Chinese Engagement in South America and Africa:  
A Comparative Analysis

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A Thesis submitted to 
The Faculty of  
The Elliott School of International Affairs 
of The George Washington University 
in partial fulfillment of the requirements 
for the degree of Master of Arts

August 31, 2016

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To my mother
Abstract of Thesis

**Chinese Engagement in South America and Africa: A Comparative Analysis**

This thesis will provide a comparative analysis of Chinese engagement with Sub Saharan Africa (SSA) and South America (SAm) under Beijing’s Go Out policy, launched in the early 2000s. The objectives of this foreign economic policy strategy include securing the commodities the Chinese economy needs to keep growing, find new markets for Chinese manufactures, and facilitate the internationalization of Chinese corporations to strengthen “national champions” and make them globally competitive. But the final goal of this policy is political: China wants to boost its international presence to match its status as a rising global power. As developing regions and major producers of raw materials and rising consumer markets, SSA and SAm were the perfect partners for this new stage in China’s development.

While some present the Go Out policy as a strategy for geopolitical domination of SSA and SAm, this thesis will argue that Chinese engagement is complex, and adapts to local contexts in South America and Africa. Countries in SSA and SAm have different types of relationships with China, have been able to influence the terms of their asymmetric interdependence.

This thesis will be divided in three parts: The first will be an analysis of China’s development experience, since the Go Out is only one phase of the process of domestic economic reforms launched by Deng Xiaoping in the late 1970s, based on state control, openness to foreign trade and investment, and careful experimentation. Secondly, this thesis will analyze and compare China’s engagement in SSA and SAm in terms of trade, investment, finance and diplomatic cooperation, as well as study the way in which China
has adapted its policies to address concerns from recipient countries. My research will show that China’s economic influence is growing, but is much less dominant than what some reports might suggest.

Finally, I will conduct an in-depth analysis of China’s engagement through six case studies. To better understand how China’s interests interact with those in countries in SSA and SAm I will organize this cases in a typology of three relationships China has established with countries in both regions: global partners (Brazil and South Africa) are key players in China’s efforts to gain influence in international governance, as well as diversified and industry-heavy economies; extractive relationships (Peru and Angola) are based on China’s interest in natural resources, but have also forced Chinese actors to adapt to local demands; finally, exclusive relationships (Venezuela and Zimbabwe) are countries that have become isolated from the west, increasing opportunities for China to secure long-term access to natural resources.
# Table of Contents

Dedication ........................................................................................................................................... iii

Abstract of Thesis ................................................................................................................................. iv

List of Figures ......................................................................................................................................... viii

List of Tables ........................................................................................................................................ ix

CHAPTER 1: INTRODUCTION ............................................................................................................ 1

A balanced analysis of Chinese engagement ...................................................................................... 3

Methodology and theoretical background .......................................................................................... 8

Structure of this thesis ........................................................................................................................ 10

Sub-Saharan Africa and South America: An outlook ......................................................................... 12

Pre-2000s relations with China .......................................................................................................... 18

CHAPTER 2: CHINA’S DEVELOPMENTAL EXPERIENCE ............................................................. 23

An Asian developmental state made *in* and *for* China .................................................................. 23

Going out: A state-coordinated strategy of economic internationalization .................................... 30

The Beijing Consensus? ...................................................................................................................... 37

CHAPTER 3: REGIONAL-LEVEL COMPARISON OF CHINESE ENGAGEMENT ............................ 44

Trade patterns ...................................................................................................................................... 44

Investment relations .......................................................................................................................... 47

Finance and development aid ............................................................................................................. 53

Environmental and labor standards .................................................................................................... 60

Diplomatic engagement ....................................................................................................................... 63

CHAPTER 4: TYPOLOGY AND CASE STUDIES ........................................................................... 66

Global partners: Brazil and South Africa .......................................................................................... 68
Extractive relations: Angola and Peru ................................................................. 74
Exclusive relations: Venezuela and Zimbabwe............................................. 81
Special cases and transitions ..................................................................... 86
CHAPTER 5: CONCLUSIONS ........................................................................ 88
REFERENCES................................................................................................. 100
List of Figures

FIGURE 1: TOTAL TRADE OF SSA BY PARTNER 45
FIGURE 2: TOTAL TRADE OF SAM BY PARTNER 45
FIGURE 3: GDP GROWTH (1985-2016) 43
FIGURE 4: COMMODITY PRICE INDEX (1985-2020) 44
FIGURE 7: SECTOR DISTRIBUTION OF CHINESE FINANCE IN SSA (2000-2015) 58
List of Tables

TABLE 1: COMPARISON OF KEY ECONOMIC VARIABLES 15
TABLE 2: CHINA'S OUTBOUND FINANCE REGIME 55
CHAPTER 1: INTRODUCTION

During a conference on China-Latin America relations I recently attended at Fudan University in Shanghai, a prominent Chinese scholar concluded his remarks by saying: “For decades, China has been learning and adapting to the world. Perhaps now it is time for others to learn and adapt to China.” This phrase perfectly describes the implications --and challenges-- of the current stage in China's path to development.

The (re)emergence of China as a global economic superpower has been one of the most significant transformations in the international system since the end of the Cold War. At the beginning of the 21st century, over twenty years after initiating its domestic reform and economic modernization, China launched a new framework for its foreign economic policy, known as the Go Out policy. Under this strategy, the internationalization of the Chinese economy accelerated: Foreign trade soared, China became an important source for outward foreign investment for the first time, its banks began to lend billions to foreign governments and corporations, and Beijing’s diplomatic engagement with the world reached new levels.

This thesis will study the impact and characteristics of China’s Go Out Policy in South America (SAm) and Sub Saharan Africa (SSA). As exporters of commodities that are in high demand in China (agricultural goods, minerals, oil), countries in these regions have been affected the most by the internationalization of the Chinese economy. In a span of a decade, the Asian giant became a major buyer of raw materials, a source of investment and finance, and an exporter of manufactures to the African and South American markets.

1 Throughout this Thesis, I will refer to the country as China or the People's Republic of China (PRC), always referring to the mainland. I will use Taiwan when referring to the non-UN recognized Republic of China (ROC).
The effects of China’s rise in SSA and SAm have been mixed, and have received praise and criticism. On the one hand, China’s rising demand for commodities lifted these region’s economies, allowed them to reduce their high levels of poverty and inequality and softened the impact of the 2008-2009 global crisis. However, China also brought a massive influx of cheap manufactures that has jeopardized African and South American already weak industries, and consolidated an asymmetric economic relationship that some say resembles that under colonial rule.

Further, the new assertiveness of Chinese corporations and state agencies in SSA and SAm, particularly in the natural resources and infrastructure sectors, has generated alarm in Washington and other western capitals. Academics and journalists have warned about a potential dominance of both regions by Beijing, and accuse China of promoting a development model based on state capitalism, low environmental and labor standards, and authoritarian politics. In a “return of history” narrative, these observers argue that if China’s economic and geopolitical influence over South America and Africa continues to rise, the western-led international system based on free markets and democracy will be in jeopardy (Halper, 2010; Peerenbum, 2008).

The Chinese government, media and academic institutions (as well as some in SSA and SAm) have responded to this “neo-colonial warning” with a counter-narrative focused on the mutual gains of closer ties between China and South America and Africa. They claim that Beijing’s peaceful rise as a global power will generate new opportunities for economic cooperation, based on the complementary nature of their economies. In particular, they describe Chinese engagement as an example of “South-South” cooperation. If western sources criticize China’s role, this narrative argues, it is because increasing ties between developing countries will lead to a more equal and balanced international system that will not only respond to US and European interests (Gray and Gills, 2016).
A balanced analysis of Chinese engagement

The main objective of this thesis is to conduct a comparative analysis of Chinese engagement in SSA and SAm under the Go Out policy, avoiding the simplifications of both the “neo-colonial warning” and the “win-win narrative”. In that sense, this thesis is part of a growing number of academic papers and reports that study China’s rise from a pragmatic standpoint, avoiding normative positions as much as possible and acknowledging its potential and challenges.

The basic assumption that will guide this analysis is straightforward: China is not a neo-imperialistic force attempting to conquer Africa and South America through geopolitical and economic domination, nor is it a benevolent developing country that is only interested in spreading prosperity and promoting a more fear international system. Rather, China is an emerging economic great power with expanding interests and capabilities – which include but are not limited to the economy – and its engagement with South America and Africa should be read under this framework.

Enough time has passed since the launching of the Go Out policy in the early 2000s to conduct a comparative analysis of its effects in SSA and SAm. This thesis will attempt to demonstrate that China’s economic influence – although large and expanding – is far from being dominant in Africa and South America, at least for the time being. Further, evidence suggests that Beijing did not launch this outward-looking set of policies with a clear blueprint of what its relations with SSA and SAm would look like. Rather, the Chinese government realized that the economy had entered a new phase, one that required a larger involvement in global markets, and used the instruments of its domestic development process to achieve this goal.

As I will argue throughout this thesis, the Go Out policy is the natural continuation of China’s economic modernization since the late 1970s. After more than two decades of continuous growth and rising investment from abroad, China needed to
secure the massive supply of natural resources it required to continue growing, find new markets for its manufactures given the saturation of its traditional destinations in Asia and developed countries, and to expand the horizons of its corporations to make them globally competitive. In addition, China needed to mobilize the massive foreign currency reserves it had accumulated, which topped $1 trillion by 2007. The scale and impact of the Go Out policy, therefore, must be understood within the context of China’s spectacular growth since 2000, as it rose from the 8th to the 2nd place in terms of world GDP.

In many ways, South America and Africa were the ideal setting for the internationalization of the Chinese economy: these regions are the largest producers of commodities in the world, have consumer markets for Chinese manufactured goods, and hold great potential in terms of infrastructure development, a field in which Chinese corporations have gained much experience during the domestic modernization process.

Moreover, SSA and SAm experienced long periods of economic stagnation during the 1980s and 1990s, which coincided with the application of liberalizing economic policies known as the “Washington Consensus”, and promoted by international financial institutions such as the World Bank (WB) and the International Monetary Fund (IMF) (Williamson, 2004). The large social impact of these policies, and their lackluster consequences in terms of economic growth and development provided a space for China to increase its influence. China began its meteoric rise in the global economy just as countries in SSA and SAm were looking for alternatives to its traditional economic ties with western nations, which had not produced the promised results (Gallagher, 2016). Therefore, understanding what exactly is the Go Out policy (and what is not) is crucial for ongoing debates about the future of global governance and economic development.

Relatedly, China’s economic impact in SSA and SAm reignited debates about the consequences of asymmetric trade based on the exchange of commodities for industrial
manufactures. In the 1960s and 1970s, a number of economists in Latin America argued that terms of trade condemn commodity-exporters to underdevelopment and dependency. These scholars—in which was known as “dependency theory”—described the international economic system as divided between a developed center and an underdeveloped, non-industrialized periphery. In addition, they claimed that the structure of the international economy was designed by developed countries to preserve this status-quo (see Ghosh, 2001).

In many ways, China’s ascendancy as a manufacturing power—and that of Japan, South Korea and Taiwan before—upended these theories, and provided a possible pathway for other developing nations (Stiglitz & Yusuf, 2001). Doubts exist, however, about whether SSA and SAm can benefit from the rise of East Asian countries to promote economic and social development, or whether they are condemned to remain in the periphery. Comparing Chinese engagement and impact in SSA and SAm could provide relevant insight about this critical issue.

Finally, studying the characteristics and limitations of China’s foreign economic policy in SSA and SAm is crucial to understand Beijing’s rise as a world power. For decades, policymakers and scholars in Washington and other western capitals have debated about China’s ascendance, and how to respond to it. Broadly speaking, those close to realist theories of international relations propose containing China, recasting Cold-War-era concepts such as off-shore balancing, and framing China as a revisionist power that would use its economic might to disrupt the post-war international system (Mearsheimer, 2010).

In contrast, adherents to the liberal school highlighted the peaceful rise of China, as well as its insertion in institutions such as the IMF, the WB and the World Trade Organization (WTO). According to this view, China is becoming a major world power within the existing international system, and not against it. Beijing’s efforts to gain more
influence in global institutions is not a reflection of its revisionism, but of its interest in contributing to global governance under its existing framework (Ikenberry, 2008).

Analyzing how China behaves in SSA and SAm is fundamental for this debate: What exactly is China doing as it influence increases in SSA and SAm? Is it looking for geopolitical dominance, using its economic might as leverage? Or is it merely looking for business opportunities as part of its internationalization process? Is China imposing terms on countries in SSA and SAm, or listening to their demands and concerns? The answer to these questions—which I will attempt to find in this thesis—will contribute to the construction of China’s profile as a rising global power.

This thesis will study China’s engagement with Sub Saharan Africa and South America, and not with the African continent and Latin America as a whole. Frequently, journalistic reports and academic studies limit their analysis of China’s influence to SSA or SAm as well, even though they do not always make this explicit.

Studying Chinese relations with these two sub regions instead of with their entire continents makes sense for several reasons. First, because countries in SSA and SAm share a common economic structure and trade pattern: they are exporters of raw materials and importers of manufactures. Countries in Central America and Mexico, in contrast, are large producers of manufactures and are much more intertwined with the US market than SAm, which sets a completely different relationship with China. While “economic complementarity” is the bedrock of Chinese engagement in SSA and SAm, competition is the usually the norm in Beijing’s relations with Mexico and Central America. North African countries are also large commodity exporters --mainly of oil--, but are relatively developed compared to SSA, besides having a different cultural identity and history. This is why international organizations usually separate Sub Saharan from
Northern Africa for economic reports and analyses\textsuperscript{2}. The second reason to exclude Mexico and Central America and Northern Africa from this comparative study is geopolitical: the diplomatic and economic influence of the United States is much stronger in these areas, which sets limits on the degree in which China can engage them. This is less the case for SSA and SAm.

Although I do not assume that China is a unitary actor—and in fact I will describe how different public and private entities within China can have different interests in SSA and SAm— I will refer to “Chinese engagement”, and will frequently refer to China as an entity with interests and capabilities. Similarly, I will treat individual countries in SSA and SAm as unitary actors, for reasons of clarity and brevity. I will not treat states as “black boxes”, but unpacking complex social and political dynamics in every country participating in these relationships would go beyond the scope of this work.

In addition, although the objective of this thesis is to understand how Chinese goals and capabilities interact with those of countries in SSA and SAm, I will assume that China frequently has the initiative in setting the terms of these relations. This is a matter of economic reality --China is the second largest economy in the world-- and political theory --collective action suggests unified actors can act more decisively vis-à-vis disorganized counterparts\textsuperscript{3}. Indeed, SSA and SAm are actually 52 and 12 countries, respectively; each with its own national circumstances, economic structure, and political interests.

Given China’s economic and demographic might, and the fact that it talks with one voice --and has a powerful and deeply bureaucratized state to articulate that voice--

\textsuperscript{2} The IMF, for instance, issues reports and regional economic outlooks for Sub Saharan Africa separately, and analyzes Northern Africa together with the Middle East. The WB does the same in most of its reports and studies, as well as in its database (see http://data.worldbank.org/region/sub-saharan-africa).

\textsuperscript{3} The classic study of the effect of articulating various interests on collective action, of course, is Olson (1965).
it is only natural that the PRC will have an advantage in setting priorities when relating to smaller and more disorganized partners in SSA and SA.

**Methodology and theoretical background**

This thesis will attempt to fill the absence of comparative studies between SSA and SA in terms of Chinese engagement. Although a good part of the existing literature recognizes similarities—and common challenges—in the way China has approached relations with South America and Africa, most studies focus on one region or country, or describe China’s role in Africa and South America side by side, without drawing comparisons⁴.

The topic and methodology of this thesis—the interaction between economic strategy, geopolitics and development—clearly inscribes it within the field of international political economy (IPE). In his analysis of the origins of this field and its future, Keohane (2009) urged expand IPE and tackle critical issues of change in the international system, among them the rise of China as a major force for global trade and investment. This thesis will attempt to answer that call.

But Keohane did not only set the objective of analyzing China’s rise, he had also provided key analytic frameworks to understand it. One of the foundational texts of IPE is *Power and Interdependence* (1977), in which Keohane and Nye presented the concept of “asymmetrical interdependence”. An important contribution of this book is that it recognizes the non-binary and eminently transactional nature of asymmetrical relations, contradicting simpler realist views of dominance of the powerful over the weak in the international system, which were also adopted by dependence theorists.

This lesson is of particular importance for asymmetrical relations between developing countries, such as that between China and countries in SSA and SA. In

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⁴ One rare comparative analysis is Alves (2011), who studies Chinese oil diplomacy in Brazil and Angola.
contrast to fatalistic perspectives—found more in the media than in academia—about China’s emerging “empire” in Africa and South America, countries in these regions have capabilities that allow them to influence the way China engages with them, as I will seek to demonstrate in this thesis. To be sure, the PRC has vastly expanded its role as a purchaser of commodities, a seller of manufactures and a major investor and financer in these regions. But the terms of this interdependent relations are not merely dictated by Beijing over passive countries in South America and Africa. In particular, China’s dual interests of economic internationalization and soft power promotion pose a tremendous opportunity for countries in SSA and SAm. As I will argue in the next chapter, the PRC’s self-perception as a developing nation is crucial for its international image, and that is an opportunity in itself to obtain concessions from Beijing in the economic sphere.

Another issue that is critical for contemporary IPE is the emergence of South-South relations in international relations. For decades, IPE was focused on the interactions among developed, industrialized countries, mainly the United States and Western Europe, or between this developed “North” and much poorer, commodity-based economies in the “Global South”. The irruption of emerging industrializing powers in Asia beginning with Japan in the post-war era, and specially the spectacular rise of China since the late 1970s have eroded old North-South conceptions.

Once derided as the periphery of a global system that would eventually converge around free markets and liberal democracy, the developing world is now driving global economic growth and using this as leverage to push for more influence on the global arena. While Chinese economic engagement with Africa and South America has been characterized as asymmetrical and following North-South pattern, China’s promotion of itself as a developing nation, and of its engagement as South-South cooperation is not only a matter of soft power, but of national identity.
Although it will be rooted in theories of IPE, this thesis is also relevant from the perspective of geopolitics. Given that the PRC is facing an increasingly hostile East Asia—in no small part because of territorial claims that affect the interests of neighboring countries—Africa and South America stand as two relatively “empty” spaces for Beijing to exercise regional influence. Although I will argue that Chinese intentions in these regions are mostly related to its own development process, studying how China is behaving in South America and Africa now could provide hints of how an even more powerful China might approach the construction of spheres of influence.

**Structure of this thesis**

This comparative analysis of Chinese engagement in SSA and SAm will consist of three main parts, which will study this topic from different perspectives. The constant throughout this thesis will be to demonstrate the complexity of the Go Out policy, as well as the ways in which China as well as governments in SSA and SAm have used their distinct capabilities to manage these asymmetric relationships.

In other words, my goal will be to show the way in which Chinese authorities have adapted to domestic political and economic contexts in SSA and SAm, and how it balanced local concerns with its own interests as a rising global power. Beijing’s efforts to use different instruments of its Go Out policy to suit them to African and South American realities—an ongoing and not always smooth process—is not the result of China’s altruism, but of the various domestic economic and political objectives it needs to articulate within the Go Out policy. For example, China’s desire to promote its corporations and create “national champions” will sometimes contradict its efforts to increase its international standing, as local governments would complain about the environmental and labor record of some Chinese companies.

