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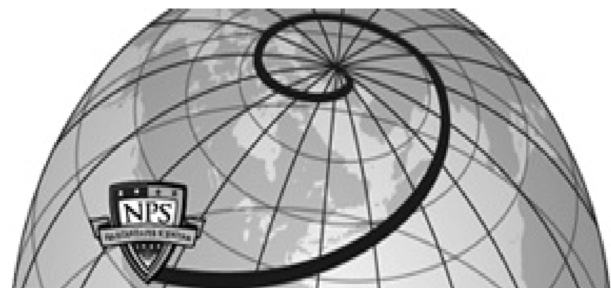

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THESIS

BANKING ON BEIJING: LATIN AMERICAN ECONOMIC COOPERATION WITH CHINA

by

Patrick M. Carter

September 2020

Thesis Advisor: Mariana Giusti Rodriguez
Second Reader: Christopher N. Darnton

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Over the last decade there has been significant focus, particularly in national security circles, on the rise of China and its expansion in regions such as Latin America, Africa, and Asia. While it is relatively easy to identify literature examining China's rationale for expanding into Latin America, there is notably less that focuses on the reasons why Latin American countries let China in. This thesis seeks to understand why Latin American countries choose to economically cooperate with China through the form of accepting loans. By centering the agency of the countries receiving loans, this thesis identifies the economic and political decisions and institutions that have made Latin American countries potential partners for an emerging China. Overall, pre-existing commodity-based economic relationships and the presence of a centrist or left-wing government were the two factors most linked with accepting loans from China.

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BANKING ON BEIJING: LATIN AMERICAN ECONOMIC COOPERATION WITH CHINA

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Submitted in partial fulfillment of the
requirements for the degree of

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ABSTRACT

Over the last decade there has been significant focus, particularly in national security circles, on the rise of China and its expansion in regions such as Latin America, Africa, and Asia. While it is relatively easy to identify literature examining China's rationale for expanding into Latin America, there is notably less that focuses on the reasons why Latin American countries let China in. This thesis seeks to understand why Latin American countries choose to economically cooperate with China through the form of accepting loans. By centering the agency of the countries receiving loans, this thesis identifies the economic and political decisions and institutions that have made Latin American countries potential partners for an emerging China. Overall, pre-existing commodity-based economic relationships and the presence of a centrist or left-wing government were the two factors most linked with accepting loans from China.

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

China's diplomatic and economic ascendency is being felt worldwide. Since 2005, the value of Chinese investment and construction abroad is nearly $2 trillion.[1] While the Chinese One Belt One Road (OBOR) initiative expands Beijing's influence, particularly across Asia, Eastern Europe, and Africa, Sino-Latin American, ties are also deepening. Trade between China and Latin America (LATAM) increased from approximately $8 billion in the mid-nineties to over $100 billion by 2009.[2] Additionally, since 2005, the China Development Bank (CDB) and China Export-Import Bank have made over $141 billion in loan commitments to Latin American and Caribbean countries.[3] China's dramatic developmental footprint in LATAM is not uniform, however. Only four countries, Venezuela, Brazil, Ecuador, and Argentina, account for over 90% of loans from China in the entire region, while several other countries, such as Chile, Paraguay, and Colombia, have not taken any such loans.[4]

Over the last decade, there has been a significant focus, particularly in national security circles, on the rise of China and its expansion in regions such as LATAM, Africa, and Asia. While it is relatively easy to identify literature examining China's rationale for expanding into LATAM, there is notably less which focuses on the reasons why Latin American countries let China in. After all, these countries are not passive entities being acted upon by Beijing. The countries that accepted loans from China made a choice to do so, just as those that did not also made a choice. Similarly, Latin American country's deepening trade relations with China are also the result of choices either made or not made.

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[1] "China Global Investment Tracker," American Enterprise Institute, accessed November 19, 2019, https://www.aei.org/china-global-investment-tracker/.

[2] Adrian Hearn and José Leon-Manriquez, *China Engages in Latin America: Tracing the Trajectory* (Boulder, CO, Lynne Rienner Publishers, 2011), 67.

[3] Kevin Gallagher and Margaret Myers, "China-Latin America Finance Database—The Dialogue," The Dialogue: Leadership for the Americas, 2019, https://www.thedialogue.org/map_list/.

[4] Gallagher and Myers.

So, what factors cause Latin American countries to cooperate economically, specifically in the form of securing loans from China?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

While much of the existing research on China's economic ties to LATAM focuses on China's perspective and agency, that is only half the story. In order for policy-makers, China-watchers, and academics to understand China's expansion, it is necessary to understand the motivations, equities, and rationales, of countries where Beijing is finding partners. Similarly, by examining the Latin American countries' motivations one can develop an understanding that may allow the implementation of policy designed to counter China's influence. Framing the question around Chinese actions also frames solutions around "confronting China" or "countering China," while considering the relationships from the Latin American countries' perspective more readily allows for solutions to be framed around addressing the core concerns in LATAM in ways that pre-empt China.

The growing role of China in LATAM has significant implications for those countries, as well as for the United States. Sino-Latin American cooperation merited inclusion in the 2017 United States National Security Strategy which stated that "China seeks to pull the region into its orbit through state-led investments and loans."[5] Furthermore, the unclassified summary of the 2018 National Defense Strategy refers to Chinese "predatory economics" as one tool to "reorder the Indo-Pacific region to their advantage," which includes Chinese influence in Latin American countries on the Pacific.[6] Since the introduction of the Monroe Doctrine, the U.S. has remained largely unchallenged as the hegemon in the Western Hemisphere. An ascendant China in LATAM creates a plausible alternative partner to the United States in the region particularly with Chinese development loans offering an option beyond the "Washington Consensus."

[5] White House, *National Security Strategy* (Washington, DC: White House, 2017), 51, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf

[6] Department of Defense, *Summary of the 2018 National Defense Strategy of the United States of America* (Washington, DC: Department of Defense, 2018), 2, https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf.

The agency of the countries that are letting China in matters tremendously for evaluating the extent of China's influence in the region, and what possible policy measures the U.S. might enact in response. Understanding why countries in LATAM may choose to pursue economic cooperation with China is key to addressing Beijing's growing influence, as well as better understanding the equities and perspectives of our neighbors in the hemisphere. The focus on loans specifically as the dependent variable in this thesis, vice other indicators like trade or investment, is in order to better understand LATAM agency through isolating specific decisions. To put it another way, increased trade can be largely the result of market forces, as can investment in certain industries, as long as the country's laws allow it. Accepting a loan, on the other hand, only occurs from a distinct decision by both the lender and recipient. While loans are only one aspect of China's influence in the region, they represent LATAM agency as well as insights into why countries may be moving away from U.S.-led institutions which in turn can inform decisions about how to counter that movement.

C. LITERATURE REVIEW

In explaining economic cooperation between China and LATAM the literature focuses mostly on economic factors with some political considerations also discussed. The dominant explanation for the relationship focuses on trade and commodities. A secondary explanation deals with global capital markets and the availability of Chinese loans. Further explanations involve China using economics to further its political and diplomatic agenda, and LATAM viewing China as a viable alternative to the "Washington Consensus."

One author who gives voice to a number of potential explanations for China's interest in LATAM, as well as LATAM's interest in China is Robert Ellis. In his 2009 book. *China in Latin America: The Whats and Wherefores*, Ellis's second and third chapters address some of the reasons he sees as key for understanding Sino-LATAM cooperation. The reasons why China is interested in LATAM are less important for the purposes of this thesis than the reverse. However, one explanation he gives for China's interest in LATAM is worth discussing because it closely matches a reason why LATAM might be interested in China. Ellis points out that China needs more primary products,

particularly oil, metals, wood, and food to continue its economic expansion and industrialization.[7] He cites evidence that China's own resources and existing partnerships will be insufficient to meet its increasing demand to show the strategic significance of these new sources of primary goods. China's five-year plan in for 2001–2005 which specifically encouraged a strategy of companies "going out" to build more supply chains abroad also bolsters his argument.[8] This matches with an explanation he gives for why LATAM might want to cooperate with China, namely that countries are hoping for export-led development. China's huge population and sustained economic growth suggest that it has huge potential as both a market for exports as well as a source of demand to keep prices high.[9] LATAM countries can see the obvious benefits of a new market for their exports. The only potential issue with this match that Ellis points to is that China's demand for products from LATAM is likely to continue to be commodities and other products with low value-added rather than the consumer and manufactured goods that are higher up the value chain.[10] In Ellis's 2013 Perry Paper No. 1 "The Strategic Dimension of Chinese Engagement with Latin America" he expands on the importance of commodities, in part with the benefit of four additional years of information. In the paper, Ellis notes how the heavy degree of investment from China as well as the increased trade relationships have helped commodity exporters to the detriment of manufacturing.[11] Ellis's description of these relationships suggests that commodities are crucial to understanding LATAM countries' relationships with China. In addition, Ellis suggests that commodity booms have interacted with LATAM government policy by allowing some countries to maintain fiscal solvency without having to cut key social programs.[12]

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[7] Robert Ellis, *China in Latin America: The Whats and Wherefores*, First (Boulder, Colo: Lynne Rienner Publishers, 2009), 10–11.

[8] Ellis, 11.

[9] Ellis, 24.

[10] Ellis, 25.

[11] Robert Ellis, *The Strategic Dimension of Chinese Engagement with Latin America*, 1st ed., Perry Paper Series, No. 1 (Washington, DC: William JPerry Center for Hemispheric Defense Studies, 2013), 15.

[12] Ellis, 15.

Ellis's 2009 book also presents a broad economic, political, and institutional reason for LATAM interest in China, specifically that China represents an alternative to U.S. dominance in the region.[13] Some governments in LATAM are inspired by China's quick economic rise and seek to replicate aspects of it, for some others "The 'Chinese Model' is a convenient rhetorical tool for regimes in search of development, but who do not want to follow a path of transparency, accountability, and institutional reforms."[14] Simply put, Ellis argues that China can offer a counterbalance whether economically, politically, or rhetorically to U.S. hegemony in LATAM. One example of this is described in another of his pieces, where he discusses how Argentina seeks investments from China to help cover its debt obligations while avoiding the policy governance imposed by the IMF.[15] Ellis further examines the idea of China as a counterbalance to the U.S. in his Perry Paper through the behaviors of regimes that are "relatively hostile" to the United States.[16] He largely frames China's commodity purchases, loans, and investments as being a counterweight to U.S. influence in the region. For instance, when discussing these relatively hostile regimes he suggests that China provides them the chance "to turn their backs on Western lending institutions like the International Monetary Fund and the World Bank" as well as avoid the negative outcomes from the global financial market from loan defaults or industry nationalization.[17] He goes on to state that Chinese economic cooperation "undercut(s) the United States' leverage in demanding adherence to certain practices of democracy, human rights and free trade."[18] This goes slightly beyond the book by suggesting that countries hostile to the U.S. can leverage China's strategic position to

[13] Ellis, *China in Latin America*, 28.

[14] Ellis, 28.

[15] R. Evan Ellis, *U.S. National Security Implications of Chinese Involvement in Latin America (Strategic Studies Institute*, U.S. Army War College, 2005), 12, JSTOR, https://www.jstor.org/stable/resrep11288.

[16] Ellis, *The Strategic Dimension of Chinese Engagement with Latin America*, 140.

[17] Ellis, 140.

[18] Ellis, 141.

push back against the U.S. in a number of fronts and genuinely try to carve out a path separate from the U.S. and its standards.

Much of the literature discusses China's massive economic growth over the past several decades and how that has led to more trade with LATAM. Over the past two decades, China has dramatically increased its exports to LATAM while simultaneously increasing its imports from LATAM.[19] One point often made in the literature is that the increase in Chinese imports from LATAM is largely commodities driven.[20] However, those imports tend to be concentrated within select sectors and countries.[21] This view suggests that one might understand differences in Beijing's cooperation with specific countries based on whether China desires the specific commodities found in that country. China's economic growth has fueled an increase in consumption which has required China to import more of specific raw materials such as copper, iron, oil, and foodstuffs.[22] Regionally, this variation creates winners and losers among nations that have the resources China demands and those that do not. This commodity-based explanation would suggest a positive relationship between cooperation with China and possessing a commodity that China desires.

Of course, trade is not the only aspect of economic cooperation that the literature examines. China's investments in LATAM are also examined in relation to commodity extraction. Similar to the discussions on trade, a significant portion of the literature focuses on China's need for particular commodities that Latin American countries produce. In his book, Toro-Hardy describes how China's investment strategy in the early 2010s was focused around natural resource extraction, with 90% of China's investment in the region

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[19] Alfredo Toro Hardy, *The World Turned Upside down: The Complex Partnership between China and Latin America*, 1st ed., vol. 34, Series On Contemporary China (Singapore: World Scientific Publishing, 2013), 116, https://doi.org/10.1142/8735#t=toc.

[20] Hardy, 118.; Hearn and Leon-Manriquez, *China Engages in Latin America : Tracing the Trajectory*, 77.; Lei Yu, "China's Strategic Partnership with Latin America: A Fulcrum in China's Rise," 1063, accessed November 19, 2019.

[21] Kevin Gallagher and Roberto Porzecanski, *Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford University Press, 2010), 14.

[22] Hearn and Leon-Manriquez, *China Engages in Latin America : Tracing the Trajectory*, 92.

devoted to it.[23] Written in 2013, his book goes on to describe what will be China's next step of investing in infrastructure and construction in LATAM, which has been borne out.[24] The move towards infrastructure still serves China's purposes because it will allow more efficient extraction and transportation of desired commodities, but Toro-Hardy also offers another reason. Some Latin American countries, specifically Brazil and Argentina, have strict laws regarding foreign ownership of land and therefore China has been forced to make infrastructure investments that are repaid with either commodities or a leasing agreement for lands.[25] Regardless of whether the investment goes directly towards extraction, or instead goes towards infrastructure, this explanation still suggests that Chinese loans and investments are being driven towards countries from whom China expects to obtain natural resources to meet domestic consumption needs.

The literature also has a nuanced discussion around the impact of this commodity-driven cooperation. The nuance comes from the literature examining if the continual struggle of Latin American countries towards industrialization is undermined by China's thirst for raw materials. The debate in the literature centers around the rentier state model whereby countries rely on a small basket of commodity exports and are therefore sensitive to shocks in the prices of those commodities. The reliance on those commodity rents fosters a dependence wherein the country is not incentivized to diversify or industrialize. However, the literature does not have a clear narrative on whether or not trade with China plays a positive or negative role in industrialization. The reason for the dispute over China's role is due to two forces that appear to work in opposite directions. Gallagher and Porzecanski describe both the increased revenues for countries and sectors that have seen large increases in global demand driven by China, as well as the threat China's competitiveness poses to Latin American manufacturing both regionally and globally.[26]

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[23] Alfredo Toro Hardy, *The World Turned Upside Down: The Complex Partnership Between China and Latin America* (N.J.: World Scientific, 2013), 163.

[24] Toro Hardy, 163.

[25] Toro Hardy, 164.

[26] Gallagher and Porzecanski, *Dragon in the Room: China and the Future of Latin American Industrialization*, 136–37.

For countries experiencing increased revenues for commodities, there is an opportunity to use the revenues to diversify their economies and create stabilization funds which both can insulate from inevitable price declines. If managed effectively countries experiencing commodities booms can be on a path towards better long-term economic growth and development. On the other hand, China has experienced such tremendous growth in manufacturing export that it threatens that sector in LATAM. While both LATAM and China have grown faster in manufacturing than the world average since 1980, since 2000, China has been outcompeting LATAM countries' manufacturing in almost every metric with high-tech manufacturing under specific threat.[27] For countries such as Argentina, Brazil, and Chile that have enjoyed both a commodity boom and a threat to their manufacturing, the dynamics of Chinese influence are complex, while for a country like Mexico who has suffered from China's manufacturing boom without benefitting from commodities, the impact seems wholly negative. While the literature broadly paints Latin American countries as being acted upon in this discussion, it does create a question as to whether countries will make different calculations on how they cooperate with China based on the extent to which that cooperation may stunt their industrialization process.

A secondary explanation for increased economic cooperation centers around China's role in the global capital market. The literature argues specifically that the 2008 financial crisis played a role in China's investments and loans in LATAM. The United States and European Union were severely hit by the crisis and as a result their demand for Latin American commodities, as well as their ability to offer lines of credit dropped.[28] A large Chinese economic stimulus helped China's economy continue to grow in 2009 and 2010 which in turn led to a smaller drop in Chinese commodity demand compared to LATAM's traditional trading partners. Because world credit markets had dried up during the crisis, China was able to leverage being one of the only countries in the world with significant cash on hand.[29] Even at the height of the financial crisis China was able to

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[27] Gallagher and Porzecanski, 137–38.

[28] Hearn and Leon-Manriquez, *China Engages in Latin America : Tracing the Trajectory*, 123–24.

[29] Hearn and Leon-Manriquez, 124.

extend major lines of credit to Brazil, Ecuador, and Venezuela, in exchange for repayment in oil over time.[30] These loans during the height of the financial crisis also fit within China's pattern of offering financing concentrated especially in the energy sector, which from 2005–2017 accounted for 70% of the money loaned to the region, with infrastructure accounting for the next largest at 18%.[31] The emergence of China as a major lender, particularly during the financial crisis suggests a relationship of convenience for Latin American countries and that timing and cash on hand may be key factors pushing countries towards cooperation with China.

The literature also examines factors that are arguably both political and economic in nature. Specifically, the literature looks at how Chinese development loans differ from loans dispensed from sources such as the International Monetary Fund (IMF) or the World Bank. For one, China has shown a willingness to loan to countries that might otherwise struggle to find sources of capital either due to previous defaults or political isolation.[32] China exhibits a form of "patient capital" that focuses on longer time horizons than market-based capital and does not come with conditions that interfere in a country's sovereign affairs.[33] By contrast, entities such as the World Bank and IMF have requirements around governance and environmental regulations that developing nations may find onerous if they do not already match the regime's domestic policies.[34] The tradeoff countries make for China's non-intervention is that Chinese development loans often require the use of Chinese firms and workers to complete the projects.[35] Putting requirements to use Chinese firms into the loans provides China with an outlet for its domestic construction industry

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[30] Hearn and Leon-Manriquez, 124.

[31] Katherine Koleski and Alec Blivas, "China's Engagement with Latin America and the Caribbean" (Washington, D.C., United States: U.S. -China Economic and Security Review Commission, October 17, 2018), 10.

[32] Koleski and Blivas, 10.

[33] Stephen Kaplan, "Banking Unconditionally: The Political Economy of Chinese Finance in Latin America," *Review of International Political Economy* 23, no. 4 (September 1, 2016): 644.

[34] Koleski and Blivas, "China's Engagement with Latin America and the Caribbean," 11.

[35] Koleski and Blivas, 11.

that is currently overcapacity, forestalling a potential readjustment. Kaplan describes these loan terms as "reminiscent of 'tied-aid'…where credit lines were often extended to developing countries by the U.S. and Japan … in exchange for the purchase of goods and services from the creditor nation."[36] The literature is unclear as to whether or not interest rates are a significant point of differentiation between Chinese loans and foreign counterparts. The lack of clarity may be due to the fact that the CDB offers loans at higher rates than their international counterparts while the China Export Import Bank offered lower interest rates than its U.S. counterpart.[37] Notably, the CDB accounts for the vast majority of Chinese loans to LATAM so on balance Latin American countries are facing higher interest rates from Chinese loans. Because the terms of Beijing's development loans differ from those of the World Bank and the IMF in both economic and political conditions, this explanation suggests both economic and political calculations being weighed by countries choosing to cooperate with China. Specifically, regimes concerned more about having to implement austerity measures or other "Washington Consensus" controls might opt for Chinese financing, while governments wary of having to use specific firms and workers might choose the IMF or World Bank over China.

One common thread throughout the literature is a lack of attention towards Latin American agency. While a power asymmetry certainly exists between the Chinese economy and the economies of discrete states in LATAM, the literature discussed above nonetheless fails to engage with Latin American agency, particularly in the commodity explanation. To his credit, when discussing how Chinese lending differs from market capital and lending sources such as the IMF, Kaplan does ascribe some agency to debtors insofar as acknowledging that they might find Chinese loans more attractive due to the lack of governance and environmental restrictions.[38] Furthermore, Koleski and Blivas make some acknowledgment of Latin American agency when describing the strategies of

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[36] Kaplan, "Banking Unconditionally: The Political Economy of Chinese Finance in Latin America," 645.

