

The Effects of US-China Rivalry on Latin America and Their Implications

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I. Introduction

The conflict between the United States and China may be the issue of most importance as well as interest to the world, prior to COVID-19. This conflict between the two countries is appearing not only in the economic sector, but also in various field such as politics, diplomacy, and military affairs. The US all-round sanctions and pressure on Huawei, a Chinese company, and retaliatory tariff measures between the United States and China in 2018 are examples of the conflict between the two countries. Such competition between the two countries is likely to escalate further as multilateral systems such as the WTO are threatened and protectionism intensifies in the post-COVID-19 world. Therefore, examining each country's position on the US-China competition, and the impacts of this competition on each country, will improve understanding of these regions and provide implications in the situation of the conflict further escalating.

Even within Latin America, the competition between the two countries frequently appears in a variety of forms. Trade between China and Latin America has increased since the 2000s, and China has officially announced its plans to incorporate Latin America into the Belt and Road Initiative (BRI); that is, China has expanded its influence in Latin America. As the United States is threatened by this increasing influence of China, it seems to employ a number of channels to check China in Latin America.

Under these backgrounds, this current study investigates patterns of US-China competition that have occurred in Latin America by looking into various examples. In addition, the study empirically analyzes how the trade conflict between the United States and China in 2018 affected exports and welfare in Latin American countries.

II. US and Chinese policies for Latin America

The United States proclaimed the Monroe Doctrine in 1823, which warned European nations against pursuing colonialism in the Americas. Since then, the United States has continued to maintain its position as a regional hegemon in the Western Hemisphere. However, China's presence in Latin America began to visibly rise in the early 2000s as US foreign policy focused on anti-terrorism and the Middle East. During this period, trade between China and Latin America and Chinese investment in Latin America increased. In addition, while the United States has not involved itself in domestic and international issues related to Latin America since the 2000s, the "pink tide" in Latin America, or turn to the left, undermined the US position in the region. As a result, Latin America has emerged as a new battlefield between the United States and China.

With the financial crisis in 2008 and the inauguration of President Obama in 2009, the US strategy for Latin America entered a new phase. The Obama administration declared a retreat from US anti-terrorism and Middle East policy, expressed interest in the common interests of the Americas, and made efforts to improve relations with Latin American countries through diplomacy; for example, Secretary of State John Kerry declared the end of the Monroe Doctrine in a speech at the Organization of American States (OAS).

In contrast to the Obama administration, the Trump administration tended to present "stick

and carrot" options to Latin American nations based on the America First policy. Most of the pressures on Latin America were mainly focused on preventing illegal immigration from Latin America. For instance, the Trump administration attempted to phase out the Deferred Action for Childhood Arrivals (DACA), implemented the Migrant Protection Protocols (MPP), and ended the Temporary Protected Status (TPS) program for Haiti, Nicaragua and El Salvador.

However, as China's influence in Latin America gradually rose, the United States made efforts to increase investment in Latin America to restore leadership in that region and expand opportunities for US companies to enter. One of the examples is the Growth in the Americas initiative launched in December 2019, through which the United States attempted to stimulate private investment in the energy and infrastructure sectors in Latin America. Another example is that the United States is making efforts to attract investment in a number of projects in Latin America through the US international Development Finance Corporation (USIDFC), which was established by integrating the existing Overseas Private Investment Corporation (OPIC) and Development Credit Authority (DCA) of the US Agency for International Development (USAID).

China's strategy toward Latin America has revolved around economic relations rather than political, diplomatic, or military purposes. Based on this relationship, China has become a major trading partner and investor in Latin America after the mid-1990s. Recently,

China's advance into Latin America, hitherto limited to trade, investment, and financial cooperation, has branched out into efforts to strengthen political and cultural cooperative relations. In particular, the "One China" policy has been actively implemented by signing strategic alliance agreements with Latin American countries in the midst of the pink tide, a political transformation period in Latin America.

