ANALYSIS

GLOBAL AND REGIONAL ORDER

LESSONS FOR EUROPE?

Understanding China's Engagement in Latin America

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Since the beginning of the 21st century, China has established itself as an influential actor in Latin America and the Caribbean (LAC) with a strong position in trade, financing and infrastructure projects. It will continue to play an important role in the foreseeable future.

If Germany and Europe want to intensify and extend their relations with countries in LAC, both regions need to be transparent about their goals and values, address possible conflicts of interest and identify a common agenda.

To distinguish itself from China, making it more attractive as a trading partner, the EU should contribute to Latin American countries' goal of reducing their dependence on extractive trade and diversifying their economies.

FRIEDRICH EBERT STIFTUNG

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Content

INTRODUCTION

China's economic and political importance in Latin America and the Caribbean (LAC) has been growing rapidly since the turn of the millennium. Economic and trade relations are increasingly intertwined. China is now one of the top trading partners for the region's largest economies, including Brazil, Mexico, Argentina and Colombia. In recent years China has also carved out an important role as a lender and investor through its development banks. Direct investments by Chinese companies, for example in infrastructure projects in the energy or transport sectors, are also an important part of its economic influence on the region. Numerous countries have joined China's "Belt and Road Initiative" (BRI), which aims to expand regional and global infrastructure. During the Covid-19 pandemic, China supported the efforts of many Latin American and Caribbean countries to fight the spread of the virus early on, for example with protective masks and vaccines, accompanied by high-profile campaigns. As the region's states grapple with severe economic and financial difficulties, Latin American and Caribbean governments across the political spectrum seem to view China as a pragmatic and reliable potential partner, although China's culture and political system alienate many.

China's growing presence in Latin America and the Caribbean matters for the region itself, but also has implications for Europe. In fact, some elements of Europe's economic ties with several regional economies (including Cuba, Venezuela and Brazil) far exceed those of the People's Republic of China (PRC), particularly in terms of existing investment stock. But unlike European actors, the Chinese government takes a high-profile approach, presenting clearly articulated concepts and goals for its ongoing relations with Latin American and Caribbean countries, emphasising the importance of cooperation for the region's social, political and economic development. Nevertheless, analysts, policymakers and the public are divided on the opportunities and risks of this relationship, as an opinion poll by Latinobarómetro and the Friedrich-Ebert-Stiftung[1] makes clear. For historical reasons, the Latin American and Caribbean public is suspicious of external powers, but also hopes to pursue its own goals through a new protagonism in global affairs.

Against the background of the war in Ukraine and the so-called *"Zeitenwende"*, geopolitical tensions have intensified. In this shifting environment, Latin America and the Caribbean have once again become a focus of German and European attention, as a promising partner for diversifying Europe's energy and mineral supply, and for its key role in mitigating climate change, preserving global biodiversity and defending democracy and the established international order.

The aim of the present analysis is to understand China's role in Latin America and the Caribbean better and to explore how relations between the two may affect the opportunities and limitations of European and German engagement in the region over the coming months and years. For the European Union, China is seen alternately as partner, competitor and systemic rival, but perspectives in Latin America and the Caribbean are quite distinct, depending on the country and where both China and Europe play important roles. The EU-CELAC Summit in 2023 made evident how Latin American and Caribbean leaders are frequently at odds with their EU counterparts over domestic priorities, and are becoming more confident in making them heard. Germany and Europe have strong economic ties to the region, underpinned by deep historical, cultural and intellectual ties, but they need to be reconsidered, redesigned and strengthened.

1 Vgl. https://data.nuso.org/en (Latinobarómetro, Nueva Sociedad und Friedrich-Ebert-Stiftung 2021).

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CHINA'S RELATIONS WITH LATIN AMERICA AND THE CARIBBEAN OVER THE PAST TWO DECADES

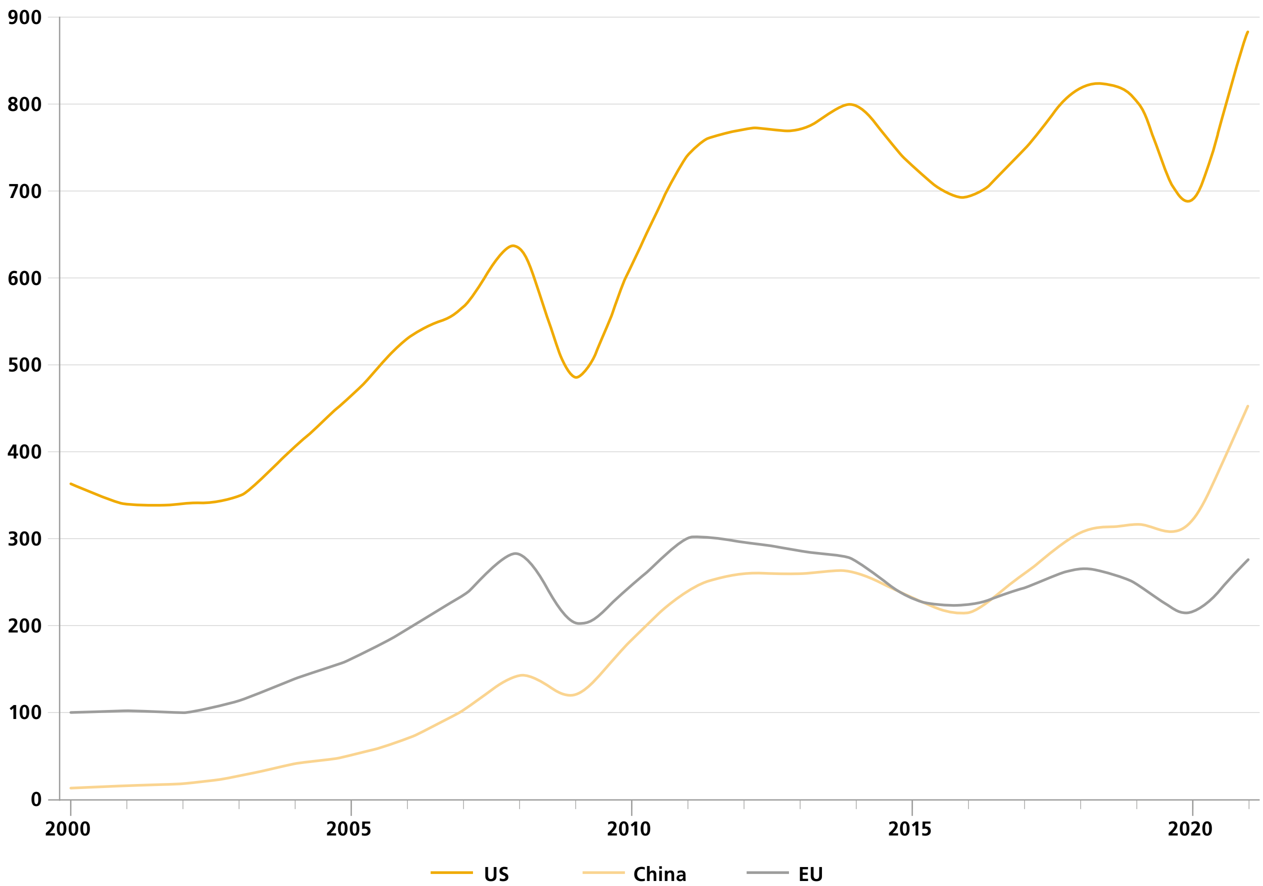
1.1 ECONOMIC RELATIONS: TRADE, INVESTMENTS, FINANCING, INFRASTRUCTURE

Our analysis of China–Latin America and Caribbean economic relations includes trade, investments, financing and infrastructure projects. Despite the geographical distance, the first commercial exchanges date back to the sixteenth century and continued for more than three centuries by means of the Manila galleons. However, economic relations really took off at the beginning of the twenty-first century.

GROWING TRADE DRIVEN BY NATURAL RESOURCES

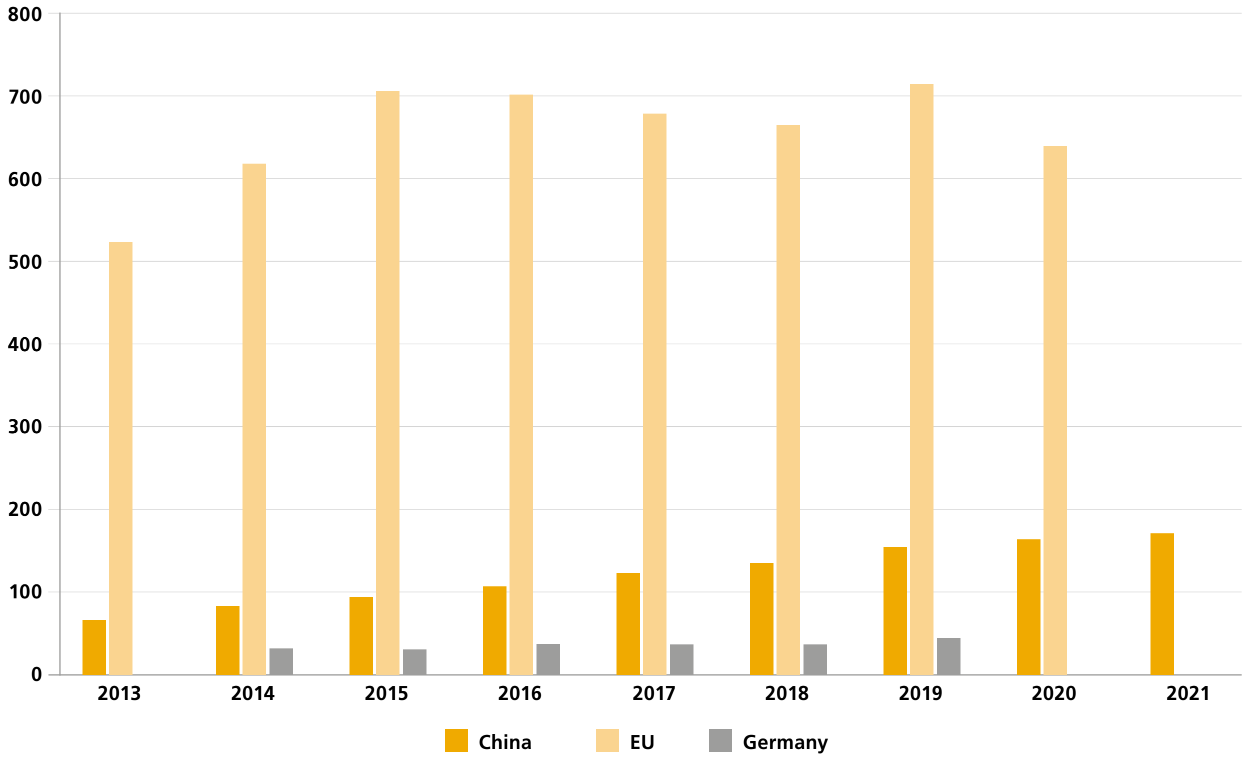
Over the past two decades, China–Latin America and Caribbean **trade** has risen exponentially, achieving considerable prominence. Around 2017, China displaced the EU as the region's second most important trading partner after the United States. As shown in Figure 1, China–LAC exports and imports grew from 12.5 billion US dollars to almost 450 billion US dollars between 2000 and 2021. For comparison, China still lags considerably behind the United States, but has largely surpassed all 27 members of the EU combined. It

Figure 1
China, EU27, and US trade (exports plus imports) with Latin America and the Caribbean (USD billion)



Source: WITS (2022).

Figure 2
Chinese and EU stock of foreign direct investment (FDI) in Latin America and the Caribbean (USD billion)



Note: Bars for EU and Germany not shown where data is not available.
Source: Red ALC-China (2022) and Eurostat (2022).

is worth highlighting how the gap between China–LAC trade and EU–LAC trade widened in 2021, which suggests a more rapid recovery and greater dynamism of their commercial exchanges in the post-Covid era.

