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Sino–US Trade War: A Mini Review on Latin American Involvement

Yildiz

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Sino–US Trade War: A Mini Review on Latin American Involvement

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Abstract

This article is written to summarize what has been going on in trade war between the United States and China and to express how this war affects trade relations of Latin America with both of the actors being involved in the trade war. The reason why Latin America is chosen as a region to work on rests on the fact that both the United States and China have been conducting considerable trade relations with the region. This article is organized to analyze what kind of a position Latin America would be at during the upcoming moves from two giants and how the region should revise its ties with both economies considering the past relations it has had with before this trade war emerged. There have been many moves taken by the United States and China after the dispute started to show up; however, Latin America has been conducting considerable relations in terms of trade, politics, historical orientation, and geographical ties with both giants since long before the trade dispute began. Therefore, this article has an aim to recover the historical trade relations of Latin America and to have some clues to determine what can come next for the region's economic position and trade relations. Colonial past of the region, the role it has played during the Cold War, the involvement of the Latin America in trade relations with China, and Chinese presence in the region are the factors that are included in the article to understand the critical position of Latin America in the Sino–US trade war.

Keywords: Latin American trade relations; China; United States; Import and export; Trade deficit.

1. INTRODUCTION

The international trade crisis, called the US–China trade wars, began in 2017 with the US Department of Commerce investigating the imports of steel and aluminum as a national security threat. Based on this report, the first move was made by the Ministry on February 16, when it recommended the addition of 24% for steel imports and 7.7% for aluminum imports. On March 1, 2018, President Trump officially started the trade war with declaration of the 25% additional customs duty on imported steel and 10% additional customs duty on imported aluminum (Lewis, 2018: 3).

The Latin American and Caribbean countries, which cover 8.55% of the world's population and 13% of the world's surface area as South America, Central America, and the Caribbean, cover 8% of the total GDP in the world economy. Latin America and the Caribbean region is a geography composed of "backward" countries considering the per capita income level. The long-term growth of the region tends to slow down. Historically, the most important reason for the income differences between the north and south geographies is the lasting effects of colonialism that shape today (Armendáriz and Larraín, 2017: 31-32).

When the remaining heritage of colonialism is explored and the causes of the region's backwardness are examined, it is understandable that the "development theories" come from the Third World. Marxist thought focuses on the relations of production in the colonial period. It examines the link between the productive forces and the relations of production and explains the location of Latin America and the Caribbean region in the world economy in terms of the peripheralization of capitalism. The production relationship between the central and peripheral countries has developed against the peripheral countries (Kay, 2011: 32).

Valuable trade goods such as sugar, silver, and gold discovered in the region are the main elements of the economic structure. Today, the region has the highest share in the worldwide production of valuable trade goods such as copper, oil, soybeans, coffee, and sugar (FAO, 2018). However, the changes in the prices of these goods cause fluctuations in the region's export-based economy. Labor-intensive production with low technology determines the role of the region in the international division of labor.

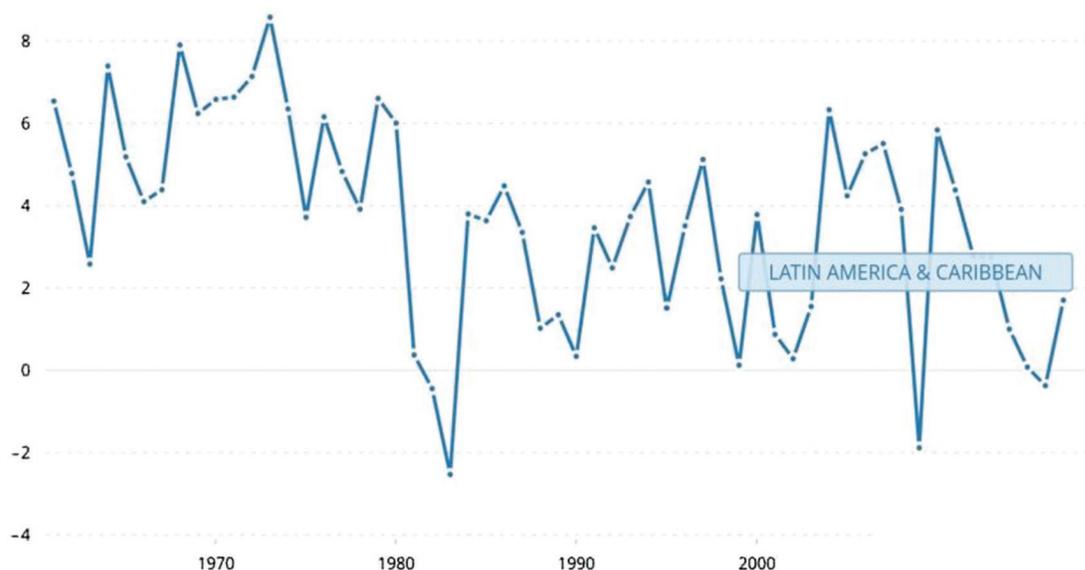
1.1. Historical Trade Relations of the Region

