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A Review of China's and Japan's International Engagement in South America: The Cases of Brazil, Chile and Venezuela

Gabriel Garcia *

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Abstract:

The twenty-first century has been declared the 'Asian Century' with experts predicting the region will contribute 52% of the global gross domestic product by 2050. While the rise of Asia in the last fifteen years is apparent in terms of trade, investment and international financial cooperation, government officials in South America have shown little enthusiasm for understanding the implications of Asia's economic progress, and South American governments have not designed a strategic plan to guide policymakers, businesses and the broader community to engage effectively with Asia. Whether or not South America can continue profiting from the rise of Asia will depend on many factors including a better understanding of the growing wealth of the East and a thoughtful planning that considers the comparative advantages of each country and how they can best be positioned to engage in win-win relations.

This article aims to contribute to a better understanding among South American stakeholders of Asia's growing relevance in global matters. Its central discussion compares

* Senior Lecturer, School of Law, University of Wollongong

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China's and Japan's engagement with the region and focuses on three case studies: Brazil, Chile and Venezuela. It argues that Japan has opted to engage with South America using institutionalised instruments of International Law (e.g. free trade agreements and memberships in regional multilateral institutions) while China has designed a platform that combines the same instruments of International Law used by Japan as well as informal mechanisms (e.g. strategic partnerships and the China-CELAC Forum), giving preference to the latter over the former.

Key words: Japan-South America, China-South America, Asia-Latin America, China-CELAC Forum, Inter-American Development Bank, South-South cooperation, Japan development assistance, China development assistance, FEALAC, Belt and Road Initiative, Brazil, Chile, Venezuela

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INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO

3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI

CHIBA 261-8545, JAPAN

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A Review of China's and Japan's International Engagement in South America: The Cases of Brazil, Chile and Venezuela¹

Gabriel Garcia

I. Introduction

The twenty-first century has been declared the 'Asian Century' with experts predicting the region will contribute 52% of the global gross domestic product by 2050². This prediction has been confirmed by experts who have indicated that the global economy's centre of gravity is moving eastward and will be located literally between India and China by 2050.³ Latin America is also expected to grow, and countries such as Brazil and Mexico are predicted to be among the top ten economies by 2050.⁴ While the rise of Asia in the last fifteen years is apparent in terms of trade, investment and international financial cooperation, government officials in South America have shown little enthusiasm for understanding the implications of Asia's economic progress, and South American governments have not designed a strategic plan to guide policymakers, businesses and the broader community to engage effectively with Asia.⁵

The above issue holds true in spite of the fact that South America greatly benefited from increased economic involvement with Asian countries in the first two decades of the twenty-first century, and this engagement boosted economic growth in most countries in South America; however, positive results were mainly supported by China's appetite for South American commodities and natural resources. This commodity-based growth has proven unsustainable, and economies in Latin America have deaccelerated since 2012. Even more concerning, Latin America is

¹ This research has been conducted with the generous support of the Institute of Developing Economies of the Japan External Trade Organisation (IDE-JETRO) through the Visiting Research Fellow Program 2018. I am greatly indebted to IDE's supportive researchers, librarians and administrative staff, particularly Kanako Yamaoka who was my counterpart researcher and was very supportive during my stay at IDE. I extend my sincere appreciation to Aki Sakagushi and Tatsuya Shimizu with whom I had interesting conversations that contributed to enrich my work. Very special thanks to Yumiko Ishikawa who organised my stay and efficiently managed my visit. Responsibility for any errors in the resulting work remains my own.

² Harinder Kohli, Ashok Sharma and Anil Sood, *Asia 2050: Realizing the Asian Century* (Sage, 2011).

³ Quah defines the economic centre of gravity as 'the average location of the planet's economic activity measured by GDP generated across nearly 700 identifiable locations on the Earth's surface.' Danny Quah, 'The Global Economy's Shifting Centre of Gravity' (2011) 2.1 *Global Policy* 3, 3.

⁴ PwC, 'The Long View: How Will the Global Economic Order Change by 2050?' (Report, PwC, February 2017).

⁵ See e.g., Kevin Gallagher, *The China Triangle* (Oxford, 2016); Robert Devlin and Theodore Kahn, 'Latin American Trade with India and China: The Region Needs a "Business Plan"' in Riordan Roett and Guadalupe Paz (eds), *Latin America and the Asian Giants* (Brookings Institution, 2016) 133; and David Shambaugh, *China Goes Global* (Oxford, 2013).

increasingly lagging behind East Asia in terms of productivity, growth and many indicators of international economic integration.⁶ Whether or not South America can continue profiting from the rise of Asia will depend on many factors including a better understanding of the growing wealth of the East and a thoughtful planning that considers the comparative advantages of each country and how they can best be positioned to engage in win-win relations.

In their interactions with South America, Asian countries have generally followed a strategic plan with clear goals and strategies to engage with the region. Some countries have used traditional mechanisms of International Law to provide foreign assistance and promote trade and investment whilst others have applied a combination of traditional and experimental approaches.

This article aims to contribute to a better understanding among South American stakeholders of Asia's growing relevance in global matters. Its central discussion compares how China and Japan have engaged with the region. It argues that Japan has opted to engage with South America using institutionalised instruments of International Law while China has designed a platform that combines traditional tools and experimental mechanisms, giving preference to the latter over the former.

The article has been divided in five parts. Following this introduction, the second section briefly reviews the literature that has studied the engagement of China and Japan with South America with particular emphasis on reports published by regional multilateral institutions. The third part discusses the models used by China and Japan to interact with South America. The fourth part assesses China's and Japan's involvement in Brazil, Chile and Venezuela. Finally, the last section summarises the main findings.

II. Regional Multilateral Organisations Leading the Path to the Study of Asian and Latin American Relations

At the beginning of the 2010s, regional multilateral institutions started paying attention to the dynamics of Asia and Latin America's relations and studying the way both regions could benefit from their interaction. In preparation for the visit of then Vice-president Xi Jinping to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in 2011, the institution published a report focused on trade between China and Latin America as well as

⁶ OECD/ECLAC/CAF, *Latin American Economic Outlook 2016: Towards a New Partnership with China* (OECD Publishing, 2015) 22.

China's foreign direct investment (FDI) in the region.⁷ This study found that the inter-industrial relationship between both regions was based on China's exportation of manufactured goods and Latin America's exportation of raw materials, which represented excellent opportunities particularly for South America.

The Latin American and Caribbean Economic System (SELA) also published a report on '*Relations between China and Latin America and the Caribbean in the Current World Economic Situation*', which addressed the challenges faced by Latin America as a result of the Global Financial Crisis and the strategy pursued by China to reduce the negative impact of this crisis.⁸ In its conclusions, SELA argued that Latin America, and particularly South America, greatly benefited from exports to China between 2006 and 2011 whilst Mexico and Central America were indeed competing against China's exports.⁹ The document concluded that while China gave high strategic and political importance to the region, Latin America did not have a common strategic position towards China and would benefit from group negotiations among all its nations using some of the existing integration frameworks (e.g. Mercosur, the Andean Community, Caricom, etc.).

The Asian Development Bank (ADB) and the Inter-American Development Bank (IDB) joined efforts in 2012 and published '*Shaping the Future of the Asia-Latin America and the Caribbean Relationship*', which studied the economic ties between Asia and Latin America with a focus on three areas –trade, investment and cooperation– which the authors considered intertwined.¹⁰ According to the ADB and IDB, trade generally assists countries to gather key information that is essential for FDI. Then, increasing trade and investment creates incentives for governments to cooperate to address political, economic, social and technical issues.¹¹ The ADB and IDB argue that the history between Asia and Latin America has followed this pattern.

The joint ADB-IDB report confirmed that the surge in trade between Asia and Latin America was dominated by the 'commodity-for-manufacturing pattern' with iron ore, copper, soy, oil, sugar, paper pulp and poultry representing 70% of all exports from Latin America.¹² From the Asian side, by 2011, China, Japan, the Republic of Korea and India represented 90% of total trade

⁷ ECLAC, *People's Republic of China and Latin American and the Caribbean: Usbering in a New Era in the Economic and Trade Relationship* (ECLAC, 2011).

⁸ SELA, *Relations between China and Latin America and the Caribbean in the Current World Economic Situation* (SELA, 2012).

⁹ Ibid 4.

¹⁰ ADB and IDB, *Shaping the Future of the Asia-Latin America and the Caribbean Relationship* (ADB and IDB, 2012).

¹¹ Ibid xiv.

¹² Ibid xv.

with Latin America whilst Brazil, Mexico, Chile and Argentina accounted for close to 80% of the region's total trade with Asia.¹³ Furthermore, the document reports that Japan and the Republic of Korea are the major manufacturing investors in Latin America while China's investors are more concentrated in the mining sector.

The IDB has prepared two reports on Japanese and Latin American relations. The first, published in 2013, was titled '*Japan and Latin America and the Caribbean: Building a Sustainable Trans-Pacific Relationship*.'¹⁴ Following a similar 'three-pillar analysis' (i.e. trade, investment and international cooperation), this work discussed how Japan has developed its economic relations with the region focusing on not only trade but also investment and development cooperation. Japan has implemented a '... strategy of aligning official development assistance (ODA) projects through the Japan International Cooperation Agency (JICA) with the objectives of its national industries has created virtuous cycles where technical support spurs the development of new trade and investment opportunities for Japanese firms, while promoting local development.'¹⁵ With the implementation of this strategy, the report argues, Japan has promoted the capacity of developing countries to integrate into global markets and facilitate trade and investment. The document also found that Japanese investors continued investing in Latin America at higher levels than other Asian partners. Finally, the article reported two stories about the success of Japanese technical and financial assistance to develop two industries in South America: the agricultural industry in *El Cerrado*, Brazil and the salmon industry in Chile. These two case studies were also discussed in a paper published by the ECLAC and written by Akio Hosono who analysed the positive effects of Japanese international cooperation in East Asia and Latin America.¹⁶

The IDB's second paper on Japan published in 2016, was entitled '*A Virtuous Cycle of Integration: the Past, Present and Future of Japan-Latin America and the Caribbean Relations*.'¹⁷ This paper stressed that the integration of Asia and particularly, Japan with Latin America has occurred for more than a century, dating back to the arrival of Japanese immigrants in several cities in Latin America between 1908 and 1924.¹⁸ The document also highlighted that this relationship has created a '... diverse and continually evolving partnership' that encompassed more than trade and also included

¹³ Ibid.

¹⁴ IDB, *Japan and Latin America and the Caribbean: Building a Sustainable Trans-Pacific Relationship* (IDB, 2013).

¹⁵ Ibid 2.

¹⁶ Akio Hosono, 'Asia-Pacific and Latin America: Dynamics of Regional Integration and International Cooperation' (ECLAC, International Trade Series N.132, June 2017).

¹⁷ Theodore Kahn, *A Virtuous Cycle of Integration: the Past, Present and Future of Japan-Latin America and the Caribbean Relations* (IDB, 2016).

¹⁸ Ibid 7.

inter-dependencies and relations that involved governments, peoples and corporations'.¹⁹ The article found that although trade between Japan and Latin America initially followed the pattern of commodity-for-manufactured-goods, it has evolved to a more sophisticated exchange involving Japanese exports of capital and intermediate goods to Latin America, where firms used the imports to manufacture products.²⁰ This more recent trend, the report found, is linked to two main developments from the 1990s: the subscription of free trade agreements (FTAs) involving Japan and Latin America, and the development of manufacturing linkages between the two regions with Japanese firms operating in Latin America to manufacture goods for export to third markets.

The Latin American Outlook 2016 prepared by the Organisation for Economic Co-operation and Development (OECD), the CAF-Development Bank of Latin America (CAF) and the ECLAC was also dedicated to the relations between China and Latin America, recognised the increasing importance of China for economies and markets in the latter region.²¹ It drew the same assessments as the aforementioned reports, stressing the risks posed by a commodity-based growth model and the urgent need for Latin America to diversify its trade with China to avoid relying solely on a few commodities. Furthermore, the report mentioned that financing from China's institutions has increased in the region to US\$94 billion, compared to the US\$156 billion provided by the World Bank, CAF and IDB combined.²²

More recently, the ECLAC published a report on '*Exploring New Forms of Cooperation between China and Latin America and the Caribbean.*'²³ The report was prepared for the Second Ministerial Meeting of the China-CELAC²⁴ Forum in January 2018. It reports that trade between China and Latin America grew to US\$ 266 billion in 2017; however, it maintained a commodities-for-manufactured-goods model. The report also mentioned that South America's trade with China was different from that of the rest of Latin America. While many Latin American countries had a large trade deficit with China, South America had a smaller deficit. Likewise, the report indicated that China's FDI between 2005 and 2017 was concentrated in a few countries, including Brazil

¹⁹ Ibid 6-7.

²⁰ Ibid 23. Osono also discusses this link between FDI-trade in Japan's international cooperation. See, Osono, 'Asia-Pacific and Latin America.'

²¹ OECD-CAF-ECLAC, *Latin American Economic Outlook 2016*.

²² Ibid 18.

²³ ECLAC, *Exploring New Forms of Cooperation between China and Latin America and the Caribbean* (ECLAC, 2018).

²⁴ CELAC stands for the Community of Latin American and Caribbean States. The formation and operation of this forum will be explained later.

(US\$65.5 billion), Peru (US\$20.1 billion), Argentina (US\$11 billion), Mexico (US\$6.7billion), Jamaica (US\$2.3billion) and Venezuela (US\$2 billion).²⁵

There is also a large body of academic literature that studies China's and Japan's involvement with Latin America. However, comparative analyses of the international cooperation provided by China and Japan are limited. Some edited volumes include chapters that study each country separately. For example, a 2015 volume edited by Jorge Dominguez and Ana Covarrubias includes a chapter by Margaret Myers on China's engagement in Latin America,²⁶ and another chapter by Kanako Yamaoka on Japan's relations with Latin America and the Caribbean.²⁷ The former contribution discusses China's economic and political involvement with Latin America, including a brief analysis of relations with Brazil, Chile and Venezuela –the three case studies selected for the present article. Yamaoka's chapter reviews Japanese-Latin American relations across three different dimensions: human, economic and diplomatic. Yamaoka provides an interesting account of Japan's economic and diplomatic engagement in the region since the end of the Cold War.²⁸

Another comparative work that looks at China's and Japan's respective engagements in international cooperation in Latin America was undertaken by Margaret Myers and Mikio Kuwayama for the Dialogue Leadership for the Americas.²⁹ This report is valuable because it outlines the main differences between China's and Japan's approaches to development cooperation; however, it does not analyse issues in depth.

Recently, researchers have been more focused on comparing China's and India's interactions with Latin America within the context of South-South cooperation. This is the case in two edited books: Riordan Roett and Guadalupe Paz, *Latin America and the Asian Giants/Evolving Ties with*

²⁵ ECLAC, *Exploring New Forms of Cooperation between China and Latin America and the Caribbean*, 56.

²⁶ Margaret Myers, 'Shaping Chinese Engagement in Latin America' in Jorge Dominguez and Ana Covarrubias (eds), *Routledge Handbook of Latin America in the World* (Routledge, 2015) 211.

²⁷ Kanako Yamaoka, 'Japan's Relations with Latin America and the Caribbean' in Jorge Dominguez and Ana Covarrubias (eds), *Routledge Handbook of Latin America in the World* (Routledge, 2015) 235.

²⁸ Other edited volumes that include separated chapters on China and Japan include Peter Smith, Kotaro Horisaka and Shoji Nishijima (eds), *East Asia and Latin America: the Unlikely Alliance* (Rowman & Littlefield Publishers, 2003); and Jörg Faust, Manfred Mols and Won-ho Kim (eds), *Latin America and East Asia – Attempts at Diversifications: New Patterns of Power, Interest and Cooperation* (Lit Verlag Münster, 2005).

²⁹ Margaret Myers and Mikio Kuwayama, 'A New Phase in Japan-Latin American and the Caribbean Relations' (The Dialogue, Japan-Latin America Report, February 2016).

China and India and, Eckart Woertz, *Reconfiguration of the Global South/ Africa and Latin America and the 'Asian Century'*.³⁰

In terms of the analysis of the individual countries, the literature is richer. In the case of Japan, the work of Akio Hosono is extensive and influential. In his 2017 article, he compares Japan's cooperation efforts with Asia and Latin America.³¹ Hosono finds important differences in the success of cooperation in the two regions. In the case of China, it is worth mentioning Carla Freeman, who edited the *Handbook on China and Developing Countries*.³² This volume offers an excellent introduction to the political and economic framework of Chinese international cooperation. It also contains contributions that refer to Latin America in general terms, and a specific chapter about the region written by Riordan Roett and Guadalupe Paz on China and Latin America.³³

A few contributions to the study of China's and Japan's international cooperation have been published in Spanish (or translated into Spanish). Most of these works have focused on individual countries. For example, a volume edited by Martínez Cortés contains a rich collection of chapters that discuss the relations between China and Latin America from different perspectives.³⁴ The volume also discusses a few case studies. Murakami also edited a volume that contains a compilation of four essays, including one written by Akio Hosono.³⁵ Furthermore, Cesarin and Tordini published a journal article in 2016 that offers an engaging analysis of how China uses development cooperation as a mechanism of soft power to achieve strategic and geopolitical goals in Latin America.³⁶

³⁰ Riordan Roett and Guadalupe Paz (eds), *Latin America and the Asian Giants/Evolving Ties with China and India* (Brookings Institution Press, 2016); and Eckart Woertz (ed) *Reconfiguration of the Global South/ Africa and Latin America and the 'Asian Century'* (Routledge, 2017).

³¹ Akio Hosono, 'Asia Pacific and Latin America'.

³² Carla Freeman (ed) the *Handbook on China and Developing Countries* (Edward Elgar, 2015). A collection of articles was also published by the *China Quarterly* in a special issue on 'From the Great Wall to the New World: China and Latin America in the 21st Century' (New Series No 11, 2009).

³³ Riordan Roett and Guadalupe Paz 'China's Expanding Ties with Latin America' in Carla Freeman (ed) the *Handbook on China and Developing Countries* (Edward Elgar, 2015) 496.

³⁴ Jose Ignacio Martínez Cortés (ed), *América Latina y el Caribe – China. Relaciones Políticas e Internacionales* (Red Académica de América Latina y el Caribe sobre China, 2013).

³⁵ Yusuke Murakami (ed), *Desarrollo, Integración y Cooperación en América Latina y Asia- Pacífico: Perspectivas y Rol de Japón* (Instituto de Estudios Peruanos, 2017).

³⁶ Sergio Cesarin and Gonzalo Tordini, 'Poder Blando e Influencia: China en la Cooperación Sur-Sur: Objetivos y Fines de los Programas y Proyectos de Cooperación Internacional (2016) 1.2 *Revista Asia América Latina* 105.

III. Japan's and China's Models of Engagement

3.1 South America's Relations with Asia

One of the first chapters in the history of the economic relations between Asia and Latin America can be traced back to the sixteen century, when the Manila Galleons connected trade between Acapulco and Manila under the control of the Spanish Empire.³⁷ In spite of these earlier encounters, it was not until the end of World War II (WWII) that interactions between both regions reinvigorated, first with the economic recovery of Japan and later, with the emergence of the Republic of Korea as a global economic powerhouse.

During the Cold War, South American diplomatic and economic ties were closely aligned with the US.³⁸ After WWII, Japan and the US became allies, and the Asian country began operating in South America with respect for American interests in the region. China is another story. Neither the Bush's nor the Obama's administrations considered China's engagement with Latin America as a threat; however, this position has changed during the administration of President Donald Trump.³⁹ To illustrate, former Secretary of State Rex Tillerson called China 'the new imperial power' in Latin America and Vice-President Mike Pence accused China of engaging in 'debt diplomacy' to compel small countries to sever ties with Taiwan.⁴⁰ The Trump administration has claimed that 'China seeks to pull the [Latin American region] into its orbit through state-led investments and loans.'⁴¹

The debate about China's presence in Latin America is moving now from the exclusive realm of trade and finance to the security arena and a Japanese official recently mentioned that Japan has started appraising Japanese-Latin American relations from a national security perspective,

³⁷ For a more detailed account of the Manila Galleons, see, Arturo Giraldez, *The Age of Trade: the Manila Galleons and the Dawn of the Global Economy* (Rowman & Littlefield, 2015).

³⁸ For a summary of the history of Latin America's international relations with the world, see, Abraham Lowenthal and Hannah Baron, 'A Transformed Latin America in a Rapidly Changing World' in Jorge Dominguez and Ana Covarrubias (eds), *Routledge Handbook of Latin America in the World* (Routledge, 2015) 25.

³⁹ See e.g., 'Richard Harris and Armando Arias, 'China's South-South Cooperation with Latin America and the Caribbean' (2016) 32.4 *Journal of Developing Societies* 508.

⁴⁰ Olivia Gaziz, 'Pence says China is Engaged in 'Unprecedented Effort' to Influence Americans', CBS News (online), 4 October 2018) < <https://www.cbsnews.com/news/pence-set-to-accuse-china-of-interfering-in-u-s-policies-politics-in-speech/>>; Pablo Vivanco, 'The Trump Doctrine's US Working Overtime to box China out of Latin America', *Asiatimes* (online), 21 August 2018 <<http://www.atimes.com/the-trump-doctrine-us-working-overtime-to-box-china-out-of-latin-america/>>.

⁴¹ President of the United States, *National Security Strategy* (December 2017) 51.

considering the operation of global powers in the region.⁴² In the same way, the US Southern Commander, Admiral Craig Faller, has affirmed in a recent speech that

Good neighbours all benefit from a strong neighbourhood watch. In our neighbourhood, security and stability cannot be taken from granted. The threats to both our neighbourhood and our homeland are real and imminent from great powers competition to transnational criminal organisations and violent extremists.⁴³

Faller seems to refer to China's active engagement with Latin America as a threat to American national security. The American decision to walk away from the Trans-Pacific Partnership (TPP), in addition to the trade dispute between the US and China, have added new layers of complexity to China's engagement in the region. Some experts believe that China would react to a trade war by seeking to strengthen economic relations with its Latin American partners; for example, China could promote the Belt and Road Initiative (BRI) to boost its presence in the continent.⁴⁴

In the twenty-first century, South America has built relations that are more diverse and political and economic connections with Asia have intensified with the rapid rise of China and India. South America has greatly benefited from increasing trade and investment from Asia. However, it seems that many countries in South America believe that the best strategy to engage with the East is not to have a strategy at all; and countries such as Brazil and Venezuela, seem unprepared to manage relations with countries such as China, India and Japan. Chile has worked harder to manage this interaction, as will be explained later.

Since the 1990s, free trade and investment agreements have proliferated globally; however, just a few South American countries have embarked on efforts to sign agreements with their Asian partners. Seventeen FTAs have been signed that involve at least one Asian and South American country. Chile has been the most active South American country negotiating these types of agreement and has completed ten, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (Table 1).

While China and Japan have embraced instruments of International Law to work with South America, they have engage with formal mechanisms to different degrees. Japan has preferred an approach that advocates for cooperation based on a free and open international economic system.

⁴² Takahiro Nakamae, 'Indo-Pacific-LAC: The Role of Japan-LAC in the Indo Pacific Era' (Speech delivered at the Japan's Latest Moves in LAC - Reshaping the Partnership. The Dialogue, Washington, 11 December 2018).

⁴³ Craig Faller, Remarks delivered at the SouthCom Change of Command Ceremony, 26 November 2018, <<https://www.youtube.com/watch?v=vIXSGgwY0YQ>>.

⁴⁴ Margaret Myers, 'China looks to Latin America Amidst U.S. Trade Dispute Latin Trade', (2018) *Third Quarter* 12.

On the contrary, China has advanced an experimental model that –without relinquishing the formal mechanisms recognised by the international system– places more emphasis on an informal platform that allows the country to have assertive relations with South America. The following subsections will review the models used by these two Asian giants to engage with South America.

