



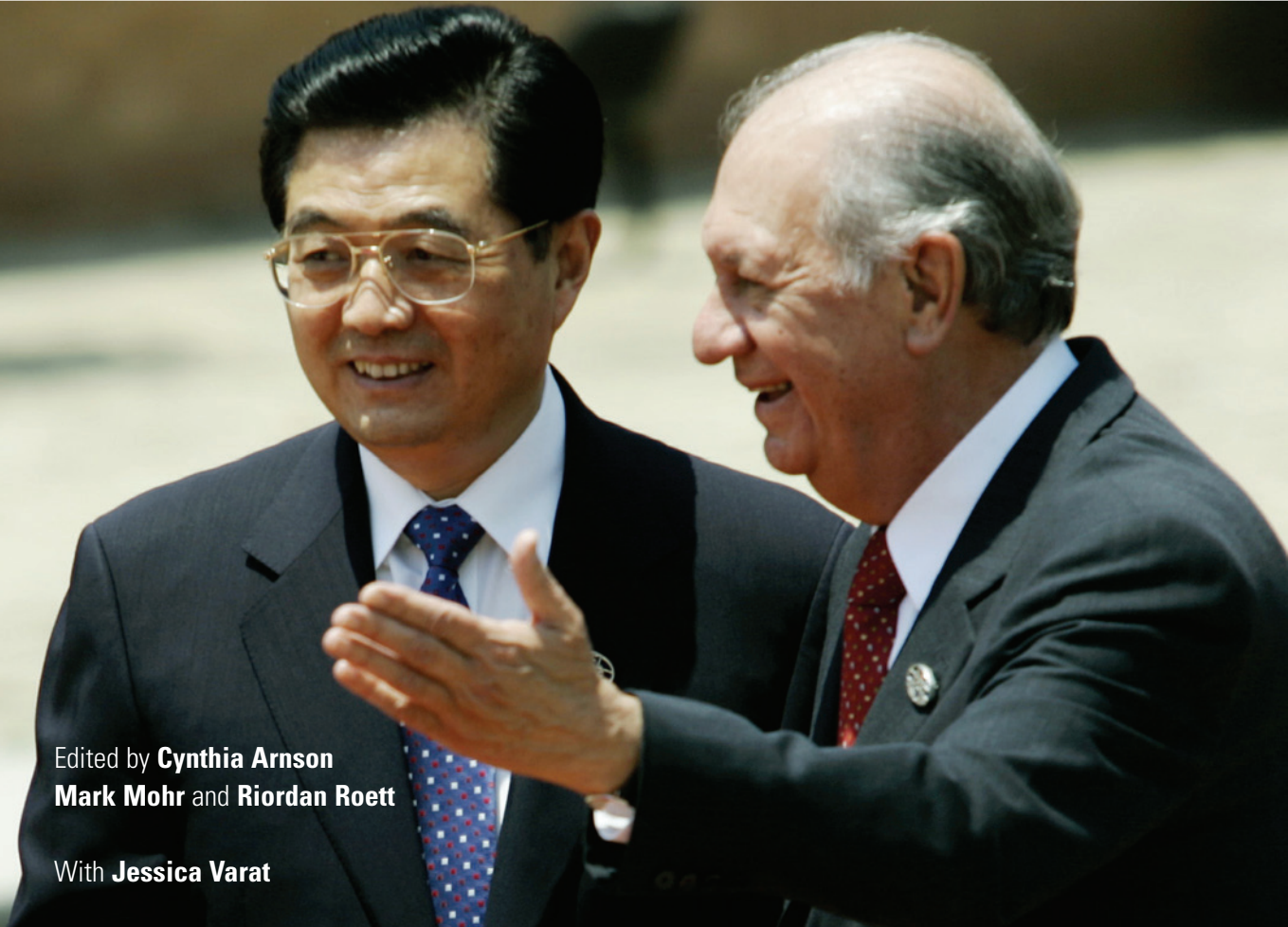
Woodrow Wilson  
International  
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*Latin American Program  
Asia Program*

SAIS

# ENTER The DRAGON?

CHINA'S PRESENCE IN LATIN AMERICA



Edited by **Cynthia Arnson**  
**Mark Mohr** and **Riordan Roett**

With **Jessica Varat**



Woodrow Wilson  
International  
Center  
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*Latin American Program*  
*Asia Program*



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Edited by  
Cynthia Arnson  
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Available from the Latin American Program and Asia Program

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**Cover Photo: © ANDREW WINNING/Reuters/Corbis**

Chilean President Lagos and Chinese counterpart Hu arrive at APEC summit venue in Santiago  
Chilean President Ricardo Lagos (R) and his Chinese counterpart Hu Jintao arrive for the start  
the annual meeting of the 21 member countries of the Asia Pacific Economic Cooperation (APEC),  
November 20, 2004 in Santiago.

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# Introduction and Acknowledgments

CYNTHIA J. ARNSON

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This publication aims to deepen our understanding of the rapid expansion of trade and political relations between China and Latin America since the beginning of the new millennium. A number of basic facts help to contextualize the relationship and portray its growing importance.

- In 2005, China became the world's fourth largest economy, after the United States, Japan, and Germany, as well as the world's third largest importer/exporter, after the United States and Germany. Growth rates in China have averaged over nine percent per year for the last decade, and reached nearly 11 percent in the first half of 2006. This is a rate of growth well beyond most countries in the world, including the United States.<sup>1</sup>
- As China's global trade has expanded, so has its commercial relationship with Latin American countries. Bilateral trade between China and the region totaled \$200 million in 1975, but reached \$47 billion in 2005, a figure that is projected to double by 2010. Trade between China and Latin America has grown at an annual rate of 24 percent since the early 1990s, almost three times the rate of growth for all trade in the region.<sup>2</sup>
- In the main, China exports manufactured products to Latin America, and imports agricultural products (particularly soybeans and soy products) and raw materials (including copper, iron ore, and oil). China's top trading partners in Latin America are Brazil, Argentina, Mexico, Chile, Panama, and Peru.<sup>3</sup>
- China accounted for only 3.5–4.4 percent of the total trade of Latin America in 2005.<sup>4</sup> Yet its voracious appetite for raw materials to sustain its booming economy as well as agricultural imports and feed its population have had a major impact on the economies of particular countries. China is *Chile's* second largest export market, for example; China imports one-fifth of its copper and 45 percent of its wine and grapes from Chile. *Brazil* alone provides some 45 percent of China's soybean imports, with another 23 percent of soy products coming from *Argentina*. In 2005, 80 percent of Chinese imports of fish meal came from *Peru* and *Chile*.<sup>5</sup>

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1. CEPAL, "China e India: Una Gran Oportunidad para las Exportaciones de América Latina," Press Release, September 13, 2006; "Energy-hungry China looks to Latin America," *The Economist*, April 10, 2007.

2. Amy Guthrie and Susan H. Preston, "Feeding a Dragon," *LatinFinance*, September 2006, p. 12. Other analysts place the 2005 figure at over \$50 billion, while the Chinese Ministry of Commerce placed the 2006 figure at \$70.2 billion. See "Findings and Recommendations of the China-Latin America Task Force," University of Miami Center for Hemispheric Policy, undated, p. 1; June Teufel Dreyer, "The China Connection," University of Miami Center for Hemispheric Policy, China-Latin America Task Force, November 8, 2006, p. 8; and Claudio Loser, "So Far, China's Impact on Latin American Trade is Moderate," Inter-American Dialogue, *Latin American Adviser*, April 17, 2006.

3. Claudio Loser, "The Growing Economic Presence of China in Latin America," University of Miami Center for Hemispheric Policy, China-Latin America Task Force, December 15, 2006, p. 4.

4. CEPAL, op. cit.; Loser, Center for Hemispheric Policy, op. cit., p. 6.

5. Jorge Domínguez et. al., "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," Inter-American Dialogue Working Paper, June 2006, pp. 18–19; CEPAL, op. cit.; "Findings and Recommendations of the China-Latin America Task Force, op. cit., p. 12.



The picture changes significantly when Chinese exports to Latin America are factored into the equation. China has emerged as a major competitor for Mexico in the area of manufactured goods, which account for 80 percent of Mexico's exports. In 2002, for example, China replaced Mexico as the principal exporter to the United States, with major impacts felt in the textile and apparel industries.<sup>6</sup>

Whether measured in terms of trade, direct foreign investment, or the number of visits of senior Chinese officials to countries of the region, China is a growing presence in the Western Hemisphere and the dynamics of the relationship are just beginning to be explored systematically.

The contributions in this publication address the economic and political dimensions of the burgeoning China-Latin America relationship, viewed in terms of Chinese as well as Latin American interests. Many questions emerge: are Latin American and Chinese economic interests complementary, as many have argued, or do Chinese exports of manufactured goods to the region threaten to undercut local production, while China's imports from the region condemn it to its eternal status as an exporter of raw materials (the so-called "resource curse")? In an era of high commodity prices, is Chinese demand contributing to an incentives structure that fuels a process of deindustrialization in the region? How do Latin American countries themselves differ in terms of the importance of the relationship with China as opposed to other partners, such as Japan, the European Union, or Latin America itself? Are Latin American countries pursuing a commercial and political relationship as a way of counterbalancing or undercutting U.S. economic and political influence in the region? How actively does China tie economic relations to issues of political importance to China, such as the status of Taiwan?

In 2004, Chinese President Hu Jintao traveled to Latin America, promising some \$100 billion in foreign direct investment over the next ten years. While many projects have been planned or discussed, the figure promised appears to vastly exceed actual commitments. Nonetheless, the Chinese presence in Latin America—whether measured in economic, political, or even military terms—is likely to grow or at least remain steady in coming years. Managing the opportunities as well as the risks deriving from that presence is a key challenge for the countries of the hemisphere.

## ACKNOWLEDGMENTS

The editors would like to thank Asia Program Director Robert Hathaway and Program Associate Michael Kugelman, as well as Guadalupe Paz, Associate Director of the Latin American Studies Program of SAIS for their support in organizing the conference on which this publication is based. We are also grateful to Jennifer Zurek of SAIS for her copy-editing assistance, and to Latin American Program interns Sarah Walker and Antonio Delgado for research assistance. Finally, we thank the Woodrow Wilson Center for its financial support of this joint endeavor of the Asia and Latin American Programs.

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6. Amy Guthrie and Susan H. Preston, *LatinFinance*, op. cit.

# What does China Mean for Latin America?

ROBERT DEVLIN

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This commentary considers China's development from the point of view of Latin America and the meaning of China's development for the Latin American region.

By almost any standard, China is an amazing economic success. China was a very backward country in the 1970s. Over the last 25 years it has grown by more than nine percent per annum and in the last several years growth has been over ten percent. The average Chinese today is about nine times richer than he or she was back in 1978. The compelling story is that China, with all this growth, has been able to reduce poverty by a substantial amount as the economy has lifted many people out of poverty. The economic indicators are really quite spectacular. What is behind this success? When considering China from a Latin Americanist point of view—something that might have its drawbacks—China appears to have had some initial conditions, notwithstanding its backwardness, that were helpful for growth once it began to undertake market-orientated structural reforms.

The “catch up” effect is widely recognized as an effect that a state may have when it is backward and then begins to instate market reforms. However, China also exhibited other conditions, such as a relatively even income distribution and social indicators that belied the low level of income. Beginning in 1978, Chinese authorities went through a series of structural reforms in several areas of the economy; this has clearly been one of the major factors in China's ability to grow. Perhaps even more salient is how the Chinese implemented these reforms: the Chinese case illustrates that the implementation of reforms is as important, if not more important, than the reform itself. This is particularly relevant to Latin America.

The Chinese have demonstrated great skill and competence in the area of policy implementation. Many tensions are to be expected in an economy transforming itself as rapidly as China's, particularly regarding income distribution, environmental degradation, and faulty loans. However, up until now the Chinese authorities have been able to manage and contain these negative repercussions. Projections also suggest that China's economy will maintain a very high growth rate in the coming years. From the Latin American perspective this means that the China that operates in the region today will probably be quite different in the future, both in terms of consumption and with the respect to the heaviness of its industry (which is likely to be lighter). In addition, although China is already the fourth largest economy in the world in terms of market prices, China's geopolitical role in the world will probably be substantially higher than it is today.

From the Latin American standpoint, China appears a formidable competitor. Some of the country's intangible productive advantages are related to the issue of implementation. These advantages include China's long-term strategic vision, its ambition and persistence in seeking diversification, its desire to increase its knowledge of exports, and its propensity to set goals and incentives. Unlike in Latin America, when there is success in China, not much time is set aside for

celebration. Rather, the idea is to move on to the next success with an eye on the future, not the present or past. China's government possesses a long-term vision, and it appears capable of acting coherently and maintaining continuity in its strategic vision over time. Chinese implementation is quite pragmatic, as it tends to be gradual rather than display the pendulum swings that are characteristic of Latin America. China uses an approach that the World Bank calls "empirical experimentation," or the use of pilot programs within a dual system that essentially sets up a market system parallel to the old planned system. Next, the old planned system is phased out when the market system has sufficiently progressed, the reform is widely understood, and the new program is able to absorb part of the old economy.

Chinese implementation is quite pragmatic, as it tends to be gradual rather than display the pendulum swings that are characteristic of Latin America.

There is a great deal of competition in China, and the Chinese have clear and stable priorities. These include fast growth, employment creation, productive transformation, social stability, and the hegemony of the party. In addition to the intangibles, China has substantial natural productive advantages. China has low wage labor; whereas in Latin America, the wage premium does not sufficiently compensate for the productivity premium. Additionally, most estimates demonstrate that Chinese productivity is growing and considerably better than most Latin American countries. China has economies of scale, which is good for efficiency, for setting standards, and for negotiating foreign direct investment. However, China also has regional disparities and it is still a low income country. Along the coast there is density of capital labor, which may partially explain why there is the fast growth of medium- and high-tech exports. Of course, it is also in this Asian neighborhood that there are demonstration effects, as the Chinese approach is similar to other East Asian success stories. Naturally, China may enter into these production chains once their neighbor's incomes rise, and they are uncompetitive in certain stages of production.

Finally, the most important forward-looking element within China is that it possesses long-term drivers for productivity. In terms of spending, China places an emphasis on education and a particular emphasis on higher education. China is generating approximately 150,000 Masters and PhDs annually, nearly half of which are in science and engineering. This fact certainly helps to explain why an increasing number of multinational corporations (MNCs) are locating their research and development (R and D) facilities in China, in order to capture relatively low wages and reasonably or very talented Chinese technicians. China is also moving swiftly to encourage innovation, as it spends 1.2 percent of Gross Domestic Product on R and D. This is a rate superior to all of Latin America, and only Brazil approaches such levels of spending. What's more, China's goal is to spend 2.5 percent of GDP on R and D by 2020. A study conducted by Ernie Preeg suggests that if China maintains its science and technology indicators, it will surpass Japan's number three ranking by 2015 with respect to the following indicators: high investments (particularly in infrastructure, which is good for productivity) and access to credit.<sup>1</sup> However, it could still be

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1. Ernest Preeg, *The Emerging Chinese Advanced Technology Superstate* (Arlington, Va.: Manufacturers Alliance and Hudson Institute, 2005)

argued that such reforms are inefficient, particularly since the magnitude with which China is pursuing its multiple goals leaves room for inefficiencies. Important work is yet to be done.

What does this situation mean for Latin America? Quite a few studies address this very question. The major study was undertaken by the World Bank and the Organisation for Economic Co-operation and Development (OECD); it concludes that China is a competitor in some respects, yet it is complementary to Latin America's role in other ways. Thus, China represents both a challenge and an opportunity. Trade is relatively small, between four and seven percent of exports. But trade is growing quickly, and in some sectors it is quite significant, particularly in countries such as Argentina, Brazil, Peru, and Chile.

Latin American exports to China tend to be concentrated in a few commodities; whereas China's exports to Latin America are rather diversified and mostly concentrated in manufactured goods. The Chinese demand for commodities has strongly affected Latin American terms of trade, relative to the situation that existed in the 1990s. Regarding direct competition, the export similarity index suggests that the country most vulnerable to the global effects of trade is Mexico. Brazil is also affected, albeit to a lesser extent. In terms of Latin American domestic markets, there are several sectors particularly sensitive to Chinese imports, as the many complaints by shoe, textile, apparel, and toy producers indicate.

Also important to consider is that as China grows, its income is also going to grow. The Chinese pattern of demand may prove interesting for Latin America, as Chinese consumption of beef, more sophisticated processed foods, and perhaps Argentine wine will increase. The Chinese will also seek services such as tourism, an area in which Latin America has a real advantage. The region may attract Chinese tourists if Latin America can address such issues as security and language. Chile has been leading the way in the region by signing a free trade agreement with China. The agreement represents two major advantages for Chile: the facility to enter the Chinese market, and the potential to enter into Asian production chains, where Latin America is not currently present.

In addition to trade is the issue of investment. Today, China is a minor overseas investor. If one does not include financial investment, the amount of Chinese investment channeled to Latin America in 2005 was roughly \$77–80 million. Yet the president of China has stated that over the next ten years there will be \$100 billion in Chinese foreign direct investment in Latin America. This announcement has had many Latin Americans waiting with baited breath.

Financial investment aside, Latin America was likely the least important region of the world in terms of Chinese overseas investment in 2005. In terms of cooperation, however, the relationship between China and Latin America has dramatically intensified since 1990. The number of reciprocal visits has increased, and there are a number of bilateral agreements in several areas.

There is a bigger story behind China's involvement in Latin America, however, and it should serve as a wake-up call for the region. Since 1950, East Asian economies have been moving steadily in the direction of convergence with the U.S. economy. Yet Latin America has been moving in the opposite direction as its participation in world trade has generally declined. Although Latin America has recovered a bit of trade in recent years, East Asia and China have clearly taken off with respect to trade.

The growth of East Asian trade represents a reversal of fortune for Latin America. Beginning with Hong Kong, Korea, Singapore, and Taiwan, and followed by Malaysia and now China, Asian countries have overtaken Latin American trade. India and Vietnam are also now overtaking Latin America in growth and exports. If these changes merely represented the growth of rankings, Latin America would not be as negatively impacted by East Asia's recent growth. Yet East Asian countries have been able to dramatically reduce poverty while Latin America continues to confront difficulties in combating poverty. Strong growth rates thus very much matter to Latin American countries.

China thus serves as a wake-up call to Latin America to better organize itself in order to compete globally, and to better diversify and upgrade exports to encourage growth. Studies increasingly indicate that exports are an important stimulus for growth. Beyond the traditional effects of exports as part of GDP, there is also a portfolio effect related to diversification. There are dynamic effects resulting from entering into new activities. Additionally, countries that aspire to be first-class global exporters must undergo structural reforms that create constituencies within the economy in favor of exports.

Three elements are crucial to future Latin American success. First, it is critical to reflect on the strategic forces behind East Asian successes. Second, it is important that Latin America better exploit its advantages. Third, countries of the region must pursue more strategic public/private alliances. All three of these actions are necessary in order for Latin America to better innovate and to upgrade and diversify its export base in pursuit of economic growth.

Several factors have contributed to the success of East Asian countries. First, they tend to value long-term strategies and goal setting. They are also generally pragmatic and gradualist in their approach. Additionally, East Asian countries prioritize the development of local capacities independent of foreign direct investment. Financing is also generally available, in contrast to the way finances constitute a major constraint in many Latin American countries. In East Asia, the state is proactive in support of export development, innovation, and upgrading. East Asian countries also tend to have competent technical bureaucracies, which are guarantors for basic macroeconomic stability. Latin America has been doing quite well lately in this latter regard.

Furthermore, East Asian countries' concern with government failures has led them to support the development of long-term strategies. These countries have also introduced both horizontal and vertical incentive systems in order to encourage private sector exporters to undertake new activities. It also would appear that East Asian countries treat business as business and ideology remains separate. In Latin America, however, it seems that ideology is too often mixed with business, something less prevalent within East Asian countries.

Latin America has a number of advantages that represent great promise. Although it remains difficult for Latin America to compete directly based on cost, the region is competitive in terms of the speed with which it is able to access markets in North America, Europe, and other countries within the region. Natural resources are not a curse in Latin America; rather they may be a significant asset if countries of the region use revenues to develop their economies and to add value to their national resources.

Natural resources are not a curse in Latin America; rather they may be a significant asset if countries of the region use revenues to develop their economies and to add value to their national resources.

Tourism is another area in which Latin America has a substantial advantage. It is estimated that by 2020 there will be at least 100 million Chinese tourists around the world. Why not go to Latin America? The Latin American diaspora also represents an opportunity for market growth and to attract skills and experience. Workers' remittances to Latin America totaled \$60 billion in 2005 which represents a major asset for development if applied properly. Regional integration is another area in which Latin America has much experience that may prove to be important; however, in recent years integration has been rather weak within the region.

Finally, the alliance between government and the private sector in order to innovate, develop new products, and compete internationally is another important development in the region. This alliance is basically a nexus of government firms, academia, research centers, and sometimes labor at both the national and the sub-national levels; it represents a structured vehicle to develop consensus on long-term strategies, make them sustainable over time, and address other crucial issues. These issues include how to upgrade the *maquila* industry, how to avoid so-called "Dutch Disease"—particularly when commodity prices are increasing dramatically—and how to move up the technological scale. This kind of alliance is also a vehicle to diagnose the region's strengths and weaknesses and its existing opportunities, and to identify binding market failures or constraints in information technology coordination that are handicapping the ability of the private sector to be aggressive.

Alliances between the public and private sectors may also be vehicles to monitor incentives and checks and balances in public policy. They may also allow for evaluation based on market experience, greater transparency, and public accountability. It is interesting that such relationships between the public and private sectors are found throughout East Asia and in the OECD countries. Yet in Latin America, such arrangements have been attempted but continue to be overwhelmingly one-sided, with either too much public sector involvement or too much private sector investment. For the most part, public-private alliances in Latin America are not sustained: they change from government to government, often exist only on paper, and tend to be fragmented and under-financed. All of these factors threaten their credibility.