In the wake of the trade boom, Chinese companies have become an increasingly prominent source of **investments** for Latin American and Caribbean countries, although still far behind the EU. Reliable data on investments is hard to obtain, but some sources put the Chinese stock of investments in the region at more than 170 billion US dollars. For comparison, the EU has a reported stock of 625 billion US dollars, of which Germany holds 42.5 billion. However, it is worth noting that Chinese investment in Latin America and the Caribbean is much more recent (a mere two decades) and is on the rise (Figure 2).

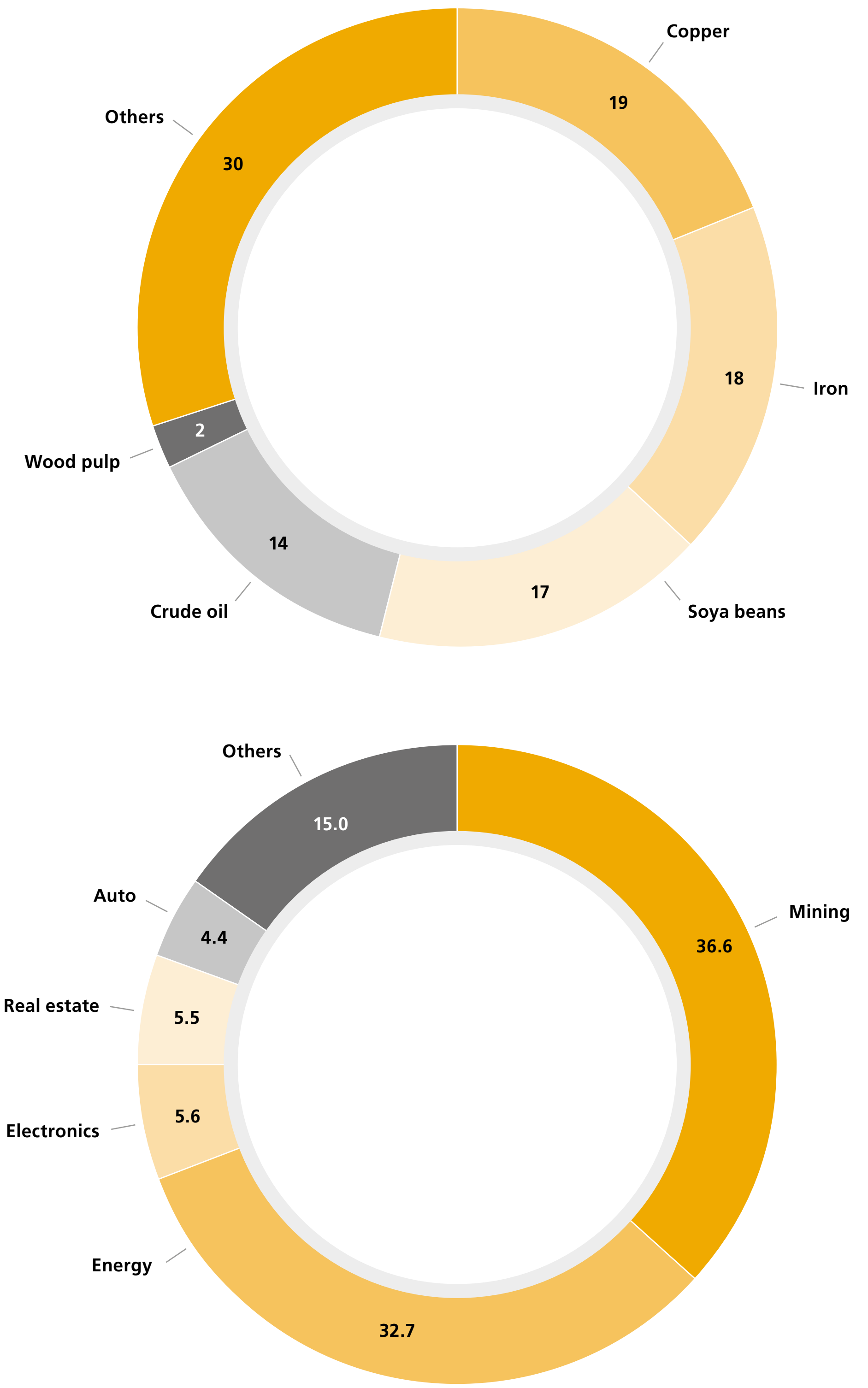
Both China's imports from and investments in Latin America and the Caribbean have been driven mainly by its demand for natural resources and raw materials. Copper, iron, oil, soybeans, crude oil and wood pulp accounted for 70 per cent of Latin American and Caribbean exports to China in the period 2002–2021. Meanwhile, the same proportion of Chinese investments went into the regional mining and energy sectors (see Figure 3). China's appetite for commodities has propelled economic growth in many countries in the region, but the nature of this trade has also fuelled concerns about vulnerability to economic cycles and price fluctuations, China-driven deindustrialisation in the region, and negative environmental impacts (Ray et al. 2016).

State-owned Chinese policy banks[2] (that is, China Development Bank and Export-Import Bank), for their part, have become a sizable source of **financing** for Latin America and the Caribbean. Between 2008 and 2019, China extended over 131 billion US dollars in loans to countries in the region, especially those with limited access to other sources. To put this in perspective, this amount is about as much as the Inter-American Development Bank (IDB) disbursed to the region in sovereign guaranteed loans in the same period.

It should be noted, however, that in the past three years there has been a slowdown of policy-bank lending, as well as a switch to other forms of financing, including from Chinese commercial banks. According to Myers and Ray (2022), there are various reasons for the absence of new loans, including "a greater emphasis in Beijing on the selection of bankable and 'high quality' projects […] and an apparent refocusing of policy bank efforts on China's domestic economic development".

2 China's policy banks are state-owned financial institutions whose mission is to support national strategies and policies. China has three such policy banks: The Export-Import Bank of China, the China Development Bank (CDB), and the Agricultural Development Bank of China. The Export-Import Bank is responsible for much of China's overseas concessional lending, whereas the CDB tends to lend at commercial rates. While Chinese policy-bank lending was a core feature of Chinese finance in Latin America and the Caribbean in the early 2000s and 2010s, it has largely given way to commercial bank lending and other forms of finance since 2016 or so.

Figure 3
China's imports from Latin America and the Caribbean by product (top) and China's investment in LAC-region by sector (bottom) in %



Source: Trademap (2022) and Red ALC-China (2022).

Finally, **infrastructure projects** are another area in which Chinese companies have gained prominence. The turnover of Chinese construction companies on projects in Latin America and the Caribbean was 142 billion US dollars in the period 2000–2020. This area has the potential to keep on growing, given China's capacity and interest in dominating the market, combined with the infrastructure gap faced by countries in the region.

SIGNIFICANCE OF THE BELT AND ROAD INITIATIVE IN LATIN AMERICA AND THE CARIBBEAN: MORE THAN SYMBOLISM?

The Belt and Road Initiative, China's signature foreign economic policy for financing and building transport, energy and digital infrastructure, as well as other forms of connectivity may have been introduced in 2013 but it was only belatedly extended to Latin America and the Caribbean from around 2017 (Ferchen 2021). The primary geographical focus of Belt and Road has largely been in Asia itself, with well-publicised extensions to Europe and Africa. Starting in 2017, however, Chinese officials began to sign a series of memoranda of understanding (MOUs) with governments in Central America and the Caribbean in particular, and later with a number of South American countries as well. Argentina, which signed an MOU to join the Belt and Road Initiative in February 2022, is the largest South American signatory to date. Some of the initial Belt and Road deals, notably with Panama and the Dominican Republic, involved both a switch of diplomatic recognition from Taiwan to the People's Republic of China and agreements on Chinese-financed infrastructure projects or investment zones. As of early 2023, 21 Latin American and Caribbean countries had signed Belt and Road-related MOUs with China. Strictly speaking, however, the Belt and Road Initiative does not bring new cooperation areas to the China–Latin America and Caribbean agenda because it centres on previously covered topics, such

Figure 4
Latin American and Caribbean countries that have signed agreements on the Belt and Road Initiative

Source: Prepared by the authors.

as policy coordination, infrastructure connectivity, trade facilitation, financial integration, and people-to-people links.

Certainly, the symbolism of China extending its most important foreign economic policy initiative to Latin America and the Caribbean, and its welcome reception in many countries throughout the region, is significant. But given the broader changes away from Chinese policy-bank support for large-scale dam or railway infrastructure projects in the region in favour of smaller or commercial financing – including for electricity grids or digital infrastructure – publicity surrounding China-Latin America and Caribbean cooperation on the Belt and Road Initiative has waned in recent years. On top of this, not only has the Covid-19 pandemic slowed Belt and Road deal making, but corruption scandals tied to infrastructure projects in Brazil and across the region have chilled the atmosphere for high-profile China-LAC infrastructure deals. Despite these headwinds, the region's infrastructure needs remain massive. The Inter-American Development Bank has calculated a need for over 2 trillion US dollars in transport, energy, sanitation and telecommunications infrastructure investment by 2030. Moreover, new Chinese deal making on energy and transport infrastructure in Argentina or continued controversy over previously Chinese-financed projects such as Ecuador's Coca Coda dam underscore that the Belt and Road Initiative and its legacy are still highly relevant in China-Latin America and Caribbean relations (Binetti 2023).

CONCENTRATION OF ECONOMIC RELATIONS IN A HANDFUL OF COUNTRIES OF THE REGION

Economic relations between China and the Latin American and Caribbean region are concentrated in **a handful of countries**, which for the most part are also the biggest economies in the latter, accounting for over 80 per cent of its GDP. As shown in Table 1, Argentina, Brazil, Chile, Mexico and Peru account for about 80 per cent of all Latin American and Caribbean trade and investments with China. Venezuela and Ecuador are prominent when it comes to financing and infrastructure projects.

Table 1
Main Chinese partners by area

	Country	%
Trade 2000–2021	**Brazil**	34.3
	Mexico	17.1
	Chile	13.7
	Peru	6.6
	Argentina	5.7
	Combined	77.4
FDI 2000–2021	**Brazil**	35.5
	Peru	17.4
	Chile	11.9
	Mexico	9.8
	Argentina	8.6
	Combined	83.2
Financing 2008–2019	**Venezuela**	44.5
	Brazil	21.5
	Ecuador	14.0
	Argentina	13.1
	Bolivia	2.6
	Combined	95.8
Infrastructure 2000–2021	**Venezuela**	29.7
	Brazil	16.3
	Ecuador	12.9
	Argentina	8.1
	Mexico	7.2
	Combined	74.2

Source: WITS (2022), Red ALC-China (2022), Ray et al. (2022), and NBS (2022).

From a Latin American and Caribbean perspective, in terms of trade, China's share is above the regional average of 17.3 per cent in seven countries (see Table 2). For Chile and Peru, it is over 30 per cent and for Brazil and Venezuela over 25 per cent. For comparison, the EU accounts for 10 per cent of Latin America and the Caribbean's global trade, with a significantly higher than average proportion only in Cuba, at 33.4 per cent. Trade share variance can be attributed to economic complementarity: the countries with higher levels of trade with China are the biggest producers of the natural resources and other raw materials it needs. While this is not a scenario of extreme dependence, according to the UN Economic Commission for Latin America (ECLAC) Latin American and Caribbean countries (especially those already mentioned) need to diversify their partners in order to avoid vulnerability to external shocks (see ECLAC 2021).