Table 1.-Commercial Agreements between Asian and South American Countries

Parties	Type of Agreement	Year of Signature
Mercosur – India	Preferential Trade Agreement (PTA)	2004
Chile – Hong Kong, China	Free Trade Agreement (FTA)	2012
Chile – Thailand	FTA	2013
Chile – Vietnam	FTA	2011
Chile – Malaysia	FTA	2010
Chile – Japan	Economic Partnership Agreement (EPA)	2007
Chile – China	FTA	2005
Chile – Singapore, New Zealand and Brunei Darussalam	FTA	2005
Chile – India	PTA	2007
Chile – Republic of Korea	FTA	2003
Chile – Australia, Brunei Darussalam, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam	Comprehensive and Progressive Agreement for Trans-Pacific Partnership	2018
Colombia – Republic of Korea	FTA	2013
Peru – Japan	EPA	2011
Peru – Republic of Korea	FTA	2010
Peru – China	FTA	2009
Peru – Singapore	FTA	2008
Peru – Thailand	FTA	2011

Source: OAS, SICE, Foreign Trade Information System

3.2 Japan’s Traditional Model

A. Japan and South America Relations

Japan has been a ‘good global citizen’, employing various formal instruments of International Economic Law to engage in development cooperation, trade and investment with South America. Peru was the first country in Latin America to establish diplomatic relations with Japan in 1873. Most nations in the region started official relations with Japan at the end of the nineteenth century. Relations were interrupted when Japan attacked Pearl Harbor in 1941; however, they were re-established by the 1950s. After the end of WWII, Japan focused most of its efforts on rebuilding its own country, which was devastated by the war, and on providing reparations to countries occupied by Japan during the conflict. For reparations, the Japanese government made payments

in yen to Japanese firms that provided goods and services to countries in Southeast Asia.⁴⁵ It was less complex for Japan to re-build its relationship with Latin America because countries in the region were not directly involved in the conflict. Indeed, most Latin American nations supported Japanese efforts to be reinserted in the global community; for example, Latin America backed Japan's application for accession to the United Nations (UN).⁴⁶

Miyachi, citing Hiroshi Matsushita, explains that Japanese foreign policy towards Latin America has been built on four pillars: 'coordination with U.S. diplomacy; maximization of economic interests; establishment of friendship as many countries with as possible to obtain support in the UN; and, priority for countries and issues related to Japanese immigrants.'⁴⁷ These principles have also been followed in Japan-South America relations, which have evolved over time with different degrees of intensity.

Interactions between Japan and South America were particularly relevant in the 1970s. Japan suffered several shocks due to the US soybean embargo and the oil crisis, prompting the Japanese government to strengthen economic relations with South America, particularly in energy and food, to reduce Japan's vulnerability and at the same time assist countries in the region with their process of economic development. In the 1980s and 1990s, South America was hit by economic crises that negatively affected its interactions with Japan. In addition, the economic stagnation suffered by Japan in the 1990s disrupted the quality of Japanese cooperation and economic activities in South America.

In the 2000s and 2010s, Japan has made efforts to reinvigorate its interactions with Latin America, and Prime Minister Shinzō Abe has visited the region more than any other Japanese Prime Minister has in the past. In 2014, he concluded a tour in Sao Paulo, Brazil, calling for joint efforts to progress together, to lead together, and to inspire together, laying down the pillar principles for new relations with the region.⁴⁸

⁴⁵ Hiroshi Kato, 'Japan's ODA 1954–2014 2014: Changes and Continuities in a Central Instrument in Japan's Foreign Policy' in Hiroshi Kato, John Page and Yasutami Shimomura (eds), *Japan's Development Assistance: Foreign Aid and the Post – 2015 Agenda* (Palgrave MacMillan, 2016) 1, 1.

⁴⁶ See, Kotaro Horisaka, 'Japan and Latin America – Missing Strategies and Political Will' in Jörg Faust, Manfred Mols and Won-ho Kim (eds), *Latin America and East Asia – Attempts at Diversifications: New Patterns of Power, Interest and Cooperation* (Lit Verlag Münster, 2005) 147.

⁴⁷ Takahiro Miyachi, 'Japan and the Asia-Latin American Connection in the Twenty First Century' (paper presented at the Congreso de Asociación Latinoamericana de Ciencias Políticas, Montevideo, Uruguay, 26-28 July 2017). See also, Kanako Yamaoka, 'Japan's Relations with Latin America and the Caribbean'.

⁴⁸ Shinzō Abe, 'Juntos! Bringing Infinite Depth to Japan–Latin America and the Caribbean Cooperation' (Speech delivered in San Paolo, 2 August 2014).

According to Takahiro Nakamae, the Director General of the Latin American Affairs Bureau of the Ministry of Foreign Affairs, when Abe visited Buenos Aires to attend the G20 Summit 2018, he announced a new initiative to enhance connectivity between Japan and Latin America and the Caribbean to take cooperation to a new high.⁴⁹ The general idea is to integrate Latin America and the Caribbean into the Free and Open Indo-Pacific Strategy announced by Abe in 2016.⁵⁰ Nakamae explained that, based on Abe's *Juntos* principles, Japan proposes a diplomacy comprising three pillars of connectivity:

- **To progress together** in connectivity of **economies** by enhancing a free and open international economic system.
- **To lead together** towards connectivity of **values** supported on a rule-based multilateralism.
- **To inspire together** in connectivity of **wisdom** with the aim to achieve the Sustainable Development Goals (SDGs).⁵¹

With the first pillar of connectivity, economy, Nakamae refers to Japan's wish to confirm with its Latin American partners their commitment to a free and open international economic system, and he mentions the example of the CPTPP as an initiative that supports this idea. He also states that Japan will explore the possibility of mobilising public and private resources for 'quality' infrastructure in collaboration with the JICA, the Japan Bank for International Cooperation (JBIC) and the Nippon Export and Investment Insurance. The second pillar, values, alludes to Latin America's achievement of development through its reliance on a rule-based international order, and it upholds the importance of protecting and promoting a free and open maritime order by enhancing Maritime Law enforcement. Nakamae confirms that Japan will promote a rule-based international order. Finally, the last pillar on wisdom refers to Japan's willingness to share its experience and expertise to address 'human security' as a part of the SDGs which include issues associated with an aging society, environment and natural disaster mitigation, among others.

Japan's 2015 Official Development Assistance Charter states that the priority in Latin America is '...to provide assistance to foster an environment more conducive to economic development through trade and investment...'⁵² It also mandates that consideration must be given to the

⁴⁹ Takahiro Nakamae, 'Indo-Pacific-LAC: The Role of Japan-LAC in the Indo Pacific Era'.

⁵⁰ For an introduction to the Free and Open Indo-Pacific Strategy, see, the Ministry of Foreign Affairs of Japan, *White Paper on Development Cooperation 2017*, Ch1.

⁵¹ Takahiro Nakamae, 'Indo-Pacific-LAC: The Role of Japan-LAC in the Indo Pacific Era.'

⁵² Ministry of Foreign Affairs of Japan, *Japan's Official Development Assistance Charter (2015)* 8.

existence of 'Nikkei'⁵³ communities in the region. The latter is a 'people connection' factor that has high importance in Japan-South America relations.

Japan has been a key ODA donor, trade partner and investor for South America. Japan's engagement with the region has advanced the trinity-development-cooperation approach focusing on ODA, trade and investment. With this model, Japan addresses national public interest, and at the same time, promotes self-reliant development in South America. The following paragraphs will discuss Japan's development assistance, trade, investment and engagement in regional forums.

B. Japan's Development Assistance

By the time Japan finished war reparations, it had developed expertise in the field of development assistance by facilitating technical cooperation and financial assistance within the framework of the Colombo Plan, a scheme that Japan joined in 1954.⁵⁴ Japan continued offering international development cooperation and joined the Development Assistance Committee (DAC) of the OECD in 1961.

The main objective of the DAC is to set the guidelines for the provision of ODA which is defined as 'government aid designed to promote the economic development and welfare of developing countries'.⁵⁵ The DAC has designed a peer- review process to ensure members provide ODA according to the Committee's standards. The DAC is essential for avoiding competition among donors, which may be detrimental to recipient countries. It also helps ensure that ODA meets international standards, is transparent and is fiscally sustainable.

In 1974, the Japanese government created the JICA to manage ODA and assistance was extended to other regions beyond Asia. The JICA has become one of the world's largest bilateral aid institution.⁵⁶ In the 1990s, Japan was the world's top ODA donor, covering all regions of the world (Figure 1).

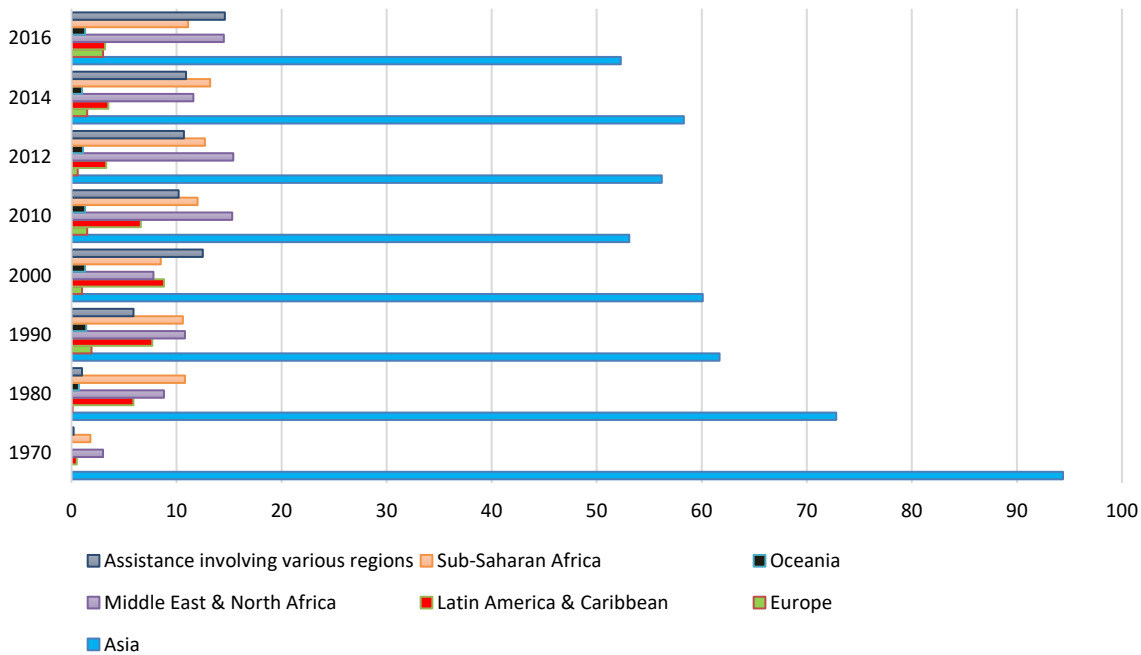
⁵³ Nikkei refers to Japanese who have migrated to the region since the nineteenth century.

⁵⁴ Hiroshi Kato, 'Japan's ODA 1954–2014 2014', 2.

⁵⁵ OEDC, 'Net ODA', <<https://data.oecd.org/oda/net-oda.htm>>.

⁵⁶ Purnendra Jain, 'Japan's Foreign Aid: Institutional Change and Shifting Policy Directions' in Hiroshi Kato, John Page and Yasutami Shimomura (eds), *Japan's Development Assistance: Foreign Aid and the Post – 2015 Agenda* (Palgrave MacMillan, 2016) 56, 60.

Figure 1.- Trends in Japan's Bilateral ODA by Regions (gross disbursement %)



Source: Ministry of Foreign Affairs of Japan, White Paper on Development Cooperation, various issues.

During the first decades of Japan’s development assistance programs, cooperation had a dual purpose: first, to promote national interests, and ensure Japan’s access to energy and food and promote its own economic growth; second, to promote economic development abroad. During this period, Japan’s ODA put more emphasis on infrastructure and, some believed, was motivated more by commercial interests than by any desire to support development.⁵⁷ Japan’s focus on economic growth rather than poverty reduction, as well as its practice of tying many of its loans to the purchase of Japanese goods and services, caused widespread criticism among DAC members. After lengthy debates, Japan untied development assistance in 1978 and directed more efforts to the reduction of poverty in the 1990s.⁵⁸ Instead of leaving the DAC, Japan decided to work out its differences with other Western donors within the DAC framework, making important contributions to improvements in the global delivery of ODA.

As a DAC member, Japan has been bound by the standards and guidelines issued by this Committee. Japanese ODA has also complied with standards to ensure fiscal sustainability, environmental protection and transparency as well as to facilitate peer review.

⁵⁷ Hiroshi Kato, ‘Japan’s ODA 1954–2014’, 8.

⁵⁸ Ibid 11. See also Yasutami Shimomura, ‘The Political Economy of Japan’s Aid Policy Trajectory: With Particular Reference to the Changes and Continuity under the ODA Charter’ in Hiroshi Kato, John Page and Yasutami Shimomura (eds), *Japan’s Development Assistance: Foreign Aid and the Post – 2015 Agenda* (Palgrave MacMillan, 2016) 72.

Japan created the concept of ‘trinity development cooperation’, which involves comprehensive cooperation packages composed of aid, direct investment and imported goods from developing countries to Japan.⁵⁹ Following this pattern, for example, when interactions between Japan and South America intensified in the 1970s, Japan’s trade exchange was not different from China’s engagement with the region focusing on natural resources and energy. Over time, trade and investment between Japan and South America have become most sophisticated; for example, trade now includes the export of capital-intensive products for Japanese subsidiaries in South America that manufacture goods for export to third countries.⁶⁰

This trinity approach is still used by Japanese development agencies. Experts believe that this approach stresses the importance of ‘self-reliant development’, according to which developing countries that receive Japanese assistance must demonstrate initiative and make their own efforts to achieve economic development and reduce poverty.⁶¹

Currently, Japan’s ODA is guided by the principles and priorities of the 2015 Official Development Cooperation Charter.⁶² This document indicates that ‘...development cooperation refers to international cooperation activities that are conducted by the government and its affiliated agencies for the main purpose of development in developing countries.’⁶³ The Charter embraces a holistic approach to development and establishes three main principles:

- a. Contributing to peace and prosperity through cooperation for non-military purposes,
- b. Promoting human security, and
- c. Cooperation aimed at self-reliant development through assistance for self-help efforts as well as dialogue and collaboration based on Japan’s experience and expertise.⁶⁴

The first goal concurs with the peaceful character of Japan’s foreign policy since the end of WWII. Human security refers to the right of individuals to live happily and with dignity; it mandates that government agencies especially focus on programs that protect disadvantaged groups. The last principle addresses the importance of assisted countries taking responsibility for the process by showing initiative as well as making efforts to achieve development. As has been explained by Shimomura, according to Japan’s aid philosophy, the overall aim of foreign aid is to achieve development to end a country’s reliance on foreign aid.⁶⁵ The third principle also calls for

⁵⁹ Akio Hosono, ‘Asia-Pacific and Latin America’, 22.

⁶⁰ Margaret Myers and Mikio Kuwayama, *A New Phase in Japan-Latin American and the Caribbean Relations*

⁶¹ Ibid.

⁶² Ministry of Foreign Affairs of Japan, *Japan’s Official Development Assistance Charter* (2015) 5.

⁶³ Ibid 1.

⁶⁴ Ibid 4.

⁶⁵ Yasutami Shimomura, ‘The Political Economy of Japan’s Aid Policy Trajectory’, 73.

establishing a dialogue and collaboration such that developing countries can take advantage of Japan's experience and expertise.

Moreover, the Charter sets various implementation principles. First, it states that Japan's ODA will pursue 'quality growth and poverty eradication through such growth.'⁶⁶ This is concurrent with Japan's philosophy that poverty can be reduced through economic growth via education, improvement of the infrastructure, strengthening of laws and regulations and, in general, with the support of the private sector. This aspect of Japan's ODA is related to the trinity development cooperation approach discussed earlier and is one of the factors underlying the Charter's mandate that, in the implementation of development cooperation, Japan will enhance synergies between ODA and non-ODA finance and cooperation to maximise the effectiveness and efficiency of resources from the government and its agencies.⁶⁷

Second, in the implementation phase, Japanese agencies must look at the consolidation of democracy, the rule of law and the protection of human rights in the countries assisted, all in alignment with the holistic concept of development adopted by the Charter. Agencies should ensure that assistance is not used for military purposes nor the purchase of weapons. Furthermore, officials should assess the impact of assistance on the environment as well as ensure that vulnerable groups are not negatively affected and that programs promote women's participation.

Finally, the Charter calls for strengthening partnerships for the implementation of development assistance. The Japanese government believes that implementation can be improved through diverse partnerships, not only among government agencies but also between the government and private actors; local governments, universities, NGOs and so on.

In addition to ODA, Japan provides developing economies with international development finance, which includes lending for infrastructure and promotion of Japanese companies overseas. The bulk of Japanese international financial cooperation is managed by the Japan Bank of International Cooperation (JBIC). The JBIC originated in the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF), which were merged in 1999 to create the institution.⁶⁸ Originally, the JBIC managed international financial operations as well as ODA; however, the government transferred the management of ODA –including grants, concessional loans and technical assistance– to the JICA in 2008. Now, the JBIC concentrates its operations on international finance. The key goals of the JBIC are to promote overseas

⁶⁶ Ibid 5.

⁶⁷ Ibid 9.

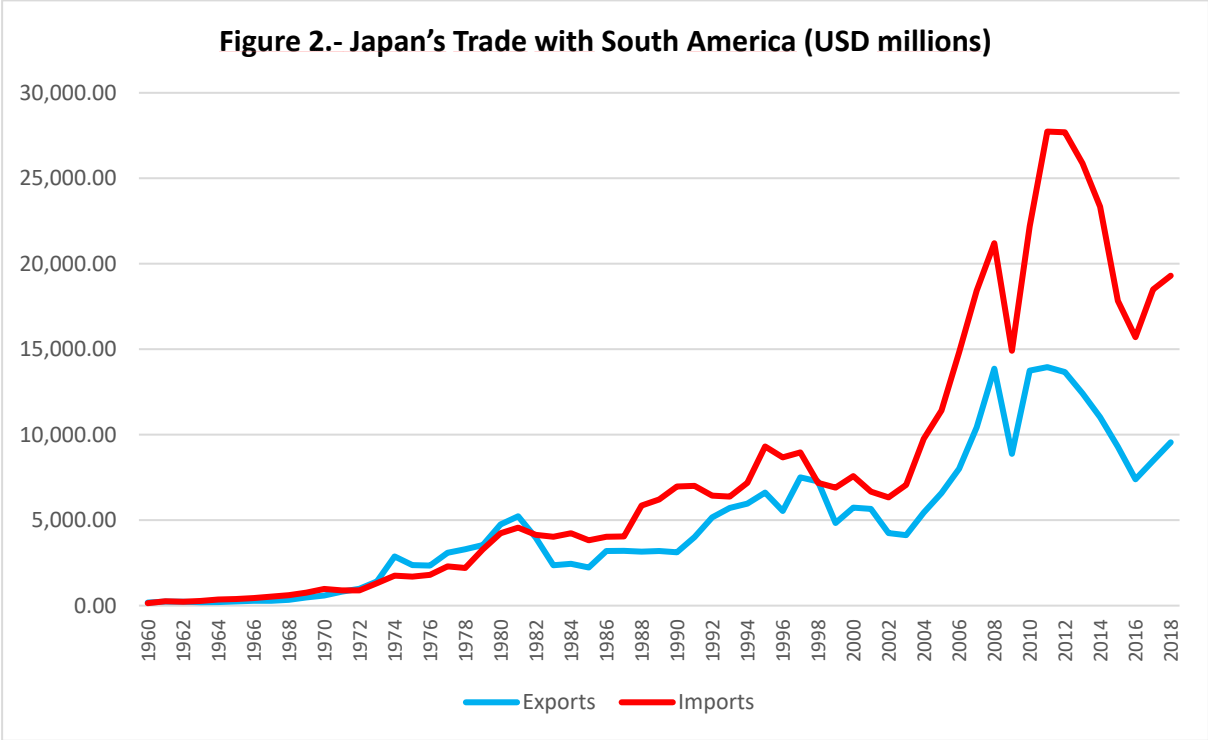
⁶⁸ Japan Bank of International Cooperation, 'JBIC Profile', <<https://www.jbic.go.jp/wp-content/uploads/page/2016/12/57418/jbic-brochure-english.pdf>>.

development, secure key resources for Japan, support the competitiveness of Japanese firms, and promote overseas businesses that seek to preserve the environment.

C. Trade and Investment

Another two pillars of Japanese engagement with developing countries are trade and investment. As explained above, Japan has adopted a trinity development cooperation approach in which its development assistance is coordinated with trade and investment in developing economies. Japan’s ODA has contributed to the promotion of Japanese investment and export growth, subsequently facilitating industrial structural transformations that have positively contributed to economic growth and poverty reduction.⁶⁹

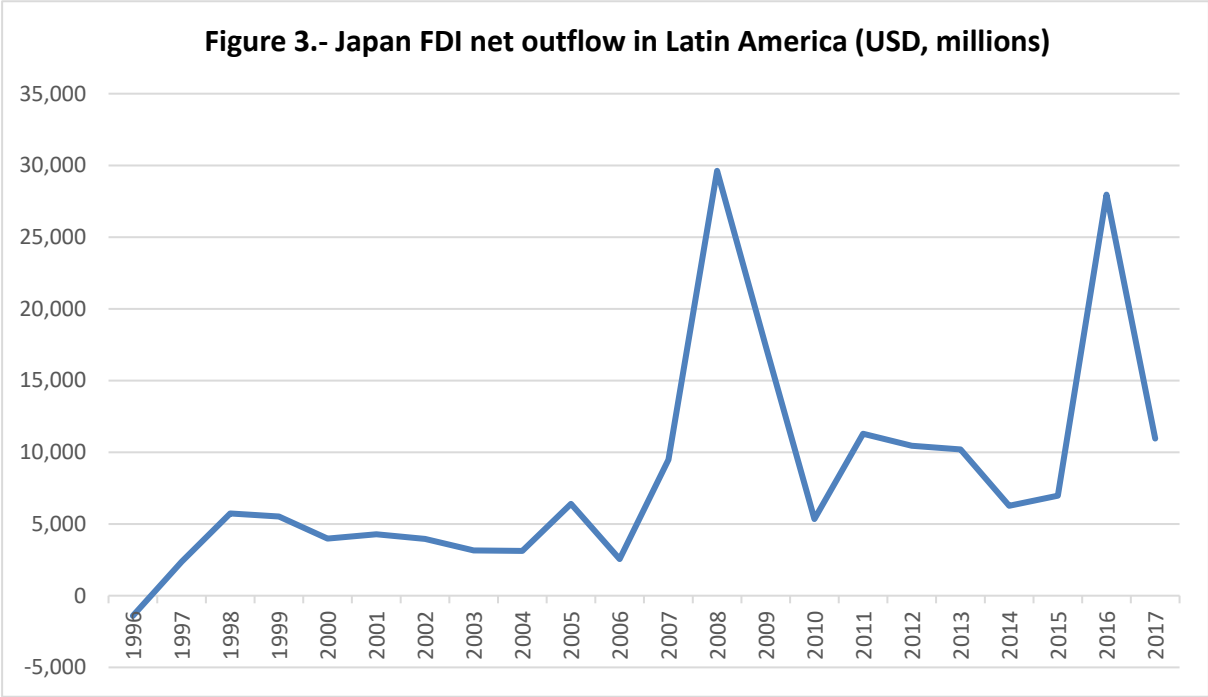
Trade relations between Japan and South America have varied over time. There was a discreet trade volume in the 1960s, when Japan had a deficit with the region, but trade steadily grew in the 1970s (Figure 2). However, many South American nations were affected by the debt crisis in the 1980s, and this negatively affected trade with Japan.⁷⁰ In the twenty-first century, trade between Japan and South America has grown from US\$23.8 billion in 1999 to US\$28.9 in 2018.



Source: IMF, Direction of Trade Statistics (DOTS)

⁶⁹ Akio Hosono, ‘Asia-Pacific and Latin America’, 22.
⁷⁰ See, Sayuri Kuwabara, ‘Capital Flows from Japan to Latin America’ in Peter Smith, Kataro Horisaka and Shoji Nishijima, *East Asia and Latin America: the Unlikely Alliance* (Rowman & Littlefield, 2003) 2.

FDI is another area in which Japan has contributed to the development of Latin America. Japan has been a key investor in the region and has become one of the major sources of investment together with the US and the EU. Between the 1960s and 1970s, Japanese investment in the region was modest; however, by 1965, Latin America was the largest recipient of Japanese FDI (25%).⁷¹ In the 1980s, Japanese companies preferred to invest in low-cost countries in East Asia and Southeast Asia; however, they continued investing in Latin America. In the last seventeen years, Japan has risen to be one of the main sources of FDI in Latin America and has invested US\$173 billion in the region between 2000 and 2017 (Figure 3).



Source: Japan External Trade Organisation (JETRO), Japanese Trade and Investment Statistics

In the mid-twentieth century, South America represented a great opportunity for Japanese firms that were looking for new markets, greater efficiency in production and access to raw material.⁷² While Japanese FDI in Latin America initially focused on natural resources, it has diversified over time and many manufacturing firms have set up subsidiaries in the region.⁷³ Another feature of Japanese companies in the region is that they are exported-oriented and their products are shipped to third countries. Kuwayama reports that in 2013, over 53% of total sales by Japanese

⁷¹ IDB, *Japan and Latin America and the Caribbean*, 19.