The weak link in government-private sector alliances in Latin America appears to be the government partner. In order to be a good partner, governments need more fiscal capacity and more professional and credible bureaucracies to address future technical issues. Additionally, governments in Latin America require more continuity from administration to administration, an engagement with the private sector without being captured by private interests, and more transparency and accountability within the programs and strategies that emerge.

Finally, Latin America must learn that the benefits of public-private partnerships go beyond the mere transfer of technology. Successful examples of such alliances in other regions of the world may prove instructive for Latin America. For example, Australia established an alliance between its

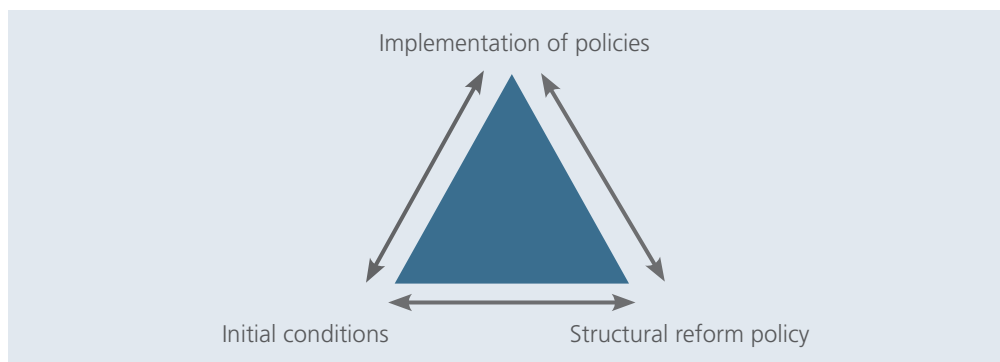
innovation and export development sectors, an alliance of interest to natural resource exporters. Ireland is also an interesting model for small countries such as those in Central America; strong partnerships in Ireland are addressing the major binding constraints to internationalization and the country is becoming a world-class exporter. Also, these alliances are working to add value to products and to encourage employment and growth.

Latin America could learn much from the experiences of other countries, and it should adopt one thing in particular from the Chinese playbook: although China is unique in many respects, its example of starting gradually and building up public sector capacities and institutions for more

Although China is unique in many respects, its example of starting gradually and building up public sector capacities and institutions for more productive alliances is an approach that Latin America should embrace.

productive alliances is an approach that Latin America should embrace. The region could begin to move in this direction by launching pilot programs rather than large-scale initiatives, beginning reforms slowly, and testing the marketplace throughout the reform process. A gradual approach will indicate the effectiveness of reforms throughout the process; governments may then make persistent and pragmatic adjustments as the empirical situation changes.

## CHINA: THE DELTA OF ITS ECONOMIC SUCCESS



Source: Author

## CHINA: SOME BASIC ECONOMIC INDICATORS

|   | 1980–1989 | 1990–1999 | 2000–2005       | 2006              |
|---|-----------|-----------|-----------------|-------------------|
| <b>GROWTH RATES</b>                                       |           |           |                 |                   |
| GDP   | 9.9       | 10.3      | 9.5             | 10.7 <sup>a</sup> |
| Exports of goods  | 12.9      | 14.4      | 25.9            | 27.2              |
| Imports of goods  | 14.2      | 11.5      | 26.4            | 19.3              |
| Consumer prices   | 7.7       | 7.8       | 1.2             | 1.5 <sup>a</sup>  |
| <b>PERCENTAGE SHARE OF GDP</b>                            |           |           |                 |                   |
| Fixed investment  | 26.0      | 31.9      | 38.5            |                   |
| Gross domestic saving                                     | 34.8      | 40.6      | 42.5            |                   |
| Central government fiscal balance                         | -0.6      | -1.0      | -2.0            |                   |
| <b>BILLIONS OF DOLLARS</b>                                |           |           |                 |                   |
| Foreign direct investment <sup>b</sup>                    | 2.2       | 29.0      | 54.5            | 63.0              |
| Trade balance in goods (Customs CN) <sup>c</sup>          | -4.4      | 15.6      | 39.4            | 177.5             |
| Trade balance in goods (IMF) <sup>d</sup>                 | -3.6      | 18.6      | 58.4            |                   |
| International reserves                                    | 4.2       | 74.3      | 416.0           | 1066.3            |
| <b>MONTHS</b>   |           |           |                 |                   |
| International reserves (months cover for import of goods) | 1.8       | 6.8       | 11.8            | 16.2              |
| <b>PERCENTAGE SHARE OF EXPORT</b>                         |           |           |                 |                   |
| Total foreign debt  |           |           | 44 <sup>e</sup> |                   |

Source: Infobank China Content Provider; National Bureau of Statistics of China; State Administration of Foreign Exchange; China Statistical Yearbook 2005, 2001, 1996; International Financial Statistics; The People's Bank of China; and World Development Indicators, 2005.

a. Primary result

b. The first announced estimate was 60.3 billion dollars of FDI inflows in 2005. This figure did not include the FDI flowing into the financial sectors. The new estimate for 2005 is 72 billion dollars.

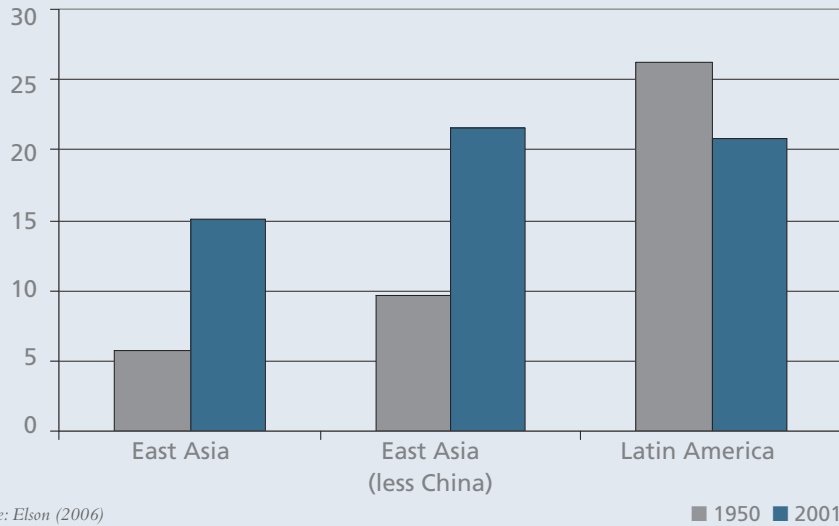
c. Exports and imports are f.o.b in IMF figures. Exports are f.o.b and imports c.i.f in China's Customs data.

d. 2003 only.



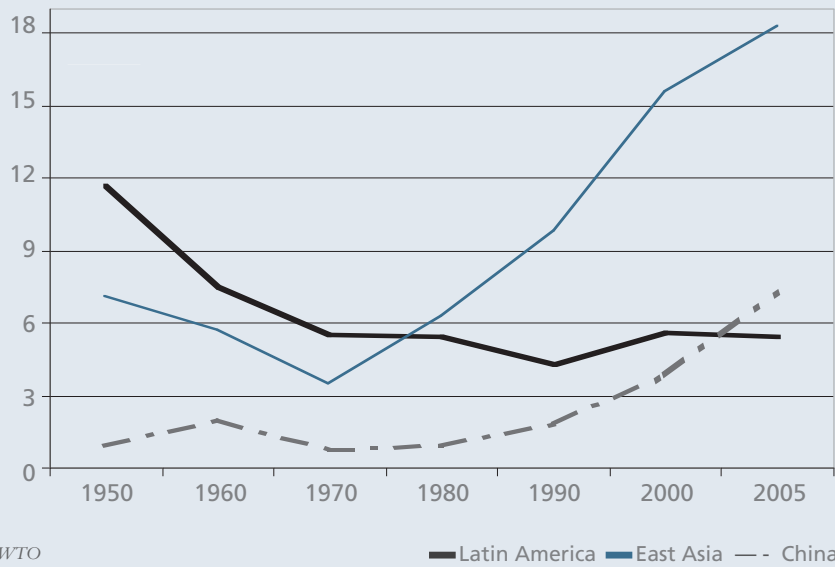
**WHAT DOES CHINA MEAN FOR L.A.?**

East Asia and L.A. Per Capita Income  
(percentage of U.S. per capita GDP, in PPP)



Source: Elson (2006)

Latin American, East Asian and Chinese Share in World Trade  
(percentage share of world exports, selected years)



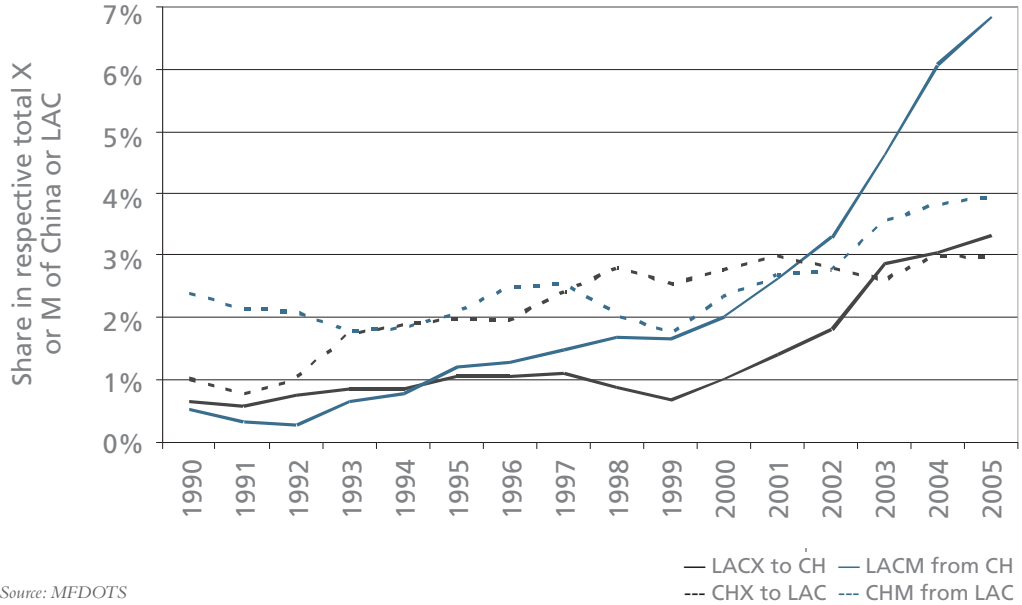
Source: WTO

**TOP PRODUCTS IN LAC- CHINA TRADE (2005)**

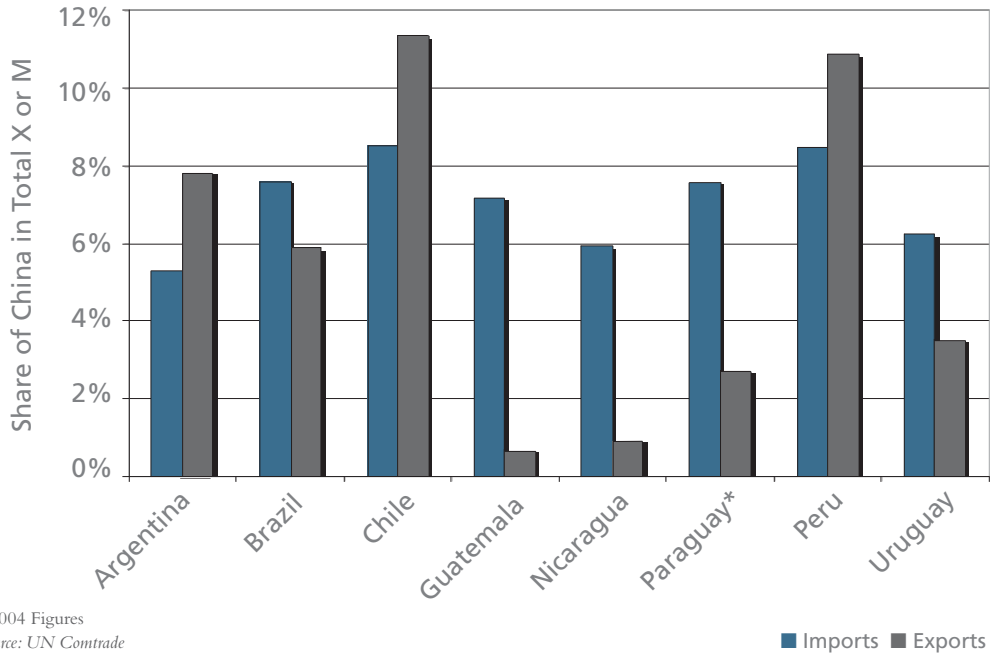
| COUNTRY    | TOP 3 LAC EXPORTS TO CHINA  |             |       | TOP 3 LAC IMPORTS FROM CHINA |             |       |
|------------|-----------------------------|-------------|-------|------------------------------|-------------|-------|
|            | DESCRIPTION                 | TRADE VALUE | SHARE | DESCRIPTION                  | TRADE VALUE | SHARE |
| Argentina  | Oilseed (sft. fix veg. oil) | 1,727.1     | 54.8% | Organo-Inorganic Compnds     | 116.5       | 7.6%  |
| Argentina  | Fixed veg. fat, oils, soft  | 728.8       | 23.1% | Telecomm. Equip. Parts Nes   | 74.0        | 4.8%  |
| Argentina  | Petroleum oils, crude       | 189.4       | 6.0%  | Cycles, Motorcycles, Etc.    | 69.9        | 4.6%  |
| Bolivia    | Ore, concentr. base metals  | 10.4        | 53.0% | Fabrics, Man-Made Fibres     | 13.9        | 10.2% |
| Bolivia    | Wood, simply worked         | 4.1         | 21.0% | Insecticides, Etc.           | 12.2        | 9.0%  |
| Bolivia    | Non-ferrous waste, scrap    | 1.6         | 8.1%  | Footwear                     | 7.6         | 5.6%  |
| Brazil     | Iron ore, concentrates      | 1,784.6     | 26.1% | Telecomm. Equip. Parts Nes   | 1,041.8     | 17.9% |
| Brazil     | Oilseed (sft. fix veg. oil) | 1,716.9     | 25.1% | Transistors, Valves, Etc.    | 311.7       | 5.4%  |
| Brazil     | Petroleum oils, crude       | 541.6       | 7.9%  | Optical Instruments, Nes     | 267.7       | 4.6%  |
| Chile      | Copper                      | 1,889.9     | 43.1% | Othr. Textile Apparel, Nes   | 231.6       | 9.1%  |
| Chile      | Copper ores, concentrates   | 1,449.8     | 33.0% | Footwear                     | 200.2       | 7.9%  |
| Chile      | Pulp and waste paper        | 337.4       | 7.7%  | Automatc. Data Proc. Equip   | 191.1       | 7.5%  |
| Colombia   | Pig iron, spiegeleisn, etc  | 146.3       | 61.8% | Telecomm. Equip. Parts Nes   | 233.3       | 14.4% |
| Colombia   | Non-ferrous waste, scrap    | 66.6        | 28.2% | Automatc. Data Proc. Equip   | 132.3       | 8.2%  |
| Colombia   | Leather                     | 8.0         | 3.4%  | Footwear                     | 79.1        | 4.9%  |
| Costa Rica | Transistors, valves, etc.   | 181.2       | 75.3% | Footwear                     | 28.4        | 8.1%  |
| Costa Rica | Parts, for office machins   | 29.9        | 12.4% | Cotton Fabrics, Woven        | 18.8        | 5.4%  |
| Costa Rica | Telecomm. equip. parts nes  | 16.0        | 6.7%  | Transistors, Valves, Etc.    | 16.2        | 4.6%  |
| Mexico     | Parts, for office machins   | 218.8       | 19.3% | Telecomm. Equip. Parts Nes   | 2,510.4     | 14.2% |
| Mexico     | Non-ferrous waste, scrap    | 108.6       | 9.6%  | Automatc. Data Proc. Equip   | 2,176.7     | 12.3% |
| Mexico     | Organo-inorganic compnds    | 72.8        | 6.4%  | Parts, For Office Machins    | 1,519.9     | 8.6%  |
| Peru       | Animal feed stuff           | 585.6       | 31.5% | Automatc. Data Proc. Equip   | 96.1        | 9.1%  |
| Peru       | Copper ores, concentrates   | 502.8       | 27.0% | Telecomm. Equip. Parts Nes   | 74.1        | 7.0%  |
| Peru       | Ore, concentr. base metals  | 368.2       | 19.8% | Baby Carriage, Toys, Games   | 50.4        | 4.8%  |