As for investments, comparable data is hard to obtain, so we combined different sources to obtain a rough estimate of the significance of Chinese investments in Latin America and the

Table 2
Chinese and EU shares (%) in Latin American and Caribbean trade (exports plus imports) and stock of foreign direct investment (FDI) in 2021

	China		EU	
Country	Trade	FDI	Trade	FDI
Region	17.34	8.08	10.08	32.20
Argentina	13.95	15.03	13.60	49.36
Bolivia	12.75	22.74	8.53	37.80
Brazil	27.10	10.28	14.96	50.53
Chile	32.41	11.34	10.71	32.04
Colombia	18.15	2.87	12.48	9.43
Costa Rica	9.91	0.36	13.27	7.24
Cuba	16.64	NA	33.45	NA
Dominican Rep	12.77	0.60	10.52	13.13
Ecuador	18.63	17.27	12.27	38.60
El Salvador	8.62	0.04	4.25	11.48
Guatemala	10.04	NA	7.45	10.82
Honduras	12.60	2.05	9.94	1.71
Mexico	11.00	2.92	6.63	36.79
Nicaragua	7.44	1.78	11.05	6.29
Panama	19.29	1.22	8.89	25.03
Paraguay	9.70	NA	5.80	NA
Peru	30.35	25.33	10.59	15.19
Uruguay	23.07	0.77	10.17	NA
Venezuela	26.66	15.19	9.07	71.54

Note 1: In the case of EU FDI in Latin America and the Caribbean, the latest data are from 2020.
Note 2: For investments, the share was calculated by comparing different sources. The fact that they use different methodologies to account for investments explains why in some cases the sum adds up to more than 100 per cent. The proportions presented should be regarded as a rough estimate.
Source: Trademap (2022), Red ALC-China (2022), UNCTAD (2022), and Eurostat (2022).

Caribbean and to compare it with that of the EU. Overall, China is responsible for 8 per cent of foreign direct investment (FDI) in the region, but its share is considerably higher in a few countries. It is worth highlighting the levels of Chinese FDI in Peru (25.3 per cent) and Bolivia (22.7 per cent). Once again, in comparative perspective, the EU is in a much stronger position. EU countries account for about one-third of investments in Latin America and the Caribbean, with a particularly marked presence in Venezuela (71.5 per cent), Brazil (50.5 per cent) and Argentina (49.3 per cent).

There is an asymmetry in economic relations between China and Latin America and the Caribbean: China is more important for the latter than the other way around. For instance, looking at economic exchanges in 2021, China–LAC trade represented approximately 18.5 per cent of total Latin American and Caribbean trade, while for China the share was only 7.5 per cent. With regard to investments, financing and infrastructure, other regions receive more Chinese attention. To be clear, this is not to say that Latin America and the Caribbean are not important for China, as it supplies much needed natural resources and other raw materials and represents a sizable market for Chinese companies.

SOCIAL AND ENVIRONMENTAL ASPECTS OF CHINESE ENGAGEMENT IN THE REGION

The inherent contradiction in China's involvement in Latin America and the Caribbean is highlighted by Monica Nuñez Salas (2022: 5), who spells out the two seemingly opposing truths in that countries in Latin America and the Caribbean "have benefited greatly from their partnership with China, and there is potential to continue engaging in a beneficial relationship, [but at the same time] South-South engagement is driving Latin American countries' natural resource exploitation and environmental degradation to a tipping point, with the risk of irreversibly affecting local ecosystems and livelihoods". Not unlike other countries, Chinese financing is aimed at promoting its technology, technical standards and companies' internationalisation (especially construction companies). To that end, as widely reported in the literature (for example, Kaplan 2021), Chinese-backed projects are usually required to use Chinese equipment, technical standards, service providers and, in some cases, workers as well. This entails bypassing open and transparent bidding in favour of suppliers and service providers assigned by China. This can lead to overpricing, limited spill over effects as local provision is side-lined, and incompatibility with existing standards, among other things. In terms of labour rights, Dussel found that Chinese companies use subcontracting networks and that workers are frequently unaware that they are working on a Chinese infrastructure project. In other cases, however, the host country negotiated local learning processes and technology transfer (Dussel 2019: 14).

In a study comparing Chinese financing with loans offered by other countries or commercial banks, besides the lack of political conditionality, long-term perspective and high-risk tolerance of Chinese finance, "when it comes to investment in poor-governance environments, China is likely to evolve in the direction of current host investment norms" (Dollar 2017: 18). In some countries, such as Chile and Colombia, which have strict bidding and transparency laws, this leads to higher standards for Chinese investment, whereas countries with laxer rules or enforcement, such as Venezuela, have faced more problems with financial or labour sustainability. In terms of transparency standards, however, the global sector of bilateral sovereign credit performs poorly, regardless of the source (Ellis 2021). In the literature analysing the Chinese financing for Latin America and the Caribbean, there is no strong evidence that China has performed worse than other foreign actors. Chinese investors are found to be willing to comply, sometimes more so than others (Ray et al. 2016: 10)

Some Chinese mining–backed projects that have had negative social and environmental impacts are in places affected by historical social and environmental conflicts, such as the Amazon. Latin American and Caribbean governments find it difficult to comply with their own rules on prior consultation with indigenous peoples, or lack proper environmental regulations. This affects all kinds of investments, including from European firms. More side-by-side comparisons of projects led by Chinese and by European firms would shed light on the key differences.

Another concern for some analysts is the Chinese mining and infrastructure projects that were designed or implemented without proper care for social and environmental impacts (see Dussel Peters et al. 2018). For instance, in Ecuador, the Coca Codo Sinclair Dam was built on the basis of an environmental impact analysis that did not include all aspects of the project and associated risks, and was unreliable overall (Garzón and Castro 2018; Vallejo et al. 2019). In the basic feasibility study of the Brazil-Peru Transcontinental Railway project, a Chinese company provided a study that lacked an in-depth social-environmental impact analysis and moreover proposed changing local laws to reduce the perimeter of a national park to facilitate project implementation. Ultimately, Brazil rejected the feasibility analysis because of its deficiencies (Dourado 2022). Issues related to social-environmental impacts and local content suggest that host countries need strong institutional capacity to promote sustainable projects and best practices when it comes to public procurement.

Often in Latin America and the Caribbean civil society organisations play a prominent role as watchdogs and advocates for human rights, as well as environmental and social protection. Given their regional prominence and track record, Chinese companies are constantly under scrutiny from such organisations. For example, civil society organisations based in Peru, such as the Coordinator of Indigenous Organisations of the Amazon River Basin, and NGOs, such as "Derecho, Ambiente y Recursos Naturales" (Law, Environment and Natural Resources), have produced reports denouncing rights violations affecting indigenous peoples in the Amazon basin through the activities of Chinese companies (Sierra 2018). Chinese state-owned firms and government officials have generally sought to deflect such criticisms, but lately they have shown some interest in promoting a better image and a new commitment to corporate social responsibility (CSR).

In international comparative terms, currently most human rights, social and environmental rules for international companies are voluntary guidelines. Also, the international investment architecture, which uses arbitration tribunals to solve potential conflicts in project development, leaves no room to examine human rights compliance. Past cases have shown that it is impossible to prosecute or penalise an international corporation for human rights violations in the host state, source state or by arbitration tribunals (Góngora Mera 2018). The introduction of supply chain laws by the German and other European governments, as well as by the EU itself has the potential to change this, but such laws have not been well received everywhere. Many in the Global South regard them as an imposition of "First World rules" on others, representing moralistic overreach and potentially reducing their competitive advantages in key markets.

1.2 POLITICAL AND DIPLOMATIC RELATIONS

China's policy for Latin America and the Caribbean is aimed at advancing both geopolitical and economic interests. As remarked above, with regard to economic interests, China's diplomatic efforts in the region are directed towards securing access to natural resources and agricultural products, as well as to expanding the market for Chinese products, internationalising Chinese companies and technology, and transferring excess production capacity into the region to facilitate industrial upgrading (Creutzfeldt 2019; Wise 2020). In terms of geopolitics and global governance, Latin America and the Caribbean are an important component in China's quest to foster a world order more favourable to its interests, especially with regard to national security and development (Zuo and Esparza Pérez 2019). Progress has been made in relations with both individual countries and regional forums.

Crucially for its One-China policy, the People's Republic of China has managed to establish diplomatic relations with most countries in Latin America and the Caribbean. Twenty-five (out of the thirty-three) nations in the region now have diplomatic ties with Beijing. Globally, most switches of "allegiance" from Taipei to Beijing occurred after the beginning of US–China rapprochement in 1971. The largest and most populous economies in Latin America and the Caribbean made the switch in the period 1970–1980, while some Caribbean and Central American nations took longer, some switching only in recent years, much to the consternation of Washington. The United States would prefer it if Beijing's position was not further strengthened while Taipei becomes more and more isolated.

Relations between China and Latin America and the Caribbean began to gain ground in the 1990s and deepened in the following two decades, with an economic boom and China's efforts to improve its international projection. For instance, the first visit by a Chinese president to Latin America and the Caribbean occurred in 1990, following two trips by Chinese prime ministers in the 1980s. In the 1990s and 2000s there were six visits by China's top leaders, rising to ten in the 2010s. For their part, state leaders from Latin American and Caribbean countries have also paid numerous visits to China, growing over time from only 13 in the three decades from 1960 to 1989 to 50 in 2010–2020 alone (Dourado 2021). For the sake of comparison, German chancellors and presidents have paid 33 official visits to Latin America and the Caribbean since the first such trip in 1964. The number per decade rose from seven in the 1990s to 11 in the 2010s, with a trough of only four in the 2000s. The agreements signed between Beijing and Latin American and Caribbean countries provide another measure of their deepening relations. Close to a thousand agreements have been signed as of 2023.[3] They are aimed at facilitating and promoting trade, investments and cooperation in myriad sectors. Most notably, they include free trade agreements with Chile (2005), Peru (2008) and Costa Rica (2011), 14 bilateral investment treaties, and 21 memoranda of understanding on the Belt and Road Initiative.

It is worth noting the efforts to institutionalise relations in the form of commissions and dialogue mechanisms. To

China's Belt and Road regulations on environmental and human rights

The 2017 Guidance on Promoting the Construction of the Green Belt and Road Initiative of the Chinese Ministry of Environmental Protection, the Ministry of Foreign Affairs, the National Development and Reform Commission and the Ministry of Commerce, sets guidelines for ecological and environmental risk prevention.

In 2019, China's Supreme People's Court mandated a major legal reform to improve the rule of law in the Belt and Road programme, including a provision that the Chinese courts will judge cases of environmental damage caused by projects belonging to the BRI.

The Chinese State Council's Human Rights Action Plan of China (2021–2025) lays down how China should tackle its participation in the UN human rights mechanism and committees and encourage compliance with the UN Guiding Principles on Business and Human Rights in foreign trade and investment.

Sources: Ministry of Ecology and Environment, The People's Republic of China (2017), State Council Information Office of the People's Republic of China (ohne Datum), Supreme People's Court of the People's Republic of China (2019), Development and Reform Commission (2017).

3 Based on the database of treaties provided by the ministries of foreign affairs of various Latin American and Caribbean countries.

help coordinate their relations, Beijing and most Latin American and Caribbean countries have set up multiple bilateral commissions and sub-commissions that meet periodically to explore cooperation possibilities with regard to overall relations and various specific areas, such as economic and commercial cooperation, science and technology, agriculture, culture and education. Some of these barely function in practice, but represent another attempt to strengthen bilateral relations.

China has particularly strong diplomatic relations with the seven countries identified above, namely: Argentina, Brazil, Chile, Ecuador, Mexico, Peru and Venezuela. They were among the first to establish diplomatic relations with China's communist government. Perhaps most notably, these countries have established strategic comprehensive partnerships with Beijing: in China's diplomatic lingo this is one of the highest statuses conferred on bilateral relations.[4] For the most part, they are the nations in the region with most visits by top leaders in both directions, most agreements signed, and commissions set up.

