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ECONOMIC BALANCING IN LATIN AMERICA: THE CHINESE PRESENCE IN THE REGION

EQUILIBRIO ECONÓMICO EN AMÉRICA LATINA: LA PRESENCIA CHINA EN LA REGIÓN

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Abstract

This paper review the structural changes in Latin America provoked by Chinese geo-political and geo-economic interests in region. It is based on economic balancing concept that explains the linkage between military and political interests with economic relations to create great power. Because of this, the author support the idea that China is trying to occupy the American role over the region in late 20th Century. With this new presence China has created a new structure in Latin America with regional balancers and also this change in the region has helped China to improve its performance in the multipolar system. The theoretical framework propose the review of different authors like Kenneth Waltz, Richard Samuels, Eric Heginbotham and R.K. Pruhti.

Keywords: Economic balancing. Latin America. China. Security. Power.

Resumen

Este artículo revisa los cambios estructurales producidos en América Latina, debido a los intereses geopolíticos y geoestratégicos de China en la región. Está basado en el concepto de 'balance económico' el cual explica la relación entre intereses políticos y militares con las relaciones económicas como componente de poder estatal. Debido a esto, respaldamos la idea de que China está tratando de ocupar el rol que los Estados Unidos cumplieron en la región durante el siglo XX. Con esta nueva presencia, China ha creado una nueva estructura regional latinoamericana; asimismo mejorando su participación en un sistema multipolar. El marco teórico presentado propone la revisión de los conceptos usados por autores como Kenneth Waltz, Richard Samuels, Eric Heginbotham y R.K. Pruhti.

Palabras clave: Balance económico. América Latina. China. Seguridad. Poder.

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ECONOMIC BALANCING IN LATIN AMERICA: THE CHINESE PRESENCE IN THE REGION

Introduction

Since the second part of 20th century, whole world has suffered changes provoked by a rapprochement between different actors inside international system. This phenomenon was possible because the importance of economy around international policy. Entering in a new order era implied some changes on international agenda. In this case, the collapse of the Soviet Union and the transnationalization of capital were the main factor of these changes.

As a result, world started to create a structure settled on a reinterpretation of liberalism. This new scenario created a possibility to show up a new axis inside international relations and its studies. Since these last years of 20th century, world politics brought an equal opportunity to economic agenda to facing security as a unique way inside international relations.

“From the perspective of the late 1980’s, the world may look different: while the 1970’s were seen as the decade of interdependence, many observers regard the use of force and concern for security as characteristic of the 1980’s” (Keohane & Nye, 1987, p. 725). On this phrase of “Power and Interdependence”, the authors identify a real change, but also they point out the economic presence before the end of Soviet Union. This classical book in International Relations show up this presence during 60’s and 70’s, but Cold War could not allow it a main performance in international system because of security. By this time, this second moment around liberalism opened the door to pass from a power based on army capability to an economic power.

This re-order did not occur suddenly, the low profile of transnationalization of capital before the collapse of Soviet Union allowed this transition to economy. The period from 1960’s to 1990’s was characterized by open process in most of the countries. For example, institutions around international trade and economy gave some conditions to a reform phase in Asian and Latin American countries.

One of these countries was China. First, it is important to point that China has some local history moments that has been built the current scenario. Most of them was part of the Maoist period, for example the first five-years plans, Cultural Revolution and Nixon’s visit. All these factor and Mao’s death provoked some chances inside Chinese society. By the 1970’s, China stared a new era inside international system. Nixon’s visit resulted in a reinsertion of China with international actors like states and institutions. At the same time, with Mao’s death domestic policy began a reorder. One of the consequences was the empowerment of a new leader, Deng Xiaoping. In 1978, China started its economic reforms phase with Deng Xiaoping. Before this time, whole economy was led by government. In other words, Chinese Communist Party built a social, political and economic

structure as unique ruler, this was justified by a collective ideal. So, there was not private property in China. The economic activity was divided in 77.6% state-owned property and 22.4% collective property (Zhou, 2013). This opening process was founded in Deng's idea "not only should we push up the economy, we should also create a good social order and a good social mood". About this, some scholars like Susan Shirk propose the following argument:

Deng explained that one important reason for China's backwardness after the industrial revolution in Western countries was its closed-door, and that opening the door would enable China to make use of capital from foreign countries and of their advanced technology and experience in business management (Shirk, 2007, p. 19).