Source: Comtrade

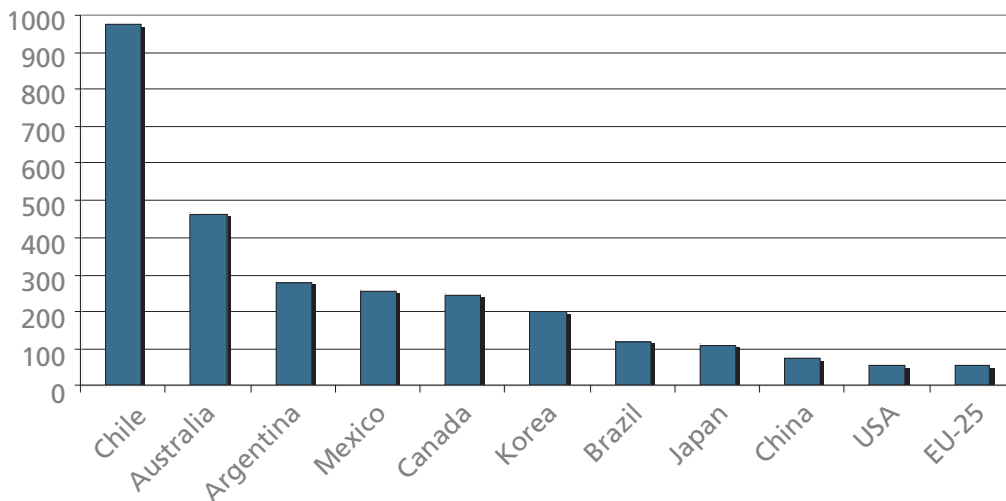
**CHINA-LAC TRADE: TWO PERSPECTIVES**



**CHINA-LAC TRADE: HIGHEST PROFILES (2005)**

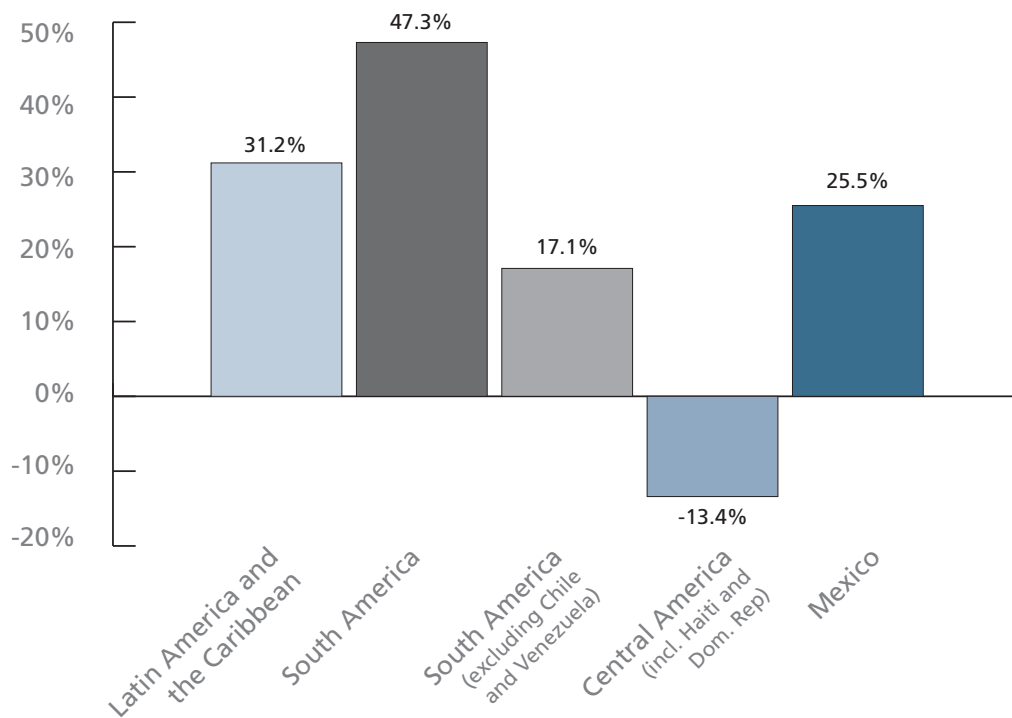


**EXPORT CONCENTRATION INDEX - 2005 (HS 6 DGTS)**



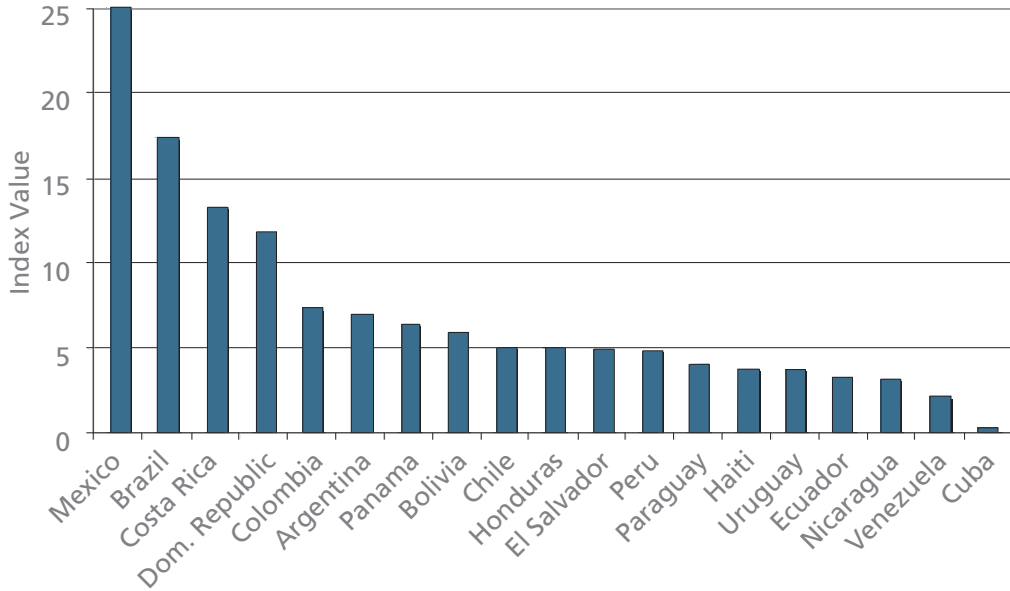
Source: UN Comtrade

**VARIATION IN TERMS OF TRADE BETWEEN THE 1990'S AND 2006**



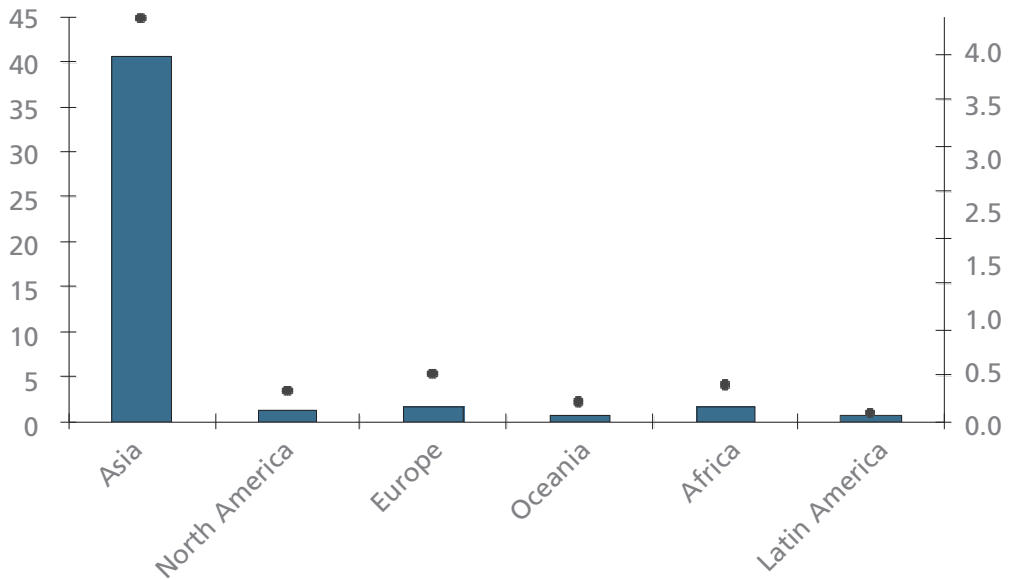
Source: ECLAC

**EXPORT SIMILARITY INDEX LAC-CHINA (2004)**



Source: UN Comtrade

**CHINESE FDI (2005)\* - US\$ BILLIONS**

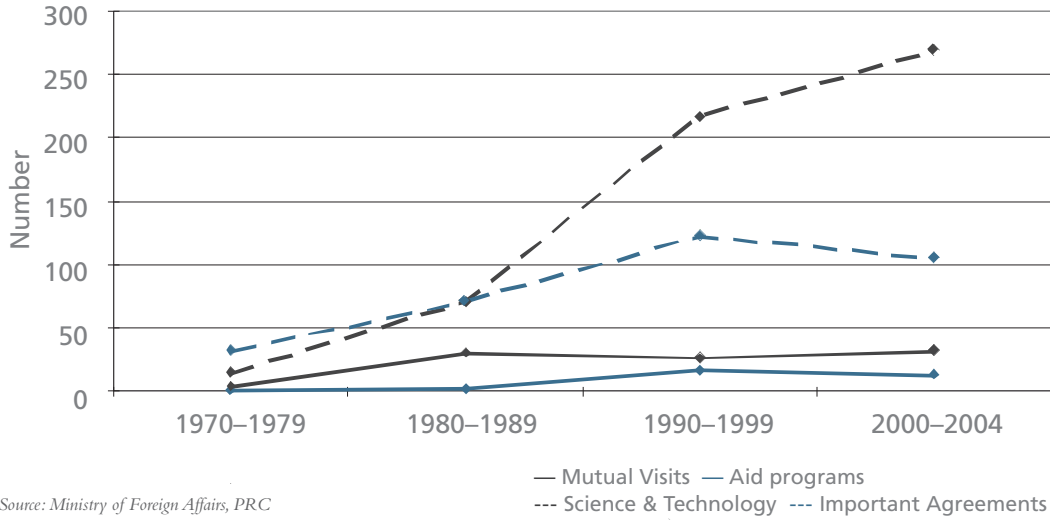


\* Official Authorized. Excludes designated flows to off-shore financial centers

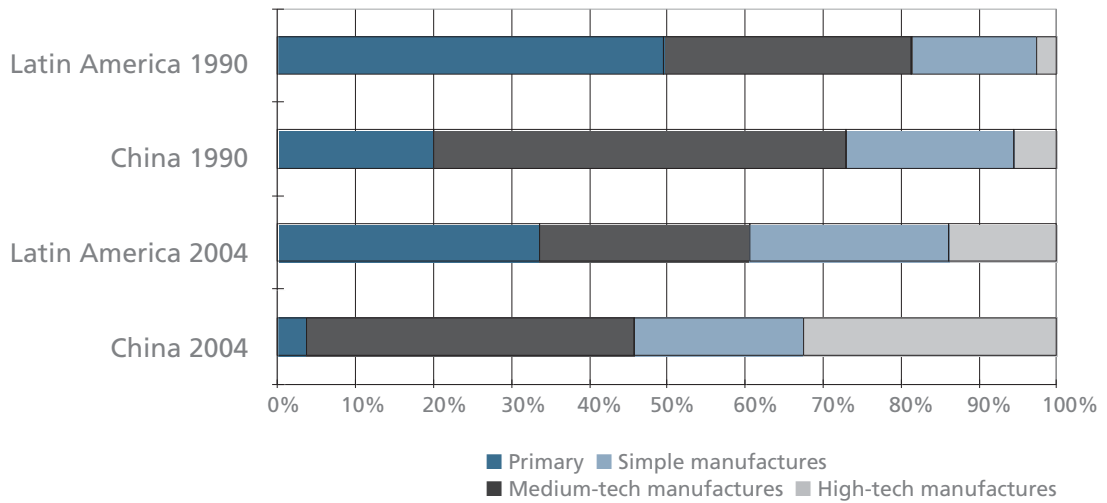
Source: Ministry of Foreign Affairs, PRC

■ Stock (LH axis) • Flows (RH axis)

### CHINA-LATIN AMERICA COOPERATION



### CHINA-LATIN AMERICA COOPERATION





# The Relationship between China and Latin America: Realities and Trends

SERGIO CESARIN

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## INTRODUCTION

The current relationship between China and Latin American countries (LAC) is a result of new political and economic conditions, both domestic and global, affecting China as well as the region. Since China's 1978 "Open Door Policy" economic reforms, political, social, cultural, and economic exchanges between both sides have increased drastically. Throughout the 1980s, the relationship mainly consisted of bilateral political contacts and cultural exchange programs. China—a transitional economy—was less economically relevant for policy makers in LAC, who were confronting more complex issues, including a foreign debt crisis and the domestic challenges of the democratization process. However, by the end of the decade, China's impressive economic performance opened new ways to expand the relationship.

During the 1990s, China and LAC fast-tracked a new agenda and deepened relationships, taking mutual advantage of the process of globalization that accelerated after the end of the Cold War. LAC adjusted their economic development strategies by opening to the outside world and attaching greater importance to cooperation with other developing countries. Both sides embraced globalization through policies of structural reform, adopting market-oriented reform initiatives like relaxing foreign investment restrictions, public sector (state) downsizing, lowering trade (TB) and non-trade barriers (NTB), and promoting start-up operations by transnational corporations (TC's).

Adherence to economic pragmatism over political ideology was a driving force behind expanded economic exchanges and the enriched China-LAC agenda. As a result, trade flows as well as financial, scientific, and technological cooperation increased. China's ascending international stature attracted the attention of political leaders, businessmen, and policy makers interested in engagement with Asia's giant. In the context of a more open international trade system and China's stronger position overall, Latin American governments shifted foreign policy priorities, reoriented external economic strategies to allow investment in competitive industries, and promoted human resource skills tailored to a booming Chinese market.

An emerging China engaged in multiple levels of diplomacy with LAC: multilateral, inter-regional, and intraregional. Examples of diplomatic links and approaches include China's gaining Observer Status at the Organization of American States (OAS), establishing a cooperation mechanism with MERCOSUR in 1997, and embarking on free trade agreement (FTA) negotiations, for instance with Chile in 2006. These agreements were useful not only for removing TBs and NTBs but also for addressing soft investment restrictions and for linking industrial sectors.<sup>1</sup> It is

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1. See Sergio Cesarin, *China se acerca. El Ying y Yang de una potencia emergente* (Buenos Aires: Editorial Capital Intelectual, 2006).



also well known that China is a close WTO ally of MERCOSUR's largest members (Argentina and Brazil), sharing a common position against agricultural subsidies and import barriers in the United States, the European Union, and other Asian countries (Japan and Korea).

China's impressive economic performance at the beginning of the 21st century helped it gain prominence as an emerging power in the global arena. Its surging importance enabled many LAC to counterbalance U.S. influence after a decade of neoliberal structural reforms rooted in the Washington Consensus. The change of political winds in LAC and rising criticism of the United States were beneficial to Chinese political interests, making Chinese diplomatic maneuvers in the region easier, allowing for investment by Chinese transnational corporations, opening channels for financial cooperation, and deepening economic exchanges pursued through official channels and also by Chinese communities in LAC. National and sub-national actors in Latin America continue to dictate the dynamic of economic exchanges. As a result of domestic political and economic decentralization, sub-national actors (provinces and municipalities) gained influence in the national decision making process, something that, in turn, improved the relationship between both sides.

In the last four years China has become Argentina's fourth-largest export market as well as the third-largest source of its imports.

Economic complementarities are a crucial part of the relationship. It is impossible for Latin American agricultural, mineral, and foodstuffs exporters to ignore a market of 1.3 billion people whose living standards are rising. At the same time, an unprecedented demand for natural resources in order to maintain high growth rates reinforces China's need for access to the raw materials, minerals, and oil resources that can be found in Latin America. This explains why in the last four years China has become Argentina's fourth-largest export market as well as the third-largest source of its imports. China is Chile's third-largest export market, and is one of the top ten economic partners of both Mexico and Cuba. China also became Brazil's fastest growing export market in the year 2005.<sup>2</sup>

Up until now, China's long-standing contact with the region, influence, political support, social networks, and role as an economic engine have given it a positive image within LAC. Despite a positive relationship overall, several dark clouds linger on the horizon.

## **DOMESTIC FACTORS AND FOREIGN POLICY**

Historically, bilateral ties, business contacts, social influence, and cultural attractiveness have been driving forces behind the continuity of China's foreign policy towards LAC. Since the People's Republic of China (PRC) was founded, Chinese political leaders, party members, scholars, and academic think tanks have given us the theoretical and practical tools to understand China's foreign policy goals in LAC. This historical background provides a framework to analyze and predict current and future trends.

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2. Between 1995 and 1999, bilateral trade between China and Brazil more than quadrupled.

Different factors have influenced the China–Latin America relationship. First, although Latin America does not represent a foreign policy priority for China, the region is an important player in a complex global game of strategic balancing with the United States. Of course, more important for China is how to manage its relationship with the Association of South East Asian Nations (ASEAN) countries, secure raw materials and oil supplies, and prevent conflicts on their own borders that could arise from either an emerging India or because of a changing political scenario in Japan. LAC’s affinity toward China provides political support and gives China a sense of playing as a “big power” in the international arena.

Latin America remains one of China’s main instruments  
for eroding Taiwan’s international status and forcing the island  
to negotiate a reunification timetable.

Second, Latin America is a diplomatic battlefield where China fights against Taiwan. Almost half of the states which recognize Taipei are Central American countries, in addition to Paraguay in the Southern Cone. Even so, Latin America remains one of China’s main instruments for eroding Taiwan’s international status and forcing the island to negotiate a reunification timetable.

Third, China’s rising global influence provides Latin American countries with an opportunity to make their own adjustments in foreign policy in order to gain autonomy and negotiation capacity in the international arena and counterbalance U.S. power in the region. The perception among many Latin American countries that U.S. foreign policy weakens the region, as well as widespread criticism of what is seen by LAC as the hemispheric hegemon, have fostered a foreign policy based on multi-polarity and the search for new, non-traditional allies in the world.

Both Cuba and Venezuela are currently engaged in deeper political and economic relationships with the “Asian Dragon.” A more moderate approach has been adopted by Brazil, Argentina, Peru, and Mexico. The opportunity for LAC created by China’s emerging power has been reinforced by India’s new global and regional economic strategy. As a result, the competition between the two biggest developing economies in the world—China and India—has increased LAC bargaining power in the global arena.<sup>3</sup>

Although China’s goals are not to challenge U.S. interests in Latin America, it is involved with the Cuban transition, is behind—or at least fully supportive of—the radicalization of Hugo Chávez’s “oil diplomacy,” and is putting more political and economic pressure on Central American countries that recognize Taiwan. China mixes the carrot and the stick by offering financial cooperation and official development assistance (ODA), and by developing links with Central American business associations, while simultaneously threatening labor-intensive industrial exports (electronics, consumer goods, and textiles) competing in the U.S. market. In this way, China tries to erode diplomatic relations between some Central American countries

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3. Jorge I. Domínguez (with Amy Catalinac, Sergio Cesarin, Javier Corrales, Stephanie R. Golob, Andrew Kennedy, Alexander Liebman, Marusia Musacchio-Farias, João Resende-Santos, Roberto Russell, and Yongwook Ryu) *China’s Relations with Latin America: Shared Gains, Asymmetric Hopes*, China Working Paper (Washington, DC: Inter-American Dialogue, 2006).

and Taipei. In the security field, despite not having a diplomatic relationship with Haiti, China, through its observer status in the OAS, participates in the peacekeeping operations of the UN mission, MINUSTAH. In the case of Panama, Hong Kong-based shipping companies respond to Beijing's political and economic goals.

China is also knocking at the door of the Inter-American Development Bank (IDB), hoping to become, together with Japan and Korea, a new extra-regional Asian member. China's eventual IDB membership would represent a turning point for the region's long-term economic prospects, thereby further diminishing U.S. influence.

### SOFT POWER

During the last decade, China has successfully pursued an aggressive image-building policy. Confucian globalism, the purported existence of a harmonious society, and the image of China as a multicultural country have proved to be useful rhetorical tools to gain support for China's emerging economic and political global status. Political discourse and the government's promulgation of the idea of China's "peaceful rising" try to counter negative perceptions about its military empowerment and growing international political influence. China has been successful in shaping a reputation as a responsible world leader. As a result of high profile diplomacy, China is now perceived as a constructive power committed to the maintenance of international peace and stability.<sup>4</sup>

In LAC, public opinion of China is positive. When Chinese leaders speak out about their aims and goals in the region, they utilize concepts like growth, mutual benefits, non-interference in internal affairs and, most importantly, development. To Latin American reformers, progressives, and left-leaning political leaders, these precepts sound much better than the free trade policies or neoliberal trade approaches linked with hemispheric North-South economic asymmetries and high social costs. One must remember that an essential element of Latin American political culture is the refrain of political utopia. Intellectuals, leftist political forces, and social actors find this notion congenial, in contrast to the pragmatic views coming from the North and perceived as part of a negative agenda. Chinese discourse engenders a sense of an altruistic, revolutionary model.

Political doctrine also provides a framework for understanding China's use of diplomatic terms such as friendship, cooperation, and mutual benefit in order to shape a positive agenda on both sides. For instance, recent attempts to recast state-private sector relationships in LAC are similar to China's "state capitalism" model in which the state—not the market—maintains high regulatory power over the economy. Leadership style is another point of mutual identification. China's "fourth generation" political leadership's social and economic priorities—such as welfare needs, income redistribution, social stability, environmental sustainability, and anti-corruption campaigns—are similar to the main goals pursued by Latin American political leaders in their respective nations.

For China, official and non-official diplomacy are two sides of the same coin, as evidenced by the relationship between China and Latin American political parties. The Chinese Communist

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4. Foreign visits made by President Hu Jintao and high ranking Chinese officials try to show a new political style and leadership in China.

Party (ChCP) has historical relations with traditional Latin American parties such as the *Partido Revolucionario Institucional* (Mexico), the *Justicialista party* (Argentina), the *Alianza Popular Revolucionaria Americana* (Peru), and the *Frente Sandinista de Liberación Nacional* (Nicaragua). These country's political experiences provide a good empirical model for transitional ruling parties like ChCP in discussing the role that it will play in the coming decades. Given new social conditions in China, ChCP's self-characterization as a "progressive" party (so denominated by President Hu) also provides common ground for an inter-party dialogue with Latin America's left-oriented political forces in order to improve south-south relationships, reach consensus on international issues, facilitate contacts between younger leaders, and promote mutual political affinities.

### BOOMING TRADE, BUT TAKING RISKS

Bilateral trade flows between China and Latin America have been increasing over the last two decades. Latin America's comparative advantages in agricultural production and its wealth of natural resources, raw materials, oil, and food leads to the perception of a "sea of opportunities" to feed China's growing demand and its need for the raw materials necessary to maintain high growth rates.

At the beginning of this century, China's raw materials, natural resources, minerals, and agro-food product imports played an essential role in the economic rebound of several LAC, and in some cases overrode social crisis (Argentina is the best example). As a result, LAC have demonstrated real benefits from growing trade. IDB reports show that China's exports to LAC are mainly machinery, electrical appliances, and value-added products such as automobiles, television sets, computers, motorcycles, and cellular phones. Almost two-thirds of LAC exports to China, however, consist of more labor-intensive and less technology-intensive products.<sup>5</sup>

Investment flows reflect complementarities in manufacturing, mining, infrastructure, and the trade in services. Among others, Chinese companies have invested in Argentina, Panama, Mexico, Peru (Hierro Perú in 1992 is a leading case), Chile, Brazil, Ecuador, Venezuela, and Colombia. At the same time, Latin American companies have established joint ventures in China in manufacturing sectors, biotech, agribusiness, financial services, consulting, and aerospace industries (i.e. the Brazilian company Embraer). With its huge foreign reserves, China is also a source of financing for LAC. China's state banks provide loans for infrastructure development (such as railroads and port facilities). In some LAC, national scientific and technological capacities have been reinforced through bilateral cooperation and technology transfers in high-tech sectors.<sup>6</sup>

But in the years to come there may be dark clouds looming on the economic and political horizons. There are different views in LAC about how bilateral trade patterns will evolve in the near future or how LAC can increase their benefits from a booming China—not only as providers of commodities, but also as exporters of more middle and high-tech products. Recent literature has demonstrated, including empirically, how Chinese manufactured goods compete with locally-

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5. Inter-American Development Bank, *The emergence of China: Opportunities and Challenges for Latin America and the Caribbean* (Washington, D.C.: Inter-American Development Bank, 2004).

6. An example is China's and Brazil's joint manufacture of resource satellites.

produced goods, impacting negatively on regional industrial capacity, unemployment rates, and labor market policies.

Moreover, China's low cost production poses a challenge to Latin American capital goods and middle and high-tech products exports, not only in domestic markets but also in third markets. According to ECLAC reports, Mexico and Brazil face hard competition in labor-intensive manufactured goods and middle-tech product exports, mainly to the United States.<sup>7</sup> The business community in the region for the most part views Latin American companies as unable to compete with Chinese firms, due to the scale of Chinese production and the lack of overall investment in Latin American firms.

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Questions have also been raised about the quality of Chinese foreign investment in LAC. Chinese transnational companies (Sinopec, ZTE, CNOOC, Baosteel, Huawei Tech., Minmetals, Lenovo and Haier) have started operations in the region (mainly through processes of mergers and acquisitions). But Chinese investments are concentrated in extractive sectors (mining, fisheries, agriculture) rather than in middle and high-tech industries which are more important for developing production capacity. It also has been said that Chinese transnational companies' labor standards, environmental regulations and lack of transparency in dealing with national governments would worsen the business climate within the region. Other "nontraditional" Chinese investors in LAC like Macau (SAR)—who are interested in diversifying foreign links by taking advantage of a "cultural axis" with Brazil—have raised concerns regarding Macau's role as a Chinese offshore financial center.<sup>8</sup>

Within the countries of MERCOSUR, the "China factor" has many faces. First, although MERCOSUR's exports have grown in the last two years, in 2006 imports of Chinese manufactured products (machine tools, auto parts, PCs) worsened MERCOSUR's hitherto favorable trade balance. As a result, there is an emerging consensus at private and government levels that is critical of the new "structural dependence" imposed by China on the trade bloc. Competitive pressure from Chinese companies on an intensive technology sector like automobile production is a good example.<sup>9</sup>

Second, Uruguay has expressed its desire to sign a preferential trade agreement with China, thus pursuing a more "open regionalism" approach in MERCOSUR's internal and external strategy. This approach is eroding sub-regional consensus on common external trade practices.