⁷² IDB, *A Virtuous Cycle of Integration*, 11.

⁷³ Ibid.

subsidiaries and affiliates operating in Latin America were exported to a third market (US\$75 billion).⁷⁴

Japan has promoted trade and investment in the region with the subscription of bilateral Economic Partnership Agreements (EPAs). These agreements are more comprehensive than a traditional FTA and include not only regulations on trade in goods but also provisions that aim to strengthen broad economic relations, including elements of liberalisation of trade, investment, and bilateral development cooperation.⁷⁵ According to Japanese experts, Japanese EPAs seek not only to facilitate trade but also to improve the business environment and enhance competitiveness in developing countries in which Japanese firms have operations.⁷⁶ Japan has signed EPAs with only two countries in South America: Chile (2007) and Peru (2011). It is currently negotiating another with Colombia. In addition to bilateral trade agreements, Japan subscribed to the CPTPP, of which Chile is also a member. Japan has invited other countries in the region to join this agreement.⁷⁷

D. Japan's Participation in Regional Forums⁷⁸

Japan has made efforts to participate actively in Latin American regional forums. First, Japan joined the Organisation of American States (OAS) in 1973. OAS is a regional multilateral institution created by the Pact of Bogota and signed by twenty states in 1948. Currently, the organisation brings together 35 countries, including Canada and the US. The institution serves as a forum to discuss political, economic, legal, development cooperation and social issues that affect Latin America.

As an observer, Japan has not played an active role in the discussion of sensitive political issues that have been discussed by permanent members; however, it financially contributed to and participated in the observation mission organised by the OAS for the Peruvian elections in 1992 after Fujimori perpetrated an *autogolpe* to dissolve the Congress. Japan has made financial and in-kind contributions of approximately US\$3 million between 1999 and 2015 to support various programs and activities organised by the OAS.⁷⁹

⁷⁴ Mikio Kuwayama, 'Japan-Latin America Relations: Then and Now' (2015) 4.7 *Mundo Asia Pacifico* 1, 23.

⁷⁵ Ministry of Foreign Affairs of Japan (MOFA), Economic Partnership Agreements/Free Trade Agreements, <<https://www.mofa.go.jp/mofaj/gaiko/fta/>>

⁷⁶ Daisuke Hiratsuka, Ikumo Isono and Hitoshi Sato, 'Japan' in Masahiro Kawai and Ganeshan Wignaraja (eds), *Asia's Free Trade Agreements: How is Business Responding?* (Edward Elgar, 2011) 77, 78.

⁷⁷ See e.g., Nikkei, 'Japan Urges More of Latin America to Join TPP', Nikkei (online), 23 May 2018.

⁷⁸ This section will focus on regional initiatives that involve Japan and will not address forums such as APEC which have a wider geographical scope.

⁷⁹ Organization of American States, *Japan Profile*. 12 July 2017.

Japan also has been a member of the IDB since 1976. This institution was founded in 1959 and is currently owned by 48 member states, of which 26 are regional-borrowing members.⁸⁰ The IDB is a regional development bank that aims to contribute to economic and social development in a sustainable, climate-friendly way. The IDB is governed by a formal governance structure in which Japan is an important member. Japan is the IDB's non-regional member with the largest contribution to the institution's capital and the fifth-largest member by shareholding with US\$8.9 billion (5% of voting power) behind only the US (30%), Argentina (11.4%), Brazil (11.4%) and Mexico (7.3%).⁸¹

The IDB has served as the major multilateral platform from which Japan has financially engaged with South and Latin America. The institution has collaborated with the JICA and the JBCI to deliver multiple programs that have benefited many people in the continent. To illustrate, Japan made the largest contribution to the third replenishment of the IDB Lab (formerly Multilateral Investment Fund), an IDB innovation laboratory (US\$85 of the total US\$317 million in 2017 or 27% of the total amount required).⁸² Moreover, the JICA provides US\$3 billion to support the Co-Financing Renewable Energy and Energy Efficiency (CORE) Program.⁸³ In addition, Japan collaborated with the IDB to establish the Quality Infrastructure Initiative for US\$250 million to support technical assistance for the promotion of quality infrastructure. More recently in March 2018, the JICA and the IDB signed a Memorandum of Cooperation to promote quality infrastructure and co-finance eligible projects in the private sector.⁸⁴ Japan-IDB cooperation has backed projects such as a geothermal energy project in Bolivia, which received US\$554 million from the JICA, and the National Program for Efficient Cooking in Ecuador, which obtained US\$50 million from the JICA.⁸⁵

Furthermore, Japan has joined the Forum for East Asia-Latin America Cooperation (FEALAC), which was launched in 1999. FEALAC is an informal forum that lacks an institutionalised structure other than a cyber secretariat. It consists mainly of different levels of meetings (e.g.

⁸⁰ The US and Canada are considered regional-non-borrowing members.

⁸¹ As of 31 December 2017, Japan's paid capital was US\$ 628.7 million which includes US\$ 302.1 million in paid-in capital and US\$ 326.6 million in additional paid-in capital that is not included for the calculation of the voting power. In addition, there was a callable capital of US\$ 8.2 billion. See, IDB, *Annual Report 2017*, 21.

⁸² IDB, 'Latin America, Caribbean and Japan Lead Replenishment of IDB's Innovation Lab', IDB, 2 April 2017.

⁸³ IDB, 'JICA and the IDB to Fund Energy and Infrastructure, Expanding their Co-financing Arrangement to \$ 3 Billion', IDB, 9 April 2016.

⁸⁴ IDB, 'IDB Group Agreement with Japan International Cooperation Agency Lays the Groundwork for Quality Private Sector Infrastructure', IDB, 25 March 2018.

⁸⁵ IDB, *Annual Report 2017*, 9.

foreign ministers' meetings, senior officials' meetings and working group meetings). The purpose of the forum is '...to promote understanding, political and economic dialogue and cooperation in all areas so as to achieve effective and fruitful relations and closer cooperation between [East Asia and Latin America].'⁸⁶ Areas of cooperation include economics, trade, investment, finance, science and technology, environmental protection, culture, sports, tourism and people-to-people exchanges.

It has been difficult for members of FEALAC to find shared interests to invigorate the organisation's agenda. The FEALAC has not achieved positive results other than the establishment of the FEALAC-UN multi-donor Trust Fund under a partnership with ECLAC and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in 2017. This Fund, managed by the UN, was established to support projects that are inter-regional and enhance mutual understanding between East Asia and Latin America.⁸⁷ It has funded only two projects so far. Other projects that have been conducted under the FEALAC's umbrella are national and sponsored by each member state. Japan has sponsored 13 projects and events.⁸⁸

Miyachi argues that the role of Japan in FEALAC has been influenced by two key factors.⁸⁹ First, Japan's diplomats perceive FEALAC as a forum that deals with Latin American issues. This aspect, Miyachi claims, is influenced by the fact that there is an asymmetrical economic relevance between Asia and Latin America, in which the latter depends disproportionately on trade with the former.⁹⁰ Whilst Japan participates in other Asian regional forums with its FEALAC Asian counterparts (e.g. the Association of Southeast Asian Nations plus China, Japan and Republic of Korea (ASEAN+3), the Asia-Europe Meeting (ASEM) and Asia-Pacific Economic Cooperation (APEC)), FEALAC is the only forum that unites a number of important Latin American countries. The second factor is that Japan has used the forum as an opportunity to organise people-to-people exchanges that focus on technological and environmental issues.

In 2012, Japan became an observer in the Pacific Alliance, an initiative of regional integration formed by Chile, Colombia, Mexico and Peru. The Alliance describes itself as an 'an open and inclusive integration process, comprised by countries with similar visions of development and of

⁸⁶ FEALAC, 'Overview', <<http://www.fealac.org/new/about/overview.jsp>>.

⁸⁷ FEALAC, 'Guide' (FEALAC, 2017), 55
<http://www.fealac.org/new/document/board.do?sboard_id=leaflet&onepage=100>.

⁸⁸ There is a list of programs and events sponsored by Japan available at
http://www.fealac.org/new/about/country_view.do?idx=18#.

⁸⁹ Takahiro Miyachi, 'Japan and the Asia-Latin American Connection in the Twenty First Century', 16-25.

⁹⁰ Ibid 19.

the free trade.⁹¹ As an observer of the Alliance, Japan's representatives can attend meetings to which they are invited by members. According to the terms of the Alliance, Japan could apply for membership since it has FTAs with at least two of the members (Japan has signed EPAs with Chile, Mexico and Peru); however, Japan's officials have stated that the country is not interested in applying for membership.⁹²

3.3 China's Experimental Model

A. China and South America Relations

China has embraced the principles of International Economic Law, and for example, has joined the World Trade Organisation (WTO) and regional multilateral institutions (e.g. OAS and IDB). China has also signed FTAs in South America. Nonetheless, the country relies less on this institutionalised international order and more on a platform structured around informal mechanisms that facilitate the management of its relations with South America, in what this paper calls an 'experimental model'.

Sino-South America relations started more than one hundred and seventy years ago in 1845, when the Republic of Chile opened a consulate in Guangzhou.⁹³ Prior to the foundation of the People's Republic of China in 1949, seven countries established diplomatic relations with China: Peru (1874), Brazil (1881), Chile (1915), Bolivia (1919), Venezuela (1943), Ecuador (1946) and Argentina (1947).⁹⁴

During the Cold War, most countries in Latin America sided with the US and supported relations with Taiwan's government. The US' government pressured Latin American governments in the 1950 to vote against a Soviet proposal to replace Taiwan's seat in the UN for the People's Republic of China.⁹⁵ Latin America was not a priority for China's foreign policy between 1950s

⁹¹ The Pacific Alliance, 'What is the Pacific Alliance?', <<https://alianzapacifico.net/en/what-is-the-pacific-alliance/>>.

⁹² See, El Economista, 'Japón descarta entrar en Alianza del Pacífico', El Economista (online), 22 May 2013 <<https://www.eleconomista.com.mx/economia/Japon-descarta-entrar-en-Alianza-del-Pacifico-20130522-0174.html>>.

⁹³ Fernando Schmidt Ariztía, 'Relaciones Chile-China: 40 años' in Yun Tso Lee and Wu Hongying (eds), *Chile y China: Cuarenta Años de Política Exterior* (Ril Editores, 2011) 95, 98.

⁹⁴ Xiaoping Song, *Relaciones y Políticas de China con América Latina* (Institute of Latin American Studies, Chinese Academy of Social Sciences, December 2004).

⁹⁵ Jian Shixue, 'The Chinese Foreign Policy Perspective' in Riordan Roett and Guadalupe Paz (eds) *China's Expansion into the Western Hemisphere* (Brooking Institution Press, 2008) 27, 28.

and 1960s although the country established relations with Cuba in 1960 and launched the Institute of Latin American Studies in 1961.⁹⁶

Nixon's visit to China in 1972 opened the door for many Latin American governments to engage progressively in diplomatic relations with the People's Republic of China. Paraguay is the only country in South America that still maintains diplomatic relations with the Taiwanese government. In spite of the establishment of diplomatic relations, there were no major changes in the engagement of Latin America with China between the 1970s and 1990s.

It was not until the end of the 1990s that China started paying more attention to Latin America.⁹⁷ Indeed, the first decade of the twenty-first century has been called 'Latin America's China decade'.⁹⁸ The Chinese government published a policy paper on Latin America and the Caribbean in 2008 to define objectives and priorities to guide China's foreign policy towards the region. This document was followed by a second policy paper released in November 2016, in which China's government confirmed its commitment to nurturing its relations with Latin America, a region considered essential for the development of China.⁹⁹ The document also declared that China was progressing to a new stage in its relations with the region, strengthening a comprehensive and cooperative partnership characterised by

- Sincerity and mutual trust,
- Win-win cooperation,
- Mutual reinforcement between China's cooperation with the region and its bilateral relations with each country, and
- Commitment to the One China principle.¹⁰⁰

Furthermore, the 2016 Policy Paper proposed a Cooperation Plan (2015-2019) guided by a '1+3+6' structure.¹⁰¹ '1' refers to a single agreed plan that set the development priorities for Latin America. '3' refers to key factors –trade, investment and finance– that are critical to promoting

⁹⁶ The Institute suspended research activities during the Cultural Revolution and restarted activities in 1976. See, Instituto de Estudios de América Latina, Academia de Ciencias Sociales, <<http://ilas.cass.cn/ens/acercadelinal/presentacionsobreelinal/>>.

⁹⁷ See Xiang Lanxin, 'An Alternative View' in Riordan Roett and Guadalupe Paz (eds) *China's Expansion into the Western Hemisphere* (Brooking Institution Press, 2008) 44.

⁹⁸ Guadalupe Paz, 'Introduction: Assessing Latin America's Relations with the Asian Giants' in Riordan Roet and Gualupe Paz (eds), *Latin America and the Asian Giants/Evolving Ties with China and India* (Brookings Institution Press, 2016) 1, 1

⁹⁹ Ministry of Foreign Affairs of the People's Republic of China, 'China's Policy Paper on Latin America and the Caribbean' (2016).

¹⁰⁰ Ibid 1-2.

¹⁰¹ China-CELAC Forum, 'China-Latin American and the Caribbean Cooperation Countries Plan (2015-2019)'.

growth. Notably, China aims to increase trade with the region to US\$500 billion and investment to US\$250 billion by 2024. Finally '6'; alludes to the priority areas that should be addressed by China-Latin America cooperation: energy and resources, infrastructure, agriculture, manufacturing, scientific and technological innovation and information technologies. President Xi Jinping confirmed this approach when he visited the region in 2014.¹⁰²

In contrast to Japan's decision to join the DAC, China has framed its cooperation with South America as 'South-South.' The United Nations Economic and Social Council explains that South-South cooperation is '...based on the central idea of solidarity and engaging the countries involved in mutually beneficial relationship that promotes self-reliance and self-help, through a demand-driven development process.'¹⁰³ Using this premise as a guiding principle, Chinese government officials consistently claim that they do not intend to lecture other developing countries about the type of reforms or policies they must implement to achieve development. They argue that China's objective is to engage in trade, investment and development cooperation with 'peers' to establish win-win relations.

The comprehensive cooperation partnership proposed by China extends to various areas including:

- **Political cooperation:** high level exchanges, inter-governmental dialogue and consultation mechanisms
- **Economic cooperation:** trade, investment, financial cooperation, energy, resources, infrastructure, manufacturing, agriculture, space and scientific and technological cooperation.
- **Social cooperation:** social development, social governance, environmental protection, climate change, disaster reduction, health cooperation and poverty reduction.
- **Cultural cooperation:** cultural and sport exchanges; education and human resources training; cooperation in press, publication radio, film and television; academic exchange; tourism; and NGOs.
- **International cooperation:** political affairs, global economic governance, implementation of the 2030 Agenda for Sustainable Development, climate change and cyber security.

¹⁰² Xi Jinping, Keynotes (Speech delivered at the China-Latin America and the Caribbean Summit, Brasilia, Brazil, 17 July 2014).

¹⁰³ United Nations Economic and Social Council (ECOSOC), *South-South Cooperation: Issues and Emerging Challenges* – Conference of Southern Providers of Development Cooperation (15 April 2013).

- **Cooperation on peace, security and judicial affairs:** military exchanges and cooperation and judicial and police cooperation.
- **Collective cooperation:** via the China-CELAC forum.

China has advanced its cooperation agenda in South America by way of ‘strategic partnerships’. As will be explained later, these agreements are very broad and include not only the economic aspect but also other issues associated with the fields listed above.

B. China’s Development Assistance for South America

Prior to the twenty-first century, China’s development assistance to other countries was extremely limited. China started to provide assistance to the Democratic People’s Republic of Korea and Vietnam in the 1950s. At that time, assistance focused on supporting revolutionary anti-colonial movements mainly in Asia and Africa.¹⁰⁴ China also provided financial assistance to various nations, including an interest-free loan to Cuba between 1961 and 1965 for the approximate amount of US\$60 million.¹⁰⁵ However, it was not until the 2000s that China’s development assistance rocketed, particularly in Latin America. China has committed an estimated US\$141 billion in loans to the region between 2005 and 2016, exceeding funds given by more traditional multilateral institutions such as the IDB (US\$117.8 billion), the World Bank (US\$85.5 billion) and the CAF (US\$55.1 billion).¹⁰⁶

China provides foreign aid based on eight principles outlined by former Premier Zhou Enlai in 1964:

1. Mutual benefit
2. Respect for the sovereignty of other countries
3. Fiscal sustainability
4. Promotion of self-reliant, avoiding dependency on Chinese assistance
5. Increasing income and accumulation of capital.
6. Provision of the highest quality Chinese equipment and material at international market prices.
7. Transfer of know-how

¹⁰⁴ See, Qingmin Zhang, ‘China’s Relations with Developing Countries: Patters, Principles, Characteristics, and Futures Challenges’ in Carla Freeman (ed) the *Handbook on China and Developing Countries* (Edward Elgar, 2015) 51.

¹⁰⁵ Ibid 54.

¹⁰⁶ ECLAC, *Exploring New Forms of Cooperation between China and Latin America and the Caribbean*, 22.

8. Living under the same standards as locals when working in recipient countries.¹⁰⁷

The above principles confirm some of the DAC premises for the provision of ODA such as the fiscal sustainability of projects. They also support 'self-reliance', which is one of the principles advocated by Japan's ODA Charter. However, this guide promotes respect for the sovereignty of each state, which often is understood as not interfering in domestic affairs. This principle makes it difficult to promote universal values such as democracy, human rights, the rule of law and the protection of the environment.

One of the consequences of China's embrace of South-South cooperation instead of an ODA approach is that there is limited official data available to assess the quality and quantity of such cooperation. This has caused some academics to label Chinese foreign aid as 'Rogue Aid.'¹⁰⁸ As will be explained later with the cases of Brazil, Chile and Venezuela, China provides limited aid in the strictest sense of the term (i.e. ODA), and the largest proportion of official financial flows are provided in the form of export credits and non-concessional loans.

The Chinese government has published two White Papers on foreign aid; however, both reports cover different data, making it difficult to draw comparisons. In addition, both reports contain numbers from only the Ministry of Commerce and the Export-Import Bank of China (China EXIM Bank) and do not include foreign aid managed by other ministries and institutions. The first White Paper on China's Foreign Aid was released in 2011. This paper established China's foreign aid policy and briefly reviewed the foreign aid provided between 1950 and 2009. The second paper was published in 2014. It covered China's foreign aid between 2010 and 2012.

According to the White Papers, China offers three types of foreign aid: grants, technical assistance and concessional loans. Grants are given to support social welfare projects (e.g. construction of hospitals, schools, etc.), human resources development, technical assistance and emergency humanitarian aid while interest-free loans target projects such as the construction of public facilities that improve standards of living. Finally, concessional loans are used to support productive projects that have economic and social benefits in areas such as infrastructure, manufacturing and acquisitions of machinery and electronic products. Concessional loans are generally granted by the China EXIM Bank, which charges an interest rate lower than the

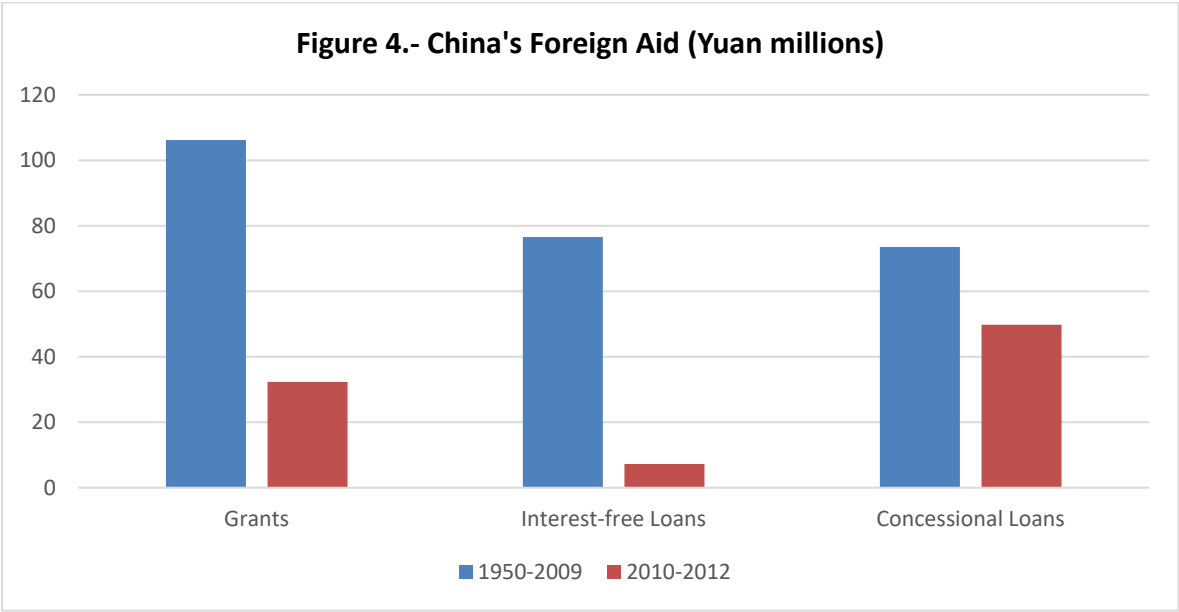
¹⁰⁷ Qingmin Zhang, 'China's Relations with Developing Countries', 54.

¹⁰⁸ See, Moises Naim, 'Rogue Aid', Foreign Policy (online), 15 October 2009, <<https://foreignpolicy.com/2009/10/15/rogue-aid/>>. For an opposite opinion see, Foreign Affairs, 'China is not a Rogue Donor: the Data behind Chinese Aid. Foreign Affairs', 15 October 2015, <<https://www.foreignaffairs.com/infographics/2015-10-15/china-not-rogue-donor>>.

benchmark established by the People’s Bank of China. Concessional loans are often tied to the promotion of Chinese firms overseas.

The figures included in both reports reveal that grants represented 41.4% of the total China’s total foreign aid versus 29.8% of interest-free loans and 28.6% of concessional loans in the period 1950-2009 (Figure 4). For the period 2010-2012, concessional loans were the most important category, representing 55.6% of the total foreign aid provided by China (versus 36.1% for grants and 8.1% for interest-free loans).

Another issue that complicates the assessment of Chinese aid is that there are numerous Chinese governmental departments and organisations involved. The Department of Aid to Foreign Countries (DAFC) manages foreign aid in coordination with the Executive Bureau of International Economic Cooperation (EBIEC). Both instances are supervised by the Ministry of Commerce.¹⁰⁹ More recently, the government has announced the launch of the Office for International Development Cooperation, a high-level government agency overseen by the State Council, to manage aid programs.¹¹⁰



Source: State Council of the People’s Republic of China, China Foreign Aid, White Papers (2011 and 2014).

Nevertheless, efforts have been made to estimate the development assistance provided by China. To illustrate, Prof Naohiro Kitano has published various articles that calculate China’s foreign

¹⁰⁹ Jing Gu, Yunnan Chen and Wan Haibin, ‘China on the Move: The ‘New Silk Road’ to International Development Cooperation?’ in Jing Gu, Alex Shankland and Anuradha Chenoy (eds), *The BRICS in International Development* (Palgrave MacMillan, 2016) 119, 121.

¹¹⁰ CK Tan, ‘New Agency Puts Spotlight on China's Foreign Aid’, *Nikkei Asian Review* (online), 16 March 2018) <<https://asia.nikkei.com/Spotlight/China-people-s-congress-2018/New-agency-puts-spotlight-on-China-s-foreign-aid>>.

aid. His latest article estimates China's ODA at US\$4.9 billion in 2014, down from US\$5.4 billion in 2013, putting China among the six biggest ODA donors in the world.¹¹¹ Kitano's work does not provide disaggregated figures by country or region.

The Global Research Institute at William & Mary University has worked on a project (AidData) that constructed a dataset from China's official financial flows to developing countries using a methodology called 'tracking underreported financial flows' (TUFF).¹¹² The project divides China's official financial flows into three categories:

- ODA: flows that meet the DAC's definition for ODA
- Other Official Flow (OOF): flows that do not meet the ODA definition (e.g. non-concessional loans and those primarily intended for commercial and representational purposes)
- Vague Official Finance (VOF): most items in this category are OOF but lack sufficient information to assign to either ODA or OOF.