COALITION-BUILDING AT MULTILATERAL LEVEL

At the multilateral level, China engages with and tries to build coalitions with Latin America and the Caribbean (and other countries of the Global South) in international forums or organisations such as the United Nations. These efforts include offering support to Latin America and the Caribbean in disputes with Europe or the United States, as in the Argentina–United Kingdom dispute over the Falkland Islands (or Malvinas). The promotion of shared values also plays a role in this coalition building. Beijing seeks to promote certain values in the international arena to safeguard its interests. They include non-intervention,[5] multilateralism and a greater voice for developing countries in international organisations. These resonate very well with LAC countries, as they also oppose interference in domestic affairs and desire to have more space in the international arena. This is reflected in similar positions asserted in the international arena in many instances, including voting at the United Nations or other international organisations. Brazil, for example, has expressed ambivalent and contradictory statements about its stance on Russia's invasion of Ukraine, including recent equivocation about whether or not Vladimir Putin would be safe from arrest based on the International Criminal Court's warrant if he attends next year's G20 meeting to be held in Brazil. Looking at the voting pattern at the UN General Assembly, it does seem that China and Latin America and the Caribbean form a coalition of sorts. Between 2000 and 2019, the voting patterns of LAC countries with diplomatic relations with Beijing were much closer to those of China (79.6 per cent) than those of Germany (62.5 per cent) and the United States (22.5 per cent) (see Fu 2020). To cite some examples from the UN General Assembly, most Latin American and Caribbean countries voted in agreement with China and against Germany and the United States on, for example, human rights and unilateral coercive measures (R/70/151), the promotion of a democratic and equitable international order (R/70/149), and equitable geographical distribution of membership of human rights bodies (A/RES/76/160).

Also worth noting is the support for and even joint efforts to build new multilateral mechanisms. Eight LAC countries (Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela) are members of the Asian Infrastructure Investment Bank, a China-led multilateral bank that, arguably, is challenging the World Bank and the Asian Development Bank. Brazil–China cooperation was a key element in trying to establish dialogue and even a new institution (for example, the BRICS or New Development Bank) representing the Global South. After some decline for a few years, BRICS cooperation has recently seen renewed interest. At a summit in August 2023, the BRICS states decided to invite six further countries to become members (the so-called BRICS+). Furthermore, the BRICS states and their New Development Bank are trying to challenge the dominance of the US dollar in global financial markets and are pushing to conduct trade in local currencies (Murau 2023).

At the regional or sub-regional level, progress has been made mainly with international organisations and agenda-setting efforts. Regarding the former, most notably, the China-CELAC (Community of Latin American and Caribbean States) Forum was established in 2015 as a space for direct dialogue between the two regions. Moreover, China is an observer in the Latin American Integration Association and the Latin American Parliament, and a non-borrowing member of the Inter-American Development Bank and the Caribbean Development Bank. Finally, it has established dialogue mechanisms with the Southern Common Market (MERCOSUR) and is an observer in the Pacific Alliance.

Over the years, various frameworks and goals have been established to guide relations between China and Latin America and the Caribbean, with both individual countries and the region as a whole. These include the following: two policy papers released by Beijing (2008 and 2016); two China-CELAC cooperation plans (2015–2019 and 2019–

4 In the words of former premier Wen Jiabao, the term "strategic" means that the cooperation should be long-term and stable, focusing on the big picture, transcending differences in ideology and social systems and not subject to the impacts of individual events that occur from time to time. "Comprehensive" refers to the fact that such cooperation efforts are all-dimensional, wide-ranging and multi-layered. It covers the economic, scientific, technological, political and cultural fields, at both bilateral and multilateral levels, and is conducted by both governments and NGOs. "Partnership" means relations on an equal footing: these are not alliances.

5 To be sure, Beijing's stance on the Russia-Ukraine War challenges its position as a champion of the non-intervention principle. To try to reconcile this contradiction, China has been downplaying the relevance of the non-intervention principle in this case by arguing that it is a matter of "legitimate security concerns" for Russia (Jordan, 2022). However, some LAC countries (most notably Brazil) see it differently, condemning Moscow's actions on the grounds that they do violate Ukraine's sovereignty.

2021); bilateral action plans with nine LAC countries; a 1+3+6 framework; a 3x3 model; and the Belt and Road Initiative (as the region was invited to take part in this global initiative).

Similarly, the policy papers and cooperation plans outline a comprehensive list of priority areas, actions and goals, as well as guiding principles. For instance, the China-CELAC Cooperation Plan 2022–2024 features six priority areas, namely: politics and security; the economy; infrastructure; social, cultural and people-to-people matters; sustainable development; and international affairs and sub-regional and interregional cooperation.

For their part, the 1+3+6 framework and the 3x3 model have more limited scope. Proposed by President Xi Jinping in 2014, the 1+3+6 framework is meant to "promote faster, broader and deeper cooperation" and consists of the following: one plan (China-CELAC Cooperation Plan 2015–2019), three engines (trade, investment and financial cooperation), and six areas or industries on which China will focus (energy and resources, infrastructure building, agriculture, manufacturing, scientific and technological innovation, and information technology). This scheme included two noteworthy targets: to reach 500 billion US dollars in annual trade and 250 billion US dollars in Chinese investments in the region in ten years' time (Xi 2014). These targets were also included in the China-CELAC Cooperation Plan 2015–2019, but not in the 2019–2021 version of the plan. Meanwhile, Chinese premier Li Keqiang launched the 3x3 model for production capacity cooperation in 2015, which involves three areas (logistics, electric power and IT); three actors (companies, society and government); and three channels (funds, credit and insurance) (Li 2015). All in all, these frameworks and plans are aimed at realising Beijing's strategic objectives.

China and Venezuela: political risk and debt

The China–Venezuela relationship is a microcosm of the potentials and pitfalls of commodity-based Chinese–South America relations in general (Ferchen 2011). In particular, it highlights the challenges that China and Venezuela faced in building a sustainable loans-for-oil relationship, especially against the background of growing political volatility and economic instability in Venezuela. Beginning around 2006, the China Development Bank (CDB) lent Venezuela over 60 billion US dollars in return for a long-term commitment to supply oil. The CDB and the Chinese government described this as a quintessential complementary relationship between China as the world's largest oil importer and Venezuela as the country with the largest oil reserves. But as this flourishing loans-for-oil relationship was developing, political and social polarisation and instability were on the rise under Hugo Chavez's presidency.

After Chavez's death in 2012, and a subsequent dramatic drop in global oil prices beginning in 2014, the China–Venezuela relationship was exposed to increasing volatility caused by Venezuela's growing economic, political and humanitarian crisis. At the same time, the United States became increasingly concerned not just about the Venezuelan crisis, but about China's role in it. These concerns grew during the Trump presidency in particular. China's response to the growing turmoil was to gradually decrease its loans to Venezuela and then stop them altogether, while continuing to import Venezuelan oil and support Nicolas Maduro as president. The confidence that China initially displayed in the mutually beneficial and stable nature of its loans-for-oil ties with Venezuela eventually gave way to a soberer evaluation of how domestic politics, coupled with economic and social crisis, could impact a key China-LAC relationship.

To implement its vision, Beijing has launched several financing mechanisms. Since 2009, about 80 billion US dollars have been provided within the framework of at least eight different instruments set up for the purpose of promoting cooperation efforts between China and Latin American and Caribbean countries. For the most part, these funds target production capacity cooperation and infrastructure (30 billion US dollars each), and joint initiatives in general account for most of the remaining financing (about 20 billion US dollars). The sheer volume of credit offered, especially to Latin American and Caribbean countries, indicates how invested China is in getting the plans off the drawing board, especially with regard to production capacity cooperation and infrastructure.

1.3 CHINA'S SOFT POWER

Much like other nations, China would like others to take a favourable view of it, enabling it to exert influence over others without resorting to coercion. When it comes to developing nations such as those in Latin America and the Caribbean, China is cultivating the perception of itself as a partner on an equal footing, but also as a leader (see discussion in Duarte et al. 2022).

In Latin America and the Caribbean Beijing has been making efforts on various fronts to try to forge such a desired image and to be able to tell its own story. In education, the government has provided thousands of scholarships for Latin American and Caribbean students to go to China and has established almost 50 Confucius Institutes or classrooms in the region (cf. fundacionclec.org). In traditional media, they have set up a Spanish-language TV channel *(CGTN en Español)* dedicated to broadcasting news programmes, educational shows and entertainment content (including Chinese soap operas). Furthermore, offices of Xinhua and other state media have been established in Latin America and the Caribbean. In the social media realm, most Chinese embassies in the region have set up "Twitter"/X accounts in the past four years and have remained active on the platform, posting content aimed at promoting a positive image of China and pushing back on criticism.

DIPLOMATS WITH REGIONAL EXPERTISE

Over the past two decades, China has strengthened its diplomatic corps in Latin America and the Caribbean and has nurtured diplomats with the character and abilities to maintain and grow bilateral partnerships. Led by its Ministry of Foreign Affairs, the Beijing government has created a varied and more professional body of diplomats with regional expertise and global acumen, allowing it to pursue its domestic and international goals. Its diplomats have embraced network diplomacy and are working to improve their cross-cultural communication and raise their country's ability to influence global discourse on critical issues (Creutzfeldt 2023).

Chinese ambassadors, better informed and with more robust backing at home, have been gaining status and confidence since 2009. They have the support of a more self-confident and financially sound nation, and a more varied toolbox. They have the resources to travel more widely, garner more attention in the media and among the economic and political elites of their host countries, and form alliances with representatives of their state-owned corporations. This is manifested in the growing frequency of press mentions and radio interviews, the number of public appearances at social, educational and political events, visibility in social media posts, and the increased cohesiveness of the Chinese business community abroad.

MASK DIPLOMACY DURING THE COVID-19 PANDEMIC

During the Covid-19 pandemic of 2020–2022 China's soft power approach proved to be quite successful as it embarked on a global aid programme described as *mask diplomacy* by the press. The pandemic effectively offered Beijing an opportunity to counteract widespread accusations of having wilfully ignored or even propagated the spread of the virus, and instead to project the image of a responsible power. By shipping masks, respirators and, some time later, vaccines to countries around the world, it positioned itself as a helper to those in need, in stark contrast to the world's other top economies (the United States, Canada, and European nations) which those in the Global South saw as interested mainly in protecting their own interests at the expense of the rest.

The outbreak of the pandemic thus offers insights into the political drivers and dynamics of China's foreign aid. In view of fast-changing realities and pressure on resources, the Chinese government's aid programme quickly emerged as an all-of-society approach coordinated by the ministries of commerce and of foreign affairs, with the support of local embassies, and involving donations from private and state-owned enterprises, foundations, and municipal and provincial governments. Telias and Urdiñez recognise, however, that China's mask (and subsequent vaccine) diplomacy "was not very different from traditional aid [of donor countries the world over], which serves to attract political support at high-level diplomatic events [and] influence voting in international forums" (Telias and Urdiñez 2022: 130).

CITY AND PROVINCIAL PARTNERSHIPS BETWEEN CHINA AND LATIN AMERICA AND THE CARIBBEAN

The establishment of partnerships between Chinese and LAC cities or provinces is another Chinese initiative to foster closer ties with the region. By 2015, there were at least 147 partnerships, increasing to more than 200 in 2021, not counting letters of intent and partnerships that are in the process of development (Raggio 2022). These partnerships focus on exchanges and cooperation initiatives in culture, public administration, environmental conservation, tourism, trade, and so on. German cities have also established partnerships and developed concrete cooperation projects with Latin American and Caribbean counterparts, but on a more modest scale. According to an article published by *Deutsche Welle* (Dannemann 2018), there are at least 15 such partnerships in place, mostly involving big cities in South America.

POLITICAL PARTY EXCHANGES

Beijing has also been making connections with Latin American and Caribbean political parties. Its efforts include promoting exchanges by establishing forums, sponsoring visits and training programmes. The China-CELAC Political Parties Forum set up in 2015 has already convened three times. It has attracted more and more representatives of several parties from the region: 27 in 2015, over 60 in 2018, and over 100 in 2021. In the past decade, it has been reported that the Chinese Communist Party has invited thousands of members of political parties around the world to visit China to participate in conferences and study programmes. In some cases, trips are organised especially for a delegation from a single party. While left-leaning parties are more likely to take up such opportunities, some moderate and conservative parties have also done so. Notably, this includes traditional centre-right parties from Argentina and Mexico.