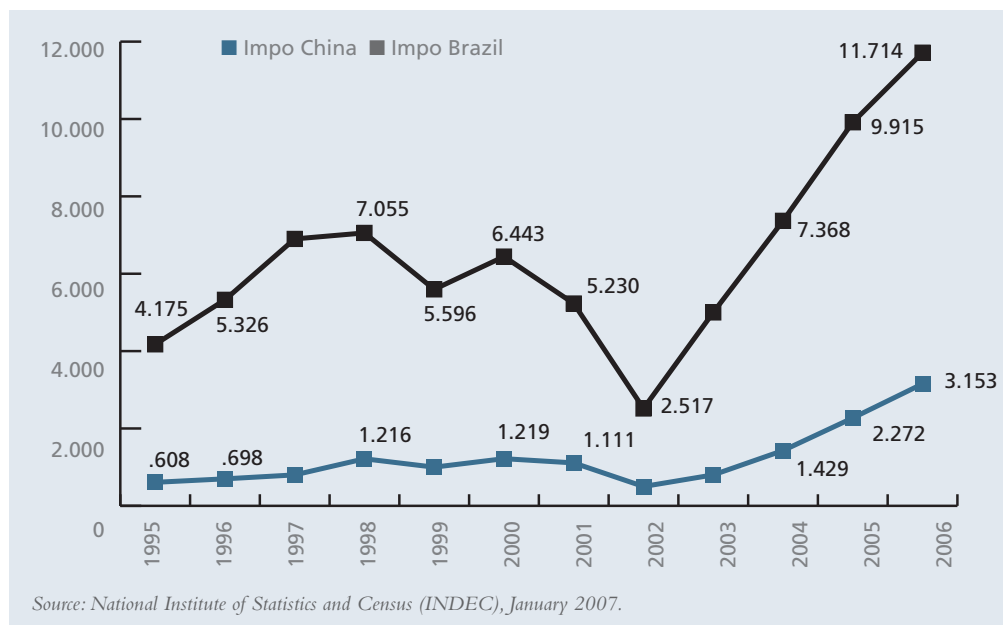
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7. See Jorge Blázquez, Javier Santiso, and Javier Rodríguez, "Angel or Devil: Chinese Trade Impact on Latin American Emerging Markets," *CEPAL Review*, No. 90, 2006.

8. Financial institutions (Delta Bank) in Macau are suspected to be involved in business with the North Korean regime.

9. The investment of one Chinese firm, Chery Automotive Industries, in a joint venture with Sociedad Macri (SOCMA) in Uruguay, seeks to increase Uruguay's share of the sub-regional automobile market, thereby sending a warning to Uruguay's main MERCOSUR partners, Argentina and Brazil.

## ARGENTINE IMPORTS FROM BRAZIL AND CHINA – US\$ BILLIONS



Third, some Brazilian industrial organizations complain about losing shares in Argentina's market due to increasing Chinese capital goods imports.

Fourth, Paraguay's diplomatic recognition of Taiwan creates a deadlock around any actions to foster closer relations between China and the bloc. Finally, many infrastructure projects in MERCOSUR have been devised according to Chinese interests, assuring access to natural resources or expanding transport facilities to speed up raw material exports, but not necessarily reflecting a sub-regional integrated plan.

There is no doubt that China will reinforce its presence in LAC through investments and official financial support. Whether it will help Latin America's economic development as a partner in a high value-added production chain or consolidate the region's role as a commodity supplier remains an open question.

## ARGENTINA'S MIXED FEELINGS

The relationship between Argentina and China has generated mixed feelings. One issue is trade. Although China is one of Argentina's top ten trading partners, exports are concentrated in a few agricultural products and raw materials. Ninety percent of Argentine exports to China consist of soybeans (6.4 million tons in 2006), edible oil (1.31 million tons in 2006) and soy flower. In contrast, 75 percent of Argentine imports from China consist of manufactured products such as tools, electronic devices, electrical appliances, and capital goods. There is no way for Argentina to diversify exports by trying to introduce more value-added products such as high quality agro-

food products, biotech services, natural gas technology (to be applied in the automotive industry), tourism services, or even software design.

Second, competitive Chinese products threaten labor-intensive industrial sectors. That explains why—even though Argentina recognized China’s “market economy status” in November 2004—many Chinese imports are still targeted by antidumping duties. Based on national statistics (through January 1, 2007), 42 percent of all Argentine antidumping and counter-trade measures have been directed at goods from China (Brazil ranks second with 11 percent). Like their counterparts in Brazil, business organizations are concerned about the rise in imports from China, particularly textiles, shoes, electronic products, capital goods, and auto parts. These entrepreneurs advocate measures to protect against unfair trade practices and domestic market losses.

Like their counterparts in Brazil, business organizations are concerned about the rise in imports from China, particularly textiles, shoes, electronic products, capital goods, and auto parts. These entrepreneurs advocate measures to protect against unfair trade practices and domestic market losses.

Finally, Argentina’s perception of China as a huge source of investment has gone from enthusiastic to distrustful, given the dearth of investment by Chinese firms. Currently, there are few investments compared to what President Hu had promised during his 2004 South American tour. In Argentina, there are only small projects: investments in a coal mine,<sup>10</sup> port facilities, and electronic products assembly. Therefore, many Argentine government officials find the purposes and goals of the “strategic relations” established between both countries as vague, and do not expect to receive billions of dollars in Chinese FDI in the coming years.

Despite these constraints, Argentina has expressed its willingness to expand bilateral financial cooperation. One proposal in 2006 was to sell Argentine treasury bonds to China in exchange for Argentina’s support for China’s membership in the Inter-American Development Bank.

## THE ROLE OF THE CHINESE COMMUNITY

Chinese communities in LAC are also key to understanding the current status of and future trends in the China-LAC relationship. Overseas, Chinese play a role as traders and as cultural builders of links between both sides. Moreover, in recent years Chinese remittances to relatives in China provide a new customer-base for Latin American banks and financial institutions.

There are also less obvious social and political aspects of the role Chinese communities play in the bilateral relationship. The Chinese community in Argentina plays a proactive role in deepening relationships with China, by connecting the two countries through their economic

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10. The China Metallurgical Group Corporation in Sierra Grande (Río Negro province).

activities. Whether or not Chinese immigrants are using Argentina as a jumping-off point to the North (the United States and Canada), the number of Chinese immigrants—as well as their social relevance and political influence—has been growing in the last decade.

Almost 40,000 ethnic Chinese currently live in Argentina, mainly in the provinces of Buenos Aires, Santa Fe, and Córdoba. They are involved in small business and trading activities, mainly as owners of restaurants, stores, and small commercial enterprises<sup>11</sup> and often competing with large, multinational store chains. The Chinese community has a positive social image within Argentina's social network. Most of the Chinese mini-markets located on the outskirts of the city of Buenos Aires or in the province of Buenos Aires (where millions of people still live below the poverty line) replaced small shops and stores which belonged to second generation Italian and Spanish immigrants who went bankrupt in the 1990s due to competition from malls.

### Almost 40,000 ethnic Chinese currently live in Argentina, mainly in the provinces of Buenos Aires, Santa Fe, and Córdoba.

This territorial dispersion proved to be advantageous when the Argentine economy went into crisis in 2001. Chinese mini-markets helped to relieve the subsequent social crisis by allowing people to buy basic products at low prices. Since 2001, Chinese shop-owners have been perceived as key social actors in any government effort to address poverty and bring inflationary pressures under control in Argentina's most important political district (the province of Buenos Aires).

## CONCLUSION

China and Latin America are geographically on opposite sides of the globe, but historical, political, and economic factors have led to an intense relationship. Mutual economic complementarities, new foreign policy priorities, and social networks due to Chinese immigrant links are the driving forces behind the current China-LAC relationship.

Nonetheless, there is an emerging debate concerning whether or not China's role in the region is positive for LAC. In the long term, there are some potentially negative elements in the economic, industrial, social, and political realms, and also with respect to security. These issues should be debated broadly by politicians, academics, and social actors.

Institutions of higher learning could play a pivotal role by promoting a deeper exchange of information and knowledge. Universities should help generate accurate information about China, thereby contributing to the training of individuals with a better understanding of different cultures. The creation of such human capital will be useful to improving the quality of public policies and enhancing private sector business opportunities.

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11. With more than US\$ 1 billion in annual turnover.





# The Economic Relationship between China and Brazil

RODRIGO MACIEL

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This analysis focuses primarily on Brazil, with additional observations about Argentina. The Brazilian and Argentine cases, along with those of other countries in the region, suggest that Latin America does not have an effective strategy for responding to Chinese activity in the region. Brazil, for example, is still contemplating the cost-benefit ratio of its relationship with China. This is problematic; once Brazil and Latin America understand how best to capitalize on the relationship, it may be too late.

China's role in Latin America is, above all, based on trade, despite U.S. concerns about China's military influence in Latin America. The major exception to this rule is Cuba, for which China represents a political relationship as well as one based on economic interests. Although Venezuelan authorities may also prefer that its relationship with China have political as well as economic dimensions, it is not clear that China has the same expectations of its relationship with Venezuela.

To China, Latin America represents a significant source of the necessary natural resources that will help China maintain its economic growth. Due primarily to trade with China, Latin America's trade volume grew from \$2.8 billion in 1988 to \$49 billion in 2005. Also, and as publicly announced, China intends to surpass \$180 billion in trade with Latin America by 2010, not only due to the country's need for natural resources, but also as a result of China's intention to diversify and expand its markets in the region. Thus, Latin America represents a substantial market for Chinese goods.

Trade relations between Brazil and China began to intensify in 2001 and have grown rapidly as China became increasingly interested in Brazil's natural resources. In addition, the Chinese understand the Brazilian market well, and between 2003 and 2004, China dramatically increased its exports to Brazil. In 2006, Brazil maintained a trade surplus with China, but it was significantly less than in previous years.

At the end of 2006, monthly trade statistics indicated that Brazil faced a deficit with China for the first time in five years.

While Brazilian exports to China continue to grow rapidly, Chinese exports to Brazil are growing at an even faster rate. In 2006, Chinese exports to Brazil grew at a rate of 49.2 percent, and Brazilian exports to China grew at roughly 20 percent. At the end of 2006, monthly trade statistics indicated that Brazil faced a deficit with China for the first time in five years; and in January 2007, the monthly deficit reached a record level of \$233 million. This deficit may total between \$500 million and \$1 billion in 2007 if the trends from 2006 continue. Although it is difficult to project a precise number for the 2007 deficit, it appears certain that Brazil for the first time will face an annual deficit with China.

China is now replacing other major export markets as a destination for Brazilian products. While the United States remains the largest single export destination for Brazilian goods, in 2002, Brazil's exports to China surpassed those destined for Germany, another primary trade partner. China is now close to overtaking Argentina—Brazil's second biggest trading partner—as a destination for Brazilian goods. The same phenomenon is occurring among major Brazilian suppliers as well. In 2005, China surpassed Germany as a source of Brazilian imports, and at the end of 2006, China had nearly surpassed Argentina as a supplier to Brazil. On January 27, 2007, China became the second largest supplier for Brazil, with Brazilian imports from China valued at \$791 million, while it continued to take away Argentine and U.S. shares in the Brazilian market. In other words, China is exporting goods to Brazil at a much faster rate than are Argentina and the United States. This supports the conclusion that China is, in fact, taking market shares from the United States and Argentina, rather than supplementing Brazil's overall trade volume.

Brazilian exports to China are concentrated primarily in commodities, principally petroleum, iron ore, and soybeans. These three basic commodities represent roughly 70 percent of Brazil's total exports to China, which differ considerably from the composition of Brazilian exports to countries like Argentina, the United States and the European Union, where exports are concentrated in manufactured and semi-manufactured goods. This difference is explained by the needs of the Chinese, who came to Brazil at the turn of the 21st century specifically in search of natural resources.

Brazil remains competitive in terms of commodities exports, yet it must diversify the composition of its exports to China. China's exports to Brazil are much more diversified and concentrated in manufactured goods, mechanical and electrical machinery, tools and equipment, and textiles. Thus, Brazil must focus on how to replace or move beyond exporting basic commodities to China, a task that is not easy. Moreover, it is problematic that manufactured and semi-manufactured Brazilian exports to China continue to decline in their degree of value-added. At the same time, commodities as a share of Brazil's exports to China continue to grow, increasing from 68.6 percent of exports in 2005 to 74.3 percent in 2006.

What is the role of Chinese products in the Brazilian domestic market? Between 2001 and 2005, Chinese goods (mainly machinery and data processing equipment) for the most part replaced goods from traditional suppliers in the major sectors. Although China was replacing Argentina, countries of the European Union, and the United States in the Brazilian domestic market, it was not responsible for large increases in total imports to Brazil. In the textile and shoe sectors, however, China was not responsible for trade replacement, but rather, for direct competition with domestic producers and for increased imports.

However, the biggest problem for Brazil is China's impact on third markets, not the Brazilian domestic market. Brazil continues to lose third markets due to Chinese competition. From 1990 to 2004, the Chinese share in total Latin American manufacturing imports grew from 0.7 percent to 7.8 percent, while the Brazilian share grew from 5.3 to 6.5 percent. What's more, in 2006, China became the major foreign supplier of manufactured goods to Latin America.

Trade between Argentina and China reflects the same trend illustrated by trade between Brazil and China. Following the Argentine economic crisis of 2001–2002, Argentina's exports to China

grew rapidly and continued at a high rate into 2007. Like Brazil, Argentina will probably face a trade deficit with China in 2007 for the first time in five years.

From 1999 to 2005, Chinese exports to Argentina grew by roughly 300 percent, while Brazilian exports to Argentina increased by 82.4 percent. If these statistics remain steady within the next three to five years, China will replace Brazil as the primary supplier to Argentina.

Thus, the current problem is not Chinese competition within the  
Brazilian domestic market, but rather, the effect of China replacing Brazil  
in major third markets.

A study conducted in Brazil analyzes Brazilian losses in third markets due to China's influence. The results show that China is responsible for perhaps more than 30 percent of Brazilian total losses in Chile and the United States, and losses in the Argentine and Mexican markets are at 11 and 14 percent, respectively. These losses are distributed across several sectors. In terms of the U.S. market, Chinese competition is responsible for more than 90 percent of Brazilian losses in the shoe and data processing sectors. In Chile, China is responsible for almost 100 percent of Brazilian losses in the tee-shirt market. China accounts for a high percentage of Brazilian losses in additional sectors in Argentina and Mexico as well. Thus, the current problem is not Chinese competition within the Brazilian domestic market, but rather, the effect of China replacing Brazil in major third markets.

Regarding Chinese investment in Latin America, President Hu Jintao visited Brazil, Argentina, Chile, and several other Latin American countries in 2004, promising a "magic number" of Chinese investment in the region. Although there have been several projections regarding Chinese investment promised to Latin America—the latest being \$47 billion—such investments have not yet materialized. China's investments to date total only about \$2.4 billion for the whole region.

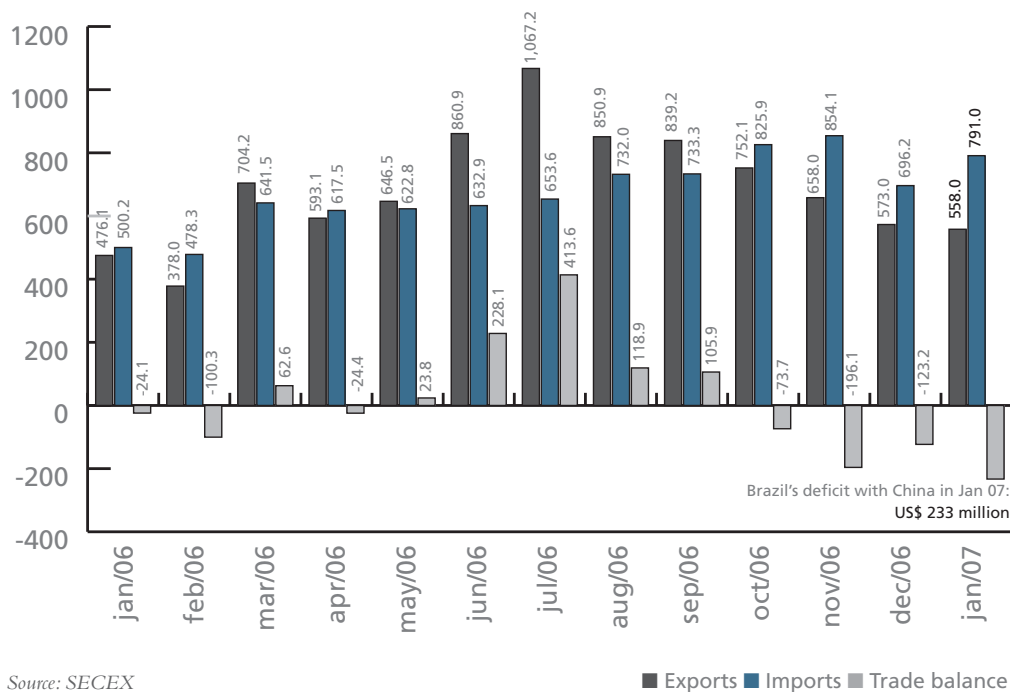
The Chinese approach to investment, however, does not match Brazil's  
interests or those of other major Latin American countries, which may  
explain in part why substantial Chinese investments have not been  
channeled to Brazil or Argentina.

Did Hu Jintao, in fact, promise \$47 billion in direct investment? Although this is subject to debate, it is also important to analyze the nature of China's involvement in Latin America, which is quite similar to its involvement in Africa. Essentially, China invests in infrastructure projects in order to control commodities and natural resources. The Chinese approach to investment, however, does not match Brazil's interests or those of other major Latin American countries, which may explain in part why substantial Chinese investments have not been channeled to Brazil or Argentina.

One must also acknowledge the difficulty of investing in Latin American countries. It is extremely difficult for U.S. or European companies to invest in Brazil and even in Argentina. The level of investment may also reflect a Brazilian strategy that questions Chinese control of its

natural resources. Does Brazil want China to invest in infrastructure in exchange for controlling commodities? Brazil's answer until recently has been, 'no.' Chinese investment in the region will certainly grow with time. In fact, almost one-third of all current Chinese investment in the world is directed toward Latin America.

### BRAZIL-CHINA'S TRADE MONTHLY 2006-07



### MAJOR COUNTRIES FOR BRAZILIAN IMPORTS (2006)

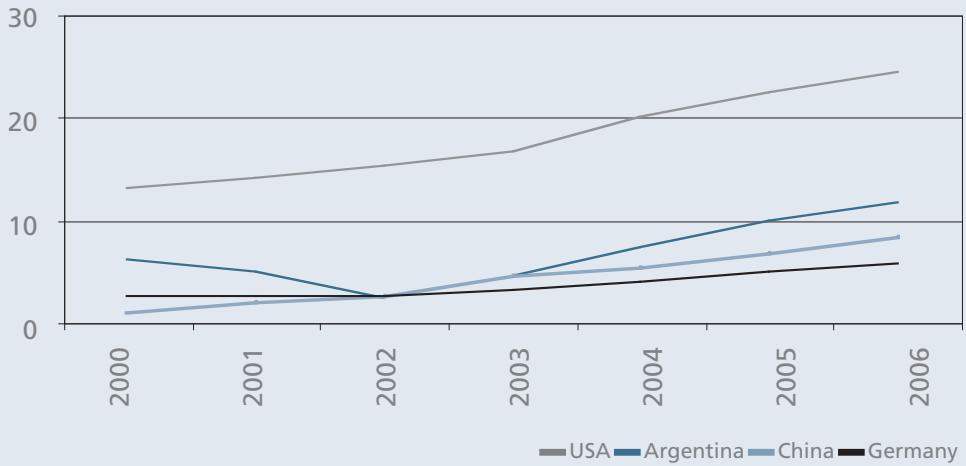
|                  | VALUE (US\$ MILLIONS) | % GROWTH (2006/05) | % SHARE |
|------------------|-----------------------|--------------------|---------|
| 1. United States | 14,850                | 16.5               | 16.2    |
| 2. Argentina     | 8,057                 | 30.1               | 8.8     |
| 3. China         | 7,989                 | 50.4               | 8.7     |
| 4. Germany       | 6,503                 | 6.7                | 7.1     |
| 5. Nigeria       | 3,885                 | 47.7               | 4.3     |
| 6. Japan         | 3,839                 | 13.7               | 4.2     |
| 7. South Korea   | 3,106                 | 34.5               | 3.4     |
| 8. Chile         | 2,908                 | 67.9               | 3.2     |
| 9. France        | 2,837                 | 5.9                | 3.1     |
| 10. Italy        | 2,570                 | 13.8               | 2.8     |

