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Chinese Economic Relations with Developing Countries: Comparative Analysis of Latin America and Africa

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Abstract

Comparing the strategies of Chinese economic expansion in Latin America and Africa makes it possible to find several common features: foreign trade is dominated by exports of raw materials from both Latin America and Africa and imports of finished products from China, which lead to significant trade deficits. FDI focuses on natural resource extraction or related infrastructure, while investment from both regions in China is virtually non-existent. At the same time, the strategies of China's economic expansion into Africa and Latin America are also characterized by a number of differences related to the specifics of the economic environment of the countries of the regions. Thus, in particular, China's economic expansion in Africa is faster and with minimal obstacles, often damaging the national economy of the recipient countries. China tends to import workers into Africa and support existing corruption schemes but sees the region as a potential production base. Cooperation with China has boosted economic growth for many African countries. In Latin America, expansion is growing at a much slower pace, with some exceptions; the countries of the region are less attached to China, have a more diversified geographical structure of foreign economic relations, and better protect their economic interests. However, the region has suffered from deindustrialization due to recent high commodity prices, failing to use them to reform and increase the competitiveness of its economies, and negative migration and drug trafficking.

Keywords: *strategies of economic expansion, FDI, foreign trade, China-Latin America economic relations, Chinese-African economic relations*

1. Introduction

Chinese relations with developing countries cannot be studied only at the level of bilateral relations or taking into account one specific aspect: energy, human rights, strategic intentions, etc. The dynamics of Chinese economic development have a decisive influence on its economic expansion. Today, this dynamic depends more on new market forces than on the one-party state system on which most researchers are concentrated. Strategic initiatives influence the formation of China's foreign economic policy, but its implementation has some limiting factors. Over time, Europe's influence in Africa and the United States' influence in Latin America diminished. However, the rapid transition of developing countries from their traditional ties to cooperation with China does not always serve the goals of the economic development of each country.

It is important to emphasize that when studying China's relations with developing countries, it is desirable to avoid a simplified explanation of the nature of their cooperation. China's presence in developing countries, although growing rapidly, is still short-lived and in many cases small in absolute terms. Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of "adaptation".

2. Analysis of Previous Researches

China has consistently emphasized its strategic relations with developing countries of Africa and Latin America. Studies of Chinese international economic relations with these countries have focused on the benefits that both parties derive from this cooperation (see, for example, Fernandez Jilberto and Hogenboom, 2010; Carmody, 2016). Foreign trade with China in the context of rising raw material prices contributed to economic growth in Africa and Latin America. Therefore, most researches (with a few exceptions, such as Gonzalez-Vicente, 2013, 2011) have highlighted the leading role of Chinese trade and investment as the engine of economic growth in developing countries.

Many developing countries of Africa and Latin America seek to learn from the experience of successful growth in China and use it to develop their economies, hoping that the cooperation with China will be more successful than cooperation with Europe or the US. However, the debate over China's international role has repeatedly raised the question: whether China has become a global economic power whose economic interests are much closer to those of the developed world. Some researchers (e.g. Cardenal and Araújo, 2013; Fornes and Butt, 2012; Subramanian, 2011, Jacques, 2009) see this as a sign of the imminent threat of Chinese economic dominance and changes in the world economic order.

On the other hand, China's growing dependence on foreign economic relations with Africa and Latin America should also be taken into account. The supply of resources from these countries is largely the basis for supporting Chinese economic growth (Gallagher, 2016: 1). Realizing the importance of resource trade to ensure economic security, the Chinese Prime Minister stated: "When using foreign resources and markets, we must focus on the national economic strategy – if resources come mainly from one country or one region with frequent shocks, national economic security will suffer" (cited by Krauss and Bradsher, 2015).

Cooperation in the area of lending with Latin America and Africa is also beneficial not only to developing countries that receive soft loans from the Chinese government. These loans guarantee the market for Chinese goods and contribute to the expansion of the economic interests of Chinese producers (Davies, 2015). Also, the rapid growth of China's involvement in infrastructure projects in African and Latin American developing countries is becoming an instrument of the fulfillment of the huge excess potential of Chinese industries such as heavy engineering and metallurgy (*The Economist*, 10th/12th September 2015). In recent years the Chinese labor-intensive industries – such as textiles, leather, and building materials – tend to move to countries with low-cost labor, particularly in Africa (Brautigam and Tang, 2011: 30-31, Brautigam, 2019).

In Latin America, Chinese expansion is more restrained than in Africa. Although the region is also the subject of Chinese diplomatic and military initiatives, Latin America is mainly affected by the growing number of Chinese companies operating in the region and the growth of trade with China, which is slowly leaving its mark on the economies of Latin America and the Caribbean. Still Chinese relations with developing countries cannot be analyzed only at the level of bilateral relations or taking into account only one specific economic aspect. Chinese activities in developing countries grow rapidly, but are still short-lived and, in many cases, insignificant in absolute terms.

Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of "adaptation". However, we can highlight the specific characteristics of China's economic expansion strategies in Africa and Latin America, taking into account the specifics and local characteristics of the countries of these regions.

3. Analysis of Chinese Economic Expansion Strategies in Africa and Latin America

Relations between China and countries of Africa and Latin America have evolved over decades from ideologically and politically determined to increasingly economically determined. A new thing in the relationships is a strong commercial impetus and economic considerations, supported by Chinese economic success and increased participation in the world economy. One of the main factors in Chinese interest in expanding into Africa and Latin America is access to natural resources. However, a number of researches (e.g. Alves, 2013, Ukraynets, 2013) proves that regardless of the resource allocation, the infrastructure, financial, and telecommunications sectors play an important role in cooperation with China, and not only state-owned companies seek access to these markets.

In the financial and investment sector there is clear specialization between Chinese state-owned banks: Chinese Eximbank plays a leading role in Africa, while Latin America is dominated by credit lines of China Development Bank (Alves, 2013: 101). This might be explained by the adaptation of financial strategies of Chinese economic expansion to the economic situation in Africa and Latin America. As the profitability of investing in developing countries may be questionable, the Chinese government is trying to diversify the mechanisms of economic expansion in the field of FDI.

Latin America is one of the most important areas of Chinese economic expansion. The consequences of Chinese expansion are different for different countries of the region. On the one hand, Mexico, Central America, and the Caribbean have faced a strong influx of Chinese goods into the US market, which has destroyed all the benefits these countries had from the free trade agreements and special initiatives for Caribbean states. On the other hand, South America (especially Chile) has become a major beneficiary of the growing demand for raw materials. Latin America has become one of China's largest suppliers. In the 2000s, soybeans from Brazil and Argentina accounted for 60% of all Chinese imports of soybeans, Peru and Chile produced 80% of fishmeal imported by China, 60% of Chinese poultry imports came from Argentina and Brazil, and 45% of grapes came from Chile. However, it should be noted that exports from South America to China are very concentrated, for example, in the case of Chile, 76% of all exports to China are only one commodity – copper.

China's economic interests in Africa were initially focused on resources. Huge "infrastructure in exchange for resources" contracts are very illustrative for Sino-African relations. Recently Chinese interest in other economic areas has been growing rapidly. In sub-Saharan Africa, there has been a steady increase in trade flows with China over the past 20 years, and investment has even grown twice as fast (Ministry of Commerce, PRC, 2019; Pigato and Tang, 2015).

The growth of trade, investment, and financial flows has certainly had a positive impact on Latin American economic growth over the past decades. But they have also made the region vulnerable to the inevitable slowdown and restructuring of the Chinese economy, which began in the last few years and has resulted in a change in China's demand for imports and global commodity prices.

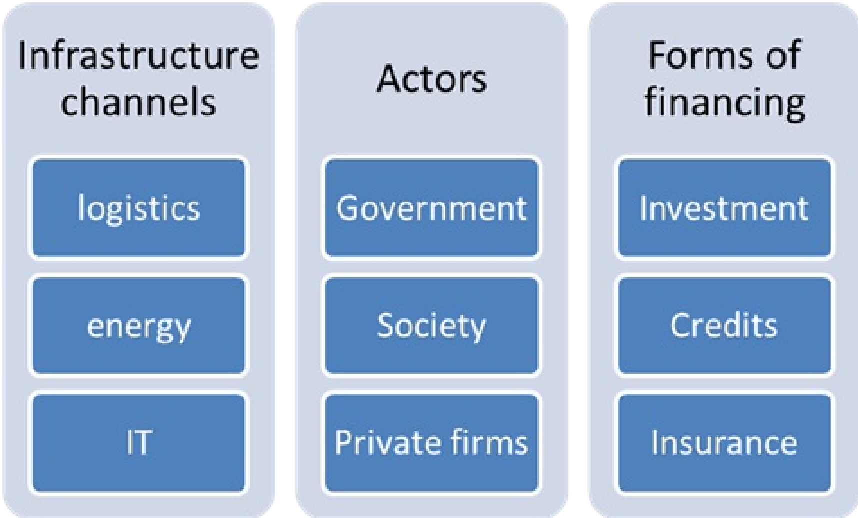
The economic crises in Latin America have primarily reflected the inability of governments to take advantage of high commodity prices over the past decade to implement domestic structural reforms and move to a more diversified, competitive, and productive economy. But a closer look at the trade and investment data between China and Latin America reveals many issues. Three-quarters of the region's exports to China consist of four raw materials: oil, copper, iron ore, and soybeans. Meanwhile, given the relatively high-income levels in Latin America (at least compared to Africa) and Chinese low production costs, China exports a large share of low- and high-tech goods to Latin America. This process of exporting raw materials to China and buying final products with higher added value has led to a large and growing trade deficit over the past decade. The decline in commodity prices since 2015 has exacerbated this trend, leading to a fourfold increase in Latin America's trade deficit with China. A similar pattern is observed for China's role in investing and financing the region, which focuses exclusively on natural resource extraction to ensure uninterrupted supply, or on related infrastructure to facilitate the transportation of raw materials.