Chapter 2 will deal with China’s domestic development experience, and how it shaped the goals, strategies and characteristics of the Go Out policy. In order to
understand Chinese engagement in SSA and SAm, we must first analyze China’s rise since the Open Up process was launched under Deng Xiaoping. I will not refer to a “China model”, since that term is frequently used to describe a pre-packaged set of economic policies China is said to be “exporting” in other developing nations --especially in SSA and SAm—a view that is not supported by evidence. As I will argue, China’s particular version of the Asian developmental state is not replicable anywhere else, nor is it the intention of PRC authorities --which are proud of their country’s identity as a developing nation-- to promote it as a model others should follow. Some countries might feel attracted by China’s development within an single-party system, but Beijing has little interest in promoting this.

After analyzing the goals and instruments China has in SSA and SAm, I will compare its engagement with both regions in terms of trade, investment, finance and aid, and diplomatic cooperation. Contrary to what some reports might suggest, China has become a major trading partner for both regions, but is it not a dominant economic actor, nor is its role unprecedented. This comparative analysis will confirm the asymmetric nature of China’s economic relations with SSA and SAm, but also how Beijing has adapted its policies to address domestic concerns and grievances. Different local backgrounds (in level of development, market size and geopolitical importance) will naturally have an impact in the way China has engaged both regions since the early 2000s.

Chapter 4 will provide a more in-depth analysis of the complexity and adaptability of Chinese engagement in Africa and South America. To do so, I will focus on six case studies --three from South America and three from Africa: Angola, Brazil, Peru, South Africa, Venezuela, and Zimbabwe. Existing analyses ignore the different types of relationships China has set with countries in SSA and SAm, based on mutual interests and capabilities.
Asymmetry is a constant in China’s engagement with SSA and SAm, and that is unlikely to change and is similar to these region’s links to the United States and other major powers. However, China’s interests are not identical in every South American and African country, and every nation does not have the same economic and institutional resources to manage its relationships with Beijing.

To incorporate this complexity into my analysis I will organize my cases three ideal types: Global partners (Brazil and South Africa) are fundamental for China’s geopolitical ambitions of becoming a referent of emerging developing nations, as well as the most diversified and industrialized economies in SSA and SAm. Extractive relations (with Peru and Angola as examples) are those in which China’s focus is on the natural resources sector, but that also count with alternatives to balance Chinese influence. The final category, exclusive relationships (Venezuela and Zimbabwe) is formed by countries that heavily depend on China for external support and financing, given their isolation from western countries and international institutions.

Finally, chapter 5 will provide some conclusions as well as potential paths for further research.

In the rest of this introduction I will present a brief outlook on South America and Africa analyzing key economic and institutional variables, as well as their relationships with the PRC before the launching of the go out policy around the year 2000.

**Sub-Saharan Africa and South America: An outlook**

South America and Africa share a history of colonialism and exploitation by outside powers, and were key battlegrounds during the Cold War. Presently, they are developing regions with high levels of poverty and income inequality, and limited industrial capacity compared to developed nations (and even to Asian developing
economies). In economic and institutional terms, despite these similarities, the situation in South America is, overall, not as dire as that in Sub Saharan Africa.

**Historical background**

Throughout history, nearly all countries in SSA and SAm have experienced foreign dominance and colonialism, but by the time European powers came together in Berlin in 1880 to negotiate the colonial partition of the African continent, all countries in South America had been independent for several decades. European domination of South America ended sooner, but had lasted much longer: Spain and Portugal ruled the continent since the 1500s until the early 1800s. In contrast, most African nations remained under colonial control --mostly from Britain, France and Belgium-- for about a century, until the independence movements of the late 1960s and early 70s.

During the Cold War, SSA and SAm became important battlegrounds in the global geopolitical competition between the United States and its allies and the Soviet Union. In most South American nations leftist guerrillas combatted Western-backed governments of democratic or military origin, while newly independent African nations became embroiled in violent civil conflicts, which combined ideological, ethnic and religious cleavages.

At the same time, governments in both nations had to deal with pervasive problems of underdevelopment, lack of infrastructure and public services, and an economic structure based on exporting commodities and importing manufactures. In response to these challenges, countries in SSA and SAm implemented policies of industrialization by import substitution, with uneven results.

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5 With the exception of Guyana (British colony), Suriname (Dutch colony) --which declared independence in 1966 and 1975, respectively-- and the French Guiana, which is a department of France.

6 During the Cold War, SSA and SAm were part of the "Third World", a concept frequently used by Mao Zedong. For a detailed analysis of the Cold War in both continents see McMahon (2013).
Bates et al (2006) compare the post-colonial experiences of Africa and Latin America and conclude that “despite the distance in time and space, independence was followed in each case by political instability, violent conflict and economic stagnation (lost decades) lasting about a half-century” (p. 3). While the post-independence period of stagnation and internal conflicts lasted until the late 1800s for South American countries, most of Sub Saharan Africa remains immersed in these challenges.

**Economic and social conditions**

An aerial image of Earth at night shows the stark differences in economic development between our regions of study: While light covers great swaths of South America’s territory, only a few African cities are distinguishable, and the rest of the continent remains dark.

Table 1 summarizes information on key economic variables in both regions that confirm this contrast: Exceeding $4 trillion, South America’s overall GDP more than triples that of Sub Saharan Africa, despite having less than half of its population. Although both are developing regions, South America has a GDP per capita of over $9,000, closer to Central Europe’s $12,300 than to Sub Saharan Africa’s $1,500 (World Bank, n.d.).
The gap in terms of GDP and GDP per capita is not reflected in the size of their foreign trade: Sub Saharan African economies are, on average, much more open to trade than their South American counterparts. As indicated on Table 1, SSA foreign trade represents 41% of the region’s GDP, against only 24% for South America. The final variable in Table 1 is foreign direct investment (FDI), a critical issue for China’s engagement in SSA and SAm, as I will argue below. Not surprisingly given the disparities in terms of GDP and population, South America received four times more FDI than SSA in 2015.

As an illustration of the fundamental asymmetry between the size of the Chinese economy and those of SSA and SAm, table 1 also includes data on China. The numbers speak for themselves: The Asian nation has a population and a GDP that are similar to those of SSA and SAm combined. Further, China receives almost twice as much foreign direct investment as the sum of SSA and SAm. The GDP of the Chinese province of Guangdong —the largest in the country— is almost four times that of South Africa and more than 65% that of Brazil, the largest economies in Sub Saharan Africa and South America, respectively.

Table 1: Comparison of key economic variables (2015)

<table>
<thead>
<tr>
<th></th>
<th>S. America</th>
<th>SS Africa</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries</td>
<td>12</td>
<td>52</td>
<td>1</td>
</tr>
<tr>
<td>GDP</td>
<td>4.02 trillion</td>
<td>1.57 trillion</td>
<td>10.86 trillion</td>
</tr>
<tr>
<td>Population (est)</td>
<td>0.415 billion</td>
<td>1 billion</td>
<td>1.4 billion</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>9687</td>
<td>1571</td>
<td>7924</td>
</tr>
<tr>
<td>Exports</td>
<td>463 billion</td>
<td>296 billion</td>
<td>2340 billion</td>
</tr>
<tr>
<td>Imports</td>
<td>482 billion</td>
<td>348 billion</td>
<td>1960 billion</td>
</tr>
<tr>
<td>FDI inflows</td>
<td>121 billion</td>
<td>31 billion</td>
<td>249.9 billion</td>
</tr>
<tr>
<td>Largest economy (GDP)</td>
<td>Brazil (1.7 trillion)</td>
<td>S. Africa (0.3 trillion)</td>
<td>Guangdong (1.17 trillion)</td>
</tr>
</tbody>
</table>

Source: World Bank and UNCTAD
Data for 2015, in current USD
Reliable data on income inequality is scarce, even for the Gini index, the most widely used measurement. However, the United Nations Development Program (UNDP), has stated on numerous occasions that the levels of inequality in South America and Africa two regions are the highest in the world. Moreover, historically South America has been more unequal than SSA. Most reports have also noticed, however, that the period of spectacular economic growth fueled by China’s demand for commodities produced in SSA and SAm has had a positive impact on income inequality (IMF, 2015; OCDE/CAF/ECLAC, 2016).

As I have stated before, the economic structure of South America and Sub Saharan Africa also present similarities. Both are commodity-exporting regions, with exports based on raw materials and imports based on manufactures. According to the World Bank, only 30% of the total exports of SSA are manufactures, and only 38% of Brazil’s, South America’s most industrialized economy. In contrast, more than 94% of Chinese exports of goods in 2015 were manufactures.

Overall, Sub Saharan Africa’s dependence on commodities is even more acute than South America’s. All South American countries --with the exception of Bolivia-- ranked higher than their Sub Saharan African counterparts in Harvard University’s ranking of economic complexity, which measures the degree in which knowledge is incorporated into a country’s exports (Atlas of Economic Complexity, n.d.). Similarly, most countries in SSA rank higher than their South American counterparts in the commodity dependence index elaborated by The Economist Intelligence Unit for the 2000-2013 period by measuring net commodity exports as percentage of GDP. Once again, Bolivia was the South American country with the highest dependence on

7 For an example see UNDP, 2013.
8 For all Latin America and the Caribbean (LAC) the percentage of manufactures as total goods exports is 54%, but the number for South America is likely much lower given the influence of manufacture-producers Mexico and Central America in LAC’s number.
commodities (net exports of commodities represent 29.2% of its GDP), while the rest of the region varies between Venezuela’s 17.1% of GDP and Brazil’s 3.9%. In Sub Saharan Africa, net exports of commodities represent 54% of oil-rich Angola’s GDP, while some countries –particularly in East Africa— are net importers of commodities (The Economist Intelligence Unit, 2015).

**Governance and internal conflict**

Both regions have deficiencies in terms of democratic institutions, although as in economic terms, the situation in SSA is worse compared to that of SAm. For example, in the Economist Intelligence Unit’s Democracy Index for 2015, six South American nations are categorized as “flawed democracies”, Venezuela is considered authoritarian, and Ecuador and Bolivia are hybrid regimes. Only Uruguay makes it to the top category of “full democracy”. Overall, Latin America and the Caribbean has an average score of 6.37 (10 being fully democratic and 0 totally non democratic), the third-best performing region in the world after Western Europe and North America.

Meanwhile, of Sub Saharan Africa’s 44 countries, only Mauritius is a full democracy. 8 countries --including South Africa-- are flawed democracies, 12 are hybrid regimes and 23 are considered authoritarian. SSA’s regional average of 4.38 is the second-lowest in the world, only better than the Middle East.

These findings are consistent with the World Bank’s Worldwide Governance Indicators, which measure performance in five areas: Voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. While on average Latin America ranks on or above the 50th percentile in all categories, Sub Saharan Africa ranks around the 30th percentile in all categories (World Bank, n.d.).
Finally, Africa is also more conflict-prone than South America. By the 1980s, South American nations had become relatively peaceful democracies. The only international war since then has been a brief skirmish between Peru and Ecuador in 1995. In contrast, SSA continues to experience intrastate conflicts and civil turmoil, and large-scale violence persists in Mali, Sudan, South Sudan, Democratic Republic of Congo and Somalia, among others.

**Pre-2000s relations with China**

The current intensity of China’s relations with SSA and SAm is unprecedented in history, but relations between both regions and China did not begin with the Go Out strategy in the early 21st century.

In fact, Africa’s relations with the Asian giant date to before the Christian era. Chinese explorers held the first contacts in the 16th century, and thousands of Africans of Chinese origin descend from the merchants and workers that have settled in the continent throughout the centuries. As I will argue below, the historic emigration of Chinese people to Africa has been an importance factor in China’s economic engagement in the region. South America’s historic relations with China are less significant, although some workers of Chinese origin did settle to work in the Guano industries of Peru in the 19th century (Berrios, 2003).

Relations with SSA and SAm were not relevant in China’s foreign policy until the triumph of Mao Zedong and the proclamation of the People’s Republic in 1949. After the communist triumph, developing countries in SSA and SAm became ideal partners for a new Chinese foreign policy based on solidarity among members of the “third world”, a concept that encompassed all developing countries that resisted alignment with the two main blocs of the Cold War, led by the United States and the Soviet Union. For their size
and regional influence, China, India and Egypt became the leaders of these South-South initiatives, which produced few concrete results\(^9\).

An important milestone towards the articulation of the non-aligned movement was the 1955 Bandung Conference on Asian-African solidarity, held in Indonesia. There, Chinese premier Zhou Enlai met with representatives of Liberia, Sudan, Ghana and Ethiopia, a precedent to future meetings between leaders from Africa and China (Shinn and Eisenman, 2012). Years before, Zhou had presented China’s “Five Principles of Peaceful Coexistence” that continue to frame Beijing’s policies in SSA and SAm to this day: solidarity --including mutual respect for sovereignty and territorial integrity--, mutual nonaggression, noninterference in each other’s internal affairs, equality, and mutual benefit and peaceful coexistence (MFA, n.d). As I will argue below, for China the “Five Principles” are a blueprint for engagement in developing nations, as well as a source for legitimacy and soft power.

During the first two decades of the PRC, relations with Africa were based on ideological affinities and a common anti-imperialist cause. The Communist Party of China (CCP) supported African liberation movements with arms and funds, and promoted relations with movements from the radical left, which were inspired by Mao Zedong’s triumph in the Chinese civil war. These efforts intensified after the Sino-Soviet split of the 1960s. Although its attention to SSA was erratic during this period (mainly because of domestic instability within China), Beijing maintained its commitment to build stronger ties with the region.

In the first of many visits by Chinese high officials, Premier Zhou toured nine sub-Saharan African nations in 1963-1964 (Shinn and Eisenman, 2012, ch. 2). Following his visit the PRC launched several cooperation projects in Africa, including factories,

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\(^9\) For an official account of the history, goals and actions of the Non-Aligned Movement (the institutional representation of the “third world”, see Ministry of External Affairs of India (2012).
technical assistance programs and China’s flagship infrastructure accomplishment: a railroad connecting Tanzania and Zambia which cost US$ 500 million and was completed in 1975 (Brautigam 2009, p. 40-1). In contrast, China’s relations with South American countries had a much slower start, and were mainly focused on ties with small Maoist Communist parties since government-to-government relations were nonexistent.

In the 1960s and 1970s, SSA and SAm became important battlegrounds in China’s diplomatic struggle with Taiwan for international recognition. The PCR’s active foreign policy in Africa and support for independence movements had delivered results: Sudan and Guinea were the first in the region to switch recognition away from Taiwan in 1959. By the mid-1960s fifteen countries in SSA had recognized the government in Beijing and cut off ties with Taipei.

In contrast, until 1970 not a single country in South America recognized the Communist government in Beijing as the legitimate representative of China. This is not surprising given the proliferation of right-leaning, anti-communist regimes in South America in this time, both military and civilian. The first two South American governments to recognize Beijing were Chile under socialist President Salvador Allende in 1970, and Peru under the leftist military regime of Coronel Juan Velasco Alvarado a year later.

After many years of intense diplomatic activity from Beijing, the General Assembly of the United Nations voted to recognize the PRC as the legitimate representative of China in October 1971, and granted it the country’s seat in the Security Council. SSA countries were critical for this achievement: Of the 76 votes in favor of recognizing Beijing, 12 were from Sub Saharan Africa. Meanwhile, of South American
governments only the aforementioned Chile and Peru supported China in the vote, with Bolivia and Brazil voting against and the remaining countries abstaining\textsuperscript{10}.

After reaching this milestone --and following US President Richard Nixon’s trip to China in early 1972-- even anti-communist regimes in SSA and SAm found it easier to initiate diplomatic relations with the PRC. In addition, South American military dictatorships turned to Beijing to diversify their trade and foreign relations, at a time were the Carter administration’s was pressing them on human rights violations. By the early 1980s, most countries in SAm had switched their recognition from Taipei to Beijing (Domínguez et al, 2006, p. 5)\textsuperscript{11}. Today, Paraguay is the only South American country that recognizes Taiwan and not the PRC.

Many countries in SSA altered between recognizing Taiwan and Beijing in the 1980s and 90s, depending on the political position of successive governments, as well as China and Taiwan’s diplomatic initiatives to attract them. A significant outlier in the region is South Africa, which did not establish diplomatic relations with the PRC until 1998, during the post-apartheid government of Nelson Mandela (Alden and Wu, 2014).

As I have stated before, the Go Out policy was not launched overnight by Chinese leaders. There were increasing efforts to strengthen Chinese diplomacy abroad and open up opportunities for Chinese companies. In a sign of times to come, Chinese president Jiang Zemin toured Kenya, Ethiopia, Mali, Namibia and Zimbabwe (in addition to Egypt) in May 1996. During his trip, Jiang reiterated the importance of Zhou’s five principles, signed more than 20 cooperation agreements and promised a new partnership between China and Africa based on equality and mutual benefit (MFA, 1996).

\textsuperscript{10} For a complete list of the vote, see http://china.usc.edu/sites/default/files/legacy/AppImages/1971-UN-China-seating.pdf

\textsuperscript{11} The exception is Paraguay, the only country in South America that recognizes Taiwan over Beijing.
During the Jiang era a pattern of engagement emerged, one that was common for SSA and SAm and that continues to this day. Aware of the similarities between SSA and SAm as developing regions with great potential as economic partners, Beijing began to use the same rhetoric and very similar diplomatic engagement in both regions. Under this framework, China’s cooperation initiatives are usually first launched with SSA countries, only to be replicated with South America a few years later.

Jiang’s trip to SSA in 1996 was followed 5 years later by a similar tour of South American countries: Argentina, Brazil, Chile and Venezuela (in addition to Communist Cuba). Remarkably, the Chinese media informed that Jiang had signed “more than 20 cooperation agreements” during his trip, the exact same number of deals that was presented after his 1996 African tour (China Daily, 2001). I will elaborate on this diplomatic pattern when I compare China’s diplomatic engagement with SSA and SAm under the Go Out strategy in chapter 3.
CHAPTER 2: CHINA'S DEVELOPMENTAL EXPERIENCE

The Go Out policy implemented by the Chinese government since the early 2000s to foster the internationalization of its economy is the continuation of its domestic development experience. To understand Chinese foreign economic policy in South America and Africa, therefore, we must first address the characteristics of China’s internal development process. This chapter will provide a theoretical background on China’s developmental path, which will be a framework for my analysis on China’s engagement with SSA and SAm.

An Asian developmental state made in and for China

Since 1978, China has experienced one of the most spectacular processes of economic modernization and growth in human history: total GDP expanded by about 10% annually until 2012, and GDP per capita shot up from U$D 155 when Deng’s reforms began to U$D 7920 in 2015. According to the IMF (2016), China’s share of the global economy rose from little more than 2% in 1980 to almost 15% in 2015, only second to the United States. Since China holds close to 20% of the world’s population, the social repercussions were staggering: approximately 680 million Chinese citizens rose above the poverty line in the 1980-2010 period (“Towards the end of poverty”, 2013).