Jan/07: US\$ 791m

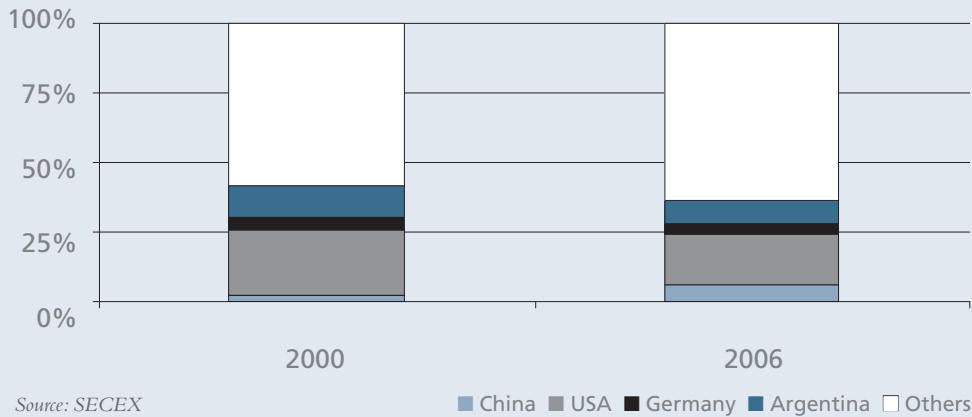
Source: SECEX

**BRAZIL'S MAIN EXPORT MARKETS**

Brazil's export destinations  
US\$ billions

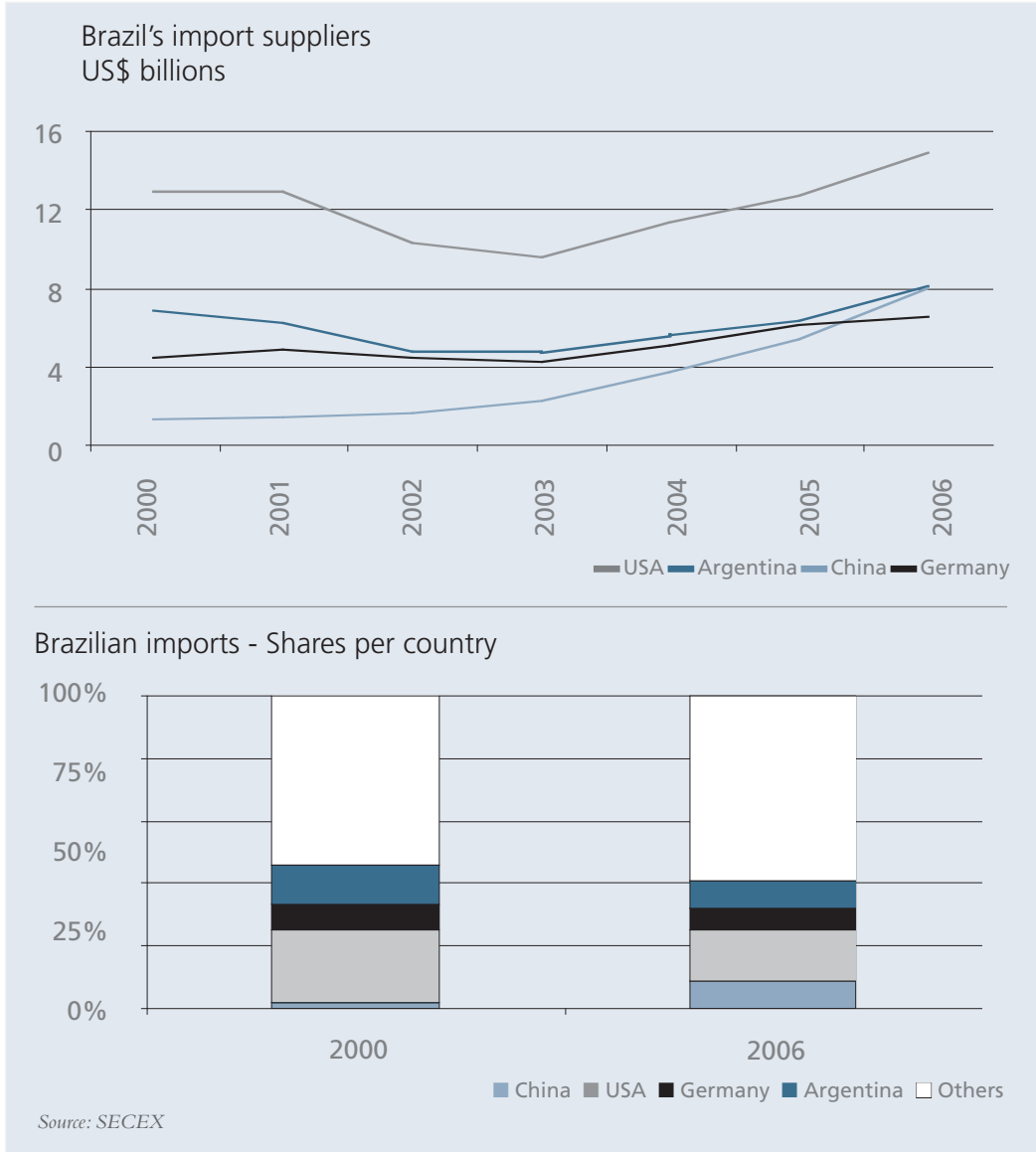


Brazilian exports - Shares per country



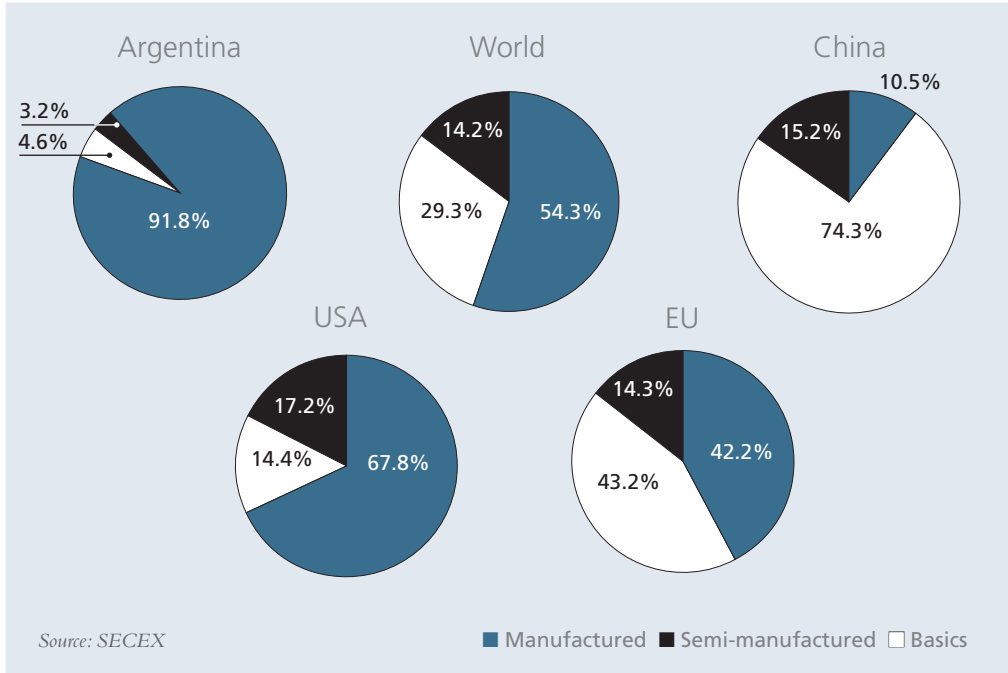
Source: SECEX

**BRAZIL'S MAIN SUPPLIERS**

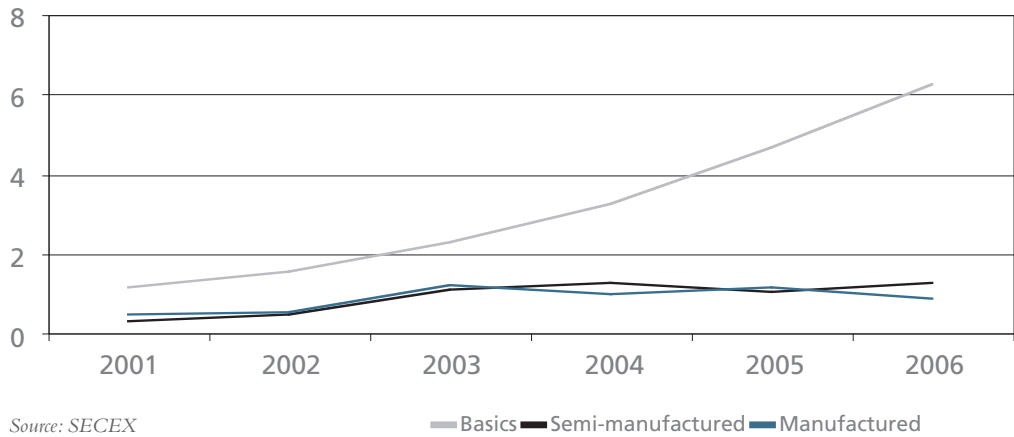




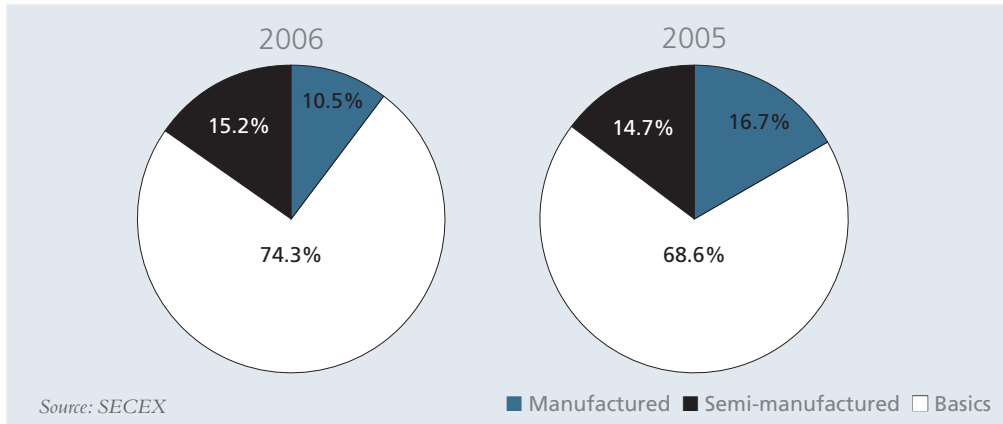
**BRAZILIAN EXPORTS - COMPOSITION (2006)**



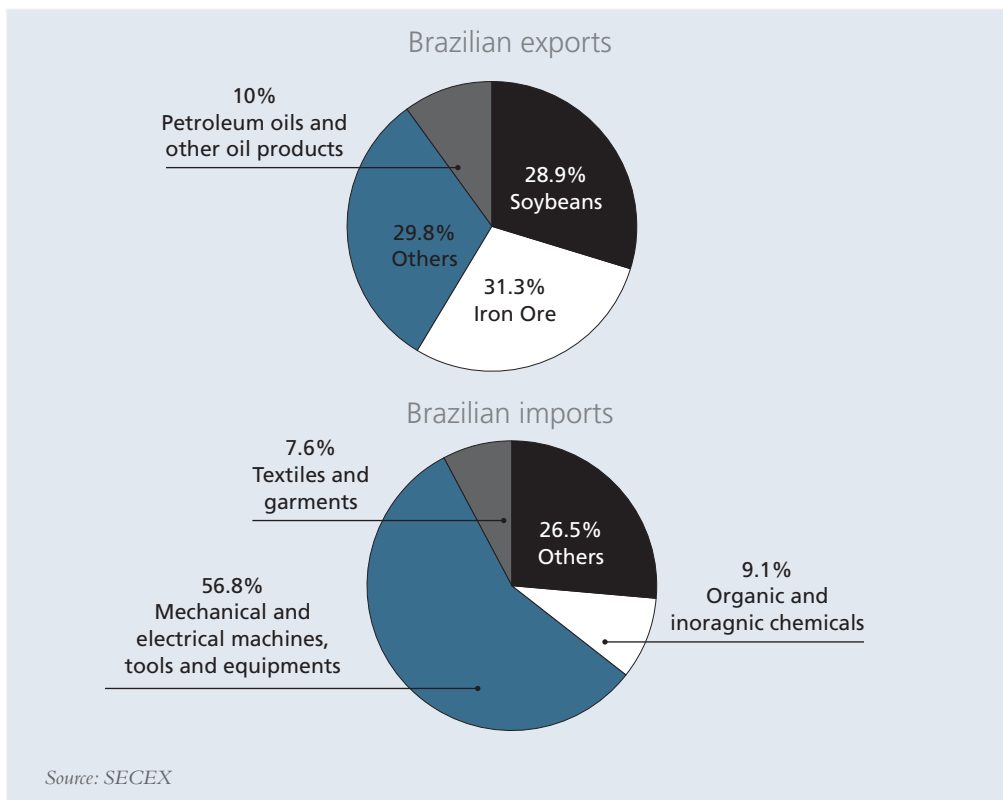
**BRAZIL'S VALUE ADDED EXPORTS TO CHINA - US\$ FOB BILLIONS**



**BRAZIL'S VALUE-ADDED EXPORTS TO CHINA (% SHARE)**



**BRAZILIAN TRADE WITH CHINA - SHARE PER PRODUCT (2006)**



**BRAZIL-CHINA'S TRADE JAN-DEC 2006 – US\$ MILLIONS**

|              | EXPORTS        |                |             | IMPORTS        |                |             | TRADE BALANCE |                |              |
|--------------|----------------|----------------|-------------|----------------|----------------|-------------|---------------|----------------|--------------|
|              | 2006           | 2005           | %           | 2006           | 2005           | %           | 2006          | 2005           | %            |
| Jan          | 476.1          | 380.1          | 25.3        | 500.2          | 325.0          | 53.9        | -24.1         | 55.1           | -143.7       |
| Feb          | 378.0          | 289.9          | 30.4        | 478.3          | 323.8          | 47.7        | -100.3        | -33.9          | 195.9        |
| Mar          | 704.2          | 445.3          | 58.1        | 641.5          | 405.8          | 58.1        | 62.6          | 39.5           | 58.5         |
| Apr          | 593.1          | 512.7          | 15.7        | 617.5          | 382.5          | 61.4        | -24.4         | 130.2          | -118.7       |
| May          | 646.5          | 406.0          | 59.2        | 622.8          | 390.4          | 59.5        | 23.8          | 15.6           | 52.5         |
| Jun          | 860.9          | 674.5          | 27.6        | 632.9          | 445.5          | 42.1        | 228.1         | 229.0          | -0.4         |
| Jul          | 1,067.2        | 780.4          | 36.8        | 653.6          | 482.4          | 35.5        | 413.6         | 298.0          | 38.8         |
| Aug          | 850.9          | 618.8          | 37.5        | 732.0          | 552.7          | 32.4        | 118.9         | 66.1           | 79.9         |
| Sep          | 839.2          | 653.9          | 28.3        | 733.3          | 533.2          | 37.5        | 105.9         | 120.7          | -12.2        |
| Oct          | 752.1          | 615.3          | 22.2        | 825.9          | 506.5          | 63.1        | -73.7         | 108.9          | -167.7       |
| Nov          | 658.0          | 715.1          | -8.0        | 854.1          | 505.2          | 69.1        | -196.1        | 209.9          | -193.4       |
| Dec          | 573.0          | 741.4          | -22.7       | 696.2          | 500.8          | 39.0        | -123.2        | 240.6          | -151.2       |
| <b>Total</b> | <b>8,399.3</b> | <b>6,833.4</b> | <b>22.9</b> | <b>7,988.3</b> | <b>5,353.8</b> | <b>49.2</b> | <b>411.0</b>  | <b>1,479.7</b> | <b>-72.2</b> |

Source: AliceWeb

**BRAZILIAN EXPORTS TO CHINA 2006/2005**

| PRODUCTS   | 2006              |             | 2005              |             | % (US\$ MILLIONS) |
|--|-------------------|-------------|-------------------|-------------|-------------------|
|  | US\$ FOB millions | Kg millions | US\$ FOB millions | Kg millions |                   |
| Meat and dairy                                   | 22.4              | 29.6        | 91.4              | 123.4       | -75.5             |
| Soybeans   | 2,431.6           | 10.8        | 1,716.9           | 7.2         | 41.6              |
| Soybean oil                                      | 113.6             | 234.6       | 169.2             | 365.5       | -32.9             |
| Tobacco  | 77.6              | 17.0        | 248.8             | 62.8        | -68.8             |
| Granite  | 74.7              | 528.5       | 48.3              | 339.6       | 54.4              |
| Iron ore   | 2,629.5           | 81,311.3    | 1,784.6           | 59,061.7    | 47,3              |
| Other ores<br>(manganese, copper, niobium, etc.) | 57.0              | 358.1       | 107.15            | 760.7       | -46.8             |
| Petroleum oils and other oil products            | 835.9             | 2,333.4     | 558.1             | 1,893.9     | 49.8              |
| Organic and inorganic chemicals                  | 121.3             | 139.1       | 107.4             | 139.1       | 13.0              |
| Leather and animal hides                         | 382.6             | 124.8       | 250.6             | 98.9        | 52.7              |
| Woodpulp, paper and cellulose wadding            | 402.9             | 982.0       | 288.7             | 727.1       | 39.6              |
| Semi-manufactured iron and steel products        | 189.9             | 194.2       | 540.9             | 1,012.5     | -64.9             |
| Mechanical machines, tools, and equipments       | 275.8             | 35.7        | 258.9             | 35.6        | 6.5               |
| Electrical machines, tools, and equipments       | 101.3             | 13.8        | 71.5              | 9.7         | 41.7              |
| Vehicles, tractors and their parts               | 64.7              | 13.0        | 55.2              | 11,529.8    | 17.2              |

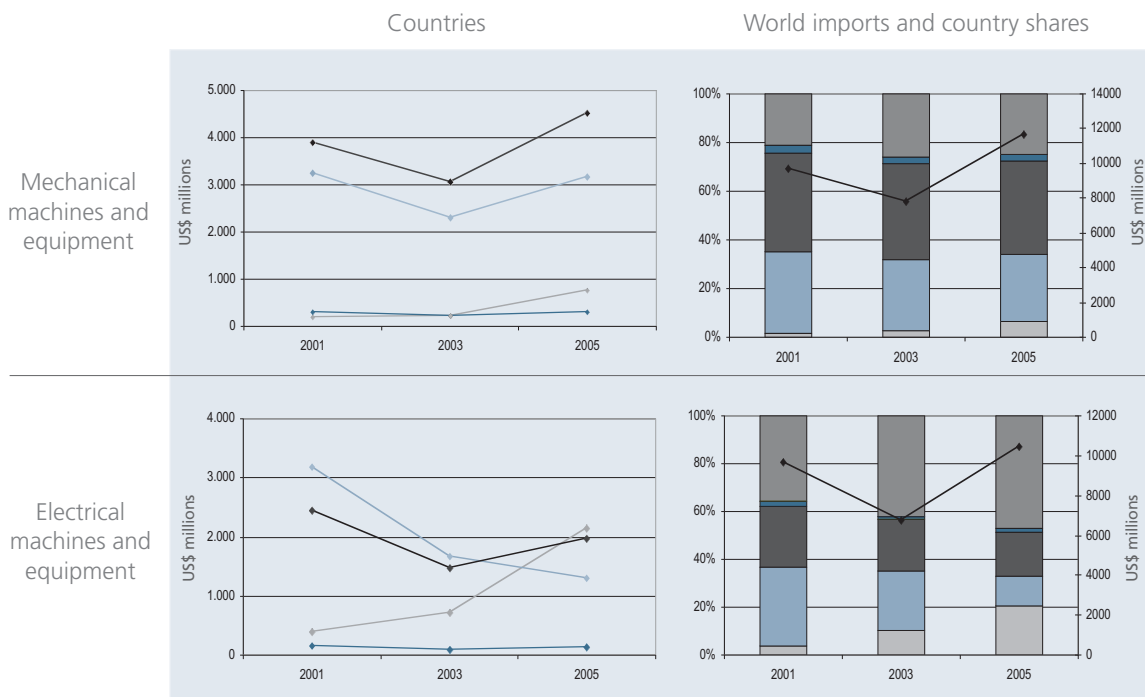
Source: AliceWeb

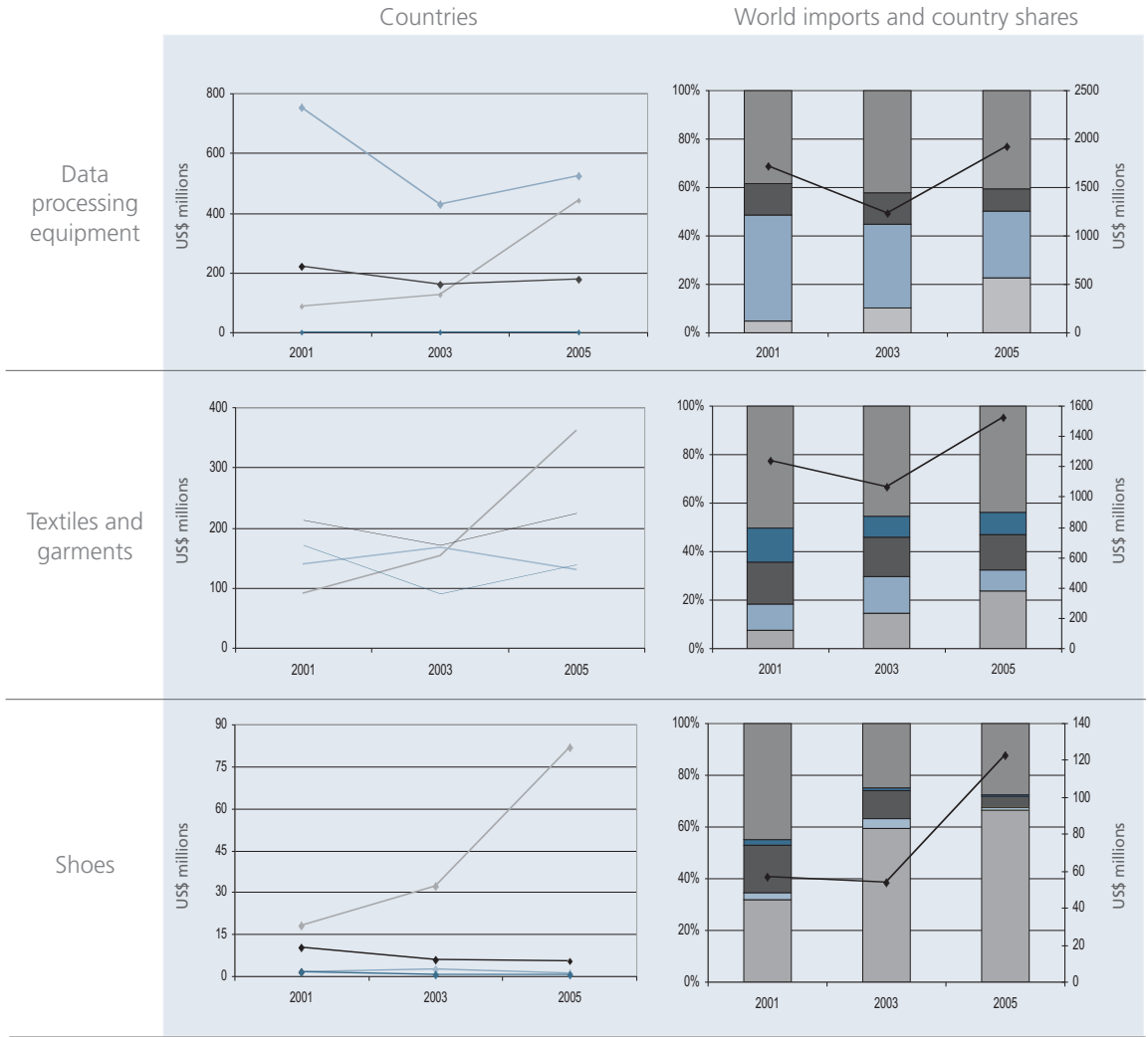
### BRAZILIAN IMPORTS FROM CHINA 2006/2005

| PRODUCTS                                   | 2006              |             | 2005              |             | % (US\$ MILLIONS) |
|--|-------------------|-------------|-------------------|-------------|-------------------|
|  | US\$ FOB MILLIONS | KG MILLIONS | US\$ FOB MILLIONS | KG MILLIONS |                   |
| Coal                                       | 133.6             | 949,898.2   | 185.5             | 1,130,924.5 | -28.0             |
| Organic and inorganic chemicals            | 726.8             | 651,678.2   | 583.7             | 400,905.7   | 24.5              |
| Textiles and garments                      | 607.6             | 175,377.7   | 359.5             | 110,258.3   | 69.0              |
| Shoes                                      | 91.6              | 8,390.8     | 81.5              | 7,821.4     | 12.3              |
| Mechanical machines, tools, and equipments | 1,379.8           | 194,283.6   | 760.8             | 123,958.0   | 81.4              |
| Electrical machines, tools, and equipments | 3,157.9           | 276,168.5   | 2,138.1           | 176,068.6   | 47.7              |
| Automobile parts                           | 144.4             | 63,665.3    | 93.2              | 42,872.4    | 54.9              |
| Toys                                       | 151.2             | 34,679.4    | 96.2              | 26,389.7    | 57.1              |