Pre-Columbian natives, African, and European populations interacted with each other to create a socio-economic structure in Latin America and the Caribbean. The position of the colonial power in the world market, the content of valuable trade goods, the process of transition to wage labor order, structure of the national market are the factors that determine the economic structure of the region. However, the social structure and movements of the region should also be considered. After the colonial period, the region continued to face various external pressures, after Christopher Columbus reached the Bahamas in the name of the Kingdom of Spain with three ships and 39 crew members (targeting actually to reach Indian islands) at the end of the fifteenth century. During the twentieth century, the Latin American states, which were under American pressure with the 1823 Monroe Doctrine, had undergone authoritarian rule, US occupation, populist leaders, CIA-backed coups, and major economic crises. In the history of the region, socialist and independence discourses as well as authoritarianism, military coups, and antidemocratic formations took place.

In the first globalization period after 1870, Latin America and the Caribbean grew by making exports of primary products. After the economic crisis of 1929, there was a state-oriented industrialization in the region. The adoption of import substitution industrialization policies has integrated the region with the world economy after World War II. The oil crisis in the early 1970s and the debt crisis in the 1980s were the years of economic losses in the region. The economy was based on the Washington Consensus principles adopted in the 1980s (except Cuba). High inflation rates and financial crises were the main problems of the 1990s for the region. In this period, economies were tried to adapt to market reforms. The recorded economic data were the result of these policies.

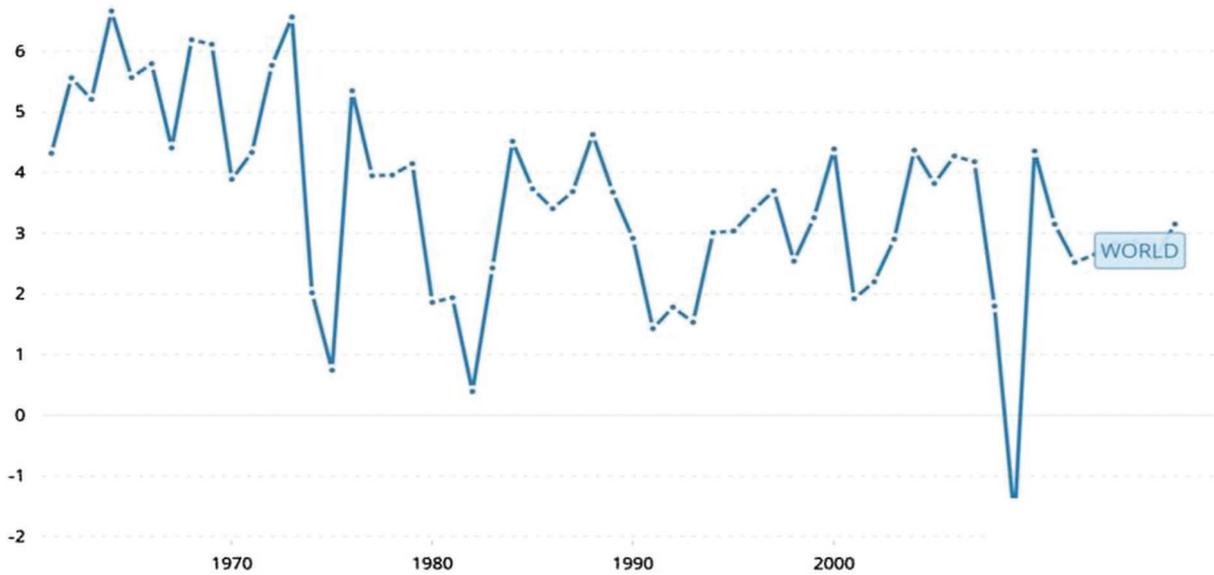
The second half of the 2000s was different. The international increase in the prices of precious trade goods and the mobilization in international trade have created economic effects in Latin America and the Caribbean region. Although the 1950s and 1960s, known as the golden age of capitalism, caused different developments for the region, after 1980 there was a different situation.