[37] Koleski and Blivas, "China's Engagement with Latin America and the Caribbean," 10–11.

[38] Kaplan, "Banking Unconditionally: The Political Economy of Chinese Finance in Latin America," 644.

Argentina and Ecuador who both seek to diversify their lending sources to prevent overreliance on China.[39] The majority of other literature on Chinese economic engagement in Latin America frames the situation as China acting and Latin American countries as passive or reacting. Again, except for specific policy decisions around loan terms and source diversification, the literature fails to address questions of why Latin American countries are increasingly turning to China. Taking on debt, signing trade agreements, and giving up some measure of sovereignty by allowing the extraction of your natural resources, requires a level of consent. While desperation may sufficiently explain the decision-making process for loans taken from China during the financial crisis it fails to explain nearly an additional decade of economic engagement.

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

Based on the existing literature a number of hypotheses exist that may explain Latin American economic cooperation with China. These explanations will break down broadly into the categories of economic and political factors.

1. First Economic Explanation: Commodity-Market Expansion

This explanation focuses on the status of the export economy within specific Latin American countries. If the country has a significant export economy, particularly to China, and concentrated in a small number of commodities, this explanation would expect that country to cooperate more with China and be more receptive to Chinese loans. The causal reasoning is that the countries with commodities China seeks will want to make investments either in those sectors or in infrastructure that will allow them to more effectively exploit their commodity and increase the quantity they can put on the market. Furthermore, this hypothesis would expect the bulk of those loans to either be concentrated towards projects specifically benefitting that commodity's industry, or to general infrastructure which would still be useful if the commodity is already being effectively extracted.

[39] Koleski and Blivas, "China's Engagement with Latin America and the Caribbean," 11.

2. Second Economic Explanation: Desperation

While still focusing on Latin American agency, this hypothesis argues that countries are cooperating with China because they don't have other choices. This suggests that countries are cooperating with China because that is the only capital available to them. China could be the only lending option for a number of reasons. A country could be an international pariah, they could have a recent history of loan defaults that put them in poor standing with the IMF, or there could be a lack of available capital from elsewhere due to prevailing macroeconomic conditions. Regardless, this hypothesis would expect that the greater the desperation within that country due to the presence of one or more of the aforementioned factors, the greater the likelihood that they may seek loans from China.

3. First Political Explanation: Authoritarian versus Democratic

Regime type is only really explored by Ellis in the literature as an explanatory variable in level of economic cooperation with China. The less focus on the agency of LATAM countries in the literature may explain why regime type is not prominent. The expectation is that leaders who demonstrate more authoritarian leanings may be more likely to cooperate with China. This hypothesis is based, in part on the idea that China is offering an alternative path to the U.S.-led international order and the "Washington Consensus" and that may be more attractive to leaders with more authoritarian impulses.

4. Second Political Explanation: Government Ideology Left versus Right

This explanation is hinted at in the literature when discussing the loan terms offered by Beijing versus those offered by the IMF and World Bank. One would expect a left-leaning government to be more likely to use Chinese investment money due to an aversion to the austerity measures required by organizations such as the IMF and World Bank, which may lead to painful domestic social program cuts. Because China's money does not come with those caveats it may be more attractive to those governments.

E. RESEARCH DESIGN

The dependent variable being explained is the level of economic cooperation between China and a given country in LATAM through their development loans to that

country. The dependent variable is not simply a binary "yes" or "no" as to whether a country received loans, nor is it specifically a question of how much money was received. Questions of what the loan was used for and how much was it compared to the size of the country's economy add important layers of nuance to understanding the cooperation. Because the root question being addressed is why this form of cooperation occurs, it is important to have a full understanding of what exactly the cooperation looks like.

The independent variables to be tested will be those suggested by the various hypotheses. The variables tested will be as follows:

example: "Independent Variable" → "Dependent Variable"

Commodity based export economy → Chinese loans

Level of economic desperation → Chinese loans

Authoritarian versus. Democratic → Chinese Loans

Government Ideology: Left versus. Right→ Chinese Loans

In order to test these relationships a broad view of the region will be examined, followed by focused case studies. Specifically, the countries of Chile and Brazil will be examined. These countries both have extensive economic relationships with China which include exporting commodities. In addition, these two countries both have diversity in the left-right leanings of their government during the time period. In spite of these similarities, Chile did not accept any loans from China, while Brazil did. Using these two cases will allow an examination of why two countries behaved differently in spite of some similarities in the variables. It is important to note that these case studies are also across time. The dependent variable is spread across a number of years and as such the independent variables must be as well. For instance, whether a country has a left- or right-wing government may change from year to year and one might expect that country's receptivity to Chinese loans to vary as well across that time.

Data for the export economy will be based on information from the Observatory of Economic Complexity at MIT which effectively breaks down the export and import economies providing a useful data set. The level of economic desperation in the regional

analysis will be evaluated based on the credit rating of the country according to the Standard & Poors ratings. News events and public statements may add additional nuance to the level of desperation in the case study chapters. Authoritarian tendencies can be gleaned from Freedom House's Freedom in the World database as well as qualitative news and developments within the country. Regime ideology can be evaluated through research of the political party in charge, taken from the University of Salamanca legislative surveys, and how it communicates its actions and decisions. This is potentially complicated when the party in control of the legislature is different from the party in control of the executive branch. In addition to these data sets "process tracing" can be used to glean the motivations of the government in the decision-making process that leads to cooperation with China in specific areas. Both public statements and actions can be instructive. Particularly, this can be useful for judging the role ideology plays in decisions, as well as differentiating between desperation and strategic hedging.

II. REGIONAL TRENDS

A. INTRODUCTION

In order to understand Latin American countries' decisions to cooperate with China economically it is helpful to examine the region as a whole. By looking at the region holistically one can hopefully differentiate between patterns of behavior and data points that represent an idiosyncrasy of a specific government or country. While case studies are good at discerning intentions and going several layers deep on a variable, an analysis of the full region is able to provide enough information to create baselines and discern trends. By analyzing regional trends one can generate conclusions about what outcomes specific variables lead to and how strong that correlation is.

This chapter evaluates the hypotheses outlined in Chapter I at the regional level. Specifically, it considers the extent to which Latin American countries' tendency to seek Chinese loans (or not) can be explained by the following variables:

1. Structure of the economy: commodity-based export economies will be more likely than non-commodity-based ones to seek Chinese loans, especially if China is already a major destination for those exports. This is because they have a pre-existing relationship with China, and countries who rely on rents from commodities have historically struggled to deal with boom and bust cycles in commodity prices.

2. Desperation: Countries that are more desperate and lack the necessary creditworthiness to receive loans on favorable terms from other institutions will be more likely to pursue Chinese loans than those that are deemed as creditworthy. This is because institutions like the IMF will be unwilling to offer them credit or the credit may come with conditions deemed as too onerous by the country, regardless of the reason China may serve as a lender of last resort to a country.

3. Authoritarianism: more authoritarian countries will be more likely to seek Chinese loans than democratic ones because leaders with more

authoritarian tendencies may be more likely to see China as an alternative to the western order. Meanwhile more democratic states will tend to pursue loans from democracy enhancing institutions.

4. Ideology: More Leftist governments will be more likely to pursue Chinese loans than more right-wing governments. Countries that are further to the left in ideology might balk at the impositions of "Washington Consensus" loans that often require cuts in social programs or other austerity measures. They seek Chinese loans to diversify their economies and reduce dependence on the U.S. and its international institutions.

This chapter examines these hypotheses with a unique data set. This data set incorporates data on the size, number, amount of Chinese loans received by Latin American countries, with data on recipient countries' economic structure, trade relations with China, credit ratings, level of authoritarianism, and left-right political ideology. The data set spans 13 years, from 2007 to 2019 (inclusive) which are the first through most recent years that any of the countries within the data set accepted a loan from China. The data set includes information from the following Latin American countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, The Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Data on Chinese loans is taken from The China-Latin America Finance Database from The Dialogue.[40] Data on other indicators was gathered from Observatory of Economic Complexity, the S&P 500 Country Credit Ratings, Freedom House, the University of Salamanca's Latin American Political Elites survey. Further information about the sourcing and operationalization for each variable will be given in the following sections. In the next section, I will provide an overview of Chinese lending trends in Latin America.

[40] Kevin Gallagher and Margaret Myers, "China — Latin America Finance Database," The Dialogue, accessed January 1, 2020, https://www.thedialogue.org/map_list/.

B. CHINESE LENDING IN LATIN AMERICA

Of the twenty countries included in the definition of Latin America for this data set, exactly half received development loans from China.[41] The loans received by these 10 countries span from 2007 to 2019 with some countries, such as Argentina, receiving their first loan from Beijing in 2007 and others, such as the Dominican Republic, receiving their first loan in 2019.

The analysis reveals significant variation among countries in the dollar amounts, number, and timing of the loans they received. Peru received the smallest loan, just $50 million, while the largest individual loan was for $7 billion and given to Brazil. Additionally, countries like Peru, Mexico, and The Dominican Republic, received only one loan while Venezuela received the most, at 17 and Brazil, Ecuador, and Argentina, also received more than 10. The timing of the loans was also diverse with several countries, Argentina, Brazil, and Venezuela, taking their first loan in 2007, while the Dominican Republic accepted its first in 2019. The disparity in the amount in total received by different countries was such that 96% of loan money went to (in order from greatest to least) Venezuela, Brazil, Ecuador, Argentina, while the other six countries accounted for the other 4%. In addition to the loan totals being dominated by four countries, it is also important to remember that ten countries in LATAM accepted no loans at all. A table and graph summarizing the loans received for each country, see Table 1 and Figure 1. With these trends established, the next section turns to evaluate the first hypothesis.

[41] Gallagher and Myers.

Table 1. Summary of Chinese Loans to Latin America[42]

Country	First year of Loan	Total Number of Loans	Total Loan Amount (in billions of $)	Average Size of Loans (in billions of $)
Argentina	2007	12	17.1	1.425
Bolivia	2009	9	2.40	0.267
Brazil	2007	11	28.9	2.627
Costa Rica	2015	1	0.395	0.395
Cuba	2015	3	0.240	0.080
Dominican Republic	2019	1	0.600	0.600
Ecuador	2010	15	18.4	1.227
Mexico	2013	1	1.00	1.000
Peru	2009	1	0.050	0.050
Venezuela	2007	17	62.200	3.659
Total		71	131.285	1.849

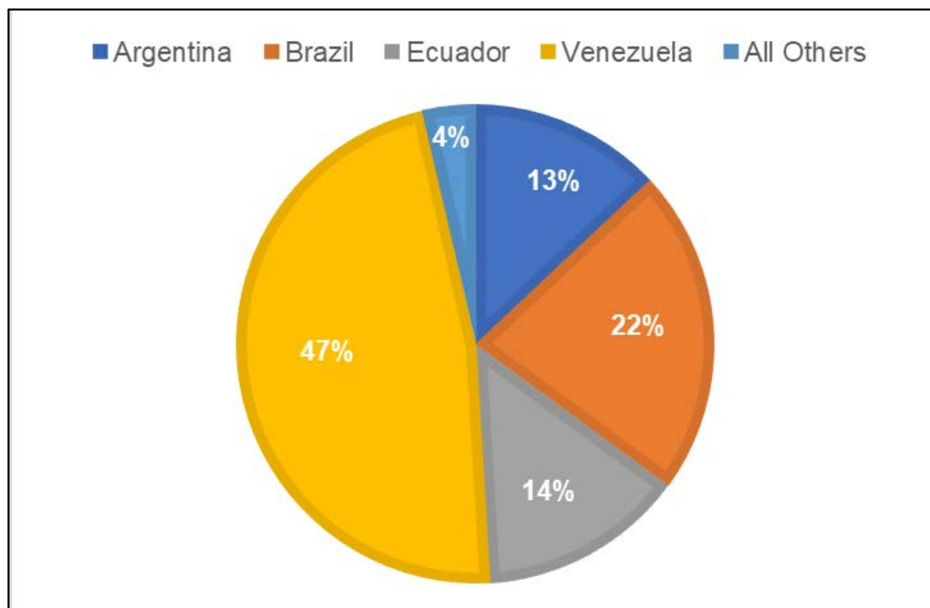

Figure 1. Share of Chinese Loans to Latin America[43]

[42] Adapted from Gallagher and Myers, "China-Latin America Finance Database - The Dialogue."

[43] Adapted from Gallagher and Myers.

C. COMMODITY-BASED EXPORTS AND CHINESE LENDING

The first hypothesis posits that countries may be more likely to accept loans from China if they have an export market that is significantly geared towards the export of commodities (such as oil specifically or a category like foodstuffs). Additionally, the likelihood of accepting a loan under this hypothesis would be higher if China is already a major destination for those exports.

The data in this section is derived from the Observatory of Economic Complexity which has detailed export data for all of the relevant countries from 2007 to 2017.[44] Unfortunately, while countries did receive loans in 2018 and 2019 they are being omitted from consideration due to the lack of data for those years. Nonetheless, we are still left with 220 total data points, which represent a sizable sample. For a country to be considered a commodity exporter at least thirty percent of their exports must come from a naturally occurring and low-value added resource, and that resource must also be the plurality export, or a majority of their exports come from commodities of multiple types. For instance, a country would be considered a commodity exporter under these rules if in a given year 40% of their exports were in iron/iron ore and no other source of exports exceeded 40% in that year. On the other hand, if a country's exports in a given year were comprised of 55% machinery then they would not qualify as a commodity exporter because machinery is a manufactured good that includes value being added. Overall, commodity exporting is very common in LATAM, with countries' exports being commodities-based 70% of the time. The commodities exported fell into three categories, oil/energy, animal products/foodstuffs, and metals/minerals. Countries that were not commodities-based exporters were generally exporting heavily a non-commodity such as manufactured goods from Mexico, or textiles from El Salvador.

In LATAM as a whole, 14 out of 20 countries were commodity exporters. Commodity exporters generally either focused on oil, foodstuffs/agriculture, or

[44] Alexander Simones, Dave Landry, and Cesar Hidalgo, "OEC: The Observatory of Economic Complexity," The Observatory of Economic Complexity, accessed April 20, 2020, https://oec.world/en/.

minerals/metals. The countries that did not export commodities were usually exporting machinery or textiles.

Countries that accepted loans from China were especially likely to be commodity exporters. Looking only at the time when each country accepted its first loan, eight of the ten countries in the region were commodity-based exporters and for eight of them, China was a major export destination. One could potentially argue that nine of them had China as a major export destination as Mexico exported $7.7 billion in goods to China in 2013, the year of their first loan, but that represented a drop in the bucket compared to Mexico's total exports of $379 billion which went overwhelmingly to the United States, Canada, and other countries within the Hemisphere.[45] Of the eight countries that were commodity based exporters, all of them had China as a major partner, though not always with that commodity being their main good exported to China.

To evaluate the association between commodity-based export economic structures and the likelihood of Chinese loan acceptance, I compare countries who accepted Chinese loans with those that did not accept these loans. Figures 2 and 3 summarize the results. The analyses reveal a significant difference in the economic structure between countries that accepted Chinese loans and those that did not. Of those countries that accepted loans, 97 percent had commodity-based export economies, only one data point, Mexico, represented a non-commodity loan. By contrast, 64 percent of those countries that did not accept loans, had commodity-based economies. A 33% higher incidence of commodity exports in data points with a loan is a stark difference. The data suggests that countries with commodity-based economies were more likely than those without such economic structures to pursue Chinese loans.

[45] Simones, Landry, and Hidalgo.

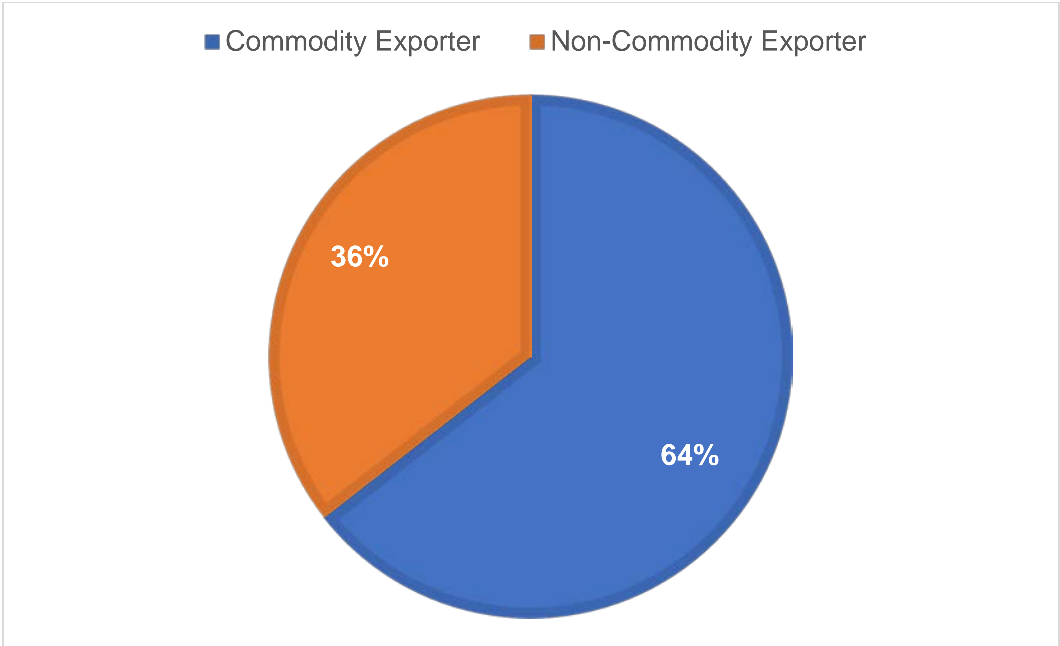

Figure 2. Share of Commodity versus Non-Commodity Exporters in Non-loan Data Points[46]

[46] Adapted from Simones, Landry, and Hidalgo.

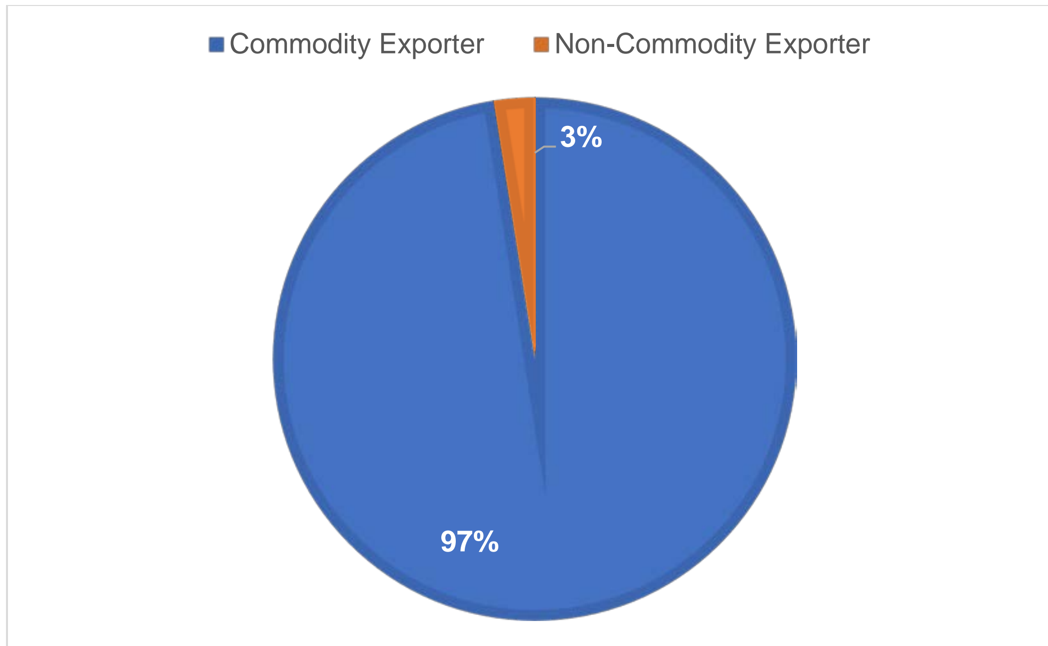

Figure 3. Share of Commodity versus Non-Commodity Exporters in Data Points with Loans[47]

While an 33% higher incidence of commodity-based exports in instances where loans were dispensed is not necessarily definitive, it does suggest that a relationship exists. Part of what makes this comparison challenging is simply the high incidence of commodity-based export data points overall in the set. This raises the question: Are commodity-based export economies really the factor, or does it just appear that way because of how common they are among LATAM countries?