According to this study, China's financial flows to developing countries have increased from less than US\$3 billion to approximately US\$38 billion between 2000 and 2014, peaking at US\$70 billion in 2009. Since 2009, most of the resources provided by China have been allocated in the OOF category. During the period 2000-2014, the main recipients of ODA in Latin America were Cuba (US\$6.7 billion), Bolivia (US\$966 million) and Costa Rica (US\$590 million).¹¹³ The main recipients of OOF were Venezuela (US\$10.8 billion), Brazil (US\$8.5 billion), Ecuador (US\$9.7 billion), Argentina (US\$4.6 billion) and Chile (US\$1.2 billion).¹¹⁴

As stated by AidData, China's financial flows have primarily supported energy (US\$134.1 billion); transport and storage (US\$88.8 billion); industry, mining and construction (US\$30.3 billion); communication (US\$16.9 billion); and agriculture, forestry and fishing (US\$10 billion). Dreher et al argue that while funds directed to these sectors are ostensible significant and shadow the resources that China has channelled to other social areas to address poverty more directly, projects in the former sectors require intensive capital.¹¹⁵ Dreher's arguments are rooted in the

¹¹¹ Naohiro Kitano, 'Estimating China's Foreign Aid Using New Data', (2018) 49.3 *IDS Bulletin* 49, 64.

¹¹² Axel Dreher et al, 'Aid, China and Growth: Evidence from New Global Development Finance Dataset' (AidData, Working Paper 46, 10 October 2017). TUFF triangulates information from four sources: English, Chinese and local-language news reports, official statements from China; aid and debt information management systems of ministries in counterpart countries; and case study and field research undertaken by scholars and NGOs. Results of their work are published at <https://www.aiddata.org/china>

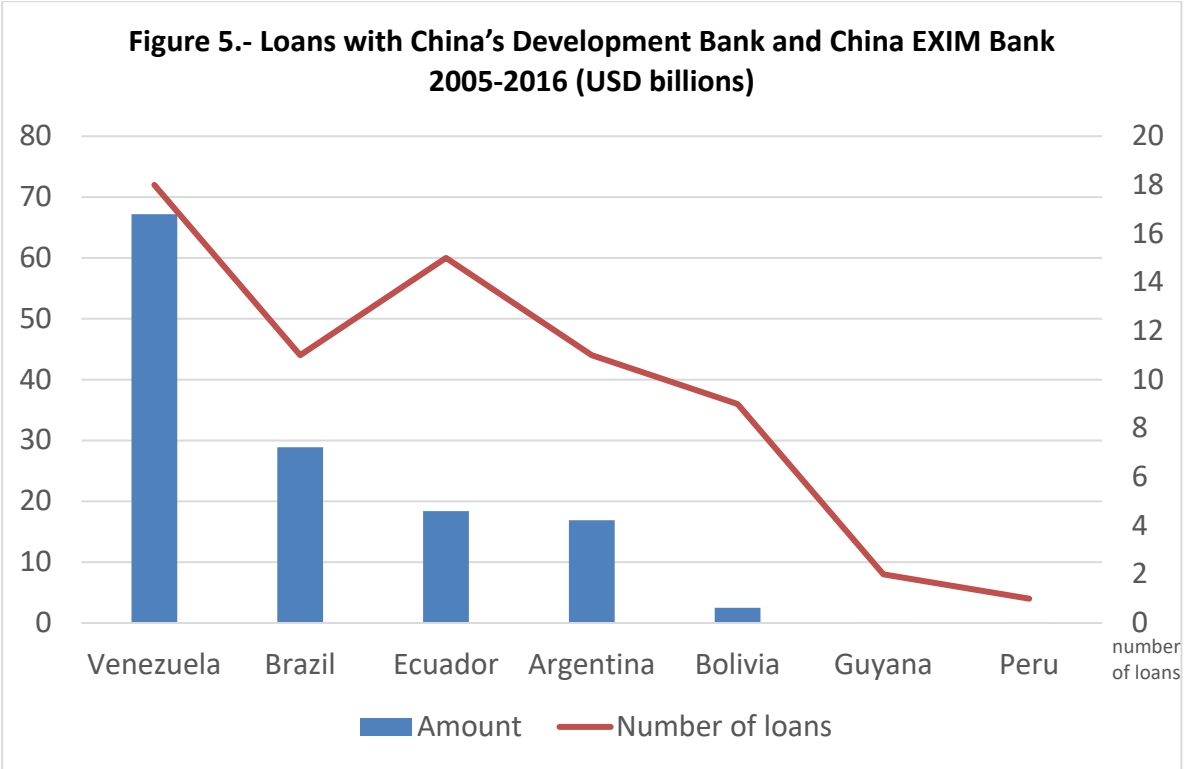
¹¹³ Ibid.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

fact that China support more education, health and governance projects than energy, transport, mining and communication projects.

Gallagher and Myer have also constructed a database that captures loans granted to Latin American countries by China’s Development Bank (CDB) and the China EXIM Bank between 2005 and 2018.¹¹⁶ The major beneficiaries of those loans are found in South America (Figure 5). Most of the loans target the following sectors: energy (US\$96.9 billion), infrastructure (US\$25.9 billion) and mining (US\$2.1 billion).



Source: Gallagher, Kevin P. and Margaret Myers, ‘China-Latin America Finance Database,’ Washington: Inter-American Dialogue (2019).

Fifty per cent of the loans granted to South American countries have used a ‘loan-for-oil’ mechanism, by which Chinese financial institutions’ loans are repaid with the sale/purchase of oil shipments.¹¹⁷ According to the ECLAC, ‘This type of instrument ensures China better returns in more risky markets, because lower risk premiums are guaranteed as borrowing countries wishing to export their products to China do so by paying off their debts.’¹¹⁸ The mechanism has also been beneficial for some countries that otherwise could not have accessed global markets (e.g. Venezuela). However, as will be explained later in the discussion of Venezuela’s case, this

¹¹⁶ Kevin Gallagher and Margaret Myers, ‘China-Latin America Finance Database,’ Inter-American Dialogue (2019).

¹¹⁷ ECLAC, *Exploring New Forms of Cooperation*, 23.

¹¹⁸ Ibid.

tool may create fiscal problems down the road, particularly in countries with weak governance capabilities and/or high levels of corruption. The loan-for-oil approach is not a Chinese innovation; it was used by Japan in the 1970s to lend money to China.¹¹⁹ The JBIC also granted a loan-for oil to Venezuela for US\$1.5 billion in 2011.¹²⁰

Based on the major role played by the CDB and the China EXIM Bank in South America, some experts argue that China has resorted to a ‘State-to-State’ model in the region and is using official financial flows as a mechanism to secure the provision of energy sources and commodities as well as to open the door for Chinese firms.¹²¹ These arguments are consistent with the findings of Dreher et al, who concluded that China provided limited aid in the strictest sense of the term (i.e. as ODA), and that the largest proportion of official financial flows is provided in the form of export credits and loans that charge market or close-to-market rates.¹²²

C. Trade and Investment

Prior to the 1990s, trade between China and South America was marginal. It was in 1992 that trade between the two regions started to increase, eventually making China the second major trade partner for the region. While China has a trade surplus with Latin America and the Caribbean as a whole, it has a deficit with South America (Figure 6).

China’s total trade with South America grew from US\$8.7 million to US\$224.4 billion between 1961 and 2018. Not all countries in the region have a trade surplus with China but Brazil, Chile, Peru, Uruguay and Venezuela that together represent 84.3% of all trade with the Asian giant. Exports to China are concentrated in a few categories such as soybean, oil, copper and iron ore; the surplus is explained by the prices of oil, minerals and other exported commodities. Concerns have arisen over the lack of diversity of South American exports to China, which have been described as a commodity-for-manufacturing pattern.¹²³

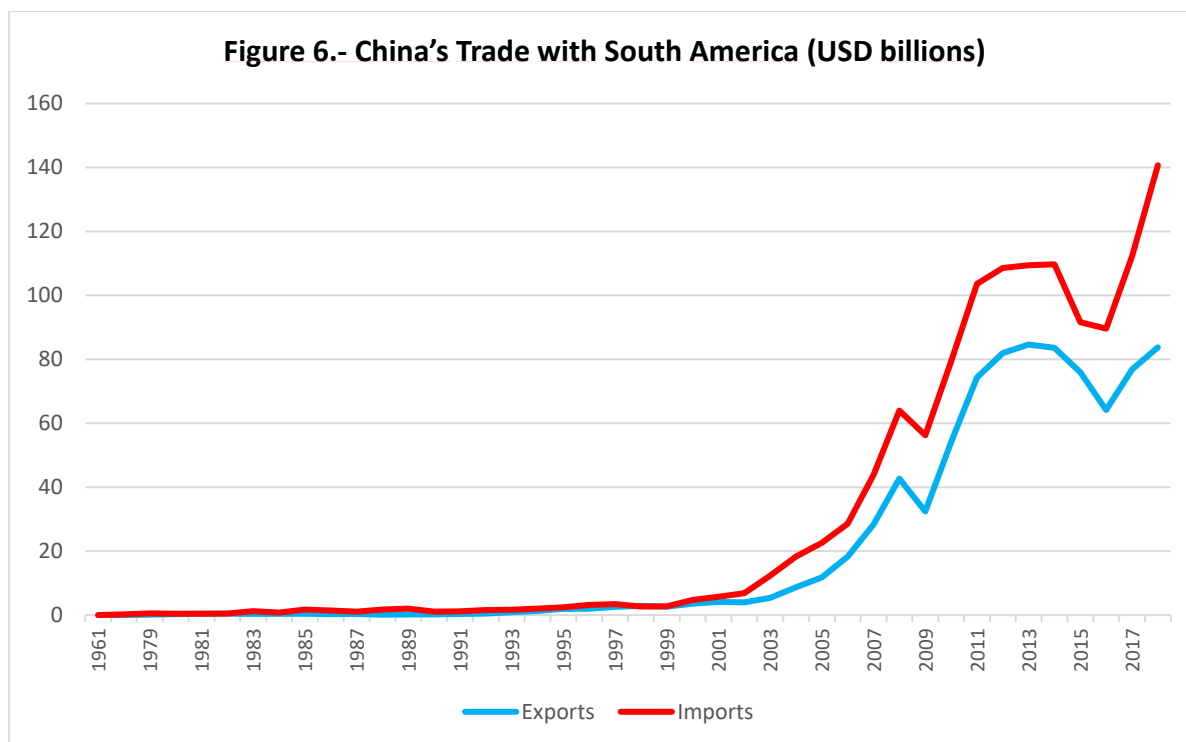
¹¹⁹ Kevin Gallagher, Amos Irwin and Katherine Koleski, ‘The New Banks in Town: Chinese Finance in Latin America’, (the Inter-American Dialogue, February 2012), 15. See also, Kevin Gallagher, *The China Triangle* (Oxford, 2016) 73-74.

¹²⁰ Marianna Parraga, ‘Venezuela Oil Sector Gets \$ 1.5 bln Loan from Japan’. Reuters (online), 29 June 2011 <<https://www.reuters.com/article/venezuela-japan-oil-idUSN1E75R19420110628>>.

¹²¹ Mario Esteban, ‘China: a Partner for the Development of Latin America?’ in Shada Islam, *EU-China Relations: New Directions, New Priorities* (Friends of Europe, Discussion Paper) Summer 2016, 87, 89.

¹²² Dreher, ‘Aid, China and Growth’, 2.

¹²³ ADB, IDB and ADBI, ‘Shaping the Future of Asia-Latin America and the Caribbean Relationship’, XV.



Source: IMF, Direction of Trade Statistics (DOTS).

China has employed a combination of FTAs and strategic partnerships to open markets and to promote investment in South America. China signed two FTAs in the region with Chile (2006) and Peru (2010). Chile also has a FTA with Hong Kong (2012). Since Paraguay is a member of Mercosur and has diplomatic relations with Taiwan's government rather than China, the regional bloc has not been able to negotiate a FTA with China. Subsequently, Uruguay, another Mercosur member, is considering a bilateral FTA with China.¹²⁴

The other mechanism used by China to promote development cooperation, trade and investment is less formal and more political. It involves a State-to-State approach to trade, investment and development cooperation. This tool is called 'strategic partnership'. Wen Jiabao, former Chinese Premier, defined a comprehensive strategic partnership in the following terms

By "comprehensive", it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental

¹²⁴ Fermin Koop, 'Uruguay Seeks Alliance with China, Challenging Mercosur'. *Diálogo Chino* (online), 13 Noviembre 2018 <<https://dialogochino.net/uruguay-seeks-alliance-with-china-challenging-mercursosur/>>. Mario Abdo Benítez who took office in August 2018 as a new Paraguayan president, has recently expressed his hopes to signs a FTA with China via Mercosur. See, the Economist, 'The Blossom and the Passion Flower, Taiwan's Long Relationship with Paraguay Continues to Pay Off', *The Economist* (online), 19 July 2018 <<https://www.economist.com/the-americas/2018/07/19/taiwans-long-relationship-with-paraguay-continues-to-pay-off>>.

groups. By “strategic”, it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system and is not subjected to the impacts of individual events that occur from time to time. By “partnership”, it means that the cooperation should be equal-footed, mutually beneficial and win-win.¹²⁵

This mechanism is a non-institutionalised bilateral commitment that sets the framework for development, economic and social cooperation between China and its partners.¹²⁶ A comprehensive strategic partnership generally involves a broad agenda that covers several areas such as development assistance, development finance, trade, investment, education, health, etc. The Chinese government plays a leading role in these partnerships, opening opportunities for trade, investment and cooperation with South American governments. In the cases of Brazil and Venezuela, the partnerships also involve the establishment of a high-level committee.

Unlike FTAs, which are formal international agreements that are publically available and registered as per Article 102 of the UN Charter, these strategic partnerships are based on content that is not officially published, and is usually announced by joint communiques. Strategic partnerships are a relatively new development in China’s diplomacy, and they enable the government to prioritise bilateral relations.¹²⁷ Xiang argues, ‘In Chinese diplomatic parlance, a strategic partnership not only stresses a kind of special economic relationship but also includes the idea of exchanging, sharing, and even coordinating views and policies on bilateral relations and major international issues.’¹²⁸ For this author, China seeks to fulfil two strategic goals with these agreements: access to natural resources and geographical proximity to the US.

Strategic partnerships are the ‘entry level’ for a partner willing to cooperate with China. They can be upgraded to a ‘comprehensive strategic partnership’ if the partner can demonstrate a solid record of cooperation with China and relations achieve a high-level of trust.¹²⁹ China has wisely used this mechanism in South America and has now eight agreements in place (Table 2).

¹²⁵ Wen Jiabao, ‘Vigorously Promoting Comprehensive Strategic Partnership between China and the European Union’ (Speech delivered at the China-EU Investment and Trade Forum, Brussels 6 May 2004).

¹²⁶ China has also achieved a few multilateral strategic partnerships (e.g. ASEAN-China and EU-China strategic partnerships).

¹²⁷ See, Lanxin Xiang, ‘China Goes Geopolitical in its Strategic Partnership with Latin America’ in Riordan Roett and Guadalupe Paz, *Latin America and the Asian Giants* (The Brookings Institution, 2016) 64.

¹²⁸ Ibid 65.

¹²⁹ For more information about strategic partnerships see, Feng Zhongping and Huang Jing, ‘China’s Strategic Partnership Diplomacy: Engaging with a Changing World’ (European Strategic Partnerships Observatory, Working Paper 8, 1 June 2014); and Geor Strüver, ‘Bereft of Friends?’ China’s Rise and Search for Political Partners in South America’ (2014) 7.1 *Chinese Journal of International Politics* 117.

Table 2.- China's Partners in South America

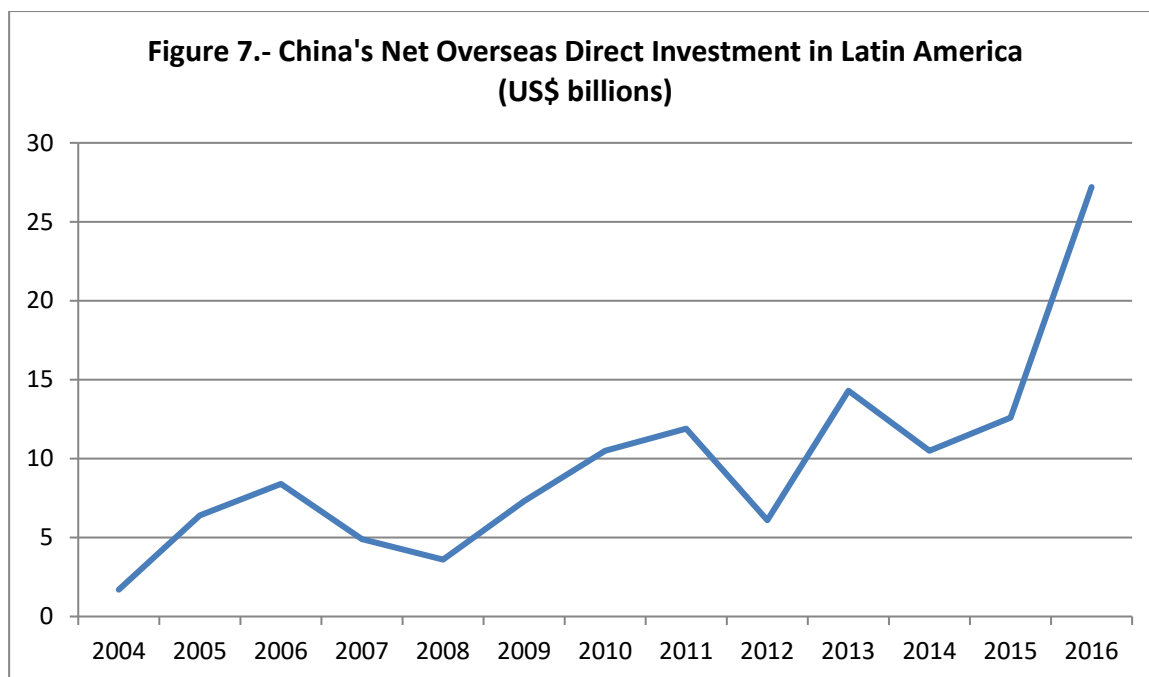
Country	Strategic Partnership	Comprehensive Strategic Partnership	Belt & Road Initiative
Argentina	2004	2014	2018
Bolivia	2018	No	2018
Brazil	1993	2012	No
Chile	2012	2016	2018
Colombia	No	No	No
Ecuador	2015	2016	2018
Guyana	No	No	2018
Paraguay	No	No	No
Peru	2008	2013	2019
Suriname	No	No	2018
Uruguay	2016	No	2018
Venezuela	2001	2014	2018
Total	8	6	9

Four South American countries –Colombia, Guyana, Suriname and Paraguay– do not have strategic partnerships with China. Guyana and Suriname have formally agreed to join the BRI.¹³⁰ Colombia does not have any type of agreement with China, and Paraguay does not have formal relation with China. Thus, it can be argued that China places a high priority on relations with South America that use a strategic partnership approach and/or the BRI with ten out of twelve countries bound by cooperation agreements with China.

Strategic partnerships also have been essential to open doors for Chinese investment in the region in a way that was almost non-existent until the twenty-first century.¹³¹ According to the National Bureau of Statistics of China, China's FDI in the region grew from US\$1.7 billion in 2004 –the first year the agency published disaggregated data per region– to US\$27.2 billion in 2016 (Figure 7).

¹³⁰ The Belt and Road Initiative will be discussed later.

¹³¹ According to ECLAC, Chinese invested US\$ 6 billion in the 1980s and 1990s. ECLAC, 'Chinese Foreign Direct Investment in Latin America and the Caribbean: China-Latin America Cross-council Taskforce', (Working Document, 18-20 November 2013)11.



Source: National Bureau of Statistics of China, China Statistical Yearbook, various issues. The National Bureau started reporting China's overseas direct investment by region in the 2006 Yearbook for years 2004 and 2005. Issues available at <http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>

These numbers must be analysed with caution, considering that Chinese investors often make investments using a subsidiary located in a third country. Experts have indicated that it is complex to track Chinese investment. To illustrate, Chinese Sinopec acquired 40% of Repsol's subsidiary in Brazil (US\$7.1 billion) via a subsidiary domiciled in Luxembourg.¹³² The Brazilian Central Bank has also reported that approximately 90% of Chinese direct investment is channelled to Brazil through a third country, mainly Luxembourg.¹³³

Another feature of Chinese investment in Latin America is that it is dominated by Chinese state-owned enterprises. Eighty one per cent of the Chinese firms operating in Latin America are owned by the Chinese government.¹³⁴ Since 2005, Chinese investments in Latin America have been concentrated in a few countries: Brazil (55%), Peru (17%) and Argentina (9%), together comprise 81% of Chinese investment in Latin America.¹³⁵ South America has received 87.2% of all Chinese investment in Latin America (Figure 8). Between 2004 and 2010, Chinese investment mainly focused on mining (42%) and fossil fuels (18%) but shares in these sectors have been

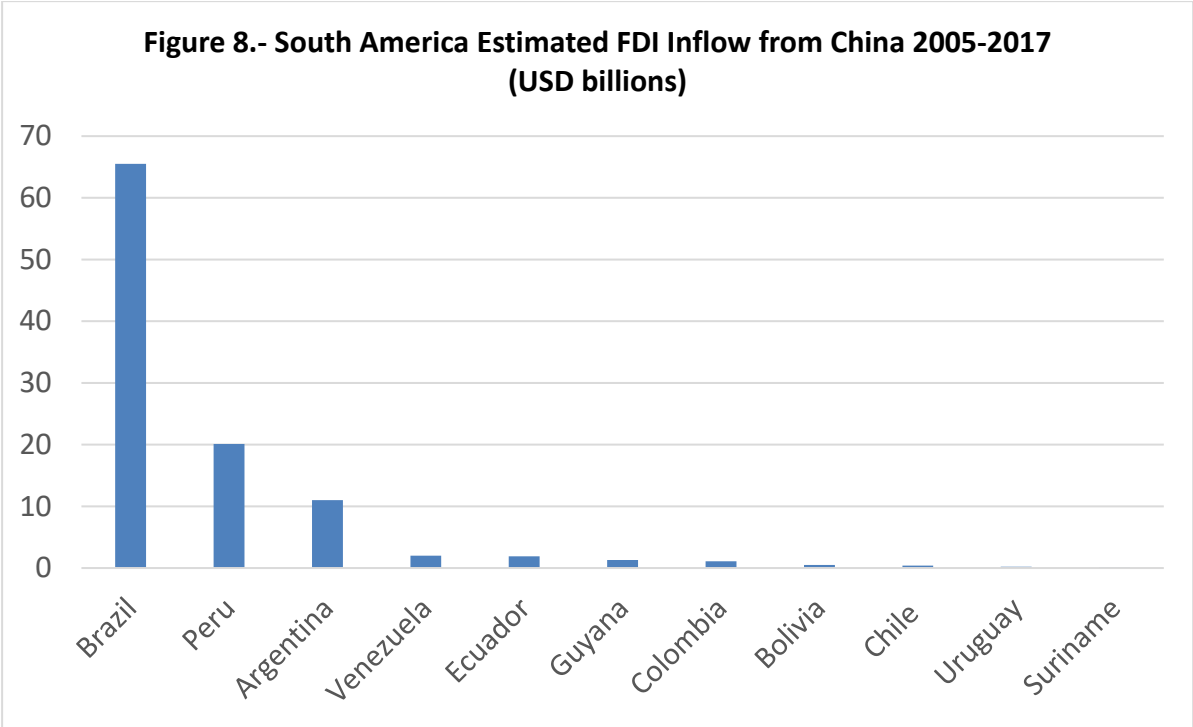
¹³² Ibid 10.

¹³³ See, Banco Central Do Brazil, *Foreign Direct Investment in Brazil Report* (Banco Central Do Brazil, 2018).

¹³⁴ Rolando Avendaño et al, 'Chinese FDI in Latin America: New Trends with Global Implications', (Atlantic Council's Adrienne Arsht Latin America Center and the OECD Development Centre, 2018) 10.

¹³⁵ ECLAC, *Exploring New Forms of Cooperation between China and Latin America and the Caribbean*, 56.

reduced to 20% and 6%, respectively, between 2011 and 2017.¹³⁶ Chinese investors have now expanded their preferences to areas such as telecommunication, real estate, renewable energy and food.



Source: ECLAC, *Exploring New Forms of Cooperation between China and Latin America and the Caribbean* (ECLAC, 2018) 56.

D. China’s Participation in Regional Forums¹³⁷

China has been more assertive than Japan in its approach to building relations with Latin America, joining traditional forums as well as creating new multilateral mechanisms of engagement with the region. China has exercised caution in its approach to regional multilateral institutions in which the US, Canada and Japan are also members, and instead has preferred to play a low-profile role in these institutions.

