

## CHAPTER 1

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### *Introduction*

#### ASSESSING LATIN AMERICA'S RELATIONS WITH THE ASIAN GIANTS

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**S**ince China adopted a “going global” strategy at the start of the twenty-first century, much has been written about its rapidly growing international presence, particularly in developing regions such as Southeast Asia, Africa, and Latin America. Sino–Latin American relations deepened considerably in recent years, to the point that we can refer to the first decade of the twenty-first century as “Latin America’s China decade” (as Kevin Gallagher and Rebecca Ray do in chapter 4). In fact, while China was barely present on the region’s radar screen in the previous decades, today it is difficult to imagine any discussion of Latin America’s economic future without mentioning China as an important player.<sup>1</sup> However, as predicted early on, Latin America’s trade relationship with China has been characterized by commodity-based exports from the region and manufactured imports from China that compete with local economic growth sectors. Although the China-driven commodity boom clearly helped the region weather the global financial crisis that erupted in 2008–09, Latin America’s policymakers are increasingly preoccupied with the unbalanced nature of their trade relationship with China, particularly as the Asian giant faces an economic slowdown and global commodity prices are on a downward trend.

India, on the other hand, is only just beginning to emerge as a potentially important player in Latin America. Whether or not it will become

“Latin America’s next big thing” remains an open question, but, as noted by the Inter-American Development Bank, “any cursory analysis of the complementarity between the two economies shows that the potential for massive bilateral trade is there; not unlike that which the region has been experiencing with China.”<sup>2</sup> While India offers some interesting parallels to China’s engagement with Latin America in terms of the size of its market, similar complementarities, and south-south diplomatic cooperation opportunities, some contrasts stand out, such as its strong democratic traditions and its service-driven insertion into the global economy. The main impediment to deeper relations between India and Latin America has thus far been the high cost of trade stemming from tariffs, nontariff barriers, and transportation costs. New diplomatic overtures on both sides have shown encouraging signs that these challenges can be overcome. If so, the prospects of a virtuous circle, in which more trade leads to greater cooperation and greater cooperation in turn leads to more trade, are promising.<sup>3</sup> The question for Latin American policymakers is how to build a balanced partnership by applying some of the lessons learned from the region’s relationship with China.

This volume explores key policy concerns with respect to Latin America’s evolving relationship with the Asian giants. In part I, the authors offer various perspectives on the expanding role that China and India are playing in Latin America, including an assessment of Latin America’s changing global and geopolitical priorities (chapter 2), a south-south analysis of Indo–Latin American relations (chapter 3), and a compilation of short commentaries by leading experts and practitioners on Sino–Latin American relations, the growing ties between India and Latin America, and the opportunities and risks the region faces going forward (chapter 4). Part II takes a closer look at critical policy questions, including energy (chapter 5), food security (chapter 6), trade (chapter 7), migration (chapter 8), and broad security considerations (chapter 9). In part III, the authors offer diverse regional perspectives on key case studies: Chile as a bridge to Asia (chapter 10), Mexico as a case of weak institutional capacity in dealing with the Asian giants (chapter 11), and Argentina and Brazil as key regional players that have bet on Mercosur as a potential vehicle for greater international insertion (chapter 12). Part IV (chapter 13) offers a set of possible future scenarios for Latin America’s relations with China and India. This introductory chapter presents an overview of the main questions explored in more detail in subsequent chapters, with the objective of providing a general basis for coherent analysis of the volume as a whole.

**LATIN AMERICA'S ASIA STRATEGY: CHANGING DYNAMICS**

In chapter 2, Riordan Roett provides a brief historical analysis leading up to Latin America's recent interest in trade and investment with Asia, portraying it as a hallmark of the present century and a manifestation of an emerging economic development model in the region. An important historical reference is the so-called resource curse that plagued the region in the post-independence era (1820s to 1940s). The newly independent states opted for insertion into the global free trade system, relying on commodity exports and capital goods imports for their economic development. However, Latin America soon fell victim to external shocks that are part and parcel of global cyclical patterns. World War I, the Great Depression, and World War II were particularly difficult periods for the region.

By the 1940s, most countries in Latin America had turned away from an export-led growth model and had instead adopted an inward-looking development strategy known as import substitution industrialization, which eventually proved inadequate in the face of globalization and the region's inability to compete in the international trading system with locally produced higher-priced, lower-quality products. Following the debt crisis and the "lost decade" of the 1980s, the region adopted a new model of economic and political liberalization known as the Washington Consensus, with different levels of success. By the late 1990s, a number of countries in the region had begun to vocally condemn the liberalization trend and revert to state-led—and heavily populist—economic development strategies, epitomized by the rise of Hugo Chávez in Venezuela. It is against this backdrop that China's emergence in the region changed Latin America's development outlook.

