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Marco Polo Crosses the Pacific:
China's New Silk Road and the Logistic State in Latin America

By Jorge Heine

The Frederick S. Pardee Center
for the Study of the Longer-Range Future
Rising Powers Initiative
Pardee School of Global Studies
Boston University
67 Bay State Road
Boston, MA 02215
www.bu.edu/pardee/rpi

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Introduction

The Silk Roads allow us… to see the rhythms of history in which the world has been connected for millennia as being part of a bigger, inclusive global past.

— Peter Frankopan

Few instances are as emblematic of the tensions between ideology and harsh economic realities in the political economy of China-Latin American relations as the changing postures on China of President Jair Bolsonaro of Brazil. In 2018, during his presidential campaign, one of the most successful soundbites in Bolsonaro's speeches was, "China isn't buying *in* Brazil. It is buying Brazil!", which would trigger instant ovations. A key part of his electoral plank was that he would put an end to all that. Yet, for all his anti-China swagger, once in office, Bolsonaro, often described as "the Trump of the tropics", dutifully undertook a state visit to China, hosted Xi Jinping in Brasilia in 2019, and refused to give in to the Trump administration's pressure to ban Chinese company Huawei from Brazil's telecommunications network.[1] In 2020, Brazil-China trade reached an all-time high of US 101 billion dollars.[2]

What is China up to in the Western Hemisphere? It goes without saying that China pursues its own national interest in venturing into the Americas. Is this interest compatible with that of Latin American countries, or are they at odds? To answer this question, this paper examines China's flagship foreign policy project, the Belt and Road Initiative (BRI), and its relevance for Latin America. I have followed the BRI and its role in Latin America almost from its launch, which took place only months before my arrival in Beijing, where I was posted from 2014 to 2017. I participated in the first BRI International Cooperation Forum held in Beijing in May 2017, and have tracked it closely since then.

In these seven years, it has become apparent that, far from being an extraneous policy proposal alien to Latin America, the BRI's extension to the region emerged organically; that at its core lies a certain view of development that puts at its center the leveraging of infrastructure and connectivity, both physical and digital, as a way of triggering economic growth and business opportunities. As Drache et al. have put it:

> "China's leaders have a highly credible alternative narrative to liberal internationalism. The magnitude and scale of its investment is one of the biggest tests since opening to the global economy … Chinese authorities do have a highly functional,complex model of investment-led growth and development driving the BRI forward."[3]

This is a very different view from the neoliberal paradigm that has dominated the discussion on economic development in Latin America and in Western international financial institutions (IFIs), permeated by the perspective of the Washington Consensus and centered mostly on the forces of supply and demand.[4] The neoliberal paradigm emphasizes balanced budgets, macroeconomic equilibria, deregulation, privatization, low taxation, and a suitable business climate. The approach embodied by China and the BRI, on the other hand, allocates a more significant role to public policies, especially in building up public infrastructure and connectivity to enhance a country's competitiveness. Again, this contrasts with the abandonment by the Bretton Woods institutions of lending programs in infrastructure, for such "soft" development issue areas as education, public health, and poverty alleviation.[5] The net result of this has been a huge infrastructure deficit across the Global South, and particularly in Latin America, where the Inter-American Development Bank estimates it reaches US $150 billion a year.[6]

It is the argument of this paper that the BRI, "China's Great Leap Outward" in the expression of the European Council on Foreign Relations, responds to Latin America's current economic needs, at a time when the region is undergoing its worst crisis in more than a century, and seems on the verge of a second "lost decade" in forty years, underlining the predicament of countries ostensibly stuck forever in the middle-income trap. BRI meshes well with, as we will see, the emergence of the "logistic state" in Latin America, a doctrine that connects neoliberalism with developmentalism, structuralism, and, importantly, entrepreneurship.

