China’s president visits Mexico and Central America seeking economic ties

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China’s new president, Xi Jinping, traveled to Trinidad and Tobago, Costa Rica and then Mexico last week, on the eve of his weekend meeting in California with US President Barack Obama.

Xi’s trip comes just a month after Obama’s own visit in early May to Mexico and to Central America. Xi arrived in Trinidad just as US Vice President Joe Biden finished a six-day trip to Colombia, Trinidad and Brazil aimed at shoring up US economic interests in the region.

Xi’s trip is part of a stiffening response by China to US attempts to undercut Chinese efforts to assure itself worldwide access to critical mineral resources, and to encircle China under the guise of its “pivot to Asia” policy. There the US has stoked Japan, the Philippines and Vietnam into increasingly abrasive relations with China over competing claims to various islands in the oil and gas-rich East China and South China Seas.

“China wants to remind the US that just as the US has influence in regions close to China, China too has rising influence in the Americas,” according to Matt Ferchen, a scholar at the Carnegie-Tsinghua Center for Global Policy in Beijing.

Past Chinese presidents were deferential to the US, making reference to Latin America as “Washington’s backyard,” as US Secretary of State John Kerry himself recently called it in testimony in April before the US Congress. But Xi’s Latin America trip, coming early in his presidency, shows “little concern for American reaction,” Evan Ellis, a professor at the National Defense University in Washington, told Bloomberg News.

China had already invested heavily in South America in recent years, striking major trade deals with the region’s governments. Beginning in 2009, it supplanted the US as the number one trading partner of Brazil, Latin America’s foremost economy, as well as its number one source of foreign direct investment.

In the decade spanning 2000 to 2010, trade between China and Latin America as a whole increased 1,500 percent. By 2010, it had risen to $261.2 billion, gaining steadily on US-Latin American trade, which amounted to $351 billion last year. Between 2002 and 2011, Chinese foreign direct investment in the region rose 100-fold from $22.6 million to $22.7 billion.

The areas where US capitalism has retained clear dominance, Mexico and Central America, were the focus of Xi’s trip.

Relations between China and Mexico have been tepid in the past, and they worsened after former President Felipe Calderon hosted the Dalai Lama in 2011.

More fundamentally, their economic relations have been unbalanced. In 2012 the value of China’s exports to Mexico were ten times those of Mexico to China, $57 billion to $5.7 billion. Mexico exported to China copper and other minerals, oil, cotton and car parts, and imported electronics, toys, plastics and furniture.

Mexico and China also have been direct competitors in supplying the US market with manufactured goods. Mexican businessmen have long felt threatened by China undercutting them as a cheap labor platform, particularly in electronic and consumer products industries.

A decade ago Mexico’s average labor costs were nearly three times higher than China’s. Recently that labor-cost differential has narrowed sharply, eating into Chinese cost advantage, so Mexico has regained some US market share. According to at least one report this year, hourly wages in Mexico are now lower than in China.

Mexican companies still complain that Chinese workplace rules on “flexibility”, lower quality control and lack of respect for intellectual property rights continue to permit unfair competition.

Mexico’s new president, Enrique Peña Nieto, visited China two months ago, seeking to change this state of affairs. The reciprocal visit by Xi this week was an unusually quick diplomatic follow-up.

Upon his arrival, Xi said that he wanted to help with Mexico’s huge trade deficit. This means oil, which China needs to fuel its economy and the cars of its middle class.

“Access to strategic raw materials is key to understanding the dynamic of relations with China,” said Hugo Beteta, director for Mexico and Central America of the United Nations Economic Commission for Latin America and the Caribbean. “Clearly there is an interest by China in Mexican oil.”

“China is the principal consumer of coal, gas, oil, of secondary industries like cement, steel, concrete,” said Juan

Carlos Rivera, director of Mexico's Center for Business with Asia at the private Monterrey Technological Institute. "Evidently (China) is looking to satisfy their market needs."

Not coincidentally, Xi's visit to Mexico comes just as the Mexican government is bent on opening up the state oil company Petroleos Mexicanos, or Pemex, to private and foreign investment in order to stem decreasing production by funding deepwater drilling. Peña Nieto will soon present an energy reform bill to the Mexican Congress allowing that.

