

IS THE EU GETTING OUT-MANEUVERED BY CHINA IN LATIN AMERICA?

Perspectives for EU-LAC relations

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Introduction

China's increasing role in the global economy has transformed the nature of global competition and reshaped international trade. For two decades, China has been one of the most important engines of global GDP growth and has significantly contributed to the expansion of the global economy. Even further, Chinese competitiveness has transformed the trade structure and the international relations, creating concerns and questioning the relevance of other economic dominant powers. More specifically, China has been developing a new tool of influence since 2013, the "Belt and Road Initiative" (BRI), to reach out as many economies in the world as possible. Today, BRI targets 68 economies. China is becoming an increasingly relevant economic competitor and is developing its diplomatic relations to deepen the Chinese influence, in economic as well as cultural and geopolitical domains. The situation seems to announce a new hegemony, threatening other economies, especially from developed countries.

For instance, the European Union (EU) which has long been the most important power in global trade and continues to run a large trade surplus, has experienced a decrease in its market share with the Chinese boom developments. More specifically, the EU has long been a partner of Latin America. The two regions have strengthened their ties and even declared in 1999 to build a strategic alliance by fostering a partnership in several fields such as economic but also political and diplomatic ones. However, European influence in the region is questioned today due to internal factors such as the European crisis as well as external factors, notably China's fast growing role in the region in comparison to the very slow results of the bi-regional Summit diplomatic.

Indeed, while China and the EU are two of the world's largest trade giants, competition between them in Latin America has become increasingly intensive. Studies have analyzed the competition of EU and China in LAC on trade and exports. For instance, in 2014, Nowak analyzed China's and the European Union's financial relationships with Latin America from 2000 to 2013 and concluded that Europe's willingness to strengthen its relationship with Asian countries in the period worsened its trade relations with Latin America, while China became a key exporter. Results of many studies showed that China

seems to overpass the EU in the economic field. However, few studies analyze and compare the situation of China-LAC relations to EU-LAC relations in other fields than trade. Is EU-LAC partnership getting out-manuevered by the China-LAC one in all fields? What are the perspectives for EU-LAC relations? Those questions are crucial for the EU strategy in Latin America. The article aims to fill out the academic gap on the question, and to find out windows of opportunities for EU-LAC relations. First, it gives an overview of the evolution of EU-LAC trade relations on the one hand and China-LAC trade relations on the other hand, and then gives an outlook of the situation in other fields than trade, in order to draw on perspectives for EU-LAC relations.

While the EU-LAC economic relations are stagnating...

EU's interest for Latin America as an independent partner dates back to the late 1970s and early 1980s, with limited cooperation agreements at the time. Economic and political ties between both regions became closer with democratic reforms and economic growth the majority of Latin American countries experienced over the next decade. With the creation of regional bodies in Latin America like Mercosur (1991), the third-generation cooperation agreements were signed, replacing older ones. Those agreements gave birth to further cooperation (Interinstitutional Cooperation 1992, Framework Cooperation 1995¹).

According to the European Union External Action Service, "The EU and Latin America and the Caribbean enjoy privileged relations and are natural partners, linked by strong historical, cultural and economic ties. They share a strategic bi-regional partnership, which was launched in 1999 and stepped up significantly in the recent years".² Indeed, with the creation of the Community of Latin American and Caribbean States (CELAC) in 2011, the EU got an official counterpart for region-to-region dialogue and partnership, comprising all 33 Latin American and Caribbean countries. The European Union now has trade agreements with nearly all the countries in the region (26), making it the foreign trading partner with the largest portfolio of trade agreements in the region.

The strategic bi-regional partnership between the regions build through the series of agreements, strengthened economic cooperation. Indeed, the EU as a bloc is the principal investor in Latin America and the Caribbean. For instance, between 2010 and 2015, 37% of announced investments in the region originated from countries of the European Union. Furthermore, the EU has been playing an important

¹ "The EU-Latin American Strategic Partnership: state of play and ways forward". European Parliament Policy department. July 2017, (accessed November 2018), p43

[http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU\(2017\)578028_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU(2017)578028_EN.pdf)

² European External Action Service (website), EU-CELAC relations, 16 July 2018, (accessed November 2018) https://eeas.europa.eu/headquarters/headquarters-homepage_en/13042/EU-CELAC%20relations

role in Latin America, creating dialogue and helping the region; EU-LAC relations have quickly been originated from economic to political and diplomatic.