China's Great Leap Outward and LAC

The BRI has been referred to as "the most significant diplomatic project of the 21st century, the equivalent of the mid-20th century founding of the United Nations and World Bank plus the Marshall Plan all rolled into one."[7] This may be a bit over the top, but there is little doubt that the BRI represents a major endeavor. This is so not just because of its sheer scale, budget, and time span – it is supposed to go on until 2049, and may entail as much as eight trillion dollars.[8] It is also so because of the challenge it embodies in how we think about development and what it is all about. Rather than simply create the conditions for the forces of the market to hold sway and bring about progress and economic growth, as the Washington Consensus asserts should be done, China's approach, with its emphasis on state-led investment and a much more proactive role for public policies, represents something different, though still very much within the boundaries of capitalism.

The original goal of the BRI, as outlined in the speeches Xi Jinping gave in Astana and in Djakarta in 2013, was to recreate Eurasia. Eurasia, a term that has been around for a long time, disappeared from our vocabulary in the 20th century, but has now made a triumphant comeback. The first question that comes to mind though is: What has Latin America got to do with Eurasia? Marco Polo never made it to South America. Why should the so-called New Silk Road reach across the Pacific all the way to the Americas? Well, as it evolved, the BRI became more ambitious, and turned into China's development proposal to the Global South, which, of course, includes Latin America.

The significance of Latin America for the BRI was also highlighted by the fact that there were two Latin American presidents invited to the First BRI International Cooperation Forum held in Beijing in May of 2017 — the presidents of Chile, Michelle Bachelet, and of Argentina, Mauricio Macri — among thirty heads of state and government. President Bachelet left early, and kindly left me sitting at the leaders' table in the concluding session, so you could say thatI literally had a front row seat on it.

And there was a second BRI conference, held in April of 2019, also in Beijing, again with a president of Chile, although this time it was Sebastián Piñera. Far from being a unilateral Chinese *demarche*, the BRI's projection into Latin American countries (LAC) was very much a "co-production", with Latin America playing a role in making it happen.[9] For Latin American heads of mission in Beijing, China's policies to promote infrastructure development in Asia, through the BRI and through the Asian Investment and Infrastructure Bank (AIIB) launched in 2015, were very much also seen as opportunities to foster development in the region.

In the case of Chile, this expressed itself in a variety of ways. For example, in January of 2015, during the First China-Community of Latin American and Caribbean States (CELAC) Ministerial Forum held in Beijing, it successfully bid to host the Second Forum. This was subsequently held in Santiago in January of 2018, and led to a thorough discussion of the BRI in Latin America. Moreover, Chile's formal proposal to China to install a trans-Pacific fiber optic Internet cable from Chile to China (the first such cable across the South Pacific), a proposal that was included in an Memorandum of Understanding (MOU) signed in Beijing by Chile's Deputy Minister of Telecommunications and the Vice President of the National Development and Reform Commission (NDRC) in January of 2016, was an initiative widely described as the first digital extension of the BRI, in this case to the Americas. Additionally, Chile's application to join the AIIB in 2017 led to President Michelle Bachelet becoming the first head of state to visit AIIB headquarters (in May 2017), to formalize Chile's joining the Bank as a prospective member.[10]

In terms of collective action, this interest of Latin American diplomats in Beijing in having the BRI deployed in the Americas, led to the resurrection of the ABC (Argentina, Brazil, Chile) group. The ABC had been created in the early 20th century, joining these three diplomatic powerhouse countries, though its existence was short-lived. But during 2017, the heads of mission of Argentina, Brazil, and Chile in Beijing met on a regular basis to coordinate ventures to attract Chinese investment in infrastructure and energy projects in the Southern Cone, with a special emphasis on the building of bi-oceanic corridors from the Atlantic to the Pacific. This culminated in a seminar hosted jointly by these three embassies in Beijing in October 2017, attended by some 70 entrepreneurs and executives from China's leading construction and energy companies.