The characteristics of China’s development experience has been the subject of intense political and academic debate almost from the moment Deng Xiaoping launched his reforms. Some academics have highlighted the tight control of economic policy by the Chinese state throughout the reform process, while others emphasized the country’s openness to foreign companies and trade as the key to understand its success (Lardy, 2003).
But any perspective that singles out one explanation for China’s rise will likely miss part of the bigger picture. Based on the extensive literature on China’s developmental state, I will argue that the Chinese “model” --inasmuch as we can refer to it this way-- has three basic elements: state command and ownership, openness to foreign trade and investment, and constant experimentation. This three characteristics, in turn, are the framework for China’s Go Out policy, and for its engagement in South America and Africa.

**State command and ownership**

In many ways, China’s economic development and global engagement strategy has followed the lead of other Asian industrializing countries. Using the powerful Ministry of Industry, Trade and Investment (MITI) of Japan as an example, Chalmers Johnson (1982) defined the Asian developmental state as that in which the government holds control over key economic instruments, especially finance, in order to discipline and coordinate the activities of the private sector towards a determined set of national development goals. The main objective of a developmental state is to achieve economic growth, and to do so it channels credit towards selected industrial sectors to promote their competitiveness and their capacity to export (Woo Cumings, 1999).

Following this model, Johnson and others expanded the concept of the developmental state to include the experiences of newly industrialized economies, where an “economic miracle” was again attributed to the centrality of the state in the economy. For instance, Robert Wade noted that like Japan in the postwar period, Taiwan and South Korea “governed the market” in the 1960s and 1970s and encouraged the development of particular industries by managing investment and trade policy (1990).

The similarities between China’s path to development and other successful cases in Asia are clear. However, a key difference is the degree of control the Chinese state
exercises over the development process, compared to the Japanese and South Korean examples. Unlike Japan, South Korea and Taiwan, the Chinese Communist Party has introduced market elements and encouraged the development of a domestic private sector without ceding state control nor public ownership of most enterprises, especially in strategic sectors (Qian, 2001).

The CCP adopted many of the features of the development model that was successful in Japan and South Korea, but adapted them to the ultimate objective of preserving the Party’s influence as the ultimate decider in economic and political issues. What emerged was a developmental state as committed to economic growth as those in Japan and other Asian tigers, but of unprecedented powers to determine national targets and economic policies in order to achieve that goal, even in the current stage of globalization (Naughton, 2006).

As noted by Virmani (2008): “China is a nationalist State with a clear vision of national power through economic growth and technological catch-up. The Chinese Communist party translates this vision into explicit objectives suitable for different levels (nation, province, city, firm)” (p. 14).

No other Asian developmental state has had the same autonomy to determine development policies and mobilize resources to achieve them. The influence of the CCP over economic policies is reflected in its Five-Year-Plans. The tenth plan (2001-2005), for instance, was the first to state that the Go Out strategy was an official policy of the CCP, and it was followed important changes in Chinese institutions and corporations.

The Chinese state influence over economic development is reinforced by its direct or indirect control over the country’s largest corporations. Despite successive rounds of industrial restructuring and introduction of market criteria, massive privatization of strategic state assets have not taken place in China. In other words, China’s
developmental state designs development policies but also executes them, since it owns most means of production: In China, the state is both the MITI and the zaibatsu\textsuperscript{12}.

It is estimated that about half of the Chinese economy is directly or indirectly controlled by the state (Szamosszegi and Kyle, 2011). Centrally-owned SOEs are supervised by the State-owned Assets and Supervision and Administration Commission (SASAC), an agency created to increase oversight and coordination that responds directly to the State Council – the Chinese equivalent of the cabinet (Gao, 2010; Cendrowski, 2015). Regional and local governments have also created their own SACAC’s to supervise their own SOEs following the model of the central government. In addition, the Chinese public-owned economy includes enterprises where SOEs have a controlling majority but that are not officially considered SOEs themselves. Finally, SOEs also hold a number of subsidiaries and affiliates inside China and around the world (Szamosszegi and Kyle, 2011).

The remaining 50\% of China’s economy is owned by private actors, whether foreign or domestic. Despite announced reforms to increase the role of the market, the private sector is formed by numerous but relatively small enterprises, usually in the services and light manufacturing sectors (Zheng and Songz, 2015). The exception are privately-owned companies with strong links with the CCP, such as telecommunications giant Huawei, founded by a former member of the People’s Liberation Army (PLA).

Public ownership of enterprises has been a central element of China’s developmental strategy, as it has allowed the state to subsidize its companies, drastically increase public investment rates, and keep taxation low to encourage development. However, this also poses significant challenges, and rising problems. As Virmani explained it: “Though public ownership of assets has driven growth so far it can become

\textsuperscript{12} Japanese large, privately-owned business conglomerates, key allies of the state in setting development policy in the prewar and post-war eras. See Johnson (1982).
the greatest source of weakness as public profits decline and disappear reducing public investment and stalling the entire economy. Past strength and future weakness are two sides of the same coin.” (p. 16).

In addition, the CCP has linked the legitimacy of its rule to its capacity to deliver economic development. The rise of Deng Xiaoping meant the end of the massive ideological mobilization campaigns of the Mao era, which pushed for a permanent revolution. Looking for a less-disruptive base for its control over China’s political and economic spheres, the CCP embraced the cause of economic development. In other words, fostering development is a political imperative as well as an economic objective for the CCP.13

As Chalmers Johnson himself noted when he described the inefficiencies generated by Japan’s bureaucratic structure in the era of electronics, a problem with state ownership is its limited capacity to foster innovation. The way in which China attracted foreign investment to access Western technology and know-how is the second key element of its development experience.

**Openness to foreign investment**

A key difference between China’s developmental path and that of other East Asian countries has been its decisive policy designed to attract foreign investment from the beginning of the reform process. This was a pragmatic and inevitable decision, given the calamitous state of the Chinese economy after decades of inward-looking policies and the disastrous consequences of the Great Leap Forward and the Cultural Revolution under Mao Zedong.

13 Similarly, the theory of the developmental state notes that international and domestic constraints in the context of the cold war pushed Japan, South Korea and Taiwan to implement developmental strategies as a way to increase their national autonomy and strengthen their domestic support (Woo-Cummings, 1999)
Overcoming internal resistance within the CCP, Deng pushed for the creation of special economic zones in China’s eastern coast to attract foreign investment, in order to build a base for an export-oriented strategy. These zones would be the beachheads of the outward-looking modernization of China, and become clusters of innovation, workers training and infrastructure development. After analyzing the impact and potential of the SEZ’s, the Chinese government gradually expanded economic liberalization to the rest of the country. As we will see in Chapter 3, the PRC is now financing the creation of SEZs in Africa to promote the relocation of some of its domestic industries in order to access African markets and support China’s transition towards high-tech, sustainable industries.

The first wave of investments came not from Western countries, but from Chinese populations in Hong Kong and Macao, then under British and Portuguese control, respectively. Cultural affinities, personal connections and knowledge about China’s domestic bureaucracy made these two cities especially suitable to take advantage of the opportunities presented by Deng’s reforms. Soon, however, capital from all over the world poured into China, eager to operate in the largest nation-market in the world, with millions of available workers and a now development friendly state.

The Chinese government used the expertise and capital of foreign investors to modernize domestic industries and orient them towards exports. Government policy supported this export-led growth. Yao (2006) notes that the policy of devaluing the Renminbi to boost competitiveness was one of the most important policies the government took to facilitate growth and exports, which in turn attracted more foreign investment. The culmination of this gradual and arduous process of openness to world markets was China’s ascension into the World Trade Organization (WTO) in 2001. While in 1980 China represented less than 1% of global trade, in 2013 it was over 12% (WTO, 2014)
This does not mean, however, that China’s development was based on free trade. On the contrary, the government carefully managed tariff and non-tariff trade barriers to protect key industrial sectors, a policy that remains to this day, including with countries in SSA and SAM (Moore, 2002).

**Constant but careful experimentation**

The tightly controlled pace of China’s economic reforms is the third element of China’s developmental experience. Rather than launching a “big bang” process of sweeping reforms, the CCP started with changes in agriculture, then moved to attract foreign investment to SEZ’s, and only after analyzing its results did it expand economic reforms to the entire economy. As Deng Xiaoping famously said, China had to “cross the river by feeling the stones,” a lesson that guides China’s foreign economic in SSA and SAM policy today.

Chinese leaders did not have a clear blueprint in mind when they launched the modernization process in 1978, just like they did not launch the Go Out policy with a pre-packaged set of policies. Rather, the CCP began to introduce market-oriented reforms in agriculture and industry, and then devised ways in which to continue economic modernization while dealing with the negative consequences of previous decisions (Chay and Roy, 2006). Current efforts to address environmental, labor and economic concerns of countries in SSA and SAM fit within this pattern.

At least three factors explain the experimental nature of China’s development plans after 1978. First, it is important to remember that China was already heavily industrialized before Deng came to power. Therefore, the goal of CCP leadership was not only to promote growth, but also to preserve existing industries and protect them from the process of opening up to world markets. Secondly, and relatedly, the Chinese government has been very careful in managing the pace of the reform process to avoid
social tensions from getting out of control. And finally, a sudden process of modernization would have alienated more conservative sectors of the Party (Chow, 2015). Therefore, for the CCP political considerations had at least as much weight as economic ones in the planning of development policies.

The experimental, “step-by-step” nature of China’s development path is a cause for pride among CCP leaders and Chinese scholars. This adaptability is also central for Chinese policies in South America and Africa: the PRC has sought to address the concerns of countries in SSA and SAm about the Go Out policy, just as it did with its own citizens during the process of domestic reform. Looking ahead, experimentation and gradual change also guide current efforts to manage the transition of the Chinese economy towards a “new normal” of lower GDP growth, and a more consumption-based economy fit into this framework of constant adaptation and evolution.

**Going out: A state-coordinated strategy of economic internationalization**

The new stage of China’s foreign economic policy that began in the early 2000s was the direct consequence of the success of its domestic development experience. By the end of the 1990s, after more than two decades of economic reforms, China had changed dramatically. The country was the world’s largest manufacture producer and needed a constant supply of natural resources in order to sustain the breakneck pace of its domestic growth. In 1993, for instance, China became a net importer of oil for the first time. Further, China had amassed vast foreign currency reserves, pressuring the renminbi to go up against the dollar, threatening the competitiveness of Chinese products in the world. In addition, it was becoming clear that government efforts to streamline SOE’s to make them internationally competitive had not been fully successful (Shambaugh, 2011).
In response to this set of challenges, the CCP began to encourage Chinese corporations to increase their investment abroad, seek new markets for their manufactures, and secure raw materials to sustain domestic development. Following the experimental pace of domestic reform, at first the government took small steps towards internationalization, and only after some years did it officially endorsed this set of measures as the “Go Out” policy, the other side of the “Open Up” policy in effect since 1978.

The goals of the Go Out policy

The bases of the Go Out policy were set under Jiang Zemin, General Secretary of the CCP from 1989 to 2002, who came to power after Deng’s retirement. In 2001, the CCP formally embraced the go out policy by including it in the 10th Five-Year Plan (Sauvant and Chen, 2014). In his final report to the National Congress of the CCP as General Secretary, Jiang resumed the goals of this new policy:

“We should encourage and help relatively competitive enterprises with various forms of ownership to invest abroad in order to increase export of goods and labor services and bring about a number of strong multinational enterprises and brand names. We should take an active part in regional economic exchanges and cooperation” (Jiang, 2002).

As Jiang suggests, the Go Out policy had multiple goals. First, to provide China with the natural resources it needed to continue its process of economic growth and urban construction spree. This included metals, minerals, oil, coal and agricultural goods to feed its people and its animal livestock, among others. This was a matter of economic policy but also of national security: the CCP considered it safer for Chinese companies to directly control natural resources (Friedberg, 2006). South America and Sub Saharan
Africa were logical partners in pursuing this goal, given their large endowment of natural resources.

Secondly, the Go Out policy encouraged the formation of Chinese “national champions” by increasing pressure on SOEs to compete internationally in order to modernize and become more efficient. That could not happen if they remained protected inside the Chinese market. Large Chinese corporations in strategic sectors that were fundamental for the country’s domestic development—energy, infrastructure, telecommunications—were encouraged to use their know-how and massive capital reserves to conquer international markets, and secure continuous growth even if the investment rate in China decreased. Further, the PRC encouraged the internationalization of Chinese corporations to acquire foreign technology and know-how. Especially in the first years of the Go Out policy, Chinese companies entered markets in SSA and SAm through joint ventures, mergers and acquisitions of local companies, to obtain their technology and knowhow.

A third objective of the Go Out policy was to conquer new markets for China’s manufacturing exports. Until then, China had depended on trade and investment from Asian industrialized states—Japan and Korea—the United States, and European countries. There was a limit to what Chinese companies could do to achieve larger shares of those markets without heating already tense trade disputes. As Chinese industries began to show signs of excess capacity by the early 2000s, the Chinese government began to use its influence over the economy to encourage trade relations with new markets, particularly in the developing world. Coincidentally, China’s rising demand for natural resources increased economic growth and standards of living in developing regions like SSA and SAm, which in turn increased consumption and demand for Chinese manufactures in these markets.
Not all objectives of the Go Out policy had to do with economic interests. Any rising great power such as China needs a growing network of international support to cement its ascent. Improving political relations with countries in SSA and SAm was important to reinforce China’s image in the world and gain prestige, and in turn gain support to push for a reform of international institutions such as the IMF, the WB and the United Nations to better reflect new geopolitical realities.

**State instruments in the Go Out policy**

The Chinese state devoted all resources to implement the Go Out policy, just as it had done during the “Open Up” stage of its development path. In fact, many of the policy instruments that had allowed the state to coordinate domestic reform were used to encourage the internationalization of Chinese economic actors.

Throughout the process of domestic reform, the Chinese government maintained ownership of major corporations in strategic sectors: Energy –China Petrochemical Corporation (Sinopec), China National Offshore Oil Corporation (CNOOC) and China National Petroleum Corporation (CNPC)--, construction and transport --China Railway Engineering, China State Construction Engineering--, and telecommunications ----China Telecom (Cendrowski, 2015). In addition, the Chinese government controls the country’s largest commercial banks, known as the “Big Four”: Industrial and Commercial Bank of China (ICBC), Bank of China (BoC), Agricultural Bank of China (ABC) and China Construction Bank (CCB). As we will see, these state-controlled companies are also the protagonists of Chinese foreign economic policy in South America and Africa.

These corporations became extremely powerful because of their intense involvement in China’s domestic development process, and benefited from an influx of foreign capital, technology and experience. Further, the Chinese government and its corporations had learned from their experience with other developmental states,
particularly Japan. For instance, commodity-backed loans (which as we will see, are very important in China’s engagement with SSA and SAm), were used by Japan in its initial deals with China right after the reforms began (Brautigam, 2009). By the time Chinese SOEs emerged as investors in foreign markets under the Go Out policy, they were already among the world’s largest companies in each sector.

Within SOEs, the CCP names top executives, supervises performance through SASAC and influences decision-making to align corporate behavior to state goals as much as possible. As explained by Jacobson and Knox: “The top management of large SOEs and the political leadership have a symbiotic relationship, and it is not always clear who is in the driver’s seat when decisions are made.” (2010, p. 24). As I will argue below, this process of coordination is not without tensions and setbacks for Beijing.

The most important instruments the Chinese state has to influence the Go Out strategy are its two main policy banks: China Development Bank (CDB) and China Exports and Imports Bank (CEIB). Both were created in 1994, and placed under the direct control of the State Council (China’s cabinet). The main objective of the CDB is to support China’s macroeconomic policy and development strategy, with a specific focus on major infrastructure projects. Within the go out policy, CDB has been tasked with supporting Chinese corporations in their investment ventures abroad. By the end of 2015, CDB total assets had reached $1.8 trillion (CDB, 2015).

The CEIB, meanwhile, is the only policy bank authorized to grant concessional loans to foreign governments and companies, with lower interest rates and longer paying periods). The CEIB’s mission includes financing high-technology products, securing access to important natural resources, and encouraging investment and projects carried out by Chinese corporations abroad. Its total assets exceeded $300 billion in 2015 (Export-Import Bank of China, n.d.; Kamal and Gallagher, 2016). It is worth noting that
the World Bank’s total assets in 2015 were $343 billion, roughly similar to the CEIB and 5 times smaller than CDB total assets (IBRD, 2015)

In addition to its influence over the management of SOEs and control over finance, the Chinese government also shapes the Go Out policy through its investment and trade regulations. China’s Ministry of Commerce (MOFCOM) strictly controls the sectors in which Chinese corporations are allowed to invest abroad, and has to grant authorization for major projects abroad, and also encourages corporations to invest in strategic sectors in certain according to government needs and interests (Dussel, 2015.) The PRC also regulates foreign trade, through a complex system of tariff and non-tariff barriers to manufactured goods and agricultural goods with added value, administered by the powerful China Council for the Promotion of International Trade (CCPIT), which also has influence over investment policy and directly negotiates with governments to promote business opportunities for Chinese corporations (Shinn and Eisenman, 2011, chapter 4).

A final instrument of the PRC under the Go Out strategy is its diplomatic engagement and cooperation. Beginning in 2000, the Chinese government has deployed a number of regional and bilateral initiatives to attract other countries and facilitate the internationalization of Chinese corporations. Cultural diplomacy, people-to-people exchanges, official visits by CCP and government leaders, regional forums and other diplomatic initiatives are part of China’s “toolkit” to promote its economic and political interests abroad. As we will see on chapter 3 and 4, visits by Chinese officials and regional meetings with South American and African countries are opportunities for Chinese officials to promote their win-win narrative, announce new investment and finance programs and promote their economic and political interests.
**Limits to state coordination**

Despite its multiple policy instruments, the Chinese government does not hold complete control over the internationalization of its economy. On the contrary, there is evidence of increasing autonomy of key actors (including SOEs and policy banks), as well as inefficiency generated by bureaucratic infighting among state agencies.

Even within the state-owned sector, not all companies are under direct control of the central government. For instance, SOEs owned by provincial governments usually follow local, and not national interests. As Yelery describes it: “the ‘going out’ strategy is interpreted differently by every provincial government, based on China’s uneven industrialisation (sic) pattern” (2014, p. 4). Each provincial government, for instance, has its own SASAC to oversee local SOEs.

Further, although the top managers of main national SOEs are appointed by the CCP, this cadre of business leaders have their own priorities and interests, that do not always align with those of the party-state. In order to encourage entrepreneurship, the government has implemented a series of reforms to strengthen the autonomy and market orientation of SOEs. These reforms have increased clashes between government and corporate strategies. With increasing frequency, the top management of Chinese corporations will resist some government-backed deals in South America and Africa for reasons of business strategy and excessive risk. The process of SOE reform has not been without problems and setbacks, but views that portray SOEs as mere instruments of the Chinese party-state ignore this growing complexity (Szamosszegi and Kyle, 2011).

In addition, the Chinese private sector represents an increasing presence in the economy, and their internationalization strategies follow business interests at least as much as government priorities. The relative freedom of the private sector to act outside of government guidelines can be an advantage, as it gives them the flexibility to pursue business opportunities without waiting for official authorization and avoiding
bureaucratic constraints (Yang, 2014). A main example of this is Huawei, a privately-owned company that began its internationalization process without much government support, at least initially (Child and Rodrigues, 2005). As I will note in the next chapter, for instance, Chinese SOEs concentrate in the natural resources and infrastructure sectors in Africa, but Chinese private actors are increasingly taking advantage of opportunities to invest in manufacture.