Figure 1. (World Bank, 2018a): GDP Growth (Annual%) Latin America & Caribbean.



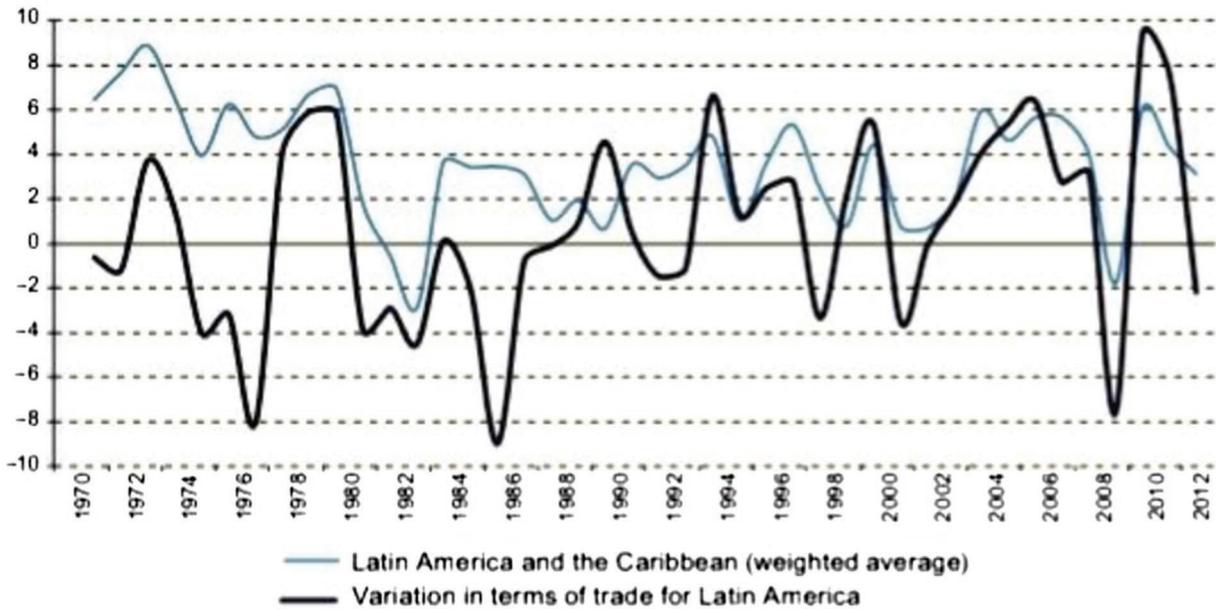
Source: World Bank.

Figure 2. (World Bank, 2018b): GDP Growth (Annual%) World.



Source: World Bank.

Figure 3. (ECLAC, 2013): Latin America and the Caribbean: GDP growth and terms of trade, 1970-2012 (Percentages).



Source: ECLAC (2013).

