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Why South America should look beyond China

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China is expanding its footprint in South America. Just within the past week Chinese players have bought Chilean power transmission assets and landed a contract to build Colombia's first metro line.

But despite China's importance for the region and its global role, Asia is much more than China, and Beijing's neighbors – such as Vietnam, India, Malaysia and the Philippines – are building their muscles apace.

And as Asia grows and consolidates its position as the world's workshop and expands its services industry, South America must look beyond China, whose Belt and Road Initiative (BRI) is actually helping fuel the economic rise of its smaller neighbors.

That was a key point Parag Khanna (in photo), former foreign policy advisor to Barack Obama's first presidential campaign, raised during Chilean bank Bci's annual conference in capital Santiago.

"It's a big mistake, maybe it's the biggest mistake we make in the entire world of geopolitical discussion today, to treat China as the center of the world as if nothing came before it and nothing can come after it," Khanna said.

To ride the Asian growth wave, South American countries should get involved in as many trade frameworks as possible and, as part of inward investment promotion efforts, sharpen their focus on privatizations and counter-cyclical spending, said the Indian-born author, who has a PhD from the London School of Economics.

Today, South and Southeast Asia concentrate a population of 2.5bn and a GDP of US$6tn – with young people eager to live in urban hubs and work in the services industry.

China meanwhile has an aging population of 1.5bn and a GDP of US$11tn.

Asia is home to most of the world's population and is unlikely to lose that crown.

"If you are not accessing the Asian story you are missing out on this entire continent of growth," said Khanna, pointing out that US tech giant Apple was shifting its focus away from China – where sales have stagnated amid high penetration levels – and on to India.

"You need to think about each and every one of them, not just with China."

Khanna cited the importance of the likes of the 11-country TPP trade pact and building bridges with neighboring countries.

"No smart country ever chooses sides – ever," he said. "You play all sides. You can see this in every smart Asian country."

In Chile, lawmakers are deciding the ratification of the TPP-11, which lowers tarriffs and other trade barriers among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

Opponents to free trade deals often cite concerns over potential job losses and the power the deals hand to corporations.

“It is very, very intelligent to be a country that practices open regionalism,” said Khanna, who downplayed the importance of the US-China trade spat since China trades more with its regional partners than it does with the US, and has cut tariffs for them. Indeed, countries like Vietnam are benefiting from the trade tensions.

“You deepen trade as much as you can within your own region, with your neighbors, and you also participate as much as you can in global trade liberalization.”

South American countries with strong ties to China, such as metals exporters Chile and Peru, have been impacted by lower copper prices stemming from the trade spat. A Chilean central bank official said recently that the tensions had dampened investment.

TRADE IS BILLIONS, FINANCE TRILLIONS

While developments in the US-China trade dispute still make headlines, a major issue that does not receive as much coverage is the opening of China’s capital markets.

Since the 1990s, China has been working to bring more foreign money – such as US pension funds – into its equity and bond markets, worth nearly US$20tn, Standard Chartered bank said in a report this year.

“Finance matters a lot more,” said Khanna, who added that the US accounts for just 14% of global trade. “ BlackRock, the largest asset manager in the world, and others in its field, are very keen on Chinese capital account liberalization.”

Indeed, the amounts of money at stake in the capital markets is much greater than in trade. “Trade is billions and finance is trillions,” Khanna said.

The US is by no means China’s biggest trading partner.

“China trades more with those Southeast Asian countries, those poor countries that many people cannot even name. China trades more with them than it does with America. So why we are still fixated at all, in many ways, on this trade war, is almost a mystery."

Khanna echoed comments made by analysts about the role of technology.

“It’s definitely a technological competition, it’s definitely a competition around supply chains, but it’s not really about the volume of bilateral trade and the deficit, or lack thereof – or shifting the deficit – between the US and China.”

BELT AND ROAD BACKFIRE

In Latin America, China obtained agreements for BRI – encompassing building roads, ports, power plants and railways to connect China with foreign markets – with various countries.

Globally, associated projects corresponding to 70 corridor economies already executed, in implementation, or planned are estimated to amount to US$575bn, according to a 2018 World Bank briefing.

However, BRI is also backfiring for the country.

“China is helping to create a world in which, ironically, it’s not at the center because it’s empowering everyone else to get connected,” said Khanna.

“And this is the paradox of geopolitics, where people think that China is using connectivity as a tool of expanding its influence. Partially true: it’s using connectivity more just to diversify its own supply chains but by helping these other countries get connected its also helping them grow very quickly.”

Khanna envisages a “multipolar” world where different regions compete.

“To me, the future is very much a multipolar one and China is complicit in bringing about the reduction in its own influence,” he said.

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