A final factor that limits the capacity of the state to fully control the go out policy is bureaucratic infighting within the various agencies in charge of applying it. These include MOFCOM (the closest thing China has to the almighty MITI), the Ministry of Foreign Affairs (MFA), the State Council (which supervises SOE’s through the SASAIC), the individual leadership of each corporation. The interests of all these various agencies do not always aligned. Frequently, the MFA and Chinese embassies abroad complain about the business practices of SOEs and warn about their negative impact on China’s image in South America and Africa (Heilmann and Schmidt, 2014, p. 103). Further, the great number of government agencies at the central and local level that are in charge of supervising the internationalization process leads to problems of miscommunication, lack of clear guidelines, and bureaucratic conflicts (Leutert, 2016).

I will analyze this type of conflicts in Chapter 3 – when I analyze China’s efforts to impose stricter environmental regulations on its corporations operating in SSA and SAm—and chapter 4, in my case studies. For example, the Chinese government has launched a profound investigation of the role of private companies in corruption cases regarding oil deals in Angola.

**The Beijing Consensus?**

One of the main objectives of this thesis is to show that Chinese approach to engagement with South America and Africa is not based on a concrete model or
consensus, but rather the result of experimentation, adaptation to local environments, and the experience of China’s own development process.

As the Go Out policy intensified, discussion about whether China was promoting its own “development model” in South America and Africa arose in western academic circles and in the press. Joshua Cooper Ramo (2004) coined the term “Beijing Consensus” to describe the Beijing-based alternative to the “Washington Consensus”, a set of macroeconomic policies initially applied in the United States and Britain under Ronald Reagan and Margaret Thatcher and diffused in developing nations by Bretton Woods institutions. For countries in SSA and SAM, policies framed under the Washington Consensus brought macroeconomic stability, but also deindustrialization and a sharp deterioration in social protection and public services. By the late 1990s, economic stagnation, social tension and political turmoil were widespread in both regions.

For Cooper Ramo and others, China’s extraordinary success in lifting millions of its citizens out of poverty and transforming itself from a poor nation into a global economic superpower would inspire economic policy in other nations, and present a strong challenge to western ideas of privatization, deregulation and free trade. More recently, academics and journalists in western countries (especially the United States) have expressed their concern about China’s promotion of a model for economic development based on state capitalism and an authoritarian polity, and its potential impact for governance and democracy in developing regions (see Harper, 2010).

There are several elements of China’s foreign economic policy that disprove these allegations. First, China’s self-perception as a developing country is a central aspect of its identity and soft power. Secondly, China’s domestic development was the result of pragmatic and adaptive policies, not of pre-packaged recipes. And finally, concerns about the emergence of a “Beijing Consensus” that will erode governance standards and
democracy by attracting countries in South America and Africa vastly underestimate both the capacity of local countries and the profoundly negative consequences of the Washington Consensus.

**China as a developing nation**

A central element to understand how China perceives its role in the world is its self-identification as a developing country, a view that remains even after its spectacular economic transformation. During his visit to Washington DC in 2015, President Xi Jinping said: “...we are civilly-aware that China is still the world’s largest developing country. Our per capita GDP is only two-thirds that of global average and one-seventh that of the United States, ranking around 80th in the world. By China’s own standard, we still have over 70 million people living under the poverty line” (Xi, 2015).

China’s self-image as a developing country is grounded in its historical experience, as the country has suffered numerous interventions by foreign powers throughout its history, including the forced opening-up to imperialist powers and the Opium Wars of the 19th century, the Japanese invasion of the 1930s, and Western intervention in the Chinese civil war that ended with the communist victory of 1949. As most developing countries that have suffered from interference from abroad, Chinese foreign policy emphasizes non-intervention in internal affairs and a staunch defense of national sovereignty. This, in turn, reflects in the “no political conditions” nature of its dealings with development nations.

As Deng Xiaoping himself put it at the beginning of the reform process in 1978: “The question is whether or not China will practise (sic) hegemony when it becomes more developed in the future. (...) If it remains a socialist country, China will not practise (sic) hegemony and it will still belong to the Third World” (Deng, 1991).
Of course, presenting itself as a developing country is as much a matter of national identity and ideology as it is one of convenience and strategy for Chinese leaders. First, because it allows China to claim the leadership of the “global South” and demand more space within the Western-led international system. And secondly, Beijing has usually used its developing status to resist pressure to open its economy to foreign exports (Dollar, 2015), and avoid taking aggressive steps to curb its carbon emissions, a position that Beijing is beginning to reverse (Stone Fish, 2014).

However, China’s belonging to the developing world is not just cynical posturing, but also a source of soft power that is essential to the success of its internationalization process. As I will detail in the next two chapters, Chinese leaders are particularly susceptible to accusations of imperialism and interventionism in South America and Africa. If it indeed pushed for a set of economic policies and governance arrangements, the Chinese state would be acting against its own national identity as well as jeopardizing its international image.

**An experience, not a model**

The experimental, step-by-step nature of the way in which China introduced economic reforms to foster growth is another factor that discourages views of a “China model”, ready to be exported to other nations. This is why I have referred to China’s developmental policies as an “experience”, instead of a model. As I explained in this chapter, Chinese leaders did not have a detailed plan when they launched the reform process in the late 1970s.

The adaptability that characterized China’s own version of the Asian developmental state remains a central feature of the country’s domestic and foreign economic policy. Especially after the slowdown of the Chinese economy since 2014, views about a unified, highly structured “China model” seem to be refuted by the uncertainties and constant experimentation that are part of China’s development path.
Paradoxically, Cooper Ramo understood perfectly this central feature of China’s development experience, even if those who followed him did not. Under his definition, the “Beijing Consensus” was never intended to be a pre-fixed set of policies:

*China’s new development approach (...) is flexible enough that it is barely classifiable as a doctrine. It does not believe in uniform solutions for every situation (...) Change, newness and innovation are the essential words of power in this consensus* (Cooper Ramo, 2004, p. 4).

In addition, those who worry about the emergence of a Beijing Consensus seem to ignore that the fact that made China such an attractive destination for FDI from the start was the immense size of its market and the abundance of cheap labor, but also the high quality of China’s bureaucracy (Dollar, 2015b). This is a characteristic that China shares with other Asian development states such as Japan, South Korea and Taiwan, but that are not frequent in other developing economies (Rodrik, 2011).

Countries that are usually mentioned as potential beachheads for the “China model” in the developing world such as Venezuela, Zimbabwe and Sudan have not the economic potential nor the institutions to set the immensely complex set of regulations and bureaucratic structures that have been the cornerstone of China’s development.

As we will see, the Chinese government and its corporations adopt different approaches to relations with developing nations in South America and Africa. Depending on local conditions, they would use different instruments of its “development toolkit” to obtain natural resources, promote the export of manufactures and promote business opportunities.

*The Washington Consensus and local capacity*

Joshua Kurlantzick summarized the view of those who see China’s engagement with developing countries as a menace to democracy, a claim that became even stronger
after the 2008-2009 financial crisis that affected mostly the United States and Europe. According to Kurlantzick (2013): “In the wake of the global economic crisis, and the dissatisfaction with democracy in many developing nations, leaders in Asia, Africa, and Latin America are studying the Chinese model far more closely -- a model that, eventually, will help undermine democracy in their countries”.

In my perspective, statements like these miss two critical points. First, they ignore that “Washington Consensus” policies such as deregulation, trade and financial liberalization and the privatization of state assets were attached to loans by the World Bank and the International Monetary Fund for authoritarian and democratic regimes alike. There was no “democratic clause” in the Washington Consensus, just as there is no “authoritarian requirement” for China.

Countries that aspire to become global superpowers cannot afford to be politically picky, as demonstrated by the support the United States gave to several authoritarian regimes in developed and developing nations during the cold war (or in the Middle East at present). In fact, the third wave of democratization of the 1980s that swept Latin America and Eastern Europe did not happen because the Washington consensus, but in spite of it, given the economic and social turmoil this set of policies generated in numerous countries. Not willing to let politics get in the way of business opportunities, Chinese actors have been politically neutral, increasing economic and diplomatic engagement with democracies and authoritarian regimes alike.

A final criticism against views of China’s expanding “model” has to do with local interests and capabilities. Those who assume that China’s economic engagement is followed by the adoption of its authoritarian regime by other countries ignore or underestimate the capacity of developing nations. As I will seek to demonstrate in the next two chapters, local governments and societies have capabilities that allow them to manage their relations with China towards their own, national goals. In fact, numerous
countries in Asia, Latin America and Africa (and even Europe) are engaging with China without diminishing their links to western institutions or to the United States. A great part of China’s purchases of African and South American natural resources. The world, in other words, is much more complex than what “Beijing consensus” proponents might think.
CHAPTER 3: REGIONAL-LEVEL COMPARISON OF CHINESE ENGAGEMENT

This chapter will provide a regional-level comparative analysis of Chinese engagement in SSA and SAm. While trade patterns with South America and Africa resemble a North-South situation, China’s approach to investment, finance and aid, and diplomatic engagement is much more nuanced than what some reports might suggest. This study will show that although the interest Chinese actors have in natural resources is undeniable, China’s foreign economic policy towards SSA and SAm is not unidirectional, but based on experimentation, adaptability and a contextualized analysis of which tools are suitable to achieve the objectives of its Go Out policy.

Trade patterns

Trade between SSA and SAm and China has soared since 2000, generating economic opportunities but also rising concerns about the asymmetric nature of ties with China. Despite the gap in regional GDP, at the beginning of the 21st century SSA and SAm had similar trade volumes with China, largely the consequence of the history of Chinese engagement in Africa in the decades before the go out policy. In a few years, however, South America overpassed Africa as a trading partner for China in absolute terms: According to the World Bank’s World International Trade Statistics (the source of data for trade in this thesis) trade between China and SSA rose from U$D 7.3 billion in 2000 to U$D 98 billion in 2015, while China’s trade with SAm expanded from U$D 8.1 billion to U$D 164 billion in the same period.

As shown in Figures 1 and 2, in the year 2000 China was the 5th largest trading partner of both Sub Saharan Africa and South America. By 2015, the situation had changed dramatically, and China was the largest trading partner of both regions.
However, contrary to what some analysis might suggest, China’s share of both region’s trade is similar (in SSA) or much lower (in SAm) to that of the US at the turn of the century.

**Figure 1: Total trade of SSA by partner**

![Figure 1: Total trade of SSA by partner](image1)

Source: COMTRADE (excluding intra-regional trade)

**Figure 2: Total trade of SAm by partner**

![Figure 2: Total trade of SAm by partner](image2)

Source: COMTRADE (excluding intra-regional trade)

In the case of South America, China’s rise contributed to diversify regional trade. In 2000 trade with the United States represented a whopping 27.8% of the total, with
Japan in second place with 4.27% and China lagging Germany and Italy, with only 2.67% of the total. While in the following years China dramatically increased its importance, South America’s trade became more balanced: In 2015, trade with China represented 17.35% of the total, almost equal to the US with 16.12% (WITS, n.d.).

China assumed a more dominant position as a trading partner for Sub Saharan Africa, although similar to the one the US had in 2000. That year, trade with the US represented 16.27% of the total, while the UK was in second place with 8%. China’s 4.35% was twice than its share of South America’s trade in 2000, but was smaller than France and Germany’s. By 2015, China and the US had reversed their roles: the Asian giant had assumed the dominant role with 15.2%, followed by India with 6.68% and the US with 5.4% (WITS, n.d.).

*The positive effects of trade with China*

During the yearly years of the Go Out policy Chinese diplomacy highlighted the complementarity between its economy and that of SSA and SAm. According to this narrative, soaring economic relations would be win-win for both sides: Rising exports of commodities would boost economies in SSA and SAm, and China will secure the natural resources it needed as well as provide manufactures for the rising numbers South American and African consumers.

During his trip to SSA in 2004, for instance, the Chinese president Hu Jintao said that “Africa has rich resources and market potentials, whereas China has available effective practices and practical know-how it has gained in the course of modernization”. China’s first white paper on African policy, released in 2006, underlined on its first paragraph that “Africa has a long history, vast expanse of land, rich natural resources and huge potential for development” (“China’s African Policy”, 2006). Similarly, a piece in *China Daily* analyzing Jiang’s trip to Latin America in 2001 said that “These countries
are important suppliers of raw materials for Chinese industry, which buys copper from Chile, wool from Uruguay and has investments in Venezuelan petrol projects.” (“Jiang Zemin to Start”, 2001)

Indeed, since the beginning of the go out policy in the early 2000s Latin America and Sub Saharan Africa accelerated their annual GDP growth rates and overcame the decade of lackluster performance of the 1990s, as shown in Figure 3. Further, Chinese sustained demand allowed SSA and SAm to bounce back from the 2008-2009 global crisis faster than other regions.

**Figure 3: GDP growth (1985-2016)**


China’s influence over SSA and SAm’s terms of trade is fundamental to understand this impressive economic performance. China’s appetite for natural resources benefited SSA and SAm not only through its direct purchases but also because
of the rise of global prices for commodities generated by Chinese rising demand. The period immediately after the 2008-2009 global financial crisis saw an acceleration of already rising figures of trade with SSA and SAm. This is largely a result of the USD 586 billion fiscal expansion package launched by the Chinese government in 2009 in response to the global financial crisis, which kept demand for raw materials intact despite the global slowdown (World Bank, 2010).

Figure 3 shows the evolution of commodity prices, divided in energy, agricultural goods and metals.

**Figure 4: Commodity price index (1985-2020)**

![Commodity Price Index Chart](image)


An analysis of the evolution of terms of trade in countries in SSA and SAm confirms the positive effect of Chinese demand: By the year 2014, for instance, terms of
trade were 35% better for Chile, Brazil and South Africa, 70% better for Argentina, and more than 140% better for oil-exporters Venezuela and Angola (World Bank, 2016). However, countries with less natural resources, such as Kenya, did not improve their terms of trade in this period.

**Is China promoting a neocolonialist trade pattern?**

As some observers correctly note, volume and prices are not the only relevant variables regarding China’s trade with SSA and SAm. Despite South-South cooperation being a central aspect of China’s diplomacy in both regions, figures suggest a very classical North-South trade pattern. For instance, 84% of all exports of Sub Saharan Africa to China between 2008 and 2013 were commodities: 61% oil, 22% non-oil resources and 5% agricultural products (Pigato and Tang, 2015). Similarly, in 2013 commodities accounted for 73% of Latin American exports to China, compared to 41% of its worldwide sales. At the same time, manufacture exports were just 6% of all Latin American sales to China, but 42% of its global exports (ECLAC, 2015). Moreover, trade with China has deepened South America’s and African dependence on commodities as local industries are usually incapable of competing with Chinese cheaper manufactures. In the case of Africa, Giovannetti and Sanfilippo (2009) found evidence that Chinese manufactures are displacing African exports of textiles, clothing, machinery and equipment, hurting exports to the United States and Europe, as well as intra-African trade. For South America, Gallagher and Porzecanski (2010) found that China is threatening --its market share is expanding faster than that of SSA countries-- more than 73% of Argentina’s manufacturing exports, 84% of Brazil’s, 91% of Chile’s and 89% of Colombia’s. As I will note in my case studies, competition from

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14 Given that Latin America includes manufacture exporters Mexico and Central America, figures for South America are probably even more skewed towards a manufactures-for-commodities trade pattern.
Chinese manufactures is particularly troubling for South Africa and Brazil, countries with the largest share of manufacturing output in each region.

This commodity-for-manufactures trade pattern has led analysts to refer to China’s engagement in SSA and SAm as “neocolonial”. Within and outside of SSA and SAm, journalists and academics have criticized China’s role for locking these regions into dependent relationships similar to those they have had with western developed nations (Jenkins, 2010; Esposito et al, 2014). Already in the 1960s and 1970s, dependence theory argued that although prices for international goods fluctuate, in the long run terms of trade will always benefit countries that export manufactures and import raw materials, such as China. Commodity prices are extremely vulnerable to external shocks, while the price of manufactures is much more stable (Funke et al, 2008; Jääskelä and Smith, 2013).

This is supported by the performance of trade since the slowdown of the Chinese economy began, in 2012. While exports of Chinese manufactures continue to rise, the volume and prices of commodity exports from SSA and SAm have deteriorated. Figure 3 shows that the large improvements in prices of raw materials (agricultural goods, metals and energy) rose significantly during the first decade of the go out policy, but have largely stagnated since Chinese growth rates dropped from 10% to a “new normal” of around 6.5% (Wolf, 2016; Zhang & Chang, 2015).

Although the asymmetric nature of trade with China is undeniable, I will argue that this “neocolonialist perspective” tends to exaggerate China’s role in this process. Deindustrialization is a global phenomenon that has been happening for decades, and cheap manufactures do not only come from China, but also from many other Asian industrializing nations (see Rodrik, 2015). Those who accuse China for single-handedly jeopardizing manufactures from SSA and SAm seem to be accusing Beijing of creating
globalization, when in fact China is merely taking advantage of it (Sautman and Hairong, 2015).

Further, the effect of China’s rise on SSA and SAm exports remains positive even after the recent drop in prices. As shown in figure 3, commodity prices are nowhere near the low values of the mid 1980s and 1990s. Moreover, the World Bank expects commodities to regain some of the lost ground in the next years, likely as a result of demand from Asian economies, which suggests that GDP growth for SSA and SAm will recuperate.

The Chinese government is fully aware of the asymmetric nature of trade relations with South America and Africa, and the criticism it has generated in both regions. Given that the Go Out policy has other objectives besides acquiring natural resources and selling manufactures, China has been making adjustments to its policies in order to address these concerns and promote more balanced economic exchanges. Beijing cannot change the structural differences between its economy and those of SSA and SAm, and trade imbalance will remain. However, the PRC has adapted its diplomatic and economic strategy to redefine its “win-win” narrative and reverse backlash in SSA and SAm against its increasing role, as I will argue in the following sections.

**Investment relations**

Investment from Chinese corporations is the second pillar of the country’s economic engagement in SSA and SAm, one that at the same time reinforces and contradicts accusations of “neocolonialism”. First, because despite the Go Out policy, China is far from being a top investor in South America or Africa. Secondly, because Chinese FDI in both regions is concentrated on natural resources, but seems to be diversifying as Chinese corporations find new opportunities.

As with other aspects of China’s engagement abroad, reliable data of FDI flows and stocks is scarce. Besides the usual reluctance of MOFCOM to release annual data of
FDI by country of destination (for reasons I will analyze below), a large part of China’s foreign investment is channeled through Hong Kong, Macao and offshore centers in the Caribbean, which makes tracking individual investments almost impossible on a regional level (Zhou and Leung, 2015).

Despite these problems, MOFCOM’s database is still the most widely used, including by UNCTAD. I will use UNCTAD’s statistics in my study of Chinese investment. This data shows an expansion of Chinese investments in South America and Sub Saharan Africa. In 2003 Chinese actors invested only $70 million in Africa and $16 million in South America, reflects historical China-Africa ties. In 2012, however, China invested U$D 2971 million in South America versus U$D 2152 million in Sub Saharan Africa.

Since Chinese investment in SSA and SAm was insignificant before the Go Out policy, overall numbers remain small compared to other traditional investors. In 2012 China’s ODI flows represented only 1.80% of South America’s total, and 5.34% of Sub Saharan Africa’s. Even if, as Dollar suggests (2015b), we multiply these numbers by two to compensate for the lack of data from Hong Kong and tax heavens, it is clear that China’s presence has increased, but not enough to make it a dominant investor in Sub Saharan Africa and South America as the neocolonial warning would suggest.