2

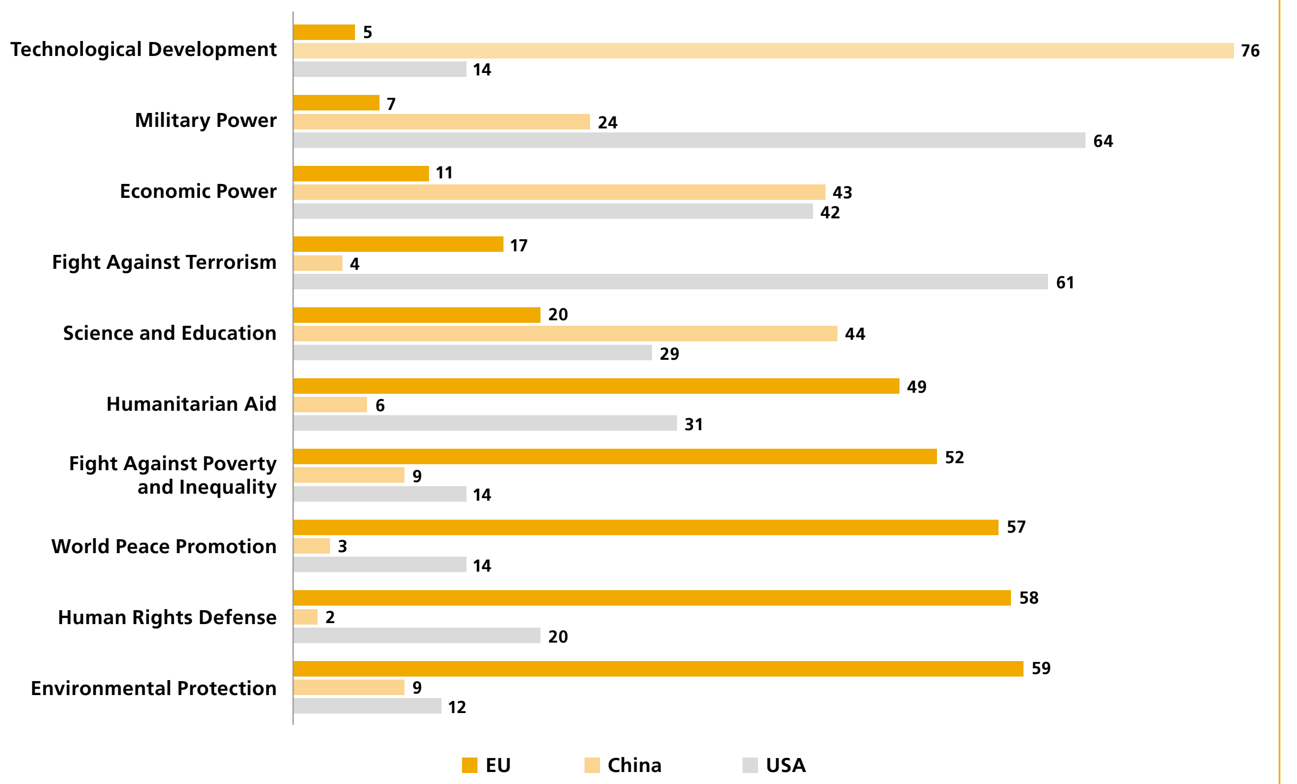
A NEW RELATIONSHIP BETWEEN THE EU AND LATIN AMERICAN AND CARIBBEAN COUNTRIES

Future EU-LAC relations will unfold in a scenario in which China enjoys the status of prominent partner in key economic areas.

China surpasses the EU and United States as a leader and preferred partner in certain key areas. According to survey results from 2022, some Latin American countries consider China to be a leader in technological development, science and education, as well as in terms of economic power (Romero et al. 2022). They also think that China is a better partner for digital technology, trade and investment, and infrastructural development (see Figures 5 and 6). This is probably a result of the growing economic ties discussed in the previous section and the overall advances of the Chinese economy over the past two decades. Another factor is China's efforts to constantly disseminate information (or rather propaganda) about its economic commitment to Latin America and the Caribbean and its economic and technological achievements across the board.

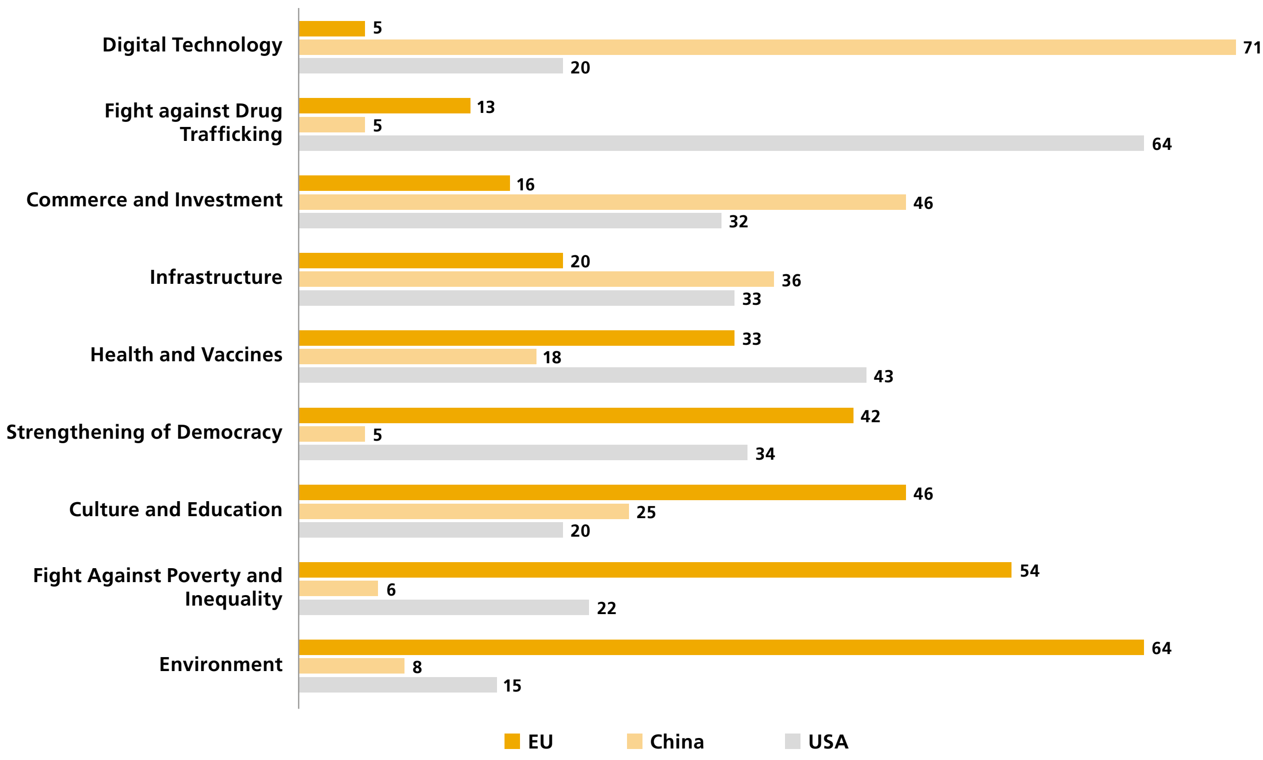
If the EU is to ensure it plays an important role in this context, it must make more effort to discover Latin America and the Caribbean's overall interests. As a diverse region, it is hard to detail particular interests without overgeneralising, but we can point to some key themes. According to the World Bank (Lopez 2020) the region's most pressing needs include accelerating economic growth and improving people's quality of life (for example, by reducing inequality, promoting social protection and providing for more adequate basic infrastructure and services, safety and education). The region must also address the severe effects of the climate crisis. According to ECLAC Executive Secretary José Manuel Salazar-Xirinachs

Figure 5
Do you consider China, the EU or the United States to be a world leader in these areas? (%)



Source: Extracted from Romero et al. (2022).

Figure 6
Which of the following would be the best partner in these areas? (%)



Note: The survey covered 12,000 adults, with secondary or higher education, residing in ten selected countries in Latin America and the Caribbean, namely: Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Guatemala, Mexico, Uruguay and Venezuela. Source: Extracted from Romero et al. (2022).

"Latin America and the Caribbean's low growth may be aggravated by the negative effects of an intensification of climate shocks, if the investments that countries need in climate change adaptation and mitigation are not made". However, the ability to invest will depend on both access to financing and its cost.[6] Exports and foreign direct investments are important means of promoting growth and therefore foreign partners are very welcome. As already discussed, China is a highly valued partner, but LAC countries also understand the importance of diversifying to reduce their vulnerability to external shocks. The lessons of the commodity boom of the early 2000s are still fresh in the minds of many Latin American and Caribbean leaders. They would also like to go beyond reliance on exporting raw materials to include products with higher value added in the export basket. Along these lines, President Lula has underscored that Brazil needs to promote local industries and warned against importing industrialised products from China, which the country has focused on hitherto. Latin American and Caribbean nations also need resources to finance development projects – including energy transition projects – and will explore all available options. They are particularly keen on alternatives that come with no or few political conditionalities. Indeed, no matter whether from China, Europe or elsewhere, paternalistic or top-down approaches by foreign actors are generally not welcome.

6 https://www.cepal.org/en/pressreleases/latin-american-and-caribbean-economies-will-maintain-low-growth-levels-2023-and-2024

2.1 ECONOMIC RELATIONS

While China is here to stay as a major trading partner for Latin America and the Caribbean, the EU can play a role in the *diversification* of the region's trading partners. To become more attractive, the EU should take LAC countries' development interests into account and support efforts to escape the "extractivism trap" that limits many Latin American and Caribbean countries to the role of supplier of raw materials and primary goods in international trade. The EU could contribute to sustainable and just development by pushing for mutual agreement on high social and environmental protection standards, including information rights and transparency guarantees, which could broadly become the norm for regional production. By way of precedent, Peru's establishment of a Ministry of the Environment is largely attributed to the free trade agreement it signed with the United States in 2007. The EU-Mercosur deal is an obvious avenue for advancing on the social, environmental and trade fronts. It is noteworthy that Brazilian president Lula said that Mercosur should first finalise the deal with the EU before starting negotiations on an agreement with China. Yet in its efforts to wield its substantial standard-setting power in relations with Latin America and the Caribbean, the EU should be aware of regional sensitivities surrounding "regulatory imperialism", or the sense that Europeans are imposing standards in the name of high-minded ideals while in fact raising protectionist barriers.

THE MERCOSUR-EU TRADE AGREEMENT AND CHINA

One of the most important, but challenging elements of EU relations with Latin America and the Caribbean in recent years has been the EU-Mercosur trade agreement. After nearly two decades of negotiations, the EU initially signed the agreement with Mercosur (South America's common market made up of Argentina, Brazil, Paraguay and Uruguay) in June 2019. However, the EU and MERCOSUR have yet to ratify the agreement. According to its official overview of the deal, the EU is Mercosur's largest trade and investment partner, exporting 45 billion euros in goods to Mercosur in 2021 and with a stock of 330 billion euros in investment there in 2020, while China exported over 120 billion US dollars' worth and amassed an investment stock of 77 billion in the same year. At the time the 2019 agreement was adopted, and despite the protracted and difficult negotiations, both sides claimed it as a model for a new type of trade agreement that would bolster sustainable, rules-based trade and investment.

The establishment of the current German government under Olaf Scholz, his commitment to a *Zeitenwende* also in foreign affairs, and the broader interest in Germany and the EU in refreshing ties with Latin America and the Caribbean, fresh debates are under way about the merits of the EU-Mercosur agreement. Some question whether the deal is not already out of date, especially with regard to whether it adequately lays the ground for a sustainable and equitable relationship between Latin America and the Caribbean and Europe, for example concerning the enforceability of social and environmental standards. Other concerns include whether the deal is not too focused on trade facilitation, which may very well more deeply entrench South America's growing reliance on commodity exports, while further hollowing out industrial and high-tech manufacturing. Instead, some call for more focus on closer collaboration between Europe and Latin America and the Caribbean on common challenges such as climate and health resilience, technology transfers, further sharing of experiences on regional integration and standard-setting, and deeper discussions about how to build on shared cultural and political values. All these issues are relevant when it comes to the effects on any restructuring of the Mercosur deal of Chinese-Latin American and Caribbean relations.

