
*Photo credit: Containers in the port of Valparaíso, Chile: Shutterstock Editorial- Serjio74, 2013.*

# Early Glimpses of Post-Pandemic China-Latin America Relations

Jorge Heine

Latin America is one of the world's hotspots for the COVID-19 pandemic. With 8 percent of the world's population, there have been weeks in which it accounted for 30 percent of fatalities caused by the virus. Given that the virus came later to the region than it did elsewhere, its severe impact in Latin America does not reflect well on the region's handling of the health crisis. In this context, one would have thought that relations with China, where the virus originated, would be under severe strain, and that this would impact economic relations, which have been at the forefront of China-Latin America links.

Yet the case of Chile is instructive: despite a higher per capita income than most of its neighbors and an advanced healthcare system that should have facilitated a successful anti-virus response, Chile is one of the most affected countries, at one point registering the world's second most COVID-19 deaths by population. Although Chile's service sector has been badly affected by the somewhat haphazardly imposed, off-and-on lockdown, Chile's mining and agricultural sectors, the backbone of its export-led development model, have continued to hum along at an only slightly reduced tempo.

One reason for the steadiness of those two sectors is continued demand from China, Chile's number one trading partner. Four months into the pandemic, in July 2020, Chile's exports to China *increased* by 25 percent in comparison to July 2019, reaching $2.27 billion. This stands in stark contrast with what happened with Chile's other main trading partners: the United States, where exports dropped by 14 percent, to $777 million, and Japan, where they dropped by 15 percent, to $476 million. July was not an anomaly. In the first seven months of the year, China was the only significant market that expanded its purchases from Chile, totaling $14.18 billion. In the case of all other

*Photo credit: President of Chile, Sebastián Piñera, and President of the Republic of China, Xi Jinping: Facebook- Presidente Sebastián Piñera, April 2019.*

top markets (the United States, Japan, South Korea, Brazil, and Peru), exports fell. Projections for Chilean cherry exports to China in the 2020-21 season, for example, are a record 250,000 tons. Chile is not an isolated case. In June 2020, Argentine exports to China increased by 50 percent in relation to June 2019, and Brazil's exports to China grew by 30 percent, according to the Economist Intelligence Unit.

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China's early emergence from the lockdown, and its ability to quickly ramp up production, partly accounts for this phenomenon. Between January and July 2020, 35.2 percent of Chile's exports went to China, 2.5 times as much as to the United States. China is now Argentina's top export market, and the same is true for Brazil, Chile, Peru, and Uruguay.

The latest International Monetary Fund (IMF) projections, indicating that China would be one of the very few large economies to have positive growth this year, suggests that some of Latin America's leading economies will do more, rather than less, trade with China in 2020 and in years to come.

That said, tensions between the United States and China stand in the way of further progress in China-Latin America relations. The first major project to fall victim to this rivalry was the trans-Pacific, fiber optic cable between Chile and China, first proposed by Chile in 2016. Envisioned as the first internet cable across the South Pacific, connecting Asia and South America at a length of almost 12,500 miles, it would have linked Valparaíso and Shanghai, at a cost of $600 million. Chile would have become China's digital gateway to South America, opening doors to the sort of trade in services currently impossible due to limited connectivity across the South Pacific.

Included in a bilateral memorandum of understanding (MOU), the construction of the fiber optic cable went through extensive pre-feasibility and feasibility studies, only to be scrapped by the government of President Sebastián Piñera in July 2020. Under strong pressure from Washington, the Chilean government opted instead for a cable between Chile and Australia, a country with which Chile's internet traffic is almost non-existent, and with which Chile has 1 percent of the trade it has with China. The point of the Australia cable is difficult to ascertain, especially given that the cost, $500 million, is only slightly lower than the cable to China would have been.

Despite the pandemic and United States-China rivalry, trade relations between China and Latin America, particularly with South America, will continue to grow, driven by Chinese demand and established production patterns in the region. What is less clear, as illustrated by the aborted fiber optic cable project between Chile and China, is whether Chinese investment and financial cooperation (the latter on the decline for a number of years), will be able to surmount international tensions and continue to flow into the region as it has in the past.

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At a time when the region is ravaged by an economic, social, and health crisis – the IMF and United Nations Economic Commission for Latin America and the Caribbean both project over 9 percent negative growth in 2020 – it would be especially tragic to see Chinese investment in Latin America slow. Rebuilding the region's economies will be an uphill task *ceteris paribus*, let alone without what has been one of the key sources of foreign direct investment and international financing since 2010. Latin American foreign policy makers and diplomats have their work cut out for them.

A policy of active non-alignment, in which government officials keep their eyes firmly fixed on their countries' national interests while rebuilding regional institutions and avoiding a distracting superpower rivalry and interference in their own affairs, is of the essence.

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