Dollar suggestion is confirmed by Alicia García-Herrero, from BBVA research, who estimated China’s FDI stock abroad compensating for the use of offshore centers. According to her findings, in 2013 China invested $4.39 billion in Latin America and $5.38 billion in Africa, representing 5% and 7% of China’s total ODI to the world, respectively (García-Herrero, 2015). If these approximations were correct, China would

\[\text{**This omission is important:** With inflows of U$D 71 billion and outflows of $84 billion in 2014 --figures similar to those of mainland China-- Hong Kong’s special region is one of the main platforms by which Chinese corporations and banks do their foreign investment.}\]
still be a relatively small investor in both regions, representing 2.66% of total FDI flows into Latin America and 9.96% of Africa’s in 2013.

Official data and estimations suggest that China is much more important as an investor in Africa than in Latin America, likely because of its longer history of engagement and the presence of a large Chinese diaspora. Figure 4 shows official FDI stocks for Latin America and Africa in 2014: While China is the 4th largest investor in Africa in terms of FDI stock, it does not make it to the top 10 of investors in Latin America16.

Official statistics, however, could be seriously underestimating Chinese FDI towards SSA and SAm. For instance, according to Shinn (2012), Chinese officials stated that ODI to the whole of Africa in 2011 were close to USD 14.7 billion, more than 7 times the official flows registered by MOFCOM. Similarly, ECLAC estimates that Chinese FDI flows to South American economies reached $9323 in 2011 alone, and remained relatively constant in 2012 and 2013 (ECLAC, 2015).

Despite this lack of reliable information, reports from both SSA and SAm confirm that China is a rising, but by no means main investor in both regions, and still lags behind the United States and European countries.

16 Chinese investment would likely be more important as a percentage of South America’s FDI, but not enough to become a main investor.
Figure 5: FDI stocks by country of origin (2009 and 2014)

Source: UNCTAD, in billions of dollars. Data for LAC excludes financial centers in the Caribbean.
Sector concentration of Chinese investments

Although a big part of Chinese FDI in SSA and SAm is directed towards natural resources, other areas are getting increased attention from public and private Chinese investors. As Chinese corporations gain markets and experience in South American and African markets, they are identifying new business opportunities in sectors such as telecommunications, financial services and manufactures. Reliable statistics on the sector composition of Chinese investments are scarce, but evidence shows that Chinese engagement under the go out policy is more sophisticated than what some observers give it credit for.

In the case of Latin America\textsuperscript{17}, ECLAC confirms that most Chinese investments have targeted raw materials, especially oil, gas and minerals: “almost 90% of estimated Chinese investments have been in natural resources. In part, this reflects Latin America’s endowment of natural resources, but nevertheless Chinese investments are disproportionately focused on this sector compared with others” (ECLAC, 2013, p. 13).\textsuperscript{17} Coincidentally, Ray and Gallagher (2015) find that 69% of Chinese merger and acquisitions in Latin America between 2007 and 2013 were in the oil and gas sectors.

Chinese corporations are also mainly interested in Africa’s raw materials. According to Dollar (2015): “Chinese investors appear to prioritize natural resources even more strongly than Western investors” (p. 29).

However, using Chinese investment flows to confirm allegations of “neocolonialism” could be premature. Particularly in Sub Saharan Africa, there is evidence of a division of labor between Chinese public and private companies: While main SOEs concentrate on strategic sectors such as natural resources, a growing number of Chinese small and medium-sized private firms are investing in services and

\textsuperscript{17} As ECLAC (2015) suggests, almost all Chinese ODI to Latin America is directed towards South American countries
manufactures. Dollar, Cheng and Tang (2015) use MOFCOM statistics to show that 60% of the investments of these smaller private firms have targeted SSA’s service sector, with 20% going to manufactures and 20% to natural resources. These numbers are not surprising: given the large number of Chinese citizens living in Africa, small businesses such as restaurants, hotels and transportation services are emerging in many countries, usually targeting Chinese workers and managers from larger projects by SOEs.

The Chinese government, eager to disprove allegations that it is only engaging SSA and SAm to grab raw materials, has been promoting industrialization as the next step in its cooperation strategy for both regions (Kapchanga, 2016; Brautigam and Tang, 2011). The win-win narrative promoted by Beijing is gradually adapting to reflect local demands. In the case of Africa --the continent where Chinese actors are getting the most criticism—the PRC has launched a program of Special Economic Zones (SEZs) as clusters of manufacturing industries and innovation. In addition to a source of soft power, SEZs in SSA are platforms for the transformation of the Chinese economy. As the CCP steers the economy away from polluting industries and massive investment towards high tech and domestic consumption, SSA countries can receive those factories that China no longer wants within its territory. SEZs have faced numerous challenges in Africa, including inadequate infrastructure, lack of skilled workers, little access to trade, and poor coordination with local governments (Zeng, 2015). But there is growing evidence of Chinese private companies investing in small and medium scale manufacturing in Africa, a move that will likely increase as the government deepens its internal reforms.

South America’s geographical distance from China, as well as its relatively higher environmental standards and higher wages would make it much harder for Chinese manufactures to relocate there. There is little evidence of China’s FDI in South American
manufactures outside of Brazil and the automobile sector in Uruguay in order to export to the Brazilian market (CBBC, 2011; Mercopress, 2007).

Finally, agriculture does not seem to be a central focus for China’s investments in SSA and SAm, at least for now. For the moment, China seems to be content with purchasing its soy, grains and other agricultural goods, instead of acquiring land to produce it through its own companies. In the case of Latin America, Myers and Jie (2015) show that Chinese actors have invested little in agriculture, and the land involved in these deals is limited. They also found no evidence of a specific government policy in the PRC to direct companies into acquiring land in Latin America. Brautigam (2015) finds similar results in Africa: narratives about “land grabbing” from China are not backed by large Chinese investments in agriculture.

**Finance and development aid**

China has displayed increasingly sophisticated financial tools to boost the objectives of its go out policy in South America and Africa. The Chinese state has used its (direct or indirect) control over its two main policy banks to channel billions of dollars into pursuing the three main goals of this policy: Secure access to natural resources, promote the export of Chinese manufactures, and encourage Chinese corporations to internationalize their operations to increase their market share, acquire technology and know-how and professionalize their management.

To achieve this, China has used a varying combination of concessional loans --at discounted rates and extended paying periods--, non-concessional loans --at market rates and with stricter repayment conditions--, and international aid --grants by China that need not be repaid by recipient countries (Brautigam, 2009; Snell, 2015). Frequently one single loan will combine more of one of these types. In addition, loans from the CDB and CEIB are directed at different sorts of activities: overseas investment support (directed at a Chinese company that wants to invest in SSA and SAm), export
credits (to the buyers or sellers of Chinese goods), and loans given to foreign governments to finance infrastructure projects (Snell, 2015). For a more detailed description of Chinese loans, and their origin, see Table 2.

To complement their direct loans, China’s policy banks have created a number of funds and credit lines, that governments and companies in SSA and SAm to apply for in order to get financing. In Africa, China has set the China-Africa Development Fund (U$D 10 billion), the Africa Growing Together Fund (U$D 2 billion) and the China-Africa Production Capacity/Industrial Cooperation Fund (U$D 10 billion). Meanwhile, projects in South American countries can apply for finance from the CELAC-China Investment Fund (U$D 20 billion), the China-LAC Industrial Cooperation Fund (U$D 10 billion) and the China-LAC Investment Fund (U$D 5 billion) (Gallagher et al, 2016).

These funds serve a dual purpose in China’s go out policy: On the one hand, they provide more financing opportunities for the activities of Chinese corporations in SSA and SAm. But additionally, they serve as diplomatic tools that promote China’s soft power in both regions. In particular, newly created funds for industrial cooperation help China address concerns of its asymmetric economic ties with Africa and South America.

Far from applying a pre-packaged finance strategy, China adapts its financial tools to the realities of each recipient region. For instance, financial aid is a much larger part of China’s finance to SSA, which explains why loans by the CEIB (the only policy bank authorized to grant concessional loans) represent 68% of all Chinese finance in SSA in the 2000-2015 period (Hwang et al, 2016). MOFCOM also coordinates grants and zero-interest loans to SSA and the Chinese government has announced debt forgiveness packages for heavily indebted African countries.

This does not mean that all Chinese loans in Africa are concessional. Far from it, most finance from China has market interest rates and strict repaying terms (Brautigam and Gallagher, 2014), as I will show in my case studies.
Table 2: China's outbound finance regime

<table>
<thead>
<tr>
<th>Source</th>
<th>Mechanism</th>
<th>Tying Status</th>
<th>Beneficiaries</th>
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<tbody>
<tr>
<td>Ministry of Commerce</td>
<td>Bilateral grants</td>
<td>Can be tied to exports</td>
<td>Foreign governments</td>
</tr>
<tr>
<td></td>
<td>Bilateral interest-free loans</td>
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<tr>
<td>Ministry of Finance</td>
<td>Multilateral grants</td>
<td>Untied</td>
<td>Multilateral banks and organizations</td>
</tr>
<tr>
<td>China Development Bank</td>
<td>Nonconcessional loans and credit lines</td>
<td>Can be tied to exports</td>
<td>Foreign governments, Foreign companies</td>
</tr>
<tr>
<td></td>
<td>Overseas investment support</td>
<td>Can be tied to exports</td>
<td>Chinese companies</td>
</tr>
<tr>
<td>China Exim Bank</td>
<td>Preferential export credits</td>
<td>Tied to exports</td>
<td>Foreign companies</td>
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<td></td>
<td>Export buyer's credits</td>
<td>Tied to exports</td>
<td>Foreign governments</td>
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<td></td>
<td>Export seller's credits</td>
<td>Tied to exports</td>
<td>Chinese companies</td>
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<td></td>
<td>Concessional loans</td>
<td>At least 50 percent tied</td>
<td>Foreign governments</td>
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<td></td>
<td>Nonconcessional loans and credit lines</td>
<td>Can be tied to exports</td>
<td>Foreign governments, Foreign companies</td>
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<td>Overseas investment support</td>
<td>Can be tied to exports</td>
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<tr>
<td>Agricultural Development Bank of China</td>
<td>Overseas investment support</td>
<td>Can be tied to exports</td>
<td>Chinese companies</td>
</tr>
</tbody>
</table>

Source: Snell (2015)

Meanwhile, most loans towards South American countries are non-concessional, which is why 81% of all Chinese loans in the 2007-2015 period were granted by the CDB (Gallagher and Myers, 2016). Moreover, although the State Council supervises CDB and CEIB, each policy bank is run independently, and they even compete with each other for influence and presence in foreign markets (Brautigam, 2009, p. 116).
Given the dual economic and political dimension of Chinese financing, it is important to bare in mind that not all funds are available immediately, and that even announced loans can take years to materialize (and some are announced several times and never come to fruition). In analyzing China’s financing in SSA and SAm, sometimes it is difficult to separate announcements from reality. Because of the aforementioned lack of reliable statistics, databases that track Chinese finance abroad usually rely on media reports, which can be inaccurate and include a single project more than once (Brautigam 2009; Strange et al, 2015).

China’s resource-backed loans have generated particular attention in the international press. Under these agreements—which represent about 50% of all Chinese loans to Africa and Latin America—, Chinese policy banks grant a loan to a foreign government—usually for infrastructure projects—and the recipient country agrees to pay back the loan with the proceeds of its exports of natural resources, directed to China or to other destinations (Brautigam and Gallagher 2014). Only in rare occasions do governments repay the loans directly with commodities, as I will show in the case of Venezuela.

Contrary to what some might argue, commodity-backed loans are not an indication of Chinese voracity for natural resources or geopolitical ambition, but of the cautious nature of the go out policy. By securing repayment with the export of natural resources (usually oil), Chinese policy banks reduce the risk of lending to countries in SSA and SAm. Some governments in South America and Africa hardly have the macroeconomic stability or institutional strength to secure loans in international markets at competitive rates. Chinese banks are willing to fill that gap, but will not extend a blank check: proceedings from commodities exports are the key to secure those loans.
In addition to its willingness to loan to all countries regardless of their credit rating in international financial markets, the second competitive advantage of Chinese finance (both concessional and non-concessional) is its political neutrality. As a result of its own experience as a developing nation, and the centrality of non-intervention in domestic affairs for Chinese foreign policy, loans by Chinese banks and government agencies are not tied to specific governance standards or macroeconomic policies. This fits perfectly with the interests of most governments in SSA and SAm, which experienced the strict conditionality of IMF and WB loans during the 1980s and 1990s.

Despite the difficulties in determining which part of China’s finance in SSA and SAm is public diplomacy and which part are actual projects active in the ground, the mere figures of Chinese financial commitments in both regions are staggering. The China-Latin America Finance Database shows that in 2007-2015 Chinese banks have pledged US$ 124.6 billion for projects in the region, most of them located in South America.

**Figure 6: Sector distribution of Chinese finance in Latin America (2007-2015)**

Source: Gallagher and Myers (2016)
Figure 7: Sector distribution of Chinese finance in Sub Saharan Africa (2000-2015)

Source: Hwang, Brautigam and Eom (2016).

As figure 5 shows, 56% of that sum was devoted to energy projects, 32% to infrastructure, 2% for mining and 10% for other sectors (Myers and Gallagher, 2015). Meanwhile, according to a database compiled by the China Africa Research Initiative (CARI) displayed in figure 6, Chinese banks have loaned more than U$D 85 billion to Sub Saharan African governments in 2000-2014. Of this, 27% was oriented towards projects in transportation, 13% to mining, 20% to energy and 40% to other sectors (CARI, 2016).

Even though Chinese loans are not tied to political conditions, Beijing has not poured billions of dollars in SSA and SAAm out of altruism. In addition to charging market interest rates for a large share of its loans to South American and African countries, the Chinese government has used its financial instruments to secure projects and businesses for its corporations. Each deal is negotiated individually, but Brautigam and Gallagher note that Chinese loans for infrastructure projects are usually tied to
hiring a Chinese corporation to do the construction, as well as obtaining at least 50% of the goods for the project from Chinese sources (2014).

Each loan Chinese sources grant to finance an infrastructure project in SSA and SAm, therefore, can serve multiple purposes within China’s the go out policy: It facilitates the export of commodities that the Chinese economy needs, makes it easier for Chinese manufactures to penetrate African and South American markets because of infrastructure improvements, and generates business opportunities for Chinese corporations, which use the know-how and skills acquired during decades of intense infrastructure development within China.

But by targeting infrastructure, Chinese actors are also fulfilling a critical need for SSA and SAm, a critical elements of China’s win-win narrative. A 2009 study by the African Development Bank found that “fewer than one in five people in poor African countries have electricity, only 56 per cent drink clean water, barely a third of rural Africans live near a road, just 4 per cent of Africa’s farmland is irrigated and over 60 per cent of the population lacks basic sanitation facilities” (Fleshman, 2009). The cost of addressing these shortcomings was estimated at 38 billion dollars a year for the foreseeable future (Foster, 2008).

South America also suffers from an acute “infrastructure gap”, although the situation of the region is not as dire. Perotti and Sanchez (2011) argue that all Latin American countries should invest at least 6.2% of their GDP in infrastructure--U$S 320 billion in 2012, almost twice what they are investing now-- in order to respond to the immediate needs of their citizens and private sectors. Oliver Wonekha, Ugandan ambassador to the United States, resumed the position of countries in SSA and SAm vis-à-vis Chinese finance during a discussion held at the Brookings Institution: “China builds a road to get the resources out. But the road remains”.

59
Western observers have repeatedly criticized China for the lack of transparency of its statistics regarding investment, financing and aid in SSA and SAm. This opacity, however, serves the interests of the government of the PRC and of recipient countries as well. From the Chinese standpoint, not disclosing the exact amounts, projects and beneficiaries of its initiatives in SSA and SAm facilitates projecting Chinese soft power and image in these regions with little cost: In every visit by Chinese dignitaries or regional summits the PRC can announce grandiose cooperation funds and initiatives with little accountability on whether they turned into real cooperation projects. Secondly, China benefits from this lack of transparency because it allows it to play down the concentration of its investments in natural resources, which has generated backlash from local populations and governments in SSA and SAm. Finally, especially in the case of foreign aid, excessive generosity by the PRC would be negatively perceived by the Chinese population, which would rather have that money invested in China’s domestic development. Meanwhile, governments in SSA and SAm also benefit from this opaqueness, since it allows them to trumpet Chinese cooperation projects whether they materialize or not, as well as hide the destination and beneficiaries of these initiatives (Brautigam, 2009 and 2011).

**Environmental and labor standards**

Chinese corporations operating in SSA and SAm have received criticism for their alleged lack of respect for environmental and labor standards, fueling accusations of neocolonialism and exploitation.

Given China’s focus on natural resources extraction and massive infrastructure projects, tensions regarding the environment are expectable. Until recently, the Chinese government prioritized growth over environmental sustainability in its domestic development, so Chinese corporations have limited experience on this field, and relatively lax regulations at home (Ray et al, 2015; Shinn, 2016). As I have stated in
chapter 2, China’s Go Out policy is largely a continuation of its domestic development experience. As sustainability and protecting the environment became a rising concern for Chinese authorities (and the Chinese people) at home, this is gradually permeating Chinese corporations operating abroad.

In fact, the Chinese government is already promoting what could be called a “green Go Out policy” in SSA and SAm. Chile, for instance, is already importing Chinese solar panels (Ray, Gallagher, Lopez & Sanborn, 2015). Further, during a visit to the South American nation in 2012 Chinese prime minister Wen Jiabao announced a $700 million CDB-financed investment by Chinese corporation Sky Solar to build a solar park (Esposito, 2012). This is an example of how countries in SSA and SAm can influence the terms of Chinese engagement: Disproving accusations of China’s preference for authoritarian governance models, one of the main reasons for China’s decision to invest in Chile’s renewable energy sector is its strong regulatory framework (Borregaard, Dufey, Ruiz-Tagle & Sinclair, 2015). Similarly, Chinese corporations are investing heavily in SSA’s renewable energy sector: In addition to its investments in hydropower (which remains 49% of the total), China is accelerating its projects in wind, solar and biomass power in many countries, including South Africa, Kenya, Ethiopia and Ghana (IEA, 2016).

At the same time, the Chinese government has used its regulatory power and ownership over SOEs and policy banks to push for changes regarding the environmental and social repercussions of investments abroad, although these initiatives are still in its infancy, and lack adequate enforcement mechanisms (Gallagher, 2016, pp.132-135). SASAC has encouraged SOEs under its control to improve their social corporate responsibility, and CEIB and CDB have also revamped their internal regulations to strengthen environmental impact studies and mandate consultation processes with local communities in the projects they finance (Bosshard, 2007; Ray et al, 2015). On chapter
4, I will study the case of Peru, a country in which Chinese mining companies are making significant progress in addressing environmental concerns.

This transition has not been easy, showing how the interests of the Chinese state (promoting its international image and building stronger relationships with countries in SSA and SAm) sometimes collide with that of corporations, which usually focus on profits (see Downs, 2011). The success of these efforts to improve environmental compliance depends on the capacity and willingness of local governments to work with Chinese corporations (Kotschwar, Moran & Muir, 2012). On chapter 4, I will study the case of Peru, a country in which Chinese mining companies are making significant progress in addressing environmental concerns.