One way of gaining insight into whether it is the commodities themselves that make the difference or not is by adding China's relationship as a destination for exports into the equation. If the basis for requesting loans from China has to do with the commodities being exported, then it makes sense for the country to have a pre-existing market for those commodities in China. For instance, an infrastructure loan from China may be seen as more worthwhile to a commodity exporter if the loan can be leveraged to better facilitate exporting the commodity, and then an increase in tax revenue for the expanded commodity

[47] Adapted from Simones, Landry, and Hidalgo.

exporting can repay the loan. Having China as an existing market for those commodities will also allow for a large market to make the increased production and exporting of the commodity valuable. Under this hypothesis, a country that exports to China, especially exports their main commodity, is more likely to seek out Chinese financing.

When examining the 32 cases where a country received a loan from China and also was a commodity-based exporter, 29 of them (91%) were exporting their commodity to China in significant quantities. Additionally, the only three instances where China was not a major partner in that commodity were Costa Rica in 2015 (when it received its only loan) for whom China was not a significant destination for any of their exports, and Ecuador who was a commodity-based exporter in oil to China in the years before and after but in 2014 and 2015 experienced a drop in oil exports of $200 million from 2013 which rallied in 2016 and were higher than 2013 levels by 2017.[48] The previously mentioned instance where a country did receive a loan but did not have a commodity-based export economy was the sole loan received by Mexico. In 2013, the year Mexico received its loan, it exported mostly machinery and transportation products. The U.S. was the main destination for exports and China was a minor destination in relative terms, though significant in absolute terms. Mexico exported $379 billion in 2013 with only $7.76 billion going to China. However, of that $7.76 billion, the plurality, 36%, was in mineral products, mostly various metal ores. So, while Mexico was not relying on China as a destination for a commodity-based export economy in the year they accepted their loan, China was still receiving a notable quantity of a commodity type from Mexico.

Examining the cases where a country did not receive a loan but did have a commodity-based export economy is more complicated, however. The main difficulty is that many of those instances are of countries that received loans from China in other years. For instance, should one really make any inferences about the fact that Argentina did not receive loans in 2011 and 2013 when it had a commodity-based export economy during those years (as well as the ones before and after)? In cases where countries did receive loans from China, at some point, they all had significant trading relationships with China

[48] Simones, Landry, and Hidalgo.

beforehand, even though in Mexico, they were not in a commodity, though the relationship may have grown following the loans. Put another way, there were not any instances where a loan from China was the beginning of the significant export relationship. The timing instead suggests that countries were leveraging an already existing relationship with China, that may have then been deepened by the loans. As such, it does not seem important to examine the instances where a country did not accept loans from China in one year, but did in previous or later years. Instead, one can just examine the 10 countries that at no point accepted loans from China and see what sort of export economy they had. 69 percent of data points of countries that did not accept any loans from China were instances of commodity-based export economies. This is lower than the 80% of data points where a country received a loan from China and also had a commodity-based export economy.

Overall, the data strongly suggests being a commodity-based exporter is well correlated with accepting loans from China. A higher portion of countries with commodity-based economies accepted loans relative to those that did not accept loans. That being said, LATAM has a high overall number of commodity-based exporting economies which complicates the data and country specific idiosyncrasies such as Brazil and Mexico's massive overall export economies can complicate the picture, and one must also wonder if the opposite may be true, where some countries, though commodity-based exporters, may be too small to merit a loan being worthwhile from the Chinese perspective.

D. ECONOMIC DESPERATION AND CHINESE LENDING

The second hypothesis posits that countries that are seen as less credit-worthy by traditional western institutions are more likely to turn to China for loans. China, meanwhile, is willing to give out these loans to less credit-worthy countries because they have stipulations that allow for China to receive repayment in commodities, like in the case of Ecuador who China can receive repayment from in oil.[49] China is also dealing with long time horizons. As discussed in the first chapter, China exhibits a "patient capital" model

[49] Nicholas Casey and Clifford Krauss, "It does not Matter If Ecuador Can Afford This Dam. China Still Gets Paid.," *The New York Times*, December 24, 2018, sec. World, https://www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html.

that makes even the shakiest borrowers a possible investment, as long as their state is not seen as likely to collapse.

To evaluate this hypothesis, I used country credit ratings from Standard and Poors (S&P). Because credit ratings do not change annually, but are instead updated by events, the credit rating for a given year is based on what the credit rating was for the majority of the year, and if it changed multiple times, the plurality. A "low credit rating" in this thesis is defined as anything below "BBB" which the S&P describes as "exhibit [ing] adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation."[50] Meanwhile ratings below "BBB" are "regarded as having significant speculative characteristics."[51]

Overall, the credit in LATAM is poor. During the time of the data set, 13 out of 20 countries had generally poor credit, with five countries defaulting during the period. Additionally, with the exception of Chile (who frequently received an "A" rating) all of the countries with good credit were barely above the threshold to be considered good. The fact that many countries in LATAM have poor credit is a complicating factor for this hypothesis. In fact, during the entire time period of the data set only two countries, Mexico and Chile, never had poor credit ratings, and one further country, Peru, came close having only been rated poorly in 2007.[52]

The analyses reveal that S&P credit ratings at the time of first loan are highly correlated with accepting loans from China. Specifically, eight of the ten countries that accepted loans from China had low credit ratings. This suggests that LATAM countries that accepted loans from China may have done so initially with China serving as a lender

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[50] James Wiekman and Lapo Guadagnuolo, "Standard & Poor's Americas," S&P Global Ratings, August 1, 2020, https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352.

[51] Wiekman and Guadagnuolo.

[52] Trading Economics, "Credit Rating — Countries — List," Trading Economics, accessed May 1, 2020, https://tradingeconomics.com/country-list/rating.

of last resort, or because they could not comply with the onerous restrictions often imposed by the World Bank and IMF.

Because credit ratings often change year to year it is also possible to examine whether countries were more likely to seek loans in general while rated lower regardless of whether it was their first loan. Of the 44 instances where a loan was accepted from China, 86% (38 out of 44 loans) were in a situation where the recipient had poor credit as shown is Figure 4. The only loans provided to a country with good credit, other than to Mexico and Peru mentioned above, were the ones provided to Brazil in 2008,2009, 20014, and 2015. For a very large economy, like Brazil or Mexico, a decision to pursue Chinese financing may be an attempt at diversification rather than desperation. This explanation is a distinct hypothesis about political economy that will be discussed during the case study chapters. In contrast, for country years where there was no loan dispensed from China, 69% (150 out of 216) involved a credit rating as poor credit. Figures 4 and 5 show this data. This result is a stronger difference than the one noted between the totality of the data and first-time loans only. As such, the analyses generally suggest that countries with lower credit scores are more likely to turn to China for loans.

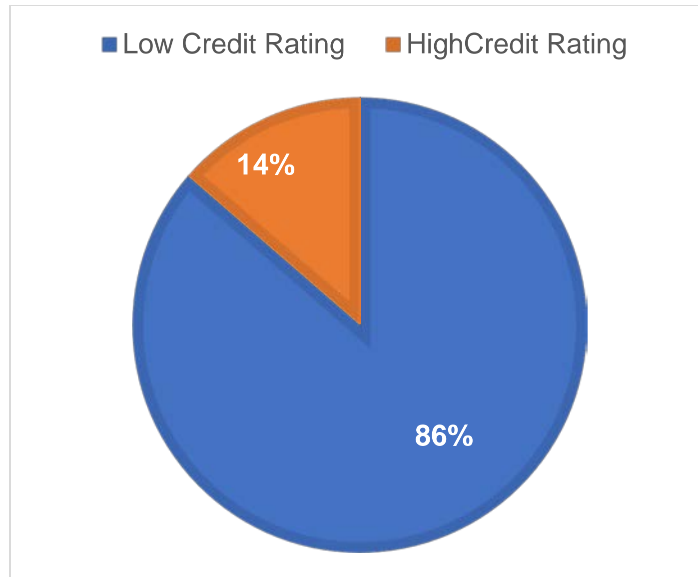

Figure 4. Credit Rating When Loans Were Received[53]

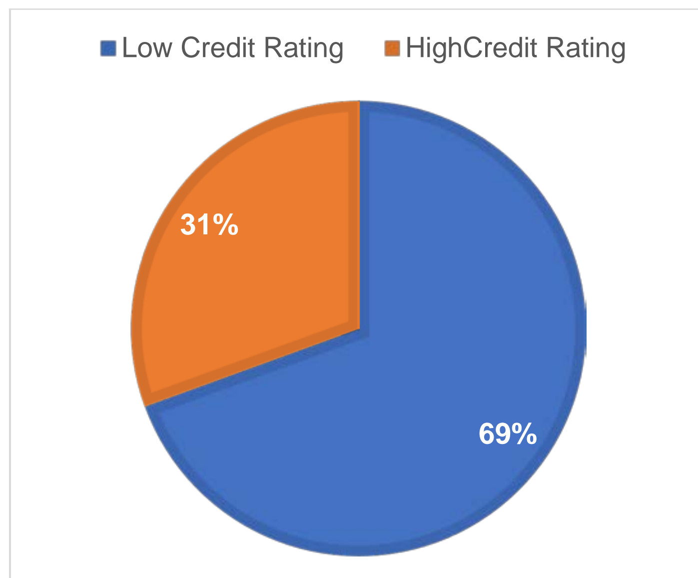

Figure 5. Credit Rating When Loans Were Not Received[54]

One can also analyze the amount of loan money dispensed depending on credit rating. For instance, Peru, who received the lowest total amount of loan money of any

[53] Adapted from Trading Economics.

[54] Adapted from Trading Economics.

country, accepted one loan for $50 million and had good credit when it did so. On the other hand, out of the four countries that received the most money in loans, three of them, Venezuela, Argentina, and Ecuador, had poor credit the entire time they received loans, while the fourth, Brazil, received about 38% of its loan money while its credit was poor. The overwhelming majority of loan money accepted was done so while credit was poor. 84% (about $112 billion) was provided to countries with low credit at the time, and 16% (about $19 billion) was provided to countries with good credit at the time as Figures 6 and 7 show. This, when combined with the data previously shown is highly suggestive of poor credit being correlated with acceptance of Chinese loan money, in support of the desperation hypothesis.

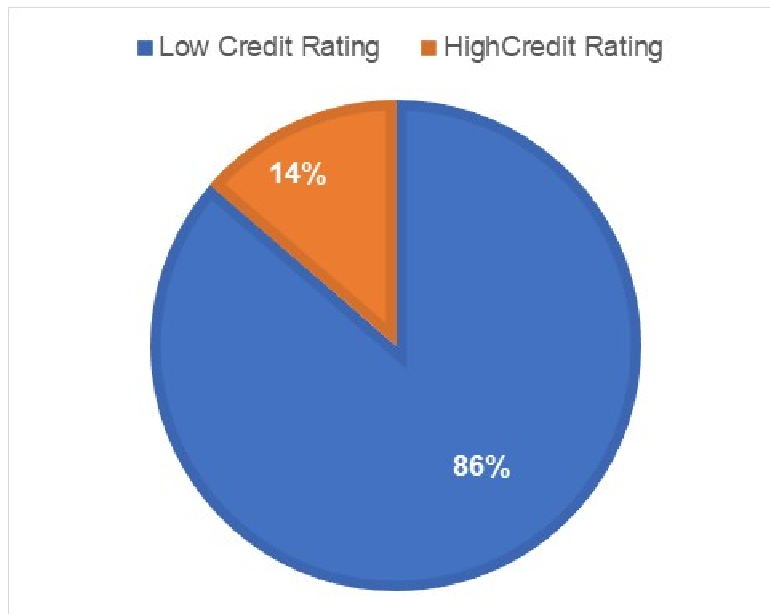

Figure 6. Share of loan Money based on Good versus Bad Credit[55]

[55] Adapted from Trading Economics.

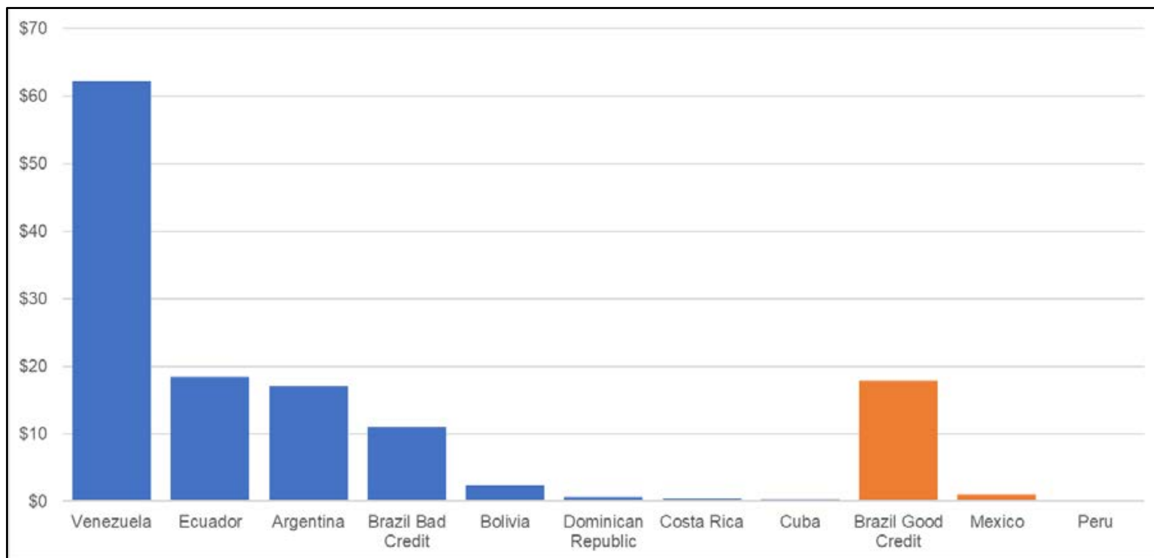

Figure 7. Amount of Loan Money Grouped by Credit (in Billions)[56]

E. AUTHORITARIAN VERSUS DEMOCRATIC AND CHINESE LENDING

This explanation examines whether or not the level of authoritarianism in a country is linked to their desire to receive loans from China. China is one of the most authoritarian countries in the world and has a 2020 rating from Freedom House of 10 (out of 100), which is lower than every country in Latin America.[57] The expectation is that less free societies may see China as a fellow-traveler of sorts, or if nothing else, be more willing to look past authoritarian tendencies when seeking international partners. One challenge associated with this data is that Freedom House broadly groups countries into the three categories of "not free" "partially free" and "free." Countries that fall into the "not free" and "free" categories make for easiest comparison, however many countries in Latin America during the time period of our data are "partially free."

There is a decent amount of diversity in the data set on this variable. In the data, 49% of country-years had a rating of "free," 44% of "partially free," and 7% of "not

[56] Adapted from Trading Economics.

[57] Freedom House, "Freedom in the World," Freedom House, accessed May 4, 2020, https://freedomhouse.org/report/freedom-world.

free".[58] Overall there were nine countries rated as "free" ten rated as "partially free" and only one, Cuba, rated as "not free." However, there are changes year to year for countries, so for instance, three countries, Cuba, Venezuela, and Nicaragua all had at least one year being rated as "not free." Likewise, some countries, such as Mexico and the Dominican Republic, went from being rated "free" to being rated as "partially free" in later years. Notably, no country became more free during the entire period, any change that occurred was either movement from "free" to "partially free" or from "partially free" to "not free."

The data at the time of first loan as well as the broad data of where the countries all stand does not paint a clear picture. At time of first loan, four countries were "free," five were "partially free," and one was "not free." Some countries moved from year to year across categories but overall there were nine countries that were "free" for at least half of the time period, four of which received loans. There were ten countries that were rated as "partially free" throughout this time, and five of them received loans. One country was rated as "not free" for the entire period, Cuba, who did receive a loan.

While classifying the country as a whole can offer some insight, the freedom ratings are not static in all countries year to year. For instance, Mexico had four years listed as "free" and another nine listed as "partially free" while Venezuela had nine as "partially free" and four as "not free." While the number of country-years for "free" and "partially free" are similar, the small number of "not free" data points make direct comparison unhelpful. Examining the percentages of loan receipts in each of these groups is more useful. The results of analyzing by percentage are listed as a table in Table 2, and represented visually in Figure 8.

[58] Freedom House.

Table 2. Percentages of Loan Recipients Based on Freedom Rating[59]

Level of Freedom:	Data points with loan:	Data points without loan:	Total:	Percent of Country-years Receiving loan:
Free	16	112	128	12.5%
Partially Free	24	89	113	21.2%
Not Free	4	15	19	21.0%
Total Data Set	44	216	260	16.9%

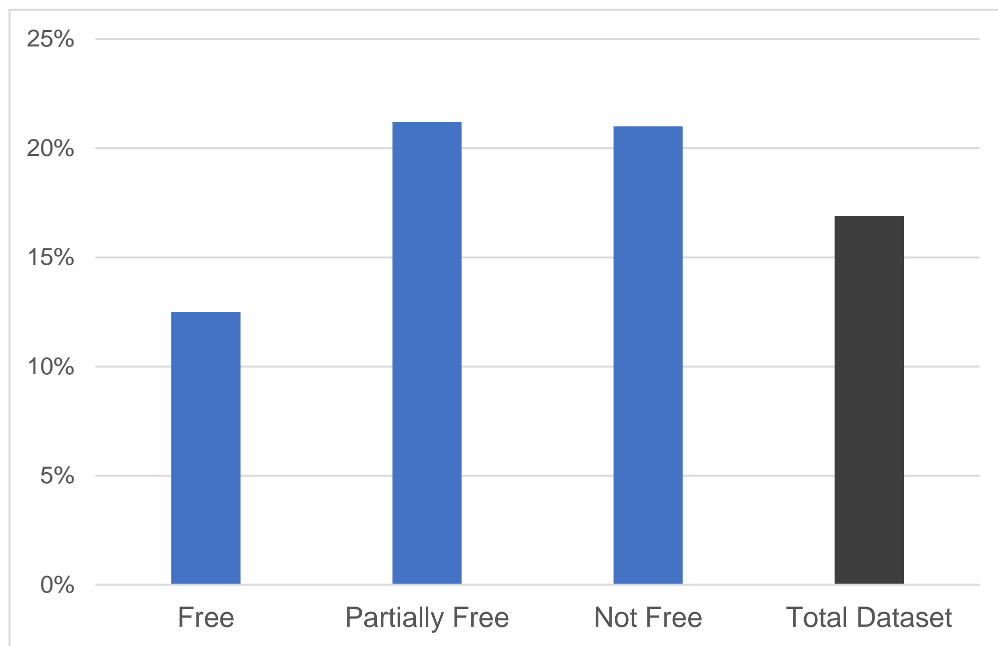

Figure 8. Percent Receiving Loan Based on Freedom Rating[60]

[59] Adapted from Freedom House.

[60] Adapted from Freedom House.

This data suggests that while there is not a marked difference between "partially free" and "not free" societies' behaviors, there is a difference in how free countries approach loans from China. Perhaps free societies have more issues with accepting loans from an authoritarian state such as China, qualms that are not as prevalent in partially free or not free ones, rather than those latter two groups being attracted to China because of its authoritarianism. Simply put, a rating of "free" seems to discourage accepting loans from China more so than a rating of "not free" necessarily encourages it compared to a "partially free" rating.

F. IDEOLOGY AND CHINESE LENDING

As China continues to emerge as the alternative model to the U.S. backed "Washington consensus." another dimension which may explain whether or not countries choose to cooperate with China economically is ideology. As has been previously mentioned, loans from institutions like the World Bank often carry with them governance restrictions which have historically included austerity measures that end up driving cuts to social welfare programs or other domestic priorities. As LATAM countries have historically sought independence from U.S. hegemony, partnering with China may be a way to counter the influence of U.S. institutions as long as true financial independence is not feasible. Furthermore, this period was during a leftward swing in LATAM which may have meant the governments in power are more skeptical of U.S. hegemony and may place a higher priority on their own social programs. Because the Chinese loans have few restrictions, they may be more attractive to governments that prioritize those programs over closeness to the U.S. or adherence to traditional institutions. Tables 3 and 4 briefly summarize the government ideologies during the time period among both the total data set and the loan recipients.