At the international political level, China joined the OAS as a permanent observer in 2004. The OAS and China signed a memorandum of understanding in 2004 to support a scholarship program for students from Latin America who want to study in Chinese universities. The agreement was renewed in 2014 for five more years with an amount of US\$1.5 million.¹³⁸ In

¹³⁶ Ibid 57.
¹³⁷ This section will focus on regional initiatives that involve China and will not address forums such as APEC, BRICS or the Asian Infrastructure Investment Bank that have a wider geographical scope.
¹³⁸ OAS, *China Profile*, 5 July 2017.

addition, China has made financial and in-kind contributions totally US\$6.6 million between 2005 and 2016, doubling the contributions made by Japan¹³⁹.

China also joined the IDB in 2008 and subscribed to shares valued at US\$129.1, which represents 0.004% of the voting power of the institution. The major contribution of China to the IDB is in the form of a co-financing fund (US\$2 billion) that supports projects in areas such as education, water conservation, energy, etc. This scheme is one of the financial facilities offered by the Chinese government within the context of the China-CELAC forum that will be discussed shortly. By the end of 2017, the IDB had approved 49 projects in 17 countries for an amount of US\$1.2 billion.¹⁴⁰

China has joined the FEALAC, which as indicated earlier, has not achieved meaningful goals. Most projects are managed at the domestic level, and China, itself has promoted 35 seminars and events.¹⁴¹

China has preferred to engage with Latin America and the Caribbean by way of the China-CELAC Forum, which does not represent Japan, Canada nor the US. The Community of Latin American and Caribbean States (CELAC) is a relatively new regional organisation launched in Caracas in 2011, and it is now comprises 33 member countries from Latin America and the Caribbean. It was the successor of the Rio Group and the Latin American and Caribbean Summit on Integration and Development. CELAC was promoted by late Venezuelan president Hugo Chávez as an alternative to the OAS. The main goal of the CELAC is to promote political, economic, social and cultural integration to improve standards of living, stimulate economic growth and advance the well-being of people. The main difference between the CELAC and the OAS is that the former does not include the US and Canada among its members but does include Cuba.

The regional bloc agreed to create the China-CELAC Forum in 2014 as a mechanism to enhance cooperation with China. This Forum's is similar to the Forum on China-Africa Cooperation (FOCAC), which was launched in 2000.¹⁴² Since its inception, China has labelled the Forum as 'the main platform to promote China- Latin America overall cooperation'.¹⁴³ The main mechanism of the Forum is Ministerial Meetings, which have met twice. In the first meeting held

¹³⁹ Ibid

¹⁴⁰ IDB, *Annual Report* 2017, 9.

¹⁴¹ A full list of events sponsored by China is available at http://www.fealac.org/new/about/country_view.do?idx=20#

¹⁴² 'Richard Harris and Armando Arias, 'China's South-South Cooperation with Latin America and the Caribbean', 520.

¹⁴³ Ministry of Foreign Affairs of China, 'Basic Information about China-CELAC Forum', April 2016, 6.

in Beijing in January 2015, the members agreed on a Cooperation Plan 2015-2019 and the Institutional Arrangements and Operating Rules of the Forum.¹⁴⁴ The Cooperation Plan established 13 priority areas for cooperation, including politics and security; international affairs; trade; investment and finance; infrastructure and transportation; energy and resources; agriculture; industry, science and technology; aerospace and aviation; education and training of human resources; culture and sports; press, media and publication; tourism; environmental protection and disaster risk management and reduction; poverty eradication and health; and people-to-people friendship.¹⁴⁵

The Second Ministerial Meeting was held in Chile, in January 2018 and the final declaration ratified the compromise of all members to continue working together to implement the Cooperation Plan 2015-2019. Members also agreed to defend the UN Charter and promote and defend multilateralism as well as the Paris Agreement on Climate Change. Finally, China invited CELAC members to join the BRI.¹⁴⁶

Within the China-CELAC framework, China has also launched several financial facilities available for CELAC members:¹⁴⁷

- **China's Preferential Loans:** Under this facility, China provides up to US\$10 billion in concessional loans and preferential export buyer's credits. The Ministry of Commerce leads this program which is managed by the China EXIM Bank. Loans are denominated in Renminbi (RMB) and can provide 100% project financing up to business contract value.
- **Special Loan Program for China-Latin America Infrastructure:** This scheme is for US\$20 billion. It is managed by the CDB, which charges market-based interest rates and establishes commercial terms depending on the nature of the project. This financing encourages the involvement of Chinese firms and targets infrastructure projects (e.g. energy, roads, communication, logistics, ports, mining, etc.).
- **China-Latin America Cooperation Fund:** The People's Bank of China manages this facility, which involves an initial investment of US\$5 billion divided in two tranches. The first tranche is of US\$2 billion has been entrusted to the IDB for the Co-financing Fund, managed by the regional bank. The remaining US\$3 billion is a private equity fund

¹⁴⁴ Ibid 14.

¹⁴⁵ Ibid

¹⁴⁶ The Spanish text of the declaration is available at <http://www.cancilleria.gov.co/newsroom/news/declaracion-santiago-ii-reunion-ministerial-foro-celac-china-celac-china-trabajando>

¹⁴⁷ Ministry of Foreign Affairs of China, 'Basic Information about China-CELAC Forum', 38-47.

coordinated by the National Development and Reform Commission (NDRC) and operated by the China EXIM Bank (China Private Equity Fund for Latin America and the Caribbean).

- **China-Latin America Special Agricultural Cooperation Fund:** This fund was launched with US\$50 million. It is managed by the Chinese Ministry of Agriculture with the goal to support agricultural cooperation projects.

In spite of the relatively ‘weak’ institutional framework of the CELAC in comparison to other more traditional regional organisations such as the OAS and the IDB, China has preferred to champion the China-CELAC forum because it can play a more active role in shaping its own cooperation agenda with Latin America without any type of interference from Japan, the US and Canada. Together with BRI, the Forum has become the key platform for China’s foreign policy in Latin America.

In 2017, during a meeting with Argentinean president, Mauricio Macri, Chinese President Xi Jinping declared that Latin America was a ‘natural extension’ of the Maritime Silk Road and an ‘indispensable participant’ in the BRI.¹⁴⁸ This declaration was followed by an invitation to join the BRI, made by Chinese Foreign Minister Wang Yi to Latin American governments in January 2018 during the Second Ministerial Meeting of the China-CELAC Forum. It has been reported that nine South American countries have formally signed memorandums of understanding of cooperation with China in the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative (Table 2).¹⁴⁹

In the case of Mercosur, China has met with members of this bloc to discuss issues associated with cooperation, trade and investment. The last round of conversations was held in October 2018, and the Chinese Vice-Minister for Foreign Affairs promoted the BRI to the representatives from Brazil and Uruguay.

The Andean Community and China agreed to promote a consultation mechanism to advance political and cooperation discussions in 2001. This agreement was followed by a Cooperation Program in 2005, which outlined the focus areas for cooperation: political dialogue, South-South cooperation, promotion of trade and investment, energy, infrastructure and technology, and tourism.¹⁵⁰

¹⁴⁸ Ricardo Barrios, ‘China’s Belt and Road Lands in Latin America’. China Dialogue (online), 11 July 2018 <<https://www.chinadialogue.net/article/show/single/en/10728-China-s-Belt-and-Road-lands-in-Latin-America>>

¹⁴⁹ The content of the memorandums has not been made public.

¹⁵⁰ A copy of the program can be found at <http://www.comunidadandina.org/StaticFiles/DocOf/DINFORMATIVO774.pdf>

Finally, China joined this forum as an observer in 2013. Some experts believe that China has little to gain from playing an active role in this bloc.¹⁵¹ For China, the China-CELAC Forum represents a more inclusive space to advance its relations with Latin America.

IV Case Studies

South America consists of twelve countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. The resources and time available for this project are not sufficient to scrutinise all twelve nations, and thus, I have reduced the scope of this research and explore three case studies: Brazil, Chile and Venezuela.

These three countries will provide opportunities to examine China's and Japan's engagement from different perspectives. First, Brazil is the biggest economy in the region and a partner of China in the BRICS forum. Approximately 38% of Brazil trade is with Asian countries and China is the main trade partner of Brazil while Japan is the sixth most important trade partner. China has strongly supported many projects in Brazil and provided loans for approximately US\$28.9 billion¹⁵². In addition, China and Brazil have been strategic partners since 1993.

The second case study, Chile is one of the most stable economies in the continent. The country has been very active in the trade and investment arena in recent years. It has signed an EPA with Japan and a FTA with China. In addition, Chile has subscribed to the CPTPP, of which Japan is also a member. Furthermore, Chile is a member of the Pacific Alliance, and China and Japan are both observers of this forum. China is the most important trade partner of Chile and Japan the third. Approximately 54% of Chilean exports went to Asia in 2018.

Finally, the last case study is Venezuela that has been heavily involved with China over the last fifteen years and has followed an economic model that differs from the paths chosen by other nations on the continent. Trade between Japan and Venezuela has decreased in the last two decades while relations between Venezuela and China have been strengthened in the same period.

The following sections will discuss the engagement of Japan and China with Brazil, Chile and Venezuela.

4.1 Brazil

¹⁵¹ See Benjamin Creutzfeldt, 'China's Engagement with Regional Actors: The Pacific Alliance' (Wilson Center, 26 July 2018).

¹⁵² Gallagher, Kevin P. and Margaret Myers, 'China-Latin America Finance Database,' Washington: Inter-American Dialogue (2019)

A. Relations with China and Japan

With rich reserves of natural resources in its vast territory (8.5 million square kilometres) and its large population (209 million), Brazil has attracted the attention of foreign governments and investors. The country traditionally prioritised diplomatic and economic relations with its American neighbours and Europe. At the end of the nineteenth century, Brazil had established diplomatic relations with several Asian countries; however, this did little to invigorate engagement with a region that was perceived as too distant to build a solid collaboration.

Partnerships between Asia and Brazil started flourishing in the 1960s led by Japan, which became Brazil's major Asian partner until the beginning of the 2000s when it was displaced by China. Today, 35% of Brazil's total trade is with Asian countries, to which Brazil ships 36% of its exports. In spite of the increasing importance of Asian players, Brazil has not defined a clear policy to guide domestic actors in their engagement with Asia.

In an interview in 2012, Antonio de Aguiar Patriota, then the Brazilian Foreign Affairs Minister, admitted that the government was unprepared to manage its relations with China and did not know enough about the country, for which reason Brazil was encouraging diplomats to study Mandarin.¹⁵³ The situation has changed little; in a letter published in 2017, the Brazilian ambassadors to China, Japan and India exposed the weaknesses of Brazil's diplomatic service about fulfilling the demands of working in Asian countries.¹⁵⁴ In their letter, the ambassadors asked the Foreign Affairs Minister for a change of attitude towards the management of diplomatic relations with Asia and for the provision of more funds for the delegations in the region that were often understaffed and not adequately resourced.

Brazil established diplomatic relations with Japan in 1895. Japan has built its relations with Brazil on the principles set by its policy towards Latin America, as discussed previously, these principles include respect for US interests, maximisation of economic interests and consideration for Japanese descendants who live in Latin America. The later factor is particularly relevant in the case of Brazil where almost two millions Japanese descendants live.

Japan has engaged with Brazil through the trinity-development-cooperation model that leverages development aid to promote Japanese trade and investment. Private firms are the main actors in this model, and the government encourages providers of development assistance to form

¹⁵³ Ministério das Relações Exteriores, *Política Externa Brasileira: Discursos, Artigos e Entrevistas* (2011-2012), 100.

¹⁵⁴ Dawisson Belén Lopes, 'Brazilian Malaise in the 'Asian Century.'" *The Diplomat* (online), 12 September 2017 < <https://thediplomat.com/2017/09/brazilian-malaise-in-the-asian-century/>>.

partnerships with the private sector. Japan has consistently provided ODA and international development finance to Brazil since the 1960s and the country has become the ‘flagship’ of Japanese development cooperation in South America. Japan has not negotiated an EPA with Brazil and, therefore, there is no bilateral agreement to promote and protect trade and investment. Sino-Brazilian relations have developed differently and the Chinese government has led efforts to open opportunities for state-owned and private firms in Brazil. Contacts between the two nations can be traced to 1881 with the subscription of the Treaty of Friendship, Commerce and Navigation between Brazil and the Qing Dynasty and the opening of a Brazilian consulate in Shanghai in 1883.¹⁵⁵ Following the end of the Chinese Civil War and the foundation of the People’s Republic of China in 1949, the defeated forces of the Koumintang fled to Taiwan to form a separate government. During the Cold War, Brazil initially established relations with the government of Taiwan. It was not until 1974 that Brazil severed its contacts with Taiwan and started diplomatic relations with the People’s Republic of China with both countries seeking South-South cooperation in international issues such as the reform of global governance.¹⁵⁶ In the 1980s, China and Brazil started collaborating in the scientific arena, particularly with the China-Brazil Earth Resource Satellite Agreement in 1988.¹⁵⁷

During the presidency of Itamar Franco, China and Brazil became strategic partners in 1993. This agreement was symbolic, and there was no major development in bilateral relations.¹⁵⁸ Both governments signed a joint communiqué to strengthen the strategic partnership in 2009.¹⁵⁹ Former president Luiz Inácio Lula da Silva is credited with reinvigorating Brazil-China relations.¹⁶⁰ Lula pursued a foreign policy to build South-South alliances, and this approach increased Brazil’s global influence and encouraged a reform of global governance, two goals that

¹⁵⁵ Henrique Altemani de Oliveira, ‘Brazil’s Asia-Pacific Policy’ in Jörg Faust, Manfred Mols and Won-ho Kim (eds), *Latin America and East Asia – Attempts at Diversification: New Patterns of Power, Interest and Cooperation* (Lit Verlag Münster, 2005) 65, 67.

¹⁵⁶ See e.g. Sean Burges, *Brazil in the World* (Manchester University Press, 2017).

¹⁵⁷ *Ibid* 224.

¹⁵⁸ Altemani de Oliveira argues that the term ‘*asociación estratégica*’ (strategic association) started to be used in 1993 to symbolised the importance of Brazil for Chinese political leaders to work on a common set of goals in international forums. See, Henrique Altemani de Oliveira, ‘La Asociación Estratégica entre Brasil y China’ in José Martínez Cortés, *América Latina y El Caribe-China: Relaciones Políticas e Internacionales* (Red Académica de América Latina y el Caribe sobre China, 2013) 195, 204.

¹⁵⁹ Ministry of Foreign Affairs of the People’s Republic of China, ‘Joint Communiqué between the People’s Republic of China and the Federative Republic of Brazil on Further Strengthening China-Brazil Strategic Partnership’, Beijing, 19 May 2009.

¹⁶⁰ See e.g., José Augusto Guilhon Albuquerque, ‘Negócios da China: As Três Dimensões da Parceria Estratégica Brasil-China’ in Leila da Costa Ferreira and José Augusto Guilhon Albuquerque, *China e Brasil: Desafios e Oportunidades* (Annablume, 2013) 69.

aligned with Chinese foreign policy.¹⁶¹ During Lula's governance, the Sino-Brazilian High Level Coordination and Cooperation Commission (COSBAN) was created in 2004 and China became the major trade partner of Brazil in 2009.

The strategic partnership was upgraded to a comprehensive strategic partnership in 2012.¹⁶² This new agreement has served as a platform to develop cooperation in multiple areas and to implement a ten-year cooperation plan that seeks to strengthen collaboration in areas such as trade and investment, energy, and mineral resources, infrastructure, monetary and financial cooperation, and high-technological cooperation.¹⁶³

In addition, both nations agreed to implement a Joint Action Plan 2015-2021.¹⁶⁴ The plan proposes several goals, including strengthening political consultations on bilateral and multilateral issues of mutual interest; monitoring bilateral institutional mechanisms and implementation of cooperation initiatives within the comprehensive strategic partnership; sharing experiences in areas of mutual interest; evaluating results of cooperation; enhancing cooperation in the knowledge economy; coordinating sustainable development strategies and cooperation initiatives that take into account the economic, social and environmental dimensions; coordinating international forums including multilateral organisations; and improving coordination of bilateral relations vis-à-vis developments in the international context.¹⁶⁵

Other than the details disclosed by joint statements and official press releases issued by both governments, most of the agreements and memoranda between China and Brazil are not publically available online.

B. Development Assistance

Japan and Brazil have a long history as partners in development assistance. Japan granted its first loan to the South American nation in 1961 to support the construction of a steel plant.¹⁶⁶ One of the most celebrated examples of the success of Japanese development assistance in Brazil is the

¹⁶¹ For a more detailed discussion of this point see, Burges, *Brazil in the World*.

¹⁶² Ministry of Foreign Affairs of the People's Republic of China, 'Premier Wen Jiabao Holds Talks with Brazilian President Dilma Rousseff', 22 June 2012.

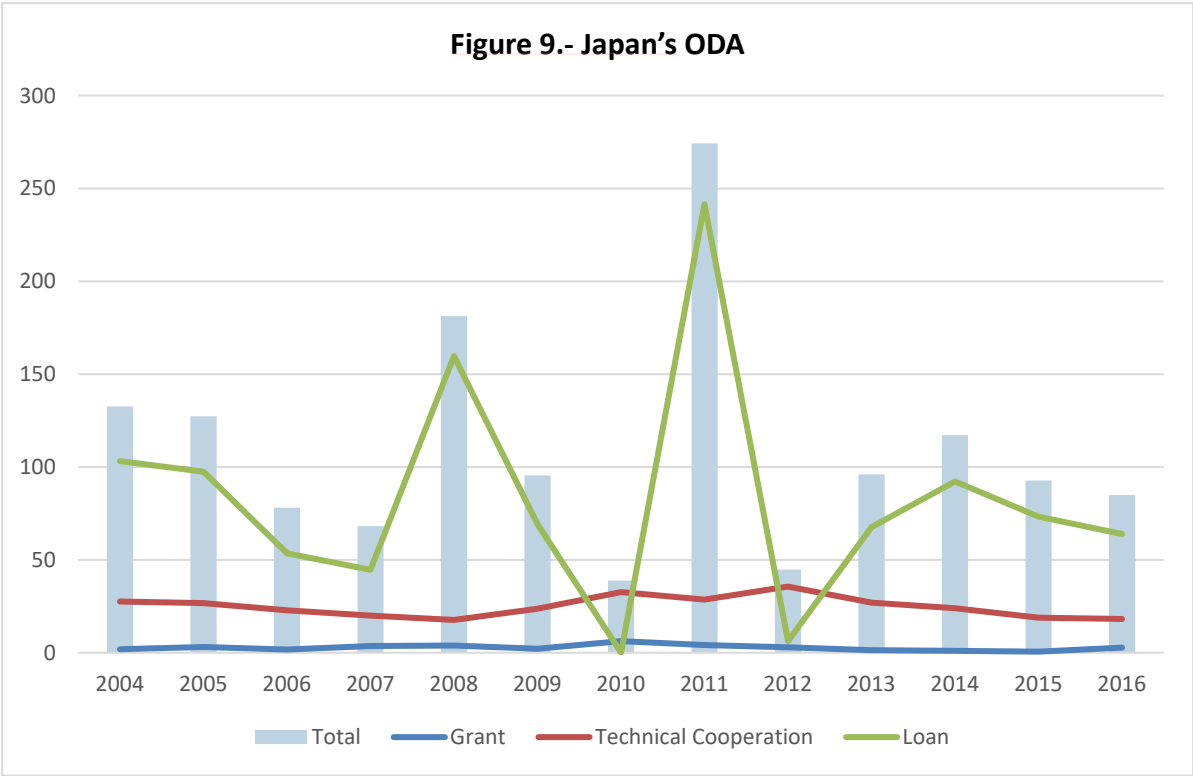
¹⁶³ Ibid.

¹⁶⁴ This plan was preceded by the Joint Action Plan 2010-2014. The Joint Action Plan 2010-2014 is available at <http://www.china-un.ch/eng/xwdt/t684717.htm>

¹⁶⁵ See, Defesanet, Joint Action Plan between the Government of the People's Republic of China and the Government of the Federative Republic of Brazil, 2015-2021 <http://www.defesanet.com.br/en/br_cn_e/noticia/19181/BR-CN---Joint-Action-Plan-BRAZIL-and-CHINA-2015-2021/> .

¹⁶⁶ Richard Manning, 'OECD-DAC and Japan: Its Past, Present and Future' in Hiroshi Kato, John Page and Yasutami Shimomura (eds), *Japan's Development Assistance: Foreign Aid and the Post – 2015 Agenda* (Palgrave MacMillan, 2016) 276, 279.

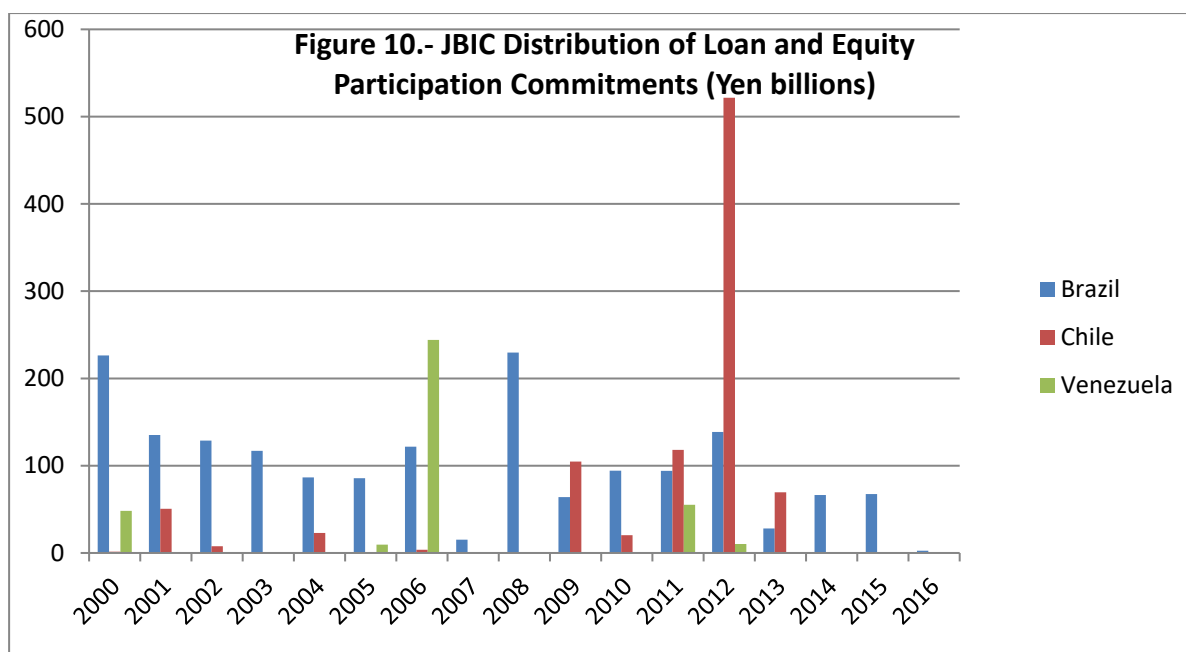
case of *El Cerrado*, an agricultural project that contributed to Brazil's transformation as a leader exporter of soybean.¹⁶⁷ In spite of the increasing importance of China in Brazil, Japan has continued providing ODA to the country for the last fourteen years (Figure 9). Between 2004 and 2016, Brazil received US\$1.4 billion in Japanese ODA most of which was in the form of concessional loans (75%).



Source: Ministry of Foreign Affairs of Japan, White Paper on Development Cooperation, various issues.

Through the JBIC, Japan has steadily provided international development finance for numerous projects in Brazil (Figure 10).

¹⁶⁷ See Hosono, *Asia-Pacific and Latin America*.



Source: JBIC, Annual Reports, various issues.

The JBIC’s support has contributed to the completion of projects in multiple sectors including oil, steel, iron, the environment, water supply, infrastructure, telecommunications, trade and manufacturing. The JBIC has supported Brazilian companies that are subsidiaries of Japanese firms and are export-oriented (manufacturers of automobile glass and seats, grain processing machinery, etc.).