While China has been increasingly active in establishing free trade agreements (FTAs) with countries around the world, its significant trade, investment and financial ties to Mercosur countries have come about despite the lack of a free trade agreement with the bloc. While no China-Mercosur deal is being negotiated or even considered, China and Uruguay have been in discussions about an FTA that could potentially undermine the internal cohesion of Mercosur. While Chinese traders, investors and financial institutions have received direction and support from the Chinese government for some of their activities in the Mercosur region – especially related to prioritised sectors such as energy, minerals and agricultural commodities – arguably the most important driver of China-Mercosur trade has been market forces. That is, the region produces and exports goods that China demands, such as iron ore, soy and oil. That said, EU Member States and business organisations – including from Germany – that have supported ratification of the Mercosur deal argue that it is precisely because Chinese trade and investment activities in the region are not regulated by high-standard agreements that ratification would raise standards for all involved, including China.

This brings us back to a central challenge for German and EU trade and foreign policy in Latin America and the Caribbean, but also in other priority regions for the EU where China is also a key economic partner, such as ASEAN. Agreements such as the proposed EU-Mercosur deal may raise standards in priority areas for the EU, such as the environment and labour, but the adoption of such standards also comes with potential increased labour, production and other costs. The Chinese government and its firms are also engaging in a wide range of standard-setting, including on environmental and other measures tied to corporate social responsibility (CSR), but ultimately, they are not likely to be as constrained as EU and German firms by formal laws or by more informal social norms. Even if the EU were to ratify the outstanding free trade agreement with Mercosur, as it has with Chile, China is certain to remain highly competitive as a trade, investment and financial partner in the region.

If Germany and the EU continue to push for ratification of a Mercosur trade deal – even a heavily revised one – they will need to be clearer than ever about the comparative benefits for Latin America and the Caribbean, especially in relation to relations with China and the United States. The Mercosur agreement, any other trade agreements between Europe and Latin America and the Caribbean, and other measures aimed at renewing German and European ties to the region will need to live up to and demonstrate the mutual benefits of these aspirations, spelled out in greater detail at the EU-CELAC summit in July 2023. The return of Lula to the presidency of Brazil may present Germany and the EU with an opportunity to engage on this broad and progressive agenda to demonstrate how partnership with Europe can help in tackling real challenges for development and political governance effectively.

DECOUPLING AND RETHINKING SUPPLY CHAINS

A key, globally important component of the burgeoning US-China strategic rivalry is both sides' rethinking of the risks versus the benefits of interdependence. The US-China trade war, beginning in 2018, was a prelude to a growing range of US and Chinese import and export restrictions that have since proliferated, especially in high technology. The Covid-19 pandemic only increased the range of concerns in Europe, the United States and parts of Asia about overdependence on China-based supply chains, including for medical supplies such as vaccines. In turn, China has become increasingly focused on its exposure to US and other countries' economic pressure and its own trade, investment and financial dependencies, while emphasising the need for greater self-sufficiency. For their part, commodity-rich South American countries are keen to balance renewed interest in the region's mineral and agricultural abundance with the need to avoid new cycles of dependence on extractive trade and instead to build more resilient, job-creating opportunities tied to renewable energy and other sustainable technologies. Resulting discussions about the need for greater "resilience" have led governments and businesses in Europe and elsewhere to reduce dependencies by de-risking, including reshoring, near-shoring, or friend-shoring.[7]

In a world in which governments and businesses are looking to reduce supply chain risks, and in which Latin American and Caribbean countries, as well as Germany and the EU, are seeking to take their own path amidst the intensifying US-China rivalry, the Latin American and Caribbean region presents attractive opportunities for sustainable supply-chain diversification and added resilience. Expanding supply chain cooperation is already part of some of the formal EU-level discussions with CELAC.[8]

What this deeper EU-LAC coordination and cooperation on supply and value chains might mean in terms of Latin American and Caribbean interest and capacities will vary by country and economic sector. In fact, Latin America and the Caribbean as a region lags far behind many other regions of the world in terms of both internal integration and connectivity with the rest of the world. For example, intraregional trade within Latin America and the Caribbean accounts for only 15 per cent of the region's overall trade, whereas for the EU this figure is 55 per cent. And with the exception of Mexico, Latin America and the Caribbean as a region is far more closed to trade than the global overage. In fact, other than Mexico, no country in the region has a formal plan for how it plans to adapt to the challenges and opportunities presented by the major shift in global supply and value chains. This is part of a legacy of import substitution policies from the 1960s and 1970s, chronic fiscal and macroeconomic crises in some economies, and well-established concerns about the region's exposure to global economic crises (America's Quarterly 2022). Moreover, China's engagement with the region hasn't altered these patterns, it has simply built on historical patterns of Latin American and Caribbean commodity exports, including associated boom-bust cycles. This means that opportunities to integrate German and EU supply chains more deeply with LAC partners clearly has broad potential as long as it aligns with both Latin American and Caribbean and European interests. Two sectors that are already being explored are automotive industry, especially electric vehicles, and alternative energy, in which German firms and EU regulatory influence are especially prominent.

The key for Germany and EU Member States will be to understand how best to work with certain Latin American and Caribbean partners on the potential for supply chain diversification and resilience while China, the United States and others are also trying to solidify relations with trusted partners in the region and beyond. Germany and the EU should expand cooperation with regional partners in ways that could contribute to the latter's interests and development priorities. These could range from more use of local labour and local content (products and services) and equitable joint participation in investment and infrastructure projects to supporting the development of downstream activities and sustainable value addition, which would contribute to the diversification and resilience of Latin American and Caribbean economies. This could be flanked by technology transfer and local learning initiatives, while at the same time ensuring longer-term access to North American markets. Again, the 2023 EU-CELAC summit directly addressed such issues with its emphasis on both resilient and sustainable supply chains for rare earth metals and the need to redouble EU-LAC cooperation on a range of climate and environmental challenges (European Council 2023). As such efforts move forward, and to help highlight the benefits of German and European cooperation compared with that of China, there should be a clear emphasis on existing and upcoming frameworks, such as the European supply chain laws and the EU-LAC Convention on Raw Materials.

INSTITUTIONAL CAPACITY BUILDING, FINANCING DEVELOPMENT AND TRANSFORMATION

As already mentioned, Latin America and the Caribbean need increased institutional capacity to promote sustainable projects and best practices in relation to public procurement. Brazil's rejection of the highly deficient China-backed plan to build the Brazil-Peru Transcontinental Railway project (mentioned in Section 1) illustrates how strong institutions can prevent the implementation of problematic projects. However, the capacity shown by Brazil in this case is not distributed equally throughout the region. In Ecuador, the poorly planned Coca Codo Sinclair was nevertheless greenlighted and later experienced important issues related to quality and social-environmental impacts. In the case of Brazil, in addition to the technical capacity observed, it is also worth highlighting the fact that plans to build infrastructure projects must go through public hearings. The Brazil-Peru Transcontinental Railway project did not get to that stage, but the prospect of having a plan scrutinised by the public probably played a role in its rejection.

With that in mind, Germany and other EU countries should aim at strengthening institutional capacity in Latin America

7 De-risking: reduction of truly critical trade (import) dependencies. Reshoring: bringing home business operations (especially manufacturing). Near-shoring: relocating operations to a nearby or relatively close geographic location. Friend-shoring: moving operations to trusted partners or allies.

8 The EU-CELAC Summit held in Brussels in July 2023 confirmed in its Declaration the bi-regional need for investment and cooperation to "achieve closer integration in clean energy supply chains, including critical raw materials and technology transfer" as that would contribute greatly to the realisation of the Sustainable Development Goals. Available at: https://data.consilium.europa.eu/doc/document/ST-12000-2023-INIT/en/pdf

and the Caribbean. One example of such efforts is the African-German Leadership Academy programme hosted by the German Institute of Development and Sustainability (IDOS) and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). This consists of a dialogue and training programme with participants from government institutions, think tanks and research institutions, civil society and the private sector brought together to share their experience of and expertise in sustainable development. A similar programme could be implemented for Latin America and the Caribbean. Another option is to support knowledge and best practice sharing among Latin American and Caribbean countries in programmes based in the region itself.

Europe should also put its money where its mouth is and provide an alternative for financing development projects. Having alternative sources could increase Latin America and the Caribbean's bargaining power vis-à-vis China. As noted in Section 1, Chinese financing usually comes attached to the use of Chinese content (such as technology, equipment, services, and sometimes workers). If other options are available, Latin American and Caribbean countries have a stronger position to negotiate better terms, such as greater local content. To be clear, Germany already offers some funding support, such as the Regional Fund for Triangular Cooperation in Latin America and the Caribbean, but it is advisable to strengthen these initiatives.

GLOBAL GATEWAY AND OTHER LATIN AMERICAN AND CARIBBEAN-EU COOPERATION

One clear option for deepening European cooperation with Latin American and Caribbean partners on regional infrastructure and connectivity projects would be to build on the EU's Global Gateway, especially in the areas of digital connectivity and green energy. The EU-CELAC 2023 summit highlighted the importance of financing and the role of the EU-LAC Global Gateway Investment Agenda to address investments gaps for funding "sustainable development, including digital transformation, education, health infrastructures, energy production, environmental perspectives, raw materials and local value chains" (European Council 2023: 8) and welcomed the commitment to the operationalisation of Loss and Damage funding arrangements (ibid.). Moreover, via the Global Gateway platform, the EU should build on its legal and technical standard setting experience to help build capacity in Latin America and the Caribbean and to help avoid the pitfalls associated with the region's disruptive infrastructure-related corruption woes in recent years. Focusing on specific European strengths in relation to environmental, financial and legal sustainability would also help bridge the gap in terms of Latin American and Caribbean perceptions of China as a preferred infrastructure partner for the region (see Figure 6). So far, the EU Commission has announced 45 billion euros in investments under the Global Gateway. However, more than half of these projects in the region focus on the development of minerals like lithium and copper, possibly furthering the reprimarisation of LAC economies begun in the early 2000s rather than supporting the diversification of Latin American and Caribbean economic structures.

Germany and the EU should maintain and possibly even strengthen direct support for initiatives aimed at promoting sustainable development. Existing initiatives, such as the Amazon Fund, a project involving Germany, Norway and the Brazilian government, which funds conservation efforts could be expanded and diversified or inspire further financial mechanisms, dealing for instance with energy transition, other climate problems and debt issues (debt for climate/nature swaps). Grants and low-interest loans for sustainable projects or concessional loans via development banks, also to support longer-term structural changes, are other options. Another example is the 20 million US-Dollar German IDB fund to strengthen green fiscal policies. Such actions are important and expanding them can help to further strengthen Latin America and the Caribbean's capacity to promote sustainable development. Furthermore, in its 2023 Summit Declaration the EU and CELAC recognised certain criteria for a fair, inclusive and effective international financial architecture. They include the needs of the most vulnerable countries, participation and representation of the countries of the Global South, and access to (concessional) financing for climate investments, which would ensure debt sustainability without compromising on social justice (European Council 2023: 6). Implementation of these criteria would require a reform of international financial institutions, such as the so-called "Bretton Woods" institutions.

Spain's special position in the EU's engagement with Latin American and Caribbean countries

It is worth highlighting the prominent presence of Spain in Latin America and the Caribbean, especially in its former colonies. Among the EU countries, Spain is the main source of investments in the region with 150 billion US dollars (stock), which is close to Chinese investments and twice as much as the second most important EU investor. Its presence is particularly strong in telecommunications, banking and oil, and includes companies such as Telefonica, BBVA, Santander and Repsol. Spanish companies are also very actively seeking to win construction contracts in the region. For instance, such entities represent about half of all foreign construction companies registered in Peru. While they face fierce Chinese competition, Spanish companies have for the most part managed to hold their positions. Politically, Spain has promoted the creation of the Ibero-American Summit, which brings together state leaders of Spanish-speaking Latin American and Caribbean countries, Brazil, Spain, and Portugal. It is also said that Spain plays the role of EU in the region.

Other EU countries such as Germany can learn a lot from the intense relations between Spain and Latin America and the Caribbean. Spain has long historical ties with the region, but other countries can make an effort to forge closer relations with it.