Latin America's economic stagnation, which coincided with political changes in some large countries in the region, also raised the Chinese position on lending. In particular, the deep crisis in Venezuela – the result of years of incompetent governance amid falling oil prices – has raised questions about its ability to pay debts and Chinese generosity over the past five years. Over the past decade, the Chinese Development Bank and the Eximbank of China have lent Venezuela US$65 billion – and this is almost 15% of Venezuela's GDP (even at the official inflated exchange rate) and more than half of all loans from China to Latin American countries during this period. Even in 2015 when the question of Venezuela's default (which did occur in 2017) became acute, China provided it with US$10 billion loans. Only in 2016 amid economic and political turmoil in Venezuela, lending from China was suspended. The impact of this situation on Chinese future lending policy in Latin America may be significant, including tighter lending conditions and a rethinking of additional conditions that have so far (at least publicly) been lacking.

Officials in China and Latin America are aware of the risks associated with the structure of foreign trade and investment between the two sides. During his visit to Latin America in 2015, Chinese Premier Li Keqiang noted that with a long-term perspective, Latin America should not only be a global supplier of raw materials, as China – the world factory "of cheap products". Moreover, when China announced its plans to restructure its domestic economy, it presented its own vision of further economic expansion into Latin America. Latin America, unlike Africa, is not part of the One Belt, One Road initiative. But in recent years, China has presented a separate plan for the development of foreign economic relations with Latin America.

In 2014 the so-called "1 + 3 + 6 Plan" was presented, which includes one plan (China's Cooperation Plan with Latin America) with three drivers (trade, investment, finance) and six priority areas of cooperation (energy and natural resources, infrastructure construction, agriculture, manufacturing, innovation, IT). A year later, another area of cooperation was proposed – Li Keqiang presented the so-called "3x3" Plan. It identifies three priorities for the development of integrated infrastructure in Latin America (IT, energy, and logistics) and identifies three key players – governments, society, and the private sector (see Figure 1).

Figure 1 "3x3" Plan for Latin America



If these plans envisaging a sharp increase in trade and investment alongside a change in the export structure of both sides are fully implemented, they could lead to the economic transformation of Latin America. Importantly, China emphasizes the key role of business, not the government. To date, the presence of private Chinese business in Latin America has been minor while the extractive sector has been dominated by large SOEs. At the same time investments from Latin America to China are almost non-existent. This does not only limit the possibility of technology transfer but also hinders the establishment of deep business ties and diversification of exports.

The diversification of Latin American exports will, in theory, also be stimulated by less interest in natural resources (although they will continue to dominate the export structure) as the driver of growth of the

Chinese domestic economy becomes not cheap production but services. In the areas covered by the Chinese Cooperation Plan with Latin America, the problems to be addressed by new investments from China are identified. In Latin America, only 2% of GDP is spent on infrastructure development, which is relatively small compared to the rest of the world and does not meet the needs of the region. It is estimated that to meet future demand and not to be an obstacle to long-term growth, more than 6% of GDP should go to infrastructure in the coming years. To cover insufficient funds in conditions of limited government spending, it is vital to attract foreign investment.

Latin America is also lagging behind in R&D and can benefit not only from Chinese investment in high-tech industries but also from the associated transfer of technology and expertise to increase innovation and education. Another priority sector of cooperation identified by the China Cooperation Plan with Latin America is bilateral trade and investment in the agro-industrial complex, given the growing consumer demand from China and the comparative advantages of Latin America in this industry. At present, although exports of agricultural products are growing sharply it remains focused on raw materials, especially soybeans. The opportunity for Latin America to produce and export processed goods with increased added value is obvious against the background of reducing the gap between unit labor costs between the two regions.

The successful implementation of the plan will largely depend on the restructuring of the Chinese domestic economy and its ability to meet its commitments. But apart from the question of Chinese commitment and ability to stick to its plan for cooperation with Latin America (which has sometimes been lacking in the past), the improvement will depend on the ability of Latin American politicians to increase the continent’s competitiveness through a comprehensive and politically complex structural reform agenda. China has noted, for example, that it is ready to sign more free trade agreements (FTAs) with the region to deepen business ties. But in this case, the governments of the countries concerned are obliged to focus their efforts on improving the efficiency of services, reducing production costs, and creating favorable conditions for business. These are tasks that will require politically complex reforms of the tax and regulatory systems, as well as the labor market. It is also important to improve the regulatory framework for public-private partnerships, including the revision of weak incentive structures and uncertain return on investment, as well as the lifting of restrictions on private investment in some areas. In addition, improving education, where Latin America lags behind, will remain a key challenge for local politicians to increase per capita income.

