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The geoeconomics and geopolitics of China - Mercosur relations in the 21st Century

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Objective

The main objective of this work is to analyze the progress of geoeconomics relations between China and Mercosur from the year 2003, a time frame in which there is simultaneously the launch of the “new” Mercosur by the progressive governments of the region and the advance of China as a world economic power.

The MERCOSUR

- The Common Market of the South (Mercosur) is a regional integration project formed initially by Argentina, Brazil, Paraguay and Uruguay, to which Venezuela and Bolivia later joined.
- a) 1984-1990: the genesis years (PICE)
- b) 1990-1999: the neoliberal years
- c) 1999-2003: the crisis years
- d) Post 2003: the renewal years
- e) Return of the neoliberal agenda and deterioration of liberal democracy



The “new” MERCOSUR post 2003

- The “new” post-2003 Mercosur was born as a result of a series of electoral processes of the so-called “red wave” or “pink wave” that would lead to the election of centre-left or left-wing governments not only in Mercosur countries, but throughout the entire South America during the first decade and a half of the 21st century.
- In addition to institutional innovations, MERCOSUR begins a process of deepening and expanding geopolitical and geoeconomics relations with the global south, especially China.

The People's Republic of China

- The current institutional organization of the Chinese State has its origin with the victory of the 1949 Revolution under the leadership of the Chinese Communist Party
- Through the “reforms” that, from 1978 onwards, reintroduced the millenary mercantile characteristic of Chinese culture and promoted institutional innovations, the country began a new cycle of economic development that is still ongoing, without, however, renouncing the centralized management of political power through the Chinese Communist Party;
- As a result of China's economic innovations in the last four decades, the average growth of Gross Domestic Product (GDP) in that period was approximately 9.5% per year, while per capita income passed from US\$ 250 in 1980 to US\$ 10,500 in 2020 (WORLD BANK, 2021).

The People's Republic of China

- From the turn of the 20th to the 21st century, the Chinese economy would expand even more, and along with it, its ability to influence the destinies of other regions of the globe through a softpower strategy that would affect the entire geoeconomics and geopolitics, raising the country to the top status of world power to rival the US;
- In summary, in the economic element, China gradually ceased to be a mere replicator of external technologies and maquiladora to place itself at the forefront of scientific innovation in the most varied sectors.
- China has reached in absolute numbers the position of second largest economy in the world, behind only the US, and when analyzed through Purchasing Power Parity it has already surpassed this one;

The People's Republic of China

- From the beginning of 2020, with the occurrence of the Covid-19 pandemic, the model of “socialism with Chinese characteristics” made its differences with the capitalist world explicit. The power of action of the Chinese State in health care and the imposition of the preservation of lives over profit established a brutal difference between China and the other nations on the planet (except for the other four socialist experiences that also stood out in the fight against pandemic);
- Within this reality, China is virtually present across the globe as a leading player in the most varied production chains, positioning itself at the same time among the main destinations and origins of an infinity of traded products. In South America and more precisely in the countries that have established Mercosur since 1991, this fact is no different.

China-Mercosur geoeconomics relations post 2003

- Since 2003 there were changes in the sectoral objectives of the investments of China in Mercosur, as well as in the profile of imported and exported products, due to the Chinese State's own planning policies.
- Out of the total investments confirmed between 2007 and 2020 in South America, 48% were directed to the electric energy sector, followed by oil and gas extraction (28%), metallic minerals extraction (7%), manufacturing industry (6%), infrastructure works (5%), agriculture, livestock and related services (3%) and financial services activities (2%).
- In the region there are 16 central Chinese state-owned enterprises with active investments, they are strategic companies for the Chinese government and subordinate to the State Council. These central SOE's account for approximately 80% of the value of the Chinese investment stock and for 40% of the number of projects.

China-Mercosur geoeconomics relations post 2003

- In general terms, Chinese investments in Mercosur changed their profile from the 2010s onwards. Until 2010, they were centered on commodities, especially mining, oil and agriculture, which concentrated more than 80 % of investments. From that moment on, there is a prioritization for other productive sectors, such as electricity generation and the manufacturing industry. In addition to these sectors, the financial sector has also become target of major Chinese banks;
- The great crisis of the capitalist system of 2008-2009 opened a window of opportunity for China. With the countries at the center of the system in depression or economic stagnation, China could definitively position itself as an economic power, ascending to the position of the main trading partner of countries on all continents and expanding its process of international insertion, either through the trade or productive investments.