2.2 GEOPOLITICAL, DIPLOMATIC AND POLITICAL RELATIONS

US–CHINA TENSIONS SINCE 2017 IN THE PERSPECTIVE OF CHINESE–LATIN AMERICAN RELATIONS

When considering relations between China and Latin America and the Caribbean and their implications for Germany and Europe, it is impossible to ignore the role of the United States. In fact, the US–China relationship is an increasingly important factor in understanding the potential, limitations and future development of China–LAC relations. Successive US administrations began to take notice as economic and diplomatic relations between Latin America and the Caribbean and China rapidly expanded from the early 2000s. In particular, the administrations of George W. Bush and Barack Obama reviewed the economic and military dimensions of China's growing presence in the Americas. For the most part (with some exceptions), they took the view that growing trade, investment and financial relations between China and Latin America and the Caribbean would boost much needed economic growth in the region. There were concerns, including from persons outside the US government, about China's support for left-leaning governments in countries such as Venezuela, Ecuador or even Brazil – which were often critical of the United States – but these were largely offset by a broader evaluation that China's interests and aims in the region were primarily commercial rather than political or military.

This official US view of burgeoning China–LAC relations as largely benign has changed dramatically in recent years. Overall, the administration of Donald Trump took a far more critical and pessimistic view of China's role in the region. US foreign policy officials said that China was extending its "predatory" lending practices to Latin America and the Caribbean – for example, in Venezuela – as part of a broader condemnation of Chinese "debt trap diplomacy". Trump administration officials also considered that China's extension of the Belt and Road initiative to Latin America and the Caribbean was linked to broader efforts to increase China's political sway there. Under Trump, the US State Department also began to establish dedicated China-watching personnel in various embassies in the region, part of a broader global expansion of similar China-focused specialists within the US government. The Biden administration, for its part, has toned down some of the Trump era rhetoric, which labelled China a threat to Latin American and Caribbean and US interests, by emphasising the need for the United States to compete with China in the region and elsewhere. But icy US–China relations (including via tech decoupling – see above) mean that both the US executive and legislative branches remain highly suspicious of China's aims and influence.

Against this background, some analysts and policymakers see closer diplomatic ties between China and Latin America and the Caribbean as concerning, while others see them as an opportunity for the latter. The former stress that greater exposure to Beijing could render countries in the region more vulnerable to its political influence (Evan Ellis 2021; Wintgens 2022), while the latter believe that closer ties may help to strengthen the region's voice internationally and advance interests that might be at odds with traditional Western powers (for example, regarding intervention in domestic affairs) (Vadell 2014). Both lines of argument contain some valid points, but ultimately Latin America and the Caribbean face similar challenges to other regions that are trying to navigate the world of Great Power rivalries while pursuing their own foreign and development policies. Germany and Europe can play a role by offering alternatives in line with Latin American and Caribbean interests. This can include efforts to shore up and reform multilateral institutions and forge mutually beneficial partnerships of middle powers, which carry greater weight internationally than independent actions, and eschew polarisation in the name of tackling challenges such as debt relief and financing of renewable energy. In this spirit, the EU-CELAC 2023 Summit Declaration committed to strengthening bi-regional cooperation and coordinated efforts in multilateral forums on issues of human and labour rights, climate change and biodiversity, food and energy security, drug problems, organised crime, migration, health, digitalisation and taxation, as well as reform of the UN system, including the UN Security Council (European Council 2023: 5).

Jointly setting standards: an example of Chinese–German cooperation in Latin America and the Caribbean

China is the leading foreign stakeholder in Peru's extractive sector (accounting for 36 per cent of its total foreign direct investment, cf. Nuñez Salas 2022: 14) and as such warrants special scrutiny of its social and environmental standards. The Chinese government has increased enforcement of corporate social responsibility and sustainability (CSR) at home, and industrial organisations have created an environment in which companies feel peer pressure to do their CSR reporting or be left behind. On the international stage, however, this has not been replicated and Chinese companies are often found wanting, leading in turn to protests by civil society groups and reputational costs for the companies and, by extension, China.

In the 2010s, the China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters entered into cooperation with Germany's GIZ to develop guidelines for Chinese companies abroad (CCCMC 2013). In this capacity, German consultants and industry engaged directly with Chinese corporations in third countries, including Peru, in an effort to define and promote sustainability standards. Strengthening such frameworks is one possible path for future cooperation in line with the German government's overseas development goals in Latin America and the Caribbean, while also engaging constructively with Chinese state-owned enterprises.

CHINA–BRAZIL AND EU–BRAZIL RELATIONS UNDER THE NEW LULA GOVERNMENT

Within the framework of broader China–LAC and EU–LAC relations, arguably Brazil stands out as the most important bilateral relationship, if only because of its size. The Brazilian presidential election of October 2022, narrowly won by Luiz Inácio Lula da Silva, represents an important development not only for China–Brazil relations, but also for the EU's ties to Brazil and Mercosur. During his first term as president from 2003 to 2010, Lula oversaw flourishing diplomatic and trade relations with China. On the diplomatic front, Lula pursued a pro-active foreign policy, not only promoting a closer bilateral relationship with China, but also working with China and other emerging-market leaders to build a more multipolar international order, especially within the context of the BRICS grouping. Lula and Chinese leaders stressed the "win-win" nature of their relationship, and together promoted stronger South–South ties, including with Africa. The economic basis of the relationship, as with other key South America–China ties during this period, was rapidly expanding exports of Brazilian commodities such as iron ore, soy and oil, alongside growing imports of Chinese manufactured and consumer goods. It is noteworthy, however, that Brazil has not joined the Belt and Road initiative (Moura 2023).

Even during Lula's first two terms as president, voices of concern were raised among Brazilian industrial manufacturers and others who worried that the relationship with China was unsustainable, hollowing out Brazilian industry and relying too much on volatile commodity demand from China. In the period after Lula stepped down, Brazil's economy slowed dramatically as the commodity boom faded and Brazilian politics was ridden with crises and growing polarisation. In the wake of Lula's run-off victory in October 2022 over Jair Bolsonaro, who at times had taken a more confrontational stance in relations with China, there have been comparisons with Lula's first two terms. Commodities remain at the heart of the Brazil–China trade and investment relationship, but as a candidate Lula emphasised greater concern than he did during his previous presidential terms about China having the upper hand and playing a disproportionate leadership role among countries of the Global South. Early in his presidency, however, Lula already sought to rekindle the old camaraderie with China, including bilateral and multilateral cooperation. The BRICS summit in South Africa in August 2023 underscored not only the potential of greater China–Brazil cooperation in elevating the role of the Global South in questions of international governance. But tensions over the expansion of the group and judgements about Russia's ongoing war in Ukraine also highlighted that Sino-Brazilian cooperation (let alone Global South solidarity) remains fraught with cross-cutting interests and the myriad domestic challenges faced by the two countries.

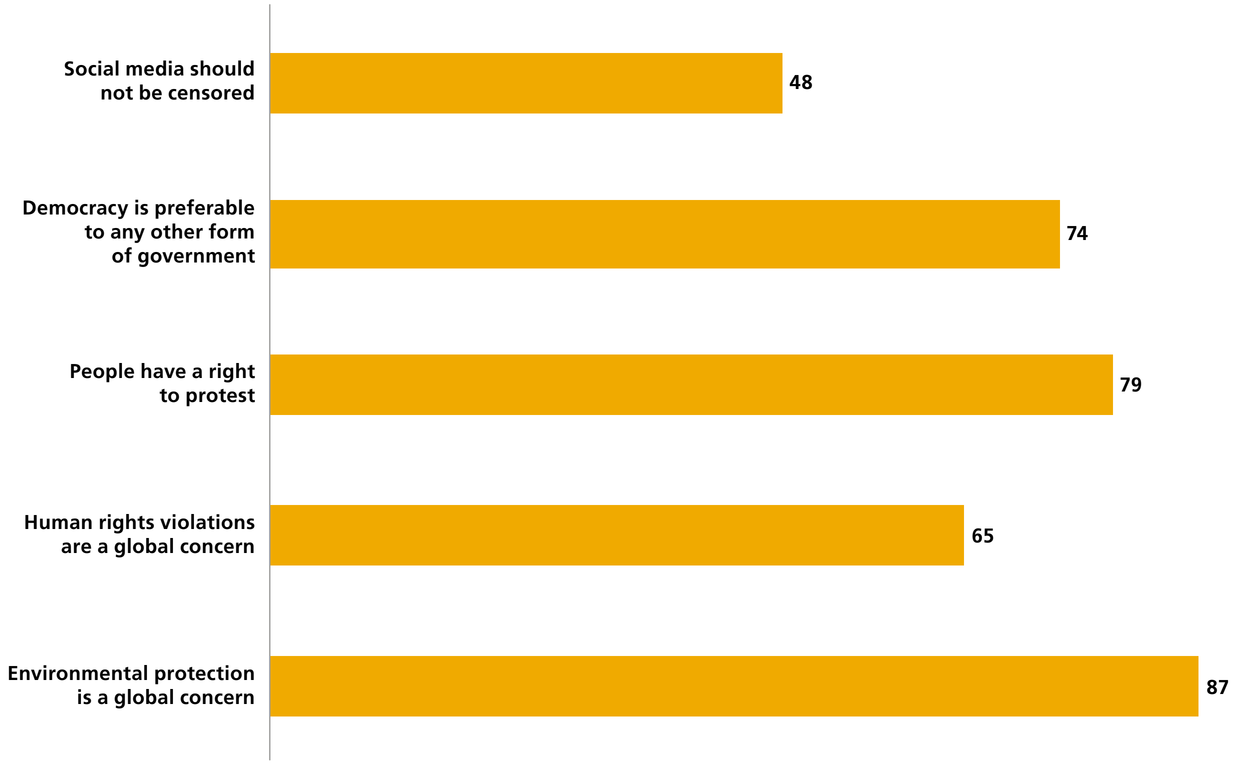
For the EU, Lula's third presidency has already provided opportunities to reduce the tensions that emerged under Bolsonaro, especially on the sensitive issue of deforestation in the Amazon. Specifically, EU Member States that have opposed ratification of the EU–Mercosur trade agreement should have fewer grounds for opposition if Lula consistently promotes Amazon policies that are more in line with EU concerns. In other words, under the new Lula administration, both China's and the EU's relations with Brazil have improved. As with elsewhere in the region, Germany and the EU need to demonstrate that they are attuned to Brazil's interests and needs and willing to work with the new Lula administration on an agenda aligned with those needs. This could begin with public diplomacy highlighting the ways in which Europe–Brazil relations are a key aspect of broader relations between Europe and Latin America and the Caribbean, and that they stand on their own merits regardless of what other countries (such as China) are doing. The visit of German Chancellor Olaf Scholz in January 2023 sent an important message in this sense. In particular, European leaders could present a specific plan for extending the Global Gateway to Brazil, Mercosur or other parts of the region. By doing so they would be meeting the region's green economy and digital connectivity needs (the EU's recent promotion of a Global Gateway plan for ASEAN might serve as a model). With Brazil hosting the G20 summit in Rio de Janeiro in 2024, there is every opportunity for Germany and the EU to work closely to better align European, Brazilian and Latin American and Caribbean interests across the range of issue areas discussed in this report.

2.3 EUROPE'S SOFT-POWER

Soft power, the ability to shape the preferences of others through attraction and persuasion rather than coercion, has long been a cornerstone of EU foreign policy. In Latin America and the Caribbean, the hallmarks of EU soft power have been development diplomacy, mutually beneficial economic cooperation, and shared values. However, the establishment of antagonistic poles based on incompatible ideas and values with authoritarian powers such as China and Russia is meeting with growing reservations among Latin American and Caribbean governments, as evidenced by reactions to Russia's invasion of Ukraine. The perception that this antagonism is driven by the United States – long seen in Latin America and the Caribbean and much of the Global South as one of the most bellicose actors – has led to growing dissent, visible in the EU-CELAC Summit closing statement.