During the last years, China has increased its presence around world. The evolution of the Chinese opening and the beginning of 21th Century implied some kind of questions and changes about the Chinese role inside international system. The study of this allowed the development of "China's peaceful rise" speech, but at the same time appeared the idea of Chinese "neo-colonialism" in Africa. About this, Debora Brautigam says:

China resembles Japan's outward march more than it resembles the experience of the other OECD countries. Chinese banks have developed instruments that they believe can link Africa's riches—its natural resources (agricultural and mineral)—to its development. Because they regard these resources as a source of wealth, they do not offer resource-secured loans at concessional rates (Brautigam, 2011, p. 218).

As a result, the Chinese miracle has some consequences about Chinese power around world, mainly in some areas like Southeast Asia, Africa and Latin America. This "miracle" has been named by Susan Shirk as "China's economic whirlpool" (2007). With this concept, Shirk explains how China has attracted investment, technology and influence in international politics. However, this influence has a low profile because inside Chinese foreign policy the government has took sovereignty in a traditional way. So, Beijing use it like shield for critics around internal issues. Subsequently, inside Chinese statement it shows up an economic interest and not about political influence. Also, this "China's economic whirlpool" idea is enforced by Hu Jintao statement during G20 meeting on November 2008, he declared: "A comprehensive reform is one that has a general design and includes measures to improve not only the international financial system, monetary system and financial institutions, but also international financial rules and procedures"(Jin, 2011, p. 150)

Since the second part of last century, China has based its strategy on Mao's "Three Worlds thesis". In which, this country has played and improved a role like a "third world's leader". In addition, China's ideal about peaceful coexistence has been used to increase the Chinese scope through cooperation.

Chinese entrance to Asia-Pacific Economic Cooperation (APEC) helped to improve the economic activities with Latin America. Definitely, this relation between China and Latin America was rethought in 2003 when trading got 26.86 million dollars. With this change, in 2004 it came a new rapprochement with Hu Jintao's visit to Brazil, Chile, Argentina and Cuba. At the same time, this visit had other consequences like negotiations with Venezuela. The final result of this, it was 39 signed agreements about cooperation, trade, investment, tourism and education.

Inside this relation, it is clear that there are some geo-economic interests in region. For example, primary resources like oil, soy, sugar, copper, iron and others. This condition has provoked an advance for China as second trading partner of the region. Simultaneously, this divided Latin America in two zones: Mexico and Central America having a close relation with United States based on manufactures and South America closer to China by primary resources (ECLAC, 2011). In other hand, China has penetrated the Latin American region with its manufactures and investment. In addition, China got some Free Trade Agreements with Peru and Costa Rica. As it seems, all this is related with an economic agenda, but at the same time, it is part of geopolitics.

Some of these geopolitical strategies are supported by the following factors:

1. Inside International Relations some authors talk about the decreasing power of United States. So, Latin America and United States are in the same continent. The implications of this have been referred with a new model in region. In few words, Washington Consensus vs. Beijing Consensus.
2. Latin American region is led by two economies, Brazil and Mexico, and each one is closer to one of these countries. In the Brazilian case with China, and Mexico with United States. In the first one, in world politics the rapprochement of these countries was reinforced by the BRICS' and the role that these economies played during 2008 crisis. And in the other one, first these countries are neighbors and Mexico is part of the security zone of USA. For example, the Merida Initiative.
3. In the region there are countries in Central America and the Caribbean that maintain relations with Taiwan. Right now, in 2016, with the arriving of President Tsai Ing-wen probably China will retake the "checkbook diplomacy" because of the menace that this new Taiwanese leader implies for domestic and foreign policy.

About these factors, Evan Ellis concludes that:

The growing Chinese presence in Latin America implies that the Western Hemisphere cannot be considered a U.S. sanctuary in a future conflict with the PRC (People's Republic of China), and that the United States will be forced to devote significant resources to protecting its operations there, as well as in the Asian theater of operations (Ellis, 2011).

With this first part, it is visible the Chinese advance in region and the economic and political situations that are related with this international actor. In fact, this context brought the argument of the hypothesis of this paper. It is that it is a new structure in Latin America related with the Chinese presence, this presence is based on economy and security factors that increase the Chinese power.