Source: AliceWeb

### CHINESE PRODUCT IMPACTS ON BRAZILIAN DOMESTIC MARKET

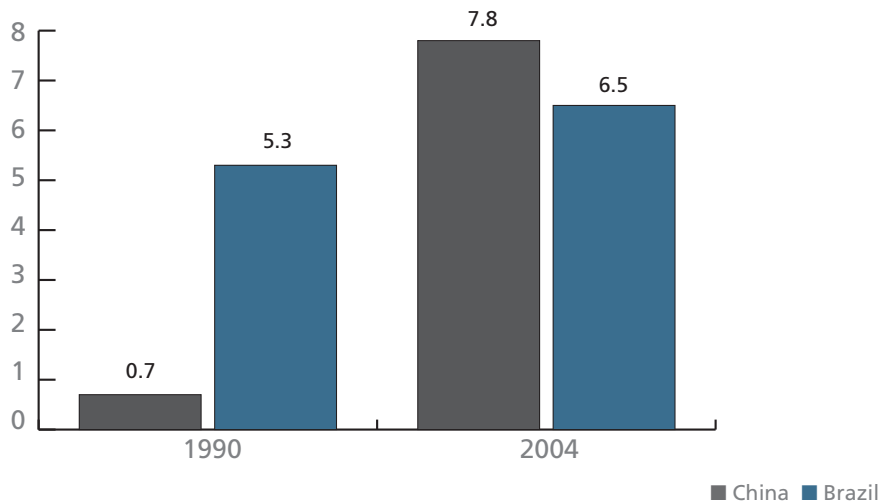




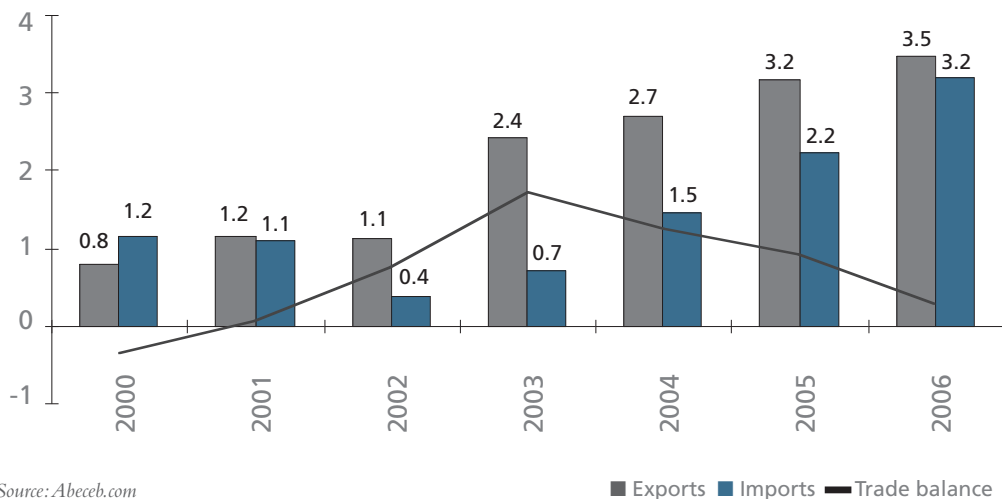
Source: SECEX

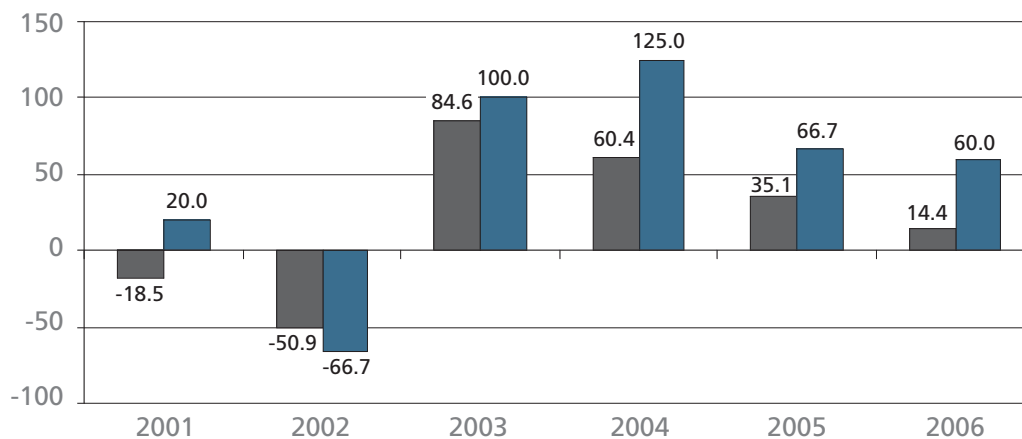
■ Other countries ■ Argentina ■ EU ■ USA ■ China ■ World

**BRAZIL AND CHINA'S EXPORTS TO LATIN AMERICA – SHARES (%)**



**ARGENTINA-CHINA TRADE – US\$ BILLIONS**



**BRAZIL AND CHINA'S EXPORTS TO ARGENTINA – GROWTH YOY (%)**

Source: Abcecb.com

■ China ■ Brazil

**BRAZILIAN LOSSES IN THIRD MARKETS (1999–2001/2002–2004)**

| COUNTRIES | TOTAL LOSSES (US\$ BN) | LOSSES ATTRIBUTED TO CHINA (US\$ BN) | CHINESE SHARE IN TOTAL LOSSES (%) | TOTAL LOSSES SHARE IN TOTAL EXPORTS (%) | LOSSES ATTRIBUTED TO CHINA IN TOTAL EXPORTS (% SHARE) |
|-----------|------------------------|--------------------------------------|-----------------------------------|---|---|
| Argentina | 0.45                   | 0.05                                 | 11.1                              | 2.7                                     | 0.3   |
| Chile     | 0.24                   | 0.07                                 | 29.2                              | 6.3                                     | 1.9   |
| USA       | 4.2                    | 1.5                                  | 35.7                              | 11                                      | 3.6   |
| Mexico    | 0.92                   | 0.13                                 | 14.1                              | 18.3                                    | 2.6   |

**BRAZILIAN LOSSES IN THIRD MARKETS**

| SH     | ARGENTINA                               | CHINESE SHARE IN BRAZILIAN TOTAL LOSSES (%) | SH      | USA                              | CHINESE SHARE IN BRAZILIAN TOTAL LOSSES (%) |
|--------|---|---|---------|----------------------------------|---|
| 841510 | Air conditioning machines               | 18.12                                       | 6400399 | Leather shoes with rubber soles  | 91.24                                       |
| 961310 | Pocket lighters                         | 85.92                                       | 852721  | Radio/sound record player        | 66.53                                       |
| 810419 | Magnesium unwrought                     | 98.26                                       | 870870  | Road wheel and parts of tractors | 85.98                                       |
| 290490 | Sulphanated derivatives of hydrocarbons | 68.03                                       | 640391  | Other shoes                      | 79.3  |
| 251990 | Fused magnesia                          | 54.4  | 847330  | Data processing                  | 99.93                                       |
| SH     | CHILE                                   | CHINESE SHARE IN BRAZILIAN TOTAL LOSSES (%) | SH      | MEXICO                           | CHINESE SHARE IN BRAZILIAN TOTAL LOSSES (%) |
| 440839 | Wood sheets                             | 75.01                                       | 841510  | Air conditioning machines        | 91.52                                       |
| 251990 | Fused magnesia                          | 99.9  | 720221  | Ferro-silicon                    | 98.51                                       |
| 401120 | Pneumatic tires of rubber for trucks    | 66.91                                       | 852990  | Parts for transmission apparatus | 39.89                                       |
| 610910 | Cotton t-shirts                         | 96.39                                       | 280469  | Silicon                          | 95.28                                       |
| 847050 | Register machines                       | 76.01                                       | 720230  | Ferro-silica manganese           | 67.01                                       |





# Three Factors in the Recent Development of Sino-Latin American Relations

SHIXUE JIANG

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In recent years China's relations with Latin America have been developing very rapidly, attracting attention from around the world. There are three specific areas of rapid growth.

First, high-level visits between the two sides are frequent. In the past decade, for instance, 74 Latin American heads of state, members of the legislature and government leaders have visited China; and Chinese leaders have visited 19 Latin American countries. From November 11 to 23, 2004, Chinese President Hu Jintao paid an official visit to Brazil, Argentina, Chile and Cuba. From January 23 to February 3, 2005, Chinese Vice President Zeng Qinghong visited Mexico, Peru, Venezuela, Trinidad and Tobago and Jamaica. Thus, in a time span of just two months, the country's president and vice president both paid visits to Latin America. This was unprecedented in China's international relations. Then in May 2005, Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), visited Mexico, Cuba, Colombia and Uruguay. In September 2005, Chinese President Hu Jintao visited Mexico during his tour of North America and the United Nations. This was Hu's second trip to the Latin American region in less than one year.

In the past decade, for instance, 74 Latin American heads of state, members of the legislature and government leaders have visited China; and Chinese leaders have visited 19 Latin American countries.

The second area of rapid growth is in economic exchanges, particularly bilateral trade with the region. In 2000, China's trade with Latin America was only \$12.6 billion. It reached \$40 billion in 2004, \$50 billion in 2005, and surpassed \$70 billion in 2006. In addition, bilateral investment has also been increasing, though at a much slower pace compared with that of trade.

Third, cooperation and exchanges in other areas are growing. The Communist Party of China has established relations with most of the political parties in Latin America. Since 1990, China has had 15 dialogues with the Rio Group at the ministerial level. Since 1997, China and Mercosur, the South American Common Market, have held five dialogues. On May 26, 2004, the Organization of American States (OAS) accepted China as a permanent observer. Before obtaining OAS status, China had already become an observer in the United Nations Economic Commission for Latin America and the Caribbean, the Latin American Integration Association, the Inter-American Development Bank, and the Latin American Parliament.

People-to-people contacts have also been growing. Almost one hundred sister-city relationships have been established between Chinese cities or provinces and their counterparts in 15 countries in Latin America, including Panama, a Central American country that has no diplomatic tie with the People's Republic. Moreover, 17 Latin American countries have become tourist destinations for Chinese citizens.

In the area of science and technology, the most notable example of cooperation was the joint launching of two satellites by China and Brazil. This has been considered one of the best success stories of South-South cooperation in science and technology. Other Sino-Latin American cooperation has included such areas as agriculture, forestry, fishery, husbandry, medicine, earthquake prediction, manufacturing, information technology, biology, geology and space.

In discussing Sino-Latin American relations, it is necessary to take into consideration three factors: 1) the Latin American factor in China's development; 2) the China factor in Latin American development; and 3) the U.S. factor in Sino-Latin American relations.

### **THE LATIN AMERICAN FACTOR IN CHINA'S DEVELOPMENT**

China's reform and open-door policies, implemented in 1978, have two principal aspects. Domestically, it is hoped that by reducing the scope of government functions, market forces can play a more important role in the economy and a market economy system can be established. Externally, it is expected that by opening the market, more foreign capital can be introduced, more sophisticated technology can be brought in, and more labor-intensive products can be exported to world markets.

Chinese achievements in the realm of reform and opening to the outside world have been impressive. But there are problems. First of all, China is facing increasing friction with the developed countries, which have frequently used anti-dumping practices and other means to restrict Chinese exports. From time to time, the United States uses economic leverage to exert political pressure on China. Therefore, it is imperative for China to reduce economic dependence upon the United States and other developed countries. To realize this goal, China needs to diversify its trade partners. In this regard, Latin America, a continent with a population of more than 500 million people and an economic size of more than US\$2 trillion, is certainly a big market for Chinese products.

Second, while China is a nation with a great amount of natural resources, because of its huge population, China is also lacking resources in terms of per capita distribution. Consider forest area and timber, for example. According to recent statistics, China's forest area is 1.2 million square kilometers, and timber resources are about 10 billion cubic meters. These two absolute numbers are huge compared to many other countries in the world. But in per capita terms, China's forest area is merely 0.10 hectares, and timber resources are less than 10 cubic meters, as compared with the world average of 1.07 hectares and 83 cubic meters, respectively. According to a report published in 2006, China's per capita reserves of coal, oil and gas are only 70 percent, 11 percent, and 4 percent of the world average.<sup>1</sup>

On the one hand, the nation should make strenuous efforts to upgrade the efficiency of using its resources; on the other, it needs to locate supplies from abroad. Latin America is the

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1. Cui Minxuan (ed.), *2006 Zhongguo nengyuan fazhan baogao* [2006 Development Report of China's Energy] (Beijing: Sheke wenxian chubanshe [China Documentation Press of Social Sciences], 2006), [http://www.china.com.cn/info/06nengyuan/txt/2006-08/29/content\\_7114989.htm](http://www.china.com.cn/info/06nengyuan/txt/2006-08/29/content_7114989.htm).

perfect place from which China can import many kinds of needed resources. Additionally, the importance of Latin America goes beyond the economic area. Politically speaking, Latin America could be a partner for China and other developing countries in their efforts to oppose hegemony, establish a just world order, and a harmonious world. Both Latin America and China share many common or similar positions towards some of the major international issues. Also noteworthy is the fact that in the United Nations, each country enjoys one vote, and China has the potential to win support from Latin American countries on many issues.

Politically speaking, Latin America could be a partner for China and other developing countries in their efforts to oppose hegemony, establish a just world order, and a harmonious world.

Latin America is also relevant for China's efforts to reunite Taiwan with the motherland. To resolve the Taiwan issue is one of the most important tasks for the Chinese people. Beijing is willing to achieve this reunification peacefully, with utmost sincerity and great effort, but Taiwan independence cannot be tolerated.

Currently, 23 countries have "diplomatic relations" with Taiwan, and 12 of them are found in Latin America. They are Paraguay, the only country in South America which recognizes Taiwan, six of the seven Central American countries, and five Caribbean island nations (the Dominican Republic, Haiti, Saint Kitts and Nevis, St. Lucia and Saint Vincent and the Grenadines).

The People's Republic of China has established diplomatic relations with 169 countries around the world. It is a member of more than 130 international organizations. But the above-mentioned 12 Latin American countries keep a blind eye to this fact. They ignore the resolutions passed by the United Nations on the Taiwan issue, belittle themselves by keeping ties with a province of a sovereign nation, and hurt the feelings of the Chinese people.

## THE CHINA FACTOR IN LATIN AMERICAN DEVELOPMENT

China's rise on the world stage, in both political and economic terms, poses opportunities for Latin American development. Though some of the exports from Latin America and China are competing in the world market, China's huge demand for natural resources offers higher prices for Latin American exports of raw materials. As the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) indicates, China has become one of the engines for Latin American growth. In its annual report analyzing Latin America's economic situation in 2004, ECLAC said, "The satisfactory performance of the region's economies was closely tied to developments in the international economy. World economic activity picked up speed in 2004, resulting in estimated global GDP growth of just under 4 percent (versus 2.7 percent in 2003), while the expansion of world trade could top 9 percent (versus 5.8 percent in 2003). The United States and China were the engines of this expansion, which contributed to the commodity price hikes that have benefited many countries of the region, especially those in South America."<sup>2</sup>

In recent years, however, the use of anti-dumping measures against Chinese exports has been quite common. On April 15, 1993, Mexico decided to levy anti-dumping tariffs on ten categories of imports from China. This was the first action ever taken in Latin America to limit Chinese exports. Since then Argentina, Brazil, Chile, Colombia, Ecuador, Peru and Venezuela, among others, have all employed this trade practice against China.

### In some Latin American countries, the erroneous notion that China constitutes a threat has arisen.

Several features characterize Latin America's anti-dumping policies. First, this practice tends to cover a wide range of Chinese products. Second, the anti-dumping tariffs levied are very high. For example, Mexico once levied a tariff of 1105 percent on Chinese shoes—a rate that was equivalent to a total ban on this product. Third, until recently, some Latin American countries still believed China's economy is determined by central planning. Lastly, certain Latin American countries seldom follow international norms, i.e., they tend to levy tariffs before carrying out an actual investigation.

In recent years, another problem has arisen in Sino-Latin American relations. In some Latin American countries, the erroneous notion that China constitutes a threat has arisen. First, China's relations with Latin America are not targeted towards any third party. Second, both China and Latin America belong to the Third World and cooperation between the two sides will benefit world peace and development. Third, since the 1990s, Latin America has been opening its door to the world, to various countries with various kinds of political systems and cultures. So China is only one of the partners with which Latin America is trying to build economic relations. As a matter of fact, Latin America's relations with Japan, South Korea and the European Union are all much closer than its relations with China. Finally, China's relations with Latin America in the political field, such as the establishment of various strategic partnerships, also contribute to world peace and South-South cooperation.

Indeed, expanding its market share in Latin America has been part of China's objective to reduce its dependence upon the United States, Japan, and Europe. China has therefore been trying very hard to find ways and means to increase economic relations with Latin America. One recent measure has been called "processing with our own materials," which means that China ships production lines and intermediate goods to Latin America instead of selling the final products. This idea seems feasible, since China's own capacity for production of certain types of goods is showing signs of exceeding its domestic market needs.

Government officials, business people, and scholars from both China and Latin America have frequently suggested that China and Latin America should think of more effective ways to sustain the momentum of economic cooperation that has been underway over the past several decades.

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2. CEPAL. *Economic Survey of Latin America and the Caribbean*, 2004. United Nations Economic Commission for Latin America and the Caribbean, (Santiago de Chile, 2004).

One such way would be for them to make more foreign direct investments in each other's economies.

According to China's Ministry of Commerce, by 2003, China had invested \$4.6 billion in Latin America, accounting for 14 percent of its total overseas investment. (By comparison, Asia's share was 80 percent.) Most of the investments were located in the British Virgin Islands and Cayman Islands. Other major Chinese investments in Latin America include an iron ore mine in Peru, oil fields in Venezuela, Mexico and Peru, agriculture and textiles in Mexico, timber in Brazil, fish meal and timber products in Chile, fisheries and TV sets in Argentina, motorcycles in Colombia, shrimp raising in Ecuador and natural gas production in Venezuela and Peru.

In 2005, China's non-financial investment in Latin America totaled US\$6.5 billion. Thus, for the first time, Latin America had become the largest recipient of Chinese investment abroad, accounting for 52 percent of the total. By 2005, total stock of China's investment in Latin America stood at US\$11.5 billion. The largest four recipients, with more than one hundred million US dollars, were the Cayman Islands (US\$8.936 billion), the British Virgin Islands (US\$1.984 billion), Mexico (US\$142 million) and Peru (US\$129 million). The next four largest host countries were Brazil (US\$81 million), Venezuela (US\$43 million), Panama (US\$35 million) and Cuba (US\$34 million).<sup>3</sup>

### THE U.S. FACTOR IN SINO-LATIN AMERICAN RELATIONS

A closer relationship between China and Latin America has caused concern in the United States. At a hearing of the Western Hemisphere Subcommittee of the House International Relations Committee on April 6, 2005, U.S. Congressman Dan Burton (R-IN) said, "The traditional goals of U.S. policy in Latin America have always included promoting political stability, promoting democracy, increasing access to markets, and preventing the rise of hegemonic power. Until we know the definitive answer to this question of whether China will play by the rules of fair trade and engage responsibly on transnational issues, I believe we should be cautious and view the rise of Chinese power as something to be counterbalanced or contained, and perhaps go so far as to consider China's actions in Latin America as the movement of a hegemonic power into our hemisphere."<sup>4</sup>

Burton mistakenly considered the development of Sino-Latin American relations as a danger to the United States. He said at the hearing, "I believe China's rising economic, political and military influence in the Western hemisphere poses serious challenges to the United States in the years ahead. And if we are not careful, Beijing's influence could easily unravel the region's hard-won, U.S.-backed reforms to fight against corruption, human rights abuses, increase government transparency and combat intellectual property violations, and the democracies that we see as fledgling democracies could be in real jeopardy. We must work in earnest to prevent this from happening."