Chinese presence in another region, Africa, has been felt for a long time, but cooperation with African countries is developing rapidly and creates new challenges and opportunities for leaders and entrepreneurs in the region, as well as for foreign companies interested in the continent. China is actively expanding into African countries to protect its economic interests, strengthening trade ties in many markets, investing in strategic supply bases, and offering new financial initiatives to promote trade and investment. China is constantly increasing its economic expansion into Africa, so it is reasonable to expect that the Chinese presence in the region will only grow, penetrating new areas and entering new phases of competition for African markets and raw materials.

Since the early 2000s, China has remained Africa's largest trading partner, driven by China's interest in the continent's raw materials and energy resources, as well as its ability to supply a wide range of goods to African markets. But the expected slowdown in Chinese economic growth over the next five years, along with attempts to rebalance its economic structure, is expected to somewhat reduce Chinese demand for commodities and limit its ability to invest and lend to some African countries. The more mature Chinese economy raises questions about the vulnerability of major African exporters of raw materials to China, their structural weakness and future financial stability, and potential creditworthiness in the medium term. But even such a reduction in demand for raw materials will not last forever. Chinese companies remain interested in African markets and intend to continue investing in the extractive sector to secure long-term strategic supply. As can be seen from the previous section, this is already happening in the countries of the Copper Belt – Congo, Zambia, and the Democratic Republic of the Congo.

Imports from China to African countries are more stable than exports although growth has slowed since 2015. But in Africa, China continues to use a successful strategy to link sales of equipment, supplies, materials to current and future large investments in natural resource extraction and infrastructure projects. Moreover, the ability of Chinese companies to sell a wide range of cheap goods (including clothing, footwear, furniture, cosmetics, electronics, auto parts, pharmaceuticals, etc.) remains crucial for African markets. Chinese firms have good financial and strategic connections and therefore benefit from growing demand from low-income African countries, as well as from growing demand from the middle-income urban consumer segment. Economic crises in many African countries may create additional demand for cheap goods that China is so adept at promoting, while the Chinese own economic slowdown is forcing entrepreneurs to seek overseas markets to sell products, especially given the Chinese government's encouragement. Fierce competition from China in the segment of cheap goods, as well as the possible growth of shadow trade flows and counterfeit products, creates very serious problems for local firms.

At the end of 2015, Chinese President Xi Jinping speaking at the Forum on China-Africa Cooperation (FOCAC) stressed the importance of Chinese investment at the time, noting that China intends to focus on encouraging industrialization, accelerating agricultural modernization, infrastructure development, and trade facilitation. This vision backs up many business strategies aimed at consolidating Chinese economic expansion in Africa, gaining and exploiting access to fast-growing consumer markets, establishing production bases closer to end consumers, and using free trade agreements with Africa (within regional integration agreements and with major international partners), as well as establishing production bases to support value chains and consumer markets in China itself.

The main characteristic of the Chinese economic expansion strategy to African countries, which pursues long-term goals, is the creation and development of special economic zones. In particular, China is actively sharing its experience in industrial development and intends to continue investing in local production and production infrastructure. It is extremely important to note that Chinese investments in export-oriented activities help to diversify the exports of African countries as the share of intermediate and finished products in total exports is growing. Chinese intention to establish production bases in Africa, while improving logistics links with China and within the continent, as well as the current restructuring of the Chinese economy, will intensify diversification trends and create new opportunities for companies located in Africa.

To support Chinese economic expansion into Africa, Xi Jinping announced that China intends to provide US$60 billion of financing (including interest-free loans, preferential loans, export credits, and additional revolving funds for African development funds) although it is not yet known to what extent these plans will be implemented. However, one trade-promoting initiative is already being implemented, namely the internationalization of the Yuan (Renminbi). China is actively using its currency in trade with countries around the world, and some African countries intend to join this system. So in April 2018, Nigeria joined the list of African countries that use the Yuan in the banking system and keep it as part of the gold and foreign exchange reserves. The purpose of such actions is to alleviate the pressure on the limited financial resources of African countries, reduce transaction costs and losses on currency exchange, ensure some protection against trade risks and generally promote trade and investment between China and Africa. Countries such as South Africa, Nigeria, Angola, Ghana, Mauritius, and Zimbabwe are likely to introduce the Yuan into their financial systems over the next five years by concluding currency swap agreements and increasing the Yuan's role on the African continent as a means of exchanging and financing projects.

China has long declared a non-interference approach to domestic and security policy in Africa, basing its economic expansion solely on commercial considerations rather than political motives. However, this position is changing. China seems to be interfering more in the internal affairs of African countries in the future. A key factor in changing China's policy toward Africa is the desire to protect its business interests on the continent. China declares its intention to increase already significant investments, trade routes, business ties with Africa, and recognizes that all this would only benefit from increased security in the region and greater political influence on national governments.