What is Economic Balancing in International Relations?

For this paper, it is propose like theoretical framework two approaches: mercantile realism and economic balancing. Both are part of theoretical propositions inside International Relations and they are some reinterpretations of traditional theories of this discipline.

The first approach is a proposition of two American scholars: Richard E. Samuels y Eric Heginbotham. They retook the original idea of mercantilism to insert it on the latest part of 20th century. The mercantile realism appeared in 1998 when these authors published on magazine *International Security* a paper named “Mercantile Realism and Japanese Foreign Policy”. As it is visible, this work was focused on Japan, but the main question of this article was to identify the particular and exceptional situation of Japan during the postwar. Inside it, security is the variable to analyze in this case.

Mercantile realism “recognizes technoeconomic security interest- including, but not limited to, those associated with military security- as central considerations of state policy” (Heginbotham & Samuels, 1998, p. 171). This is the first statement inside this approach. First, it is important to recognize that context of this one. For example, it took place during the post- Cold War “new world order” and after the Japanese rising as an economic leader in region and as a leader of this “new world order”. At the same time, it is important to recall that Japan has had a special status about security because of article 9° on its constitution, leaving security responsibilities to United States.

One of the main arguments inside mercantile realism proposes that:

Economic and military security imperatives of state behavior should be reintegrated in a more comprehensive realist theory that captures the complexity of how various economic and military interests are balanced in the short and long term to maintain or advance position of the state in the international system (Heginbotham et al., 1998, p. 172).

In this idea it is clear the importance that authors find on economic and military interests to empower a state and create a balance in international system. Besides, recovering some ideas of the introduction it is evident that Chinese presence in world system and Latin America- as case of study requires this type of balance between both interests. Over Heginbotham and Samuels’ paper they explain that this kind of balance related with technoeconomic states maintain a peace inside international relations.

The structure of this approach it is determinate by 5 elements:

1. Security menaces are based on military and economic reasons.
2. Technoeconomic powers generate balance with other technoeconomic states.
3. When concessions are necessary the technoeconomic interests could be obtain over political- military interests.
4. It is more important companies' nationality than production location.
5. In mercantile realism, dependence and deindustrialization is like military conquest.

The second approach is proposed by R.K. Pruthi, who made a reinterpretation of R. Samuels y E. Heginbotham. His statement is founded in geo-economics and proposed the term of “economic balancing”. The first argument is that “powerful states will engage in economic balancing and that geoeconomic interests may be pursued at the expense of traditional political and security interest” (Pruthi, p. 247).

On Pruthi's model, he identifies some types of behavior associate with a geoeconomic model on international order:

1. Competition is vital to national security and it is linked with the advance of their firms: research and development, export promotion, industrial politics, selective protectionism and others.
2. Interdependence between international actors. This provokes that “the integration of global commercial and financial markets has made economic *blowback* a serious concern to major powers” (p. 252).
3. The changing role of United States to protect its interests.

All these elements will create a dialogue between this empirical case and these approaches. The next part of the paper will review recent historical moments and data to enforce the hypothesis.

Chinese presence in region based on elements of Economic Balancing

By the end of 20th century and the beginning of 21th century, transpacific relations has been intensified because of Asian economic uprising. As consequence, this has been determined the linkage with Latin America. At the same time, this relation is close to Asian leadership. During these last years, the Chinese economic miracle has had its effects in Latin America.

In the case of China- Latin America relation, this began to have a new moment from the 21th century. The change was made present through diplomatic negotiations undertaken by Jiang Zemin, who in 2001 visited Chile, Argentina, Brazil, Cuba, Uruguay and Venezuela, a year later he made a trip to Mexico. This first tour of the century, would be strengthened with the arrival of new President Hu Jintao (Creutzfeldt, 2014).

As it is mentioned before, in 2003 this new era on Sino-Latin American relation started when trading between regions got a considerable amount. This event produced Hu Jintao's state visit across the region in 2004. In that trip president Hu visited the closest countries to China in economic or historical agenda. In addition, this historical state visit opened the door to get some agreements with different countries. The result was 39 cooperation agreements on strategic areas to build a new kind of relation (León de la Rosa, 2014).