Roett describes the region's pivot to Asia as a redirection of trade and investment as well as a recognition of geopolitical opportunities, underscoring the importance of the Trans-Pacific Partnership (TPP) and the Pacific Alliance as historical shifts redefining global priorities. As concerns about overreliance on the Chinese market grow, India is becoming an interesting trade and investment alternative for Latin America. According to Roett, it is imperative that the region maintain an outward-looking posture; as he writes, "The TPP and the Pacific Alliance offer, selectively, an exit from failed or moribund regional groupings that remain highly exclusive and inward-looking."

Chapter 3 offers an overview of Latin America's incipient economic engagement with India. After a brief history of Indo-Latin American relations, Jorge Heine and Hari Seshasayee focus on the current state of

the relationship, taking the 1990s, when both sides adopted neoliberal policies, as a turning point. India's impressive growth in the 2000s, coupled with its enormous market and demand for commodities, set in motion a growing momentum for deeper commercial and other ties. To date, the main areas of Indo–Latin American economic interaction have been energy, mining, information and communications technology (ICT), pharmaceuticals, and motor vehicles. As the authors note, these relationships are maturing from being merely transactional to developing into deeper engagement through investment and joint ventures. Among the gaps that need to be addressed through enhanced political efforts on both sides are tariffs and other market access barriers, distance-related connectivity, and general knowledge and information access.

India's engagement with Latin America has occurred primarily through bilateral channels. The authors note that there is room to strengthen collaboration in areas of mutual interest, particularly in international forums such as the United Nations. They also argue that India needs to adopt a more nuanced approach to Latin America by differentiating among three different regional subgroupings, each of which offers different opportunities. Although it is still early to gauge whether India's government will invest in deepening Indo–Latin American relations or will instead follow an "India-first" strategy focused on addressing domestic challenges, it is expected that closer ties between the two regions will continue to develop.

#### REGIONAL POLICY PERSPECTIVES

In chapter 4, various leading specialists provide short opinion pieces on Sino–Latin American relations and the growing importance of India in the region. As Sun Hongbo argues in his commentary on Sino–Latin American relations from the Chinese perspective, a number of hurdles will need to be addressed in the coming years. Uncertainty regarding the implications of China's economic slowdown and the structural reforms under way, coupled with the uncertainty derived from Latin American political cycles, will undoubtedly influence how policymakers think about the future of the relationship. Mutual trust also needs to be strengthened. As Sun notes, skepticism about China's activities and incentives in the region remains an issue, as fears regarding "financial imperialism" and deindustrialization persist. Expanded Chinese financing in infrastructure and other areas could open the door to diversification into non-commodity sectors, greater Chinese development aid, and technology transfer.

Xiang Lanxin offers another perspective on China's diplomatic strategy in the twenty-first century, which he characterizes as one focused on managing its very different bilateral relations across the globe while at the same time promoting the country's "peaceful rise" and a "harmonious world" in light of the perceived decline of the United States in a multipolar world. In this context, China has established a set of "strategic partnerships" with Latin American countries, increasingly displaying a more comprehensive approach to Latin America that includes a geopolitical calculation.

Xiang posits that there are three main reasons China now views Latin America as an important geopolitical asset: (1) China's deepening ties with Latin America will put pressure on the United States, distracting it from the proposed "pivot to Asia" diplomatic initiative; (2) the Chinese policy establishment believes Latin American countries will consider China a viable counterweight to U.S. hegemony in the region; and (3) as a member of the BRICS bloc—Brazil, Russia, India, China, and South Africa—which China envisions as a major vehicle for collective south-south leadership in reshaping global economic policymaking, Brazil is viewed as China's anchor in the region. He argues that while Chinese investment in the region is not helping local industry as much as it could, the threat of deindustrialization is overblown. In addition, China has a long-term interest in Latin American prosperity and stability, and as Chinese wages rise, Latin America will be better able to implement a more effective set of policies to make its manufacturing sectors more competitive. Although China has applied a consistent strategy across the region, the future of Sino–Latin American relations hinges on a set of diverse responses from the Latin American countries facing different challenges associated with the bilateral relationship.

Jorge Guajardo presents a Latin American perspective on China's growing presence in the region. He argues that the commonly accepted narrative that China offers important economic opportunities for Latin America as well as a geopolitical counterpoint to U.S. influence is too simplistic. To better understand Sino–Latin American relations, he proposes three considerations: (1) China is driven almost entirely by economic self-interest; (2) Latin American economies are diverse, and hence generalizations at the regional level are not appropriate; and (3) a number of policy options are available to Latin American policymakers to maximize the benefits and minimize the costs of engagement with China.