Although it is clear that the activities of Chinese corporations have had negative impact on the environment in SSA and SAm, this is at least partially a problem of perception. For the novelty of their presence and the pace of their expansion, the impact of Chinese actors in SSA and SAm has received intense coverage in local and international media. As Shinn notes in the case of Africa: “if a Chinese investment has no notable negative environmental impact, it rarely receives attention, and good practices are usually ignored by environmental groups and the media” (2016, p. 49). Similarly, in my case studies I will analyze the case of Peru, where Chinese mining companies have been the focus of criticism for violating environmental standards even though their behavior is similar to that of western investors (Irwin, 2013).

A second focus of criticism to PRC engagement (but particular to Africa) has been the alleged import of workers by Chinese corporations, especially in infrastructure and manufacturing (see Flynn, 2013). Brautigam (2009) notes that Chinese companies prefer to bring their own workers for reasons of language and productivity. She agrees that most Chinese corporations provide their own managers to supervise infrastructure projects and sometimes also bring in an important number of low-skilled workers as
well, largely to ensure that construction will proceed as scheduled and to avoid local labor regulations. However, she also notes that media reports about the amount of Chinese workers in Africa tend to be exaggerated, and based more on perceptions than in reality. According to Brautigam’s own research, the local content of the workforce for Chinese projects in Africa is systematically above 50% (see Gandolfo, 2015).

This is much less of an issue in Latin American countries, where the feared influx of Chinese workers has not materialized. Infrastructure projects built by Chinese corporations usually send their own top managers, but the vast majority of workers are of Latin American origin, and so are the mid-level managers. The explanation for this difference between Africa and South America is likely based on pragmatic evaluations by Chinese actors, in another demonstration of the pragmatic and contextual nature of the Go Out policy: In addition to the issue of geographical distance and costs, Latin American countries are much more able to impose strict local-workers requirements in their agreements for Chinese-funded projects (Ferchen, 2015).

**Diplomatic engagement**

China has stepped up its diplomatic contacts with South America and Africa to complement its economic engagement. Besides promoting its commercial and investment interests, Chinese diplomatic engagement is a key instrument to address local demands and criticisms, and emphasize the mutual beneficial nature of China’s rise.

Since the beginning of the Go Out policy in 2000, the PRC has implemented similar diplomatic initiatives in SSA and SAm. In 2006, for instance, the Chinese government issued its first White Paper on African policy in 2006, which was followed by a similar document for Latin America three years later. Moreover, in 2007 China created the position of Special Representative for African Affairs within its Ministry of
Foreign Affairs, while in 2015 the position of Special Representative for Latin America was created.

The first element of China’s foreign policy in SSA and SAm is bilateral diplomacy. Chinese officials --including ministers, the Prime Minister and vice Prime Ministers and the President-- conduct regular tours around SSA and SAm, and constantly welcome their South American and African counterparts in Beijing. Without exception, in each stop of their trips to SSA and SAm PRC leaders underline their win-win narrative, announce new investment initiatives and financing opportunities, and promise to gradually reduce asymmetries to balance bilateral trade. As I will argue in my case studies, the level of fulfillment of these promises is not the same for all countries.

China’s foreign policy in SSA and SAm also has a regional dimension, and Beijing has launched collective forums to discuss collectively with countries in each of these regions. Given China’s longer history of engagement, this regional-level approach began with Africa: In October 2000 representatives of the PRC and of 54 African governments as well as the African Union came together in a grand ceremony in Beijing to launch the Forum on China and Africa Cooperation (FOCAC). Inspired on Zhou’s Five Principles, the objectives of FOCAC are to promote “equal consultation, enhancing understanding, expanding consensus, strengthening friendship and promoting cooperation” (FOCAC, 2013).

In 2015, exactly fifteen years after the launching of FOCAC, China initiated an almost identical cooperation mechanism with 33 countries in Latin America –organized in the Community of Latin American and Caribbean States, or CELAC-- called the CELAC-China Forum. Mirroring FOCAC, the first Ministerial Conference of the forum took place in Beijing in January 2015, and will be held every three years alternating between China and a Latin American country.
The practical results of FOCAC and CELAC-China Forum have been limited, and contentious issues in China-Africa and China-South America relations are never discussed in these forums. But regional meetings serve as platforms for China to address accusations of neo-colonialism and of the asymmetric and commodity-based nature of its engagement with SSA and SAm.

In that regard, announcements of new cooperation frameworks by Chinese officials at FOCAC and CELAC-China Forum are one of the clearest manifestations of Beijing’s efforts to reframe its win-win narrative and respond to demands of more diversification in its economic relations with South America and Africa. There is an immense contrast between speeches and official documents of the early 2000s on China’s policy for SSA and SAm —focused on economic complementarity and natural resources—and those of the post-financial crisis era, which concentrate on technology, industrialization and added value.\(^\text{18}\)

Despite the similarities in China’s diplomatic engagement of both regions, Beijing maintains a lower profile in Latin America. As Shambaugh (2013) explains it: “Beijing has gone out of its way not to irritate Washington or put itself in America’s strategic headlights in Latin America...” (p. 76). This reflects in the realm of security cooperation: China has stepped up the involvement of the PLA in Africa, including arms exports, training, technical assistance and participation in peacekeeping missions (Shinn and Eisenman, chapter 6). In contrast, China’s presence in Latin American security issues is practically nonexistent, and mostly limited to exchange programs (Ellis, 2011).

\(^{18}\) See Myers, 2015 for an analysis of the new agenda at the 2015 CELAC-China Forum and Sun, 2015 for the changes in Chinese discourse during the 2015 FOCAC meeting.
CHAPTER 4: TYPOLOGY AND CASE STUDIES

This chapter will provide an in-depth comparative analysis of Chinese economic engagement with SSA and SAm through six case studies, three in each continent. A central objective of this thesis is to demonstrate the nuances and complexity of the Go Out policy, as well as the way in which countries in SSA and SAm have attempted to manage their asymmetric relations with the PRC. With that goal in mind, a case study analysis will provide valuable insight into the adaptive nature of Chinese engagement.

I have selected Brazil, South Africa, Angola, Peru, Venezuela and Zimbabwe as my case studies. These countries reflect the diversity of China’s relationships with countries in SSA and SAm, and the different local contexts that Chinese actors have adapted to in the context of the Go Out policy. The cases include multiparty democracies (Peru, Brazil), democracies with a dominant party (South Africa), hybrid regimes (Venezuela, Angola) and outright authoritarian regimes (Zimbabwe). They also differ in economic terms: Brazil and South Africa are regional manufacturing leaders but export commodities to China (soy and iron ore in Brazil, minerals and precious metals in South Africa), Angola and Venezuela are concentrated in oil, while Zimbabwe and Peru in mining.

Further, these cases are useful to analyze whether China is exporting a particular “model” of economic governance, since they have followed different policies: Peru is a market-based, open economy; Brazil and South Africa are mixed economies, with a strong role of the state and relatively protectionist trade; while Angola, Zimbabwe and Venezuela have been described as “neo-patrimonial”, for the preponderance of the state over the private sector and the deep –and usually opaque-- links between government officials and private corporations (Erdmann & Engel, 2007; Bechle, 2010).
In the fifteen years since the launching of the Go Out policy as a complement for its domestic development experience, China has experimented with different approaches and strategies to engage SSA and SAm, depending on its specific objectives in each country. For instance, while some nations are fundamental for China’s goal of rising its global status and gaining more influence in multilateral institutions, others are mostly economic partners, and serve as suppliers of commodities and buyers of manufactures for the Chinese economy.

Because of different objectives from China and different capabilities from countries in SSA and SAm, I will organize my case studies in three ideal types of relationships: The first group are China’s global partners, Brazil and South Africa. These are countries with which China has very diversified ties and objectives, which include geopolitical goals (both are members of the BRICS group of emerging economies) and complex economic relationships, since Brazil and South Africa are both industrial powerhouses and providers of commodities for China.

The second category are China’s extractive relationships with countries in SSA and SAm, with Peru and Angola as case studies. These nations do not have an individual role in China’s soft power strategy (although this dimension is not irrelevant), and have a more salient commodities-for-manufactures pattern of economic exchanges with the Asian giant. However, the examples of Peru and Angola disprove simplistic theories about China’s role in South America and Africa: contrary to what some reports might suggest, both countries have capabilities to manage their asymmetric relations with China, and the Asian giant is far from being a dominant economic actor.

The final ideal type includes countries which depend heavily on Chinese economic and diplomatic support for the preservation of their domestic regimes. I will use Venezuela and Zimbabwe as examples. The importance of China as an investor and financer in these countries has risen dramatically, in a context of isolation from western
nations. But even in situations where China’s influence is extremely high, Beijing is forced to adapt its engagement to local demands and to its own strategic needs. China has continued to support faltering regimes in Venezuela and Zimbabwe with the goal of backing important allies and securing long-term access to natural resources and business opportunities. But after investing billions of dollars and important diplomatic resources in these nations, Venezuela and Zimbabwe remain on the brink of economic and political collapse, facing Beijing with two unpleasant alternatives: continue to bankroll these regimes or endure large financial and diplomatic loses.

These three ideal types reflect the variety and complexity of Chinese engagement with countries in SSA and SAm. However, they do not intend to describe every relationship between China and nations in these regions. After analyzing China’s engagement within its global partnerships, extractive relationships and exclusive relationships, I will briefly discuss intermediate cases that do not fit clearly into these categories, as well as potential new categories that might arise in the future as China’s role evolves in SSA and SAm.

**Global partners: Brazil and South Africa**

Brazil and South Africa have a special role within China’s internationalization strategy, for two reasons. First, because of their economic importance: Both are regional economic powerhouses, with large consumer markets and vast industrial bases, and export manufactures to their neighboring countries. Secondly, these countries are fundamental for the political dimension of China’s Go Out policy. As major developing nations, Brazil and South Africa are critical partners in Beijing’s efforts to gain more influence in the international system and reforming its institutions to better reflect the current distribution of power (Cardoso, 2013; Alden & Wu, 2014).
Geopolitical importance of Brazil and South Africa

Brazil and South Africa are the only countries in SSA and SAm which have a “global strategic partnership” with the PRC, a term Beijing reserves for relationships with major powers (Feng and Huang, 2014; Fryba Christensen, 2014). In a speech before the Brazilian Congress in 2004, Hu Jintao noted that “China and Brazil are the two largest developing countries in the east and west hemispheres” (Hu, 2004). This is a distinction that many Chinese officials still use when referring to ties with Brazil, to note the special nature of their engagement with the South American giant. Similarly, in an opinion article written ahead of his visit to South Africa in 2015, president Xi Jinping highlighted that “China-South Africa relations have gone beyond the bilateral scope and gained growing strategic significance and global impact” (Xi, 2015).

Because of this special role, South Africa and Brazil have been included in China’s global efforts to reform the international system and position itself as a leader of the developing world. In 2008, Brazil became one of the founding members of the BRIC group, together with China, Russia and India. In 2011 South Africa became a member, and the group became known as BRICS. Although this group was initially conceived as a marketing strategy for Goldman Sachs, its members quickly embraced the label and used it to reinforce their demands for more power within global decision-making (Yun, 2013). Even after the economic slowdown of its members, BRICS has continued to deepen cooperation, and launched its New Development Bank (NDB) in 2014, headquartered in Shanghai. China provided the largest share of the NDB’s initial $50 billion, although voting shares will be equally distributed among all members (Chen, 2014).

In addition, Brazil and South Africa are the only Latin American and Sub Saharan African founding members of the Asian Infrastructure Investment Bank (AIIB), a new development bank launched by China in 2015 and based in Beijing. As with the NDB,
China will provide the largest share of the capital for the AIIB but in this case will maintain veto power, with 26% of the voting rights. In contrast to the WB, the AIIB will focus on infrastructure projects, and maintain a relatively small administrative structure in order to speed up the lending process (The Economist, 2016).

**Economic complementarity and competition**

Despite the strategic importance of Brazil and South Africa, their trade with China follows the same asymmetric pattern of overall exchanges with SSA and SAm. In 2009 China became Brazil’s largest trading partner, and bilateral trade exceeded $65 billion in 2015, with a $5 billion surplus for the South American nation. The distribution of this trade, however, suggests a North-South pattern: 41% of all Brazilian exports to China were soybeans and 30% iron ores, while the South American nation imported mostly Machines (48%), Textiles and Chemical products (10% each) from the PRC.

Meanwhile, South Africa’s bilateral trade with China is even more skewed: The African nation had an almost $10 billion trade deficit with China in 2015, out of a bilateral trade of $20 billion. Chinese exports to South Africa are very similar to the Brazilian case: Machines represent 45% of the total, Textiles 12%, and Chemical products 6.6%. South African exports to China were heavily concentrated on natural resources: 44% were mineral products, 22% were precious metals, and 17% were common metals.

Moreover, Chinese manufactures are displacing Brazilian and South African goods --machinery, chemical and textile products-- from their traditional markets in their respective regions. Manufactured goods represent more than 20% of total exports for Brazil and South Africa, but are practically absent from their sales to China (Jenkins and de Freitas Barbosa, 2011; Edwards and Jenkins, 2014).

Chinese investments and financial engagement with Brazil and South Africa have also been focused on resource-extraction. For instance, Sinopec is participating in the
exploitation of pre-salt oilfields in the Brazilian coast, partnering with state-owned Petrobras, and invested $18.3 billion in Brazil’s oil sector between 2005 and 2012. The objective of these investments is to diversify China’s sources of oil but also to access Petrobras’ technology for deep water oil extraction (Husar and Best, 2013; Downs, 2011). These investments have been facilitated by large credit lines from CDB, which granted $10 billion in commodity-backed loans to Petrobras in 2009 (Alves, 2013; Xinhua, 2015). In the case of South Africa, Chinese corporations have made inroads in acquiring companies in the mining sector, especially precious metals and chromium and platinum, although cautiously because of the burden of South African complex regulations in this sector (Alden and Wu, 2014).

Starting in the mid-2000, the governments of Brazil and South Africa began to publicly express their frustration with the asymmetric nature of China’s economic engagement. In the case of Brazil, by 2009 the government was under intense pressure from powerful industrial interests – particularly in the industrial hub of Sao Paulo – demanding safeguards against the influx of cheap Chinese manufactures. In response, the administration launched an increasingly protectionist set of policies. Pereira and de Castro Neves (2011) note that “of 134 protectionist measures Brazil undertook until March 2010, more than 30 percent had China as a target” (p. 5). In 2010, the Brazilian Congress approved restrictions on foreign purchases of agricultural land, largely responding to Chinese actors’ interest in acquiring land (Reydon and Fernandez, 2011). A year later, the government hiked tariffs for imported automobiles, a move that mostly affected imports from China (Menendez, 2014), and imposed a 5-year anti-dumping tariff that mostly affected Chinese exports of steel tubes (ICTSD, 2011).

Criticism to China’s role in South Africa increased under President Thabo Mbeki (1999-2008), who famously warned about the potential “neo-colonial” nature of an exchange based on the export of commodities and the import of Chinese manufactured
goods (Wines, 2007). Mbeki’s successor, Jacob Zuma, has also expressed concerns but is much more laudatory of China’s role in South Africa, which probably had to do with Beijing’s decision to grant the country a seat at the BRICS (Alden and Wu, 2004). Zuma, however, has been facing intense pressure from labor unions – which are close to the ruling African National Congress party – and business organizations that are worried about the effects of competition from Chinese manufactures (Odendaal, 2012; van Staden, 2014).

**An alignment of interests towards diversification?**

Rising criticism from Brazil and South Africa since the mid-2000s has coincided with a realignment of China’s economic engagement in both countries. As I have argued in chapter 2, one of the main characteristics of the Go Out policy is its adaptability to local contexts and its experimental nature. In recent times, China has began to exploit Brazil and South Africa’s potential for investments in manufactures, services and telecommunications. It is likely that this change responds both to Chinese geopolitical interests -- given Beijing’s desire to balance economic relations to address Brazilian and South African demands -- as well as economic needs, because of the opportunity to access Brazil and South Africa’s local markets and use them as platforms to export to their respective regions. As I have argued in chapter 3, demands from countries in SSA and SAm led the Chinese government to implement changes to its win-win narrative: if during the first years of the Go Out policy the PRC emphasized complementarity and natural resources for manufactures, the new phase was signaled by the importance of industrial cooperation and technology. Because of their economic and strategic importance, nowhere was this shift more evident than in China’s relations with Brazil and South Africa.
In the case of Brazil, Xi Jinping visited Brasilia in 2014 and signed a new joint action plan with president Rousseff that specifically recognized that “the two sides will identify measures and policies at the bilateral level to expand the share of high value-added products in the bilateral trade, especially on the side of the Brazilian exports, which are concentrated on commodities” (“Action Plan”, 2015). Also in 2014, and showing how Chinese corporations respond to domestic regulations (in this case, Brazilian protection of its internal market), Chinese manufacturing giant Sany announced a $600 million investment in an industrial plant in Sao Paulo to produce machinery and equipment for Brazil and to export to other countries in SAM (Ji, 2014).

The following year, Chinese premier Li Keqiang unveiled a massive investment package of $50 billion targeting infrastructure and heavy manufacturing in the South American country. During that visit, Li also agreed to lift China’s three-year ban on the imports of Brazilian beef, a measure that had been demanded by the Brazilian government for some time (Reuters, 2015). In addition, CDB granted a new $3.5 billion loan to Petrobras in 2015, just as the company was suffering from the financial repercussions of a massive multi-billion dollar corruption scandal (Connors and Magalhes, 2015). Brazilian officials welcomed the launching of this “second phase” of Chinese investment in the country (AFP, 2015).

Chinese economic engagement in South Africa has also gradually evolved beyond the natural resources sector. In 2007, for instance, state-owned commercial bank ICBC paid $7.2 billion to acquire 20% of South Africa’s Standard Bank, and used this as a platform to increase finance into projects in South Africa and other African economies (Meyer et al, 2011).

For a detail analysis of Chinese investments in Brazilian manufacture sector beginning in 2010, see Frischtak, Soares & O’Conor (2013).
In a visit to South Africa in 2015, Xi Jinping highlighted the importance of promoting a more balanced economic relationship with South Africa and highlighted the country’s leadership role in Africa within the new phase of the win-win narrative: “China will help South Africa’s efforts to lead China-Africa cooperation on production capacity and promote Africa’s industrialization” (MFA, 2015). In 2014 presidents Zuma and Xi signed a join action plan in Beijing to promote the “alignment of industries to accelerate South Africa’s industrialisation (sic) process and enhancement of co-operation in special economic zones (SEZs)” (Business News, 2015).

Officials in the South African government were fully aware about the leverage having a strong strategic relationship with Beijing provided them. During Zuma’s 2014 trip to Beijing, Foreign Minister Maite Nkoana-Mashabane said that “South Africa and China share a sound political relationship which can be used better to lay the basis for implementing SA’s economic objectives” (Ensor, 2014). The joint plan has already had practical results: In August 2016, China’s government-owned Beijing Automobile International Corporation announced an $800 million investment for a new manufacturing plant in South Africa, the largest investment in South Africa’s automobile sector in over 40 years (Sanchez, 2016; Hill, 2016).