China has suffered in countries such as Libya, Chad, the Central African Republic, Democratic Republic of the Congo, and Sierra Leone.

In the future, China intends to avoid financial losses and urgent evacuation of citizens. China is increasing the number of peacekeepers in Africa and is involved in peacekeeping operations in countries such as Sudan, South Sudan, Mali, the CAR, DR Congo, and Liberia. The Chinese navy operates alongside the Horn of Africa and its presence will grow in the future as part of the "high seas" policy. In a memorandum of understanding, China announced the establishment of the first naval base in Djibouti to protect existing and future trade routes, including the Maritime Silk Road initiative, which will connect Asia with the Middle East, Africa, and Europe. More bases will emerge in the future – potential candidates for their location are Mombasa, Dar es Salaam, Walvis Bay, Luanda, and Lagos.

As noted, the main directions of internationalization of Chinese economic activity were outlined in the Belt and Road initiative. This initiative is primarily aimed at restoring Chinese historic land and sea trade routes (*The Economist*, 10th/12th September 2015: 15). Africa and Latin America did not play a major role in Chinese trade in ancient times, but these regions have shown a growing desire to cooperate with Chinese enterprises, which has facilitated Chinese economic expansion into these diverse and fast-growing markets. Moreover, SOEs and public financial institutions in China have received direct instructions to increase their investment in areas such as construction and infrastructure (*ibid.*:15), to provide a permanent presence there. Chinese private companies are also stepping up their operations in Africa, but for other reasons. Some researchers (Mohan, Lampert, Tan-Mullins and Chang, 2014) noted that the reasons for entering the small business market in Ghana and Nigeria are the desire to get rid of the control mechanisms of the Chinese state bureaucracy, personal growth, and even the desire for adventure (*ibid.*: 59-73).

On the one hand, the results of Chinese investment in Africa are determined by "improvisation and negotiations in specific political and economic regions" (Lee, 2014: 64) and we should recognize the efforts of the ruling elites of countries like Angola and Cameroon to preserve stability in the midst partial civil war and economic stagnation (*ibid.*: 65). But on the other hand, if we consider Africa as an economic region, we have to admit that it consists of economies that often do not have stable institutional structures or regulatory capacity to effectively manage and protect national resources, such as oil, minerals, and fish from exploitation and damage to the environment. For example, the completion of the Chad-Cameroon oil pipeline project in 2005 symbolizes the weakness of African institutions. Although the Chadian government was to negotiate with the Cameroonian government to allow the pipeline to transport Chadian oil to the Gulf of Guinea across the entire territory of Cameroon diagonally, the remunerations received by the Cameroonian government are negligible compared to Exxon Mobil profits.

Compared to African countries, Latin American countries have the ability to regulate and generate revenue from large resource and infrastructure projects. In addition, thanks to the efforts and aspirations of the labor movement, the rural population, and ethnic minorities to defend private property, individual rights and the environment and security in the region, Latin American countries have developed an effective civil society that is not yet realized in Africa.

Some economic studies of the economic impact of the construction of Kribi port (Cameroon) carried out by China Harbour Engineering Company (CHEC), a major Chinese state-owned enterprise, is an example of China's financing of African infrastructure projects in a completely different post-colonial political and economic landscape than Chinese infrastructure projects in Latin America (cited by Narins, 2016).

The differences between Chinese economic expansion in both regions are due to the unique nature of the economic conditions in Africa and Latin America.

Specific ways in which Chinese economic agents interact with African countries may differ. But the general mechanisms of Chinese economic expansion on the continent can be generalized in several main directions. One such direction is the ambiguous attitude towards the use of Chinese workers in Chinese FDI implementation or large-scale infrastructure projects in Africa. According to some researchers, it is difficult to understand the economic feasibility of using Chinese labor on a large scale on Chinese projects in countries where unemployment and underemployment are very high. In many countries, the quota of 60% of the local workforce by Chinese companies is rarely met (Cabestan, 2015: 19).

Another major trend may explain why Chinese economic expansion in Africa has been more steady and successful than in Latin America. This is the construction of infrastructure projects in which Chinese companies have been more successful and competitive in Africa (*ibid.*: 10). The reason is the specific authority (and sometimes corruption) environment of African countries when Chinese companies can focus on one person in the country – the president of an African country – to get approval for their project. Researches argue that corruption rates showed an unexpectedly significant positive impact on Chinese investment in Africa (Ukraynets, 2013). More proof might be obtained from the cases of individual African countries - as in Cameroon where President Paul Biya personally approves each loan (Cabestan, 2015: 14), from China (or any other potential foreign economic partner). This practice is much more common in Africa than in Latin America, with two notable exceptions: Venezuela and Nicaragua. Both President Maduro and President Ortega were seen as personally connected to the Chinese government and private investors.