Several problems with the current dynamics in Sino–Latin American relations stand out. Chinese loans to the region are often made on less favorable terms than those by Western creditors and often include requirements to purchase Chinese equipment or hire Chinese labor, limiting

the benefits of investment. Trade patterns are making Latin America overly dependent on extractive industries and restricting competitive growth in manufacturing sectors. Also, Chinese state-owned enterprises (SOEs) tend to operate in a nontransparent fashion, sometimes leading to misunderstandings in democratic environments where public support for projects is essential.

So what can be done to address these issues? In line with the approach offered by Robert Devlin and Theodore Kahn in chapter 7, Guajardo outlines how policy options vary according to the different economic profiles of Latin American countries. Major manufacturers such as Mexico compete head-to-head with China and hence have less to gain and more to lose from increased Chinese influence in the region. In these cases, priority should be given to blocking anticompetitive practices such as unfair domestic subsidies and dumping policies, while also taking advantage of areas where there are clear benefits (such as participating in the TPP) and complementarities (Mexico could gain from promoting tourism and expanding agricultural trade with China). Major commodity producers such as Brazil and Chile should focus on diversifying away from a China-centric export strategy through trade agreements with countries outside the region (for example, through the TPP) or by incorporating industry and services provisions in bilateral agreements with China. Further developing tourism industry opportunities and taking a more cautious approach to infrastructure investments are other mechanisms at their disposal. Central American countries have limited natural resources and small manufacturing sectors (with the exception of Costa Rica). These countries may benefit from Chinese foreign direct investment (FDI) in apparel and other low-tech manufacturing, areas where they may have a labor cost advantage. They may also benefit from increased agricultural trade and infrastructure development deals with China. Finally, countries lacking access to global financial markets, such as pre-Macri Argentina and Venezuela, should carefully weigh their options, particularly if Chinese financial deals are worse than default in the long run.

Kevin P. Gallagher and Rebecca Ray outline both the benefits and risks associated with linking Latin America's development strategy with China's recent economic boom. Latin American exports to China grew faster than exports to the rest of the world, but they were mostly limited to primary commodity sectors. Chinese finance in the region also grew significantly in the first decade of the twenty-first century—to the point that it rivaled financing from the World Bank and the Inter-American Development Bank—although FDI remained relatively low, as noted by Anthony Boadle in chapter 4.

Gallagher and Ray highlight some of the risks associated with Latin America's economic ties with China. On the one hand, both exports from the region and finance from China—which have predominantly focused on the extraction, mining, and agricultural sectors—have created incentives for deindustrialization (and related low job growth), environmental degradation, and social conflict. On the other hand, overreliance on commodity exports without sound countercyclical measures—such as investing a portion of the high returns associated with the commodity boom in economic upgrading and diversification, environmental protection measures, and savings for future downturns—left the region vulnerable to China's economic slowdown and a return to volatile global commodity prices. As various authors in this volume point out, demand for commodities from China and other growing economies, particularly India, is likely to remain high. The key will be for Latin America to think more strategically going forward in order to mitigate the above-mentioned risks.

Regarding India's perspective on Latin America, in chapter 4 Deepak Bhojwani argues that the country's foreign policy priorities have shifted along with its impressive economic growth in the past decades. But only recently has India focused on the potential that Latin America has to offer, particularly that emanating from significant economic complementarities. As noted by various authors, Indo–Latin American trade grew significantly in the 2003–2013 decade, but it is highly skewed toward hydrocarbon imports from India. However, excess Indian refining capacity has led to Latin American imports of petroleum products from India. According to Bhojwani, the main hurdle for greater Indian investment in the region's energy sector is financial; in his words, India “does not have pockets as deep as the Chinese and is far more stringent on the bottom line.”

Politically, Bhojwani notes, some Latin American countries also fail to inspire sufficient investor confidence. Food security is another area of complementarity—India has the second-largest population in the world and, in contrast to Latin America, its land-population ratio is poor, as are its agricultural output and water resources. However, lack of familiarity with local conditions, coupled with unfavorable land tenure laws, has discouraged Indian investment in the agricultural sector. Cooperation in security and technology has been limited, and though trade and investment have yielded better results, tariffs and nontariff barriers, transportation costs, and poor connectivity all remain significant obstacles. Bhojwani argues that “India needs to take the initiative to establish better connectivity, and above all, it needs to realize the importance of political approximation as the catalyst for economic partnership.”

