Economic Analysis

China-CELAC: A multilateral forum that serves multiple goals

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One of the main outcomes of President Xi Jinping's visit to Latin America following the BRICS Summit was the establishment of a China-CELAC Forum. **The newly established China-CELAC Forum, with an initial US$20 Bn in funding, could challenge the effectiveness and impact of other regional initiatives such as the Organization of American States (OAS), the Summit of the Americas and the Ibero-American General Secretariat (SEGIB).**

A surge in Chinese financing to Latin America and the Caribbean

Chinese President Xi Jinping announced new lines of financing during his visit to Latin America, following the 2014 BRICS Summit held in Brazil on July 15-17 (see our previous Economic Watch). A less publicized development is the establishment of the new multilateral forum between China and the Community of Latin American and Caribbean States (CELAC). CELAC, which was formed in December 2011, comprises all economies in the American continent excluding the United States and Canada.

The new China-CELAC Forum, which was announced on July 17, was established with the objective of promoting political, economic, trade, people-to-people, social and foreign cooperation. To accompany the announcement, China proposed the creation of a US$ 20 Bn fund to promote much needed infrastructure developments in the region, as well as a further US$ 10 Bn in credit through the Bank of China. No more details have been revealed, although it is anticipated that eligibility and application criteria will be announced during the forum's official inaugural ministerial meeting in Beijing later this year.

China has reasons to pursue a multilateral dialogue with CELAC

The establishment of a multilateral dialogue with CELAC is not surprising, in a sense, given China's previous experiences with multilateralism and growing influence in Latin America and the Caribbean.

With regards to multilateralism, two examples spring to mind: FOCAC and ASEAN. The Forum on China-Africa Cooperation (FOCAC) is a ministerial-level dialogue established in October 2000 with the objective of promoting more effective cooperation between China and African countries. FOCAC has since resulted in the issuance of over US$ 15 Bn in loan commitments to Africa. The Association of Southeast Asian Nations (ASEAN) also has a dialogue with China to discuss trade, economic and security related issues, as well as a free trade agreement. By establishing the China-CELAC forum, China would be attempting to replicate the lessons from multilateralism in a region that has traditionally been outside its scope of influence, although this is changing quickly, as we will discuss next.

China's influence in Latin America and the Caribbean has been growing swiftly, following a deepening of its trade and economic relations with the region. Total bilateral trade between China and Latin America surged to approximately US$ 238 Bn in 2013, a relationship which grew by an average annual rate of 27% YoY between 2005 and 2013. Brazil, Mexico, Chile and Venezuela accounted for approximately 70% these flows (Chart 1). In the meantime, China provided loan commitments to Latin America upwards of US$ 98 billion between during the same period (Chart 2), while Overseas Direct Investment (ODI) to Latin American and Caribbean countries (excluding BVI and Cayman Islands) almost tripled (+292%) in 2012, led by flows to Venezuela and Argentina (see our previous Economic Watch). By establishing the China-CELAC forum, China would be seeking to better integrate and align its increasingly significant economic ties with the diaspora of countries that constitute CELAC.

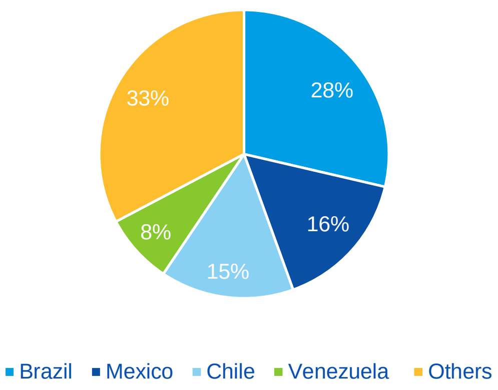
How does this impact other initiatives in Latin America and the Caribbean?

Both the Unites States and the broader community of Spanish and Portuguese speaking countries have similar multilateral initiatives; namely the Organization of American States (OAS), the Summit of the Americas and the Ibero-American General Secretariat (SEGIB). Will the China-CELAC Forum challenge these interests?