Another dimension in which Chinese economic expansion in Africa differs from its expansion in Latin America can be explained by the long legacy of "colonial-type" economic models that permeate many African countries. Chinese economic actors in Africa have to contend with the entrenched and inefficient style of French colonial heritage which relies more on cultural and linguistic features than on technology and efficiency. At the same time, the leadership of some African countries is trying to develop a so-called policy of "disconnection" to reduce the dominant influence of former metropolises on the domestic and foreign economies of African countries (Oyono, 1990: 32).

Another special aspect of Chinese economic expansion into sub-Saharan Africa is that China's growing presence in the economy is displacing traditional economic partners. Following the Global Financial Crisis, the natural decline in economic transactions with European and American partners has created additional space for the economic expansion of Chinese enterprises (cited by Cabestan, 2015: 1). The legacy of European colonialism – that is, the almost complete domination of European companies in various sectors of the African economy – takes much more economic space in African countries than in Latin America. But today, although European and American investors and traders still account for most of the value of the total investment in most African countries, the powerful achievements of Chinese economic entities in various infrastructure projects, in particular, have become extremely common. The economic relations of most African countries with China are described by their governments as "strategic". In some countries (such as Cameroon) more than 70% of all infrastructure projects are involving Chinese companies. 90 percent of road construction or reconstruction is also carried out by Chinese corporations (*ibid.*: 3-4).

In contrast, in Latin America, although small countries such as Ecuador (where more than half of all investment comes from China) or less politically stable countries such as Venezuela have recently received most of their FDI from China, most other Latin American countries have had a much wider network that actively involved multinational companies. One of the reasons for China's large number of loans to African countries is that in many cases, China is moving where the West does not want to go, for financial or political reasons, or both (Krauss and Bradsher, 2015).

In this sense, Chinese investors and traders are extremely practical, and in the process of economic expansion outside China, they work with a focus on investment return, rather than on the image of the host countries. This policy of "non-interference" is one of the cornerstones of modern Chinese foreign economic policy, and from a purely economic point of view, it may be considered as a competitive advantage for Chinese companies seeking to find new markets for expansion. Although Western companies also do not always insist on human rights in the countries where they invest and operate, such issues are often on the agenda, and until recently the idea of corporate social responsibility (CSR) was much more prevalent in Western business culture than the Chinese one.

Although China is accelerating economic expansion with both Latin America and Africa, Latin America has a more developed institutional environment combined with resistance from environmentalists and growing concerns about China (*The New York Times*, 3rd October 2015). That led to the formation of a completely different expansion strategy for this region. In several Latin American countries, there is a complex process of environmental assessment of projects, during which many foreign investments (both Chinese and developed) are rejected. The bureaucratic system of most Latin American countries, by its very nature, is a powerful deterrent to economic expansion. This is especially true of those Chinese projects that involve Chinese labor to build local infrastructure. According to researchers China's economic expansion into Latin America is much slower and less effective, largely due to painful bureaucracy, laws banning China from hiring its staff, a network of audit courts, and the ability of dozens of different prosecutors to nullify any what economic megaprojects with their numerous lawsuits. Comparing Chinese economic expansion (mainly through FDI) in Latin America and Africa, the researchers note that Latin America has far more formalities that in one case is in favor of the country's economy, in another, not (cited in *The New York Times*, 3rd October 2015). The competent and well-established bureaucracies can significantly slow down the pace of agreement and timing that China is accustomed to. The Chinese style of economic expansion generally involves a high level of negotiation, often between heads of state, verbal agreements, and mutual concessions. This type of foreign trade agreement is associated with their rapid implementation, especially when it comes to projects funded by the Chinese side. Latin America's bureaucracy slows down agreements and projects, making Chinese economic expansion in the region more problematic than in Africa (CNN, 16th February 2016).

But in part, the bureaucratic system of Latin America might also benefit the development of economic ties with China, compared with African countries. In some Latin American countries, there are a lot of highly qualified employees who speak many languages and have diverse international experiences. Suffice it to say that some African countries send their diplomats to study at the Rio Branco Institute in Brazil (Rohter, 2010: 246).

In addition, the example of a recent investment agreement between a Chinese state-owned enterprise and the Chilean government emphasizes the ability of some Latin American governments to use legal contracts to actively manage, regulate and influence Chinese economic expansion, especially when such agreements are perceived as economically unprofitable or environmentally harmful to the host country. The failure of the Chinese Minmetals Group in 2008 to buy a large stake in one of Chile's state-owned copper mines (the so-called Gabi) after the Chilean government decided to ban the Chinese SOE from expanding its control over the mines illustrates the proactive stance of some Latin American governments in economic relations with China (Barretto Romero, Cerda Villalón and Hernández Navarro, 2010: 31).

Many Latin American countries legally guarantee favorable investment conditions for foreign investors, including Chinese ones. The official investment mechanism in most countries provides for the principles of non-discrimination, non-preferential treatment, economic freedom, and legal certainty and stability (Gajardo, 2011: 14). In most African countries such legal mechanisms do not exist or are imperfect and ineffective.