Furthermore, he states, “India must make up for lost time. Its foreign policy establishment has suffered from insufficient political acknowledgment of the partnership that is on offer with Latin America.”

Rengaraj Viswanathan provides a perspective on India’s ties with the four countries analyzed as case studies in Part III of this volume—Argentina, Brazil, Chile, and Mexico—which account for about half of India’s trade with the entire Latin American region (\$20.43 billion in 2013), with Brazil and Mexico accounting for the bulk of this share (trade with Brazil was about \$10 billion and trade with Mexico was about \$6 billion that same year).<sup>4</sup> However, as he points out, India is not likely to follow in China’s footsteps and become a major trading partner of these countries in the near future (in 2013, China’s trade with these four countries was ten times that of India’s). Nonetheless, India will remain a top destination for certain exports, such as crude oil from Brazil and Mexico, soy oil from Argentina, and copper from Chile.

Viswanathan argues that, in general, Indian companies enjoy a more positive image in Latin America than their Chinese counterparts, which can only help deepen bilateral ties as governments on both sides increasingly work toward achieving shared goals, both at the global level and in terms of bilateral relations. He states that Modi’s government is likely to be more proactive on foreign policy initiatives and predicts that trade between India and the four case study countries will likely continue to grow at a pace of 15–20 percent annually.

Anthony Boadle reiterates how China’s economic slowdown has highlighted Latin America’s overreliance on commodity exports to China and how the region is facing the possibility of deindustrialization as a result of competition from Chinese manufactured imports. In addition, he argues, Latin American countries face structural difficulties in their trade relationship with China, such as physical distance and the lack of a level playing field regarding state regulations. In terms of investment, similar patterns have emerged. Most of China’s investment in Latin America has gone into extractive industries, and promised Chinese investment in infrastructure projects has in many cases stalled. As Boadle notes, Chinese investment in the region is very small in proportion to the volume of Sino–Latin American trade. A good portion of financial flows into the region has come in the form of “loans-for-oil” deals with countries such as Venezuela, and in 2010, Chinese loans to Latin America exceeded those of the World Bank, the Inter-American Development Bank, and the U.S. Export-Import Bank combined. While these loans generally come with higher interest rates than loans from the international financial institutions, they have less restrictive conditions attached



to them. Investment in China by Latin American companies has been very limited.

Boadle also looks into the role that India, an emerging player in Latin America, might have in the region's future. As various contributors to this volume point out, India presents an opportunity for Latin America to diversify away from China, although trade with India thus far has been much more modest and has followed a similar commodities-for-manufactures pattern. However, India may have more to offer, given its share of services in its exports and more sophisticated, private sector-led investments. Like other contributors, Boadle notes that Indo-Latin American trade is expected to continue growing, and India is seen as a new potential source of technology transfer in the region.

### KEY POLICY ISSUES

The main areas driving relations between Latin America and the Asian giants are energy resources, food security, and overall trade complementarities. New policy considerations are also rapidly emerging, such as migration trends and changing security and geopolitical realities. Part II of this volume takes a closer look at the latest developments in these key areas and explores policy options for the future.

In chapter 5, Francisco González offers an overview of Latin America's energy landscape, focusing on the strategies and policies of the region's main hydrocarbon producers to maximize the benefits—and also minimize the costs—of their growing energy ties with China and India. In the first decade of the twenty-first century, China significantly increased its presence in Latin America's energy sectors, particularly in hydrocarbon exploration, production, and refining, as well as in storage and transportation. Although India is only just emerging as a potentially important player, more than half of its overall trade with Latin America in 2013 was in crude oil (\$22 billion out of \$42 billion).

Also since the start of the twenty-first century, Latin America's energy markets have been hit by several external shocks. The first was a positive demand shock resulting from the rapid consumption growth in China and the United States. The second was a negative supply shock caused by disruptions in conflict areas where there is significant oil production (such as Iraq, Libya, and Nigeria). The third was the shale revolution, which since the mid-2000s has caused a positive supply shock to fossil fuel markets across the globe. González posits that the shale industry will likely be a game changer in Latin America, where traditional

oil exporters to the United States (Mexico and Venezuela) are being displaced by domestic U.S. shale oil producers.

He also notes that the international energy landscape has led to two main approaches to energy policy in Latin America: a statist one (in Bolivia, Ecuador, and Venezuela, and to a lesser extent in Argentina and Brazil) and a more business-friendly one (in Colombia and Mexico—since its recent and historic energy sector opening—and Peru). Such diversity makes it difficult to generalize how China and India will engage the region's energy sector in the future, but it is clear that energy security concerns will continue to drive the Asian giants' energy ties with Latin America. González points to the possibility that the twenty-first century will indeed turn out to be the “Asian century” as a sound business proposition for Latin American hydrocarbon producers; in this context, he provides a set of rational scenarios for Chinese investment in the region, and for Latin American energy policy in the coming years.