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3. Ministry of Commerce (China), <http://hzs.mofcom.gov.cn/accessory/200609/1157678176299.pdf>

4. <http://internationalrelations.house.gov/archives/109/bur040605.pdf>

At the hearing, the U.S. Congressman even said, “I would also caution our friends throughout Latin America about granting China full market economy status. I think it is clear that China’s state subsidies, its currency peg, and poor labor rights conditions disqualify China from truly deserving ‘market economy status.’ Consequently, granting China full market economy status would be, in my view, a grave error in judgment.”

The news media in the United States have been portraying a wrong perception of the development of Chinese relations with Latin America. One editorial in the *Wall Street Journal*, for instance, says, “The rise of China in the region could complicate U.S. efforts to control illegal immigration, weapons shipments, the drug trade and money laundering because China is cooperating with Latin countries that are not especially friendly toward those efforts. Some of these nations may try to use the Chinese alternative to challenge U.S. hegemony.”<sup>5</sup>

The United States’ concern over the closer relationship between China and Latin America is misplaced and unnecessary. It is well-known that Latin America has been on the path of reform and opening to the outside world for almost two decades. It endeavors to attract more foreign investment and liberalize the market so as to stimulate growth. As a result, China is only one of the economic partners with whom Latin America has been trying to cooperate.

China understands well that Latin America is the backyard of the United States, so China has no intention whatsoever to challenge the American hegemony in Latin America.

China understands well that Latin America is the backyard of the United States, so China has no intention whatsoever to challenge the American hegemony in Latin America. Both China and Latin America have been opening to the outside world. In the age of globalization both of them should cooperate to push forward South-South cooperation. As a matter of fact, further cooperation between China and Latin America will benefit regional peace and development in the Asia-Pacific region and in Latin America. Such an outcome would also certainly favor of the United States.

## CONCLUSION

In 1988, Chinese leader Deng Xiaoping said, “People are saying that the 21st century is the Pacific era....I firmly believe that at that time there will also be a Latin American era, and I hope the Pacific era, Atlantic era, and the Latin American era appear at the same time.” He also said, “China’s policy is to develop and maintain good relations with Latin American countries, and make Sino-Latin American relations a model of South-South cooperation.”<sup>6</sup>

Former Chinese President Jiang Zemin said repeatedly during his trip to Latin America in April 2001, “The 21st century will be a century of China and Latin America cooperating in all areas hand in hand, and it will also be a century of the peoples in China and Latin America building a better tomorrow.”

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5. Mary Anastasia O’Grady, “The Middle Kingdom in Latin America,” *Wall Street Journal*, September 3, 2004.

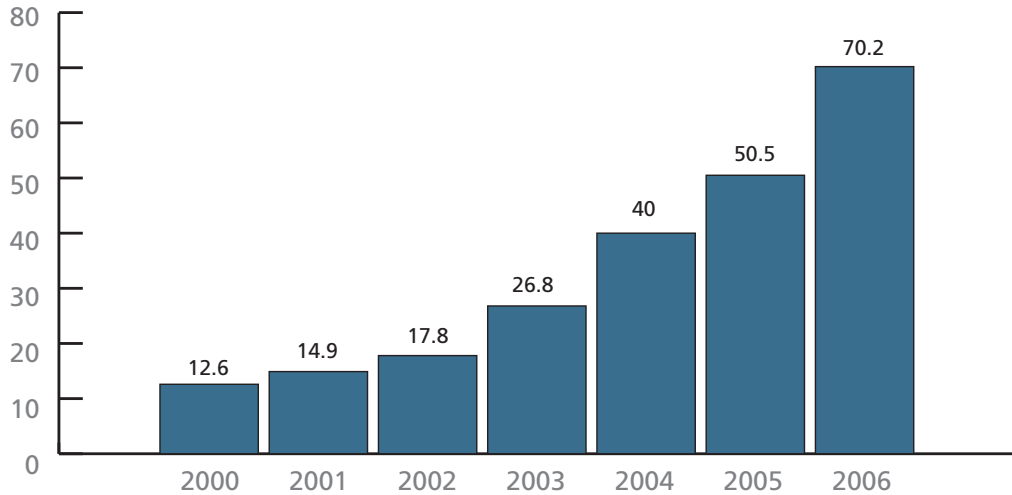
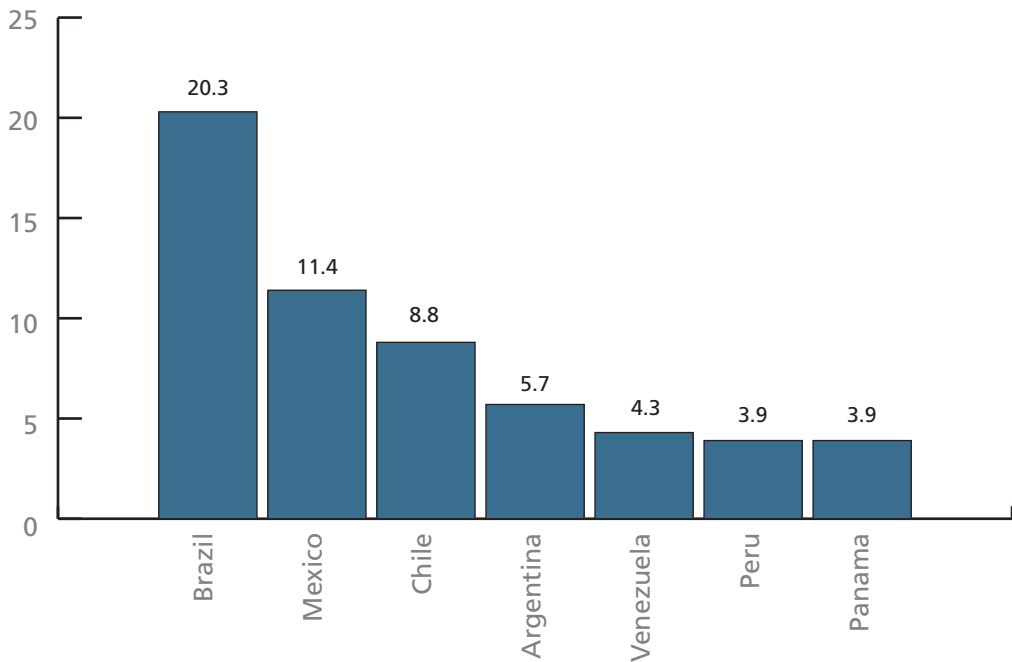
6. Quoted from the *Renmin ribao* (People’s Daily), October 8, 1995.

Chinese President Hu Jintao said in his address to the Brazilian Congress on November 12, 2004, that both Latin America and China have similar experiences in gaining national liberation, defending national independence and building up their countries. Therefore, both sides have the same feelings and a common language. He said that Sino-Latin American relations were expected to reach the following three goals: support each other in the political field; strengthen economic complementarity; and carry out close cultural contacts. In order to realize these goals, President Hu proposed that the two sides should 1) strengthen strategic common ground and enhance mutual political trust; 2) take practical and creative steps to tap the potential for economic cooperation; and 3) attach importance to cultural exchanges to deepen mutual understanding.

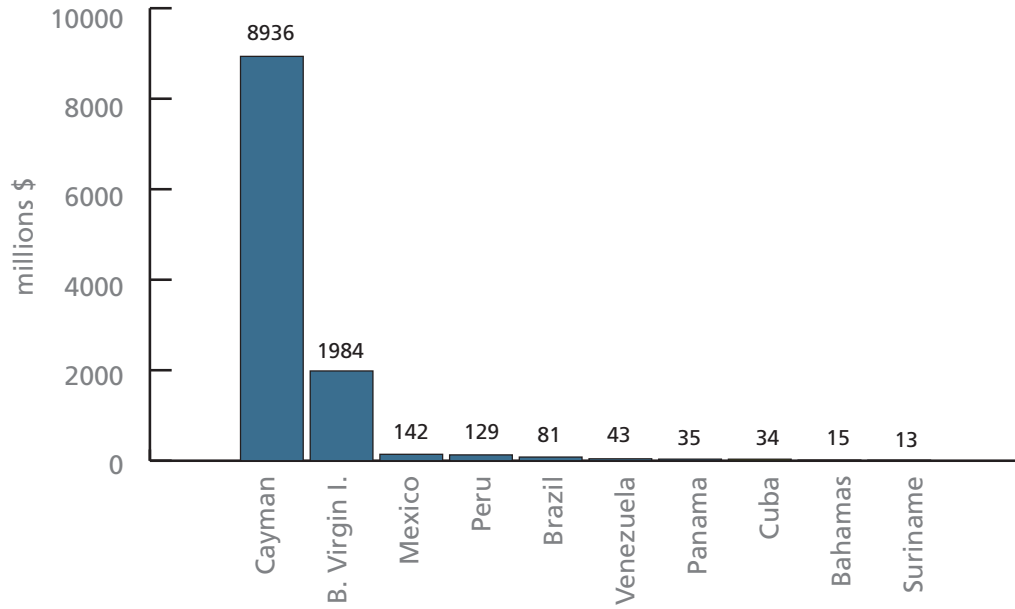
Latin American leaders have also attached great importance to China's rising international position and also expressed similar hopes that Latin America's relations with China would be further strengthened. Before his trip to China in 2004, then President Néstor Kirchner said to the press that Argentina would pay attention to relations with not only the United States and Europe, but also with China. He said that he admired China's great achievements in economic development, and said that Argentina should learn from China's model.

In the age of globalization, there is a high priority on promoting South-South cooperation in all fields. China's relations with Latin American countries are part of this cooperation. The strengthened cooperation between China and Latin America should benefit world peace and development. No less important is the fact that the development of Sino-Latin American relations will not harm the interests of the United States.



**CHINA-LATIN AMERICA TRADE - US\$ BILLIONS****CHINA'S MAJOR TRADE PARTNERS IN 2006 - US\$ BILLIONS**

### TOP TEN LATIN AMERICAN RECIPIENTS OF CHINESE FDI





# China-Taiwan Rivalry in Latin America and its Implications<sup>1</sup>

HE LI

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Latin America has been a major battleground of the “foreign policy war” between China and Taiwan over international legitimacy, recognition, and status. China’s quest to recover what it calls “the province of Taiwan” is one of the top issues on its foreign policy agenda. Its strategy against Taiwan has been both bilateral and global. Bilaterally, China has used a mix of economic diplomacy and military and political moves to keep Taiwan from claiming independence. Globally, China’s strategy has focused on developing an international united front designed to marginalize Taiwan. Fearing Taiwan’s push for international recognition will lead to its declaration of independence, Beijing is determined to contain Taiwan in every corner of the world, especially in Central America and the Caribbean, the stronghold of Taiwan.

Of the 23 countries that recognize Taiwan, twelve are in Latin America and the Caribbean. If these states were to switch recognition from Taipei to Beijing, the damage to Taiwan’s political confidence and its claims of legitimacy as a state would be seriously undermined.

Taiwan has 23 million people and well protected territory. Yet, of the United Nations’ 193 member states, only 23 recognize Taiwan as a sovereign state. Of the 23 countries that recognize Taiwan, 12 are in Latin America and the Caribbean. Taiwan has been devoting enormous efforts to retain diplomatic recognition. If these states were to switch recognition from Taipei to Beijing, the damage to Taiwan’s political confidence and its claims of legitimacy as a state would be seriously undermined. According to then-prime minister of Taiwan Yu Shyi-kun in 2002, Taiwan’s allies in Latin America and the Caribbean “have helped us a lot and therefore we consider this an area of maximum diplomatic importance.”<sup>2</sup> Under such circumstances, the strategic competition between China and Taiwan has been intensified in a region far away from Asia.

## COMPETITION

One of the main goals of Taiwan’s foreign policy is to maintain full diplomatic relations wherever possible. To achieve this goal, Taiwan’s government has been promoting trade and investment,

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1. The early version of this paper appeared in *Journal of Chinese Political Science*, 10, no. 2 (fall 2005): 77–102.

2. Francisco Luis Pérez, “Taiwan Calls Latin America and Caribbean its Diplomatic Priority,” *EFE Word News Service*, August 2, 2002.

offering economic assistance and increasing international agreements. Twenty years ago, Taiwan sold more goods to Latin America than mainland China did. Yet today, Taiwan's trade with the region is lagging far behind that of China. In order to reinforce diplomatic relations and take advantage of Central American countries' close economic ties with the United States under the Central American Free Trade Agreement (CAFTA), Taiwan has been embracing free trade agreements (FTAs) with the nations in the region. So far, Taiwan has achieved some limited success. Three countries have entered into FTAs with Taiwan. All three are Taiwan's diplomatic partners in Central America—Panama, Nicaragua, and Guatemala. Taiwan is also in FTA negotiations with Honduras and El Salvador, another two of its 23 diplomatic allies. Meanwhile, both Beijing and Taipei want to sign an FTA with Paraguay, the only ally of Taipei in South America.

China is a relatively new player to Latin America. Both its trade and investment have soared there since the late 1990s. Sino-Latin American trade reached \$50 billion in 2005, with China emerging as the region's third largest trading partner. China is also investing more in Latin America than any region outside Asia. In addition, since 2004 China has deployed peacekeeping forces in Haiti. China has participated in peacekeeping missions in many parts of the world, but has never sent combat troops as peacekeepers.<sup>3</sup> It should be noted that Haiti does not have diplomatic ties with the PRC.

Beijing-Taipei competition for recognition demands a greater share of financial resources. Huge amounts of Chinese aid to Latin American countries have often prompted Taiwanese offers of even greater aid in an attempt to compete directly with China and to offset Chinese influence. Beijing states that China has provided Caribbean countries with economic assistance without any preconditions. Nonetheless, all these recipient nations maintain full diplomatic relations with the PRC.

With its middle class increasing, China has become the world's fastest growing tourism source nation in the world. To further relations with the region, Beijing is also working to encourage its citizens to tour Latin America. Six Latin American nations have gained Approved Destination Status (ADS) from the Chinese government, with Cuba being the first one in 2003. Brazil, Argentina, and Chile followed in 2004, and Mexico and Peru in 2005. In the Caribbean, China has listed Antigua and Barbuda, Barbados, the Bahamas, Grenada, Guyana, Dominica, Suriname, Trinidad and Tobago and Jamaica as tourist destinations.

For years, Taiwan defined itself as "free China," the democratic counterpart to "Communist China." As China liberalizes and increases its integration with the global economy, the contrast is not quite as sharp as before. Meanwhile, there are significant changes in Chinese foreign policy. With the end of the Cold War, Beijing is concerned with exporting goods and services rather than exporting revolution. As a result, promoting regional economic development and stability have become one of the major policy goals of Beijing in Latin America. As David M. Lampton, director of China Studies at The Johns Hopkins University School of Advanced International Studies observed, although other nations generally do not wish to emulate China's political sys-

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3. "China Sends Riot Police to Haiti," *China Daily*, October, 17, 2004, available at [http://www.chinadaily.com.cn/english/doc/2004-10/17/content\\_383085.htm](http://www.chinadaily.com.cn/english/doc/2004-10/17/content_383085.htm).

tem, its combination of high-speed economic growth and apparent stability is a development path that appeals to many.<sup>4</sup>

## IMPLICATIONS

Indeed, the increased profile of the People's Republic of China (PRC) in Latin America and its partnerships with Latin American countries have a number of implications. The Chinese presence has increased pressure on Taiwan to maintain its formal diplomatic presence in Latin America. Given that Latin American states now seek to play an increased role in the United Nations and other multilateral agencies, they are inclined to seek a closer relationship with the PRC, one of the permanent five in the UN Security Council.

The PRC has major resource interests in Latin America, and the region could help China mitigate its severe shortage of energy. Chinese active pursuit of energy in the region has political implications as well. According to Taiwanese professor of international trade Antonio Hsiang, China's expanding energy purchases in South America will have a negative impact on Taiwan's relations with its diplomatic allies.<sup>5</sup> For instance, Paraguay, a member of the South American Common Market (Mercosur), is surrounded by other member countries of Mercosur, including Brazil and Argentina, all of whom have diplomatic relations with China. Argentina acknowledged it had teamed up with Brazil to try to force Paraguay into switching its diplomatic allegiance from Taipei to Beijing.<sup>6</sup>

Latin America has found the rivalry between China and Taiwan beneficial; it has been able to obtain loans, credits, trade concessions, and investments from both the PRC and Taiwan as it has attempted to play one against the other.

The growing influence of the PRC could lead to tension with the United States, given that Latin America is a region where many countries heavily depend on the United States for trade and investment. At the same time, deep-rooted anti-U.S. feeling persists. China's growing dependency on imported oil and gas has put it at odds with U.S. foreign policy in countries such as Venezuela. As China turns into a growth engine, a growing number of countries are benefiting from its tremendous economic development, and are reluctant to antagonize Beijing. Latin Americans themselves have no problem viewing investments by and trade with Asian powers such as China and Taiwan in their countries as a counterbalance to the United States. With the Western powers caring little about poor countries, some in Latin America have begun to see China and Taiwan as potential trade allies and partners, as well as providers of economic opportunities. Latin America has found the rivalry between China and Taiwan beneficial; it has been able to obtain loans, credits,

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4. David M. Lampton, "The Faces of Chinese Power," *Foreign Affairs*, 86, no. 1 (January/February 2007), p. 124.

5. "China's 'Energy Diplomacy' Hurts Taiwan, Experts Say," *Taipei Times* (May 28, 2005), p. 3.

6. Melody Chen, "MOEA set to negotiate FTA with Paraguay," *Taipei Times*, July 07, 2004, Page 3 available at <http://www.taipetimes.com/News/taiwan/archives/2004/07/07/2003178005>.

trade concessions and investments from both the PRC and Taiwan as it has attempted to play one against the other.

China's rapid economic growth and its huge potential market have contributed to greater willingness in Latin America to explore alternative arrangements. China might have a confrontation with the United States in some places in the world, but definitely not in Latin America, a region long considered the backyard of the United States. Beijing has approached many international issues more from a pragmatic than a principled standpoint. Chinese foreign policy has shown dramatic changes that underscore Beijing's putting a priority on economic growth and on assuming a larger role in regional and global affairs. Beijing has tried to fit into the U.S.-dominant international system as a "responsible stakeholder," as suggested by then U.S. Deputy Secretary of State Robert Zoellick in September 2005.

In the Western Hemisphere, China has begun to participate in multilateral fora where the United States has heretofore played a prominent role, such as the Organization of American States (OAS). In China's backyard, the United States has played a critical role over the issue of political/security interactions across the Taiwan Strait. From Beijing's perspective, Washington could help maintain the status quo in the Taiwan Strait. On the other hand, Beijing worries that in the diplomatic rivalry between Taiwan and China, Washington still favors Taiwan and prevents China from developing full diplomatic relations with Latin American countries. In addition, Beijing believes that Washington has a hidden agenda to prevent China from becoming a full member of the Inter-American Development Bank (IDB). China's growing influence in the region may compel Washington to pay greater attention to Latin American and Caribbean leaders when they complain about the neglect from Washington.

## PROSPECTS

The struggle between Taiwan and China for international recognition is likely to intensify this year, because this the year China will host the Olympics and the year Taiwan might make major moves toward statehood or state-like status. Taiwan has competed and will compete well with the PRC over a small number of countries on its aid program list, utilizing a large amount of foreign reserves and an increasing number of FTAs. For Taiwan, Latin America is crucial due to the fact that slightly more than half of the countries with which Taiwan maintains diplomatic relations are in this area. For the PRC, Latin America has become increasingly important, but still it is regarded as a region of relatively low priority for the pursuit of its grand strategy. Latin America and the Caribbean represented 3.5 percent of China's total foreign trade in 2004, and this percentage has remained consistent over the years. China has moved cautiously from a radical to a more pragmatic approach to achieve its goals in Latin America, and is expanding in the region quietly and cautiously. Without any doubt, China will certainly assume an increasingly important role in Latin America. However, China is still a long way from threatening or even really competing with the influence of the United States in Latin America. Chinese investment in the region is US\$8 billion, compared with \$300 billion by U.S. companies, and U.S.-Latin America trade is ten times greater than Sino-Latin America trade.

The struggle between Taiwan and China for international recognition is likely to intensify this year, because this is the year China will host the Olympics and the year Taiwan might make major moves toward statehood or state-like status.

In the future, China's growing involvement could have serious political and military implications. At present, the most important dimension in the relations between China and Latin America is no doubt economic. China will continue leveraging its economic clout in the region to support its political preferences, pressing countries to fall in line regarding its top foreign policy priority: its claims over Taiwan. Over the long run, due to China's growing economic might and soft power, as well as the changing dynamics of Latin American domestic politics, it might become increasingly difficult for Taiwan to compete with the PRC in Latin America.



## FOREIGN AID

|                 | TAIWAN          | PRC           |
|-----------------|-----------------|---------------|
| Grenada (2004)  | \$40 mil pledge | \$112 million |
| Dominica (2004) | \$9 mil pledge  | \$124 million |

Source: *Taipei Times*, 6/8/2005 <http://www.nationalreview.com/comment/mosher200602140810.asp>

## TWO-WAY TRADE WITH LATIN AMERICA

|      | TAIWAN         | PRC           |
|------|----------------|---------------|
| 1977 | \$477 million  | \$200 million |
| 1989 | \$2.68 billion | \$2 billion   |
| 2004 | \$7 billion    | \$40 billion  |

Source: *China Statistical Yearbook* and Directorate General of Customs, Ministry of Finance, ROC

## FREE TRADE AGREEMENTS

| TAIWAN            | PRC          |
|-------------------|--------------|
| Panama (2004)     | Chile (2005) |
| Nicaragua (2006)  |              |
| Guatemala (2006)  |              |
| UNDER NEGOTIATION |              |
| Paraguay          | Paraguay     |
| Honduras          |              |
| El Salvador       |              |

## CHINA'S OUTWARD DIRECT INVESTMENT IN 2006 (PERCENTAGE)

|                       |     |
|-----------------------|-----|
| Asia                  | 60% |
| Latin America         | 16% |
| North America         | 7%  |
| Africa                | 7%  |
| Europe                | 6%  |
| Austria & New Zealand | 4%  |

# A Geopolitical Perspective on Sino-Latin American Relations

LANXIN XIANG

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China's success in expanding its influence in Latin America is changing the geopolitical dynamics of the Western Hemisphere. Approaching these issues from a Chinese view on Sino-Latin American relations allows for a critical perspective on Chinese global policy considerations. Historically, a severe knowledge deficit has characterized Sino-Latin American relations. China did not pay much attention to the region until 1964, when Mao took notice of the Cuban Revolution's challenge to the Monroe Doctrine and decided to establish a serious international studies project in three top universities: Beijing University, Renmin (People's) University and Fudan University. Despite the founding of these Latin American Studies Programs, the Chinese government has historically invested very little in Spanish language training and cultural studies. *The Cambridge History of Latin America*, which exposed Chinese scholars to non-Marxist historical perspectives for the first time, was only translated into Chinese in the 1990s. As a result, Spanish-speaking Chinese experts in Latin American affairs are very few, and cultural understanding remains at a superficial level.