China-Mercosur geoeconomics relations post 2003

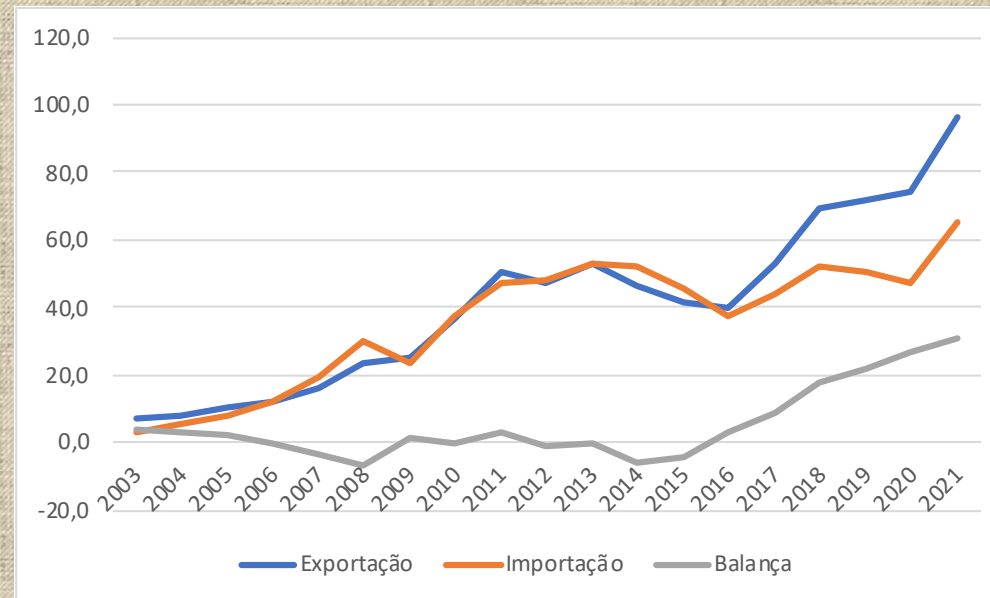
- With the election of Xi Jinping to the presidency of China, from 2013 onwards, a new macroeconomic agenda has been advanced in the country, both domestically and abroad. There is the rise of the Belt and Road Initiative (BRI) project, also known as the “new Silk Roads”, a proposal that seeks to expand global interconnection through investments, financing and construction contracts in sectors that go through infrastructure, logistics, communications, among others;
- It is important to note that Argentina and Brazil, the two main economies of the bloc, ended up staying on the sidelines of the Belt and Road Initiative project, especially due to the political options of the governments that took over between 2015 and 2016, which preferred to re-prioritize economic-political relations with the geopolitical north;

China-Mercosur geoeconomics relations post 2003

- Regarding bilateral trade between China and Mercosur, as well as investments, they have been increasing since the beginning of the 21st century. In 2003, when China had just joined the WTO and Mercosur was going through the initial process of political reconfiguration, China was an economic partner of medium importance. That year, the bloc's exports to China reached approximately US\$ 7.1 billion, representing 7.6% of extra-bloc exports, behind the then dominant US as the main destination for Mercosur sales. In the same year, imports were approximately US\$ 3.1 billion, representing only 6% of extra-bloc purchases and positioning the country behind the USA and Germany.
- Over the period 2003 - 2012, which coincides with the period of hegemony of progressive governments in Mercosur, bilateral trade between China and the bloc grew. In this period, exchanges between China and Mercosur reached US\$ 130 billion, growing at an annualized rate of 31% between 2001 and 2012.

China-Mercosur geoeconomics relations post 2003

Bilateral trade between China and Mercosur, 2003 - 2021 (US\$ billion)



Based on 2021's data, when Mercosur exported approximately US\$ 97 billion to China, the bloc was only the 8th largest supplier to the country, obtaining around 4.3% of the Chinese market. That same year, with purchases from China amounting to approximately US\$ 66 billion, the bloc was only the 12th largest buyer, with something around 2.2% of the total traded.