This strategy around cooperation has allowed the arriving of Chinese investment in Africa, Asia and Latin America. This investment is focus on infrastructure development by a cooperation schema. Also, the decreasing of American power in region provoked by the arriving of anti-neoliberal presidents in region at early 21th century and the increasing of Chinese economic presence generated the Beijing Consensus idea. The term Beijing Consensus appears in 2004, following the publication of Professor Joshua Cooper Ramo. On this article, he defined it as an approach that moves over the Washington Consensus. The main argument is the use of economics and governance to improve society with a main goal of economic development. However, it contains many ideas that are not economic. That is, this term is related with politics, quality of life and the global balance of power (Cooper Ramo, 2004, p. 5).

This situation allowed Beijing displace the European Union as second largest trading partner. Today, they are the United States and China who are listed as major trading partners in Latin America. Therefore, these conditions have impacted how Latin America is commercially linked to the rest of the world.

This emphasize the dependence and subordination that presents the Latin American region internationally. However, the interference of the global leaders, with their respective models, has allowed further consolidation of those countries that have followed the consensus. More than 10 years of this state visit, China's role in the region has increased to the extent that has shifted to other trading partners in the region. The year 2004 marked the beginning of China to an active profile in the economy of the region. Logically, with Brazil the door to the area, through the link as BRIC 's economies and the role of Brazil in MERCOSUR.

The relation between China and Latin America has been built through economic ties and cooperation. An important way how this relationship has developed over the years step is due to "growing commitment to China with all regions of the world, led by a strategic analysis underlying the Tenth Five-Year Plan (2001-2005), which suggests, among other things, expand its activities in three strategic geographic areas, one of which Latin America" (Creutzfeldt , 2014 , p . 23).

In 2012 Chinese government released China's White Paper policy towards Latin America and the Caribbean, this document emphasizes the Omnidirectional Cooperation, the general objectives of China's policy toward Latin America and the Caribbean are:

- Expand based on respect and mutual trust consensus. Accordance with the Principles of Peaceful Coexistence and the principle of "one China."
- Deepening economic and trade cooperation, promote common development of both sides.
- Strengthen exchanges for mutual learning and common progress.

However, despite the rise of China as a trading partner in the region, in practice it has not been built a homogeneous relationship with all the countries of Latin America and the Caribbean. There are mechanisms for dialogue between China and the region, as is the Forum of the Community of Latin American and Caribbean States- China, which has failed to bring into being a functional policy between the two partners. Nevertheless, China's economic presence in the region has increased, and thus the statements and visits by high-level politicians, denoting interest in the region. Such is the case of the visit of Chinese Premier Le Keqiang, Brazil, Colombia, Chile and Peru from 18 to 26 May 2015 (Xinhua, 2015). On this visit three of the member countries of the Pacific Alliance, and emphasized on increasing cooperation and China's investment in these countries. In all three cases, the importance of infrastructure was highlighted as a vital element in the supply of materials to China. Based on this understanding, China notes with interest the processes taking place within Latin America. Therefore, China requested to be part of the Pacific Alliance, as an observer, in early 2014. From this, the Pacific Alliance has paid special attention to the way how it links with the world's second largest economy.

Although the degree of dynamism is not the same in all four countries, the visit of Li Keqiang shows a will, and even a possible tendency to use the Pacific Alliance as a platform for increasing trade between China and Latin America. After this visit and the set of statements made by Chinese Prime Minister, the role of Latin American region is reaffirmed as a supplier of natural resources and basic manufactures. Therefore, it is at this point where the interdependence between the two focuses on: Latin America is part of the supply chain from China, which in turn allows China to permeate the region by importing of goods, placement of products and services, and direct investment.

Another important aspect of China's presence on the region is the opportunity of loans from the crisis of 2008. During the seminar the Department of Economic and Social Affairs of the UN, Professor Kevin P. Gallagher said:

"Before 2005 there was no Chinese bank to grant loans to Latin American countries. From 2005 to 2011, the China Development Bank (CDB), the Export-Import Bank of China (EIBC) and some others gave about 75 billion to Latin America. And in 2010, the Chinese granted loans by 37 billion dollars in the region, an amount that exceeds the combined amount of the Inter-American Development Bank (IDB) and the World Bank (WB) for the year" (Gallagher, 2012).