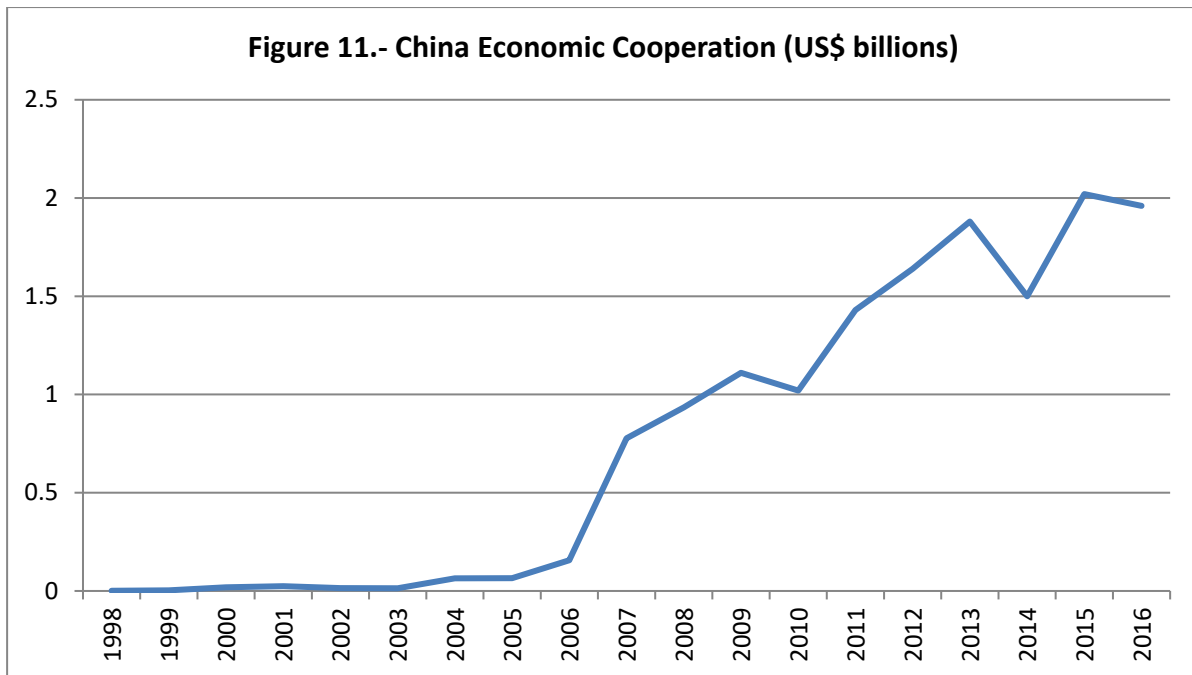
The JBIC has also collaborated with the Brazilian National Bank for Economic and Social Development (BNDES) on various programs, including one to support medium- and long-term financing for capital investment in Brazilian firms undertaking export-oriented projects, and another to support renewable energy projects.

According to AidData, Brazil received approximately US\$110,000 in Chinese ODA between 2000 and 2014.¹⁶⁸ Most of the financial assistance provided by China (US\$8.5 billion) came in the form of other official flows that did not meet the definition of ODA.¹⁶⁹ The National Bureau of Statistics of China has also recorded an increasing flow of resources to Brazil for ‘economic cooperation’, growing from US\$1 million to 2 billion between 1998 and 2016 for a total of US\$14.6 billion in this period. (Figure 11).¹⁷⁰

¹⁶⁸ Axel Dreher et al, ‘Aid, China and Growth’.

¹⁶⁹ Ibid.

¹⁷⁰ The definition of ‘international cooperation’ used by the National Bureau of Statistics of China includes contracted projects, service cooperation and consultation services. See China Statistical Yearbooks published by the National Bureau of Statistics of China, <www.stats.gov.cn/english/Statisticaldata/AnnualData/>



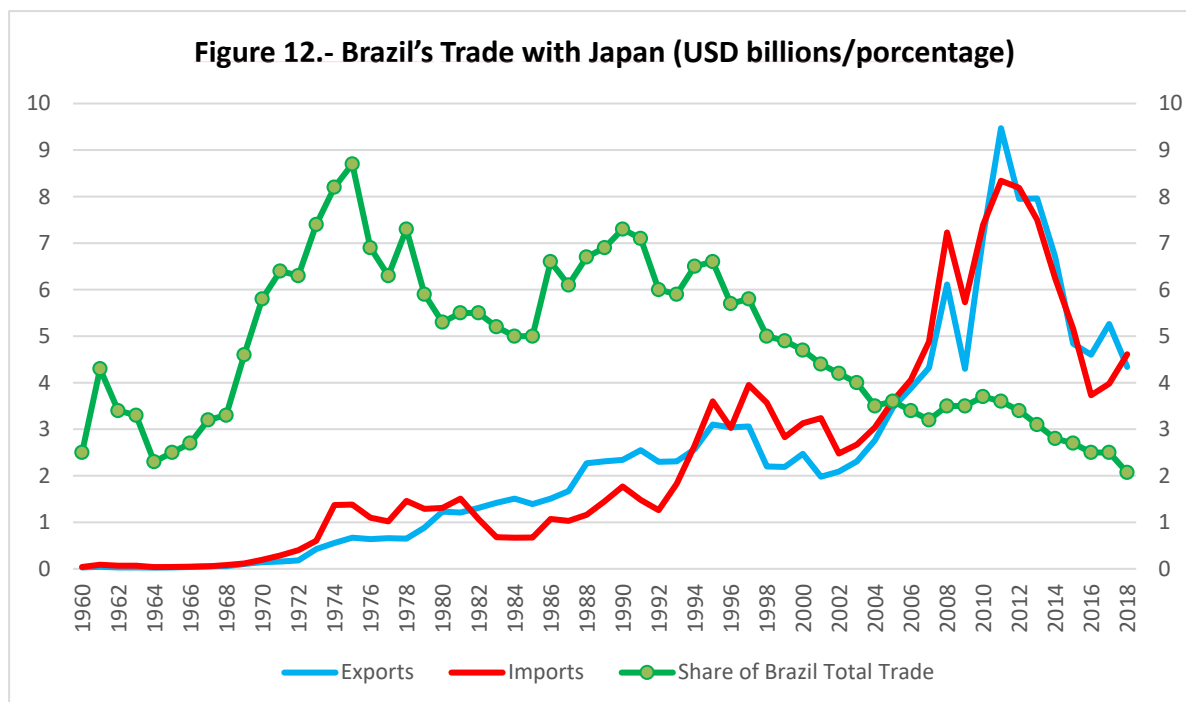
Source: National Bureau of Statistics of China, China Statistical Yearbook, various issues.

In addition, between 2005 and 2018, the CDB and the China EXIM Bank granted Brazil loans totalling US\$28.9 billion, of which 90.3% were for the energy sector.¹⁷¹

C. Trade and Investment

Trade between Japan and Brazil was relatively modest until 1974, when trade breached the US\$1 billion barrier. The total trade between Japan and Brazil grew from US\$73 million in 1960 to US\$9 billion in 2018 (Figure 12). Trade with Japan represented 9% of Brazil's total trade in 1975 but this share decreased to 2% in 2018.

¹⁷¹ Kevin Gallagher and Margaret Myers 'China-Latin America Finance Database,' (Inter-American Dialogue (2019).

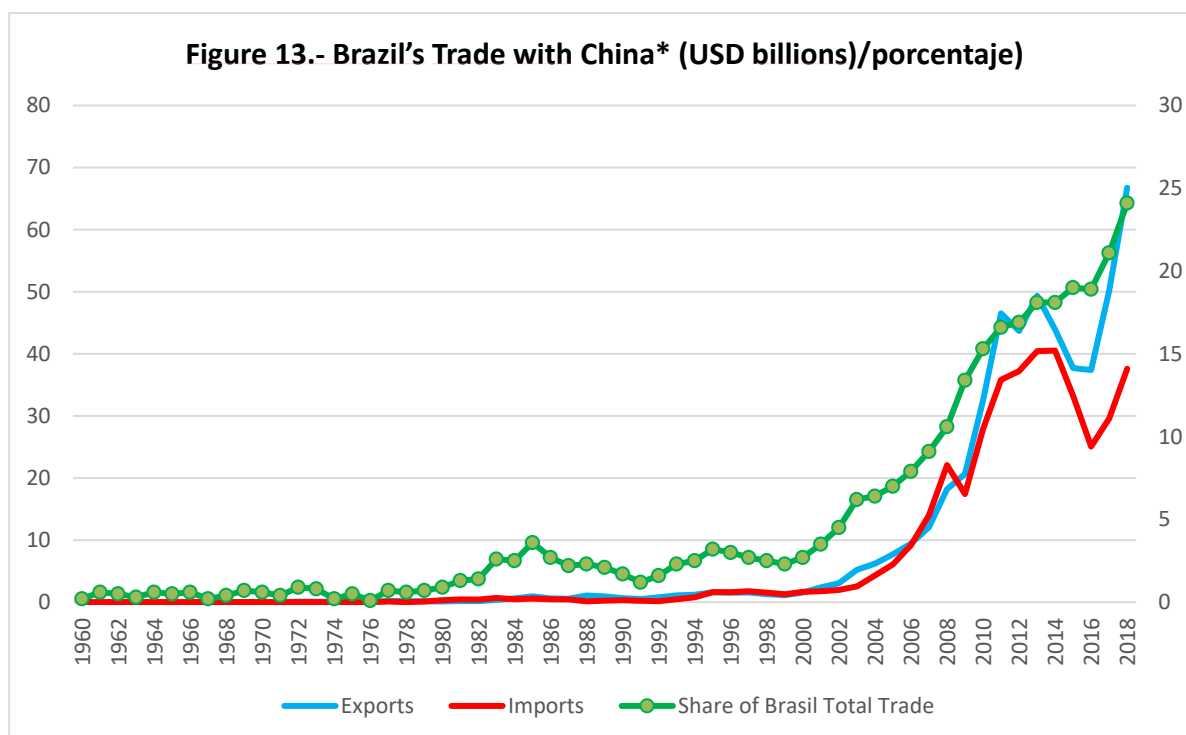


Source: IMF, Direction of Trade Statistics and author calculations (DOTS).

It took China more time to develop solid trade relations with Brazil and it was not until 1983 that trade between these countries reached the US\$1 billion mark (Figure 13). China-Brazil trade has grown from US\$4.5 million in 1960 to US\$104.3 billion in 2018. In the process, China has become Brazil's most significant major trade partner, representing 24% of the total trade. Trade with Brazil also represents almost 50% of the total trade of China with South America.

Brazilian exports to China and Japan are concentrated, in a few categories, mainly commodities although the menu of exports for Japan is better balanced (Table 3). On the contrary, Japan's and China's imports are distributed among multiple items. Brazil's trade with these partners follows the common South America pattern of commodities-for-manufactured-goods. When China and Brazil agreed to enhance their strategic partnership in 2012, they recognised that it was critical to 'optimise the trade structure' and diversify Brazilian exports.¹⁷² In spite of this agreement to address this issue, there have not been major changes, and the Brazilian menu of exports to China remains unbalanced.

¹⁷² Ministry of Foreign Affairs of the People's Republic of China, 'Premier Wen Jiabao Holds Talks with Brazilian President Dilma Rousseff', 22 June 2012.



* Include Hong Kong and Macao. Source: IMF, Direction of Trade Statistics (DOTS) and author calculations.

Table 3.- Brazil Tops Exports-Imports to/from Japan and China, 2016 (percentage)

Exports				Imports			
Japan		China		Japan		China	
Iron ore	26	Soybeans	39	Vehicle parts	13	Phones	6.4
Poultry meat	14	Iron ore	20	Vehicles	3.7	Broadcasting accessories	3.1
Corn	10	Crude oil	11	Engines	3.5	Special purpose ships	3
Coffee	8.2	Sulphate chemical woodpulp	5	Aircraft parts	2.9	Office machine parts	2.5
Ferroalloys	4.9	Poultry meat	2.4	machinery	2.4	Broadcasting equipment	2.3

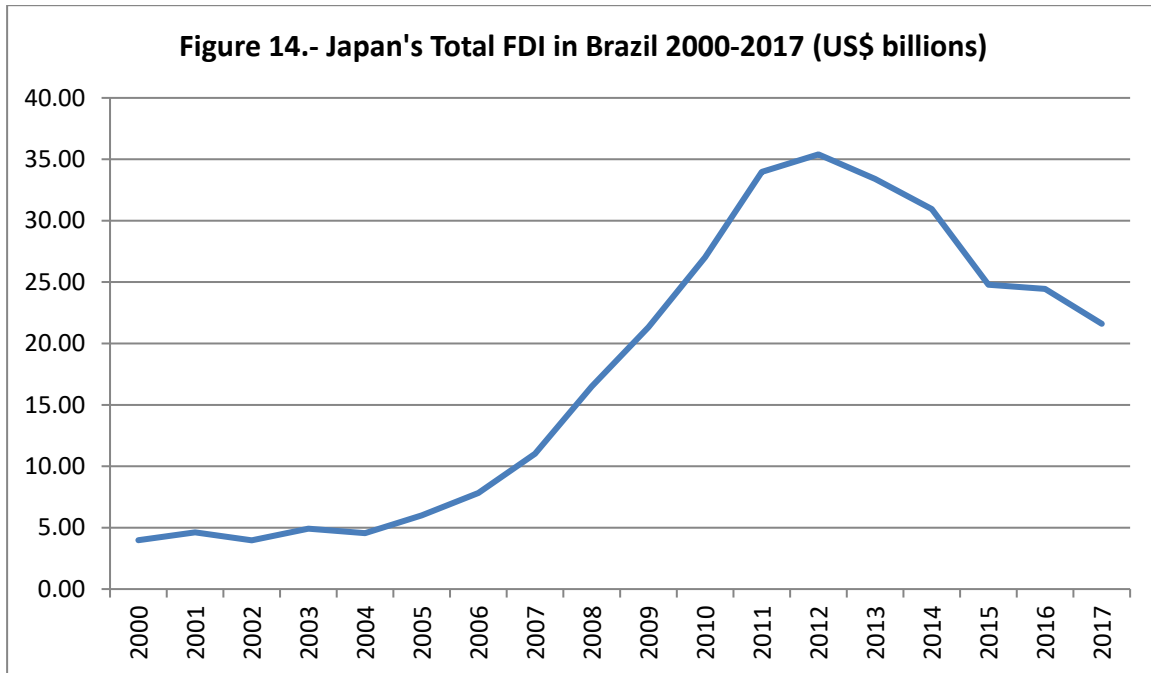
Source: *AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.*

The two major Asian economies also have been actively investing in Brazil. Since the 1960s, Japan has been the main Asian source of direct investment in Brazil which is the major recipient of Japanese FDI in Latin America (Figure 14).¹⁷³ Approximately 41% of Japanese FDI are for manufacturing (e.g. steelmaking, automobiles and food products) while 30% is for the primary sector (e.g. mining and petroleum) and 27% for services.¹⁷⁴

¹⁷³ IDB, 'Japan and Latin America and the Caribbean: Building a Sustainable Trans-Pacific Relationship'.

¹⁷⁴ Ibid 22.

Japan's investment in Brazil has been crucial for various successful private initiatives, including Usinas Sederurgicas de Minas Gerais S.A (USIMINAS), the large steel plant that was constructed in Brazil with the contribution of a Japanese group of companies led by Nippon Steel & Sumitomo Metal (then Yawata Iron and Steel). Other projects developed in the 1970s and 1980s (e.g. Cenibra, Tubarão and Albrás and Alunorte).¹⁷⁵



Source: JETRO, Japanese Trade and Investment Statistics.

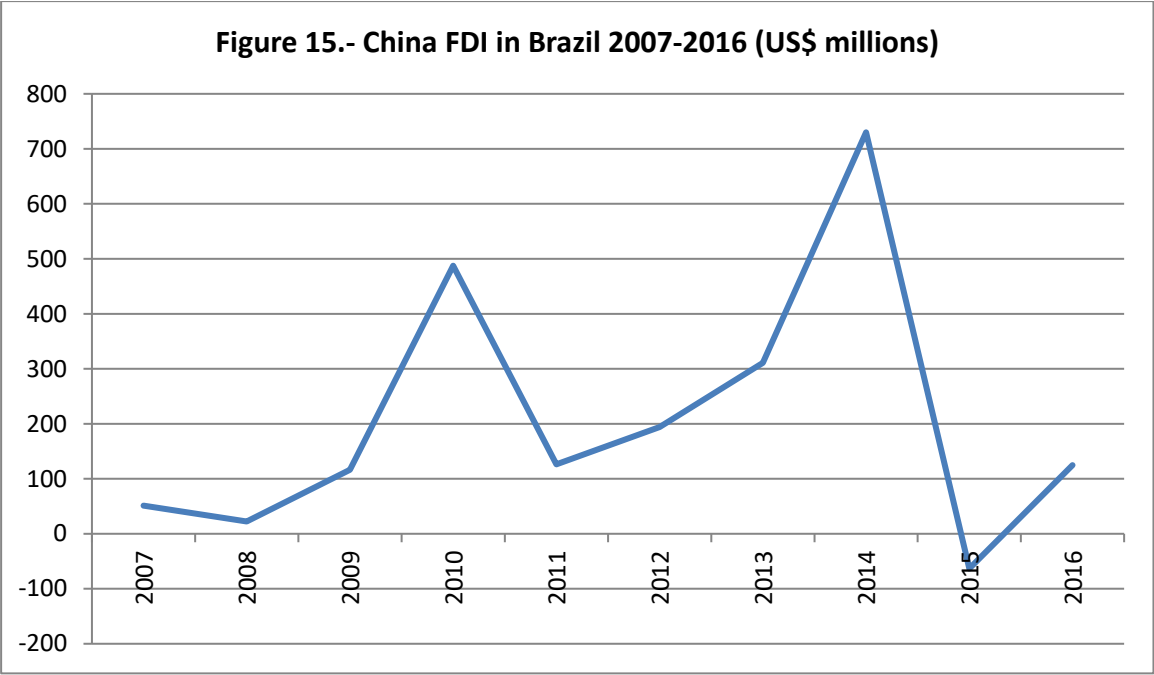
Chinese investment was basically non-existence until the second decade of the new millennium. Brazil tops the list of preferred destinations for China's investors in Latin America (Figure 15).¹⁷⁶ According to these official figures, Chinese investors invested US\$2.1 billion in Brazil in a period of 10 years (2007-2016) which seems modest considering Chinese firms completed some of the largest transactions in the same period. A recent study conducted by the Banco Central do Brazil found that 90% of Chinese investments in Brazil have been made using a subsidiary located in a third country, especially Luxembourg.¹⁷⁷ This fact may explain the modest FDI figure provided

¹⁷⁵ Henrique Altemani de Oliveira, 'Brazil's Asia-Pacific Policy'; See also, USIMINAS, 'USIMINAS Celebrates 60 Years of Partnership with Japan', 5 June 2017 <<http://www.usiminas.com/eng/2017/06/05/usiminas-celebrates-60-years-of-partnership-with-japan/>>

¹⁷⁶ ECLAC, 'Latin America and the Caribbean and China: Towards New Era in Economic Cooperation' (ECLAC, 2015), 60.

¹⁷⁷ Banco Central Do Brazil, *Foreign Direct Investment in Brazil Report*.

by official Chinese agencies. Another recent study estimated that China invested US\$255 million between 1990 and 2009, and US\$31.2 billion between 2010 and 2015.¹⁷⁸



Source: Ministry of Commerce of the People’s Republic of China, National Bureau of Statistics of the People’s Republic of China and the State Administration of Foreign Exchange, 2017.

State owned-companies have been the major Chinese investors in Brazil, and large investment in the oil sector have come from companies such as China Petroleum & Chemical Corporation (SINOPEC), China National Petroleum Corporation (CNCP) and China National Offshore Oil Corporation (CNOOC).¹⁷⁹ Since 2014, private Chinese firms reportedly have started to enter the Brazilian market in areas such as manufacturing and services; however, state-owned companies remain the major players.¹⁸⁰ Most Chinese investment is in energy and mining these sectors captured 95% of Chinese investment in 2016.¹⁸¹

4.2 Chile

A. Relations with China and Japan

Chile is the champion of FTAs in Latin America and the Caribbean. It has signed 21 FTAs of which nine involved Asian countries (China, a separate agreement with Hong Kong, India, Japan,

¹⁷⁸ Miguel Pérez Ludeña, *Chinese Investments in Latin America: Opportunities for Growth and Diversification*, (ECLAC, 2017)13.

¹⁷⁹ ECLAC, ‘Latin America and the Caribbean and China’, 61-62.

¹⁸⁰ China-Brazil Business Council, ‘Chinese Investment in Brazil 2016’, (China-Brazil Business Council, 2017), 16.

¹⁸¹ Ibid 19.

Malaysia, New Zealand-Singapore-Brunei, South Korea, Thailand and Vietnam). In addition, Chile is among the three Latin American countries that signed the CPTPP. The number of FTAs signed by Chile confirms that the country has embraced a free-market approach towards international relations.

After the fall of Pinochet's regime, the political coalition that governed Chile between 1990 and 2010 (*Concertación de Partidos por la Democracia*) focused on the consolidation of a market economy supported by free trade and the strengthening of economic relations with countries in the Pacific region.¹⁸² Thus, the government implemented an aggressive policy of negotiating FTAs, prioritising agreements with Latin American and Asia-Pacific countries. The Chilean government has also promoted Chile as a key gateway for trade between South America and Asia.¹⁸³ For this reason (among others), Chile is currently negotiating its accession to the Asian Infrastructure Investment Bank (AIIB) for funds to update its infrastructure and improve connectivity between Asia and South America.¹⁸⁴

Chile seems better prepared than Brazil and Venezuela to manage diplomatic relations with Asian nations. Gutiérrez explains that Chile trained a professional group that specialised in Asian issues and served in several countries in the region.¹⁸⁵ During the presidency of Eduardo Frei, a Division of Asia was created in the Foreign Ministry.¹⁸⁶ Although the diplomatic corps was better prepared to manage relations with Asia, there was no specific policy to guide the process until recently.¹⁸⁷ Only in January 2018, did the government publish a White Paper, entitled '*Política Exterior de Chile 2030*', which included a brief section about the Chilean government's strategy for strengthening relations with Asia and particularly China.¹⁸⁸

¹⁸² See, Luis Maira, 'La Política Exterior de los Gobiernos de la Concertación' in Yesko Quiroga and Jaime Ensignia (eds), *Chile en la Concertación: Una Mirada Crítica, Balance y Perspectiva* (Friedrich Elbert, 2010, Vol II) 63.

¹⁸³ Ibid 93.

¹⁸⁴ See, IDB, 'Chile Signs Agreements with China and Joins the Asian Infrastructure Investment Bank', IDB, 2 June 2017. Seven South American countries have been accepted as 'prospective members' of the AIIB, pending transfer of their capital subscriptions: Argentina, Bolivia, Brazil, Chile, Ecuador, Peru and Venezuela.

¹⁸⁵ Hernán Gutiérrez, 'Chile and Asia Pacific: The Economic Connection' in Jörg Faust, Manfred Mols and Won-ho Kim (eds), *Latin America and East Asia – Attempts at Diversifications: New Patterns of Power, Interest and Cooperation* (Lit Verlag Münster, 2005) 81, 85.

¹⁸⁶ Ibid.

¹⁸⁷ See, Biblioteca del Congreso Nacional de Chile, *El Estado de las Relaciones de Chile con Asia Pacífico: Obstáculos y Desafíos para una Estrategia a Futuro*, (Biblioteca del Congreso Nacional de Chile, 2017).

¹⁸⁸ Ministerio de Relaciones Exteriores de Chile, *Política Exterior de Chile 2030*, (Ministerio de Relaciones Exteriores de Chile, 2018) 36-41.

In *Política Exterior de Chile 2030*, the government recognised the relevance of Asia and particularly China for Chile's future, highlighting China's high volume of trade with the country.¹⁸⁹ In this document, Chile ratified its goal to become a platform to intensify commerce between Asia and South America by way of building alliances to improve physical and digital connectivity in the continent. Furthermore, the Chilean government will promote the training of diplomats specialised in Asia, and will restructure Chilean diplomatic representations in Asia to furnish them with more human and material resources. Moreover, Chile seeks to become a strategic dialogue partner with the Association of Southeast Asian Nations (ASEAN) while continuing to use APEC as the main forum for engagement with the Asia-Pacific region. In the case of China, the White Paper recognised the global relevance of the Asian giant and emphasised the urgency of learning more about Chinese culture in order to attract more investments.

Sino-Chilean relations started in 1845 when the government of Chile opened a consulate in Guangzhou.¹⁹⁰ Chile followed the path of other Latin American countries and did not establish relation with the People's Republic of China in 1949. Under the government of Allende, Chile was the first Latin American country to recognise the People's Republic of China officially in 1970. This act was followed by several cooperation agreements between the two governments in areas such as telecommunications, economic cooperation and technical assistance.¹⁹¹ Chile supported the accession of China to the UN in 1971, and to the WTO in 1999, and Chile was also the first Latin American country that recognised the market status of China. Chile was the first country to sign a bilateral FTA with China (2005). Chile also signed a FTA with Hong Kong in 2012.

In spite of the strength of political support provided by Chile in multiple international forums, China did not give Chile 'strategic partner' status until 2012. This was relatively late when compared to Brazil (1993) and Venezuela (2001). The Sino-Chilean alliance became a comprehensive strategic partnership in 2016.¹⁹² The main goal of this latest agreement was to boost an agreed-upon action plan between both parties in 2015, update the FTA originally signed in 2012 (this was achieved in 2017); create a Permanent Binational Commission, promote

¹⁸⁹ 54% of Chile's exports went to Asia and 35% of its imports came from Asia in 2018.