China-Mercosur geoeconomics relations post 2003

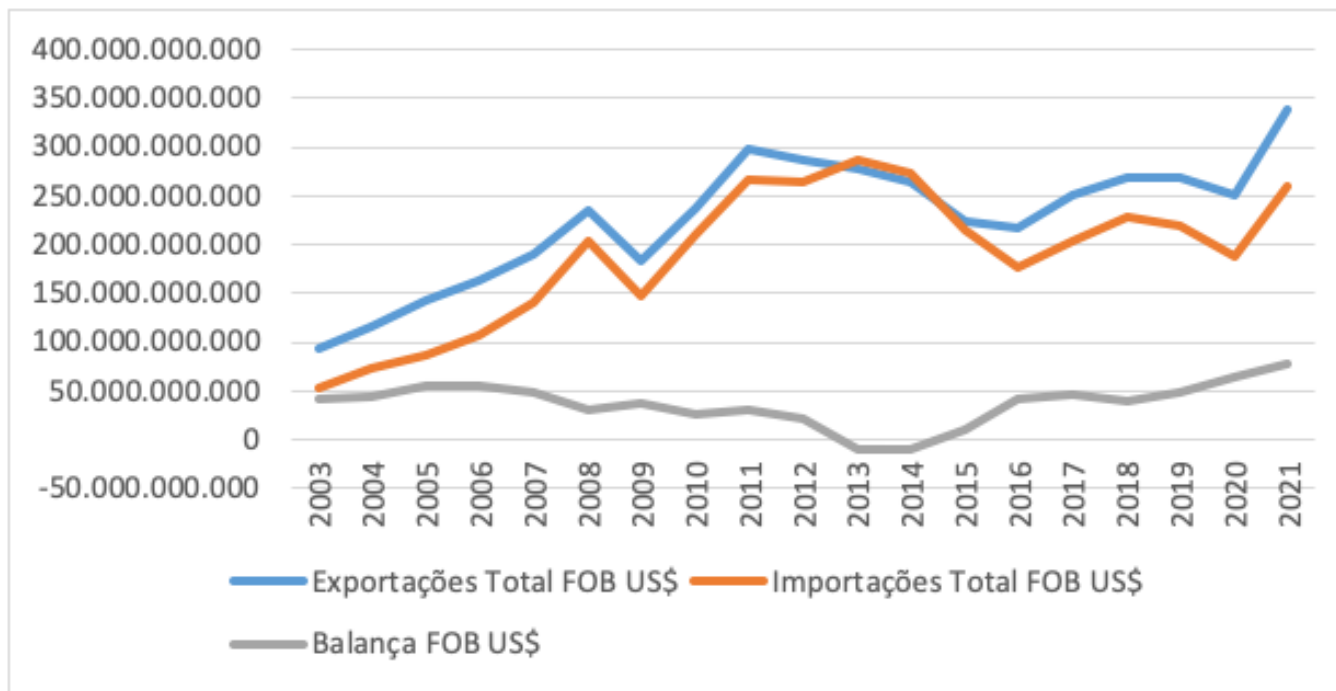
- In 2005, China took the position that was historically Germany's second largest destination market for extra-bloc exports, consolidating itself in the second position of the bloc's main partner, behind only the US.
- In 2009, Mercosur exports to China would reach US\$ 25 billion, representing 13.6% of extrabloc sales, surpassing the US as the main destination.
- The following year, China would also overtake the US as the bloc's main supplier, reaching the sum of US\$ 37 billion sold to the bloc, which represented 17.5% of the total that year. From that point onwards, China has consolidated and expanded its participation as Mercosur's main trading partner year after year.
- In 2017 bilateral trade came close to reaching the mark of US\$ 100 billion. In that year, Mercosur imports from China were around 44.3 billion, representing approximately 22% of extra-bloc trade. In the same year, Mercosur exported US\$ 53.3 billion to China, or 21.3% of the bloc's total exports.

China-Mercosur geoeconomics relations post 2003

- The years 2016 and 2017 were also the time of consolidation of an increasingly positive trade balance for the bloc in its transactions with China. While between 2003 and 2015 there were small fluctuations in the trade balance, at times slightly positive and at other times slightly negative, from 2016 onwards there is a growing positive balance in favor of Mercosur every year.
- Carrying out a general analysis of the growth since 2012, the Chinese share in the block purchases almost doubled, from 16.4% to 28.50%. Regarding Mercosur imports from China, the proportional growth was from 18.2% to 25.2% of total extrabloc purchases.
- Regarding to the question of the growing positive trade balance for Mercosur in trade, it is important to carry out a broader analysis. During the period in question, only in the years 2013 and 2014 - a period of great retraction in the commodities market and the beginning of a long political crisis in Brazil, the Mercosur trade balance was negative. In all other years - including 2020 at the most delicate moment of the Covid-19 pandemic, the bloc generated surpluses in its exchanges with the rest of the world.

China-Mercosur geoeconomics relations post 2003

Total Mercosur exports and imports - extrabloc (2003 - 2021, US\$)



China-Mercosur geoeconomics relations post 2003

Main trading partners of Mercosur member states (2020)

Posição	Argentina		Brasil		Paraguai		Uruguai	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1	China	Brasil	China	China	China	Brasil	Brasil	China
2	Brasil	China	EUA	EUA	Brasil	Argentina	China	Brasil
3	EUA	EUA	Argentina	Argentina	Argentina	Chile	Argentina	EUA

Fonte: Mercosul, 2022. Elaborado pelo autor.

China-Mercosur geoeconomics relations post 2003

- It was synthesized that despite occasional ups and downs in numerical terms, Chinese investments in Mercosur were growing and consistent in the analyzed period, and that from the BRI project a new window of opportunity opens for productive partnerships between the bloc and China.
- Regarding the analysis of trade, China since 2003 has gradually increased its participation in negotiations with the bloc, and since the capitalist crisis of 2008/2009 it has definitively supplanted the US from the position it occupied for almost a century.
- It is also necessary to note that the degree of deepening of China's economic relations with the bloc prevented even reactionary governments such as Bolsonaro's from not being able to go much beyond rhetoric in their relations with the country. The economic interests of powerful groups imposed themselves in the face of an anti-communist discourse.
- Finally, it is necessary to point out that although Mercosur ranks among China's first twelve trading partners, in relative terms there is a large disparity in Chinese penetration of Mercosur in view of Mercosur's scope in the Chinese market.