In the period until the oil crisis, the economies of Latin America and the Caribbean followed the policies of import substitution industrialization. Because of these policies, it was an important period in terms of GDP growth. However, the increase in domestic demand could not be maintained. The need for external financing has increased and the import substitution model has been blocked. With the oil crisis of 1973, the increase in oil prices caused the need for external financing in the region. The external deficits of the Latin American and Caribbean countries have increased and the debt crisis in the region has

reached a serious level when the Federal Reserve increased the interest rates. The share of the manufacturing sector in value added decreased after the 1980s, which led to a decrease in the growth of the region.

When we look at the growth rates between 1980 and 2010, we see that Latin America and the Caribbean regions are growing less than the United States and Asian countries (ECLAC, 2013: 73). Standstill industrialization, high inflation, inequality, and balance of payments deficits have been used to explain this situation. Economic structure based on valuable trade goods is also important in explaining the economic situation of the region. Such a structure is subject to fluctuations due to the increase and decrease in the value of the goods. As the export structure of the region is concentrated in the primary products, the determinants of export goods are important in its integration with the world economy.

In the post-1980 period, trade liberalization policies were followed in the region. In the period 1985-1995, tariffs were reduced from 29 to 11% (Tussie, 2011: 321). Trade liberalization policies in the region did not increase export volume. It has increased outward opening rate. Export-based growth policy did not contribute significantly to the growth rate. After 1870, the export structure of the region developed on the basis of raw materials and food products. It can be said that this structure still continues.

In the 2000s, the importance given to intra-regional trade increased in Central America. The trade of traditional agricultural products was more decisive. Commodity products have gained importance in South America and tourism, and service sectors have gained importance in certain Latin American and Caribbean countries (ECLAC, 2017a, pp. 18-19). The market distribution of regional trade shifted to Asian countries after 1990. Trade relations between Latin America and Caribbean countries and Asia have increased. The US market continues to be important for Mexico and Central America, but China's share in regional foreign trade is increasing. It is clear that China has increased its importance in the export of South American countries.

2. CURRENT TRADE RELATIONS OF LATIN AMERICA WITH THE UNITED STATES AND CHINA

"China was the second biggest provider of global FDI, after the United States, as its foreign investments increased steadily, particularly acquisitions in the European Union and the United States. China's 'Go Global' strategy, launched more than a decade ago, has consolidated its role as a global player that is integrating into the workings of increasingly sophisticated sectors, by actively engaging with new technological trends of the fourth industrial revolution." (ECLAC, 2017b, p. 11).

Figure 4. (World Integrated Trade Solution, updated in 2019a): Latin America & Caribbean Product exports and imports By Country and Region 1990.

United States	27,838,996...	25,896,593...
Japan	5,179,777....	3,671,499....
Netherlands	3,250,757....	583,790.05
Germany	3,110,069....	4,063,524....
Spain	2,431,210....	909,120.80

First column shows the total export value in thousands of US dollars current value, while the second column is for the total import value in thousands of US dollars current value.

Source: The World Integrated Trade Solution (WITS).

Figure 5. (World Integrated Trade Solution, updated in 2019b): Latin America & Caribbean Product exports and imports By Country and Region 2000.

United States	203,220,70...	175,710,02...
Brazil	12,491,790...	13,518,432...
Argentina	8,223,706....	12,556,240...
Japan	7,642,968....	14,416,711...
Germany	6,705,237....	14,165,724...

First column shows the total export value in thousands of US dollars current value, while the second column is for the total import value in thousands of US dollars current value.

Source: The World Integrated Trade Solution (WITS).

Figure 6. (World Integrated Trade Solution, updated in 2019c): Latin America & Caribbean Product exports and imports By Country and Region 2010.

United States	322,820,22...	259,449,08...
China	67,809,523...	120,337,55...
Unspecified	61,885,780...	6,223,992....
Brazil	31,305,425...	43,641,467...
Argentina	23,547,493...	28,332,995...

First column shows the total export value in thousands of US dollars current value, while the second column is for the total import value in thousands of US dollars current value.

Source: The World Integrated Trade Solution (WITS).

