Matt Forgette
Thesis Prospectus

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Research Question

What factors explain the increase in Chinese foreign direct investment in Latin America?

Introduction

In April of 2001, then-President of China Jiang Zeming quietly embarked on a thirteen-day tour across six Latin American countries with the goal of strengthening Sino-Latin American relations. The tour took place amidst an international military dispute between the United States and China and as a result received little media coverage. An exceptional account by *Time* magazine even criticized Zeming: "He has kept the world waiting…as he casually set off…for his 10-day visit to Latin America" (Karon). Yet the trip would prove to be to a landmark moment in the relationship between China and Latin America, launching a new era that has seen monumental surges in trade and foreign investment.

Literature Review/Background

Since 2000, trade between China and Latin America has increased by 2,000%, and China has become the world's third-largest provider of foreign direct investment (Peters). Furthermore, over the past five years, China has invested over $10 billion annually in Latin America, and these investments show no signs of slowing down as China has pledged to invest more than $250 billion over the next decade (Peters). As a result, China has established itself as an influential economic presence in Latin America, serving as the top trade partner and investor to a number of Latin American countries such as Brazil, Peru, and Venezuela (Coyer).

While the sheer volume of China's trade with Latin America is certainly striking, it is the content of this trade that is particularly interesting. In 2015, Boston University published a report on Sino-Latin American trade relations revealing that, "Latin American exports to China, as well as Chinese investment in the region, have been…concentrated in primary commodities" (Ray). This focus on primary goods has led many to posit that China's burgeoning economic involvement in the region is motivated by a desire to exploit Latin America's natural resource wealth. A separate report from the International Monetary Fund notes, "Foreign direct investment from China…is heavily oriented toward the expansion of natural resource exploitation in Latin America" (Elson). These assertions are backed up by data. Over the last decade China has more than tripled its share of Latin American extractive exports and doubled its share of Latin American agricultural exports (Ray).

Though it seems clear that China is eager to import Latin American natural resources, what is less clear is whether or not this is China's *primary purpose* for ramping up its economic engagement in the region. While natural resource exploitation is the most cited motivation, other scholars have proposed an alternative hypothesis. In their book *Latin America Facing China* political scientists Alex Fernandez Jilberto and Barbara Hogenboom postulate that a convergence in political ideology between China and several Latin American countries has driven increased trade. They note, "Both the Beijing Consensus and Latin America's new Left consider the participation of the state crucial in making the globalization and liberalization of the economy a sustained success" (Jilberto). Other sources echo these claims, with one *Economist* article describing China as an "anti-imperialist sugar daddy" to left-wing Latin American governments. With the diversity of scholarly opinion surrounding the issue, a natural question emerges: what is motivating the rapidly rising trade and investment between China and Latin America?

Hypothesis

While there is an abundance of scholarly literature relating to China's rising investment in Latin America, there is still little in the way of empirical evidence to concretely identify its motivation. However a number of theoretical influences have been postulated, specifically the natural resource and political hypotheses described above, each of which provides a logical framework that makes them plausible.

In light of this research, I have formulated two research hypotheses. First, I expect that countries with a greater abundance of natural resources engage in more trade with China, and that their amount of trade is increasing quickly relative to countries with less natural resource wealth. I anticipate this relationship will be quite strong, due both to the prevalence of this hypothesis in scholarly literature and corresponding empirical research that has been conducted regarding trade between China and Africa that has shown a similar relationship (Dollar). Second, I would expect that countries with far left-leaning governments engage in more trade with China and that their amount of trade is increasing quickly relative to countries with right-leaning or more central governments. Although I believe this relationship will be present, I predict that a country's political identity will be a less strong predictor of Chinese investment than a country's natural resource wealth.

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Proposed Methodology

This paper will attempt to identify and quantify the sources of China's increased economic engagement in Latin America. The study will utilize data from a variety of sources, including the World Trade Organization, the International Monetary Fund, the World Bank, and the United Nations Conference on Trade and Development. The dependent variable in this study will be the amount of direct foreign investment by China in various Latin American nations. This is an interval-ratio level variable determined by data from the United Nations Conference on Trade and Development.

