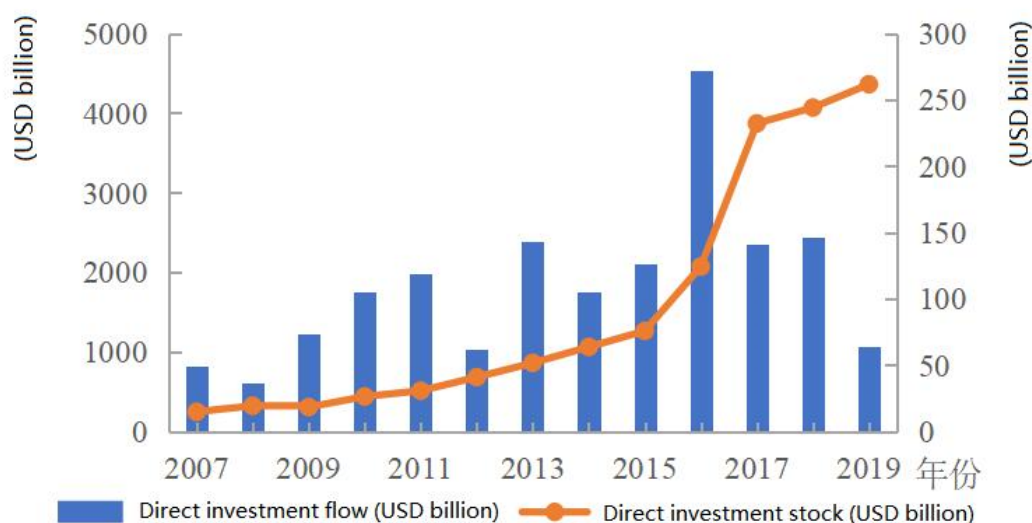


Figure 2. China's direct investment in Latin America in 2007-2019

Data source: Statistical Bulletin of China Foreign Direct Investment, Ministry of Commerce

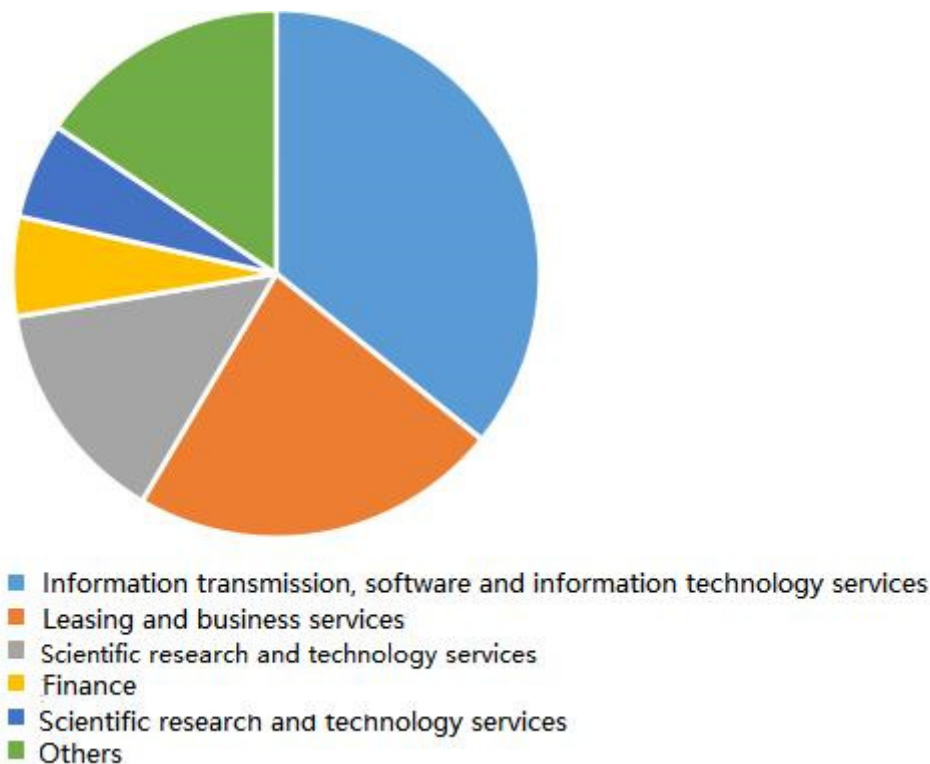


Figure 3. Share of China's direct investment stock in Latin America at the end of 2019
 Source: Statistical Bulletin of China OFDI in 2019 issued by the Ministry of Commerce