Figure 7. (World Integrated Trade Solution, updated in 2019d): Latin America & Caribbean Product exports and imports By Country and Region 2017.

United States	407,525,75...	288,677,41...
China	94,178,480...	165,368,55...
Brazil	25,070,044...	41,930,124...
Argentina	23,602,694...	19,157,351...
Canada	20,317,005...	15,436,845...

First column shows the total export value in thousands of US dollars current value, while the second column is for the total import value in thousands of US dollars current value.

Source: The World Integrated Trade Solution (WITS).

According to 2017 data, Latin America has exported \$116 billion surplus (ECLAC, 2018). The vast majority of these exports are Mexico's exports to the United States. Mexico has \$71 billion surplus in its trade with the United States (USTR, 2018). However, the importance of China for Latin America cannot be underestimated. China is the largest commercial market for Brazil, Chile, and Peru, and the second largest export market for Argentina, Costa Rica, and Cuba (Koleski and Blivas, 2018: 3). Latin America is a very suitable region to provide the raw material used by China in its industry. China is a very important market for Latin America, considering China's need for food such as soybean and the need for metals such as copper from Latin American countries. China's raw material demand leads to an increase in trade volume. About 74% of the Latin American and Caribbean exports to the Chinese market are primary products. This shows the great level of China's need for raw materials.

According to the dependency theory, the increase in foreign direct investment (FDI)¹ creates a dependent development because the investor's profit is higher than the cost of the investment. Central countries profit from the peripheral countries. Financial liberalization, privatization, and deregulatory policies led to an increase in FDI in the 1990s. However, the region is still the region that attracts the least FDI after Africa (UNCTAD, 2018). America's investments in Mexico and Central America increased after World War II. It is still the main investor in this region.

"According to official statistics, China, which has ramped up its FDI outflows significantly, accounted for just 1.1% of inflows to the region. This figure underestimates the amount of Chinese capital in the countries of Latin America and the Caribbean; in fact, when the value of mergers and acquisitions in 2016 is taken into account, China was the fourth largest investor in the region, after the United States, the European Union and Canada. Given the major operations that China has undertaken in the first half of 2017, its share is expected to increase next year." (ECLAC, 2017: 13)

The US presence in the region can be read through dependency. Even Latin American countries with strong economies such as Brazil and Mexico are dependent on the US market. Political, economic, and social crises in the region brought instability. The region is rich in raw material resources. Venezuela has significant oil and gas reserves, whereas Brazil is at the forefront of soybean production and freshwater reserves. Mexico, Bolivia, Argentina, Peru, and Chile are important for the natural resources demanded by China, the United States, and the European Union.

Figure 8. (World Integrated Trade Solution, updated in 2019e): Latin America & Caribbean Raw materials exports and imports By Country 2017.

China	69,851,529...	1,105,196....
United States	51,544,163...	21,447,608...
Japan	14,180,251...	40,412.55
Spain	10,423,170...	364,085.00
Korea, Rep.	10,002,313...	56,639.18

First column shows the total export value in thousands of US dollars current value, while the second column is for the total import value in thousands of US dollars current value.

Source: The World Integrated Trade Solution (WITS).

¹ FDIs, also known as overseas aid, can be understood by international development, globalization, and imperialism. For this reason, it is a fact that economic development and the overseas development assistance initiative depend on the implementation of reforms designed to serve the benefit of the so-called aiders rather than those receiving the aid.