Latin America's role in BRI had been prefaced by the veritable explosion in China-LAC trade that took place since 2000. From a mere 10 billion dollars in 2000, it grew to US $300 billion in 2018, that is, a thirty-fold increase in little under twenty years. In the case of Brazil, trade multiplied a hundred-fold, from one billion in 2000, to one hundred billion in 2020. For South America as a whole, China is its number one trading partner, and so it is for Argentina, for Brazil, for Chile, for Uruguay, and for Peru. Chile exports three times as much to China as it does to the United States; the same goes for Brazil, 30 percent of whose exports go to China; Uruguay's exports to China are more than those to the US and the EU combined [11].

Contrary to the opinion of those who think there is something odd in these trade flows, there is considerable historical precedent for the sort of cross-Pacific economic linkages developed in the new century. As Gordon and Morales have shown in a little gem of a 2017 book, *The Silver Way: China, Spanish America and the birth of globalization,* for 250 years, from 1565 to 1815, the Manila Galleon did a round trip from Manila to Acapulco, from where the goods from China, and some from India, went to Veracruz and then Seville.[12] This brought together three continents for the first time on a regular basis, taking manufactured products from Asia to the New World, and returning loaded with silver to China to shore up its monetary system.

This came to an end with the folding of the Spanish Empire in the Americas in 1815. Yet, the fact that it went on for two-and-a-half centuries, at a time when transport and communication technologies were very different from what they are today, gives us an inklingof the forces that were pulling together Asia and the Americas as long as five centuries ago. There is thus nothing odd about current trends in Sino-LAC trade — quite the contrary, in some ways, it is going back to the very first wave of globalization five centuries ago. The BRI is part and parcel of these renewed links across the Pacific.

At some point in 2017, China started to push for MOUs with Latin American countries, as a way of branding these projects, and bringing them under the BRI umbrella. There was some resistance to this — and at the Second China-CELAC Ministerial Forum in Santiago in January of 2018, Latin American countries refused to pledge their collective support to the BRI, although the latter was mentioned in the meeting's final communiqué. Since then, though, a total of 19 countries have signed on to it, albeit some of the bigger ones, like Brazil, Colombia, and Mexico, have refused to do so.

One way to think about these ever-closer economic ties between China and Latin America is in terms of three legs: trade, investment, and financial cooperation.[13] Much of the trade, as well as China´s investment in the region, at least in its first phase, has been focused on commodities, and four commodities – oil, iron ore, copper, and soy – make up some 70 percent of Latin America's exports to China. This trade is also highly concentrated, with a few countries, like Brazil, Chile, Peru, Argentina, and Mexico accounting for most of this trade.

An early criticism of the Chinese presence in the region was that its only purpose was to access the commodities and natural resources it needed for its industrialization.[14] Thus the investment in oil fields, in copper mines, in iron ore, and in other minerals. Yet, what we have seen in the past few years, mostly since 2015 but also before that, is a growing emphasis on investment in infrastructure and energy projects as well. For some, this Chinese emphasis on infrastructure projects would in fact only be destined to facilitate the export of commodities to China, and thus not necessarily in the region's best interests.[15] However, this assumes that such infrastructure development would only or mainly benefit China. This, of course, is not so. Given Latin America's generalized infrastructure deficit, about which more is below, such an upgrading of the region's ports, railways, tunnels, bridges, and physical and digital connectivity more generally cannot but have a significant positive effect on the region's competitiveness.

BRI and Latin American Infrastructure

What China is saying through the BRI is that building infrastructure, both physical and digital, has worked for China, and has allowed it to reach a $10,000 per capita income, from its $200 per capita income of 1978. China is now saying to the Global South that this may also work elsewhere, and that, if other countries are interested, China is ready to cooperate in this.

This may or may not be the case. Some say that it was the other way around – that China grew at very high rates, and only after having done that, it was ready to build the infrastructure it now has. However it may be, this infrastructure offer is on the table.

And here, I would distinguish between three phases:

1) The first is what we might call "stadium diplomacy" — when Costa Rica broke with Taiwan and established diplomatic relations with the PRC in 2007, it demanded, as a price, that China build a stadium in San José, which China did. China also built a stadium for Guyana, which allowed it to host the Cricket World Cup in 2007. El Salvador has recently asked for something similar, in a throwback to earlier eras.