However, recent events, such as the current process of European integration, multiple social and political crises, a modest trend of economic recovery following the global financial and debt crisis, the refugee and security crisis, the growing cleavages between members states and EU institutions and the rise of populism and euro-sceptic movements³, have impacted EU external relations, including with its “natural partners” such as Latin America and the Caribbean. Even further, trade between LAC and the countries of the EU has contracted in the last years, while the European Union’s share of external trade with Latin America and the Caribbean has remained stable over the last decades (accounting for 12% of the region’s exports in 2000, and 11% in 2015). The European Union’s import market share has also remained stable at 14% for the past fifteen years⁴. In some specific Latin American countries, trade with the EU even presents a deficit (Mexico, Central America and the Caribbean). Thus, in the context where EU-LAC economic relations are stagnating and new players’ influence such as the Chinese one is growing in the region, EU’s importance and influence in Latin America is questioned.

... China-LAC trade relations are booming and impacting EU’s position

The EU situation in Latin America stands in contrast to the growing developments of trade with China over the same period. China has changed the geopolitical narrative, becoming a very influential investor and economic player.

Indeed, while China’s trade relations with LAC were marginal before the 1990s, they have been evolving in the last decades, turning China to by far the most important Asian player in Latin America. Originally, the United States used to be dominant in the continent. The situation has changed with the election of Donald Trump and his inward-looking strategy. The US retreat from Latin America creates a “window of opportunity” for China to reinforce its influence in the region. China’s objective goes even further than strong trade relations, it aims to provide an alternative and challenging model to the US hegemonic relation in the region: “the Beijing Consensus versus the Washington consensus”.

³ “The EU-Latin American Strategic Partnership: state of play and ways forward”. European Parliament Policy department. July 2017, (accessed November 2018), p43

[http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU\(2017\)578028_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU(2017)578028_EN.pdf)

⁴ A. Bárcena, A. Prado, M. Cimoli, R. Pérez, The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push”, ECLAC, October 2016, p31. Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018)

China has become a major economic player in Latin America because it understood Latin America's potential and strategic importance⁵. Between 2000 and 2016, Chinese share of regional exports went from 1% to 10% and its share of imports from 2% to more than 18%. Alicia Bárcena, ECLAC Executive Secretary even declared "according to our estimates, trade between the region and China multiplied 22 times between 2000 and 2013". By 2014 China had displaced the European Union as the region's second most important trading partner of Latin America (exports and imports combined) after the United States.⁶ It has even become the largest exporter to several Latin American countries.

2007 marked a turning point for the competition between China and the EU in Latin America. Before 2007, the competition was relatively low because China was mainly exporting low-quality products whereas the EU exported high-quality products. After 2007, China's ascent-up to the value-added chain (with more high-end products such as electrical machinery and road vehicles, resembling the export structures of high-income countries)⁷ pushed the economic competition to higher levels. China is now aiming to diversify its economic activity in the region.

Furthermore, China included Latin America in its new strategy, the Belt and Road Initiative (BRI), in 2017, as a visible reply to the changes in US policy towards Latin America announced by the incoming President Trump. BRI is an investment and infrastructure program to improve regional connectivity on a trans-continental scale. With the BRI, China aims at fostering its hegemony in the region by bringing the cooperation to new heights and stages⁸. It aims at developing relations in other fields than trade and investments to reach out a comprehensive partnership. Indeed, China adopted a series of strategic documents in order to strengthen its relations to LAC (e.g. the China-CELAC⁹ Cooperation Plan 2015-2019, analyzing relations in the areas of trade, financing and investment, as well as assessing macroeconomic, environmental, infrastructure, science and technology, cultural and social development policies).

⁵ "The EU-Latin American Strategic Partnership: state of play and ways forward". European Parliament Policy department. July 2017, (accessed November 2018), p33

[http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU\(2017\)578028_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578028/EXPO_STU(2017)578028_EN.pdf)

⁶ A. Bárcena, A. Prado, M. Cimoli, R. Pérez, The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push", ECLAC, October 2016, p.34, Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018)

⁷ Same and Hausmann et al (2008)

⁸ Ministry of Foreign Affairs of the People's republic of China (website), China's policy on Latin America and the Caribbean, 21 November 2016, (accessed November 2018)

https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1418254.shtml

⁹ The purpose of the China-CELAC Forum is to promote the development of the Comprehensive Cooperative Partnership between China and Latin America and the Caribbean, characterized by equality, mutual benefit and shared development. It is composed of China and the 33 CELAC member states.