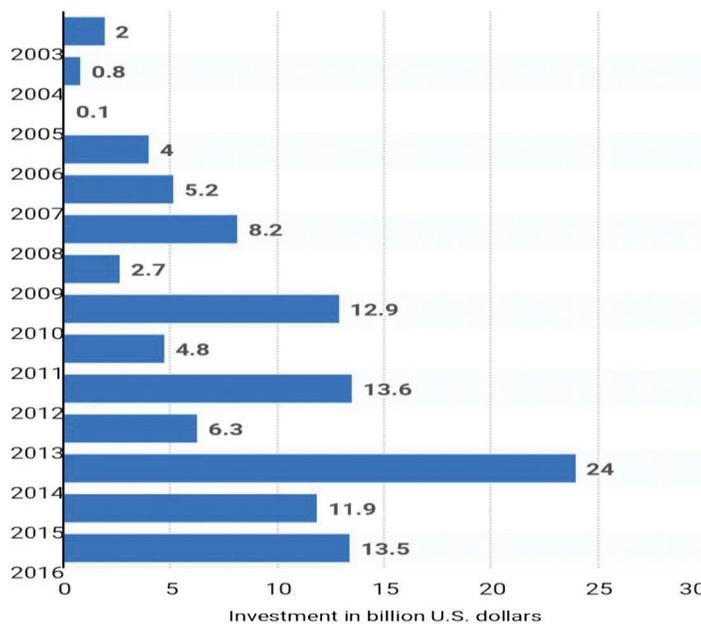
China’s active global stance can also be observed by the increase in its presence in Latin America. This noticeable increase in the current relations of China and Latin America was not the case in the past. Latin America and the Caribbean region, which became a US addict with the 1823 Monroe Doctrine, prevented China from establishing its presence in the region. In the aftermath of the Cold War, China began to make the Chinese presence more important with its efficiency in areas such as technology transfer, investment, infrastructure assistance, and trade. Its soft power policies have been widely felt. Latin America and China developed different ties in the history of bilateral relations in which the Cold War could be taken as a milestone.

China was founded in 1949 under the name of People’s Republic of China and was isolated by the West. The pro-American anticommunist tendencies of most Latin American countries until the 1970s prevented China from establishing good relations in this region. Thanks to the Monroe Doctrine of 1823, the United States, which was critical in the region, wanted to destroy the communist tendencies in the region by taking steps such as the 1947 Truman Doctrine and 1950 Treaty of Rio and used the region as a backyard during the Cold War (Livingstone, 2009: 19-20). Political support came from China to Fidel Castro’s 1959 Cuban victory. Thereupon Cuba recognized the new Chinese State. Thus, China was able to establish diplomatic relations with one of the countries of the region for the first time. Zhou Enlai, the Chinese prime minister of the time, stated that they were ready to provide all kinds of assistance to Cuba in this struggle (Foran, 2009: 26).

Looking at the other Latin American countries, it is seen that they prefer to know Taiwan in the Taiwan issue, which is the most sensitive point of China. The separation of China with the USSR, the Cultural Revolution, and the policies pursued by the United States formed the dynamics of bilateral relations. China experienced rapid economic growth in the 1980s thanks to Deng Xiaoping’s policies to improve the economy and increase productivity. This period was recorded as a stable period for Latin America.

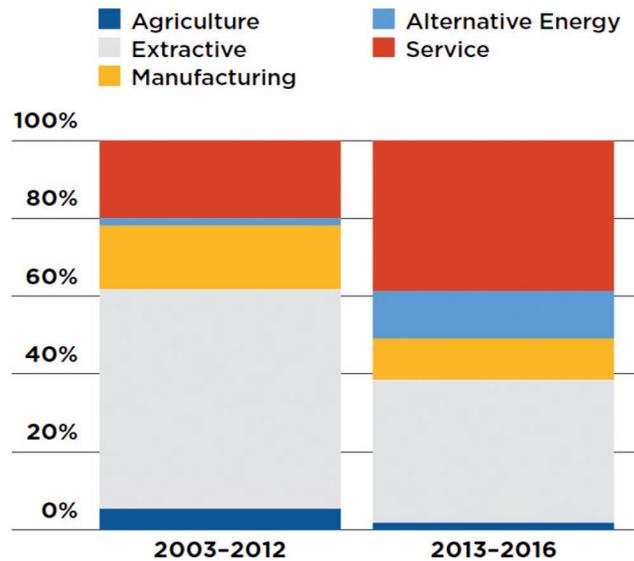
The US and EU countries imposed sanctions on China on the claim that the way to combat Tiananmen Square incidents was against human rights. Taiwan pursued a policy of joining the UN. To counter the influence of this incident, Chinese President Yang Shangkun visited Uruguay, Brazil, Chile, Mexico, and Argentina (Archive, 1990). Latin America is important for China in terms of natural resources and market.