2.3. China-Latin America Financial Cooperation

China Development Bank and Export-Import Bank of China are the main force of banks which lend sovereign loans to Latin American countries. Its total loans which are issued to Latin American countries have presented a downward trend since 2015, with only 1.1 billion dollars in new sovereign loans lent in 2019, the lowest level in nearly a decade, see Figures 4. The main factor for the decline is that the main recipients of Chinese loans-Brazil, Ecuador, and Venezuela-have all reduced their loans from China due to their excessive debt burdens. In addition, in recent years, the Inter-American Development Bank and the Development Bank of Latin America have gradually taken over the main role of sovereign loans to Latin America from China's two major policy banks.[5]

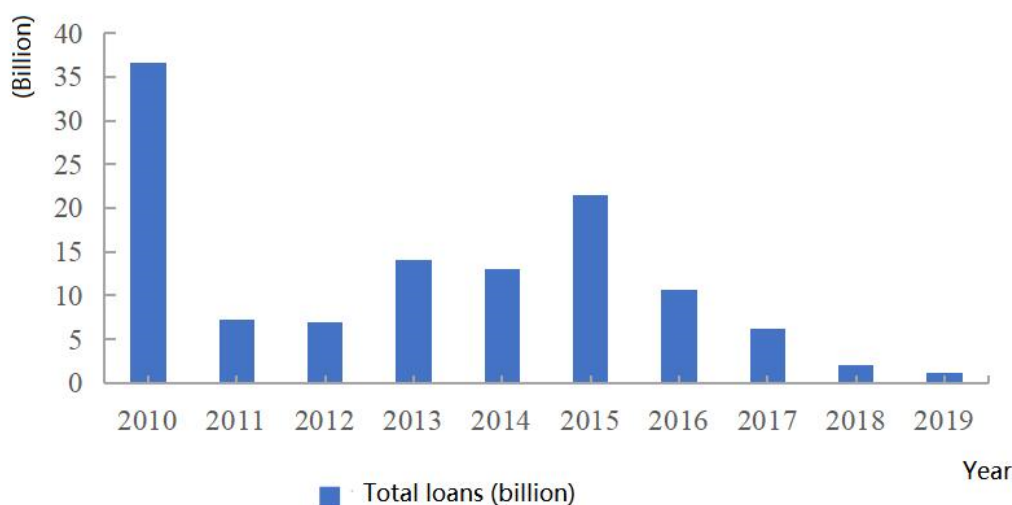


Figure 4. Total loans from the China Development Bank and the Export-Import Bank of China to Latin American countries: 2010-2019
 Source: 2020 China-Latin America Economic Bulletin, Boston University

The total amount of bilateral trade and investment between China and Latin America is growing, and in order to improve the convenience of their settlement and reduce exchange rate costs, the People's Bank of China has renewed bilateral local currency swap agreements with the central banks of Argentina, Chile, and Suriname, respectively, see Table 1. [6] The signing of these agreements can provide liquidity and prevent exchange rate risks, and is also conducive to the internationalization of the RMB and further promote bilateral trade and investment between China and Latin America. In addition, Chinese developmental and commercial banks have established several branches in Latin America, which have played a positive role in building the Latin American economy.

Table 1. Signed currency swap agreements between the People's Bank of China and the Central Bank of Latin American States

time	country	Switch scale
2019	Surinam	RMB 1 billion / RMB 1.1 billion Suriname (renewal)
2019	Chile	RMB 50 billion / 5.60 billion Chilean peso (revised agreement)
2019	Argentina	RMB 70 billion / RMB 730 billion Argentine peso (renewed) and RMB 60 billion (newly signed)
2020	Brazil	Has expired

Source: People's Bank of China, Monetary Policy Events in 2020.