Such a strategy for Latin America has been specified in Chinese policy documents for Latin America published in 2008 and 2016, which include a roadmap for promoting the relationship between China and Latin America in politics, economy, society, culture, education, and technology. After the first policy paper on Latin America was issued, China and Latin America jointly proposed a framework for fundamental cooperation at the China-Latin American Summit held in Brazil in July 2014. The proposed framework consisted of one plan, two growth engines, and six areas for cooperation.¹ Since this framework was formalized at the first China-CELAC Forum, it has been implemented, evaluated, and developed through the forum. Furthermore, China attempted to include Latin America in its foreign policy by releasing a special statement on the Belt and Road Initiative (BRI) at the second China-CELAC Forum. This was an opportunity for some Latin America nations to actively participate in the BRI.

¹ One plan: Achieving comprehensive growth and sustainable development; Three growth engines: \$500 billion in trade in 10 years, \$250 billion of investment in Latin America, and Dynamic Currency Conversion and currency swaps expansion;

China's strategy for Latin America and advancement through the BRI intensified conflict with the United States in the region. In the face of this conflict, the Trump administration appeared to exert diplomatic pressure by warning Latin American countries about Chinese capital being invested in Latin America. These pressures worked in some countries, in which Chinese capital was excluded from infrastructure projects. In the next chapter, we look into cases of conflict between the two countries in Latin America.

III. Examples of US-China conflict in Latin America

Conflicts between the United States and China in Latin America tend to occur mainly in the infrastructure sectors – some of these examples are the Tehuantepec Transisthmian Corridor project in Mexico, Panama-David railroad project in Panama, and submarine optical cable in Chile. We briefly look into these cases and draw implications from them.

The Tehuantepec Transisthmian Corridor project aims to construct a railroad linking the port of Salina Cruz in Oaxaca and the Port of Coatzacoalcos in Veracruz, improve the existing infrastructure of each port, and construct a new industrial complex in the ports. China has shown an interest in this project since 2013.

Six areas: energy/resources, infrastructure, construction, science and technology innovation, agriculture, manufacturing, and information technology.

However, President Andrés Manuel López Obrador (AMLO) said in 2019 that the project will be funded only by public and private investment of Mexico and will exclude foreign investment.

The Panama-David railroad project, one of the key cooperation projects between Panama and China, is to construct a railroad that connects the states of Panama, Coclé, Herrera, Veraguas and Chiriquí. President Varela established diplomatic relations with China after its break with Taiwan in June 2017, and visited China for the first time as Panamanian president in November 2017. As a result, Panama became the first country in Latin America to participate in the BRI, and China promised to conduct a benefit-cost analysis for the railroad project as part of the BRI. The analysis evaluated the project as securing sufficient economic profitability. However, President Cortizo, who took office in 2019, decided to discontinue the railroad project 65 days after taking office, stating there were many infrastructure projects more important.

Chile has been promoting the Asia-South American submarine optical cable project since 2018, launched to connect the Asia-Pacific region and South America by establishing a submarine network between the two regions. Previously all data between Asia and South America had to go through the United States, whereas this submarine optical cable project is the first digital linkage project to directly connect both regions. China, which showed interest in this project, proposed a network route to the Chilean government with Shanghai as the

destination for the submarine cables, and lobbied the government to win the project. However, as the Chilean government ultimately chose another submarine cable route proposed by Japan, it is very unlikely that China will win the project in the bidding competition.

In addition to these cases above, there were other cases in which US-China conflict has manifested in Latin America: for example, the shared network (Red Compartida) project in Mexico, Neuquén state space station in Argentina, and international bidding for the 5G construction project in Brazil. These additional cases also exhibit the conflict between the two leading countries in the infrastructure sector.

Interestingly, a meaningful pattern emerged from the examples of the US-China conflict in Latin America. First, the conflict mainly occurred in the infrastructure sector. This is because China has long been interested in the sector, and in particular, the decision to incorporate Latin America into the BRI has intensified its entry into the sector. Second, the United States pressured Latin American countries to choose between the United States and China, with the results of this pressure depending on the political orientation of the ruling government. That is, the US pressure worked in pro-American right-wing regimes, whereas left-wing regimes seemed to pursue practical benefits. Third, in the US-China conflict, China appeared to establish its position in Latin America by criticizing the United States rather than pressuring Latin American countries. This strategy by China could be due to its lack of means to effectively press Latin America.