2) The second is in direct government-to-government contracts to build specific projects — like dams or railway lines. We have seen this in Ecuador, in Venezuela, and in Argentina. And Chinese companies do not work solely with national governments. In Brazil they have worked quite a bit with state governments — like that of Pará, where CCCC has started a feasibility study for a 7-billion-dollar, 300-mile railway project from Marabá to Barcarena. In the state of Bahía, the state government has secured US $7 billion in financing for an industrial park and the development of the port of Aratu. In his 2019 visit to Brazil, President Xi made available US $100 billion in Chinese financing for Brazilian infrastructure. From 1998 to 2015, Chinese companies participated in such projects in 33 countries, with a turnover of US $67 billion.[16]

3) A third is that of participating in open tenders to land projects, like it did in a 1.4 billion-dollar deal to build the fourth bridge over the Panama Canal; as part of a consortium to build a new Metro in Bogotá, a 4-billion-dollar project; or to build a section of Chile's Southern Highway from Talca to Chillán. In some ways, the most ambitious of these (though by no means the most expensive one, at an estimated cost of US $500 to $600 million dollars) was the 2016 Chile-China trans-Pacific fiber optic cable project, which would have made Chile into China's digital gateway to South America.[17]

That said, there are those who argue that Latin America doesn't need these projects, that they will often amount to nothing more than "white elephants". That, if sufficient demand for them arises, the market will provide and make them happen. That taking up these offers is nothing but falling into the trap of Chinese "debt diplomacy".[18] Well, that happens not to be the case. Without the appropriate public policies, no public infrastructure is built. Railwaysand ports, bridges and tunnels do not build themselves.

The BRI and the AIIB were set up to address the enormous infrastructure deficit in Asia, which at one point was estimated to reach eight trillion dollars, and now is many times more than that. In Latin America, it was estimated that 18.5 million people did not have access to electricity in 2014; that 24 million people did not have access to improved sources of drinking water; and 90 million did not have access to improved sanitation facilities. Transport congestion in Latin American cities is a major problem. The same goes for the regular interruption of different services, like water, telecommunications, and electricity.[19] According to the International Logistics Indicator, only South Asia and Sub-Saharan Africa perform worse than Latin America in overall and infrastructure sub-indicators.

The reason for this is insufficient investment; and, as a recent ECLAC study shows, the approach followed by governments is scattershot and unsystematic.

In fact, investment in infrastructure in Latin America has been *declining*. In the 1980s it averaged 3.6 percent of GD, but dropped in the 1990s. It averaged a mere 2.2 percent of GDP from 2000 to 2015. Only Sub-Saharan Africa spends less on infrastructure than Latin America.[20]

The BRI and the Logistic State in Latin America

For a long time, then, Latin America's infrastructure deficit has been a major obstacle to its international competitiveness. The Washington Consensus obsession with macroeconomic equilibria and low government spending, in a context in which investment in public works and infrastructure are major budgetary items, leads to a vicious circle. Economic growth is hampered by low investment in infrastructure and connectivity; yet, whenever there is an economic crisis, the first things to go are major public works. Rewind and repeat. Still, there are glimmers of hope. Things are changing, as several governments across the region have realized there is another way forward. This arose long before the BRI was announced, but fits in very well with it.

What we have seen in the new century, in fits and starts, is the emergence of what Brazilian political theorist Amado Luiz Cervo has referred to as "the logistic state", which speaks to this point.[21]

The logistic state, whose paradigm emerged in Brazil, partly under President Cardoso, mostly under President Lula, has also found expression in Chile since the 1990s, and in Panama, today's most developed country in the region. The logistic state associates an external element, liberalism, with an internal one, developmentalism. It joins the classic doctrine of capitalism with Latin American structuralism. It brings back the notion of national autonomy, yet embraces interdependence as a fact of today's globalized world. It aims at making the transition to a fully developed condition, which most Latin American nations are still far away from. It embraces fiscal responsibility, an open economy and the promotion of FDI, but envisions a proactive role of the state.[22]

An important difference with the developmental state is that the logistic state transfers entrepreneurial activities to the private sector. At the same time, the state takes a proactive role in promoting the interests of business, of farmers, of workers, and of consumers, not abandoning them to the whims of the market.