Table 3. LATAM Government Ideology 2007–2019[61]

Government	Total country-years	Percent
Left	83	33%
Center	116	47%
Right	49	20%
*data was unavailable for a total of 12 country-years during the period		

Table 4. LATAM Government Ideology Among Loan Recipients[62]

Government	Total country-years	Percent
Left	18	41%
Center	26	59%
Right	0	0%

The data suggests that the presence of a right-wing government may be exclusionary for cooperation with China, vice a left-wing government being a necessary pre-condition. Indeed, when the entire data set of 44 instances of loans from China is examined, there are no right-wing governments present (though there are center-right governments in Argentina). Furthermore, there is a small split between left-wing governments and centrist governments with loans going to left-wing governments during 18 country-years and centrist governments 26. However, this gap can be explained by the fact that there are more overall centrist governments in the data set than left-wing ones. As is shown in Figures 9 and 10, 41% of country-years receiving loans were to left-wing governments versus 59% to centrist governments, which is nearly identical to the ratio of those governments in the overall data set.

[61] Adapted from Universidad de Salamanca, "Country Questionnaires," Observatorio de Elites Parlamentarias en America Latina, accessed May 4, 2020, https://oir.org.es/pela/en/methodology/country-questionnaires/.

[62] Adapted from Salamanca.

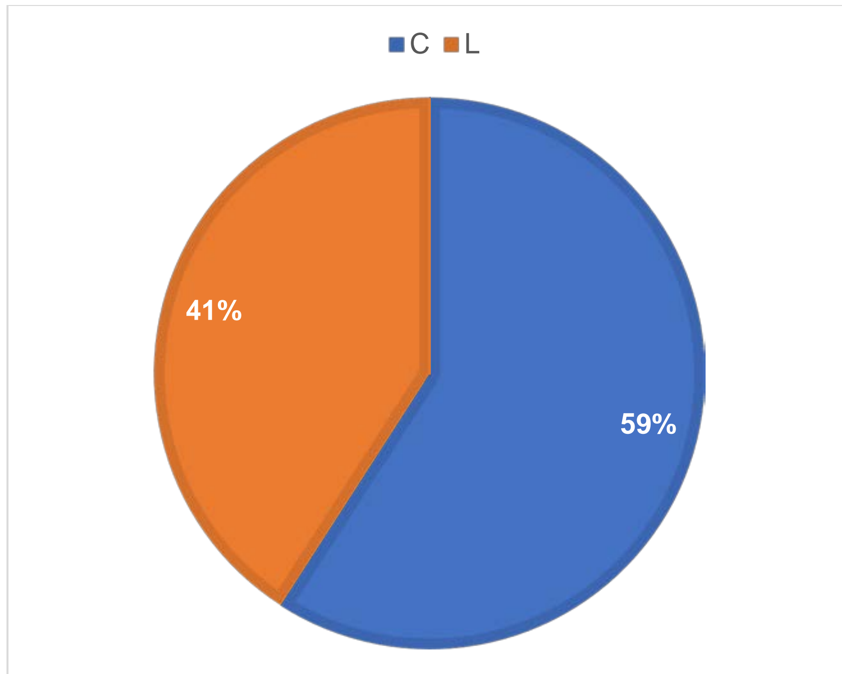

Figure 9. Center versus Left Ideology in Loan Recipients[63]

[63] Adapted from Salamanca.

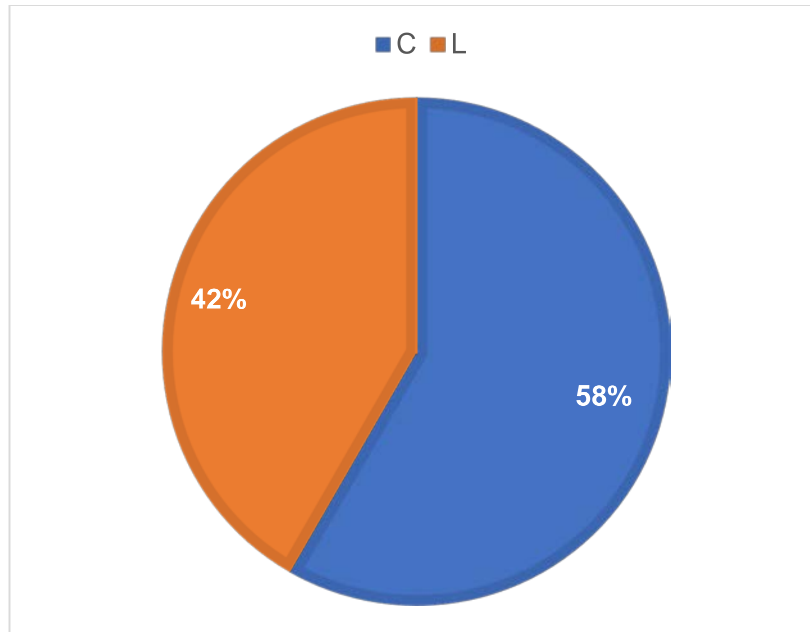

Figure 10. Center versus Left Ideology in Full Data Set[64]

The full data set also provides additional evidence that the presence of a right-wing government could be exclusionary. There are 49 total right-wing governments, which comprise about 20% of the total data set (there are 248 data points as government left-right ideology was not always available). The absence of any loans to right-wing governments strongly suggests this is a factor. There are some reasons why right-wing governments may be less likely to accept Chinese loans. Some of the right-wing governments are traditionally close to the U.S. (such as Colombia) or have an economy that is not as in need of development loans as elsewhere in the region, such as Chile (which will be discussed in depth in the following chapter). Additionally, conservative governments may be less averse to the austerity measures imposed by places like the World Bank and would prefer to accept their loans, as cutting social spending is often a priority in right-wing governments anyway. If the loans were being dispensed truly independent of government ideology, there would be a .01% chance that you would have zero loans to right-wing governments out of the 44 country years with loans and total of 248 country years in the data set (199 is the total number of non-rightwing governments in the full data set, 248 is the full size of the data set, and there are 44 iterations because that is how many loans were dispensed).

[64] Adapted from Salamanca.

Additionally, there are instances where a country meets nearly every other data point that is hypothesized to make them more likely (or at least not unlikely) to be a loan recipient. Specifically, there are several instances of partially-free, commodity exporting countries, with low credit ratings but are right-wing and have not accepted loans from China. Of course, it may be the government ideology itself that is not the reason for establishing a loan relationship with China or not. Perhaps countries that are open to right-wing governments are less likely to want a relationship with China for other reasons. Nonetheless, the overall data set suggests that whereas countries with a right-wing ideology choose to not pursue loans from China, centrist and leftist government are likely to pursue this cooperation.

G. DISCUSSION AND COMPARISONS

In this section, I assess general trends by comparing loan recipient countries against non-loan recipient countries along the explanatory variables. While each of the variables is being tracked across time in the data set, most of them are relatively stable over time. Most countries that had commodity-based exports were consistently commodity-based, and most countries who had poor credit ratings had those consistently as well. The only exception to this consistency was the left-right placement of the government as many countries during the sample period swung among left, center, and right. Mexico, for instance, had left, right, and center governments during the period examined. Classifying the country as centrist, merely because there were more years under a centrist government, would be an oversimplification. A comparison of the loan recipient countries to non-loan recipients on the variables other than government ideology is provided in Figure 11. Each country was assigned to one group or another among each variable simply by whether they met the criteria for a majority of the available data points. For instance, Peru was designated as not being one of the low credit rating loan recipients because Peru's credit rating was "BBB" or higher in all but one year in the data set. Similarly, Venezuela was grouped as "partially free" because in 9 of the 13 years in the data they were in that category, even though more recently the country has been rated "not free." While grouping each country based on the majority of data points for a given variable eliminates some nuance, it nonetheless allows for a broad analysis of the different variables for countries that accepted Chinese loans and those that did not.

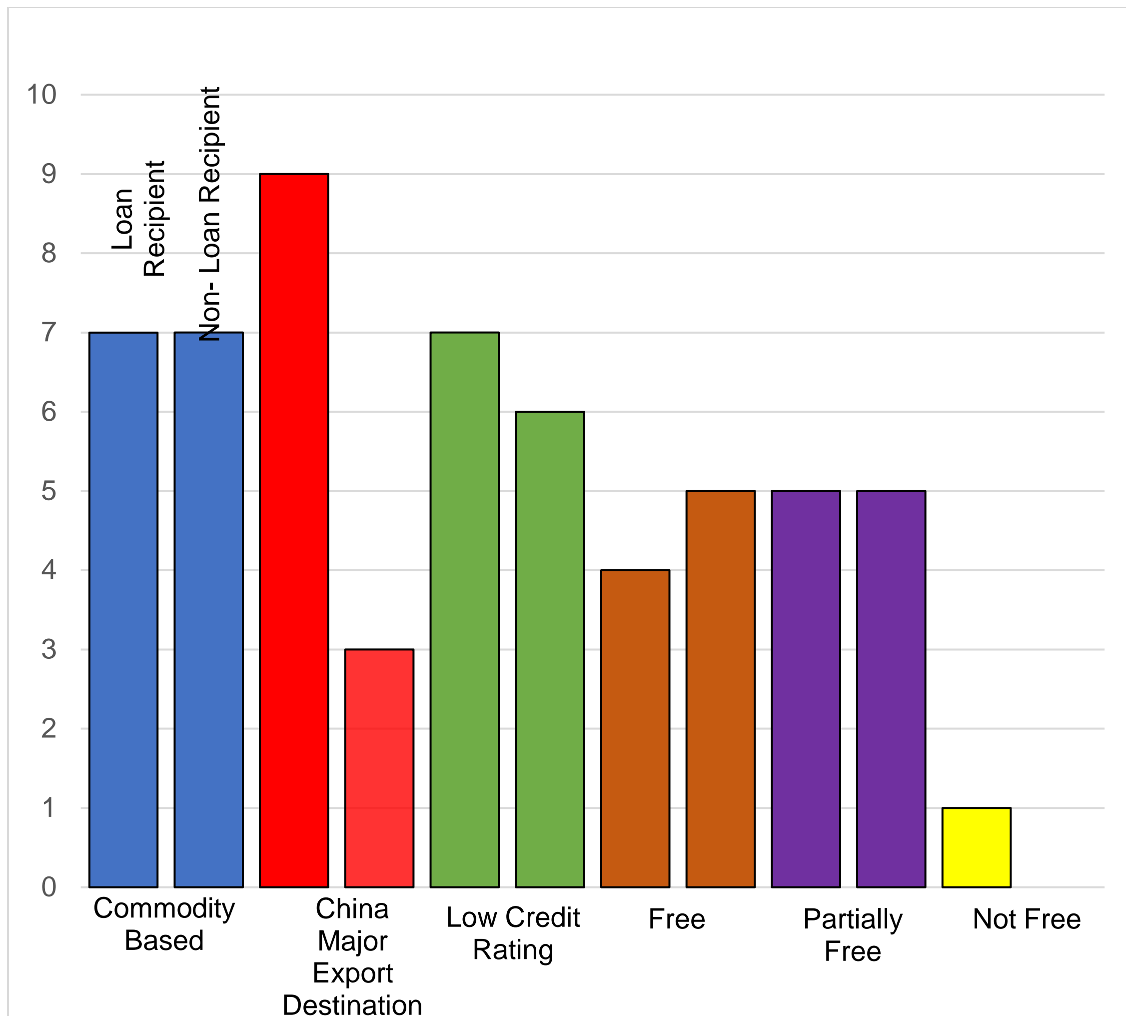

Figure 11. Comparison of Loan Recipients to Non-Loan Recipients[65]

Overall, Figure 11 suggests that differences in economic structure (whether a country has a commodity-based economy), desperation, and regime type do not explain significant variation in Latin American countries' pursuit of Chinese loans. The notable exception to this trend comes from the variable reflecting whether or not China is a major export destination for the country. 90 percent of the countries that accepted loans from China during the period had a major export relationship with China. The only country that did not have that relationship but still received a loan was the Dominican Republic whose

[65] Adapted from Gallagher and Myers, "China-Latin America Finance Database - The Dialogue."; Simones, Landry, and Hidalgo, "OEC."; Trading Economics, "Credit Rating — Countries — List."; Freedom House, "Freedom in the World."

only loan occurred in 2019 and represents less than .5 percent of all Chinese loans to Latin America. On the other hand, only 30 percent of the non-loan recipients have a major export relationship with China. Specifically, those countries are Chile, Colombia, and Uruguay. The only difference in levels of freedom between the countries that received loans and those that did not is that the loan recipients had one fewer free countries among them and had the only country rated as "not free" during the period, Cuba. While this initial comparison suggests little difference between countries that did or did not receive loans across most metrics, further examination of the data suggests that there are more nuanced differences being missed by smoothing out the data to simply lumping countries across time into a binary "yes" or "no" for the variables.

While level of Freedom did not seem to have a great deal explanatory power in either the broad analysis or the more nuanced one provided in part five, the smoothing out of the commodity data seems to lose a lot of the nuance that was added by the in-depth discussion of it in part 3. Particularly, the overwhelming majority of loans were dispensed in years that the country receiving the loan was exporting a commodity, and it was a notably higher portion than the data for the general data set. Likewise, the poor credit of countries appears pretty consistent across whether or not a country received loans or not according to Figure 8. However, Figures 3A and 3B undercut that by demonstrating that loans were more frequently given when countries had lower credit ratings than the level of low-credit in the non-loan country years.

Perhaps the single most stark variable was the government ideology however. Because countries switch ideology frequently when a new government comes to power, that variable belies the simple binary definition used in Figure 11. However, it was notable that no matter which country it was, no country accepted a loan from China while under a right-wing government. Figure 12 shows this starkness visually. Though it only deals with the time of first loan, the lack of right-wing acceptance of loans remained true in all subsequent loans, whereas even in just ten data points, there were still diversity and exceptions in all other variables.

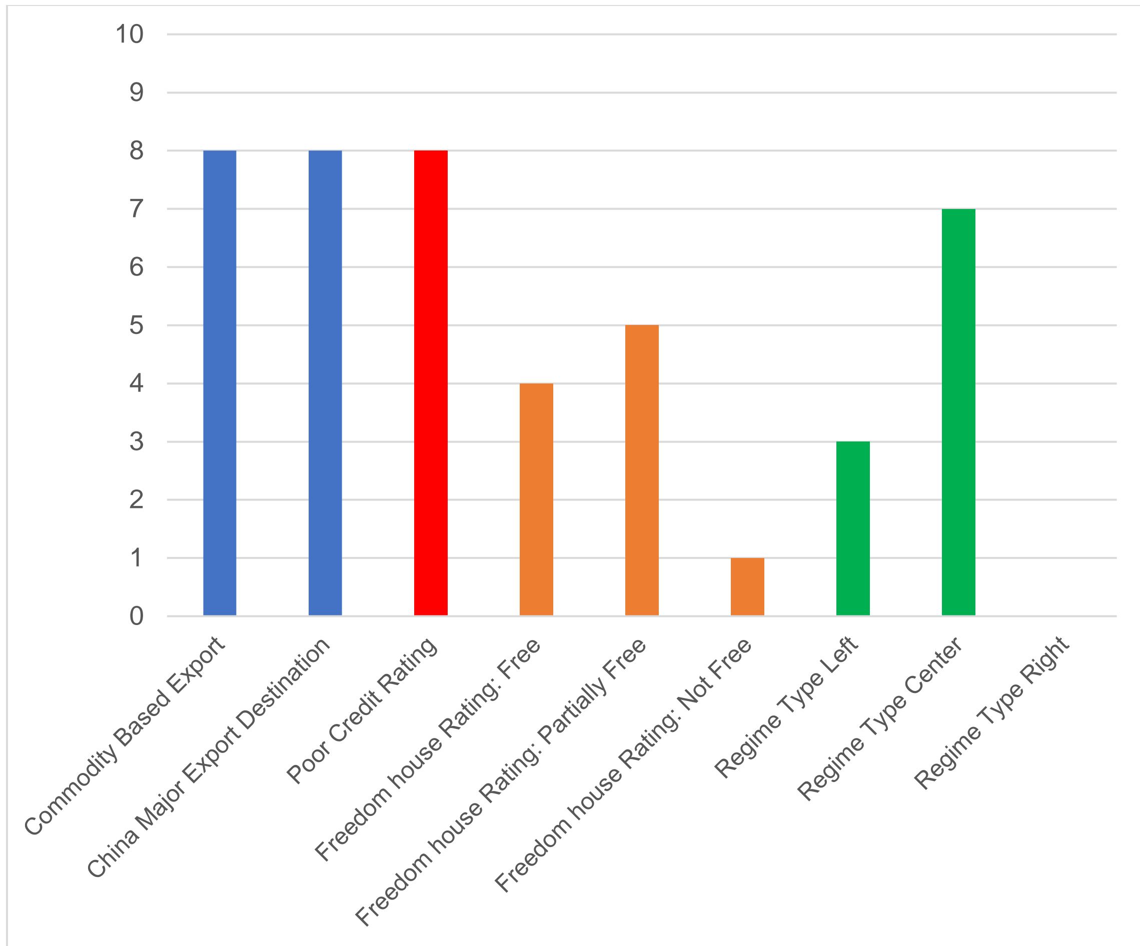

Figure 12. Share of Countries at Time of First Loan[66]

H. CONCLUSIONS

While the data did not show any single variable to be deterministic in identifying a country that would definitely accept loans from China, it did nonetheless point to some trends and allow for the establishment of a profile of the type of country that tends to pursue Chinese loans.

The data in this chapter suggested that when examining all country years in which loans were dispensed and comparing them to all country years when loans were not

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[66] Gallagher and Myers, "China-Latin America Finance Database - The Dialogue." ; Simones, Landry, and Hidalgo, "OEC."; Trading Economics, "Credit Rating — Countries — List."; Freedom House, "Freedom in the World."; Salamanca, "Country Questionnaires."

dispensed, regardless of country, the presence of commodity-based exporting was higher in the loan years. Furthermore, there was notable difference when comparing the loan country years to all the country years that did not accept loans in favor of commodities among the loan recipients. There was also strong evidence that relationships with China, both before and after the loans were dispensed correlated strongly to receipt of loans, but again, there were countries that had these factors present, but did not accept loans.

While credit ratings are generally poor in Latin America there is some evidence to suggest that countries whose credit ratings are poor are more likely to receive money from China and do so in larger quantities. Of the two countries with consistently good credit that received loans (Mexico and Peru), both of them received only one loan for $1 billion and $50 million respectively. Brazil also received loan money while being rated as having good credit, but also received loans when its credit was poor. Regardless, country years with no loans dispensed, across the full region, were less likely to correlate to poor credit than country years with good credit. Indeed, some of the heavy borrowers from China, were those with the consistently worst credit, with three of the four largest borrowers (Argentina, Ecuador, and Venezuela) having defaults within the time period.

Freedom House data was less clear on a relationship between level of freedom and accepting loans from China. There were instances of countries with all three levels of freedom both receiving loans and not receiving loans in a given year. While the only country that was consistently rated as "not free" (Cuba) did receive loans, Nicaragua slid from "partially free" to more recently "not free" and did not suddenly start accepting loans from China. The data did show a very mild relationship between being rated "free" and not accepting loans from China, but again, there were countries that were consistently rated as "free" that not only accepted loans, but accepted large loans, most prominently Argentina and Brazil.

Government ideology on the left-right spectrum produced more striking results. The most notable takeaway was that there were no instances of a right-wing government accepting loans from China in any country-year, however left-wing and centrist governments borrowed from China in roughly the same proportion as they were represented in the total sample. Rather than suggesting that left-wing or centrist

governments are more likely to borrow from China, it instead indicates that being a right-wing government could be an exclusionary factor for borrowing from China.

These various takeaways allow the building of what a likely borrower might look like, as well as a country that is less likely to be a borrower. For instance, a country that is a commodity exporter, exports that commodity to China, has poor credit, is partially free, and is under a centrist or left-wing government, is a likely candidate for accepting loans from China. Indeed, this describes Bolivia, Ecuador, and Venezuela depending on the year. On the other hand, a country that one might expect to be unlikely to borrow from China would be a country without a major export relationship with China, who is free, had good credit, and is under a right-wing government. Unfortunately, there are no countries that check all of those boxes. Chile during certain years checks them all, except that it does have a major export relationship with China, same as Mexico while it was under a right-wing government. El Salvador also comes close but has bad credit. While neither of these archetypes are able to be definitive in predicting if a country will or will not accept loans from China it nonetheless provides some markers to look for that increase or decrease in likelihood.