Of the roughly 2.5 million barrels of crude a day that Pemex presently produces, about 1.2 million are exported. Some 75 percent of those exports go to the US, but only 7 percent to the Far East, including China. China is looking for much more.

During Peña Nieto's April visit to China, Pemex signed its first long-term contract with a Chinese company, agreeing to ship 30,000 barrels a day to the state oil company Sinopec.

This week Pemex said the Export-Import Bank of China would provide it with a $1 billion credit line to buy ships and offshore equipment. It also signed a memorandum of understanding with state-owned Xinxing Cathay International Group to explore ways to work together on pipelines.

For its part, Mexico is looking to diversify its trade and investment, which have long been dominated by the US. It also recognizes China's rise as a geopolitical player far beyond Asia.

"In the new global geopolitical and economic map, China is, and I think it has arrived to stay, the world's second economic power," Mexican vice minister of foreign affairs Carlos De Icaza said. Mexico "has to understand and strengthen relations with a nation that has such great strategic value."

In a speech before the Mexican Senate, Xi said the Sino-Mexican relationship stands before "unprecedented opportunities". "China is willing to work alongside Mexico to improve the strategic association between the two countries," Xi added.

Xi also called on the two countries to oppose protectionism and try to resolve trade disagreements through consultation. He and Peña Nieto agreed to end a dispute over Chinese textiles that had led to litigation.

The Chinese sought to sign at least a dozen agreements in the fields of trade, energy, tourism (a huge Mexican industry), science and technology during Xi's visit. All that was accomplished, however, were agreements to cooperate on commercial defense, and on access for Mexican tequila and Mexican pork to the Chinese market.

Mexican Foreign Minister Jose Antonio Meade said it was "too soon" for a free-trade agreement between the two countries, perhaps reflecting caution as to the effect of courting China on Mexico's neighbor to the north. Mexico, along with the US and other Pacific Rim countries, but not China, is party to the Trans-Pacific Partnership negotiations, an effort to increase trade among the Americas, Asia and Australasia. Mexico is keen not to jeopardize those talks.

Xi also visited Trinidad and Tobago, with which China has had diplomatic ties for almost 40 years. Trinidad is also a major trading partner in the Caribbean for China. Xi's meetings in Trinidad were aimed at buying up liquified natural gas (LNG). China's LNG purchases rose 20 percent last year; it is eying Trinidad's surplus now that the United States is shifting from Caribbean LNG imports to greater reliance on domestic shale gas extracts.

During this phase of Xi's trip, China utilized the "checkbook diplomacy" it has pursued in Africa. It promised $3 billion in concessionary loans for 10 Caribbean countries, whose leaders flew in to meet with Xi.

Costa Rica is the only Central American country with diplomatic relations with China; the other Central American countries recognize Taiwan, a legacy of US dominance of the region. Xi ended his trip with a visit there with Costa Rican President Laura Chinchilla.

The Chinese announced $2 billion in deals with Costa Rica, including $1.3 billion for joint construction of a refinery on the Caribbean coast, and hundreds of millions for a new highway. Chinchilla said her country was pursuing additional agreements on investment in clean energy and student exchanges.

In contrast to China's Xi, Obama, accomplished nothing concrete on the economic front during his May trip to the same region, and brought no investment dollars.

Similarly, Biden's trip garnered only a vague accord to boost investment and economic cooperation with 15 Caribbean nations, and a one-year free trade agreement with Colombia. The US offered no concrete plans for investment or economic aid.

In contrast, according to a report published last year by Inter-American Dialogue, a Washington-based think tank, China has made $75 billion in loan commitments in Latin America over the last six years, topping total lending by the World Bank and the Inter-American Development Bank combined.

China is increasing its funding in the region just as the US has been pressured by its dwindling economic position to cut aid and investment. Confronted with a rising challenge to its longstanding economic hegemony, the US inevitably leans more heavily on military and intelligence pacts and training to assert its influence in the region.