A key factor in this is to provide logistical support to entrepreneurial activities, which means not just creating a suitable business climate and low taxes (which is the traditional neoliberal view), but also creating the facilities that allow Latin American countries to compete in the international arena. This entails support for R&D, science and technology, and the mechanisms that allow local companies to access world markets. The main task of the logistic state is to strengthen what we might call the national structural core, to facilitate the internationalization of the economy and its competitiveness – not solely on the basis of its natural comparative advantages, but on the basis of those created through policy initiatives, i.e. the competitive advantages.

An important part of the challenge of the logistic state, as its name indicates, has to do with infrastructure. In today's world, this means both physical and digital infrastructure that makes it possible for Latin American nations to access the main world markets. South America, isolated by two big oceans from the rest of the world, is distant from the world's major markets, and is therefore especially dependent on suitable transport and connectivity. A country like Brazil, a veritable continent, desperately needs to connect its enormous land mass, as well as with the rest of South America. Chile, located at the very end of the world, *finis terrae,* and with such an odd and crazy geography, also depends heavily on being connected. Panama, the *entrepot* of the Western Hemisphere, with the Panama Canal, is all about transport and logistics.

There is a confluence between the BRI and China's proposal on infrastructure and connectivity in Latin America, on the one hand, and the development needs of the region, on the other. Countries like Brazil, Chile, and Panama have realized that the state plays a key role in articulating the complex interface between a country's internal development and the world economy.

Each of these countries emphasized different aspects, reflecting their own national realities. In the case of Brazil, this has meant strong support for R&D, and of national champions through the National Development Bank (BNDES, a bank with a higher capitalization than the World Bank), as well as support for the activities of Brazilian companies abroad. In Chile, it has meant a vast program of infrastructure building through public-private partnerships that has attracted US $15 billion in FDI into public infrastructure since the 1990s, and has meant that Chile today heads regional public infrastructure rankings. It has also meant that Chile has signed 26 FTAs with more than 50 countries around the world, including the main markets, and covering 88 percent of global GDP. In Panama, it has meant working together with international banks and foreign construction companies to further build up the Canal and the Canal Zone, and topromote an increased use of the Canal for cruise ships and other kinds of tourism, in what is largely a service-based economy.[23] Today, Panama is the country with the highest per capitaincome in Latin America.

Conclusion

In this interface, railways, ports, tunnels, bridges, and internet cables play a key role in enhancing a nation's and a region's competitiveness. These are precisely the kinds of projects that Chinese companies, under the BRI or otherwise, could undertake and are undertaking.

They fit very well into the priorities of the logistic state in Latin America, which shows the way forward for a region in dire straits. If that is the case, the implications are that current US policy on the subject, aimed at excluding the participation of Chinese companies frombuilding Latin American infrastructure, physical or digital, has it exactly backwards. Moreover,this is made especially awkward by the fact that US construction companies, as a matter of policy, do not take part in Latin American projects, much as US telecom companies do not take part in current bids to install 5G technology across the region, albeit for different reasons. Washington's policy on Latin American infrastructure is thus both short-sighted and counterproductive, as many countries, particularly the larger South American ones, will ignore it — which they already are doing. There is a jarring disconnect between a US government that proclaims the urgency of upgrading public infrastructure in the United States while *de facto* blocking it in Latin America.

Rather than look at it as a zero-sum game, Washington should consider the growth and expansion of Latin American infrastructure and connectivity as a win-win proposition. Enhancing the region's competitiveness is a worthwhile and achievable goal that can best be attained in the spirit of healthy competition among the region's main trade and investment partners, rather than by way of trying to exclude some of them from the shores of the Western Hemisphere.

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