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III. CHILE CASE STUDY

A. INTRODUCTION

Why has Chile avoided accepting Chinese loans? This chapter will consider the extent to which competing factors account for Chile's decision not to seek loans from China. Based on which variables the last chapter found to have explanatory power, I will focus specifically on commodities as they pertain to the overall expansion of China and Chile's economic relationship, however most of the focus for this case study with be on the role of the Chilean government, specifically governments of both the right and left, and the policies and ideological drivers that led them to make the same decision of not seeking Chinese loans.

Chile offers an interesting case study for understanding patterns of Chinese loan acceptance amongst Latin American countries. Chile has some of the strongest economic ties to China amongst Latin American countries. Since 2006, China has been Chile's primary export destination, receiving 33 percent of these exports, compared to 13.8 percent to the United States, which is Chile's second main export destination.[67] China is also the primary origin of the products that Chile imports. In 2018, 23 percent of Chilean imports originated in China, compared to 19 percent which originated in the United States.[68] As this chapter will illustrate, the economic ties between Chile and China also transcend trade relations.

Several other features of the Chilean economy make it a likely case for Chinese loan acceptance. In particular, Chile has the world's largest copper reserves and is a commodity exporter, meaning a majority of its exports are in the form of raw

[67] Simones, Landry, and Hidalgo, "OEC."

[68] Simones, Landry, and Hidalgo.

commodities.[69] This factor is key to understanding Chile-China trade: in 2018, almost 80 percent of Chilean exports to China were copper products.[70]

Beyond this, Chile also offers an excellent opportunity to examine the mechanisms through which ideology influences patterns of loan acceptance in Latin America. In the previous chapter, I found that ideology was strongly correlated with Chinese loan acceptance, with loans being adopted by either left-wing or centrist governments in the region. During the time period that this thesis examines, Chile had both left-wing and right-wing governments. The former were in power for the first seven years, while the latter were in power for the last six years.[71] Yet, neither the left-wing nor the right-wing governments in Chile accepted Chinese loans. This variation offers a useful opportunity to examine how and why the Chilean government established strong economic relations with China yet, unlike many other Latin American countries, avoided accepting Chinese loans.

The next section will examine Chile's economic relationship with China, focusing on the deepening trade ties and lagging, but recently sharply increasing, FDI from China. I will then examine Chile's government and its economic policies in order to provide insight into the central question of why both Chile's right- and left-wing governments did not seek out loans from China. The chapter will demonstrate that Chile's strong macro-economic situation, along with fiscally responsible policies allowed them to leverage commodity booms in such a way as to not need loans from China, even during commodity slumps. Furthermore, Chile has sufficient power in their economic relationship with China to force China to operate within the existing structures of Chile, vice being able to demand the kind of special treatment and opaque relationships that China is able to garner with other countries in the region.

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[69] Jesse J Inestroza, *The Mineral Industry of Chile 2015*, 2015 Minerals Yearbook (U.S. Geological Survey, 2019), 7.1.

[70] Simones, Landry, and Hidalgo, "OEC."

[71] Salamanca, "Country Questionnaires."

B. CHILE'S ECONOMIC RELATIONSHIP WITH CHINA

Chile, with a population of fewer than 20 million people and a long narrow country shape that runs along the Pacific coast of South America, has one of the most stable and high performing economies in Latin America. The World Bank describes Chile as one of the region's fastest growing economies thanks to a solid macroeconomic framework."[72] Additionally, since Chile's return to democracy, GDP has increased every year with the exception of a .4% contraction in 1999 and 1.5% contraction in 2009 amidst the global financial crisis.[73] Not only has Chile's economy consistently grown, but it has also been growing at a good rate. GDP growth from 2000 until the financial crisis was above 3% every year.[74] The stability of Chile's economy is also demonstrated by the consistently high credit rating Chile received, which is the best in Latin America.[75]

Chile and China have an extensive economic relationship. Chile exports more to China than it does to any other country, and has since 2006.[76] Additionally, the proportion of Chile's exports to China has been growing. In 2007, China was their largest export destination, receiving 15 percent of Chilean exports. The share of Chilean exports to China have continued to increase since then, up to 23 percent in 2012 and 27 percent in 2017.[77] While China imports a variety of products from Chile, copper constitutes the vast majority of Chilean exports to China.[78]

In addition to having China as its main export destination, China is also Chile's main source of imports. In recent years, around one quarter of Chilean imports came from

[72] World Bank, "Country Overview: Chile," World Bank, April 16, 2020, https://www.worldbank.org/en/country/chile/overview.

[73] World Bank, "GDP Growth (Annual %) — Chile Data," World Bank, accessed July 31, 2020, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=CL&start=1990.

[74] World Bank.

[75] Trading Economics, "Credit Rating — Countries — List."

[76] Simones, Landry, and Hidalgo, "OEC."

[77] Simones, Landry, and Hidalgo.

[78] Simones, Landry, and Hidalgo.

China. No one product or product type dominated the flow of goods from China to Chile.[79] Notably, Chilean exports to China are larger than Chinese exports to Chile, generating a positive trade balance for Chile. In 2017, for instance, Chile exported $19.2 billion to China and imported $15.4 billion.[80] This positive trade balance has persisted even as their trading relationship has deepened over the last decade.

A number of factors account for the explosive growth of trade between Chile and China since the early 2000s. First, in November of 2005, Chile and China signed a bilateral free trade agreement (FTA). At the time, this FTA allowed 92 percent of the products entering China from Chile, and 50 percent of those entering Chile from China, to be duty free.[81] This agreement was remarkable at the time because it represented the first time that China had signed a bilateral FTA with a given country, rather than entering an FTA with a region or group of countries.[82] In March 2019, China and Chile agreed to an upgraded version of the 2005 FTA that would increase the proportion of products being traded tax-free to 98 percent.[83]

The rationale behind the agreement was twofold. In order to continue their economic growth driven by industrial production, China needed to secure raw materials such as copper—which China is the world's leading consumer of—and this meant that a free trade agreement with the world's largest copper supplier would serve Chinese interests. Additionally, the Chinese company Minmetals entered into a deal with CODELCO, the Chilean State-owned copper company, to ensure a long-term supply of the mineral for China.[84] While the FTA was unique for China, Chile, at the time, had signed

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[79] Simones, Landry, and Hidalgo.

[80] Simones, Landry, and Hidalgo.

[81] Jorge Heine, "China, Chile and Free Trade Agreements," *Estudios Internacionales* 38, no. 152 (2006): 143.

[82] Heine, 143.

[83] Ministry of Commerce People's Republic of China, "The Protocol Upgrading China-Chile Free Trade Agreement Comes into Force Today," Ministry of Commerce People's Republic of China, March 1, 2019, http://english.mofcom.gov.cn/article/newsrelease/significantnews/201903/20190302839699.shtml.

[84] Heine, "China, Chile and Free Trade Agreements."

42 similar agreements, more FTAs than any other country. This included agreements with many of the largest markets in the world such as the U.S., the European Union, and South Korea.[85] The FTA with China allowed Chile to secure a large market for their copper, while the multitude of other agreements helped to insulate them against the dangers of a sudden drop in demand from any one country. Figure 13 shows the trade relationship between Chile and China, both prior and since the signing of the FTA in 2005, with the implementation of the FTA labeled. Figure 13 reveals that although both ends of the trade relationship were growing somewhat prior to the deal, trade between the two countries exploded in the years following its implementation. Part of what makes the Chile-China relationship worth studying is that in spite of this trade relationship Chile has still not sought Chinese loans. One possible hint as to why can be seen in the number of FTAs that Chile signed. Even though Chile clearly relies on its economic relationship with China, it is also seeking to do business with plenty of other countries. China provides a great opportunity for Chile to sell copper and import goods, but Chile's other arrangements may serve to insulate it from over-reliance on China.

[85] Heine, 145.

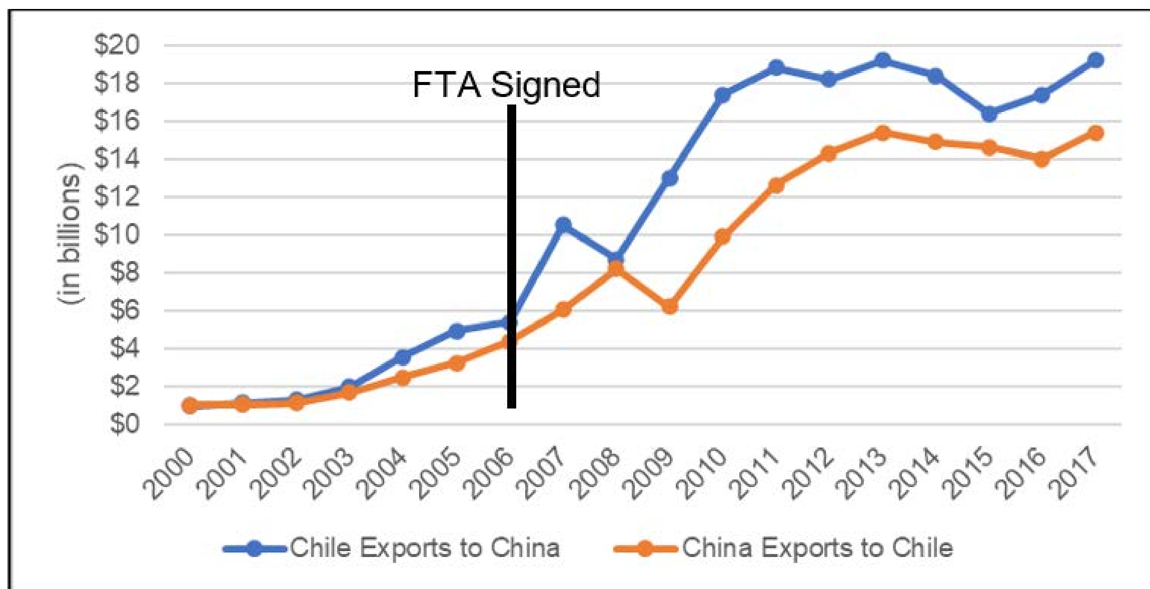

Figure 13. Chile and China Import-Export Data[86]

FDI provides another possible set of insights into the relationship between the two countries, particularly the power dynamics between them. While trade with China has grown substantially in recent decades, Chinese FDI in Chile has been lagging, as has Chilean investment in China. In 2012, Chilean FDI in China represented less than 1% of Chilean FDI. Likewise, Chinese FDI in Chile from 1974 to 2008 was just .2% of all Chinese FDI.[87] Considering the scope of the trade relationship between the two countries, the initially diminutive investment relationship may seem surprising. However, there are a number of reasons why investment has been lagging. Firstly, Chinese FDI in LATAM has been lagging behind trade growth in the entire region, not just Chile, however it is catching up in the region at large.[88] There are a few reasons for Chile to be particularly less likely to be an early destination for Chinese FDI that mostly have to do with Chile's liberal market-based economy and its own success in development. While Chinese FDI has often

[86] Adapted from Simones, Landry, and Hidalgo, "OEC."

[87] Juan Carlos Gachúz, "Chile's Economic and Political Relationship with China," *Journal of Current Chinese Affairs* 41, no. 1 (April 16, 2012): 144–45.

[88] Jorge Heine, "The Chile — China Paradox: Burgeoning Trade, Little Investment," *Asian Perspective* 40, no. 4 (October 2016): 666, https://doi.org/10.1353/apr.2016.0029.

targeted commodities (though more often oil and gas than mining), Chile's copper mining industry is already well established and "few bargains are to be found."[89] China's patterns of investment suggest they would be more likely to seek opportunities in less mature industries such as mining in Chile's neighbor Peru (who also has substantial copper reserves) as conditions in the country only became more favorable to FDI in the last two decades.[90] Additionally, Chinese firms are not used to the very market-driven contracts process in Chile.[91] Because Chilean law requires investment projects to have a bidding process, Chinese companies have to compete against foreign firms, many of whom have more experience with the bidding process. In contrast, China may approach another country in the region about a project through a government-to-government deal and essentially secure a no-bid contract on a project.[92] It is telling that China is unable to obtain preferential treatment from the Chilean government and instead is having to compete in Chile's open market place in order to win contracts. If Chile was the junior partner to China then one might expect China to be able to force their own terms on Chile, including non-competitive contracts. Instead, Chile's stability, openness, and strong institutions allow it to attract investment from many sources. It is also these exact same qualities, which have held steady across both right- and left-wing governments in Chile, that have caused it to maintain a good credit rating.

In spite of the challenges facing Chinese attempts at FDI in Chile, recent years have seen a dramatic increase with Chinese investment in Chile increasing by 480% from 2016 through 2018.[93] The sharp rise suggests that China has learned to navigate the investment space in Chile more effectively. Chile entered into a memorandum of understanding to participate in China's One Belt One Road initiative in November of 2018 signaling its

[89] Heine, 668.

[90] Heine, 668.

[91] Heine, 668–69.

[92] Heine, 668.

[93] "Chile Wooing China with US$18bn in Public Sector Projects," BNAmericas, October 16, 2019, https://www.bnamericas.com/en/news/chile-wooing-china-with-us18bn-in-public-sector-projects.

desire for that investment to continue to increase.[94] Additionally, a law that cut down some of the bureaucratic challenges facing potential investing firms also coincided with greater levels of Chinese FDI in Chile. In 2018, a Chinese lithium company bought a 24% stake in SQM, a Chilean lithium company, for $4 billion.[95] China has also made recent investments in the renewable energy, salmon, and fruit sectors.[96] While copper is still the main industry in Chile, Chinese investments seem to be targeting industries with future growth potential particularly as Chile seeks more diversification in its economy. Chinese firms have also managed to win bids for contracts with the first being the China Harbour Engineering Company, one of China's largest construction companies, which was successful in winning a contract to build a hydro-electric dam in 2018.[97] Chile also seems poised to avoid challenges that other countries have faced from projects in the OBOR initiative as Chinese firms are strictly required to follow the same regulations as other firms, while other countries work through opaque state-to-state deals.[98] The director of Chile's state investment promotion agency, Invest Chile, predicts a continued increase in Chinese investment in Chile and has stated that securing Chinese investment is a top priority for the country.[99] However, even as these relationships grow, it seems clear that Chinese firms, and by extension the Chinese government, are largely being forced to operate within the same rules as other countries. Between Chinese investment going towards less prominent industries, vice Chile's mature copper industry, and Chinese companies being forced to adapt their practices to conform to Chile's standards and regulations, the power dynamic between the two countries is not asymmetric as it is with many of China's other partners. While less wealthy and developed countries are forced to accept Chinese terms, often through state-to-state agreement, Chile is able to force Chinese

[94] Benedict Mander, "China's Latin American Ambitions on Display in Chile," Financial Times, February 25, 2019, https://www.ft.com/content/78a4936e-28b9-11e9-a5ab-ff8ef2b976c7.

[95] Mander.

[96] Mander.

[97] Mander.

[98] Mander.

[99] Mander.

firms to compete and thus be subject to their rules. While Chile is seeking out Chinese FDI, their access to international credit markets, and high level of interest from other sources of FDI, allows them to exert power within that space.

C. CHILEAN GOVERNMENT'S ECONOMIC POLICY FOR FISCAL STABILITY

After Chile's return to democracy, fiscal discipline has been a staple of every Chilean government, whether right- or left-wing. For the first 20 years after Pinochet the *Concertación de Partidos por la Democracia* (*Concertación* for short), a center-left coalition of political parties, won every presidential election. In spite of the coalition being center-left however, at the beginning of the period for this thesis, 2007, Michelle Bachelet was president, and she is herself a member of the Socialist Party in Chile, the furthest left party in the country, according to surveys of their legislature.[100] However, regardless of who was president, many of the economic policies of the country remained the same. Most notably, the health of public finances as well as macroeconomic stability have been main sources of continuity in Chile since 1990.

The first two presidents from *Concertación*, Patricio Aylwin and Eduardo Frei were focused on fiscal prudence even to the detriment of other interests in the coalition such as public sector unions and more populist elements.[101] This prudence was likely borne of the still unfolding debt problems from the 1982 crash which resulted in public debt being 45% of GDP when President Aylwin took over in 1990.[102] Chile's next president, Ricardo Lagos, also from *Concertación*, continued fiscal discipline by "constructing budgets on a cyclically adjusted basis and of setting explicit targets for the cyclically adjusted (or "structural") budget balance."[103]

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[100] Salamanca, "Country Questionnaires."

[101] Andrés Velasco and Eric Parrado, "The Political Economy of Fiscal Policy: The Experience of Chile," The Oxford Handbook of Latin American Political Economy, May 9, 2012, 2, https://doi.org/10.1093/oxfordhb/9780199747504.013.0003.

[102] Velasco and Parrado, 2.

[103] Velasco and Parrado, 2.

This practice was formalized by Michelle Bachelet in 2006 in a law that also created the two sovereign wealth funds in Chile, The Pension Reserve Fund (PRF) finances pension obligation, and the Economic and Social Stabilization Fund (ESSF) which is intended to cover budget shortfalls.[104] Essentially the two funds exist to insulate Chile's programs against drops in revenue from copper prices decreasing, or other macroeconomic issues. Chile's government must contribute at least .2% of GDP to the PRF, but if there is a budget surplus up to an additional .3% of GDP is contributed. If there is a budget surplus beyond that, the rest will be deposited into the ESSF.[105] The pension reserve fund in particular serves as an example of a social-safety net conscious policy that still aligns with Chile's core economic values.

Bachelet, a member of the socialist party, would naturally seek to preserve the pension funds even in a time of crisis, but instead of waiting until a crisis and being forced to take out loans, President Bachelet created the fund during a time when copper prices were high in order to preserve pensions. The fiscal responsibility of Bachelet and her predecessors allowed Chile to pursue counter-cyclical policies, specifically saving and running budget surpluses while the price of copper was high, and avoiding some of the challenges faced by many governments who rely on commodities for funding. Often, during commodity booms, governments feel pressure to expand social programs past the point where they can be sustained when the boom ends. The result is that the commodity boom ends and the government must either cut programs or take on significant debt to sustain them. Chile was well positioned to avoid this problem altogether.

While *Concertación* certainly deserves credit for avoiding the trap of commodity booms, it must also be pointed out that Chile was somewhat well positioned to accomplish this due to the already relatively high standard of living in the country compared to many of its neighbors. Regardless, Chilean government policies, specifically those of the Chilean left, have created a high degree of financial sovereignty wherein Chile can use its internal

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[104] Velasco and Parrado, 2.; Ministry of Finance, "Ministerio de Hacienda," accessed May 1, 2020, http://hacienda.cl/.

[105] Ministry of Finance, Annual Report: Sovereign Wealth Funds (Santiago, Chile, Ministry of Finance, 2016), 12, https://www.ifswf.org/sites/default/files/annual-reports/Chile%202016_2.pdf.

mechanisms to handle financial hardship, vice being forced to rely on outside institutions or other countries.

Another facet of Chile's economic policy that is directly related to the issue of Chinese loans, is Chile's propensity to accept loans in general. Following Chile's return to democracy, the country accepted no money in loans from the International Monetary Fund through 2019, however Chile has accepted financing for projects from the Interamerican Development Bank (of which Chile is a founding member) and the World Bank.[106] Chile's pattern did change in May 2020 when the Piñera government came to an agreement with the IMF on a two-year line of credit of around $24 billion.[107] However, this credit line was extended to Chile in order to combat the extraordinary impact of COVID-19 on the economy, a shock large enough that normal levels of fiscal prudence cannot necessarily be counted on to counteract. It is also worth noting that this line of credit is dissimilar from standard loans. Chile is being given the line of credit as a precaution and can choose to draw upon it at any time in the next two years, or not. In addition, Chile was offered the credit with no policy conditions being required of them, as they are in normal IMF loans, because Chile has a track record that gave the IMF confidence that they will continue to implement sound policy on their own.[108] The managing director and chairwoman of the IMF Executive Board, Kristalina Georgieva, said,

> Chile's very strong fundamentals, institutional policy frameworks, and track record of implementing prudent macroeconomic policies have been instrumental in absorbing the impact of a series of recent shocks. The strong policy frameworks are anchored in the structural fiscal balance rule, the

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[106] International Monetary Fund, "History of Lending Arrangements: Chile," International Monetary Fund, January 31, 2019, https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=170&date1Key=2019-01-31.; Interamerican Development Bank. "Interamerican Development Bank: Chile," Interamerican Development Bank, accessed August 10, 2020, https://www.iadb.org/en/countries/chile/overview.; World Bank. "WBG Finances - Country Details - Chile," World Bank, accessed August 10, 2020, https://financesapp.worldbank.org/en/countries/Chile/.