¹⁹⁰ Fernando Schmidt Ariztía, 'Relaciones Chile-China: 40 años' in Yun Tso Lee and Wu Hongying (eds), *Chile y China: Cuarenta Años de Política Exterior* (Ril Editores, 2011) 95, 98.

¹⁹¹ Ibid 103.

¹⁹² Ministry of Foreign Affairs of Chile, 'Chile and China Establish a Comprehensive Strategic Partnership', 22 November 2016.

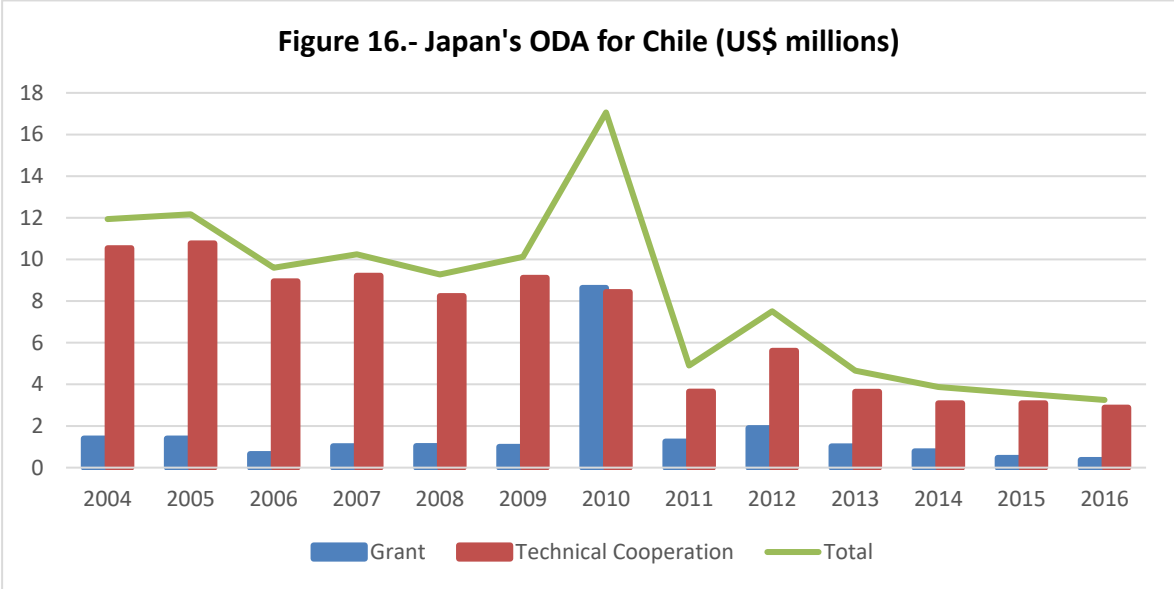
investments and environmental cooperation, promote tourism in Chile, and coordinate multilateral forums.¹⁹³

Brazil’s and Venezuela’s strategic partnerships with China have been more important than Chile’s for guiding trade and investment. Chile has followed a more pragmatic approach in its relations with China, using FTAs.

Japan and Chile established diplomatic relations in 1897. Since then, cooperation between both countries has been solid. As in the case of Brazil, Japan has engaged with Chile using a three-pillar approach that combines development cooperation, trade and investment. Lately and due to recent economic success in Chile, Japan has discussed a potential collaboration to promote development in Latin America and the Caribbean. Both countries signed the Chile-Japan 2030 Association Program to collaborate on the provision of triangular cooperation to third countries in Latin America and the Caribbean in order to promote the achievement of the goals of the SDGs.¹⁹⁴

B. Development Cooperation

Japan has provided ODA to Chile for decades. Since 2001, Chile has not received concessional loans and most of the Japanese ODA has been in the form of technical cooperation (Figure 16).



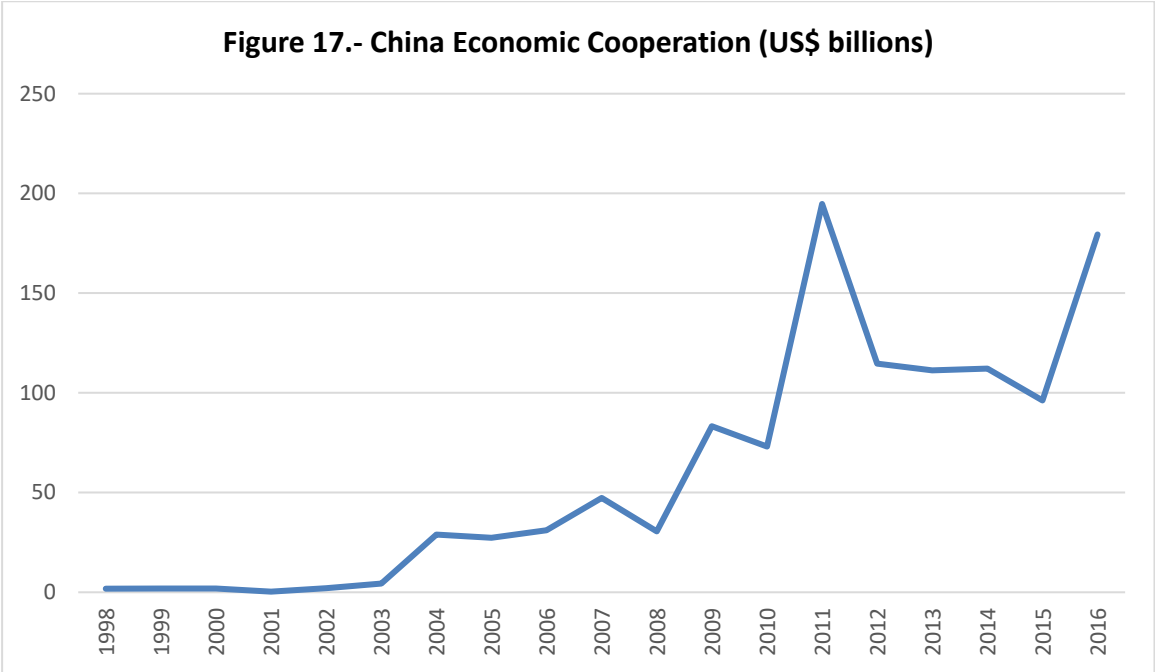
Source: Ministry of Foreign Affairs of Japan, White Paper on Development Cooperation, various issues.

¹⁹³ Ibid.

¹⁹⁴ Ministerio de Relaciones Exteriores de Chile, ‘Foreign Minister Munoz Signs Chile-Japan 2030 Association Program and Highlights ‘Affinity’ in the Relationship Between Both Countries’, 23 February 2018.

The JBIC has offered financial support to Japanese companies for projects in Chile; funds are smaller than for Brazil but larger than for Venezuela (Figure 10). In the last few years, projects financed by the JBIC in Chile have been fewer and concentrated in the mining sector (copper).

While Brazil received US\$111,000 and Venezuela received no Chinese ODA between 2000 and 2014, Chile surprisingly, obtained almost US\$4 million.¹⁹⁵ According to the same source, Chile received US\$1.12 billion of Chinese other forms of official financial flows. In addition, as a part of Chinese economic cooperation, Chile was beneficiary of contracts for US\$1.24 billion between 1998 and 2016 (Figure 17).



Source: National Bureau of Statistics of China, China Statistical Yearbook, various issues.

According to the China-Latin America Finance Database, Chile has not received loans from the CDB or the China Exim Bank. By contrast, Brazil and Venezuela have been granted a large number of loans.¹⁹⁶

C. Trade and Investment

Chile has mainly followed the path set by the International Law to rule its trade, investment and development cooperation with China and Japan. Chile has signed FTAs with China and an EPA with Japan. The original FTA with China was signed in 2005 and entered into force in 2006, mainly covered trade in goods. It also included a chapter on cooperation in areas such as economic and social development, education, technology and promotion of investment. In 2008,

¹⁹⁵ Axel Dreher, ‘Aid, China and Growth’.

¹⁹⁶ Kevin Gallagher and Margaret Myers, ‘China-Latin America Finance Database’.

both nations signed a Supplementary Agreement to further open their service markets to new sectors such as computers, management and consulting, real estate, mining, environment, sports and air transportation.¹⁹⁷

In 2017, China and Chile signed a new agreement to update their FTA. This new agreement was signed within the framework of the China-Chile comprehensive strategic partnership, and it opened trade between the two nations to a new level. The Chile-China FTA now covers trade in goods and services, economic and technological cooperation, e-commerce, environment, competition and government procurement.¹⁹⁸

Moreover, Chile signed a FTA with the Hong Kong Special Administrative Region in 2012, and it entered into force in 2014. The agreement covers trade in goods and services, protection of investment and other trade-related areas. In 2016, the parties agreed on an Investment Agreement to enhance the confidence of investors, expand investment flows, and further strengthen the economic and trade ties between the two entities.¹⁹⁹

Japan and Chile signed an EPA in 2007, and it entered into force in August 2007. The EPA is comprehensive and covers trade in goods and services, protection and promotion of investments, government procurement, protection of intellectual property rights, and cooperation for the enforcement of competition law and improvement of the business environment. In the case of the latter, the parties agreed that they were interested in creating a more favourable business climate to promote trade and investment by private enterprises. In order to achieve this goal, Chile and Japan agreed to establish a committee that would discuss actions to improve the business environment. The committee is composed of officials from both governments and can invite representative from the private sector.

Chile and Japan are signatories of the CPTPP. This is a FTA signed in February 2018 and, it entered into force in December 2018. This agreement is a separate treaty that incorporates, by reference, the provisions of the TPP that did not previously enter into force because President Trump refused to support it. The CPTPP is a state-of-the-art FTA that supports liberalisation of trade in goods and services. It also support investments among the signatory countries as well as updated rules on intellectual property, electronic commerce, state-owned enterprises

¹⁹⁷ Ministry of Commerce of the People's Republic of China, 'China-Chile FTA on Service Trade Implemented', 1 August 2010.

¹⁹⁸ Ministry of Commerce of the People's Republic of China, 'China and Chile Upgrading negotiations Concluded, Agreement Signed', 13 November 2017.

¹⁹⁹ The Hong Kong Special Administrative Region, 'Chile and the Hong Kong Special Administrative Region, Some Important Facts',
<<https://www.tid.gov.hk/english/aboutus/publications/factsheet/chile.html>>

and the protection of the environment. Some Chilean products including, fruits, milk and meat will gain better access to Japanese markets with the CPTPP.²⁰⁰

The FTAs signed by Chile with China and Hong Kong, provide similar coverage as the EPA completed with Japan. At first, the Japan-Chile agreement was more comprehensive than the China-Chile agreement, but with the signature of the updated FTA in 2017, the two Asian nations are now at the same level. With the CPTPP, Japan may have an edge over China in its trade and investment relations with Chile.

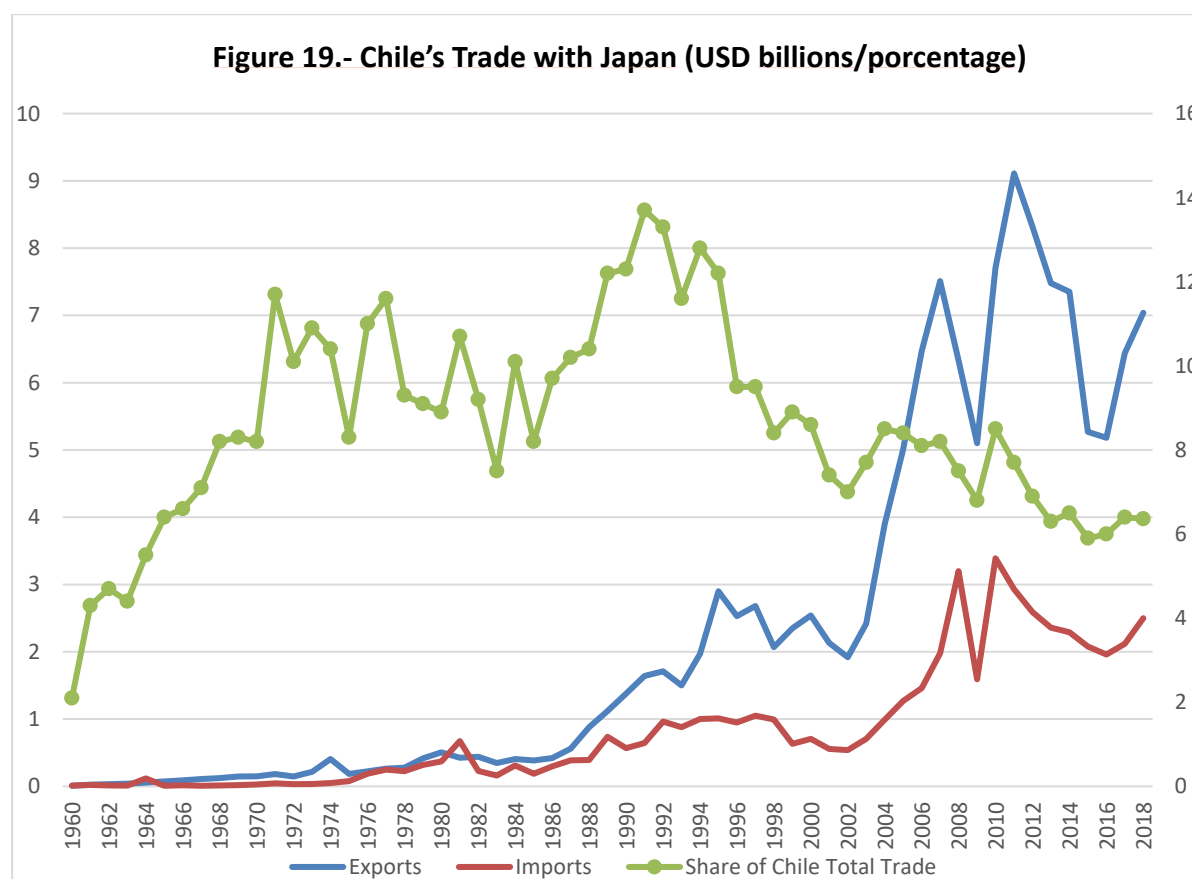
Trade between Chile and China was marginal until 1996 when it broke the US\$1 billion mark, reaching US\$43 billion in 2018 (Figure 18). The FTA has had a positive effect on trade, which represents approximately 29% of Chile’s total trade in 2018. When the Chile-China FTA was signed in 2005, the total trade between these partners was US\$8.3 billion, and two years after the completion of the FTA, trade doubled to US\$16.8 billion. China has progressively increased its share in Chile’s total trade.



* Include Hong Kong and Macao. Source: IMF, Direction of Trade Statistics (DOTS) and author calculations.

²⁰⁰ Ministerio de Relaciones Exteriores de Chile, ‘Canciller Heraldo Muñoz tras la firma del TPP: “Este acuerdo significará más empleos y prosperidad para el país”’, 4 February 2018.

Japan has a longer history of trade with Chile; the trade volume first reached US\$1 billion in 1981 (Figure 19). The EPA signed between Japan and Chile has not had a major impact on the volume of trade which has been steady at US\$ 9.5 billion between 2007 when the EPA was finalised and 2018. Although Japan’s share of Chile’s total trade is declining (6.3% in 2018), Japan remains one of Chile’s major trade partners.



Source: IMF, Direction of Trade Statistics (DOTS) and author calculations.

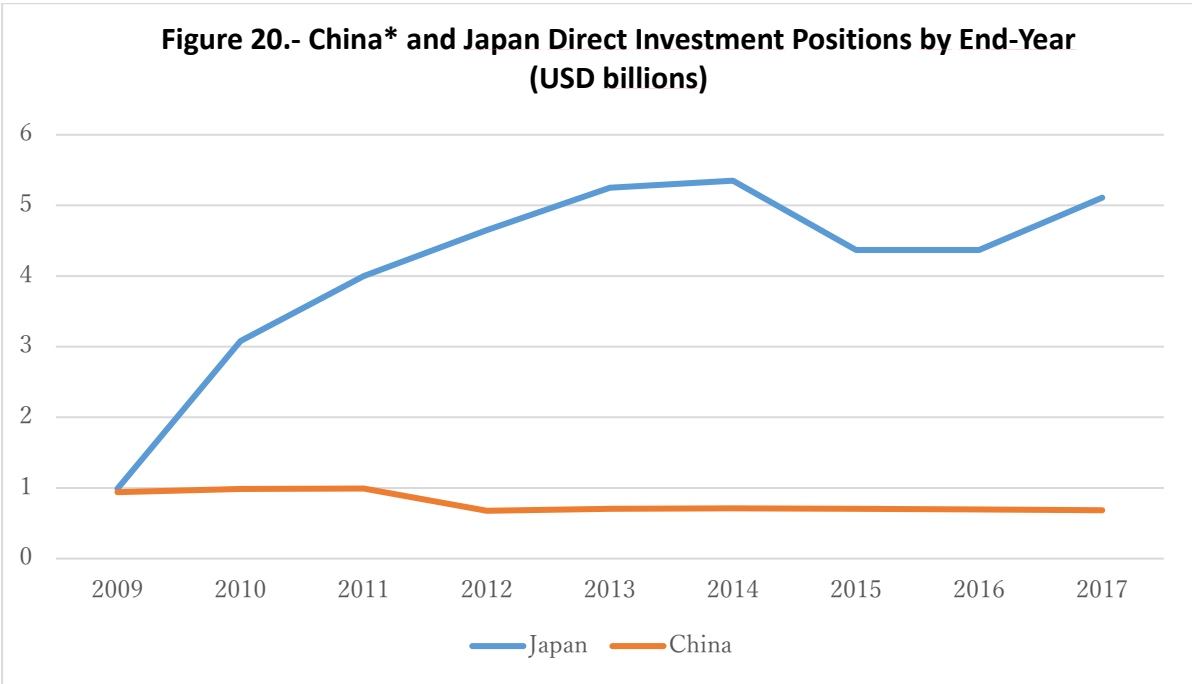
Copper exports comprise almost 74% of Chile’s exports to China, making the former country very vulnerable (Table 4). Exports to Japan are more diversified although copper still comprises a slight majority (52.3%). Fish is another important product that Chile is exporting to Japan, a country that contributed to the development of the salmon industry in Chile.

Table 4.- Chile Tops Exports-Imports to/from Japan and China, 2016 (percentage)

Exports				Imports			
Japan		China		Japan		China	
Copper ore	50	Refined copper	33	Cars	41	Broadcasting equipment	9
Non-fillet frozen fish	9.3	Copper ore	34	Refined petroleum	11	Computers	5.4
Fish fillets	6.4	Sulphate chemical wood pulp	6.7	Delivery truck	7.9	Non-knit suits	3.3
Fuel wood	5.3	Raw copper	6.6	Rubber tires	6.7	Phones	2.7
Molybdenum ore	4	Pitted fruits	4.1	Passenger and cargo ships	3.2	Video displays	1.7

Source: *AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.*

Chile has attracted less attention than Brazil from Japanese and Chinese investors (Figure 20). Between 1951 and 2004, Japan invested US\$778 million in Chile.²⁰¹ During the commodity boom of the 2010s, investment from Japan increased. The Chilean government has focused particularly on China’s investments in Chile. In spite of the buoyant trade between the two nations, Chile has not been able to attract Chinese investors. The White Paper, *Political Exterior de Chile 2030*, argues that the promotion of Chinese investment is one of Chile’s priorities.



* Include Hong Kong and Macao. Source: IMF, CDIS Database

4.3 Venezuela

A. Relations with Japan and China

Venezuela does not have the size and population of Brazil nor the Pacific basin location of Chile. It does enjoy the largest world oil reserves and vast deposits of minerals, which have attracted the attention of Asian partners. In its relation with China and Japan, Venezuela is different from Brazil and Chile in several ways. First, China is the major trade partner of Brazil and Chile, while it is the fifth Venezuela’s trade partner. Second, Venezuela has received more modest Japanese ODA and official development finance than the other two case studies and has not received Chinese ODA at all. On the contrary, Venezuela has received the greatest amount of Chinese

²⁰¹ JETRO, Japan’s Outward FDI, <<https://www.jetro.go.jp/en/reports/statistics.html>>

loans in Latin America and the Caribbean. Finally, Venezuela has received more foreign investment from China than Japan, at least in the last seven years, which is the opposite of the Brazilian and Chilean cases.

Historically, Venezuela has nurtured closer relations with the US and Europe. They were Venezuela's international allies and major trade partners until the end of the twentieth century. Prior to this time, relations with Asia was less intense than those maintained by Brazil and Chile. Venezuela's closest Asian ally was Japan, and in recent times, political and economic relations with Asia have intensified, especially with China and India.

During the first half of the twentieth century, Venezuelan legislation promoted 'white immigration' while forbidding entry for people of other races including Asians.²⁰² This situation hindered the building of solid diplomatic relations, which were established relatively later than in other Latin American countries.²⁰³ Although Venezuela created an *ad honorem* consulate in Yokohama in 1912, it took twenty-eight years of negotiations for Venezuela and Japan to establish diplomatic relations in 1938.²⁰⁴ The 'illegal' status of a few Japanese living in Venezuela was one of the main issues that affected negotiations between Japan and Venezuela.²⁰⁵ Since commencement of diplomatic relations, Japan and Venezuela have maintained friendly communication and the Asian nation has been actively providing development cooperation.

In the case of China, Venezuela opened a consulate in Shanghai in 1936 and established diplomatic relations with the Republic of China in 1943.²⁰⁶ After the founding of the People's Republic of China, Venezuela kept its association with Taiwan. Venezuela did not support the UN resolution to approve the accession of China in 1971, and it only established diplomatic relations with China in 1974.²⁰⁷ Like the Japanese, the Chinese were not allowed to immigrate legally to Venezuela, and this factor affected bilateral relations.²⁰⁸

For decades, relations with China were not relevant for Venezuela until Hugo Chávez became president in 1999. During the first year of his first government, Chávez visited China. The Asian

²⁰² See, Norbert Molina Medina, 'La Inmigración Japonesa en Venezuela 1928-2008'. Cuadernos del Japón, Universidad de los Andes, 2012; Jesús Camejo Yáñez, 'Los Inicios de la Inmigración China en Venezuela II', <<https://cvechina.wordpress.com/2018/04/14/los-inicios-de-la-inmigracion-china-en-venezuela-ii/>>.

²⁰³ Jesús Camejo Yáñez, 'Los Inicios de la Inmigración China en Venezuela II'.

²⁰⁴ Norbert Molina Medina, 'La Inmigración Japonesa en Venezuela 1928-2008'.

²⁰⁵ Ibid.

²⁰⁶ Norbert Molina Medina, 'Venezuela y el Reconocimiento de la República Popular China en la ONU.' *Anuario Grhial*, Enero-Diciembre, 9 (2015) 20, 24.

²⁰⁷ Ibid 36.

²⁰⁸ Jesús Camejo Yáñez, 'Los Inicios de la Inmigración China en Venezuela II'.

giant was one of the central elements of Chávez's foreign policy, which advocated for a multipolar world order to counter-balance the US's influence in Latin America. Chávez also considered China an alternative destination for Venezuela's oil exports to reduce the overreliance on the American market. Chávez also saw the Chinese development model as an inspiration for his own policies and programs.²⁰⁹ Thus, Sino-Venezuelan relations blossomed during the Chávez era (1999-2012).

After the re-election of Chávez in 2001, his administration launched a five-year strategy plan titled *Líneas Generales del Plan de Desarrollo Económico y Social de la Nación 2001-2007*.²¹⁰ According to this plan, Chávez's government would work to promote a multipolar international society and diversify Venezuela's international relations.²¹¹ The strategies designed to achieve this goal included strengthening trade relations with not only the US but also other regions such as Latin America and the Caribbean, Asia and the Middle East. The plan also called for the improvement of relations with Asia, particularly with Japan, China, Republic of Korea and India, to increase trade and investment. Finally, the plan proposed to expand Venezuelan diplomatic missions in the ASEAN countries.

In spite of these broad goals, Chávez's administration mainly focused its foreign policy on China, and countries became strategic partners in 2001. That opportunity created the China-Venezuela High Commission to manage the implementation of the Action Plan 2001-2011. This plan focused on Venezuela's oil sector and development finance from Chinese state-owned institutions. The alliance was upgraded to a comprehensive strategic partnership in 2014 when President Xi Jinping visited Venezuela. Maduro and Xi agreed to continue cooperating on energy, agriculture, infrastructure, high-tech and finance. China was also interested in improving the business environment for Chinese investors. These partnerships and particularly the China-Venezuela High Commission have played a pivotal role in the development of trade, investment and finance in Venezuela.