**Extractive relations: Angola and Peru**

The second ideal type of relationship between China and countries in SSA and Sam is formed by commodity producers that have less diversified economic relationships with China, compared to global partners. However, the cases of Peru and Angola also disprove “neo-colonial” interpretations of China’s Go Out policy. First, because although China is an important buyer and investor in Peru’s mining and Angola’s oil sector, western companies still control the largest share of the natural resource sector in both countries. And secondly, because Chinese actors have adapted to local demands in terms
of environmental standards (in Peru) and domestic investment policy (in Angola), amid tensions between the Chinese government and Chinese corporations.

**China’s non-dominant role in natural resources**

Although China is Peru and Angola’s first trading partner and a growing investor, the largest part of the natural resource extraction sector remains in control of western companies in both countries. Since the end of its civil war in 2002, Angola has become one of China’s key oil suppliers in Africa. In 2014, Angola exported $27.7 billion worth of oil to China, representing 51% of the African country’s total exports and 13% of China’s global imports of crude oil: Angola is China’s largest oil supplier after Saudi Arabia. At the same time, Angola imported more than $5 billion from China, mostly in manufactures.

As Brautigam (2009) explains, China’s rising economic role in Angola was the result of successful competition with Western actors --banks, oil companies and Bretton Woods institutions-- that had been present in the African country for decades (pp. 273-277). Heavily indebted, desperate for investments in its oil sector and looking to rebuild its decrepit infrastructure, Angola’s interests almost perfectly aligned with China’s goals under the go out policy: acquire commodities, export manufactures, and help Chinese companies win contracts abroad through billions in loans from policy banks.

The expansion of bilateral economic relations and granting of commodity-backed loans by Chinese policy banks in 2002-2004 became known as the “Angola mode”, an erroneous characterization. First, because Japanese banks had already granted loans to China in the mid 1970s backed with exports of coal and oil, an example of how China applied the lessons of its domestic development process to its Go Out policy. And secondly, because western banks had used similar mechanisms in Angola before China to ensure repayment in an uncertain environment (Canuto, 2013).
Starting in 2004, China Eximbank began to grant loans to Angola for government infrastructure projects, under two conditions: First, most of the material and contracting for the projects had to go through Chinese companies and second, the loans will be repaid with the revenue of oil sales to Sinopec (Alves, 2013). Chinese loans were able to successfully compete with those from western sources because they had lower rates, longer paying periods and avoided the macroeconomic conditions of the Western alternatives (Corkin, 2013).

This does not mean that Chinese loans have been concessional: on the contrary, Angola is an exception in SSA because most Chinese loans to the country were granted by the CDB ($11.3 billion versus $7.3 billion from CEIB in the 2000-2015 period). Since only CEIB is authorized to grant concessional loans, this indicates that Chinese finance in Angola has mostly followed market rules (Hwang et al, 2016). Brautigam (2011) notes than even for CEIB, the majority of loans to Angola had non-concessional interest rates.

Despite accusations of Chinese “imperialism” in Angola (see Marques de Morais, 2011), China is in fact a relatively marginal investor in the country’s oil sector. As Corbin (2011) noted “Chinese national oil companies are very junior partners in the Angolan oil industry” (p. 174). Even though China is the main buyer of Angolan oil, extraction is done mostly by European corporations, in a demonstration that China’s engagement is not incompatible with western involvement. Today, more than 40% of Angola’s oil is extracted by French company Total, which gets more than 10% of its global production from the African nation (Mendes, 2015). In addition, American oil giants Exxon and Chevron also have a longstanding presence in the country (Cisse, 2015; Santander, 2016). As I will note below, Chinese corporations had faced some difficulties in their attempts to invest in Angola’s oil sector, mainly because of resistance from the Angolan government.
China’s economic engagement with Peru is equally focused on natural resources, mostly in the mining sector (copper, iron, lead). China is Peru’s first export destination, with 22% of the total, and its first source of imports (mostly manufactures), with a similar percentage. In 2009 Peru and China signed a free trade agreement, one of 17 Peru has with other countries (Forbes, 2009).

In contrast to Angola, however, Chinese actors are not merely buyers of Peru’s mining exports; they are also major investors. Estimates show that around 30% of Peru’s mining is controlled by Chinese firms, beginning in 1992 with the first major investment by a Chinese company in Latin America: the purchase of the Shougang Hierro Perú mine (Sanborn and Chonn, 2015).20 Since China’s global outward FDI did not take off until the early 2000s, it is rare for Chinese corporations to own such a large share of the natural resource sector of a country in Latin America and Africa. This large footprint, however, has not generated accusations neo-colonial dominance by China. In fact, China has barely offered loans to the Peruvian government, and the only recorded loan for infrastructure took place in 2009 and was for $50 million (Myers and Gallagher, 2015).

Further, Peru can hardly be accused of following a “Beijing consensus” based on state-led development: the country is one of South America’s most open economies, a staunch defender of free markets, and its macroeconomic management has been praised by the WB and the IMF (IMF, 2015)21. This confirms that China’s Go Out policy is based on interests and business opportunities, and not on ideological alignment, and that engagement with Chinese actors is compatible with participation in western institutions.

20 Outside of the mining, in 2013 China National Petroleum Corporation (CNPC) acquired all assets of Petrobras in Peru, immediately controlling 40% of the entire oil sector in the country (Reuters, 2013).

21 In 2015, the IMF and the World Bank held their annual Spring meeting in Lima, Peru. This was the first time this meeting took place in Latin America. During the meeting, IMF Managing Director Christine Lagarde and other leaders praised Peru’s economic policy and its accomplishments. (see Lagarde, 2015)
**Tensions and adaptation by Chinese actors**

Chinese actors have faced challenges in their engagement in Peru and Angola, but have been capable of adapting to local demands and contexts. Both cases show that even within relationships based on the exchange of commodities for manufactures, China adapts its Go Out policy to changing circumstances, in order to achieve its long-term goals.

The Peruvian government has welcomed Chinese investments as a way to catalyze economic development –especially in the impoverished but resource-rich southern areas-- and diversify the country’s economic ties. Chinese mining corporations, however, have been at the center of intense social protests and criticism by environmentalist groups for their effect on Peru’s ecosystems, water supplies and health consequences for the communities living near their mines (Sanborn and Yong, 2014). Protests organized by community activists and labor unions have occasionally turned violent, as in the case of the *Las Bambas* copper mine, operated by a consortium led by MMG, a Chinese company owned by SOE Minmetals Corporation (BBC News, 2015; Reuters, 2016).

At the same time, Peru has improved its environmental regulations to address social concerns. In 2007 it joined the Extractive Industries Transparency Initiative (EITI), a voluntary framework launched by a group of civil society organizations with the objective of improving transparency and accountability in the resource extraction sector (Ravat & Kannan, 2012). A year later, the government created a Ministry of the Environment as a balance to the powerful Ministry of Mining –that tends to side with investors-- and enforce stricter regulations of environmental care and consultation to local communities (Sanborn & Chonn, 2015).

As Downs (2011) notes, environmental issues are a topic in which the interests of the Chinese government --which prioritizes long-term relations and promoting the
country’s soft power-- and that of Chinese corporations --focused on profits-- do not always coincide. Facing this challenge, the Chinese government has used its influence over SOEs operating in Peru to encourage them to adapt to local regulations and engage stakeholders to reduce social tensions, displaying a pragmatism that “neocolonial” perceptions tend to ignore.

For instance, Irwin & Gallagher (2013) show that the PRC pressured Shougang mining corporation, which had been operating in Peru since the early 1990s, on the environmental issue. After facing intense criticism and protests, Shougang has worked with Peruvian authorities to adhere to higher environmental standards and rebuild strained relationships with local labor unions. In Toromocho, another major mining project, Chinese SOE Chinalco has addressed environmental concerns by financing the relocation of an entire town and building new living quarters, roads and public services for the resettled population (Sanborn and Young, 2014). Overall, Chinese corporations have responded to social protests by revamping their environmental standards and collaborating with the Peruvian government in finding solutions (Sanborn and Chonn, 2015).

The Chinese government and Chinese corporations have also shown flexibility in their economic engagement with Angola. In this case, they had to adapt to the strict control Angolan political elites hold over the country’s oil sector, through state-owned company Sonangol. Contrary to what a typical “neo-colonial” view would suggest, Angola (despite being the weakest partner) was able to manage this asymmetric relationship and reduce China’s influence over its oil sector relative to the amount of loans Chinese banks have disbursed in the country (Corkin, 2015).

Right after the end of the civil war, Chinese policy banks arrived in Angola and offered an alternative source of finance, one which allowed the Angolan government to avoid the strict macroeconomic conditionality of IMF loans. In 2004, CEIB granted a $2
billion oil-backed loan, linked to a requirement to contract Chinese companies for at least 70% of the projects (Alves, 2013). Only months afterwards, Chinese oil giant Sinopec began winning awards for Angola’s off shore reserves, as partners in joint ventures partnership with Sonangol and even with British Petroleum (BP) (Vines, Wong, Weimer & Campos, 2009). This partnership between a Chinese SOE and a western corporation contradict theories of a closed, state-centered “Chinese model” of economic engagement. In 2007, CEIB granted a second oil-backed loan of $2 billion for projects in transportation, water and energy networks, and education, among others (Vines et al, 2009. Angola has authorized the entry of thousands of Chinese workers as part of these infrastructure deals (Brautigam, 2015).

To protect its control over the strategic oil industry, the Angolan government has followed two strategies. First, it mandates that foreign companies must become partners with Sonangol in order to exploit the country’s oil reserves (Alves, 2013). And secondly, it pursues a carefully design policy of diversification among different foreign investors and sources of finance\textsuperscript{22}. Angola’s relationship with China was not an exception (Alves et al, 2009).

In a very un-imperial way of behavior, Chinese actors have adapted to Angolan demands in order to secure access to its natural resources and promote lucrative contracts for its construction companies. In 2009, for instance, a serious crisis erupted when the Angolan government resisted attempts by Sinopec to circumvent Sonangol and directly acquire participation in oil blocks (Corkin, 2011). In response, the Chinese government pressured CEIB to grant more infrastructure loans (despite some resistance from the bank’s management), urged CDB and ICBC to also extend credit lines, and pushed Sinopec to create a permanent partnership with Sonangol (Corkin, 2015). In the

\textsuperscript{22} For instance, Angola has received loans from Portugal, Brazil and the WB, and even obtained a loan from the IMF in 2009 (Corkin, 2015).
end, the long-term interests of the Chinese government under the Go Out policy prevailed, and it was able to impose its goals over those of its policy banks (worried about risk of excessive lending to Angola) and Sinopec (which wanted to be more autonomous in its activities in Angola).

But Sinopec and other oil SOEs have not been the only Chinese actors investing in Angola’s oil. In 2012, the Chinese government launched a massive anti-corruption investigation on the country’s oil corporations, including an opaque network of private corporations based in Hong Kong which had been expanding its presence in Angola since 2005, through a partnership with Sonangol. This network—known as the Queensday Group—had a tight alliance with Dos Santos but also close ties with Communist officials. The anti-graft efforts by Chinese companies is a further example of the increased complexity of Chinese economic engagement in SSA, as well as the rising tensions between the government and the private sector in China (Burgis, 2014; Spegele, 2015).

**Exclusive relations: Venezuela and Zimbabwe**

The final two case studies of this analysis are countries with severed ties with western institutions and countries, a relative isolation that has increased their relative dependency to China. The PRC has extended billions of dollars in finance to Venezuela and Zimbabwe, in exchange for long-term access to their natural resources (oil in the case of Venezuela, minerals for the African nation). In addition, close ties with China are lauded by Zimbabwe and Venezuela as examples of

Even though some reports might suggest an ideological alignment between these regimes and China, this identification is mostly unidirectional, and does not seem to be a major factor in the decision-making of Chinese government agencies and corporations operating in both countries.
Isolation from the west: An opportunity for China

The Zimbabwean and Venezuelan regimes became isolated from the west just as China was launching its go out policy. Chinese relations with the Zimbabwean government of Robert Mugabe began during the country’s independence war, when Mugabe’s ZANU party allined with Beijing against the Soviet-backed ZAPU. When Mugabe emerged victorious and was elected leader in 1980, the stage was set for a strong cooperation between the newly independent country and the People’s Republic (Eisenman, 2005). During the first decades of his rule, however, Mugabe maintained western-oriented economic and foreign policies, and relations with China remained cordial—Zimbabwe strongly supported China after Tiananmen in 1989— but not intense.

This changed in the early 2000s, when the United Kingdom and the United States attempted to impose international sanctions on Mugabe’s regime for human rights violations, repression of opposition figures, and lack of competitive elections. In response, Mugabe launched a “Look East” policy in 2003 to seek Chinese support. Because of historical affinities with Mugabe and Chinese diplomatic tradition of non-interference, Beijing vetoed US-proposed sanctions at the UN and stepped up its investments in Zimbabwe (Youde, 2013).

Although late Venezuelan president Hugo Chavez came to power in 1999, relations between his government and the United States did not become tense until after the 2002 coup attempt against his rule, which Chavez blamed on Washington. Since then, the Venezuelan strongman reinforced the leftist and anti-imperialist tone of his foreign policy and took control over the oil sector through state company PDVSA. American oil companies Exxon Mobil and Conoco—which had been present in Venezuela for years—left the country in 2007 in protest of Chavez’ forceful expansion of PDVSA’s control over oil production (Corrales and Penfold, 2011).
In need of international support to solidify their grip on power during turbulent economic times, the government of Chavez and then Nicolas Maduro in Venezuela, as well as Mugabe in Zimbabwe, have emphasized their geopolitical identification with Beijing. China, on the other hand, bases its engagement on its objectives under the Go Out policy, where ideology places a marginal role. Xi Jinping graphically described this pragmatism during a visit to Caracas in 2014: “China will be a cooperation partner for all countries of the world like Venezuela.” (“China Provides”, 2014).

**Securing long-term access to natural resources**

As relations with the United States and Europe deteriorated, China’s economic engagement in Venezuela and Zimbabwe expanded. During the 2000s the latter became one of the largest recipient of Chinese FDI in Africa, especially in the mining, infrastructure and—to a lesser extent—agricultural sectors. Estimates show China invested more than U$D 2 billion in Zimbabwe during the 2009-2014 period (Zhang, 2014; The Standard, 2015). Chinese funds helped Zimbabwe end a decade-long recession that had wiped out almost 45% of the country’s GDP.

Chinese investment and loans to Venezuela have been much larger than to Zimbabwe. This is not surprising, given that Venezuela has the largest proven oil reserves in the world, a resource that China seeks to secure. In 2007, Venezuela and China created a joint development fund of $6 billion -- $4 billion provided by CDB and $2 billion by the Venezuelan government—in order to invest in various development projects and in the modernization of the oil sector (Carlson, 2007). Since 2007, the joint fund has been renewed several times, with CDB providing around $60 billion dollars by 2015 (Gallagher and Myers, 2015)\(^\text{23}\). In contrast to other commodity-backed loans

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\(^{23}\) The actual amount Chinese policy Banks have disbursed in Venezuela its likely lower, since this database counts renewals or extensions of previous loans as fresh credits.
Beijing has signed in SSA and SAm, Venezuela pays most of these loans through direct oil shipments to China, instead of using the proceedings of oil sales (Rapoza, 2016). Just like in Angola, Chinese financing was followed by investments in the country’s oil sector: SOEs China Petrochemical Corporation and CNPC associated with PDVSA to exploit oil reserves left vacant by American corporations (Devereux, 2012).

Despite China’s rising importance for the political and economic survival of the Venezuelan and Zimbabwean regimes, the Asian giant is far from being their only foreign partner. In the case of Zimbabwe, trade with China only represents 9.4% and 6.6% of the country’s exports and imports, respectively. While Zimbabwe’s largest trading partner by far is South Africa, European Union countries still purchase more than 20% of the country’s exports, despite international condemnation of Mugabe’s regime. In 2015, anti-imperialistic Venezuela still shipped 45% of its oil to the United States, with India in second place with 18% and China in third purchasing a modest 16% of Venezuela’s oil exports (World Bank Wits).

**Is strategic patience coming to an end?**

Despite public displays of mutual trust and cooperation, there is increased unease among Chinese officials for the future of the Venezuelan and Zimbabwean regimes, as well as the viability of Chinese investments there.

In the case of the African nation, Mugabe is 93 years old and his ZANU-PF party is split in rivaling factions (Allison, 2016). Further, the country has launched an “indigenization” campaign forcing all foreign-owned companies to transfer 51% of their ownership to Zimbabweans or face closure. The uncertainty and arbitrariness of this campaign has been a source for concern for the Chinese embassy in Harare (Yun, 2016). Meanwhile, Chavez successor Maduro is facing an economic collapse and an unprecedented political crisis that is threatening the stability of his rule.
So far, Beijing has been willing to publicly renew its alliance with both countries, as well as facilitate new funds or the renegotiation of payments to accommodate the drop in commodity prices (Ho, 2016). China’s decision to continue cooperation despite these challenges is indicative of the particular type of relationship it has with Venezuela and Zimbabwe. On the one hand, China seized the economic opportunity left by the withdrawal of most western investors. But on the other, the declared ideological alignment of Venezuela and Zimbabwe—as well as the billion of dollars in loans and investments that are on the line—have forced China to continue its support for both countries or face international embarrassment and multi-billion dollar loses if these regimes collapse.

The risks China has incurred in Venezuela and Zimbabwe could be leading to a reassessment of its engagement in some South American and African countries. Chinese authorities are aware of the certain risk of default in some countries, especially after the drop of commodity prices since 2013. Preparing for this eventuality, Beijing has shown signs of being more selective in its financial diplomacy, and has even rebuffed Venezuela’s desperate pleas for fresh funds in 2015, offering a renegotiation of the terms of existing loans instead (Kinge and Wildau, 2015). In addition, China has attempted to build ties with opposition forces in Zimbabwe and Venezuela: In the former, Chinese officials courted opposition leader Morgan Tsvangirai during his tenure as Mugabe’s prime minister (2009-2013), as part of a unity government (Conway-Smith, 2012). In Venezuela, Chinese diplomats have already met with opposition leaders who are attempting to oust Maduro, in an attempt to secure that current deals will be respected in case the incumbent is removed from office (Chin, 2016).

As stated in Chapter 3, Chinese foreign policy in South America avoids direct confrontation with the United States. China’s relations with Venezuela are not the exception: Beijing has taken advantage of Venezuela’s financial isolation to access its oil
reserves, but has not committed to any geopolitical alliance with the Bolivarian regime. As highlighted by Corrales and Penfold (2011): “China has repeatedly refused to collaborate with Venezuela on its soft-balancing approach to the United States, although it has shown a commitment to invest in oil production” (p. 116).

**Special cases and transitions**

As I have stated above, this typology does not intend to cover every existing relationship between China and countries in South America and Africa. It does present three ideal types that encompass many of these relationships, while differentiating between different patterns of engagement depending on China’s economic and political interests, as well as the capability of countries in SSA and SAm to manage their asymmetric interdependence with China. As I have tried to describe, however, there is variety even within each ideal type.

This is hardly a static framework, and new categories could arise in the future. Countries like Kenya and Ethiopia, with not many natural resources and large populations, have the potential of becoming hubs for small and middle sized Chinese manufacturing industries that want to penetrate the African market –and perhaps the American one as well thanks to the tariff benefits extended by Washington. Although I had consider to include these countries as a separate type of relationship, there is still not enough reliable data on the quantities and nature of Chinese investments in this sub-region of Africa.