In general, in South America, several projects have been proposed since the 1970s for the construction of trans-Amazon highways, including a recent railway project that runs from the Brazilian port of Santos in the Atlantic to the port of Ilo, Peru in the Pacific. This project, if implemented by a Chinese company, will include 3,500 km across South America, and will be a significant demonstration of China's experience in financing, infrastructure development, and technological maturity. But to date, this project has not become a reality due to protests from environmentalists and local communities, as well as due to the lack of the necessary tripartite agreement between Brazil, Peru, and China (Peters, 2015). Although the details of the ultimate failure of both Chinese resource and infrastructure projects remain unclear, it is apparent that the initiative to cut economic agreements with Chinese firms may sometimes come from the society or the government. For example, in September 2015 in Peru, the national government was forced to impose a state of emergency in an attempt to end the damage caused by protests over a major Chinese copper mining project that led to four deaths (AFP, 2015).

However, in Latin America, it's specific for the Chinese economic expansion that large-scale natural resource extraction agreements forced through by well-funded Chinese government representative organizations are concluded within a new economic model that is quite different from the neoliberal free-market model encouraged by governments of the United States and Europe. Except for international trade and investment, recent macroeconomic successes in economies such as Bolivia and Ecuador support the assertion that the Washington Consensus policy has not worked for developing countries (Chang, 2015).

And indeed, some researchers note (*Financial Times*, 2nd September 2015) that the Chinese return to dirigiste intervention became even more pronounced. In particular, several years ago the Chinese government has moved away from its previous statement that only the market will play a crucial role in the economy. Thus the continuation of foreign economic relations with oil states such as Venezuela not only makes financial sense (although it is somewhat risky) but also agrees with Beijing's economic logic – to pursue economic expansion outside China in all countries with the potential for growth of economic activity. In addition, countries such as Chile and Uruguay, given their size and ability to pursue long-term economic policies consistently, have been able to attract Chinese economic agents who agree to abide by their trade and investment laws (Rathbone, 2015). Such cases are much less common in Africa.

A comparative analysis of Chinese economic expansion strategies for Africa and Latin America is summarized in Figure 2.

Figure 2 Comparative Analysis of Chinese Economic Expansion Strategies in Africa and Latin America