Figure 9. (Statista, 2019): Foreign direct investment (FDI) from China in Latin America from 2003 to 2016 (in billion U.S. dollars).



Source: Statista, Chinese FDI in Latin America 2003-2016.

**Figure 10. (Avendano, Melguizo, & Miner, 2017):
Sectoral Distribution Of Foreign Direct Investment From
China In Latin America.**



Source: Atlantic Council Publications.

The post-Cold War relations between China and Latin America have shown a different development. The Chinese foreign policy, which adopted the Beijing Accord,² has made China an attractive economic partner. China became a member of WTO in 2001. By adopting the policy of opening up to the outside, it prepared the ground for developing good relations with Latin America. The US foreign policy, focusing on the Middle East after the September 11 attacks, has enabled China to consolidate its position as an actor in Latin America. The war in Iraq during the Bush administration and the announcement of the US struggle against global terrorism made the US role in the region passive. During Obama's Asian pivot strategy, China has also been active in Latin America. The fact that China does not try to change the way of life in the region, and that it does not impose social regulation with strict laws such as the United States and EU countries are the factors that support China's activity in Latin America. China, which opened Confucius Institutes in the region to increase its cultural influence, thinks it will increase its influence by using soft power. Donald Trump's rhetoric in the election campaign has been worrying for Latin America, which has made China's position in the region more strategic.

Brazil has a very high share in coffee sugar production; Argentina, Ecuador, Venezuela, and Brazil in oil reserves; Chile, Brazil, and Peru in the mining industry; Argentine in soybean and vegetable oil production; and Chile in copper mine reserve, which makes the region very attractive. At this point, the increasing trade deficit between China and Latin America poses a problem.

Latin American exports, which operate on the basis of primary product exports, hinder the industrialization activities of Latin America as China meets high-tech product exports to the region. China's infrastructure investments in Latin America have increased the importance of China as a strategic partner in the region instead of the United States. The main reason why infrastructure investments are so important for China is the need to build roads, bridges, and ports to transport raw materials. According to ILO 2017 report, business opportunities were created for Latin Americans by Chinese infrastructure projects in Latin America (ILO, 2017).

China cooperates with countries that traditionally oppose to intervene in national affairs and in sovereignty. The United States, on the other hand, turned to stable and secure countries to deepen international liberalism and capitalism. China plans to create its own sphere of influence in the region and to increase

² Privatization, deregulation, globalization, commercial liberalization, and noninterventionist principles are contained.

both its hard and soft power through soft power (Liu & Tsai, 2014, p. 30). This will weaken the US power in the region.

Trump-led US policies such as building a barrier on the US–Mexico border, charging tariffs on Mexican goods, revising the NAFTA, and annulling the normalization process with Cuba have created concerns and tensions in the region. China, who wanted to fill this gap, had a positive impact on its perception in the region. The United States is still an important power and economic partner in the region, but China's perception and trust have led China to increase its presence in the region. Projects such as One Belt One Road,³ CELAC, investments, and grants that do not involve the intervention of internal affairs have improved Chinese–Latin American relations.

3. CONCLUSION

"Tesla plunged as much as 6.3% to \$224.50, the lowest intraday since January 2017, after China defied U.S. President Donald Trump by announcing plans to raise duties on \$60 billion worth of American imports starting June 1" (Dey, 2019)