On the issue of food security, Mariano Turzi (chapter 6) explains how more intense competition for food resources, in particular agricultural goods, is increasingly linking Latin America and Asia and framing an important part of the broader international relations discourse. He lists four main factors affecting the growing demand for food commodities. First, global population growth, a greater concentration of urban population, and longer life spans have resulted in a structural upward shift in food demand. Feed for livestock is another important driver of agricultural demand. Biofuels production has, to some extent, affected demand for certain food crops when high oil prices have made it an economically rational alternative. Finally, the so-called financialization of food commodities has also had an impact on food prices—the commodities futures market grew from \$13 billion in 2003 to an impressive \$412 billion in 2012.

With regard to China, where food supply is limited by land and water constraints and demand exceeds supply, Turzi notes the following: “As relative food scarcities continue to deepen and move the world into a new age of geopolitical and geoeconomic competition, securing agricultural resources in Latin America is fast becoming a priority of Chinese foreign policy and a key element in guaranteeing food security. For Beijing, the strategic aim of securing supplies is directly linked with guaranteeing social stability and regime preservation.” Deeming free trade an insufficient source of food, China has pursued its food security interests in Latin America primarily through SOEs to build its own “state-owned international food supply chain.”

Like China, India is also drawn to Latin America by food security interests. However, India's engagement with the region has been driven

primarily by private agribusiness actors. As such, the Indian government's food security interests align with those of profit-seeking enterprises, and rather than "crowding out" local participation in food value chains as the Chinese SOEs do, Indian investments allow for "synergistic integration" between local and foreign actors at different stages of the value chain.

On the supply side, Latin American countries face a number of challenges beyond those related to commodity-based trade patterns and economic structures, including climate change, decreasing water resources as a result of mismanagement and pollution, and land degradation. Turzi contends that the region lacks adequate policy responses to many of these issues and that too often, short-sighted political cycles drive government priorities. Overall, it is clear that food security is an increasingly important issue, with global characteristics and implications, and that China and India are playing a key role in reshaping agricultural structures, international networks, and trade patterns simply by virtue of their market size. Turzi argues that, as suppliers of much-needed agricultural resources, Latin American countries have some leverage to negotiate better trade and investment deals with the Asian giants and other interested parties. Looking ahead, the countries in the region have a unique opportunity to capitalize on their agricultural comparative advantage to better serve their development needs by taking a more proactive approach to defining the changing dynamics of global food security networks.

In chapter 7, Robert Devlin and Theodore Kahn offer an interesting analysis of the role of trade in Latin America's growth and economic development. They posit that the region needs an effective "business plan" or policy strategy for trade to be a driver of sustained growth and productivity. Any such business plan would inevitably include China and India because of the size of their economies, but it must also consider how to better leverage existing opportunities both in Asia and other regions—particularly close to home, within the Western Hemisphere.

Devlin and Kahn differentiate between two subregions in Latin America when analyzing the effects of increased trade with China in the 2003–2013 decade. South America's exports are dominated by commodities and its imports by manufactured products, whereas in the Mexico–Central America–Dominican Republic (DR) subregion both exports and imports are dominated by manufactured goods. These different profiles have led to different outcomes vis-à-vis trade with China. South American countries have registered trade surpluses, even if in some cases (Argentina and Brazil, in particular) the manufacturing sector has suffered owing to competition from cheap manufactured imports

from China. In the Mexico–Central America–DR subregion there has been a clear displacement of domestic producers of manufactured goods, while there has been little or no gain from Chinese demand for commodities, resulting in considerable trade deficits with the Asian giant. Trade with India, on the other hand, has been quite small in comparison, with only a few countries considered significant trade partners (Venezuela and Colombia). However, volume aside, the patterns are similar to those of China’s trade with the region: natural resource–rich South America has registered trade surpluses with India while the northern countries of the region have registered trade deficits.

Although reversing the commodities-for-manufactures pattern of trade between Latin America and the Asian giants may not be feasible in light of resource endowments and complementarities, Devlin and Kahn argue that there is still room to use Asian-driven demand for commodities to finance upgrading strategies. At the core of these strategies should be promoting competitiveness and productivity through enhanced industrial policies aimed at research and development, diversification of exports and production, and participation in global value chains to upgrade into higher-value-added activities. The authors also suggest taking a closer look at regional markets—Latin America and North America—as part of their strategies to diversify and upgrade, in light of the advantages of intraregional trade in terms of greater value-added and diversity of products.