China has also tightened ties with several regional organizations in the region – for example, it was granted observer status in the OAS in 2004, in the Pacific Alliance in 2013 and joined the Inter-American Development Bank as a donor in 2008. China also cooperates with the region through platforms such as the China-Mercosur Dialogue or the China-CELAC Forum. China’s interest in the region can be deduced by its visits to the region: from 2014 to 2016, President Xi Jinping visited ten Latin American countries, as many as President Obama visited during his eight-year term.

From the Latin American perspective, there is a clear interest in developing relations with the world’s biggest economy. ECLAC stressed the importance of the BRI for Latin America, to increase aggregate demand and exports, as well as to boost trade by bridging the distance of remote areas of the region with maritime, air or digital routes generally. Latin America’s investments, tourism, and economy as a whole could benefit from the BRI. Chinese investments represent a significant source of capital and technology for the region at a time when the United States turn their back to the region. For instance, the Pacific Alliance was created as an effort to integrate and connect its members to the fastest-growing economies in Asia, notably China, and to follow the global power shift from the Atlantic Ocean to the Pacific.

Thus, China has developed trade relations with LAC and out-maneuvered the EU in the field. China aims to foster its relations and develop a long-term relationship with Latin America, to which the region is responding positively. The Chinese-LAC trade structures and their potential deep relationship are impacting the European Union-Latin America “strategic partnership”. Is the EU losing ground in all fields? It seems interesting to compare the situation of relations China-LAC and EU-LAC in other fields than trade, in order to draw on perspectives for EU-LAC strategic partnership.

An assessment of China-LAC and EU-LAC relations: windows of opportunities for the EU-LAC strategic partnership

While China appears to be developing a strong relationship with Latin America, and to be challenging European influence in the region, opportunities remain for EU-LAC partnership.

TRADE, INVESTMENT AND ENERGY

First, China is now incontestably a strong economic and trade partner in the region. However, while trade between Latin America and the Caribbean and China shows dynamism, it remains clearly inter-industry – the region exports raw materials and imports manufactured goods¹⁰. Moreover, China

¹⁰ A. Bárcena, M. Cimoli, R. Pérez, Exploring new forms of cooperation between China and Latin America and the Caribbean, ECLAC, Second Ministerial Meeting of the Forum of China and the Community of LAC,

showed limited involvement in public-private partnerships to provide infrastructure in the region because those partnerships require greater commitment and present long-term risks. The few investments made focused on Brazil (60.7% of the total), while most of the Latin American countries run a trade deficit with China. The situation creates concern for the region, all the more so that China has little contributed to the diversification of production and investment in the type of infrastructure the region truly needs, such as water and sanitation or telecommunications, to achieve sustainable development.

Furthermore, while it is undeniable that there are opportunities for trade between the regions in the fields of energy, environment and renewable energies, science and technology and innovation, the features of trade are difficult to modify in the short term, and geographical distance (as well as cultural and technological) limits possibilities for more intensive exchanges. Thus, the significant shortcomings of this relationship show no signs of being remedied, and the quantitative target set by the first China-CELAC Cooperation Plan 2015-2019 to US\$ 500 billion by 2025¹¹ alone are not sufficient to modify the situation. Finally, China-LAC trade presents undeniable growth and potential but according to ECLAC, the Chinese “model of growth is unsustainable”¹², due to high risks of dependency for Latin America.

On the contrary, trade between the EU and Latin America and the Caribbean is diversified and European firms are key players in research and development in Latin America – in the last 10 years, they have announced 70% of total announced R&D investments in Latin America and the Caribbean. Moreover, the European Union, world leader in non-conventional renewable energy¹³, was the biggest investor in renewable energy projects between 2005 and 2015, with 63% of the US\$ 58.8 billion announced for the region. European investments in the sector increased from 2% to 27% between 2005 and 2015. European firms also play an important role in moving Latin America towards the digital

January 2018, Available from:

https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf (accessed November 2018) p41

¹¹ A. Bárcena, M. Cimoli, R. Pérez, Exploring new forms of cooperation between China and Latin America and the Caribbean, ECLAC, Second Ministerial Meeting of the Forum of China and the Community of LAC, January 2018, Available from: https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf (accessed November 2018) p95

¹² A. Bárcena, A. Prado, M. Cimoli, R. Pérez, The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push”, ECLAC, October 2016, Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018)

¹³ A. Bárcena, A. Prado, M. Cimoli, R. Pérez, The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push”, ECLAC, October 2016, Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018) p82

economy. Overall, EU-LAC trade relations help Latin America to move towards sustainable development, and the relationship could even benefit from a growth in Latin America originated by Chinese investments with the generation of higher Latin American demand¹⁴.