China may have valid reasons for wanting to initiate a multilateral dialogue with CELAC, but inconsistencies in its economic relations with the region reveal a more complex story. Lending and FDI patterns are hard to explain based on economic fundamentals. For example, Venezuela accounted for just 8% of total bilateral trade between China and Latin America, yet it received over 50% of total lending between 2005 and 2013. On the contrary, Mexico, China's second-largest trading partner in Latin America, was recipient to a modest 2.4 US$ billion in loans from China during the same period. Chinese lending and FDI seems to favor some nations over others regardless of their economic relevance. The implicit assumption is that China may have vested political, as well as economic, interests in the region. Let's not forget that the China-CELAC Forum builds on the lessons learnt from the FOCAC, and that support from African Nations was instrumental in granting China accession to the United Nations in 1971.

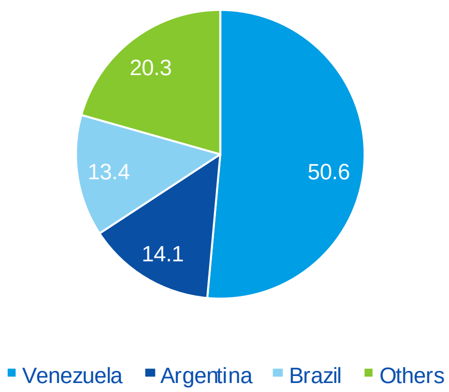
In this context, the China-CELAC Forum will challenge the impact of the OAS, the Summit of the Americas and the SEGIB. China has so far deployed bilateral mechanisms to promote its advocacy goals in the region. While it is likely that China will continue to foster allegiances via bilateral channels, the new multilateral dialogue provides an effective platform for China to reach out to a broader CELAC audience, at a ministerial level. 11 out of the 21 UN member states that still maintain full diplomatic relations with Taiwan are in Central America, the Caribbean and South America. **Efforts to promote Western-type governance and market liberalization in the CELAC region will have to live with a new set of priorities with Chinese characteristics.**

Chart 1
China-Latam bilateral trade structure 2005-2013



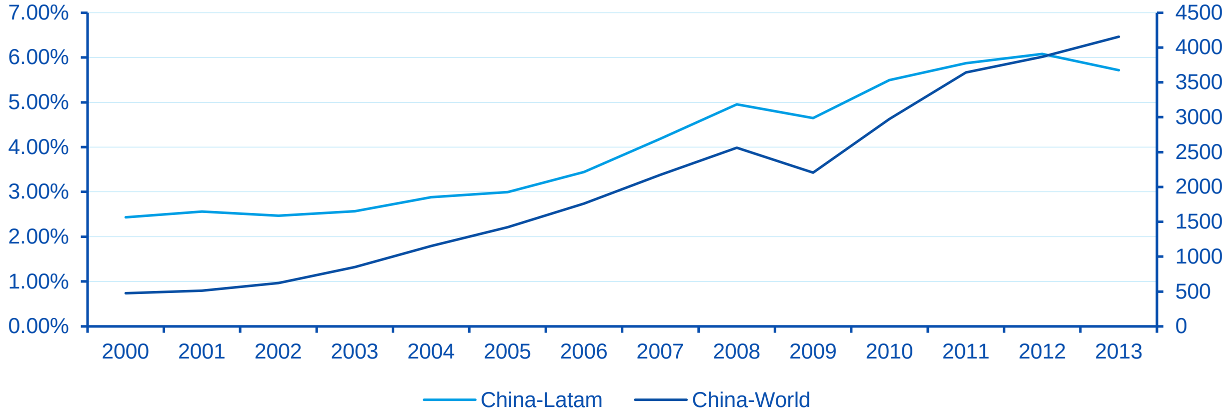
Source: IMF and BBVA Research

Chart 2
Chinese loans to Latam 2005-2013 (US$ Bn)



Source: The Inter-American Dialogue and BBVA Research

Chart 3
Chinese trade with Latam has surged, albeit is still constitutes less than 10% of China's total trade



Source: Haver and BBVA Research