3. Main Challenges in the Development of China-Latin America Economic and Trade Relations in Recent Years

3.1. Major Challenges in the Area of Trade in Goods

3.1.1. Logistics and Transportation Obstruction

Due to the COVID-19, countries all adopt a positive attitude and quarantine measures, so do China and Latin American countries, they both have taken different degrees of prevention and control measures, such as restricting the movement of border personnel, home quarantine, strict inspection, which will certainly impact the international air, land and sea transport industries and hamper international transportation of goods. Less routes to Latin America, along with the strict prevention and control means, shipping companies have no choice but to make adjustments to their routes, which led to a significant reduction in the volume of transport and resulted in tightening the logistics of goods. Since June 2020, China to Latin America transport prices have been soaring, which led to a surge in logistics costs, in mid-September, from Shanghai to the port of Santos, Brazil, freight rates climbed 26%, a new record; then Mexico, for example, although air transport has the advantage of short transport time, but the price is about four times the sea. [7] China-Latin America trade in goods is facing the problem of reduced transportation frequency, shortage of warehouse space, high air freight price, double or triple sea freight price, and increase of logistics cost.

3.1.2. Exchange Rate Fluctuation Issues

In recent years, U.S. production and consumption have stagnated and investor confidence in the U.S. dollar has declined, which, combined with the Federal Reserve's adoption of quantitative easing monetary policy to stimulate the economy, has led to a depreciation of the U.S. dollar and, subsequently, a significant depreciation of Latin American currencies. China, on the other hand, took the lead in mitigating and controlling the epidemic and achieving positive economic growth, which gave a strong impetus to the appreciation of the RMB, with a 9.6% volatility between the highest and lowest values of the exchange rate during the year 2020. RMB

appreciation is beneficial to China's imports of products from Latin American countries, but with the uncertainty of the epidemic and the increased risk of exchange rate volatility, both sides of the China-Latin America trade need to increase their risk awareness and prevent settlement risks.

3.1.3. Intensification of Quarantine Inspection

Chinese customs strictly implement all risk monitoring measures, especially measures for imported cold chain food. China imports a great number of fruits from Latin American countries such as Mexico and Chile, and frozen shrimp from Ecuador and Argentina. Latin American exporters need to strengthen anti-epidemic measures about the food and transportation process, and strictly prevent food and packaging from carrying foreign matters, otherwise, they will face huge double loss of export goods and reputation, which will affect the purchase demand of Chinese consumers.

3.2. Main Challenges in International Investment

3.2.1. Challenges of Social Level

Social and political unrest will have a negative impact on Chinese investment expectations. The responses taken by government leaders in some Latin American countries in recent years have received popular support, such as El Salvador, Argentina, and Peru, where 97%, 88%, and 82% of the population, respectively, to adopt strong measures to respond quickly to problems. [8] While leaders of two major Latin American economies, such as Brazil and Mexico, are hesitant and even downplay the threat of global problems, which caused strong public discontent, decline of public support, threat of leadership from opposition parties, and intensification of political polarization. All this is testing the ability of the country's leaders to govern, and their performance in dealing with the issues may affect the country's next general elections, which some countries in the region have announced to postpone for this particular reason has not been effectively controlled.

Furthermore, nearly half of the population in Latin America is in informal employment and does not have systematic social security. In the context of social unrest, they are facing the dilemma of "no job thus no food" because they do not have enough resources and savings to cope with long-term living, or even survival problems.

3.2.2. Deterioration of Latin American Economy and Drop in Business Environment Ranking

Under the background that the global demand shrinks, Latin America's GDP in 2020 registered the largest decline in nearly 100 years, and the Latin American economy, which relies on external economies, resulted difficult to recover. In the 2020 global business environment ranking, 16 countries in Latin America experienced various degrees of decline, with Brazil experiencing the largest decline, dropping 15 places. The deterioration of both the economic environment and the business environment in Latin America has prompted Chinese investors to be more cautious in their investment activities to reduce investment risks.