[107] International Monetary Fund, "IMF Executive Board Approves Two-Year US$23.93 Billion Flexible Credit Line Arrangement for Chile," International Monetary Fund, May 29, 2020, https://www.imf.org/en/News/Articles/2020/05/29/pr20227-imf-executive-board-approves-two-year-flexible-credit-line-arrangement.

[108] International Monetary Fund, "IMF Executive Board Approves Two-Year US$23.93 Billion Flexible Credit Line Arrangement for Chile."

> credible inflation-targeting framework with the free-floating exchange rate, and a sound financial system supported by effective regulation and supervision.[109]

The IMF's approval of Chile's financial and economic policies and institutions perfectly captures Chile's continued adherence to fiscal prudence that have allowed it to not rely upon outside entities except under these extraordinary circumstances. Indeed, it is worth remarking that Chairwoman Georgieva praised the fiscal responsibility of Chile which had twice in the last decade been led by a socialist. While one might argue that *Concertación* forced Michele Bachelet to function as a center-left politician in her first term as president due to the nature of the coalition, she is personally a Socialist and the New Majority coalition that supported her election in 2014 believes in social democracy. Regardless, the flexible credit line from the IMF demonstrates an acceptance of Chile as a responsible financial actor in their view, and one who has been responsible consistently. Perhaps the IMF's confidence in Chile explains why Chile has not wanted or needed loans from China: Chile has achieved a degree of financial sovereignty whereby the extra financing is not worth the loss in financial independence.

While just over half of the time period in our sample involved a left-wing government, the rest was under the right-wing President Piñera. Piñera's party was viewed as right-wing in surveys of legislators of other parties in Chile, and as such it makes sense that he would favor market-oriented solutions and a pro-business environment.[110] During his first term as president, these policies, as well as prevailing market conditions, led Chile to 5% in annual GDP growth.[111] Arguably, he was able to win his second term due to the growth rates experienced during his administration, which were higher than those of Bachelet's second term.

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[109] International Monetary Fund, "IMF Executive Board Approves Two-Year US$23.93 Billion Flexible Credit Line Arrangement for Chile."

[110] Salamanca, "Country Questionnaires."

[111] Economist, "Sebastián Piñera Tries to Put Chile Back on Track," *The Economist*, accessed July 6, 2020, https://www.economist.com/the-americas/2018/12/08/sebastian-pinera-tries-to-put-chile-back-on-track.

The left in Chile, since the return of democracy has had the goal of alleviating the "social debt" left behind by the Pinochet regime, particularly in the areas of public health and education.[112] Both Presidents Aylwin and Frei however, adopted gradualist approaches wherein *Concertación* tempered expanding social programs with fiscal prudence as to not jeopardize the economic gains the country had made and risk the kind of crisis that had occurred under Allende.[113] In a very telling speech to the OECD in 2009, Michelle Bachelet articulated her appreciation for the OECD as a group of countries committed "to promoting economic growth and trade, to creating jobs and raising living standards, to social equality and sustainable development."[114] Additionally, in her remarks she touted Chile's ability to weather the financial crisis saying:

> In previous crises, emerging countries found themselves shackled by fiscal deficits, high public borrowing, and currency misalignments. Chile tackled these problems. It put its accounts in order and, through fiscal prudence, reduced its borrowing. The result today is an economy that is far less vulnerable.[115]

These two quotes from President Bachelet capture the Chilean left since the return of democracy. The Chilean left is seeking to improve social equity and living standards, yet within a system of fiscal responsibility that makes the Chilean economy resilient against the kind of disruptions that require either sacrificing those gains, or being saddled with debt in order to maintain them. While the Chilean model may not have been successful at achieving all of the various goals of a left-leaning economic and social agenda—as demonstrated by the high levels of inequality and expressed in social protests—it has nonetheless proven itself to be more effective than other leftist governance approaches in the region at achieving at least one of the central goals of these governments: greater economic independence and a production of funds that enable increased social spending even during times of drops in commodity prices. For instance, the stated mission of the

[112] Kurt Weyland, "Economic Policy in Chile's New Democracy," *Journal of Interamerican Studies and World Affairs* 41, no. 3 (1999): 69, https://doi.org/10.2307/166159.

[113] Weyland, 69.

[114] Michelle Bachelet, "Chile at the OECD," *OECD Observer*, no. 273 (June 2009): 59–59.

[115] Bachelet.

Chilean Ministry of Finance is "To maximize long-term economic growth potential and to promote more efficient use of the nation's productive resources in order to achieve sustainable growth and a better quality of life for all Chileans, especially for those who are most vulnerable."[116] Within that framework there is certainly room for redistributive policies to help the Chilean working and middle classes.

It is the Chilean right however, who may be forced into accomplishing some of the goals of the Chilean left. Massive protests over inequality, rising costs for the middle class in 2019 have forced a reckoning for President Piñera's government.[117] In response to the protests Chile raised the income tax rate on the highest income bracket earlier in 2020 as well as increased enforcement to lower incidences of tax evasion.[118] This solution is moving in the right direction as Chile's inequality was summarized by the OECD, "although Chile has experienced a remarkable decline in absolute poverty since the 1990s, it remains one of the most unequal OECD countries. This is mostly due to the high concentration of income at the top 10%"[119] Raising taxes to redistribute some of that income is in line with the protestors' wishes, particularly as the additional income raised from the higher taxes is intended to bolster public spending on education and healthcare, two areas of rising costs that were sources of middle class frustration.[120] The final results of this reckoning are, as of yet unclear, however there are some signs that President Piñera recognizes the reality of the protest movement and their demands past the modest reforms already enacted. In an opinion piece in the New York Times in December of 2019, Piñera

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[116] Ministry of Finance, "Ministerio de Hacienda."

[117] Richard E. Feinberg, "Chileans Learned the Right Lessons after the Pinochet Era," *Brookings* (blog), November 18, 2019, https://www.brookings.edu/blog/order-from-chaos/2019/11/18/chileans-learned-the-right-lessons-after-the-pinochet-era/.

[118] Bloomberg, "Chile Tax Reform Law Increases Highest Income Tax Rate," accessed June 7, 2020, https://news.bloombergtax.com/payroll/chile-tax-reform-law-increases-highest-income-tax-rate.; ECD, *How's Life? 2020: Measuring Well-Being*, How's Life? (OECD, 2020), https://doi.org/10.1787/9870c393-en.

[119] OECD.

[120] OECD.

described a need for a new covenant with the Chilean people of a new social agenda which includes

> increasing pensions, raising the minimum income; better conditions for small and medium businesses; reducing the prices of medicines; more funding for the public health system; stabilizing the price of transportation, water, electricity and road tolls; increasing the taxes on the richest; and lowering the high salaries of members of congress and some officials in the public sector.[121]

It also involves a referendum on whether to write a new constitution to replace the 1980 one written during the Pinochet regime, an unaccomplished agenda item of President Bachelet from her second term.[122] The fallout of the COVID-19 pandemic may change the outcomes. Chile has already delayed the referendum on the new constitution and the Chilean economy seems likely to contract significantly in 2020.[123] The possibility of a major economic downturn could create challenges to implementation of new social programs, even as the pandemic exposes inequalities in wealth, and healthcare access in the country.[124] If Chile does end up implementing major reforms, including major expansions of social programs, and a new constitution, under President Piñera, that would add another idiosyncrasy to the interaction between Chile's left-right governments and economic policy. Specifically, it is not typical that a right-wing government implements a sweeping package of social reforms and social safety net expansions.

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[121] Sebastián Piñera Echenique, "Opinion Sebastián Piñera: A New Opportunity for Chile's Future," *The New York Times*, December 18, 2019, sec. Opinion, https://www.nytimes.com/2019/12/18/opinion/pinera-chile.html.

[122] Kelly Morrison and Malavika Krishnan, "President Michelle Bachelet: Bringing Equity to Economic Development," Council On Hemispheric Affairs, July 7, 2014, https://www.coha.org/president-michelle-bachelet-bringing-equity-to-economic-development/.

[123] Santiago Times, "Chile Heading for Its Worst Economic Contraction in 35 Years, Says Central Bank," *Santiago Times*, June 18, 2020, https://santiagotimes.cl/2020/06/18/chile-heading-for-its-worst-economic-contraction-in-35-years-says-central-bank/.

[124] Navia, Patricio, Maria Christina Escudero, Claudia Heiss, and Guillermo Holzmann."Has Covid Halted Momentum for Change in Chile?," The Dialogue, accessed July 6, 2020, https://www.thedialogue.org/analysis/has-covid-halted-momentum-for-change-in-chile/.

D. CONCLUSIONS

Chile features a number of interesting facets as a case study for understanding the acceptance of Chinese loans. Perhaps the most important contribution of Chile, however, has to do with the interaction between the right-left spectrum of government and the pursuit, or not, of Chinese loans. Chile has many of the features that in the previous chapter would have either been suggestive of a country that would accept loans, or would not be disqualifying. The only exception to Chile fitting the mold of a country that might accept loans from China was the years in which it had a right-wing government, which in the previous chapter was found to exclude the possibility of accepting loans from China. Chile, which features both left- and right-wing governments, did not accept loans from China under either government, despite extensive economic ties.

In examining the economic policies of Chile, there is a remarkable level of continuity between left- and right-wing governments. The governments of Bachelet and Piñera adhered to some common principles, chief among them, fiscal responsibility. The common thread of fiscal responsibility in Chilean government, left- or right-wing, can explain the reason Chile has not accepted any loans from China. Simply put, Chile does not want loans because they run balanced budgets and have sufficient power in their relationship with China to make China accept their rules, vice the opaque deals China is often able to secure, regardless of whether the President is from the left or the right. The interaction with the hypothesis made in chapter one, that a left-wing government might be more likely to pursue Chinese loans due to an unwillingness to cut social programs and a dissatisfaction with western financial institutions, did not envision a left-wing government like that of Chile, where a socialist president nevertheless ensured a balanced budget and created stabilization funds to protect important programs when commodity prices drop.

Fiscal prudence, counter-cyclical policies, and strong financial institutions enabled Chile to achieve and protect its economic sovereignty. In contrast to other left-wing governments in LATAM, which pursued sovereignty through the diversification of their economic dependence and the acceptance of loans with fewer conditionalities, Chile was able to avoid foreign loans altogether. Ultimately, the only loan Chile has negotiated out of necessity since its return to democracy was this year with the IMF, in response to

COVID-19. This loan occurred under a right-wing government and came without any of the traditional IMF conditionalities.

Chile's case expands on the hypothesis made in the previous chapter. Specifically, a left-wing government may gravitate towards loans from China, while a right-wing will not, out of a desire to be less beholden to institutions like the IMF, creating a situation of diversified dependence wherein they may avoid the social program cuts imposed by western institutions, but it is at the cost of losing some financial sovereignty to China. The Chilean left was able to bypass this dilemma through its fiscal responsibility and gradualist approach that allowed it to protect social programs even during commodity slumps. As a result, Chile, whether under a left or right government has greater economic sovereignty than its neighbors which is captured in the symmetric nature of their economic interactions with China. Specifically, Chile has achieved a degree of financial independence and strong institutions such that rather than being beholden to the U.S. or China, it is able to exert power in its economic interactions, and cultivate a diverse enough set of partners as to not be overly reliant on any one country. In essence, Chile has avoided the negative effects of being reliant on either the U.S. (and western institutions) as well as the negative effects of being overly reliant on China.

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IV. BRAZIL CASE STUDY

A. INTRODUCTION

Why has Brazil accepted loans from China? Brazil was a natural contender for receiving Chinese loans. China is Brazil's number one trade partner, receiving more Brazilian exports than any other country since 2010. Further, Brazil also imports more from China than from any other country.[125] In 2018, China accounted for over twice the quantity of Brazilian exports as the second highest country, the United States ($64 billion to $29 billion).[126] Additionally, Brazil's exports to China are focused on three main products, all of which are commodities—soybeans, iron, and petroleum. In 2018, over 80% of Brazil's exports to China were in these three commodities.[127] Brazil's government ideology—left of center until 2016—also made it a good candidate for accepting Chinese loans. Since its transition to a right-wing government, moreover, Brazil has not accepted additional loans from the Chinese governments. These dynamics make Brazil a useful case for going beyond these correlations to flesh out the causal mechanisms linking economic conditions and government ideology, on the one hand, and the decision to accept or not accept Chinese loans, on the other. Doing so can help shed light on how countries in LATAM calculate tradeoffs with regard to their own financial sovereignty, how interactions with China may foster a form of economic dependence, and the limits of a country's ability to extricate itself from a partnership with China in which the power dynamics are unequal.

The next section will focus on Brazil's economic relationship with China, specifically the evolution of the two countries' trade relationship, as well as the loans dispensed to Brazil. The third section will examine Brazilian economic policy with regard to China and how the left and right in Brazil approach China differently rhetorically and practically. This chapter will demonstrate that the decision to pursue loans from China stemmed from Brazil's haste to become independent from western institutions. In doing

[125] Simones, Landry, and Hidalgo, "OEC."

[126] Simones, Landry, and Hidalgo.

[127] Simones, Landry, and Hidalgo.

so, however, the Brazilian left ended up sacrificing autonomy to China through reliance on Chinese loans directed at keeping the largest state company, Petrobras, afloat. Furthermore, in spite of not accepting loans from China, and anti-Chinese rhetoric, the right-wing government in Brazil has not effectively asserted Brazil's independence from China. The economic realities of Brazilian reliance on China as an export market prevent the government from reducing ties. Ultimately, this chapter will show that despite Brazil's large economy, the increased trade ties to China led to deindustrialization in the Brazilian economy and a form of dependence on China that proved catastrophic when a commodity slump coincided with other economic challenges in Brazil.

B. BRAZIL'S ECONOMIC RELATIONSHIP WITH CHINA

Brazil, with the 9th largest nominal GDP in the world and a population of over 200 million is the largest economy in South America as well as its most populous country. Like many of its neighbors, Brazil is rich in natural resources and has historically been known for being a country heavily reliant on commodities. Brazil is a member of the BRICS group of countries (Brazil, Russia, India, China, and South Africa) which are a bloc of developing nations that see themselves as the dominant suppliers of manufactured goods and raw materials in the future.[128] According to figures from the World Bank, Brazil made strong economic progress from 2003 to 2014, particularly through economic growth and social programs that lifted millions of people out of poverty.[129] In 2015, however, the Brazilian economy entered a recession and the GDP shrank 3.6 percent and 3.4 percent in 2015 and 2016, respectively. The recession was caused by drops in the prices of commodities and a subsequent inability of Brazil to enact the needed reforms to instill investor and consumer confidence.[130] Brazil's credit rating is reflective of this up and down performance. While, compared to other LATAM countries, Brazil has a strong credit rating, it nonetheless went

[128] Christina Majaski, "History and Criticism of Brazil, Russia, India and China (BRIC)," Investopedia, January 27, 2020, https://www.investopedia.com/terms/b/bric.asp.

[129] World Bank, "Country Overview: Brazil," World Bank, October 14, 2019, https://www.worldbank.org/en/country/brazil/overview.

[130] World Bank, "Country Overview: Brazil."

from a fairly good credit rating of "BBB" from 2008 to 2015, down to a "BB"—considered to be a credit risk—from 2016 to 2019.[131]

Much like Chile, trade between Brazil and China has exploded in the last two decades. In 2000, Brazil only exported around $1 billion to China, ranking it below not only Brazil's traditional trade partners such as Argentina and the United States, but also countries such as Germany and Japan.[132] By 2005 China had increased to the 3rd largest destination for Brazilian exports, and by 2010 China had become number one, where it remains today.[133] Like many LATAM countries that export to China, Brazil exports mainly commodities. However, unlike some of the other countries in the region, Brazil exports several different commodities to China, namely iron ore, soybeans, and oil, vice just one commodity like many of its neighbors.[134]

Imports from China also grew dramatically during this time. In 2000, Brazil was only importing around $1 billion of goods from China, less than they were importing from most Western European countries, the United States, Japan, and South Korea.[135] However, by 2005 imports from China had grown by a factor of five and Brazil was importing more from China than any country except Germany, the United States, and Argentina.[136] In 2010, China caught up to the United States with Brazil, importing $28.6 billion in goods from each country. Since then, Brazil has typically imported more from China than any other country.[137]

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[131] Trading Economics, "Credit Rating — Countries — List."

[132] Simones, Landry, and Hidalgo, "OEC."

[133] Simones, Landry, and Hidalgo.

[134] Maria Cristina Pereira de Melo and Jair Do Amaral Filho, "The Political Economy of Brazil - China Trade Relations, 2000 - 2010," *Latin American Perspectives* 42, no. 6 (2015): 80, https://doi.org/10.1177/0094582X15593935.

[135] Simones, Landry, and Hidalgo, "OEC."

[136] Simones, Landry, and Hidalgo.

[137] Simones, Landry, and Hidalgo.

Underlying this increase in trade between the two countries is a deliberate effort by the governments of both countries to foster closer ties. In 2004, Brazil formally recognized China as a market economy and from then through 2009, Brazilian President Lula traveled to China three times while Chinese President Hu Jintao went to Brazil twice. In addition, during this same period, Brazil also sent 25 official missions to China and China sent 27 to Brazil.[138] Brazil's Agency for Investment and Export Promotion (APEX) also refocused its efforts to target China as a market for Brazilian products with the ascension of a new President of the organization in 2007.[139] APEX also met with its Chinese counterpart, The Chinese Council for the Promotion of International Trade in that year to craft an agreement for boosting bilateral trade.[140]

In spite of the increase in bilateral trade, and China's recognition of Brazil as a "strategic partner" there are reasons to think that the economic relationship between the two countries is not symmetrical.[141] Specifically, Brazil relies on China as an export market, and a place from which to import, far more than China relies on Brazil. In 2010 China was the top destination for Brazilian exports, but Brazil was only the 9th largest supplier of imports for China. Additionally, in 2010 Brazil imported more from China than any other country, but only represented the 15th biggest market for China's exports.[142] This uneven economic relationship is also evident when we look more closely at the specific commodities that Brazil relies upon exporting to China. In 2009, Brazil supplied China with about 25 percent of its iron but iron exports to China were over 50 percent of all iron that Brazil exported.[143] Soybeans and oil followed a similar trend with Brazil being much more reliant on China as a market than China is on Brazil as a supplier. This asymmetry

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[138] de Melo and Do Amaral Filho, "The Political Economy of Brazil - China Trade Relations, 2000 - 2010," 75.

[139] Ellis, *China in Latin America*, 59.

[140] Ellis, 59.

[141] Ellis, 49.

[142] Rhys Jenkins, "Latin America and China — a New Dependency?," *Third World Quarterly* 33, no. 7 (2012): 1348, https://doi.org/10.1080/01436597.2012.691834.

[143] Jenkins, 1349.

by contrast, was not present in Chile's case. In the same year, Chile supplied China with 31% of its copper and China accounted for 35% of Chile's copper exports.

The increased economic ties with China also pose a different, but related, risk to Brazil. While the increased export of commodities to China has certainly generated revenues for exporters, the increase of imports from China has harmed Brazilian manufacturing. This situation has created both dependency and deindustrialization problems for Brazil. While Brazil was exporting more commodities to China, China was exporting more manufactured goods, particularly consumer and capital goods.[144] Industrialization has been a long-held goal in LATAM countries who historically have sought to escape the trap of the rentier state. In the case of Brazil, a boom in cheap finished products from China have harmed Brazilian industry while simultaneously refocusing the economy on the low value-added commodities that have often defined LATAM dependence.[145] Additionally, the relative strength of the Brazilian currency, the Real, reinforced this cycle by generating greater commodity revenues and making Brazilian manufacturing less competitive.[146] The issue of Brazil exporting commodities to China is particularly well captured by the fact that Brazil exports iron ore to China, and then China does the value-added work of turning it into steel.[147] Brazil is exporting the very bottom of the value-chain while China adds value themselves. In the case of steel, some of it then gets made into automobiles which China is then able to sell back to Brazil, stifling the Brazilian automakers.