The study will include a number of independent variables. The first variable is the natural resource wealth of the Latin American countries. This is a ratio level variable that is determined using data from the World Bank. The second important variable in this study is the political identity of the Latin American countries. Countries will be labeled "left-leaning," "right-leaning," or "centrist" depending on the political affiliations of their governments. This is a categorical variable that will be determined through analysis of scholarly literature.

Other control variables will also be employed in the study, such as the countries' religious, racial, and gender demographics. However, while these other control variables will be utilized as a basis for comparison, the two variables identified above constitute the focus of the study as they represent the two major theories regarding increased Chinese investment in Latin America: pursuit of resource wealth and the fostering of political relationships with left-wing countries.

Potential Case Studies

In order to augment the statistical analysis of Sino-Latin American trade and foreign direct investment, this paper will include a number of illustrative case studies that offer greater in-depth analysis of three Latin American countries: Brazil, Mexico, and Venezuela. In addition, I will also examine and compare two bilateral investment treaties between China and two Latin American countries, Bolivia and Chile, to further explore the Sino-Latin American relationship. These case studies and treaty analyses will be conducted through a combination of primary and secondary sources, including interviews, journal articles, and quantitative data.

In Brazil, relations with China are both deep and wide-ranging. Their diplomatic ties date back to 1974 when both countries established embassies in each other's capitals. As a result of this relatively early linkage, the countries have entered into a number of agreements on varying subjects including trade and investment, science and technology, and education (Peters). Brazil's combination of both natural resource wealth and left-leaning governance make it an interesting subject of analysis.

In Mexico, the relationship with China has been largely economic and, at times, adversarial. In 2010, a paper authored by University of Colorado professors Hale Utar and Luis Ruiz discussed the impact China's growing industrial sector is having on Mexican maquiladoras (assembly plants), concluding that "competition from China has negative and significant impact on employment growth (in Mexican maquiladoras)" (Ruiz and Utar). Furthermore, the Chinese-Mexican trade relationship has been uneven, as China currently accounts for 16.6 percent of Mexico's imports and only 1.5 percent of its exports (Peters). The combative nature of the Chinese-Mexican relationship lends credence to the political theory regarding China's direct investment. Despite possessing large deposits of natural resources, Mexico's right-wing government may be hindering Chinese investment.

Venezuela is engaged in what is perhaps the region's most intriguing and complex relationship with China, one that incorporates political, economic, and ideological elements. This complexity stems from the Hugo Chavez era during which political tensions between Venezuela and the United States actually deepened ties between Venezuela and China as the two nations found common ideological ground. Economic linkages are also strong between the two countries as Venezuela is currently the leading recipient of Chinese direct foreign investment, having received more than $65 billion dollars since 2004 (China-Latin America Finance Database). This makes sense in the context of both the political and natural resource hypotheses as Venezuela is a country with left-leaning government that is also rich in natural resources.

Finally, when investigating the nature of Chinese and Latin American trade, it may be fruitful to analyze the actual text of the states' trade agreements. The United Nations has a comprehensive list of China's bilateral investment treaties, and for this study the treaties with Chile and Bolivia have been chosen. These countries were selected due to their distinct political tendencies. Bolivia has a far left-leaning government, while Chile is one of the few Latin American countries that possess a right-leaning government. Despite these political differences, both possess an abundance of natural resource wealth, seemingly making both a target for Chinese investment. Analysis of these two countries' trade agreements with China should yield insight into how China interacts differently depending on a state's political identity.

Potential Limitations

It is vital to recognize that all research has limitations, and there are several factors that have the potential to constrict this study. First, the legitimacy of China's trade data is dubious due to it being self-reported. As researcher Christopher Balding summarizes flatly, "Baseline Chinese economic data is unreliable" (Balding). I attempt to correct this by drawing trade data from international, third party organizations such as the World Bank and the United Nations. Nevertheless, it is critical to recognize that China has repeatedly been caught manipulating their economic data in the past.

Second, the identification of Latin American governments' political leanings is a naturally subjective process. I will be relying primarily on scholarly literature to make these determinations, but ultimately there will always be some level of bias when making determinations about countries' political identities.

Finally, there is difficulty in making a precise judgment regarding which theoretical motivation is primary. Several Latin American countries possess both a wealth of natural resources and a far left-leaning government. This crossover could make it difficult to identify which factor is more crucial in driving Chinese investment. The case studies are designed to combat this limitation by analyzing the similarities and differences of the states in greater depth.

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