4. Challenges in International Engineering Contracting and Trade in Services

Latin America is the third largest market for China's overseas engineering contracting business. In recent years, a number of Chinese state-owned enterprises have been exploring the market in Latin America, several major engineering projects have been successfully completed. In 2019, the engineering business of Chinese enterprises in Latin America grew slightly, by 9% year-on-year, accounting for 7.6% of the total new contracts signed, but the completed turnover decreased slightly.[9] China's contracted engineering business to Latin America mainly faces the following challenges.

First, the debt crisis has made settlement more difficult. The economic depression has not yet recovered, and the global economic downturn situation further dragged down the Latin American economy. In order to stimulate economic development and to increase employment, many Latin American governments chose to increase public expenditure, which caused the fiscal deficit further expanded and some countries in Latin America to face debt restructuring, especially Argentina, therefore, there is a risk that the government or other owners default on payment of construction.

Second, the uncertain factor of project construction has increased. Although some countries in Latin America, such as Peru and Chile, have taken strong measures to prevent the epidemic, the people's awareness is not high, the medical system is weak, and the public health infrastructure construction is insufficient, which leads to little effect in preventing the epidemic, and increase of the number of infection cases. Some contracted projects of China's enterprises in many countries in Latin America have been suspended or not yet fully resumed production. And lack of raw materials of engineering construction, international trade orders delivery difficulties, inefficient imports, exit and entry restrictions, home isolation and other issues also bring challenges for corporate staff offices.

Third, political and social risks. The ineffective prevention of epidemics in many Latin American governments has stimulated a rise in public discontent and the delay in solving livelihood issues has aggravated social conflicts. As a result, the risk of personal and property safety of employees of Chinese enterprises has risen, and the social unrest in Latin America has done no good to Chinese enterprises in engineering construction in Latin America.

5. Countermeasures and Suggestions for Promoting Economic and Trade Development between China and Latin America

5.1. Active Utilization of Policy Dividends of "Belt and Road" Initiative

The first edition of "Belt and Road" International Cooperation Summit in May 2017 became an important turning point for Latin American countries to generally recognize and accept the "Belt and Road" Initiative. By the end of 2019, 19 Latin American countries have signed the "Belt and Road" framework agreement or memorandum of cooperation with China. [10]

The epidemic has hit hard the global economy and has caused a devastating chain reaction in various countries, especially in Latin America. In front of such a difficult situation, The "Belt and Road" initiative will still be an impetus for the economic and trade development of China and Latin America under the background of the epidemic. China and Latin America should take advantage of the "Belt and Road" platform, use interconnectivity as the core tie to strengthen bilateral economic and trade relations, achieve a peaceful and win-win situation with policy communication, financial integration, smooth trade, facility connection and people-to-people bond, join hands to fight the epidemic and help Latin America's economic recovery.

First, China should promote Chinese investment in Latin America with infrastructure construction as the cornerstone. In particular, China should increase its participation in infrastructure construction in the field of public health in Latin America in the post-epidemic era, incorporate medical and health infrastructure construction into the focus of the "Belt and Road" construction between China and Latin America, make up for the disadvantage of weak infrastructure in Latin American countries, enhance their ability to cope with health crises, better utilize the advantages of resource endowments, and achieve mutual benefits and mutual development.

Second, reduce trade barriers and promote trade and investment liberalization and facilitation. Under the epidemic, China-Latin America trade has shown resilience and vitality, with a growth of Latin American agricultural exports to China against the trend. In the case that the Covid 19

has given rise to obstacles to China-Latin America economic and trade exchanges, the bilateral should strengthen cooperation in the fields of customs, taxation and supervision, reduce tariff barriers, and negotiate and sign free trade agreements with more Latin American countries.

Third, we have joined hands to fight against the epidemic and share destiny. China has taken a series of measures to help Latin America to fight against the epidemic, which has shown the responsibility and obligation of a major power has brought the distance between Chinese and Latin American people. The theory of "Chinese brotherhood" and "Chinese opportunities" are gradually accepted by Latin American people. A picture of mutual help is vividly displayed in China-Latin America and the Caribbean community of shared destinies.