If current estimations are right, and Eastern Africa becomes the first part of this continent to benefit from the relocation of Chinese industries under a “flying goose” model, they will surely have goals and capabilities towards China that would differentiate them from other countries in the extractive type. For now, however, the overwhelming majority of trade, and loans from Chinese policy banks, are focused on resource extraction and basic infrastructure, as in the majority of countries in SSA and SAm.
These ideal types, therefore, are a snapshot of how China is interacting with South America and Africa 15 years after the go out policy became official. In this period, moreover, some countries have shifted back and forth between the extractive and the exclusive type of relationships.

For example, Argentina’s relationship with China under Néstor Kirchner (2003-2007) was an “extractive” case relatively similar to Angola: the country provided soy to China --a sector where Chinese actors had almost no role as producers--, and obtained some loans for infrastructure from the CDB. However, Kirchner’s wife and successor Cristina Fernandez (2007-2015) displayed a stronger anti-American foreign policy, and turned to Beijing for financial assistance after Argentina declared the second foreign debt default in less than a decade. After the PRC approved an $11 billion swap agreement between the Bank of China and Argentina’s Central Bank, the relationship entered an “exclusive” phase, where Chinese economic and even military engagement increased (Paz, 2014). In 2012, the PLA began construction of a space base in Argentinian Patagonia that opposition parties feared could be used for military purposes (Mercopress, 2014).

The transition towards a more exclusive relationship with China, however, was reversed when Mauricio Macri became president in 2015, after defeating the Kirchner’s Peronist party. President Macri confirmed all ongoing projects with China, but demanded the renegotiation of some infrastructure deals to better accommodate Argentinian interests and environmental concerns. The PRC accepted Macri’s terms and the relationship moved forward (Koop, 2015).
CHAPTER 5: CONCLUSIONS

The main goal of this thesis was to fill a gap in existing literature regarding Chinese foreign economic policy in Sub Saharan Africa and South America. Despite the similarities in Chinese engagement in both regions, they are usually studied in isolation, or only compared very broadly within a denunciation of China’s neo-colonial intentions in the developing world. China, in turn, argues that its engagement is an example of South-South cooperation, and essential for the construction of an international system that better reflects the interests and power of developed and developing nations, without hiding the fact that Beijing aspires to a leadership role within this transformation.

Contrary to simplified views –both critic and laudatory of China’s role—this thesis attempted to conduct an analysis of the complexity and adaptability of China’s Go Out policy, launched in the late 1990s and early 2000s. Simplified views of China’s Go Out policy is that they tend to ignore that an asymmetric interdependence does not equal domination of the strong and powerlessness by weaker partners, a fact Keohane and Nye understood in the 1970s.

Although China’s interests in SSA and SAm are clearly concentrated in the natural resources sector, as well as in exporting Chinese manufactures and promoting opportunities or its corporations, China is not acting in SSA and SAm alone, but interacting with local contexts, economic realities, and government interests. Far from being helpless, this thesis has shown that countries in SSA and SAm have been able (and willing) to use the instruments at their disposal to manage the asymmetry of their relations with China for their own benefit.

The base of this analysis was the recognition of the Go Out policy as the continuation of China’s domestic development path. In other words, China’s strategy of
internationalization should not be studied in isolation, since it is the continuation of the process of economic reforms Deng Xiaoping launched in the late 1970s.

When analyzed through this prism, the adaptability and flexibility of the Go Out policy comes to light. China’s domestic development is based on state coordination, openness to foreign trade and investment, and experimentation. Those same characteristics are part of its Go Out policy, which contradict perceptions of a “Chinese blueprint” for domination over SSA and SAm. From the early years of this policy, observers in western countries—particularly the United States—have referred to a “China model” that Beijing is promoting in developing countries, based on an authoritarian polity and state-centered economic development. My findings contradict these allegations.

Even within a state-centered economic policy, there is no single “China”. The process of economic modernization was led and closely controlled by the Chinese state, but the success of this experience also increased the complexity of the Chinese economy, and made it harder for the government to control it. This analysis of Chinese engagement shows that there is an inherent tension in the government’s dual role: as regulator of corporations, with long-term interests (secure access to natural resources, build stable partnerships with African and South American countries, cement China’s international image); and as owner of China’s largest corporations and increasingly independent policy banks (which want to focus on profits and more immediate business interests). Tensions between the PRC government and its SOEs and policy banks over environmental regulations in Peru and a tightly controlled oil sector in Angola have demonstrated this challenge.

Further, imposing a pre-packaged model of development would contradict not only China’s own experience of development, but also its interests in SSA and SAm. China's appeal as a trading, investment and finance partner for these regions was
increased because of the failure of liberalizing reforms—known as the Washington Consensus—to boost growth and improve social standards. A key aspect of Beijing’s engagement is its political neutrality and non-conditionality in macroeconomic terms: Unlike the IMF, the WB and some western nations, Chinese actors do not intend to impose specific economic policies, or influence domestic politics. The analysis of China’s engagement with vibrant democracies (Peru, Brazil, South Africa) and semi-authoritarian regimes (Venezuela, Angola, Zimbabwe) alike demonstrate this reality. China’s goals under the Go Out policy have a strong economic component (acquiring natural resources, exporting manufactures and fostering the global growth of its corporations) but also a political dimension: As it becomes one of the world’s two major powers, Beijing seeks to increase its soft power and international image, which is increasingly crucial as geopolitical tensions within its Asian vicinity become more salient.

Moreover, this thesis has shown that Chinese engagement is not incompatible with participation within western institutions such as the WB and the IMF, nor with intense engagement with western powers. Even Venezuela and Zimbabwe, countries that are relatively isolated from the western world, continue to trade intensely with the United States, Europe and other regions, despite rising relationships with China. Further, an analysis of China’s multiple objectives under the Go Out policy also show that Chinese actors have interacted with western corporations and governments in SSA and SAm: China’s oil purchases from western companies in Angola is a powerful example.

China’s spectacular economic growth since the late 1970s was build upon intense trade and investment ties with western actors. It is not surprising, therefore, that the internationalization process of the Chinese economy in SSA and SAm has followed the same pattern, even as Chinese actors became more assertive in their engagement.
In addition to ignoring the role of the Go Out policy as a continuation of China’s own development experience, simplified analyses overestimate China’s importance as an economic partner in SSA and SAm. It is undeniable that China’s trade with SSA and SAm has increased dramatically since 2000, as it would be expected for a country that rose to become the 2nd largest economy in the word, is likely to surpass the United States in the near future, and does not have the resource endowment of the US, with many times its population. In that sense, it is important to bare in mind that China’s current share of South America’s and Africa’s trade is similar to that of the United States in the early 2000.

But trade relations are not the only relevant dimension of Chinese engagement in SSA and SAm. Although China’s investment has increased, especially since 2010, it is far from becoming the largest investor in SSA and SAm. Western companies are still the largest investors in SSA and SAm by far, including in their natural resources sector. This highlights another key point: China might have contributed to the concentration of South American and African economies in commodities, but blaming Beijing for an economic structure that has been in place for centuries in both regions –and that western engagement and billions in foreign aid have not changed— is more a rejection by some western countries to compete with an emerging China that a sound analysis of the structural causes of underdevelopment and deindustrialization.

At the same time, Chinese policy banks have granted billions of dollars in loans to countries in these regions, but this does not automatically translate into influence. China’s difficulties to increase its participation in Angola’s oil sector is an important warning for those who assume that Chinese engagement can be explain only by the numbers. Further, this thesis is an indication of the need to conduct a more nuanced analysis of Chinese finance in developing countries. Research of the amount of finance China is granting to SSA and SAm is fundamental (especially given the scarcity of
available data), but it should only be the first step towards a deeper analysis. Listing loans and deals is hardly enough to understand how Chinese finance relates to China’s broader goals and influence in South America and Africa. A more contextualized approach to study China’s financial engagement in these regions is urgent.

Moreover, the obscurity that tends to surround statistics on China’s finance and investment in SSA and SAm is not a mistake, but a purposely-articulated diplomatic strategy that serves both Beijing and recipient nations: For China, inflating promises of loans and trade and announcing vast infrastructure initiatives in each visit by a top official to South America and Africa are a cheap way to increase its international image and soft power, even if many of these projects and loans could take years to materialize, and many will never become a reality. Further, countries in SSA and SAm use Chinese promises both to tout the diversification of their international relations at home and to pressure western countries and institutions into stepping up their engagement.

In addition, my regional-level analysis showed that as Chinese engagement becomes more established in SSA and SAm, new opportunities beyond the typical commodities-for-manufactures pattern arise. In some African countries, for example, the Chinese private sector—a frequently overlooked actor that represents almost half of China’s economy—has began to exploit opportunities for manufacturing. As the Go Out policy directly reflects Chinese domestic development—with its complexities and multiple actors—China’s ongoing transition towards a consumer-based, sustainable economy will have profound consequences for its engagement in SSA and SAm. Some of them will be positive, as shown by changes in Chinese mining corporations in Peru and greater efforts to invest in Brazilian and South African manufactures to access new markets. Others could lead to new tensions, if Chinese polluting industries relocate to Africa in search for cheaper workers and less strict regulatory environments.
My regional-level analysis has also brought some light to the multiple instruments that are part of China’s internationalization strategy in SSA and SAm, and how Beijing has been carefully selecting which of its “development tools” to apply in each region and country. Whereas foreign aid is important for China in Africa (although less than what some observers might argue), this is absent from its engagement with South America. At the same time, I have shown that China’s usually-vilified commodity-backed loans are not only a way to combine Chinese interest in natural resources and infrastructure projects, but also an insurance policy to reduce risk, one that western investors have used in the past (and that Japan introduced to China in the 1970s).

One of the most important displays of China’s adaptive approach to SSA and SAm are the changes to its win-win narrative of diplomatic engagement. This thesis has shown that initially, Beijing presented itself as a partner for economic development based on a openly-acknowledged international division of labor, in which countries in SSA and SAm would serve as providers of natural resources, buyers of Chinese manufactures, and recipients of important infrastructure projects that would both benefit Chinese corporations and facilitate resource extraction. However, whether this view reflected reality or not, increasing criticism within SSA and SAm to the asymmetric nature of Chinese engagement led Beijing to make profound changes to its soft power strategy in these regions: Terms like “economic complementarity” and “natural resources” have been phased out from speeches of Chinese officials and PRC policy documents on SSA and SAm, and have been replaced with “industrial cooperation”, “diversification”, “value added” and “high tech”.

Studying the complexity China’s engagement in SSA and SAm though a regional-level comparison only would ignore how China has interacted with political institutions and economic contexts in each country. At the same time, a case-by-case study risks
becoming anecdotic, and overlooking the similarities and differences in China’s engagement with countries in SSA and SAm.

Therefore, in addition to seeing the Go Out policy as a continuation of China’s development experience, and comparing its engagement in SSA and SAm on a regional level, this thesis has studied China’s expanded economic role on the regional level and with case studies, organized in a typology of China’s relationships with countries in SSA and SAm: global partnerships, extractive relations and exclusive relations. Although these three categories do not expect to contain all cases, they do offer a useful framework to study the interactions between China’s goals and policy instruments and those of countries in SSA and SAm.

Global partners (Brazil and South Africa) are fundamental for China’s global efforts to reform existing institutions and forge new frameworks for interaction. Brazil and South Africa are members of the BRICS group and of the AIIB, two initiatives launched by Beijing to strengthen its South-South connections, highlight its role as a leader of the developing world, and promote its economic interests. This geopolitical dimension, combined with Brazil and South Africa’s strong manufacturing base, have determined a particular pattern of engagement. China has moved beyond a commodities-for-manufactures economic strategy and has reshaped its win-win narrative to address demands from Brazil and South Africa: industrial cooperation, technological exchanges and more balanced interactions are the new instruments of Chinese engagement in these countries, even as it maintains its involvement in Brazil’s and South Africa’s natural resources.

Unlike global partnerships, extractive relationships with Peru and Angola are mostly based on China’s interest in securing access to raw materials (minerals and oil, respectively) and promoting opportunities for its corporations in infrastructure and other sectors. However, this does not mean that local governments are powerless in their
dealings with the Asian giant. In other words, domestic institutions matter, even if regime type does not: Peru’s democratic regime has been successful in working with Chinese actors to implement higher environmental standards to address local protests, and China’s mighty SOEs have adapted to an Angolan landscape in which state-owned Sonangol holds primacy over the country’s oil sector.

My analysis of the exclusive relations China maintains with Venezuela and Zimbabwe also contradicts “neo-colonial” perceptions about Chinese influence, and highlight the way in which the PRC has taken advantage of local conditions to pursue its economic and political interests. Traditional views would expect a very simple pattern of engagement: China offers financing to cash-striped regimes in Zimbabwe and Venezuela, an in exchange it obtains lucrative deals for its corporations and long-term access to natural resources. That is undoubtedly part, but not all, of the story: First, because Venezuela and Zimbabwe continue to hold trade and investment relationships to other countries even during a period of intense tension with western countries: Venezuela still ships more than 45% of its oil to the United States, and Europe represents more than 20% of Zimbabwe’s total trade. Further, relationships with Venezuela and Zimbabwe also show the diverging interests of the Chinese state vis-à-vis its corporations, as well as the limits to its influence: Even in countries that depend heavily on Beijing, China has become more and more reluctant to continue to bankroll these regimes, especially given uncertainty about their future capability to repay and secure access to their natural resources: The Chinese checkbook is vast, but Beijing is not willing to cut a blank check.

Looking ahead, my findings suggest topics that will become central for Chinese engagement in South America and Africa, as well as avenues for further research.

First, more studies will be needed to understand the consequences of China’s “new normal” of lower growth rates beginning in 2012 for its Go Out policy. On the one
hand, the slowdown is likely to reduce the speed of expansion of China’s influence in SSA and SAm and encourage Chinese actors to be more cautious in their engagement. I have already analyzed this in the case of Venezuela and Zimbabwe, but China’s risk-aversion could reach other countries.

This could be positive for South America and Africa: as long as China continues to grow, and specially if its domestic consumption rises as a share of GDP, terms of trade will remain positive for commodity producers compared to previous decades, but the end of the “commodity boom” and of relatively easy financing could provide incentives for economic diversification and reform without the risk of economic collapse of the 1980s and 1990s. But at the same time, the drop in commodity prices that has followed China’s slower economic growth have turned countries in SSA and SAm even more dependent on trade, investment and finance from Beijing. Paradoxically, China could become more influential and more capable of imposing its economic weight over South American and African countries now —under a much less positive economic context— that during the vertiginous rise of the early 2000s.

Relatedly, future research should clarify the true nature of China’s industrial investments in Africa, especially from the Chinese private sector. So far, SEZs have had a limited impact in fostering innovation and diversification, and have remained relatively isolated from the broad economies of the countries they are located in. However, the less-coordinated relocation of Chinese heavy manufactures in Africa seems to be increasing, and this could have major repercussions for the future of African development.

Secondly, analysis of China’s intentions, strategies and development implications for South America and Africa should be complemented with more attention to other rising Asian economies, particularly India. For instance, India is a major trading partner for Venezuela, Zimbabwe and even Sudan, countries in which China is being accused of
sustaining rouge regimes for geopolitical purposes in defiance of international norms and human rights. India, however, has not been the target of similar criticism, and is in fact a vibrant democracy.

Moreover, India’s trade pattern with SSA and SAm countries follow the same commodities-for-manufactures pattern China is criticized for, but has received much less attention. Studying Indian growing engagement with both regions, then, will serve a double purpose: First, it would expand analyses of South-South relations and new economic engagement patterns beyond the Chinese case. But secondly, it would clarify whether China is held under different standards for cultural, political, or ideological reasons. For instance, the way in which China has been singled-out for applying strategies that other countries have followed in South America and Africa seems to suggest a double-standard among western nations, and even within countries in these regions.

A third suggestion for further research is the evolution the role of the state in China’s economic engagement. As I have sought to demonstrate in this thesis, some observers tend to overlook the diversity of Chinese actors that are part of the Go Out strategy. The case studies have shown that the Chinese government has had the upper hand so far in forcing corporate actors and policy banks to adapt to local demands and prioritize long-term market access and international image over immediate profits. But this could not be sustainable in the future, especially if the Chinese economy continues to decelerate. This will present the Chinese government with a dilemma: If it insists on pressuring SOEs and policy banks into making business decisions for political or strategic reasons, it could jeopardize their profitability and their capacity to become competitive companies on a global scale. However, if the government deepens the autonomy of key instruments of its Go Out policy, it could lose control over its engagement strategy and face renewed criticism for its environmental impact, disregard
for workers and adverse effects on local development in SSA and SAm. Eventually, the multiple economic and political objectives of the Go Out policy could become incompatible with each other, forcing Beijing to make tough choices.

Regarding methodological challenges, this thesis has proposed a framework to better understand the complexity of Chinese engagement in Sub-Saharan Africa and South America through a regional-based analysis and ideal types of relationships. The next step will be to deepen this study and move from classification to causality. In other words, once we establish that China’s Go Out policy is much more than a strategy to extract natural resources and expand Beijing’s geopolitical power, we must study which specific factors make Chinese actors adapt to local contexts.

First, this will require broadening our sources of information. Only in recent times have analysts of Chinese engagement began to conduct fieldwork research to talk to important stakeholders in China, South America and Africa. This is a crucial aspect that should be continued, and deepened. Secondly, western academics usually dismiss Chinese sources (official documents, media and speeches by top officials) as propaganda, and disregard them as reliable sources of Chinese engagement. Although there is some truth to this, this thesis has attempted to show that economic engagement must be analyzed within a context, and within the meaning that is given by narratives and world views. It is impossible to understand China’s role in the global economy without studying the motivations, interests and self-perceptions of the Chinese government, its public economic actors, and a rising private sector.

In that regard, a critical issue will be to study the interaction between Chinese engagement and domestic institutions in South American and African countries. My case studies have shown that both democratic and authoritarian regimes are able to manage their asymmetric interdependence with China. This raises some important questions: What are the causal mechanisms that lead Chinese actors to adapt to domestic
environments and regulations? Is regime type relevant to understand differences in Chinese engagement patterns in SSA and SAm? Are authoritarian regimes like Angola and Zimbabwe more capable of extracting benefits from China? Or are democracies like Brazil and Peru more effective, even if through longer and more complex processes of regulation enforcement? Moreover, will China insist on its policy of “political neutrality” under the Go Out policy as its interests expand?

China is currently entering yet another phase in its development path, but the spectacular expansion of its foreign economic policy in South America and Sub Saharan Africa has had profound (and likely long-lasting) transformations for countries in these regions in economic and geopolitical terms. Chinese engagement with SSA and SAm is part of a broader Go Out strategy, and analyzing both regions together will allow us to further understand the instruments and motivations of China as an aspiring global superpower.

This thesis proposed a comparative framework –and a classification-- to understand the complexities of China’s rise in Africa and South America, and its implications for countries in both regions. This is, however, only a first step towards grasping the multiple dimensions of these evolving relationships. As old concepts of dependency theory and South-South relations are revisited and adapted to this new environment, understanding the nature of Chinese engagement in SSA and SAm will only become more important for studies of International Political Economy.
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Written by Barry Sautman and Yan Hairong. 2015.


