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Mercantilism With Chinese Characteristics in Latin America

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By: Evan Ellis

This is the first of two parts.

The U.S., Latin America and China know mercantilism well. [British restrictions](#) on direct trade between its colonies and Europe to advantage its own industry was a driving factor in the American Revolution.

The "Boston Tea Party," taught to U.S. children from grade school, was an iconic protest against British mercantilism. Similarly, for Latin Americans, Spain's use of mercantilist regulations, including the famous "[Quinto](#)" tax on mineral exports, was part of a system to extract the wealth of its colonies, while its protected manufacturers sold them finished goods.

In Asia, from the 16th through 19th century, mercantilism through the [Dutch East India Company](#) and British [East India Company](#) included the domination of ports, supply routes and markets to capture as much of the value added as possible in the trading system, later with political and [military involvement](#) to protect the system from challengers.

In the 20th century, Latin American [dependency theorists](#) and promoters of [autonomous development](#) essentially argued that the structure of economic relations between the region and the developed world was "rigged" against the developing world, locking in a disadvantageous relationship in which foreign corporations paid relatively little to buy (or directly extract) the region's commodities, while selling it their own high value-added goods, condemning Latin Americans to work as their employees, or worse, rather than reaping the benefits of ownership and production for themselves.

In this view, local elites [sold out their societies](#) by agreeing to the lopsided deals which often benefitted them personally, and enforcing the order that those nontransparent, often corrupt deals produced.

Today, it's China, once victims of mercantilism themselves, who are [exploiting international trade](#) and investment to reorient the world to their advantage through a [predatory coordination](#) between their national champion companies, well-resourced financial partners, and their government.

The PRC discourse of mutually-beneficial "[win-win](#)" relations superficially sounds more attractive than some of the [rhetoric from Washington](#) in recent years. Yet my Latin American colleagues understand well the difference between platitudes that warm the ear, versus actions that serve their interests and benefit their countries. The more than [\\$137 billion China has loaned](#) to the region, the [\\$122 billion its companies have invested](#) in the region over the past two decades, and \$278 billion in bilateral trade sounds like a good deal.

Yet as I have watched the dynamic play out in the 16-plus years I have followed and written on Chinese engagement with the Americas, [my research](#) has mostly found Latin American manufacturers displaced by Chinese ones, and PRC-based owners replace U.S. and European ones in mines, oilfields, ports, agro-industrial firms and electric companies, with negative implications for those who work there, the communities with whom they interact and the environment.

My work has brought me to the stories of businessmen tied to populist leaders from [Hugo Chavez](#) and [Nicholas Maduro](#) to Rafael Correa and [Evo Morales](#) enriching themselves in corrupt, non-transparent deals which confer benefits to their Chinese partners, without furthering sustainable development in their countries. Latin America, tragically, is expert in trading one form of exploitation and domination for something worse.

Dr. Evan Ellis is Senior Non-Resident Fellow at CSIS and Professor of Latin American and Caribbean Studies. His work focuses on security and defense issues, including transnational organized crime, populism and the region's relationships with China and other non-Western Hemisphere actors. Dr. Ellis has published over 250 works, including three books and has presented his work in 26 countries across four continents. He has testified on multiple occasions regarding Latin America and the Caribbean before the U.S. Congress and his work regularly appears in the media in both the U.S. and the region. Through his work, Dr. Ellis calls attention to the strategic importance of Latin America and the Caribbean for the United States through bonds of geography, commerce and family and how the prosperity and security of the U.S. are tied to that of its partners in the region. Read Evan Ellis' Reports — [More Here](#).

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Thanks to COVID, China Poised to Expand Business Ownership in Latin America

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By: Evan Ellis

This is the second of two parts.

Thanks to the COVID-19 pandemic, China is [now poised to significantly expand](#) its ownership of companies and assets across Latin America, just as they did following the economic crisis of 2008. China Communication and Construction Corporation (CCCC)'s [acquisition of a 30% stake in the distressed Portuguese construction firm Mota-Engil](#), and [State Grid's \\$3 billion purchase](#) of the Chilean assets of the electricity firm Naturgy are the two most recent examples.