China's desire to import raw materials and not finished goods from Brazil is also reflected in the specific purposes of the loans that Brazil has accepted from China. Since 2007, Brazil has accepted 11 loans totaling $28.9 billion.[148] In total Brazil's loans account

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[144] de Melo and Do Amaral Filho, "The Political Economy of Brazil - China Trade Relations, 2000 - 2010," 75–76.

[145] de Melo and Do Amaral Filho, 75.

[146] de Melo and Do Amaral Filho, 72.

[147] Jenkins, "Latin America and China — a New Dependency?," 1349.

[148] Gallagher and Myers, "China — Latin America Finance Database."

for 22% of the money that China has lent to LATAM, and Brazil accepted more in Chinese loans than any country in the region except for Venezuela. It is worth remembering however, that Brazil also has a substantially larger economy than any other LATAM country except for Mexico, so it is not unreasonable that it would also have accepted more in total loan money than many of its neighbors with smaller economies. The loans that Brazil did accept were very heavily weighted towards the commodities that China purchases from Brazil, particularly petroleum. Eight out of the eleven loans Brazil took were classified as being in the energy sector with an additional loan labelled as infrastructure that was geared towards soybean processing.[149] The significance of commodities in Brazil's loans is even more stark when the sizes of the loans are considered. Figure 14 shows the percentages of the three categories of loans relative to the loan amounts. Commodities, represented by energy plus infrastructure (which again was for soybean production) is a full 95% of the money China dispensed to Brazil with energy itself being 91%.[150] The only non-commodity related loans were a 2017 loan of $300 million for bilateral trade financing, and a $1.3 billion loan for the sale of Brazilian-made E195 aircraft.[151] Of note, aviation is one of the few Brazilian manufacturing sectors that has not been harmed by deeper ties with China. In the mid-2000s, Embarcer, the Brazilian manufacturer of the E195, did a joint venture with a Chinese aircraft manufacturing company to supply mid-sized commercial jets to the Chinese market where the manufacture of the aircraft took place in Brazil.[152] Regardless, the overwhelming majority of loan money to Brazil from China was related to the commodities China purchases from Brazil, specifically oil.

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[149] Gallagher and Myers.

[150] Gallagher and Myers.

[151] Gallagher and Myers.

[152] Ellis, *China in Latin America*, 59.

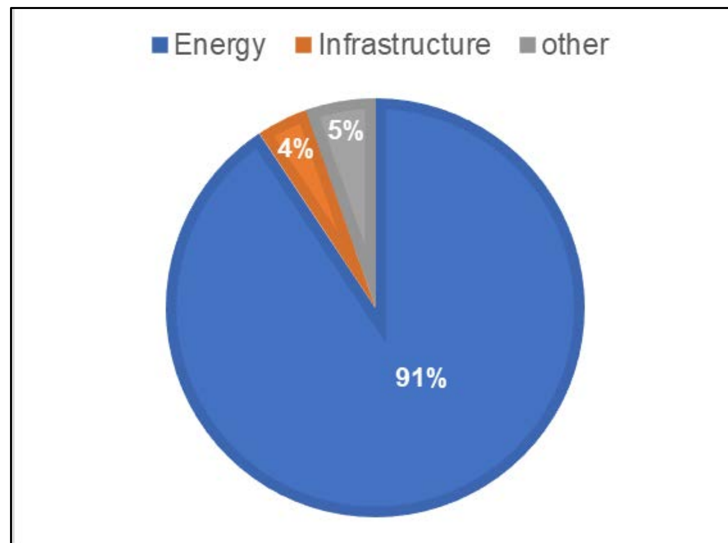

Figure 14. Brazilian Loan Moneys by Type[153]

An important feature of the China-Brazil economic relationship is the structure of some of the loans. Specifically, China and Brazil entered into an agreement where loan money would be dispensed and paid back in a long term oil supply contract. In 2009, the CDB signed a contract with Petrobras, the Brazilian state oil company, for $10 billion to be spent on pre-salt oil field development.[154] In the wake of the financial crisis the CDB was one of the only viable financing options in the world and Petrobras had the technology but not the capital to develop the new oil fields. The agreement stipulated that Petrobras would supply Chinese oil company Sinpoec with 150,000 barrels of oil a day for the first year and 200,000 a day for the following nine years.[155] While China actually made more lucrative deals through mergers and acquistions in Brazilian oil, the deal with Petrobras demonstrated China's use of loans and partnerships to protect supplies of strategic resources.[156] China's loans to Petrobras have also been used to bail them out of trouble. In

[153] Adapted from Gallagher and Myers, "China — Latin America Finance Database - The Dialogue."

[154] Ana Cristina Alves, "Chinese Economic Statecraft: A Comparative Study of China's Oil-Backed Loans in Angola and Brazil," *Journal of Current Chinese Affairs* 42, no. 1 (April 12, 2013): 116.

[155] Alves, 116.

[156] Alves, 118.

2016, the CDB agreed to loan Brazil $5 billion to pay down its debts.[157] What is remarkable about this loan is not only its size and purpose, but the context under which it happened. In 2016 Petrobras was the world's most indebted oil producer and one of the most indebted non-financial companies with over $130 billion in obligations.[158] Petrobras' troubles came in large part from a huge 2014 scandal which uncovered more than $2 billion in bribes, kickbacks, and price-fixing which led to record losses for the company.[159] As a result, Petrobras' credit was dropped down to "junk" status and it lost access to capital markets and incurred higher costs with its existing financing.[160] Notably, when bailing out Petrobras, China signed a deal similar to the one in 2009 in which the debt would be repaid "in either cash or oil, at China's request."[161] Both the 2009 loan and 2016 loan demonstrate a willingness on China's part to pay billions of dollars into Brazilian oil when other capital either cannot or will not, if it means securing future access to oil. It also shows Brazil's instinct to have China loan them money for the purposes of either development, or bailing them out, even if it means sacrificing future flexibility and options.

Overall, the economic relationship between Brazil and China is not one of equals. While Brazil is a major supplier of some imports to China, particularly iron, China has cultivated many suppliers of strategic raw materials in order to prevent a country like Brazil from having too much power, as well as to protect their supply of the resource should one producer's exports diminish. Brazil on the other hand is very reliant on China as a market for its exports, particularly of its raw materials. China has been ascendent as a destination for Brazilian exports, going from a minor player in 2000, to around the same significance as the U.S. in 2010, to the undisputed top destination for exports by 2018, accounting for

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[157] Gallagher and Myers, "China — Latin America Finance Database."

[158] Jeb Blount, "China Loan to Petrobras May Help Pay Most 2016 Debt: Source," *Reuters*, February 27, 2016, sec. Commodities.

[159] Blount.; Christopher Sabatini, "The Rot at the Heart of the Brazilian Economy," *Foreign Policy* (blog), February 10, 2016, https://foreignpolicy.com/2016/02/10/brazil-rousseff-economy-recession/.

[160] Blount, "China Loan to Petrobras May Help Pay Most 2016 Debt."

[161] Blount.

over 25% of Brazil's exports.[162] This trend in Brazilian exports, as well as the damage that high value-added imports from China have done to Brazil's manufacturing economy, combine to suggest at least an asymmetric relationship between the two countries, if not a 21st century version of dependency. Furthermore, the loans Brazil has chosen to take on have been largely out of economic necessity, particularly in the case of large loans to prop up Petrobras, because of lack of access to capital. One can imagine a prolonged economic slowdown in China, that effects their levels of consumption of primary products, combined with a drop in the ability or willingness of China to loan more money to Brazil wreaking havoc on the Brazilian economy. In constrast, Chile is in a relatively stronger position wherein China can only negatively effect their economy through reduced consumption of primary products, as they do not rely on Chinese loans.

C. HOW THE BRAZILIAN LEFT AND RIGHT APPROACH CHINA DIFFERENTLY

1. The Brazilian Left

Brazil made deliberate efforts to deepen ties with China and particularly cultivate it as a destination for its commodities. These were efforts being made by the Brazilian left specifically. During the sample period for this thesis, Brazil had a center-left governing coalition during each year until 2019 when Jair Bolsonaro's right-wing government came to power.[163] Additionally, Brazil's center-left government under Lula was in power for several years before the sample period of this thesis started, having come to power in 2003. Because President Dilma Rousseff was Lula's handpicked successor, there was a lot of continuity in economic policy between the two.[164] In 2016, Rousseff's impeachment brought her more conservative Vice President Michel Temer to power in the midst of a massive recession and corruption scandal. Brazil's government became far-right with Jair Bolsonaro's presidency in 2019.

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[162] Simones, Landry, and Hidalgo, "OEC."

[163] Salamanca, "Country Questionnaires."

[164] Paulo Kliass, "Lula's Political Economy: Crisis and Continuity," *NACLA Report on the Americas* 4, no. 2 (May 2011): 19–22.

One of the features that Lula's government shared with many Latin American governments was a stated desire for independence, specifically financial independence from US-led institutions like the IMF. When he came to power in 2002, Brazil had recently accepted money from the IMF, specifically $41 billion in 1998 and $15 billion in 2001.[165] Before his election, Lula wrote a "letter to the Brazilian people" in which he committed to respecting the contracts then-President Cardoso had made to the IMF, as a way of calming the IMF and assuaging the fears of global financial markets about his rise.[166] Once elected, Lula kept true to his word, but even during his first term he prioritized achieving his independence from the IMF and its regulations. In late 2005, President Lula's government made the decision to make an early repayment of the relatively low interest rate (4%) debt it had outstanding to the IMF. The Treasury sold this decision as being driven by a desire to have more autonomy in managing its macro-economy as well as a maximizing international trust.[167] However, the decision did not necessarily inspire international trust as Brazil was prioritizing an IMF debt with an interest rate of 4% while Brazil was expecting $8 billion in new foreign funds at the beginning of 2006 with interest rates of 8–12.75%.[168] President Lula explicitly stated that the repayment of the IMF loans marked a new chapter for Brazil's sovereignty.

> My friends, a few days ago Brazil paid off its debt with the IMF. By doing this, we have stopped paying interest and we are able to invest more in our people with this saving. We have turned a page in our history with sovereignty. Brazil will walk using its own legs. By returning the money that was available to Brazil from the IMF on account of the 2001–2002 crisis, we were demonstrating, among other things, that we no longer

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[165] João Martins Tude and Carlos R. S. Milani, "Brazil's Foreign Policy (2003–2010) towards the IMF: Rhetorical and Political Change during Lula Government," *Canadian Journal of Latin American and Caribbean Studies / Revue Canadienne Des Études Latino-Américaines et Caraïbes* 40, no. 1 (January 2, 2015): 117, https://doi.org/10.1080/08263663.2015.1031497.

[166] Tude and Milani, 117.

[167] Tude and Milani, 124.

[168] Tude and Milani, 124.

> depend on foreign loans to continue growing; we can do that with our own resources.[169]

The importance of this repayment to Lula politically and symbolically cannot be understated. Lula frequently cited the "early repayment to the IMF" particularly in 2006 when seeking re-election.[170] He also at one point drew a parallel between repayment to the IMF, and therefore freedom from the institution's constraints, and Brazilian independence:

> We returned the money and we said to the IMF: in 1822 Brazil proclaimed its political and administrative independence and today, on the day that we did this, I declared that today we have completed our independence because we do not want any interference from anyone telling us what to do in our country.[171]

Lula describes repayment to the IMF as finally achieving independence and explicitly ties it to no longer having the restrictions of the IMF. In the quote, Lula is, in essence, distilling the goals of the Brazilian left with regard to sovereignty into the simplest terms while declaring that he had achieved them. For a left of center government like Lula's the repayment was a tremendous victory. It is easy to imagine why, with these quotes in mind, the Brazilian left would do all that they could to avoid going back to the IMF in the future. In spite of Lula's declarations of independence however, Brazil lacked sufficient systems in place to prevent it from requiring loans in the future. Brazil's budget deficits under Lula were typically around 3% and despite being in a commodity boom.[172] During the same commodity boom Chile ran a budget surplus of between 2% and 8% depending on the year.[173] Chile's example demonstrated that in order to achieve stable financial

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[169] Tude and Milani, 124.

[170] Tude and Milani, 125.

[171] Tude and Milani, 126.

[172] Trading Economics, "Brazil Government Budget 2001–2019 Data 2020–2022 Forecast Historical Chart," Trading Economics, accessed September 11, 2020, https://tradingeconomics.com/brazil/government-budget.

[173] Trading Economics, "Chile Government Budget 2000–2019 Data 2020–2022 Forecast Historical Chart," Trading Economics, accessed September 11, 2020, https://tradingeconomics.com/chile/government-budget.

independence a commodity exporter should save during a boom in order to insulate itself from an inevitable downturn. Brazil under Lula was not in a position to adequately prepare for a downturn by controlling government spending and setting up a sufficient fund for when prices fell.

By 2007 Brazil would be accepting foreign loans, just from a different source than the IMF. However, Brazil's first loan from China, $750 million towards building a gas pipeline in cooperation with a Petrobras subsidiary, doesn't necessarily suggest financial weakness, only that perhaps the total cost of the pipeline was too much for the Brazilian Development Bank, which was providing the rest of the funding.[174] However, Petrobras also accepted $10 billion from China in 2009 in a money-for-oil deal that allowed them to pay for field development to boost production.[175] The fact that the Brazilian state-owned oil company lacked the funding to undertake the expansion by itself is a potential sign of weakness. Additionally, a repayment scheme that involves Petrobras paying off much of the loan in oil, at a fixed level of production and price per barrel over a decade, is still a ceding of sovereignty.

Overall, the data also does not support President Lula's assertion that Brazil had turned a page in its history. The policies of the Lula presidency may have extricated it from the IMF but at the cost of increased dependence on China. Lula specifically courted China, for instance, in 2004 on a state visit to China he brought with him " the largest entourage ever of Brazilian businessmen on this kind of mission."[176] Lula's calculation was that not only would China be an excellent market for Brazilian goods, but that they may be supportive of compromises in the World Trade Organization that benefit developing

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[174] Dreher, Fuchs, and Parks, "CDB Loans $750 Million USD for GASCAC Pipeline," Aid Data, 2017, https://china.aiddata.org/projects/35918.

[175] Reuters, "Petrobras Seeks $10 Bln Loan from China Bank-Paper," *Reuters*, sec. Bonds News, accessed September 11, 2020, https://www.reuters.com/article/petrobras-china-idUSN2822151220100328.

[176] Antônio Carlos Lessa, "Brazil's Strategic Partnerships: An Assessment of the Lula Era (2003-2010)," *Revista Brasileira de Política Internacional* 53 (2010): 124, https://doi.org/10.1590/S0034-73292010000300007.

nations like Brazil.[177] However there were a number of drawbacks. Under Lula, China's currency was undervalued while Brazil's was overvalued, relative to the dollar. As a result, it was cheaper to import manufactured goods from China, especially as Chinese labor productivity was increasing.[178] The de-industrialization in Brazil was, during the time, offset by the boom in commodities. With commodity exports doubling from 2004 to 2010, largely through the increase of exports to China, Brazil was able to achieve solid economic growth.[179] The problem with GDP growth fueled by increased commodity exports is that a drop in commodity prices can have a catastrophic effect on the economy.

Thus, while the Brazilian economy grew under Lula's administration, it also became more vulnerable as a result of its de-industrialization, increased reliance on commodity exports, and dependence on Chinese loans. These vulnerabilities were exposed during President Rouseff's tenure, along with corruption. A fall in commodity prices, due to a slowdown in China which decreased demand, combined with the massive multi-billion-dollar domestic political corruption scandal, put Brazil into a 2-year recession starting in 2014.[180]

Part of the reason for Brazil's problems comes from an inability to enact the same fiscal discipline that explained the success in Chile's case. From 2000 to 2014 government spending as a percent of GDP went from 18.6% to 20.2%.[181] The increased government spending included social programs, pension obligations, and more money for the Brazilian development bank, all of which fueled high levels of domestic consumption.[182] These policies, particularly social programs and pension obligations were instrumental in helping impoverished Brazilians but came at a cost. Even as the economy showed signs of slowing under President Rousseff, she continued the same policies of Lula, which contributed to

[177] Lessa, 124.

[178] Tude and Milani, "Brazil's Foreign Policy (2003–2010) towards the IMF," 72–73.

[179] Kliass, "LuAla's Political Economy."

[180] BBC, "Brazil's Recession Worst on Record," *BBC News*, March 7, 2017, sec. Business.

[181] Sabatini, "The Rot at the Heart of the Brazilian Economy."

[182] Sabatini.

Brazil's historic recession in 2014.[183] In addition, Brazil continued to run budget deficits even during boom years,[184] unlike Chile who had surpluses.[185] While Chile established Sovereign Wealth Funds to account for budget shortfalls, the fund established by Lula, and later liquidated under Temer, was meant to fuel companies' abilities to export and promote investment.[186] To summarize the problems, "The combination of cheap credit, booming export growth, protected markets, and public spending created a bubble that postponed any serious reckoning of the country's structural problems and fueled unrealistic growth expectations."[187] When the reckoning did happen, one of the results was the Temer government overseeing an unpopular amendment to the constitution that imposed 20 years' worth of austerity measures to get public spending under control.[188] In addition to the crisis brought on by the drop in commodity prices, the $2 billion corruption scandal in Brazil brought its largest company Petrobras, to a standstill. Because of the nature of the scandal—bribes and kickbacks—prosecutors ordered Petrobras to suspend contracts with all of its main suppliers and, from 2014–2016, an estimated 61% of its 276,000 employees lost their jobs.[189] It is easy to see how a fall in commodity prices from lowered demand in China, combined with a scandal that hobbles the largest commodity exporter in Brazil—a country that has been relying on commodity exports to fuel economic growth the much of the 21st century—could lead to a massive economic crisis. It is perhaps unsurprising that

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[183] Brad Brooks Prada Paulo, "Brazil's Rousseff Undone by Hubris, Economic Missteps," *Reuters*, May 11, 2016, https://www.reuters.com/article/us-brazil-politics-rousseff-idUSKCN0Y12G6.

[184] Trading Economics, "Brazil Government Budget 2001–2019 Data 2020–2022 Forecast Historical Chart."

[185] Trading Economics, "Chile Government Budget 2000–2019 Data 2020–2022 Forecast Historical Chart."

[186] Agencia EFE, "President Liquidates Brazil's Sovereign Wealth Fund," Agencia EFE, May 22, 2018, https://www.efe.com/efe/english/business/president-liquidates-brazil-s-sovereign-wealth-fund/50000265-3624402.

[187] Sabatini, "The Rot at the Heart of the Brazilian Economy."

[188] BBC, "Brazil: Clashes as Senate Approves 20-Year Austerity Plan," *BBC News*, December 13, 2016, sec. Latin America & Caribbean.

[189] Jonathan Watts, "Dilma Rousseff Impeachment: What You Need to Know," *The Guardian*, August 31, 2016, sec. News, https://www.theguardian.com/news/2016/aug/31/dilma-rousseff-impeachment-brazil-what-you-need-to-know.

the years around this crisis, 2014–2017 were also four of the five years in which Brazil received the most loan moneys from China.[190] Indeed, as was discussed earlier in the chapter, Petrobras received $5 billion from China, repayable in either cash or oil at China's request, just to finance its own debt obligations and remain afloat.[191] While the left in Brazil seemed to have some success in gaining some independence from the western institutions from which LATAM countries typically define their sovereignty against, lack of fiscal discipline during boom times, and corruption, simply enabled Brazil to replace its dependence on the U.S. with dependence on China, ultimately undermining its sovereignty and development.

2. Brazil's Right Turn

Right-wing president Jair Bolsonaro has taken a dramatically different tact with China rhetorically, even if not always practically. When campaigning for office, Bolsonaro took a hard stance on China and portrayed its economic actions in Brazil as predatory, stating that China is not just "buying in Brazil — it is buying Brazil."[192] The more complicated reality for Bolsonaro's China policy since taking office is that he has been forced to balance competing interests. For instance, his anti-China rhetoric appeals to his Nationalist-populist supporters, and China is reasonably seen as a predatory force by Brazilian manufacturers who have, as previously discussed, been negatively impacted by cheaper imports from China.[193] On the other hand, commodity producers do not want to see the status quo with China upended and the Brazilian economy had not fully recovered from the 2014–2016 recession when Bolsonaro took power.[194] Along with Bolsonaro's anti-China rhetoric, he has also taken an explicitly pro-US stance in a break from recent

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[190] Gallagher and Myers, "China — Latin America Finance Database."