Migration is becoming an increasingly important issue in Latin America’s relations with China and, to a lesser degree, India. As Jacqueline Mazza explains in chapter 8, the changing migration trend lines are cause for new tensions and also opportunities as Chinese and Indian investments in the region reach new heights. Although existing data most likely fail to capture the true extent of migration flows, clear patterns emerge when one examines the trend lines: Chinese migration to the region is concentrated in South America, while Indian migration, seven times smaller than China’s, is mainly to Central America and the Caribbean. Chinese migration is most notable after 2005, and Mazza distinguishes three main types: (1) workforce migrants (mostly low- and medium-skilled male workers), tied to investments or donations, (2) independent diaspora-linked migrants, and (3) transit migrants whose final destination is the United States or another country in the region. In recent years, a fourth category—human trafficking and criminal migration related to Chinese gangs—has become a notorious issue in some countries. Indian migration to the region since 2000 has shown a steady increase, but it remains relatively small and quite limited geographically.

The main source of tension stemming from Chinese migration is related to local employment, namely, the secrecy surrounding Chinese

labor flows—particularly in areas where there is high unemployment—and the compound living conditions of labor migrants, which prevents them from integrating into the local communities. Mazza posits that Latin American policymakers will need to think more strategically with regard to Chinese and Indian investments in the region and aim for better integration with the local labor markets and greater gains for local workers, noting that “migration in a more mobile and global world economy is, or could be, a more integrated feature and player in the future economic advances of Latin America, China, and India.”

The security dimension of China’s and India’s engagement with Latin America is addressed by R. Evan Ellis in chapter 9. As in other areas of bilateral relations, China has developed a much greater presence in the region than India, but in both cases, military activities by the Asian giants in Latin America are more significant than most people realize, particularly in recent years. From arms sales to military-to-military ties, coupled with broader issues linked to commercial ties, reduced U.S. influence in the region, and the survival of populist regimes in Latin America, Ellis argues, such military engagement is fundamentally changing the security dynamics of the Western Hemisphere.

Chinese arms companies have sold sophisticated military systems to Venezuela and other politically sympathetic members of the Bolivarian Alliance for the Peoples of Our America (ALBA), namely, Bolivia and Ecuador. Sales have included radar systems, fighter aircraft, military transport aircraft, amphibious assault vehicles, rocket launchers, and self-propelled grenade launchers, along with less sophisticated nonlethal products. Attempts to expand sales to other countries, such as Argentina and Peru, have been less successful owing to various setbacks and last-minute cancellations, but expanded sales in the region appear to be moving forward. In this regard, not only has China expanded arms procurement options for rogue states like Venezuela, which cannot purchase arms from the United States, but it has done so offering generally lower prices than competitors, along with financing from Chinese banks.

Indian military sales to the region have been modest in comparison, and they have been limited primarily to light helicopters and light military trucks. However, joint efforts between India’s Defense Research and Development Organization (DRDO) and Brazil’s Ministry of Defense and the aircraft company Embraer have led to the production of an airborne radar platform. Also, in early 2014, the Indian Ministry of Defense authorized the sale of hypersonic missiles, in which Venezuela has expressed an interest.

Among the concerns generated by arms sales in the region is the fear that sophisticated weapons could make their way into the hands of

organized crime and terrorist organizations. Furthermore, as commercial interests drive efforts to improve transport and other infrastructure networks within Latin America, illegal activities will also find easier access to previously isolated areas. A more established physical presence of Asian companies and other actors in Latin America could also translate into greater economic and other “soft power” leverage in the region. Trans-Pacific organized crime is also of growing concern. A higher incidence of human trafficking, drug trafficking, sales of contraband goods and precursor chemicals, money laundering, and illegal trade in minerals is evident, and governments on both sides of the Pacific have proven ill-equipped to deal with these challenges. Finally, Ellis argues that the growing influence of the Asian giants in the region could not only indirectly help prolong the life of anti-U.S. populist regimes (particularly in the case of China’s engagement with Venezuela and Ecuador) but also reshape future military scenarios should there be, for example, a confrontation between the United States and China, as some Latin American governments could opt to side against the United States and allow China access to strategic ports, airfields, and other infrastructure.