IV. Impact of the US-China trade conflict on Latin America

In addition to the US-China conflict within Latin America, US-China conflicts appearing outside Latin America could affect countries in these regions. One of the examples is retaliatory tariffs imposed between the two countries. In this chapter, we analyze the impact of the trade conflict on Latin America, focusing on exports of Latin American countries to the United States, exports to China, and welfare in these countries.

On the one hand, imposing tariffs between the United States and China could have an income effect, leading to a decrease in global trade volume: this would lower exports of Latin American countries to the United States and China. On the other hand, both the United States and China could substitute expensive goods led by the tariff imposition with goods from other countries: this would increase the exports to the United States and China. Through these channels, the tariff imposition could affect exports and welfare in Latin American countries.

In order to investigate the impact of retaliatory tariffs between the two countries on Latin American countries' exports and welfare, we employ an event analysis for exports and computational general equilibrium (CGE) model for welfare, with Argentina, Brazil, Mexico, and Chile as the subject of our analysis. Based on the outcome of the event study, Brazil's exports to the United States moderately increased due to the tariff imposition, and such an effect

persisted for short term. Its exports to China rose considerably immediately after the tariff imposition, and then the impact tended to decrease over time. By contrast, it is difficult to conclude that the tariff imposition had a statistically significant and lasting effect on the exports of the remaining three countries – Argentina, Mexico, Chile – to the United States and China.

The surge of Brazil's exports to China could be due to the interdependent relationship between the United States, China, Brazil on the soybean trade. However, the remaining three countries did not show a significant impact on their exports, which could result from some channels. One of the possible explanations is that the substitution effect leading to an increase in exports, and the income effect leading to a decrease in exports, could have offset each other, resulting in the findings that the total effect was not statistically significant. Another possibility is that neither the income or substitution effects were statistically significant. Examining which channel caused the insignificant impact for the three countries will be left for future research.

As a result of the analysis using the CGE model, meanwhile, the tariffs imposed between the United States and China increased the welfare of Latin American countries. Mexico's welfare rose by 0.195 percent, whereas other countries such as Argentina, Brazil, Chile, Peru, and Colombia recorded an increase from 0.01 percent to 0.025 percent, showing that Latin American nations did not seem to enjoy a considerable effect.

V. Conclusion

This current study investigated the conflict between the United States and China in Latin America. To this end, we examined the policies of the United States and China toward Latin America, cases of conflict between the two countries, and the impact of the trade conflict in 2018 on exports and welfare of Latin American countries.

The United States perceived Latin America as its own “backyard” and occupied the region as a regional hegemon. This is because Latin America is geographically close to the United States and critical for US security. With this historical background, China’s advance into Latin America, which began to increase in 2000s, caused a number of conflicts with United States in the region. These conflicts mainly occurred in the infrastructure sector, and the positions of the Latin American countries were dependent on the political orientation of their regimes at the time. Most of the effects of the tariff imposition on Latin American countries’ exports were not statistically significant, or even if they were significant, the effects were not sustained. Similarly, the analysis using the CGE model presented that the impact of the tariff imposition on the welfare of Latin American countries through trade was moderate or imperceptible.

In the US-China conflicts, when Latin American countries tried to exclude China from infrastructure projects, China tended to criticize the United States through official channels, but did not react with strong measures against the Latin

America countries. This attitude on the part of China could expand the opportunities for Korean companies to enter the infrastructure sector in Latin American markets, where these companies are competitive. In other words, as efforts are made to rule out Chinese capital, Korean companies could win projects that Chinese companies participate in. Therefore, it is more important than ever to keep an eye on the political situation in Latin American countries should the US-China competition further escalate. **KIEP**