[191] Blount, "China Loan to Petrobras May Help Pay Most 2016 Debt."

[192] Richard Lapper, "Bolsonaro Took Aim at China. Then Reality Struck.," *Americas Quarterly* (blog), April 23, 2019, https://www.americasquarterly.org/article/bolsonaro-took-aim-at-china-then-reality-struck/.

[193] Harold Trinkunas, "Testing the Limits of China and Brazil's Partnership," *Brookings* (blog), July 20, 2020, https://www.brookings.edu/articles/testing-the-limits-of-china-and-brazils-partnership/.

[194] Lapper, "Bolsonaro Took Aim at China. Then Reality Struck."

Brazilian leaders who had viewed being too close to the U.S. as a threat to sovereignty. However, aligning himself rhetorically with the U.S. may be entirely separate from his practical ability to turn away from China and towards the U.S. For instance, in 2018, Brazilian exports to China were more than twice what they were to the U.S. and in one of Brazil's three major commodities, soybeans, there is little reason to believe that the U.S. presents a potential market, as the U.S. is also a major soybean exporter.[195] For Bolsonaro the desire to seek greater independence from China is incompatible with the practical reality of Brazil's dependence on China as a market for its exports.

There is increasing evidence that Bolsonaro has reversed course on much of his anti-China agenda while still making some overtures towards some of what his stated concerns were prior to being elected. Specifically, Bolsonaro seems to have reversed course on his worry that China was attempting to "buy Brazil" and as of late 2019 "openly expresse [d] interest in getting Chinese capital to finance a large pipeline of roads, railways, ports, power plants and other infrastructure his administration considers vital to unleash a subpar economy."[196] However, his administration has also used some discussions with China to try to advocate for an increase in exporting of manufactured goods or commodities that have had some value-added to them rather than being in raw form. In late 2019, Marcos Troyjo, at the time the minister in charge of foreign trade, talked about expanding trade with China "to include processed food, mineral products with added value, perhaps some manufactured goods" a proposition to which the Chinese Vice Premier expressed openness.[197] It remains to be seen if the composition of Brazil's exports actually meaningfully change in a way that will enhance Brazil's manufacturing sector but the strategy expresses an awareness of the risks inherent in Brazil's dependency on China.

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[195] Simones, Landry, and Hidalgo, "OEC."

[196] Paulo Trevisani, "Brazil Deepens Ties to China As Bolsonaro Reverses Course," *Wall Street Journal*, November 15, 2019.

[197] Trevisani.; Reuters, "China Says Willing to Increase Agricultural, Industrial Goods Imports from Brazil," *Reuters*, October 25, 2019, sec. Business News, https://www.reuters.com/article/us-china-brazil-trade-idUSKBN1X41AG.

In spite of what appears to be a warming in Bolsonaro's feelings towards China, it is still significant that Brazil has not accepted any new loans from China during his tenure.[198] Bolsonaro's expressed comfort with China investing in Brazil, particularly in development and infrastructure projects does not necessarily seem to translate to a comfort with indebtedness. One possible explanation for this behavior is that Bolsonaro, and the right, are more wary of China than the left because the U.S., a traditional ally of the LATAM right, view China as a rival. Bolsonaro's anti-China rhetoric may be an attempt to position himself as aligned with the U.S. even while the economic reality of Brazil's dependence prevents him from taking meaningful steps to change Brazil's economic reality with regard to China. Going forward it will be very telling to see if Bolsonaro changes tact once again and is forced to seek loan money from China due to extreme economic hardship brought on by Brazil's handling of the Coronavirus pandemic, as the IMF expects the entire region to lose a decade's worth of economic progress.[199] One complicating factor for Brazil, in contrast to Chile, is that Brazil's credit rating is still poor and as such it is very unlikely that Brazil will be able to secure a line of credit absent strong conditions which may cause Bolsonaro to have to weigh whether he would prefer to cede sovereignty to western institutions or to China.[200]

D. CONCLUSIONS

Brazil presents an interesting case study as it has a number of factors that were shown in previous chapters to be likely to lead to accepting loans, and in the case of its more left-wing governments it did, while its right-wing government, as of yet, has not. Brazil also offers a strong contrast with the case study on Chile in the nature of its relationship with China. While Chile, in spite of being a relatively small country, was able to enjoy a more symmetric power dynamic. Brazil, one of the world's largest economies,

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[198] Gallagher and Myers, "China — Latin America Finance Database."

[199] Alejandro Werner, "Economic Policy in Latin America and the Caribbean in the Time of COVID-19," International Monetary Fund, *IMF Blog* (blog), April 16, 2020, https://blogs.imf.org/2020/04/16/economic-policy-in-latin-america-and-the-caribbean-in-the-time-of-covid-19/.

[200] Wiekman and Guadagnuolo, "Standard & Poor's Americas."

is still highly vulnerable to Chinese economic power. Brazil's increased trade with China in three main commodities, soy, iron, and oil, helped the economy grow, particularly from 2000–2010. Yet, it also led to some deindustrialization due to highly competitive cheap imports from China. In addition, Brazil's policymakers were unable to adequately plan for a commodity slump through counter-cyclical policies, instead focusing on programs which alleviated poverty and boosted consumption during the boom times.[201] A combination of a commodity slump as well as a corruption scandal exposed the vulnerabilities that the growth led by the commodities boom had hidden.

Brazil's right-wing government, in spite of the rhetoric, has failed to effect commensurate change in their relationship with China. While the left in Brazil focused their foreign and economic policy on actively courting China as a market for Brazilian exports, the right has not meaningfully changed the status quo of the trade relationship. The Brazilian right faces a dilemma of reconciling its nationalist populist rhetoric and desires with the practical reality that Brazil lacks the power in its relationship with China to substantially diminish its ties, particularly in the absence of alternative markets for its products. If a slump in demand from China was one of the main causes of Brazil's worst recession in a century, it seems untenable to intentionally reduce the supply of commodities to China, which would surely lead to significant economic contraction. Loans are, thus far, the only way in which the Brazilian right has been able to differentiate itself from the left in its relationship with China. Under left-wing governments Brazil accepted more loans from China than any other country in the region except Venezuela, all while following an intentional policy of breaking with the IMF. In the time since Bolsonaro has been in power, Brazil has not taken any loans. This difference in behavior may be due to a calculation by the left in which the giving up in sovereignty to China is worth the ability to pursue projects, particularly in the energy sector, that will allow Brazil to increase its ability to export commodities. The right on the other hand, maybe be facing an opposite calculation. Specifically, the right may view a loss of sovereignty to China as a threat to their traditional desire to court closer ties to the U.S. and western institutions.

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[201] Sabatini, "The Rot at the Heart of the Brazilian Economy."

V. CONCLUSIONS

This thesis sought to explain why some countries in LATAM accept loans from China while others do not. Since 2000, trade between China and LATAM has increased dramatically and more recently China has also extended over $100 billion in loans to countries in the region. While some countries have accepted large amounts of loan money, some more modest sums, still others have accepted no money at all. Much of the existing literature does an excellent job of identifying reasons why China is interested in certain countries as targets for trade, investment, and loans. For instance, Ellis isolates the strategic value of economic partnerships with certain LATAM countries for China while Toro-Hardy points to China's investment strategy being geared towards extraction and correctly predicts that it will later move towards infrastructure development.[202]

However, LATAM countries are not passive entities being acted upon by China and its influence. Much of the literature insufficiently examines LATAM countries' agency in the context of their cooperation with China. By focusing on loans, which by definition require two parties to come to an agreement, this thesis sought to explain differing levels of engagement with China in LATAM. In essence, why do some countries choose to accept billions of dollars in loans from China, while others do not? For those interested in countering China's growing influence in the region it is worth exploring the reasons for loan acceptance as they can show the conditions that have offered China its opening, as well as exposing gaps in U.S. policy or strategy that make China an increasingly attractive partner to some, but not all countries in the region.

Chapter II examined regional trends to explore common factors amongst countries that accepted loans had, as well as common links of countries that did not accept any loans. Overall, countries that accepted loans were found to frequently share certain characteristics such as a commodity-based economy, strong trade ties to China, and centrist or left-wing governments. Chapter III was a case study of Chile, a country that has not accepted any loans from China despite a commodity-based economy, strong ties to China, and, at times,

[202] Ellis, *China in Latin America*.; Hardy, *The World Turned Upside Down*, 34:163–64.

a left of center government. The case study found that Chile has its own set of unique characteristics, such as its strong institutions and fiscal discipline, that allowed the left leaning government to avoid the reasons other countries found Chinese loans necessary. Chapter IV was a case study of Brazil which, unlike Chile, accepted large quantities of Chinese loans. The study found that Brazil experienced a form of economic dependence on China and that the left-leaning governments in Brazil were willing to sacrifice some measure of sovereignty to China, but not to the IMF or western institutions.

The remainder of this chapter will discuss each chapter and its findings in greater detail as well as the larger implications and potential policy ramifications associated with them.

A. REGIONAL TREND FINDINGS

In Chapter II, I examined the correlates of Chinese loan acceptance to shed light on the types of conditions that make Latin American countries more or less likely to pursue these loans. The chapter began by describing the current state of Chinese loans in the region including which countries had accepted money and how much. The analyses in the chapter focused on understanding what commonalities exist among various countries that accepted loans, as well as commonalities among countries that did not accept loans. I examined four central arguments found in the literature. The first focuses on the structure of the economy and highlights the role that reliance on commodity-based exports can have on increasing the likelihood of Chinese loan acceptance, particularly in instances where China is already a major destination for those exports. The second argument was based on economic desperation and explores the role of creditworthiness, or lack thereof, in a country's decision to pursue loans from China. This explanation considered whether countries were going to China as a lender of last resort, or if countries who could get loans elsewhere chose to get them from China anyway. The third argument was political and seeks to understand if more authoritarian countries may see China as a better loan option because it presents an alternative to the west. The final argument was also a political one and sought to highlight the role of ideology to determine if left-wing governments would view Chinese

loans as preferable to those offered by western institutions that have historically been at odds with the priorities of left-wing governments in LATAM.

To evaluate these arguments, I gathered data from a variety of sources and generated a data set tracing Chinese loans to Latin American countries over time, along with the various potential correlates. The analyses revealed that ideology is an important factor shaping patterns of economic relations between Latin American countries and China. Indeed, ideology showed the strongest relationship with loans from China, with right-wing governments not accepting any while left and centrist governments had. The structure of the economy also appears to be a relevant factor. Countries with commodity-based trading relationships with China were found to be more likely candidates for accepting Chinese loans. The other two factors—desperation and authoritarianism—were less clearly associated with loan acceptance. Specifically, there were some indications that countries with poor credit borrowed larger sums of money from China than those with good credit.

This chapter allowed the creation of a general profile of what a typical country that accepts loans from China might look like across these different variables. For instance, a country that is a commodity exporter, exports that commodity to China, has poor credit, is partially free, and is under a centrist or left-wing government, is a likely candidate for accepting loans from China. The profile for a non-borrower was somewhat less robust as the archetype would be something like a country without a major export relationship with China, who is free, had good credit, and is under a right-wing government which did not actually describe any countries in the sample, however some countries, like Chile under its right-wing government, checks most of them.

B. FINDINGS FROM THE CHILE CASE STUDY

Chapter III presented a case study of Chile-China relations to determine why a country that seems like a strong candidate for accepting Chinese loans would not. Chile was selected as a case study because it shares many common traits with countries that accepted loans from China but was not a loan recipient. During the sample period Chile had a large and ever-expanding commodity-based export relationship with China as well as left of center governance during about half of the time period. Chile, therefore, presented

the intriguing question of "how did a country that had both a commodity-based economic relationship with China, and left of center governments, manage to avoid taking any loans from China?" What the case study found was that the Chilean left, along with strong institutions, allowed Chile to ride the commodity booms created by Chinese demand, while avoiding the pitfalls of commodity slumps that one might expect would force a country to accept loans. Specifically, Chile's balanced budgets, incremental approach to progress, and creation of stabilization funds were key to creating an economy prepared to weather slumps in demand without requiring interventions such as loans. Since returning to democracy, Chile has managed to formalize its fiscal responsibility gradually. Efforts at fiscal stabilization began under the leadership of presidents from *Concertación*, a left of center coalition. However, it was under President Bachelet, also of *Concertación*, that a law was passed explicitly calling for cyclically adjusted balanced budgets. The law also created two sovereign wealth funds which would allow Chile to withstand commodity downturns without having to take loans or fail to meet pension obligations. While balanced budgets had previously become a norm, the formalization of them along with the creation of the new funds under President Bachelet is perhaps the most specific driver of Chile's circumstances.

Additionally, the analyses found that in non-loan areas of economic cooperation Chile enjoyed a more equal power dynamic with China than one might expect given their relative sizes. These power dynamics manifested themselves through China having to compete for contracts in Chile, rather than making direct government to government deals as is more common for China. Both the fiscal prudence of the Chilean left as well as the more equal power dynamics with regard to China speak to the underlying success of Chile which is that it was able to bypass the sovereignty dilemma wherein a country may be forced to choose between ceding sovereignty to western institutions or to China and is instead able to cultivate multiple economic relationships and partners while maintaining strong fiscal discipline.

A central takeaway of the Chile case study is that an alternate path towards financial independence exists for countries wary of over-reliance on the west or on China. While one option is to diversify dependence and accept loans from China, who will not impose

the same constraints that a western institution might, Chile was able to achieve a greater degree of sovereignty and independence. The features of the Chilean case, specifically strong institutions, balanced budgets, counter-cyclical policies, and gradualism, allowed the Chilean left to bypass the assumptions under which the political ideology hypothesis was made. The hypothesis that left-wing governments will want to pursue loans with China to avoid the austerity measures and other constraints imposed by loans from institutions like the IMF, did not envision a left-wing government that was capable of achieving financial independence on its own the way that Chile was.

C. FINDINGS OF THE BRAZIL CASE STUDY

Brazil was selected as the second case study because it exhibited a number of characteristics common of countries that accepted loans from China and, under its left-wing government, did accept Chinese loans. Also, like Chile, Brazil had both left and right governments during the time period, with the right-wing government in Brazil having not accepted any loans from China. Brazil's economic model and policy choices offered a sharp contrast with those of Chile. While Chile was able to achieve a high degree of independence through fiscal discipline, Brazil's economic ties to China led to vulnerability and potentially a new form of dependence wherein Brazil suffered its worst recession in a century when a commodity demand slump in China coincided with a corruption scandal in Brazil. In accepting more loans from China than any other country in LATAM, save Venezuela, the Brazilian left faced a contradiction wherein it attempted to achieve sovereignty from western institutions while ceding sovereignty to China. This contradiction was displayed by President Lula who in 2005 repaid an IMF loan early to enhance economic sovereignty, only to have Brazil then accept Chinese loans two years later. A related contradiction also exists on the right in Brazil. Bolsonaro has expressed a desire to distance Brazil from China and become less reliant on them, while at the same time seeking to grow closer to the United States. Each side of the political spectrum in Brazil has claimed that dependence on a foreign country is detrimental and yet each side's solution is to become even closer to the country their political rivals dislike.

In examining the causal mechanisms that explain Brazil's behavior there are a few that are notable. For one, the Brazilian left actively sought to court China as a partner while also distancing itself from the IMF. The decision to get closer to China, while simultaneously lacking the fiscal health to not require loans, led China to become the lender of choice for the Brazilian left, particularly for loans required to keep the state-owned oil company Petrobras afloat. The Brazil case shows a commodity-based economy as well as a left-wing government desiring sovereignty, can both lead a country to accept loans from China. Brazil's left saw an opportunity for economic growth driven by commodity rents, mostly from soybeans, oil, and mining, in expanding trade ties to China, and it actively sought out those rents. Simultaneously the left sought independence from institutions like the IMF while lacking the underlying institutional strength and foresight of a country like Chile that could truly stand on its own. The result was that when Brazil ended up needing assistance, it turned to China vice the IMF because of the lack of restrictions, and China was willing to help, particularly given the opportunity to use loan money to secure a long-term supply of oil through a loan repayment via oil deal.

Because the Brazilian left and right have behaved differently with regard to Chinese loans, in spite of having the same level of reliance on commodity exports to China, the differing definitions of sovereignty, or at least differing focus on what constitutes the main threat to sovereignty is also a causal mechanism. For instance, the Brazilian left saw western institutions as a threat to sovereignty so President Lula paid back an IMF loan early and ended up accepting loans from China. President Bolsonaro has, at least rhetorically, focused on China as a threat to Brazilian sovereignty and has not accepted loans from China. If Brazil under President Bolsonaro does seek out loans it would be surprising if they were from China rather than the IMF as that would contradict the Brazilian right's view of China as a threat to Brazil's independence.

While not sufficient by itself as cause, the heavy reliance on commodity rents from China by Brazil acted as a precondition for acceptance of Chinese loans through the creation of a type of modern dependence. Brazil's economic growth was spurred by high commodity prices in boom years, which compensated for the deindustrialization in Brazil caused by cheaper imports from China. The result was that Brazil's economy was

vulnerable to a commodity slump in China. While Chile also relies heavily on commodity exports to China, Brazil is more susceptible to price slump due to a lack of stabilization mechanism to insulate their economy from those shocks. Instead, Brazil, as happened in 2016, was forced to seek relief through Chinese loans.

D. POLICY TAKEAWAYS

In order to craft policy in LATAM one must understand the agency of the countries in the region, as well as their goals and motives. Perhaps the greatest takeaway from this thesis in that regard is the desire of the LATAM left, and in some cases center, to extricate itself from U.S. influence, even if that means losing some measure of independence from China. However, reliance on Chinese loans is not a foregone conclusion, as the Chilean case study demonstrated. While some reliance on China may be preferable to reliance on the U.S. the ideal situation for a LATAM country is true financial independence. The 2018 National Defense Strategy makes multiple references to Chinese "predatory economics" as a growing threat to the U.S. and its interests.[203] If one's goal is to counter China's growing economic influence in LATAM, two of the major causal mechanisms in the Brazil case study are instructive: the economic dependence on China as a commodity market, and the preference for losing sovereignty to China vice the U.S. from the LATAM left. Policymakers may want to consider the reasons for the LATAM left's preference for China vice western institutions and the U.S. Additionally, the Chile case study may offer some hints at what an ultimate end state that counters Chinese economic influence might look like. If the LATAM left is willing to accept reliance on China in order to reduce U.S. influence, then policies that foster total independence such as what Chile enjoys may be worth exploring. After all, while it might be easiest to have a LATAM that is reliant on the U.S., a LATAM reliant on no one is better than one that is reliant on China.

[203] Department of Defense, Summary of the 2018 National Defense Strategy of the United States of America (Washington, DC: Department of Defense, 2018), 2, https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf.

E. AREAS FOR FURTHER RESEARCH

This thesis was scoped to include only two case studies in addition to the regional trends. There are additional country cases, particularly among loan accepters such as Argentina and Ecuador, that may provide insights beyond what is included in this thesis. Additionally, this thesis was scoped to consider why loan acceptance occurs, there is room for additional research examining other forms of economic cooperation. For instance, a similar study considering why China steers its FDI into certain countries and not others could provide additional insights into the nature and reasons for Sino-LATAM economic cooperation. Alternatively, the impacts Chinese loans have on countries after acceptance could offer more clarity on the effects the loans have which could provide proof or refutation of an emerging risk of a new form of dependence on China. Additional research into the specific case studies is also possible. For instance, a deep dive into the ideology, motivations and institutions of the *Concertación* coalition, beyond what is discussed in the Chile case study, could help explain the unique situation of Chile as well as what may allow other countries to replicate their success, or not.

F. CONCLUSION

As China continues to rise globally and competes with the U.S. for influence internationally it is crucial to study patterns of Sino-LATAM relations. Economic ties, particularly ties of indebtedness can significantly impact the geopolitical landscape which China has used to its advantage over the past decade. Gaining a greater understanding of why some countries turn to China for loans and seek greater economic cooperation is crucial to developing a strategy to counter that influence. This thesis contributed to that understanding by focusing on the agency of LATAM countries in order to better understand why they would turn to China and what circumstances may influence a country to not seek out China's assistance. By focusing on the region overall, as well as two country case studies, this thesis was able to identify not only patterns in behavior among LATAM countries, but underlying causes that explain those patterns.

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