The PRC neo-mercantilist strategy to [dominate global value added chains and strategic sectors](#) is an integral part of its 2013 Belt and Road strategy, itself a modern resurrection of China's silk road, using infrastructure to facilitate trade to enrich the "middle kingdom." China's economic expansion creates a reinforcing cycle, with its economic presence and control of infrastructure bolstering its influence, helping Chinese companies to advance in other areas, while leading politicians and businessmen with a stake in commerce with China to mute their criticisms.

China's construction and control of infrastructure of all types supports its extraction of the region's commodities and access to its markets. This includes operation of an increasing number of ports, including CK Hutchisonn operations in [Panama, the Bahamas, Argentina and Mexico](#), plus new initiatives such as the [China Landbridge port in Colon, Panama](#), COSCO's construction of the [Chancay port in Peru](#), and in Brazil, Chinese port operations in the [Paranagua peninsula, São Francisco do Sul](#), and possibly a new megaport in [São Luis](#).

The previously-noted CCCC stake in Mota-Engil will potentially help other CCCC companies like China Harbour win infrastructure projects through Public Private Partnerships (as it has won work to build and operate [toll roads](#) and the [Bogota metro](#) in Colombia, [Jamaica's North-South toll road](#), and various other projects).

China's gambit also includes the bid by CCCC company Shanghai Dredging to [replace the Belgian firm Jan de Nul in improving and operating the Paraguay-Parana river corridor](#) as a toll route, giving it leverage over the agricultural exports of five Latin American countries (Bolivia, Paraguay, Argentina, Brazil, and Uruguay), and setting it up to privilege Chinese shipping companies and agro-logistics firms [including Nidera and Noble](#) (owned by the Chinese conglomerate COFCO). CCCC subsidiary China Harbour is also constructing another toll river route [through the Peruvian Amazon](#).

China's bid to dominate Latin America's infrastructure goes beyond transportation. PRC-based telecom companies Huawei and ZTE have made impressive inroads as providers of both equipment and infrastructure (not just 5G) to both the region's governments and major commercial providers such as Telefonica, Claro and Movistar, among others, positioning it to set standards and steer business to Chinese companies using those networks. In electricity generation, the previously-noted acquisition of Naturgy by State Grid gives the PRC [a significant position](#) in electricity generation and

transmission in Chile, reinforcing Yangtze Power's [acquisition of Luz del Sur](#) in Peru, and tens of billions of dollars in acquisitions by [State Grid, China Three Gorges, and SPIC](#) in Brazil's electricity generation and transmission sector in recent years.

In banking, Chinese institutions such as [ICBC](#), and [China Construction Bank](#), and non-traditional institutions such as [Fosun International](#), are becoming an increasingly important part of the region's financial infrastructure.

The opportunities presented to the PRC through the COVID-19 pandemic accelerate a process in which its companies are progressively capturing control of the economic lifeblood of Latin American economies, from the ports and rivers through which it moves its goods, the electrical infrastructure that powers its economies, to the telecommunications and banking infrastructure through which it does its business and exchanges its most sensitive information.

China's bid to dominate Latin America's infrastructure in virtually every dimension is a strategy that should be familiar to those who criticized Microsoft for using its control of the Windows Operating System to promote its applications, or Google's use of its browser to dominate the web.

For Latin America, as in other moments of its history, complicity on both the right and left favors China's advance. Leftist populists indebt and deliver their countries to the PRC in corrupt, non-transparent deals that enrich their friends, in the name of "liberating" themselves from the West.

On the right, business elites open the door to Chinese firms, sell their local knowledge and access, in the hope of becoming rich. On all sides, Latin America loses. Simon Bolivar, the region's iconic "liberator" would be horrified ... but he would understand the pattern all too well.

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