5.2. Utilization of New Opportunities to Promote China-Latin America Economic and Trade Development in the Era of Digital Economy

People's demand for telemedicine, telecommuting and remote shopping has risen significantly, highlighting the advantages and broad development prospects of the digital economy. The digital economy breaks the traditional time and space limitations, and is the development trend of the fourth industrial revolution for industrial transformation and upgrading, as well as an important weapon for countries to fight the new crown epidemic. [11] In the context of the digital economy and Covid 19, China and Latin America should optimize digitalization and the Internet, explore new impetus and new model of China-Latin America economic and trade relations, and promote the construction of the "Digital Silk Road" between China and Latin America. The main content of the "Digital Silk Road" is to achieve the interconnection of information and communication infrastructure. And China's digital economy is growing strongly, which happens to help the expansion of OFDI in Latin America, fill capital gap for improving the infrastructure in Latin America, and provide opportunities for the digital development of Latin America. Catalyzed by Covid 19, the development of digital economy has become a popular direction, and digital trade is also growing against the trend. China should take advantage of infrastructure construction and information technology such as 5G, and share its experience in digital infrastructure construction as well as e-commerce logistics to Latin America, so as to help the construction of digital infrastructure in Latin America. Therefore, while strengthening China-Latin America trade cooperation, China should also make use of the digital economy, actively strengthen China-Latin America cooperation in e-commerce, finance and other service trade, establish a digital trade platform based on digital technology and information technology, build a good China-Latin America "Digital Silk Road", and promote diversified development of China-Latin America economic and trade cooperation.[12]

5.3. Utilization of Opportunities that Emerge from New Development Pattern of "Double Cycle"

On August 24, 2020, President Xi Jinping further clarified that the "Double Cycle" refers to a new development pattern in which the domestic cycle is the mainstay and the domestic and international cycles promote each other. The "Export-Oriented" strategy has contributed to China's rapid economic growth, but since 2011, China's economic growth has slowed down, the haze left by the 2008 financial crisis on the world economy has not yet dissipated, and hegemony, protectionism and unilateralism led by the United States have gradually emerged, trying to reverse globalization. China is facing a deteriorating external environment and the negative impact of its "export-oriented" strategy.[13] However, after more than 40 years of reform and opening, China has made great improvements in production and consumption, and the resilience and vitality of China's economy have been enhanced, and the huge domestic consumer market is gradually activated. This is especially important, which reflects the necessity and importance of promoting the construction of a new development pattern of "double cycle". Thus, expanding domestic demand and successfully realizing domestic cycle is an important guarantee to cope with the challenges in the external environment risks and

changes. Under the influence of Covid 19, the world economy suddenly shrank and external demand plummeted. It is especially important to maintain the vitality of the domestic market and to promote the construction of a new development pattern of "Double Cycle".

6. Conclusion

Although the global economic and trade activities are experiencing an unprecedented decline, which has caused a certain degree of impact on China-Latin America economic and brought challenges to bilateral trade, investment, and international engineering contracting, among others. But China-Latin America economic and trade cooperation still maintain a long-term positive trend. Blessing in disguise, that is to say in this case, the unknown challenges can also create new opportunities for the development of China-Latin America economic and trade relations. Both sides should seize the opportunity to take advantage of the "Belt and Road" platform, build a good "Digital Silk Road", construct a good China-Latin America community of destiny, and explore a new development of China's "double cycle". The two sides should seize the opportunity to take advantage of the "Belt and Road" platform, build a good Sino-Latin American "Digital Silk Road", build a good Sino-Latin American community of shared destiny, explore a new engine of China-Latin American cooperation in the new development pattern of "Double Cycle", further expand and deepen cooperation in fields of economy and trade, adjust the structure and mode of economic and trade cooperation, Promote China-Latin America economic and trade cooperation towards a new stage of high level and quality.

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