#### **CASE STUDIES: CHINA, INDIA, AND KEY ACTORS IN LATIN AMERICA**

Looking ahead, it is important to consider the role of certain key countries in the context of Latin America’s pivot to Asia. Part III focuses on the case studies of Argentina, Brazil, Chile, and Mexico. The three South American countries account for the bulk of the region’s exports to China—in fact, they are among a handful of countries in the region that can boast an accumulated trade surplus with China throughout the first decade of the twenty-first century and the early 2010s. Mexico, in contrast, competes directly with China, both in terms of export products (composed primarily of manufactured goods) and U.S. market share. Compared to its aforementioned South American neighbors, Mexico’s exports to China are rather limited, but it is the largest recipient of Chinese exports to the region. Hence, several authors differentiate between the South American commodity exporters and countries such as Mexico, whose experiences with China differ considerably. India’s engagement with these countries has thus far shown some similar patterns, although important differences are also highlighted by various authors.

Also of relevance when considering the four case studies is the notion that there are two distinct blocs in Latin America that differ considerably in their regional and cross-regional economic and diplomatic strategies. The first bloc is integrated by Pacific-facing nations—in particular

the members of the Pacific Alliance, Chile, Colombia, Mexico, and Peru—whose preferred development models are based on liberal principles, free trade, and closer ties to the United States. The second bloc is composed of Atlantic-facing nations—in particular Mercosur members Argentina, Brazil, and Venezuela—whose preferred strategy is to give the state a leading role in economic development and whose general tendency is to be wary of U.S. influence in the region.<sup>5</sup> These different approaches have influenced the way individual countries in each bloc view the opportunities and risks associated with greater engagement with the Asian giants.

Alicia Frohmann and Manfred Wilhelmy (chapter 10) explore Chile's position as a possible bridge between Latin America and Asia. They argue that the idea of a bridge country is a misguided self-perception by Chile with a fundamentally unilateral character, and that neighboring countries have developed their own strategies to deal with the Asian giants. The authors note, however, that a central challenge for most Latin American countries is scale: compared to the much larger Asian economies, South American economies (except Brazil) have limited leverage over Asian countries in bilateral negotiations. Hence, subregional blocs—in particular the Pacific Alliance and Mercosur—are critical when seeking to deepen trade relations. Although a number of formal integration efforts within Latin America have suffered serious setbacks, *de facto* regional integration through investment, trade, and migration has raised Chile's profile regionally and globally (for example, Chilean “multinationals” have successfully established operations in several Latin American countries). Chile is thus well positioned to play a relevant role in strengthening regional ties with Asia through its growing economic presence in the region and its participation in key groups such as the Pacific Alliance and Mercosur.

In chapter 11, Enrique Dussel Peters explains how Mexico has been slow to place Asia in focus in terms of policy planning, noting that the government's 2013 national strategic plan, the Plan Nacional de Desarrollo 2013–2018 (PND), is the first to offer specific goals with regard to Asia. Over the course of the first decade of the twenty-first century, China became Mexico's second-largest trading partner, but Mexico faces important competition in key manufacturing sectors and a considerable trade deficit with the Asian giant. Much like its Latin American neighbors, Mexico risks increasing the “*primarization*” of its export basket. In addition, Chinese investment in Mexico has been scarce. In recent years, government efforts on both sides have emphasized the importance of increasing Chinese investment in Mexico. India, on the other hand, appears to be ahead on the investment front. India does not make the

list of Mexico's top ten trading partners but has, since the 1990s, significantly increased its investment presence in the steel, manufacturing, and software sectors. Dussel Peters writes that "there is an increasing gap between [Mexico's] growing economic ties [with China and India] and the [country's] institutional capacity to address this new reality." He proposes strengthening Mexico's bilateral ties with the two Asian giants, rather than relying on multilateral forums such as the TPP and the Pacific Alliance, by investing in existing and new institutions.

In chapter 12, Henrique Altemani de Oliveira offers a perspective on Mercosur's leading members, Argentina and Brazil. He argues that rather than an "Atlantic" strategy, Mercosur was a gamble on Southern Cone regionalism as an alternative to broader integration schemes, and at the core of its political agenda was the notion that the United States has never had a genuine interest in regional integration with Latin America. Further, Altemani perceives Mercosur as an effort to bolster regional cooperation, noting that "the fact that the region now features different models of economic development and different political regimes does not represent the rise of antagonistic blocs." In this regard, he considers cooperation between the Pacific Alliance and Mercosur as likely, especially in light of recent signs of interest on both sides to engage in dialogue.

