Chinese premier concludes four-country tour of South America

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China's head of government, Premier Li Keqiang, finished his first trip to South America on Tuesday, having made stops in Brazil, Peru, Chile, and Colombia from May 18 to 26. In each country, Li announced a variety of trade and investment deals, all designed to increase Chinese involvement in a region that is fast becoming a flashpoint for conflict with the United States, which has been displaced by China as the top trading partner for a number of countries on the continent.

In Brazil, already China's top economic partner in Latin America, with bilateral trade amounting to $86 billion in 2014, Li announced a package of investments and commercial deals totaling around $50 billion. Among the deals are China's purchase of 22 Embraer commercial jets and four Vale ore carriers. An additional $7 billion in financing was extended to Petrobras, the heavily indebted state-run oil company, as it attempts to get out from under a corruption scandal that saw at least $1.9 billion in assets drained off. The Chinese bank ICBC also announced it would provide $50 billion in financing for infrastructure including roads, railways and power grids.

Brazil, China and Peru also agreed to participate in a feasibility study on a proposed 3,500-kilometer railroad that would stretch from Brazil's Atlantic coast to the Pacific coast in southern Peru. Such a rail line would allow Brazilian exports to avoid reliance on the Panama Canal, giving China more options for ports. Aside from this announcement, during Li's time in Peru, the two countries signed a joint statement agreeing to deepen cooperation in a number of areas, to increase cultural exchanges, and to more fully use the free trade agreement signed in 2010.

In Chile, Li and President Michelle Bachelet signed a series of agreements, including a currency swap deal worth $3.5 billion, which would also see the creation by China Construction Bank of the first renminbi clearing bank in South America. Such a clearing bank would present a challenge to the current position of the US dollar as the *de facto* international reserve currency.

While visiting Colombia, Li discussed the possibility of a free trade agreement with President Juan Manuel Santos, one of Washington's closest allies in the region. They also mapped out a development plan for the port of Buenaventura, where much trade between the two countries is concentrated, and discussed the possibility of expanding investment for manufacturing.

The four countries involved in the trip are already China's largest trading partners, comprising 57 percent of China's total trade with Latin America. Trade between Latin America and China has risen tremendously over the past 15 years, with trade estimated at $270 billion in 2013, compared to only $12 billion in 2000. Much of this trade has involved the export of raw materials, including oil, from Latin America and the import of Chinese-manufactured consumer goods.

However, China's economy has been slowing, with growth for this year estimated by the International Monetary Fund to be 6.8 percent, falling from 7.4 percent last year and down even more from the average 10 percent per year seen prior to 2010. This has been driven primarily by a general slowdown in the major capitalist economies, which has decreased demand for Chinese commodities and finished consumer goods, reflected in a drop of 19.9 percent in Chinese imports. This has translated into reduced demand for raw materials from Latin America, which has also been hit by declining demand from the US and Europe.

The deals Li announced during his trip in part seek to develop in Latin America a market for more complex capital goods through a program of infrastructure development and industrial modernization. This follows an announcement in January from Chinese President Xi Jinping, who stated that Chinese companies would invest $250 billion in the region over the next 10 years, where total previous investment has amounted to just under $100 billion.

The move towards increasing investment in Latin America is partially being driven by a slowing of the real estate boom in China, as well as serious indications that Chinese share markets are in the midst of an enormous speculative bubble which may burst at any time. The Shenzhen Composite Index, made up mainly of tech companies, has almost tripled over the past year and margin financing throughout the share markets has increased by a factor of five. It is becoming evident that the free-flowing credit introduced by central banks across the world in response to the 2008-2009 economic crisis has only served to fuel parasitism and speculation.

At the same time, China's turn to Latin America is no small part a response to the United States' own "pivot to Asia." The US, however declined economically from the time it dominated the lands to its south, contemptuously referred to as its own "back yard." It resents the Chinese intrusion into a region it has long regarded as its own domain, and as it takes on an increasingly aggressive posture, the likelihood of the region becoming a major flashpoint for military conflict will rise.