SOCIAL AND ENVIRONMENTAL DEVELOPMENTS

From a social perspective, ECLAC reports in “Exploring new forms of cooperation between China and Latin America and the Caribbean”¹⁵ that China and Latin America face shared social challenges such as high poverty levels, low education coverage, health and nutrition, as well as climate change. Regarding the latter, China is by far one of the most pollutant countries in the world. A cooperation between both regions could lead to mutual benefits and strengthened ties, but steps remain to be taken. For achieving the Sustainable Development Goals, both regions have to step up the process.

On the contrary, EU levels of education coverage, equality, health are higher. The cooperation between the European Union and Latin America in the areas has been developed and strengthened already. The EU remains a source of investments, help, as well as experience and expertise.

Furthermore, while climate change effects are increasingly worrying, especially in regions such as Latin America and the Caribbean and China because of geographical, economic and social conditions, cooperation in the field becomes more and more critical. The European Union is at the forefront of a sustainable development model, what the world is seeking for. Indeed, it has been committed to sustainable development since its inclusion in the Treaty of Amsterdam as a priority objective in 1997¹⁶. It is one of the key players in the construction of the 2030 Agenda for Sustainable development.

In the same period, Latin America experienced a boost in renewable and clean energy, thanks to the potential of the region (unparalleled solar and wind energy resources). China has the capacity to carry out infrastructure projects in the region, but regulations have to be created in order to develop a sustainable model. In comparison, the European Union has already developed a framework and comprises leaders in environmental developments (for instance the Northern countries, but also

¹⁴ “European Union-Latin America Relations Charting a course for the future”. Friends of Europe Report, Summer 2015, (accessed November 2018) p10
<https://www.friendsofeurope.org/sites/default/files/media/uploads/2015/06/FoE-REPORT-LATINAMERICA-2015-WEB.pdf>

¹⁵ A. Bárcena, M. Cimoli, R. Pérez, Exploring new forms of cooperation between China and Latin America and the Caribbean, ECLAC, Second Ministerial Meeting of the Forum of China and the Community of LAC, January 2018, Available from:
https://repositorio.cepal.org/bitstream/handle/11362/43214/1/S1701249_en.pdf (accessed November 2018) p28-29, p98

¹⁶ A. Bárcena, A. Prado, M. Cimoli, R. Pérez, The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push”, ECLAC, October 2016, Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018) p16

Belgium which is considered as one leader in plastic recycling). Even further, it is committed to carrying the 2030 Agenda forward, within the European Union but also in its foreign policy by supporting diverse initiatives in developing countries.

Complementarity in values and culture between the EU and LAC could generate an environmental push, according to the ECLAC¹⁷, if the investment pattern fosters innovation and change as it seems to be doing. There is significant room for cooperation between the EU and CELAC in climate change mitigation, as well as in related fields such as innovation and technology, especially because cooperation projects have already been developed. Such projects are sometimes jointly funded and address areas such as solar energy development, study visits and conferences with experts, improved forest management, energy efficiency and urban low-emission development strategies. For instance, the EUROCLIMA+ project, financed by the European Union and partly executed by ECLAC, has produced significant benefits for the region, allowing the integration of climate change mitigation and adaptation strategies into public development policies and plans¹⁸.

Hence, social and environmental areas are windows of opportunity for fostering EU-LAC strategic partnership in the new narrative including China. New cooperation modalities can be built on the existing mechanisms, in order to work towards a more sustainable world. The EU is well positioned to keep playing an active role in Latin America by strengthening existing institutional links.

Conclusion

China and Latin America and the Caribbean trade and relations have boomed over the last decade. China is now a major player in the region; it has out-manuevered the European Union as a trade partner. The situation is alarming for the EU as China is aiming at developing a comprehensive partnership with Latin America. However, EU-LAC partnership still has potential; windows of opportunities for cooperation are mainly regarding sustainable development. There is room for both the EU and China as strategic partners in Latin America, but it is urgent that the European Union strengthens its ties and fosters the relationship today in order not to be overpassed in the region.

¹⁷ A. Bárcena, A. Prado, M. Cimoli, R. Pérez, *The European Union and Latin America and the Caribbean vis-à-vis the 2030 Agenda for Sustainable Development: The Environmental big push*, ECLAC, October 2016, Available from: https://repositorio.cepal.org/bitstream/handle/11362/40670/1/S1601015_en.pdf (accessed November 2018)

¹⁸ Ibid, p100 and European External Action Service (website), *EU-CELAC relations*, 16 July 2018, (accessed November 2018) https://eeas.europa.eu/headquarters/headquarters-homepage_en/13042/EU-CELAC%20relations

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