In 2013 Latin America represented more than 50% of loans issued from China; generating speculation that through this means, China has consolidated a method to subdue the region in favor of their interests (León de la Rosa, 2014). Right now, it is reaffirming the Chinese lending supremacy over traditional international lending organizations in Latin America. At the beginning of 2015, Kevin P. Gallagher announced the increase in the numbers of loans in the region in 2014. This year, Chinese banks covered 71% of loans (22 billion dollars) in Latin America. About this percentage, Brazil received 8 billion dollars (BBC News, 2015). In addition, during this year gave 14 loans of 29.1 billion dollars. At this time, Brazil repeated as major beneficiary of these loans with 10.7 billion dollars. The other countries were Venezuela with 10 billion dollars and Ecuador with 7 billion dollars. As a result of all these loans are divided in 4 main sectors: energy (70.2B), infrastructure (40.3B), other (12.4B) and mining (1.7B) (Gallagher & Myers, 2016).

In other hand, there is the Chinese investment in world. According to the American Enterprise Institute and the Heritage Foundation (2016), there are “approximately 1,750 large transactions across energy, real estate, high-tech, and other industries”. The case of Latin America and the Caribbean refers to 136,130 billion dollars from 2005 to 2015. The only countries in region that do not are receptors are: Paraguay, Belize, El Salvador, Dominican Republic, Uruguay, Suriname and French Guiana. The main receiver of this investment is Brazil with 39.1B during these ten years. Also, there are Venezuela (23.01B), Argentina (21.27B) and Peru (18.17B) as receptors (The Heritage Foundation, 2016). This investment is related with sector like: energy, transport, technology and finance.

The economic presence of China has incited a military low profile in region. In our opinion, this action is an example of smart power that could enforce the Chinese leadership in Latin America. In other hand, the pragmatic power of United States has deteriorated its regional performance, creating an opportunity for China. However, this peaceful rise has been questioned by United States because at the same time China has advanced in military cooperation. As R. Evan Ellis (2011, p. 5) says, we can infer this kind of cooperation as:

1. Building good will, understanding, and political leverage,
2. Creating the tools to protect PRC interests in-country,
3. Selling Chinese products and moving up the value-added chain,
4. Positioning the PRC strategically in the region, and
5. Reassuring the United States.

In addition, Ellis (2011, p. 10) classify five types of Chinese military activities in region: (1) meetings between senior military officials, (2) lower-level military-to-military interactions, (3) military sales, (4) military-relevant commercial interactions, and (5) Chinese physical presence within Latin America with military-strategic implications. The Chinese military presence is a silent movement inside the region, because most of the time economic agenda is more visible than military topics. For

that reason, it is important do not leave this style of relation with Latin America. Some examples of these military ties are cooperation and actions with Brazil like enforced peace keeping missions, space industry with China-Brazil Earth Research Satellite (CBERS) and manufacturing the helicopter Ecureil 2. In other hand, there are examples of basic military cooperation like Mexican students have gone to China's Defense Studies Institute, the Army Command College, the Navy Command School, and the Naval Research Institute and buying of conventional military weapons.

The combination of gradual progress of China into the international economy and decreasing economic power of the United States has allowed a rapprochement between China and rest of world. Right now, China has a huge purchasing power that is materialized through cooperation and economic movements. This has allowed China to penetrate countries beyond hierarchies. Because of this, Chinese presence in Latin America is a fact.

During this rebalance process, there is an important event inside USA based on a change of agenda. At the beginning of 21st Century, security became into the most important statement around American policy. The securitization of the agenda and the loss of economic leadership led to the withdrawal of the United States in Latin America. So, all these elements around economics and security will determine the dialogue between them and Economic balancing term.

Conclusions

In this last part of the essay, it will retake the five basic point of Heginbotham and Samuels' approach and the geo-economic Pruthi's model. First, it is important to determine if China is a technoeconomic power. As it is explained in the second part of this paper, Shirk's "China's economic whirlpool" term is the key to establish that China is a technoeconomic power. During the first years of opening, China suffered a transformation receiving investment from Western countries. This actions had an impact in the creation of R&D center in country, "western venture capitalists are investing in Chinses biotech and telecom start-ups" (Shirk, 2007, p. 17). Also this idea is enforced with gross domestic spending on R&D, China is on the top ten of these countries. According to the latest data, there is an increasing trend in China spending from 0.885% in 2000 to 2.04% in 2014 (OCDE, 2016).