The emergence of China and India as commercial partners in the region has positioned them to be strategic partners for both Brazil and Argentina, an arrangement that would open up new opportunities for diplomatic engagement, most often characterized as south-south cooperation. To date, however (as noted by various authors), the trend has been to deepen relations at the bilateral, national level rather than at the regional level, although China and India have pursued different multilateral strategies as well, the former through participation in regional institutions such as the Organization of American States (OAS), the Inter-American Development Bank, and the Caribbean Development Bank, and the latter through trade and dialogue initiatives with Mercosur, the Andean Community, the Caribbean Community and Common Market (CARICOM), and others.

Altemani argues that China's more substantial interests in Latin America have led to a gradual deepening of economic ties, to the point that FDI from China is moving toward more productive manufacturing sectors; indeed, there are promising signs that the relationship is maturing and diversifying away from commodities-based trade. For India, on the other hand, Latin America seems to be of lesser priority. However, partnerships in sectors where India has a clear comparative advantage—in particular ICT and pharmaceuticals—have become increasingly common in Argentina, Brazil, and other countries in the region. He



concludes that “in the context of a nonexclusionary Mercosur, Argentina and Brazil have turned to Asia as another priority in their international insertion efforts. . . . Among the main considerations are (1) their economic and commercial capacity, (2) the availability of resources as a source of FDI, (3) the potential for scientific-technological cooperation, and (4) Asia’s coinciding interest in reevaluating the current international order.”

### PREPARING FOR THE NEXT DECADE

A common theme throughout this volume is the heightened awareness of Latin American governments of the risks associated with the pattern of commodities-for-manufactures trade established between Latin America and China since the late 1990s, and increasingly between Latin America and India. One of the region’s most important long-term priorities is to develop effective strategies to diversify trade and upgrade to higher-value-added production chains to be more competitive in the increasingly complex global economy. Significant new investment in research and development, human capital, and infrastructure will be required. It is also clear that, as Latin American ties with the Asian giants deepen, new challenges and opportunities in areas such as migration and security are emerging. Latin American governments should devise more comprehensive long-term policy plans to address areas of increasing strategic importance and to better leverage their comparative advantage sectors to more effectively channel resources toward key growth sectors.

In the concluding chapter, Mauricio Mesquita Moreira and Theodore Kahn present a set of policy options for the region to maximize the benefits and minimize the risks of the countries’ growing ties with China and India. To illustrate how possible future scenarios regarding Latin America’s engagement with China and India might unfold, they offer a “dream” scenario and “nightmare” scenario for the region’s relations with each of the two Asian giants. The Sino–Latin American worst-case scenario would be one in which China applied its economic and geopolitical power to dictate the terms of its relationships with Latin American countries, further subordinating them to its interests. The dream Sino–Latin American scenario would be one in which diplomatic and economic cooperation supported a set of policies aimed at increasing opportunities to diversify trade toward more value-added exports and attract Chinese investment in areas that support sustained growth and increased competitiveness. For Indo–Latin American relations, the nightmare scenario would not look much different from the present situation—protectionism

on both sides would continue to limit trade and investment opportunities. The dream scenario would instead consist of steadily increasing trade and investment, and governments working together to eliminate high tariffs and connectivity issues, with the private sector playing an important role.

As this volume illustrates, the new dynamics shaping the future of Latin America's relations with the Asian giants are primarily related to the question of how to expand trade and investment in such a way that the region can embark on a path of sustained growth by strengthening its competitiveness at the global level while also addressing ongoing environmental and social concerns. In the case of Latin America's relations with China, the direction that the fifth generation of leadership, currently led by Xi Jinping, decides to take in terms of the country's economic strategy will be a defining factor. The future of Indo-Latin American relations will be greatly affected by whether Narendra Modi's government succeeds in implementing important reforms, such as removing high tariffs and other obstacles to trade and investment, as a way to raise India's international profile. However, as Mesquita Moreira and Kahn note, perhaps a more important first step would be for the governments of Latin America to make the necessary reforms at home so that they can participate at the negotiating table from a position of greater strength.

#### NOTES

1. See, for example, Inter-American Development Bank (IDB), "Ten Years after the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations" (Washington, DC: IDB, Integration and Trade Sector, October 2010).

2. Mauricio Mesquita Moreira, coordinator, *India: Latin America's Next Big Thing?* (Washington, DC: IDB, 2010), p. ix.

3. *Ibid.*, p. 138.

4. Rengaraj Viswanathan, "Regional View on Prospects for the Future: India's Interaction with Argentina, Brazil, Chile, and Mexico," Gateway House, Mumbai, October 13, 2014, unpublished paper (preliminary version of contribution to this volume).

5. For a more detailed analysis of this two-bloc notion, see David Luhnow, "The Two Latin Americas," *Wall Street Journal*, January 3, 2014.