At this point, it may be possible to make an analysis of the Sino–US trade war over Latin America. As it is known, world giant brands such as Tesla use Chinese technical infrastructure and technological assistance. Even if the technological infrastructure and intellectual property rights are in the United States, Tesla uses its computer systems from China. It is also clear that these brands will suffer great damage because of new additional customs duties. Because of the ongoing trade war between China and the United States, Tesla is having crucial problems in terms of its production capacity. Indeed, Tesla has repeatedly submitted proposals to the government for reconciliation and protection. However, the US government does not accept this. It is stated by the Trump government that the systems produced in China puts strategic importance on their Made in China 2025 project; therefore, it is perceived as a challenge to the national interest of the United States. As is known, Made in China 2025 is a project adapted by China to make its influence superior over 10 key industries that the United States is having the superior position on dominating. The US government would suggest Tesla to meet its needs on computer systems working with a firm conducting in the United States; however, it is not so easy to develop a similar technical ground on the computer systems that would affect the safety level of the cars. Therefore, Tesla decided to take Chinese expertise on full self-driving cars upcoming in near future. Here, the US government is experiencing a contradiction. During the election campaign, Trump often said that immigrants stole Americans' jobs, and that US firms producing in China should hire American people in American soil from then on. At the same time, however, the US government is putting a commercial challenge on a world brand, such as Tesla, which provides jobs to the American people and most of its buyers are American or Canadian. Apple and Amazon achieved to have exemption position from the tariffs but they have still very strong tie with China on computer systems they use like Tesla does. The Trump administration has pushed for the withdrawal of Google and the Android system from Huawei, and Huawei's market power, which surpasses Apple, has been tried to be stopped. President Trump's pressure on Britain to prevent Huawei from building its technological infrastructure during his visit to the United Kingdom also shows the frontline of this war.

"...According to Stiglitz, globalization has not lived up to its promises. It has not improved lives of the poor. Richer countries demand poor ones to open their market and this caused asymmetric weaves which led poorer countries to be worse off. Globalization did not provide benefit for everyone all over the world. International organizations dealing with fiscal and monetary issues such as IMF and World Bank believed that integration of economies could bring stabilization into world economy. However, they were wrong because economy has been experiencing enormous instability as consequence of economic integration. When it comes to China and India, the case occurred just the opposite. China and India learned how to get advantage of globalization, they

³ In 2013, the discourse of the project has become widespread, and Latin America is very much requested by China. This project is expected to contribute positively to the regional economy.

were very careful and they could manage to benefit of globalization without paying cost of it. China opened itself to FDI but they were so picky. They knew the disadvantage of short term money flows and they did not open themselves to financial transactions and remained selective. Thus, they did not forget development and could manage growth. However, US represents the failure of globalization because poverty has remained at a high level and growth rate was disappointing. Minimalization of government role in economy and privatizations, they all led US to fail." (Ökten, 2019: 116)

What is the position of Latin America in this war? If we go step by step, it is necessary to discuss how the United States might obtain the opportunity from the negative consequences of not granting privileges to the multinational companies producing in China. The course of the trade war is increasingly directed at the United States trying to achieve unity within the continent rather than isolating itself.⁴ In fact, the renewed NAFTA Treaty and the decisions of the trade relations of Latin American countries to stretch in the commercial dimension confirm this. In this case, is it possible to say that these giant brands producing in China are encouraged to shift their production capacity to the Latin American region that is more advantageous in terms of logistics and trade? Do we witness that the US government's preelection stance on Latin America has been transformed into a different rhetoric since the start of the trade war and that the "backyard" themed Latin American profile of the Cold War era has been rebuilt? I have mentioned that the trade relationship China has developed with Latin America has developed an uneven dependence on export products. Can this be read as a precaution China has taken in the face of this new production relationship that the United States is trying to create? It is difficult to predict what time will show, because every day different actors and new moves are on the stage, but it is quite possible that the United States and China will show power over Latin America in this trade war. However, Latin America should not choose a side between these two giants clashing with each other and follow the course of the game and overcome the situation with the least damage to its economy with appropriate and short-term moves and minimize unbalanced dependent relations.

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Conflict of Interest

None.

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⁴The US–Mexico–Canada tripartite agreement was completed, and positive commercial moves were made for the soybean trade. Mexico is the second largest export market in America's soybean and meal sector. The tension in relations with China for the United States, which has a large production in the soybean, has necessitated the revision of the NAFTA agreement, and it was aimed to find a solution for the market for the soybean (ASA, 2018).

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