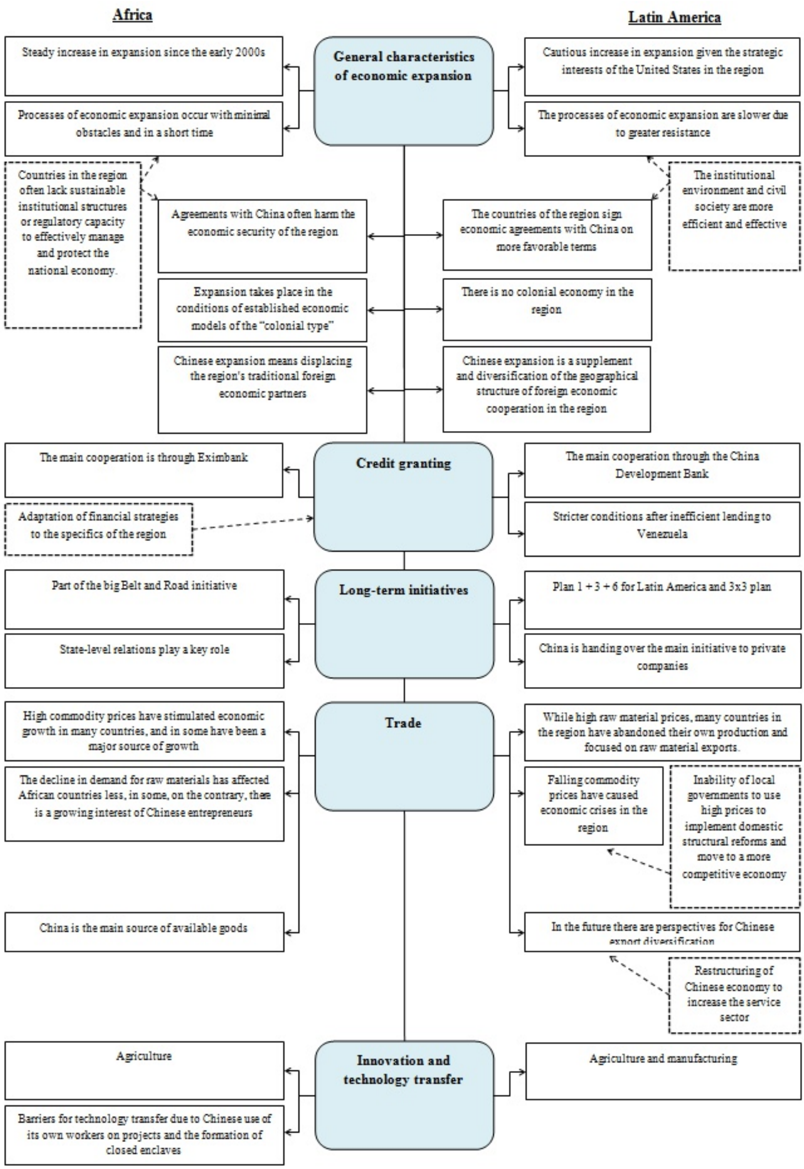
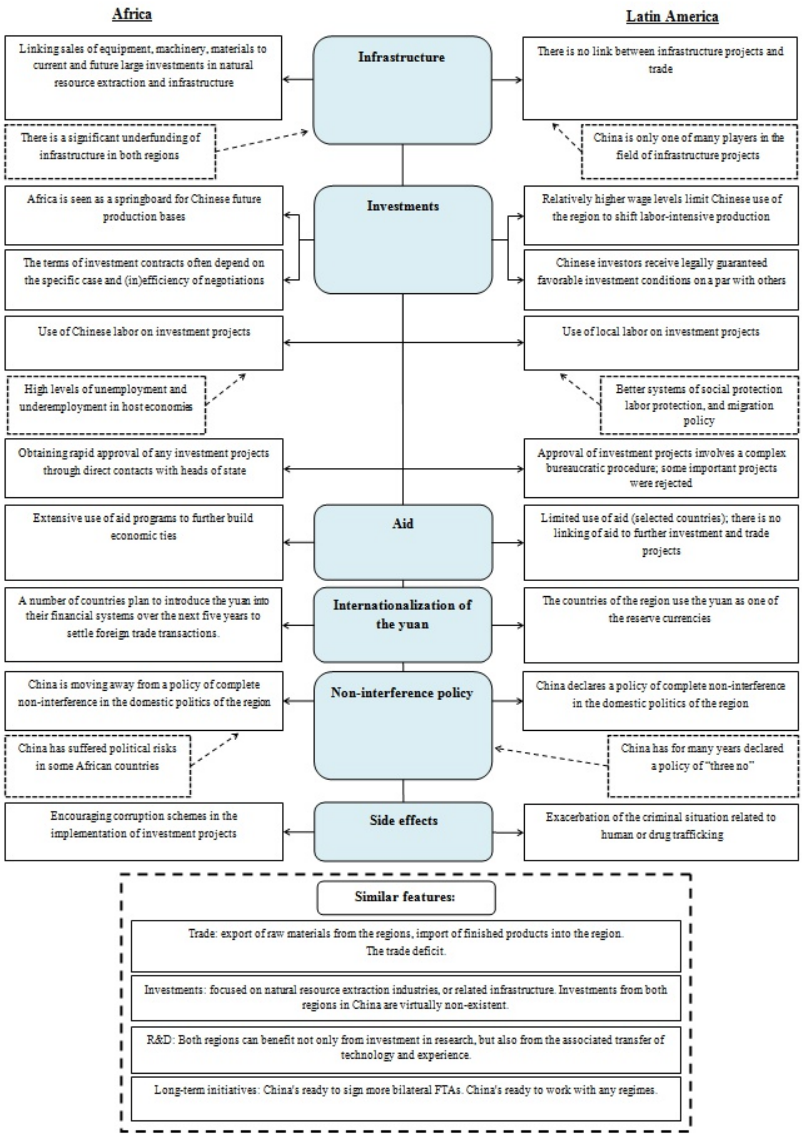


Figure 2 (Continued)



4. Conclusions

When studying Chinese relations with developing countries of Africa and Latin America, it is important to avoid a simplified explanation of the nature of their cooperation. According to Zhang Lifan, a Beijing researcher: “the problems of economic growth are related to the problems of political governance” (cited in *Financial Times*, 12th-13th September 2015)

First, the Chinese presence in developing countries, although growing rapidly, is still short-lived and in many cases small in absolute terms. Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of “adaptation”.

Second, it should be remembered that the Chinese strategy of entering foreign markets, as declared, is primarily dictated by domestic needs, rather than predatory plans to capture the world (Nolan, 2012). Therefore, strengthening Chinese cooperation with Africa and Latin America might bring indirect benefits to many developed countries (see, for example, Gross, 2012).

Third, in recent years, clear characteristics of the Chinese “African” or “Latin American” strategy for developing countries have been outlined. In particular, Beijing expressed some general views on relations with these countries. Although Chinese policy towards developing countries might not be called completely monolithic, as there are many public and private players in the market, the analysis identifies several important factors inherent in these two approaches of economic expansion strategy, including the experience of industrialization. income levels, the development of the economic structure, the diversification of foreign economic relations, the institutional environment, the economic link to the former metropolises, the effectiveness of the system of legislative regulation, the civil society. Most Latin American countries are characterized by much better development of all these factors. Perhaps this is why promoting major infrastructure projects in Africa is much easier for the Chinese government.

Note

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