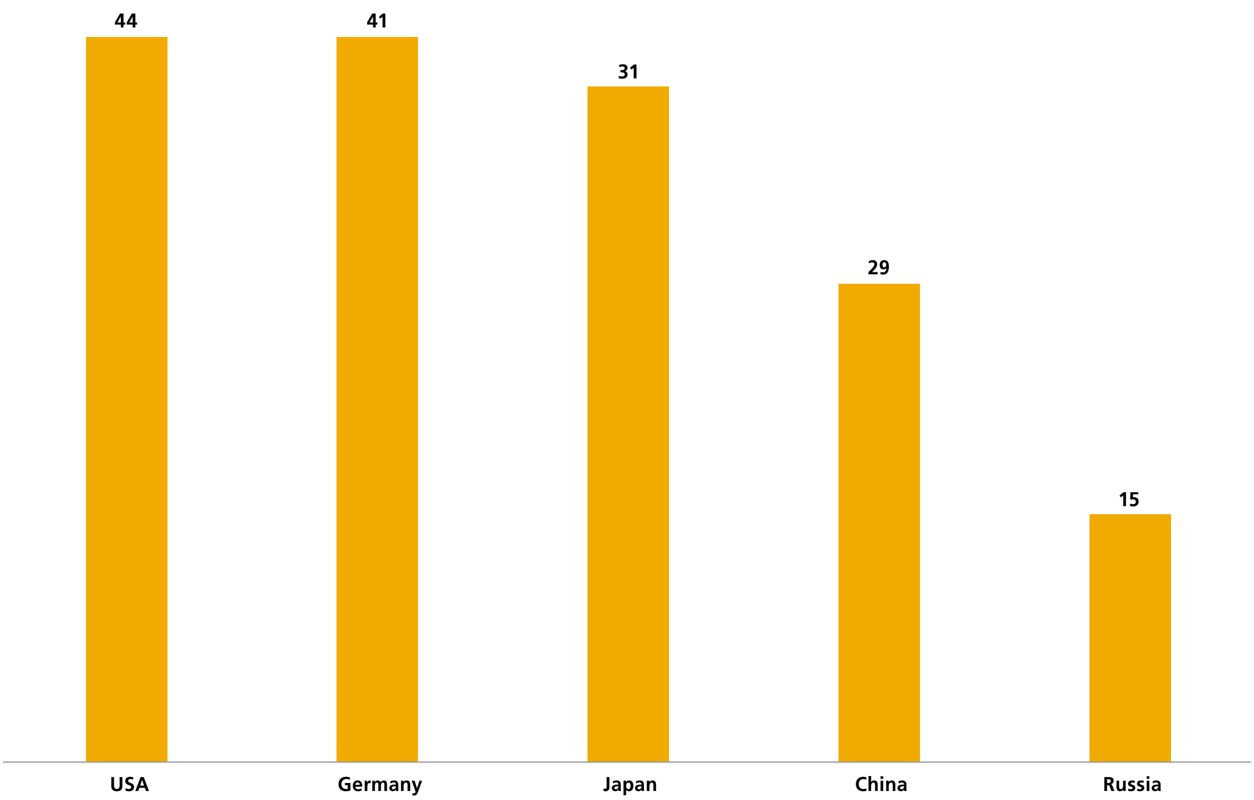
Nevertheless, a recent survey among a number of Latin American and Caribbean countries suggests that they still share important core values with the United States and the EU and regard the latter as a reference (see Figures 7 and 8). Democracy is still the preferred form of government. The right to protest is considered important and violations of human rights are among the global problems of greatest concern to people in Latin America and the Caribbean. Environmental protection is another issue of widespread concern in the region. Finally, and very importantly, the development model of countries such as the United States and Germany is preferred to the Chinese model.

Figure 7
Support in Latin America and the Caribbean for selected principles and policies (%)



Source: Adapted from Romero et al. (2022).

Figure 8
Preferred development model among Latin American and Caribbean survey respondents (%)



Source: From Romero et al. (2022).

Some analysts (such as Grundberger and Schaumberg 2020) warn about the potential risks of China's party-exchange charm offensive for Latin American and Caribbean political elites as it could bias their opinion on China and even weaken democratic values in Latin America and the Caribbean. It is important not to overestimate the influence the Chinese Communist Party could have on Latin American and Caribbean political elites, however, as they also respond to other factors. That said, as suggested by Grundberger and Schaumberg (2020), it would be beneficial for party members, decision-makers and agenda-setters, as well as the general population in Latin America and the Caribbean to have more opportunities to engage with people and institutions from Germany and other European countries.

One possible course of action is to improve the city-to-city partnership programme. It should go beyond big and well-known cities and target smaller ones that could benefit most from such programmes, such as those located in environmentally sensitive areas. The Chengdu-Ibagué partnership is an example of how knowledge sharing can help promote conservation efforts in Latin American and Caribbean cities.[9] Among Germany's own previous activities, the 2016 LAC-Germany Mayors Forum is an example of a replicable knowledge-sharing platform with great potential.[10]

Germany has strong foundations that it should build on to strengthen established patterns of cooperation, ranging from the binational chambers of commerce, the German Academic Exchange Service (DAAD) and Goethe-Institute academic and cultural exchanges, to the German political foundations' work on democratic and social development, and the development programmes of the German organisation for international cooperation GIZ. Instead of budget cuts, which threaten to severely undermine Germany's bilateral and long-term efforts to develop trans-Atlantic linkages, there should be an emphasis on scientific and research cooperation, scholarships and exchanges, as well as development cooperation within and beyond the remits of federally funded institutions.

Finally, the impact of an effective communicational presence should not be underestimated. This includes highlighting the EU's strong economic and developmental engagement in Latin America and the Caribbean in the media, on social media platforms and at public events, as well as providing more visibility for the educational, cultural and professional opportunities and collaboration Europe offers and for the collaboration via joint projects, research exchanges and scholarships. Such initiatives and a positive public perception of them are likely to represent a worthwhile "return on investment".

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9 Activities within the framework of the Chengdu (China) – Ibagué (Colombia) partnership include, among others, visits by scientists from the Chengdu Panda Base to assist in setting up the Spectacled Bear Conservation Project (Ibagué 2021).

10 See https://www.iadb.org/en/story/what-can-latin-america-learn-german-cities

CONCLUSIONS

As a result of this dive into the geopolitical dynamics of Latin America and the Caribbean from a German perspective, it has become clear that China has established itself as an influential actor in the region, with a strong position in trade, financing and infrastructure projects. It will continue to play an important role in the foreseeable future. On the other hand, notwithstanding often different political standpoints, Europe and Latin America share not only many core values, but also a number of interests with regard to achieving a resilient, diversified and sustainable economy. In this context several strategic actions have emerged that will allow Europe to build on its long relationship with the region, strengthen its presence and enable it to become a true development partner for the mutual benefit of both continents. It is imperative to prioritise pragmatic diplomacy over zero-sum competition in recognition of Latin America's reluctance to become ensnared in Great Power confrontations. For both regions, this entails a transparent articulation of goals and values, addressing possible conflicts of interest with regard to geopolitics and economic relations, and identification of a common agenda. Existing platforms can serve as pivotal vehicles for strengthening ties, provided they are anchored in genuine mutual benefit and sustainability. The EU should contribute to Latin American countries' goal of reducing their dependence on extractive trade and diversifying their economies by supporting technology transfers and local learning, digital innovation and transformation, and the development of sustainable downstream industries designed to create decent and increasingly high-tech employment opportunities. This would reduce regional dependency on the global market for primary goods. Cooperating towards these ends would also distinguish the EU from China, making the bloc more attractive as a trading partner.

As outlined above, Germany and the EU could deepen discussions with Latin American and Caribbean partners on how to better integrate supply and value chains across the two regions in ways that are mutually beneficial and contribute to high-quality development in the region. The initial focus might be on electric vehicles and renewable energy generation, both areas in which Germany has strong capacities, but it should expand from there. Mining, however, although crucial for energy transitions, must be approached with care. German and EU demand for thermal coal, lithium and other mining products for new energy generation is supplied from places with long-running social, ethnic and environmental conflicts between local communities and the authorities. These tensions are often exacerbated by a lack of proper regulation and compliance by Latin American and Caribbean governments. Short of cutting back on mining altogether, EU supply chain laws that provide for mechanisms of accountability and liability for human rights violations by international companies should be supported and strengthened. People and many governments in Latin America share the desire to strengthen social, labour and environmental standards and the EU should discuss and mutually agree with Latin American partners, how European countries could support their implementation, for example, by shoring up institutional capacity, where needed, and doing their part to ensure and promote rights adherence by all parties, in particular with regard to participation rights, judicial mechanisms based on the rule of law and comprehensive information.

Notably with the resurgence of "pink-tide" governments in Latin America, new windows of opportunity have opened for joint infrastructure projects and social initiatives. Common priorities of the EU and Latin America and the Caribbean have been addressed in various joint statements, such as the Declaration of the EU and CELAC Summit in July 2023 and many bilateral agreements. The envisaged bi-regional cooperation, not only in the areas mentioned above but also in health, education, social justice and security, requires massive additional funding. Commitments already made, for example, as part of the Global Gateway Investment Agenda, are not sufficient, nor should they focus only on European priorities such as its energy transition. Not least against the backdrop of the climate crisis, Europe can set itself apart from China and other regions precisely by including all aspects of sustainable and just structural transformation in both continents. Therefore, Germany and the EU should build on, broaden and improve current initiatives (such as the Amazon Fund and energy partnerships) and consider various general and purpose-specific, but also innovative financial instruments at the global, bi-regional and bilateral levels to support sustainable development initiatives, funds, grants and concessional loans. Backing for a reform of the Bretton Woods institutions is also important. This would be development-focused and guarantee fairness and inclusivity to countries of the Global South, including those in Latin America and the Caribbean. Through coordinated efforts in multilateral forums, the EU and CELAC could lend further weight to the sustainable development agenda.

Finally, beyond economics and diplomacy, the influence and significance of soft power engagement are frequently underestimated. Hence, a greater and much more visible commitment to institutional and interpersonal encounters, exchange and cooperation between Europe and Latin America can support transformational projects and deepen relations. Existing collaboration in research and technology, scholarship programmes, academic, cultural and civil society exchanges, city-to-city partnership initiatives, and development cooperation need to be strengthened and expanded. Together, all these measures can forge a roadmap towards a collaborative, sustainable and mutually beneficial future.

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LESSONS FOR EUROPE?

Understanding China's Engagement in Latin America

Since the beginning of the 21st century, China has established itself as an influential actor in Latin America and the Caribbean (LAC) with a strong position in trade, financing and infrastructure projects. Similarly to Europe, its aim within the region lies primarily in securing access to natural resources and agricultural products and expanding its market. While geopolitical interests play another role, China's engagement in the region, e.g. in the form of financing, is appreciated for its non-political conditionality, long-term character and until recently its high-risk tolerance. If Europe wants to intensify and extend its relations with LAC, it needs to distinguish itself from China in ways that make it more attractive as a (trading) partner. To start with, both regions should be transparent about their goals, address possible conflicts of interest with regard to geopolitics and economic relations and identify a common agenda.

One joint approach could be EU support for Latin American countries' goal of reducing their dependence on extractive trade and diversifying their economies, e.g. by better integrating and expanding supply and value chains across the two regions in mutually beneficial ways. Despite its increased demand in critical and other raw materials, the EU must take care when cooperating in a conflictual and often harmful sector such as mining. Though problems are often exacerbated by a lack of proper regulation and compliance, people and many governments in Latin America share the desire to strengthen social, labour and environmental standards. The EU should, therefore, discuss and mutually agree with Latin American partners how European countries could support the implementation of standards and how they should be included in bilateral and bi-regional agreements.

Bi-regional cooperation should extend into other areas of common priorities such as health, education, social justice and security and include more visible and intensive soft power engagements. All investments, initiatives, and collaborative projects will require massive additional funding. Therefore, Germany and the EU should build on, broaden and improve current funding initiatives and consider reforms and innovative financial instruments at the global, bi-regional and bilateral levels.

Further information on the topic can be found here:
https://www.fes.de/lateinamerika

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