Second, this essay will analyze each element of realism mercantile approach:

1. Security menaces are based on military and economic reasons: in the Chinese case, it is clear the role that each one has in Chinese foreign policy. Right now, Chinese security is based on the sustainability of the Chinese economy and the political structure. In a domestic perspective, Chinese Communist Party (CCP) legitimacy is founded in the "Chinese dream" slogan to show their population the stability and capability that CCP has to maintain a welfare state no matter the style of government. At the same time, this idea is spreading to regions like Asia, Africa and Latin America as an example of economic miracle. Nevertheless, Chinese military security is related with territorial disputes inside Asia Pacific. In addition, it

- is important to mention that China has the second more important army in world. Also, China is trying to improve it forces installing its first ever overseas military base in Djibouti.
2. Technoeconomic powers generate balance with other technoeconomic states: Inside Chinese foreign policy there are two main actors in agenda, those are United States and Japan. Both are technoeconomic powers, in the Japanese case it is in Asia Pacific region, and United States has this power inside international system. For that reason, on international policy when there are confrontations in between them it results in an affection to the whole system. The rest of countries we can divide it in two types: in one hand, regional powers as the rest of BRIC's, Europe and middle powers like MIKTA, and in other hand, the rest of countries that only offers resources and are part of the Chinese supply chain. In the Latin American, the balance is not with the countries of the region, it is with United States. For that reason, in this essay it is rescue the "consensus" idea, Washington vs. Beijing.
 3. When concessions are necessary the technoeconomic interests could be obtain over political-military interests: The new Sino-Latin America relation has been built through cooperation in infrastructure, investment and loans. As it is mentioned, Chinese economic ties are more visible than security cooperation. In addition, the consensus war idea in Latin America has been possible with the economic agenda supremacy over military interests. But it is important to settle that maybe this economic ties could result in political-security interests, for example the military base in Djibouti.
 4. It is more important companies' nationality than production location: The combination between cooperation and trading has created the opportunity to spread Chinese capital to whole world. During 21th century, regions like Sub-Saharan Africa (220B), West Asia (181.27B), East Asia (165.38B) and Latin America are those that have received more of this investment. Chinese companies have presence in the main sectors of world economy, for example inside last Fortune Global 500 edition two Chinese SOE's are in the top 10. These companies are Sinopec Group in 2nd place and China National Petroleum (CNPC) in 4th place. In 2015, China had one hundred companies in this list. In Latin America, there are 39 companies investing in region since 2000. Some of these companies are: CNPC, Harbin Electric, ICBC, JAC motors, Lenovo, Sinopec, State Grid, Three Gorges, Xinwei, ZTE, etc. At the same time, CDB and EIBC are the major beneficiaries with loans in region.
 5. In mercantile realism, dependence and deindustrialization is like military conquest. In this element of mercantile realism, China has got these two factors with trading and topics around it. For example, a new way of this Chinese geo-economic map in world is the One Belt, One Road (OBOR) initiative that recreates the old Silk Road. Creating this infrastructure across world, China will have presence in Africa, Asia and Europe. In Latin America, China has used this infrastructure strategy to maintain its supply chain and get power in the region.

Also, this kind of linkage could bring a new scenario to Central America. Remember that in this region Costa Rica is the only country that recognizes the government of PRC, the rest of the region recognize Taiwan. However, the Chinese presence in Central America has been increased because of trading. It is important to rescue some possibilities with the Chinese investment for Nicaragua Canal. There are a lot of speculations around it, the investment announcement has been done but the construction not. Maybe this canal could bring China a great strategy to rescue the “checklist” diplomacy against Taiwan.

In conclusion, all this data and actions reaffirm that Chinese presence has changed the geo-economic map in Latin America and world. As has been mentioned, the empowerment of China to get this new scenario has been based in two steps: first the economic advanced through Chinese capital (loans and companies), technology and infrastructure, and second, the political advance with a low profile and used it when there is another option. All this result in a low profile confrontation with USA, because of interdependence between them the strategy to stop this advance is creating new rules on trading, for example the Trans Pacific Partnership Agreement as an economic balancing response.

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