B. Development Cooperation

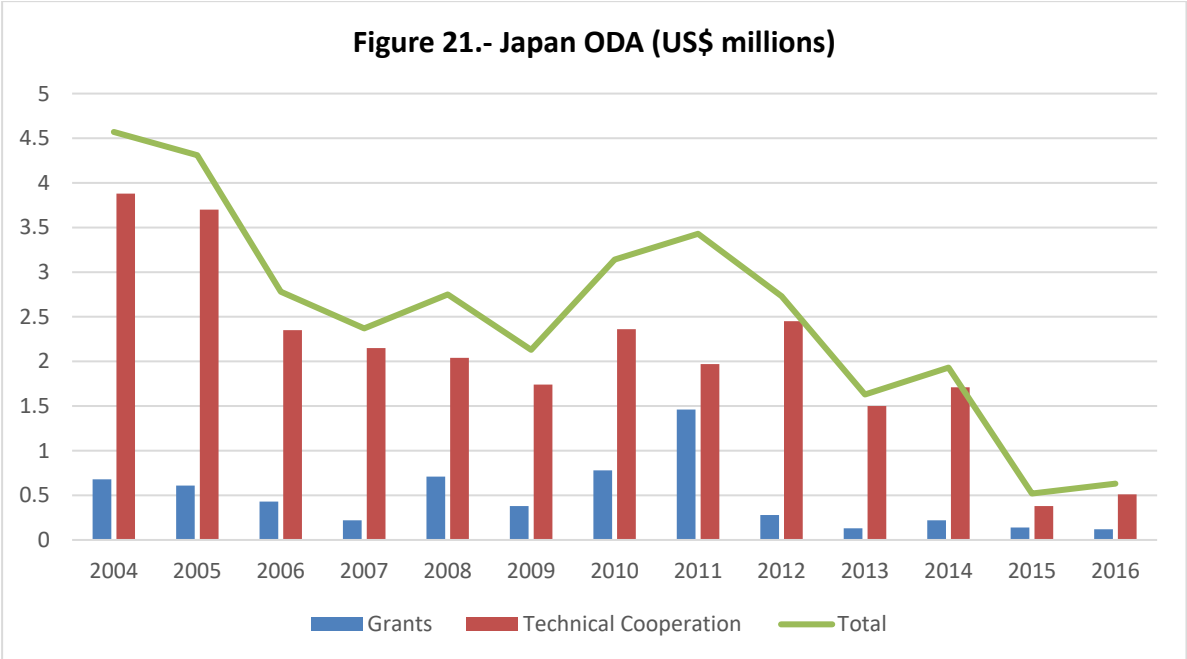
Japan has a long history of development cooperation with Venezuela. The JICA has provided ODA in the form of grants and technical cooperation (Figure 21). The Embassy of Japan in

²⁰⁹ See, Barry Cannon, *Hugo Chavez and the Bolivarian Revolution* (Manchester University Press, 2009) 180-181; and Bart Jones, *Hugo!* (Steerforth Press, 2007) 249.

²¹⁰ República Bolivariana de Venezuela, 'Líneas Generales del Plan de Desarrollo Económico y Social de la Nación 2001-2007', <<http://www.mppp.gob.ve/wp-content/uploads/2013/09/Plan-de-la-Naci%C3%B3n-2001-2007.pdf>>

²¹¹ Ibid 155-157.

Venezuela also operates a program that has sponsored small community projects in multiples areas such as education and research, medical assistance, environment, agriculture and fishing and transport.²¹² Since 2004, Japanese ODA to Venezuela has gradually decreased.



Source: Ministry of Foreign Affairs of Japan, White Paper on Development Cooperation, various issues.

Between 2000 and 2016, the JBIC financed projects in Venezuela for a total amount of ¥367.5 million, less than the funds put into Brazil (¥1.7 billion) and Chile (¥921 million) (Figure 10). One projects financed by the JBIC in Venezuela was backed by the Venezuelan oil company, Petróleos de Venezuela (PDVSA) with the goal to gradually reduce the sulphur content of light oil and make all Venezuelan gasoline unleaded. The JBIC funded the acquisition of railway cars by the Venezuelan government from Marubeni Corporation. The JBIC also has been involved in co-financing imports of crude oil and oil products from Venezuela.

China’s assistance to Venezuela has been heavily criticised domestically and internationally. While the Venezuelan government argues that China’s development assistance has been granted as a part of the strategic partnership and South-South cooperation, which should be beneficial to all parties, critics claim that Chinese cooperation hurts Venezuela and often involves loans under terms that have not been made public. Although Venezuela has not received Chinese ODA²¹³, it

²¹² A full list of the projects funded by the Embassy can be found at <https://www.emb-japan.go.jp/files/000262801.pdfv>
²¹³ Axel Dreher, ‘Aid, China and Growth’.

has received 18 loans for US\$67.2 billion, of which 89.3% has been allocated to energy projects and 7% to infrastructure.²¹⁴

Figures from the National Bureau of Statistics of China confirm that Venezuela was the beneficiary of \$US35.6 billion in economic cooperation projects between 1998 and 2016 (Figure 22).



Source: National Bureau of Statistics of the People’s Republic of China, various issues.

At first glance, it seems that China is taking a high risks by providing financial assistance to the Venezuelan government, especially given the latter’s the acute economic crisis. However, most of the Chinese agreements are loans for oil. The major part of the funds received by Venezuela was granted within the framework of the Sino-Venezuelan Co-Financing Fund (*Fondo de Financiamiento Conjunto Chino-Venezolano*). According to the Act passed by the National Assembly to approve the original agreement and the subsequent amendments, both countries agreed to establish the facility with funds transferred by the CDB and the Fondo de Desarrollo Nacional SA (FONDEN).²¹⁵ The fund aims is to finance development projects in areas such as infrastructure, industry, agriculture, mining, energy, technology and technical cooperation. Money

²¹⁴ Kevin Gallagher and Margaret Myers, ‘China-Latin America Finance Database’.
²¹⁵ The original Act was published in the Gaceta Oficial de la República Bolivariana de Venezuela No.39,019, 18 September 2008. The Act that approved the latest Addendum was published in the Gaceta Oficial No.40,692, 30 June 2015. The National Assembly approved the original agreement and subsequent addenda. No addendum has been approved after the opposition took control of the majority votes in the National Assembly in January 2016.

from the Sino-Venezuelan Co-Financing Fund has been used to finance projects granted to Chinese companies such as ZTE Corp, CITIC Corp, Sinohydro Group, CNPC and SINOPEC. As per the Act that approved setting the fund, the CDB grants loans to the Economic and Social Development Bank of Venezuela (BANDES), which has committed to open an account with the CDB. At the same time, PDVSA has entered into a contract to sell oil via a Chinese state-owned company (e.g. CNPC or SINOPEC), which deposits the proceeds into the account opened by BANDES with the CDB. BANDES authorises the CDB to debit its account to service the loans.²¹⁶

According to Venezuelan experts, Grisanti and Lalaguna who have studied the Sino-Venezuelan Co-Financing Fund, Venezuela has received approximately US\$50 billion plus a direct loan to PDVSA for US\$4 billion between 2008 and 2016 for a total of US\$54 billion.²¹⁷ These experts estimate that Venezuela still has a debt balance of approximately US\$19.2 billion and is struggling to serve the loan, explaining Maduro's trip to China in September 2018, when he unsuccessfully tried to get an extension to repay the debt.²¹⁸ For Grisanti and Lalaguna, the main problem faced by the Venezuelan government servicing the debt is the reduction of the oil production. Servicing the debt with oil reduces the amount of the product available for sale and diminishes the funds available to the government.

Loans for oil have been a convenient financing mechanism for Venezuela, given that the country cannot access other global financial markets; however, the reduction in oil production and the obligation of ship oil to China has created increasing fiscal stress in the government's accounts, which do not have enough funds to pay for imports (e.g. food, medicines, etc.). When China started using the loan-for oil mechanism, official of the CDB perceived the loans to be low-risk because Venezuela had the largest oil reserve and could 'easily' increase production.²¹⁹

C. Trade and Investment

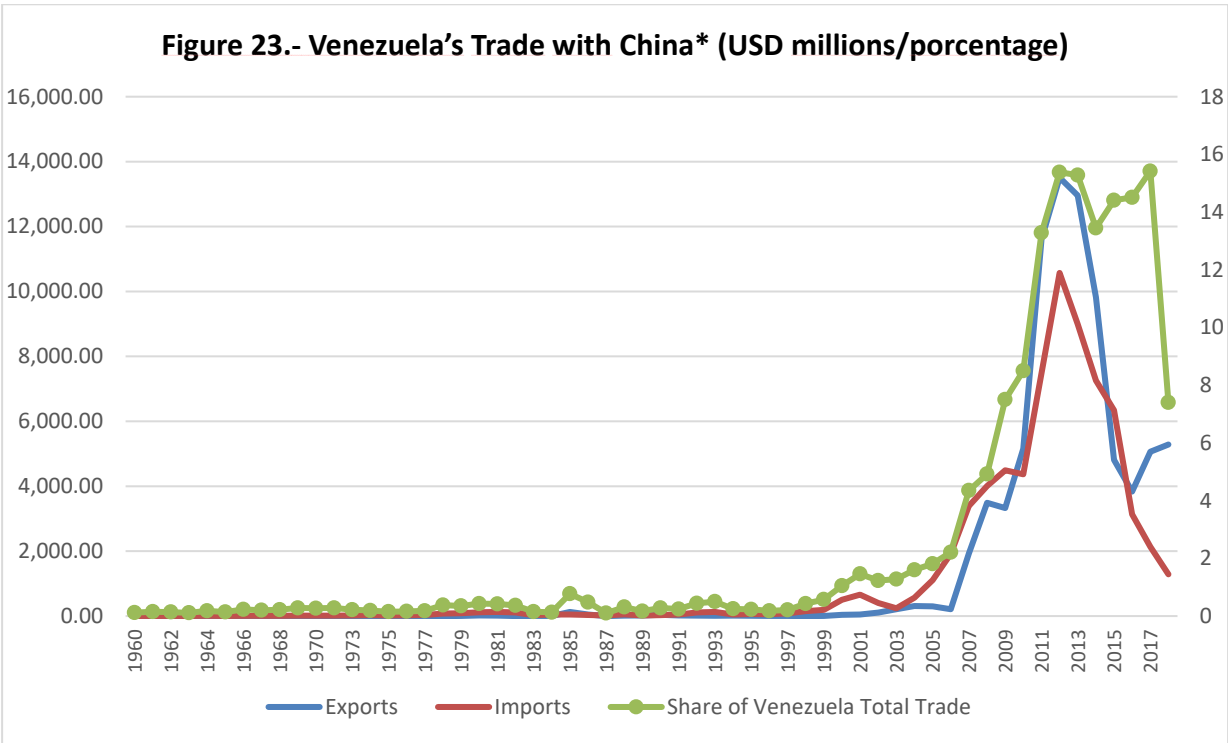
²¹⁶ For a more detail discussion of the loans for oil agreements between China and Venezuela, see, Michael Forsythe and Harry Sanderson, *China's Superbank: Debt, Oil and Influence – How China Development Bank is Rewriting the Rules of Finance* (John Wiley & Sons, 2012); Ana Maria Cardona Romero, *China en Venezuela: Los Préstamos por Petróleo* (Asociación Ambiente y Sociedad, 2016).

²¹⁷ Alejandro Grisanti and Gorka Lalaguna, 'El Arte de la Deuda: China, Mas del Default que de Nuevo Endeudamiento', Prodavinci (online), 7 October 2018, <<https://prodavinci.com/el-arte-de-la-deuda-china-mas-cerca-del-default-que-de-nuevo-financiamiento/>>

²¹⁸ It was recently reported that China granted Venezuelan government another loan of US\$ 5 billion in September 2018. See Gallagher, Kevin P. and Margaret Myers, 'China-Latin America Finance Database,' Washington: Inter-American Dialogue (2019)

²¹⁹ Michael Forsythe and Harry Sanderson, *China's Superbank*, 127.

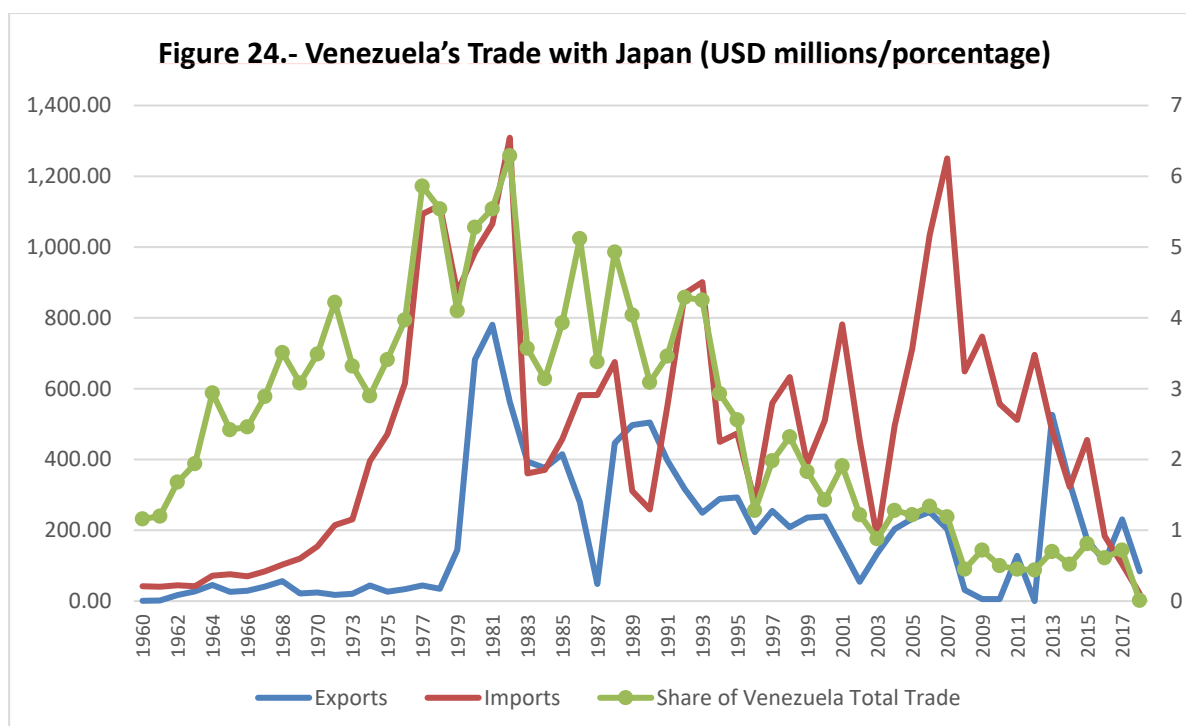
Apart from the FTA signed with Israel and as a member of Mercosur, Venezuela has not signed any FTAs.²²⁰ It has signed Preferential Trade Agreements with other Latin American countries. Venezuela’s trade with Asia was discrete for decades. For example, in 1960, total trade with China and Japan was US\$4.4 million and US\$42.50 million respectively. Trade with China passed the US\$1 billion mark in 2005 (Figure 23). At its peak, trade between China and Venezuela reached US\$24 billion in 2012 but due to the recent economic crisis that has affected the South American nation, trade shrank to US\$6.4 billion in 2018. In spite of the dramatic reduction in trade, China is still a key trade partner for Venezuela accounting for almost 7.4% of the total trade in 2018 (fifth major trade partner).



* Include Hong Kong and Macao. Source: IMF, Direction of Trade Statistics (DOTS) and author calculations.

At its peak in 2007, trade between Japan and Venezuela was US\$1.5 billion (Table 24); however, trade was negatively impacted by the crisis and fell to a mere US\$106 million in 2018.

²²⁰ Venezuela’s membership in Mercosur was suspended in 2017 for not complying with the bloc’s regulations.



Source: IMF, Direction of Trade Statistics (DOTS) and author calculations.

Venezuela's foreign trade structure is worse than those of Brazil and Chile are. Venezuela over-relies on oil, which represents 53% and 93% of exports to Japan and China respectively in 2016 (Table 5). In the case of Japan, other Venezuelan exports include cocoa beans and iron ore.

Table 5.- Venezuela Tops Exports-Imports to/from Japan and China, 2016 (percentage)

Exports				Imports			
Japan		China		Japan		China	
Crude oil	53	Crude oil	82	Cars	28	Specialised vehicles	4.6
Cocoa beans	29	Refined oil	11	Delivery trucks	18	Construction vehicles	4.1
Iron ore	12	Iron ore	5.3	Specialised vehicles	13	Iron structures	4.1
Raw aluminum	2.9			Vehicle parts	5.5	Buses	3.9
Acyclic alcohols	2			Valves	4.9	Iron pipes	3.6

Source: *AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.*

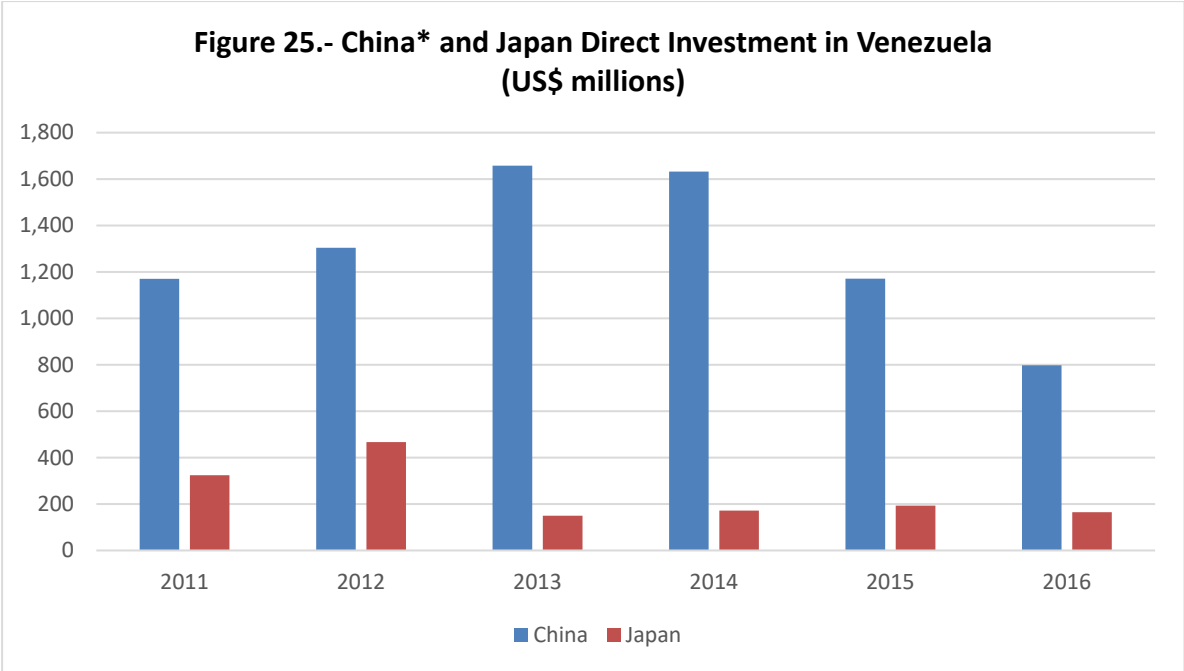
In 2018, the US remained Venezuela's most significant trade partner (US\$17.2 billion), Cuba second (US\$14.5 billion), Netherlands Antilles third (US\$11.7), India fourth (US\$7.6 billion), China fifth (US\$ 6.4 billion) and Malaysia sixth (US\$5.6 billion).²²¹

According to data published by JETRO, Japanese direct investment in Venezuela was US\$ 770 million between 1965 and 2004, similar to investments made in Chile in the same period (US\$ 769 million) but far from the US\$ 16 billion invested in Brazil.²²² In most recent years, Venezuela has

²²¹ IMF, Direction of Trade Statistics.

²²² JETRO, Statistics

attracted more investment from China than from Japan (Figure 25). Chinese companies have invested chiefly in the oil and infrastructure sectors.



* Include Hong Kong and Macao. Source: IMF, CDIS Database.

Conclusions

For more than a hundred years, countries in South America have maintained relations with Asian nations. Between the nineteenth century and the first half of the twentieth century, these relations were not fully developed and South America prioritised political, social and economic connections with the US and Europe. This reality began to change in the second half of the twentieth century, first during the impressive economic growth of Japan and followed later by the rise of Republic of Korea. The emergence of more Asian players in the twenty-first century deepened the inter-connections between both regions, a scenario for which many South American countries were not well prepared.

China and Japan have maintained relations with South America for decades; however, they have nurtured collaborations in different ways, which this article has called Japan’s traditional model and China’s experimental model. While both nations have embraced instruments of International Law to work with the region, the degree of engagement within these mechanisms varies between China and Japan.

The Japanese model has been built on a platform supported by International Economic Law. The model advocates cooperation based on a free and open economic international system that respects International Law. As is explained through this article, the Japanese model favours the

use of well-institutionalised organisations with a strong governance structure such as the OAS, the DAC and the IDB. In addition, Japan aligns its ODA Charter to the international standards set by the DAC to ensure that its ODA meets those standards and promotes universal principles such as a market economy, democracy, the rule of law and the protection of the environment and human rights. Japan has also advanced its trade and investment policies, entering into EPAs with Chile and Peru.

In general, the Japanese model has facilitated making the engagement with South America transparent and both financially and environmentally sustainable, supporting development in Brazil and Chile, and to a lesser degree in Venezuela. In the former two nations, Japan has deployed its trinity approach and provided ODA that has contributed to the development of export industries such as soybean, aquaculture and steel. Japanese agencies, such as the JICA and the JBIC, have worked together to maximise the impact of ODA as well as offer financial support for development. The Japanese model has also played a key role in the consolidation of the IDB, which is a key financial multilateral player in the region.

Japan has been supportive of FTAs, or their Japanese version the EPAs, although it has had limited success. Chile and Japan entered into an EPA in 2007, but the agreement has not been successful in terms of contributing to increased trade between both countries. This may change with the subscription of the CPTPP, which entered into force in December 2018.

Venezuela has been a complex case for Japan. The Japanese model supported some projects in the country, but the recent deterioration of the political and economic situation has negatively impacted Japanese cooperation, trade and investment; however, Japan has continued to provide ODA to Venezuela.

On the other hand, China's model uses a dual structure that involves institutionalised mechanisms such as the IDB, OAS and FTAs as well as less formal tools that give China more flexibility in its engagement with South America. As was explained by this paper, China has put more emphasis on the latter. First, China has not joined the DAC. Consequently, it does not fully comply with the ODA principles set by the DAC and prefers to frame its cooperation programs as South-South cooperation. This approach creates a series of complexities in terms of transparency, accountability and sustainability, making it difficult to assess the real impact of Chinese cooperation in South America.

Second, China has favoured the China-CELAC Forum and strategic partnerships to manage its relations with South American countries. The China-CELAC Forum is a non-institutionalised instance through which China prefers to manage its relations with Latin America. Since the US,

Canada and Japan do not participate in this forum, China can act more assertively and drive its own agenda in the region. China has made several schemes available under the China-CELAC forum to provide funding to Latin American countries.

Furthermore, strategic partnerships have been widely used by China in the region to define a broad agenda with each country, which includes cooperation, trade, investment and international political strategies. The terms and conditions of these partnerships are not public. Comprehensive Partnership Agreements have played a key role in China's relations with Brazil and Venezuela. Under the China-Brazil partnership, China became Brazil's main trading partner. China's ODA to Brazil has been very limited and financial cooperation has focused on loans provided by the CDB and the China EXIM Bank for energy projects in which Chinese state-owned companies have interests.

The China-Venezuela partnership has also been critical to advance the interests of China in the South American country. The Asian giant has not provided ODA to Venezuela, but the CDB and the China EXIM Bank have granted numerous loans to finance energy projects. Chinese finance uses the loan-for-oil model, which has exacerbated the fiscal problems currently being faced by the government and has facilitated corruption without benefiting the country.

Compared to Brazil and Venezuela, China has employed a different approach in Chile. China and Chile signed a FTA in 2005 and the agreement had positive results regarding trade, which was doubled in the space of two years. It was not until 2012 that Chile became a strategic partner of China, and the alliance became a comprehensive strategic partnership in 2016, playing an important role in the updating of the China-Chile FTA in 2017. Contrary to the cases of Brazil and Venezuela, where Chinese state-owned financial institutions have granted a considerable number of loans, Chile has received limited finance from Chinese government's banks.

The transforming global landscape and the recent change of American foreign policy towards South America will bring more challenges for governments in the region, making it necessary for them to design and implement strategic plans that can assist them to navigate wisely the complexities created by the Asian Century.