In spite of this historical unfamiliarity, the relationship between China and Latin America has developed very quickly in recent years, leaving both sides struggling to find meaning and direction in this intense process. Economics and trade as part of a “going global” strategy are insufficient to explain China's relationship with Latin America. Instead, a broader analysis that incorporates all of the forces behind China's growing interest in the region reveals that traditional concerns—geopolitical factors in particular—are still the primary drivers of Chinese policy toward Latin America, albeit in a new emerging context.

China and Latin America find common ground with respect to their view of global governance, as both China and the region tend to favor a multipolar international system, characterized by multilateral diplomacy in international affairs.

China and Latin America find common ground with respect to their view of global governance, as both China and the region tend to favor a multipolar international system, characterized by multilateral diplomacy in international affairs. In the case of China, this support for multilateralism and a multi-polar system marks a major break from Chinese policymakers' previous thinking on foreign policy.

During the Cold War, China's reputation as a G1 country excluded it from any serious consideration of multilateral foreign work in regards to its foreign policy, and up until recently, China remained within the Westphalian concept of international diplomacy—e.g., government-

to-government relationships. In 2003 and 2004, the Chinese foreign policy elite began to change course, giving credence to regional organizations such as the European Union. As this type of relationship begins to take precedence over any individual government-to-government relationship, Chinese policymakers find themselves on unfamiliar ground. As China looks to apply the same multilateral framework to its relations with Latin America, it is confronted by the lack of a regional organization the equivalent of the European Union. How can China pursue its objectives in this regional geopolitical setting? Given China's inexperience in multilateral diplomatic behavior as well as its lack of a clearly defined strategy in dealing with Latin America as a region, a consideration of geopolitical dynamics within the region further complicates Sino-Latin American relations.

Up until recently, China paid little attention to politics, economics, and the internal social dynamics of the continent, aside from the translation of a limited number of works on Latin American history—usually by Marxist authors. With regard to current trends in the region, China is particularly interested in three areas: Latin American regional integration, a hemispheric free trade area, and the idea of a South American oil cartel. For example, will a Free Trade Area of the Americas, including the United States and Canada, have a serious divergent effect on trade and investment, and what would be the impact of a South American oil cartel on China's energy needs? Chinese policymakers must anticipate these potential configurations and try to establish plans to address these issues, but as of yet, none have risen to the challenge.

Throughout the Cold War, the geopolitical dimension of the China-Latin America relationship towered above all other policy objectives, as economic interaction between the two regions remained limited. The preeminence of these geopolitical concerns is evidenced by Mao's initiative to incorporate Latin American studies into Chinese academia, which broadly defined national liberation movements as a subject and aimed to promote revolution worldwide. From the start, Latin American studies in China were directly linked to Mao's political ideology and the policy objective of undermining U.S. supremacy in the world. However, that era is over, and now the question becomes, how does Latin America continue to be politically relevant to China?

Since the mid-1990s, the Chinese government has recognized the need to incorporate the Western hemisphere on its policy agenda, as analyses of Latin America's internal dynamics have produced valuable insights on China's own vital national interests. For example, political reform is a critical issue for Chinese policymakers as they search for a working model that can help the system to start an orderly and peaceful transition from an authoritarian system to a more pluralistic system. Though considered an undesirable regime in the region, the Pinochet government in Chile warrants the attention of Chinese leadership in this regard. Chinese economic reform created enormous tensions within the one-party system, which as a result found itself no longer able to sustain the rapid development of society and the economy. The fact that political democratization seemed to stem from economic liberalization caught the Chinese policy elite by surprise, particularly in light of China's continuing admiration for the perceived political and economic successes of Chile's Augusto Pinochet. When Deng Xiaoping initiated economic reform, he introduced a philosophy that became widely known among the Chinese population as his "cat's theory," that is, "I don't care if the cat's white or black; as long as it catches a mouse, then

it's a good cat," which is to say that Deng Xiaoping didn't care about ideology. As the foundation of Chinese reform, this "theory" expressed Deng Xiaoping's willingness to try everything, and pursue whichever method worked to help economic growth most effectively.

Since the mid-1990s, the Chinese government has recognized the need to incorporate the Western hemisphere on its policy agenda, as analyses of Latin America's internal dynamics have produced valuable insights on China's own vital national interests.

However, this philosophy began to backfire as one-party rule came under increasing pressure to sustain continuous economic growth, even though policymakers realized that the possibility for sustained rates of growth are limited. So if, for whatever reason, the party cannot deliver economic growth, the cat theory will be reversed by the population against the system itself. That is to say, the popular analysis of Deng Xiaoping's cat theory became, "if the party cannot deliver economic success, the people will want to look for an alternative cat." This view does not imply democracy within the Chinese system; nevertheless, it is an indication that the population demands a certain level of political pluralism, which puts enormous pressure on the political elite. As a result, political tensions in the late 1980s continued to escalate, eventually leading to the events at Tiananmen Square (June 4, 1989).

Can China have a soft landing in its political system? After the extraordinarily unpopular Tiananmen crisis, the political liberalization trends across the globe served as a wake-up call for Beijing's political elite. Because China's leadership was, and still is, obsessed with the relationship between political stability and the social shock resulting from economic modernization, the Pinochet political model—an orderly transition of power from authoritarianism to democracy—had an enlightening effect on China. This intellectual insight established, for the first time in China's history, a link between the internal politics of a Latin American country and the political future of the Communist Party of China (CPC), breaking away from the days when the region was viewed merely as a potential partner in anti-American campaigns. Because China's leadership always gives policy priority to international issues that may have a direct impact on domestic stability, it is at this juncture that Latin America began to draw serious attention from the country's top leadership.

Chinese elite have also paid attention to the Latin American experience of economic development. At the same time that Deng Xiaoping shifted China's top priority to economic development in the late 1970s, many of Latin America's economies took a turn toward steady growth for most of the decade. This parallel period of economic development prompted China to begin paying closer attention to Latin America's experience and to seriously study the region's development theories. However, just as China began to appreciate the success stories of its distant neighbors, Latin America suffered a drastic economic downturn, and the entire region was pulled into a severe debt crisis. After the Latin American model of development (characterized by its early economic success and a philosophy of economic growth that could be called 'petro-dollar

or death') failed, the Chinese lost interest in the Latin American model. At the time, in the 1990s, the Chinese began to have the advantage of looking at the Latin American failure from the perspective of hindsight, in contrast to their own successful implementation of the so-called "Asian Model" of development, which is not based on the concepts of import substitution or borrowing. Instead, the Asian model is based on a concept of export-led economic growth. So the Latin American economic model is no longer attractive for the Chinese policy elites.

However, Latin America has become a more important factor in China's own economic development. That being said, China faces several foreign policy dilemmas in penetrating Latin America at such a fast speed. First, economically speaking, China has very much the mindset of Victorian England. That is to say, the pattern of China-Latin America trade, especially China's imports from Latin America, is dominated by a few, typical "colonial" products—raw materials and energy resources. This trade pattern is no longer the model of the Spanish mercantile empire, but the model of the British Free Trade Empire. China, however, has no empire, which poses some difficulty. How can you suck up the world's resources without having an empire?

So far the Chinese approach to building so-called "soft power" in Latin America is based on China's leadership developing a tendency in recent years to create some overarching value-free foreign policy concepts such as the well-known "Peace for Rice" or "Harmonious World." Chinese policy elites use these concepts to try to explain China's trade pattern within the broader framework of globalized trade, so that the concepts do not apply to any third party, including Latin America. In this economic relationship with Latin America, there is no geopolitical content. However, China cannot avoid the fact that its Victorian England trade policy has geopolitical implications.

There are political and international political reasons, aside from the energy demands and trade demands, which play a major role in China's decision to pay more attention to Latin America. One such consideration is how China will deal with the Monroe Doctrine. New political currents in Latin America seem to be happening at the wrong moment for China. From the start, China's economic reform relied heavily on foreign direct investment (FDI) from the West, in particular from the United States and Japan. Although China would like to have serious economic relations with Latin America, Latin American politics are turning left now. Chinese policymakers used to support leaders like Venezuela's Hugo Chávez and Bolivia's Evo Morales; the Chinese would be very happy to have a relationship with them, but now are reluctant to do so precisely because the distinctive anti-Americanism represented by these left-wing leaders poses a dilemma from which Chinese leaders can not escape. Thus, because China needed to drastically reduce its existing geopolitical tensions with the United States, deepening relations with anti-U.S. regimes in Latin America poses too great a risk. At the same time, China cannot ignore the native, popular roots of these emerging movements. Although China has always been sympathetic to such movements to counterbalance U.S. power, today it is more mindful of the triangular nature of China's relations with countries of the Western hemisphere and increasingly cautious about Washington's stance. Should the Bolivarian regional integration proposal gain serious traction, its first logical priority would be to reduce the region's dependence on the North American market. Hence, China's

attractiveness as an alternative market and partner. China is now faced with the decision: what role, if any, does it want to play in the death of the Monroe Doctrine? Latin American leaders want to get out from under the Monroe Doctrine, and China wants to leave the Westphalian system behind. So their objectives are not necessarily aligning in the geopolitical setting.

### China is now faced with the decision: what role, if any, does it want to play in the death of the Monroe Doctrine?

Therefore, the Chinese leadership needs to take several actions. First, China needs to have a serious three-way dialogue with Latin America and United States aimed at clarifying China's intentions. They should not hide behind these value-free foreign policy slogans, arguing simply that they have nothing to do with the United States. They cannot escape those consequences.

Second, China should utilize another potential partner in dealing with Latin America, that is, Europe, and specifically, the Spanish, who are very keen to provide assistance. Were Spain to propose such a relationship officially and should China accept it, Spanish policymakers could act as a kind of bridge between Latin America and China, though Latin America may or may not reject the help of the former colonial mother country. Although Latin Americans may think they can penetrate China's market by themselves, they are not as familiar with China's market as the Europeans are. The Spanish and the European Union, in general, could play a very important role, as the Spanish government is actively involved in promoting cultural exchange, Spanish language training programs and so on. This approach is one way for China to make its penetration into Latin America look like a multilateral effort rather than simply a bilateral one.

Conversely, Latin America needs to understand China, and not expect too much of Sino-dollars. Latin Americans failed in utilizing the recycling of petro-dollars before, and yet many Latin American policymakers seem to have high expectations of Sino-dollar recycling to help with their budget and infrastructure problems. China is unlikely to invest aggressively in a place where its leaders have very little knowledge of local conditions. One of the problems with Chinese economic growth is the failure of Chinese policy makers to understand the international monetary system. With assets totaling one trillion U.S. dollars, the Chinese are putting most of their money into U.S. assets. This is a big mistake. China needs time to get used to the idea of direct foreign investment in the business sector, not just in the areas of energy and resources.

In sum, difficulties in Sino-Latin American relations exist on both sides as China and Latin America learn more about each other.



# U.S. Responses to China's Growing Interests in Latin America: Dawning Recognition of a Changing Hemisphere

CYNTHIA A. WATSON<sup>1</sup>

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The November 2004 'rock star' visit by Chinese President Hu Jintao to Latin America was a wake-up for many in the United States that China had 'discovered' Latin America. Many senior civilian and military leaders from the People's Republic of China (PRC) have been to Latin American capitals during the thirty-five years since these states shifted recognition from Taipei to Beijing. However, few in the United States focused on the scope and frequency of these visits before Hu's enormous welcome by states in the region. With the attention the Chinese president received from adoring crowds and potential economic and strategic partners in the region, Washington suddenly realized it needed to pay heed to China's growing interactions with the states to our south.

Much of the economic growth in China is through enhanced trade ties with states around the world, including the United States and Latin American nations. Hu's visit to Latin American capitals en route to the APEC meeting in Santiago, Chile, was part of the Chinese Communist Party (CCP) goal of staying in power in the PRC. The Party, shorn of its ideological foundations, views economic growth and improvement of living standards as the vehicle for maintaining power.

From 1949 until 1970, only Cuba had ties with the communist regime on the mainland as the remainder of the Latin American nations recognized Chiang Kai-shek's regime in Taiwan as the legitimate government of China. This had less to do with following Washington's lead than it did in furthering the strident anti-communist ideologies pervasive throughout Latin America during this period. Beginning in 1970, however, Chile and Mexico shifted recognition to Beijing even prior to the United Nations ouster of the Taiwan government in 1971. Over the next decade and a half, even during the midst of some of the harshest anti-communist governments practicing 'national security projects' in Latin America, states throughout the hemisphere withdrew recognition from Taipei in favor of Beijing. Particularly interesting was Chile, where the brutal government of Augusto Pinochet Ugarte (1973–1990) exiled or liquidated many leftists, but did not change the decision to shift recognition away from Taipei. This was notable, since that shift had been made by Salvador Allende Gossens, the president Pinochet Ugarte had overthrown in a military coup. The government in Buenos Aires later provided the final diplomatic coup for Beijing with its 1985 decision to recognize the PRC.

Since then, only Paraguay and all but one of the small states of Central America have retained Taiwan as the 'Republic of China' as their diplomatic partner. (Five even smaller states in the

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Caribbean recognize Taiwan as well.) While the PRC leadership would prefer that these states choose Beijing as the government of China, it has higher priorities than this issue: getting greater access and comfort with the countries with whom it already has ties while greatly enhancing those ties to achieve its overall aim of retaining power.

Beijing has slowly and carefully begun to move into Latin America in a meaningful manner. Beijing's *primary* interests around the globe still lie outside of this region, but China is moving to increase its presence and influence in ways both subtle and probably inevitable. Beijing has several clear cut goals to: 1) access resources, energy, and food stuffs (all of which are abundant in Latin America); 2) increase markets for Chinese exports in hopes of diversifying beyond traditional markets such as the United States; 3) increase opportunities for joint partnerships in new technologies such as petroleum exploration; 4) oust Taiwan from its remaining diplomatic ties; and 5) continue to seek diplomatic ties with states from the former 'Third World' which emphasize the protection of national sovereignty and prevention of global hegemony by any single state (such as the United States).

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Other scholars outline the range of specific Chinese activities in the region along with notes on Beijing's motivations. The remainder of this assessment will discuss Washington's concerns, their reasons, and offer conclusions on options for the United States accommodating itself to a changing regional set of players.

### WASHINGTON'S RESPONSE

For the United States, the recognition of this Chinese strategic goal has been slow to occur. For most of the history of the PRC since its 1949 inception, the United States has viewed China exclusively through the lens of either the Taiwan problem (how to deal with a simultaneously increasingly isolated and yet democratic island state one hundred miles off the PRC coast) or the bilateral relations between Beijing and Washington. Latin America was a long way from China, separated by both the Pacific Ocean and the Monroe Doctrine from Beijing's possible control. The Monroe Doctrine, oft-mentioned but seldom examined today, was an 1820s declaration that the United States would oppose the intervention of any actors from outside the region in the affairs of states located in the Western Hemisphere. Most in the United States thought that the chasm between Beijing and the Latin American states would prevent any poaching by the Chinese.

Instead, some now fear that the burgeoning Chinese involvement forewarns of even greater effort to engage in the region. China has retained its ties with Fidel Castro's Cuba, dating to the

early 1960s, but this has never been a close connection. In the post-Soviet world, Beijing and Havana have each sought to represent the future of socialism: the first with Chinese characteristics which appear decidedly capitalist, while the latter prefers to retain the hardest line in old style, state-controlled economics.

Beijing's ties with Washington's *bête noir*, Hugo Chávez Frías, indicate a willingness to engage with an unsavory and increasingly flamboyant character who seeks to reverse many of the same types of economic steps in Venezuela that have been the bread and butter of Chinese reforms over the past twenty-five years. Washington worries that the Chinese are encouraging Chávez Frías because they seek to enter into a long-term relationship with Caracas, thus establishing a beachhead on the South American continent. These ties appear vastly overblown by many in the region, since Chávez Frías' *Bolivarian Revolution* appears contained in Venezuela. Many in Washington, however, have begun seeing Chinese involvement with Caracas as the beginning of a Latin Great Wall along the northern coast of Latin America at precisely the time that Washington's relations with virtually the entire region are so poor. It seems far more likely that the PRC is not interested in developing a relationship with Caracas to build a Latin Great Wall, but in one to shield Chávez Frías from some of Washington's multilateral organization efforts, as Beijing shields the Khartoum government from criticism in the United Nations over Darfur.

Indeed, by concentrating on the controversial Chávez Frías, Washington completely misses the significance of Beijing's ties with Brazil. Long known as the country of the future, many believe that Brazil has finally arrived. A major supplier of iron ore, foodstuffs (especially soybeans), and other crucial resources, Brazil offers a tremendous stockpile for the very items that Beijing seems most eager to find. The ties on petroleum exploration technology between Brazil and the PRC are a further basis to the deepening of their relationship as each brings a complementary aspect to the exploration technology, hopefully creating a technological synergy for the two states.

The reality, however, is that China—another major state—has shown an interest in better ties with Latin America. This does not mean that Beijing will be satisfied with taking a secondary position to Washington over the next century, although that seems quite likely if for no other reason than the tyranny of distance facing China in Latin America. The Pacific is simply huge and Beijing may not be willing to only periodically show interest in this region, as has been true of many European states over the past sixty years. Beijing seems likely to want a permanent set of ties with Latin America, at the cost of Taiwan's ties with the region (likely to dissolve over the next decade).

## EFFECTS OF THE MIDDLE EAST AND TERRORISM

Washington's current and apparently open-ended preoccupation with events in the Middle East, along with concerns about terrorism, has pulled its attention away from Latin America. The basis to Beijing's involvement in this region is largely the opening left by Latin America's virtual despair and utter frustration with the lack of ability to get Washington to engage in this region. Part of the difficulty resulted from unrealistic expectations in both the region and Washington in 2001 when George W. Bush's inauguration appeared to foreshadow *far better* relations, based on

the former Texas governor's ability to speak Spanish, natural proclivity to understand Mexico (and, by extension, the entire region) because of proximity, and the excitement at Mexico's election of a pro-U.S. president in Vicente Fox Quesada the same year. Within months, however, the 2001 terrorist attacks reduced Latin America to yet another remote area, deemed not particularly relevant to Washington's concerns; the United States was also not concerned with bilateral issues of interest to Mexico.

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Beijing, with either malevolent strategic goals or benevolent national interests, moved into the void created by Washington's preoccupation elsewhere. These actions, however, have been relatively calibrated and cautious because the PRC's overall objective of increasing economic growth depends first and foremost on good ties with Washington. As the PRC has highlighted its self-perceived 'peaceful rise' in the international system, its emphasis is actually on the peaceful environment Beijing desires in order to achieve its goals. Activating major anti-Chinese activities in Washington would not benefit Beijing nor would the results of the enhanced ties with Latin America outweigh the costs of losing goodwill from the United States. In sum, Washington remains more important for Beijing than any or all of Latin America.

Beijing has sent and received many official visits to and from the Latin American states, both civilian and military. These visits are intended to provide the basis to improve trade and to enhance personal ties with leaders in the region, but they are often far more publicity than they are substance. During Hu's November 2004 visit, for example, investment pledges from Beijing amounted to \$100 billion over the following decade for greater economic ties between China and states in the region. Over the past two and half years, however, little of that investment has actually come to the region.

## CONCLUSIONS

Beijing probably might not have increased its role in Latin America had the Middle East not been a major distraction for Washington over the past five and a half years. Washington has wanted Beijing to modernize its economy. This was bound to create more economic, diplomatic, and trade prowess for China as it has reached beyond the isolationism of the Cultural Revolution, particularly in the newly globalized world. In many ways, Beijing's increased involvement in Latin America reflects the unanticipated consequence of getting what the West hoped for from China.

But, the inability of Washington to consider anything beyond the concerns about terrorism spreading around the world, and trying to salvage a peace of some sort without nuclear weapons in the Middle East, is having consequences for U.S. interests in other parts of the world. For cultural and geographic reasons, the ties between the United States and Latin America ought to be stronger than those between China and the Latins. Expectations of the strength of Latin

America–U.S. ties have probably always been unrealistic and frankly ahistorical; the two parts of the world actually have a number of fundamental differences. But the distance between Latin America’s experiences and those of China are even vaster, ranging from religion to ethnic homogeneity to historical roles in the world. Washington must make a more concerted effort to act as a genuine partner with the region, rather than relegating it to the position of secondary or tertiary thought that assumes absolute U.S. leadership.

The United States and China claim that each is serious about adopting the economic philosophy that undergirds capitalism: economic growth is a net benefit for all, not a zero sum game. If true, China, Latin America, and the United States benefit from the greater Chinese engagement in this region because it creates competition. Pure economic theory, however, always runs up against political philosophies, leading to trade conflicts, protectionism, and all-too-often a zero sum view based on the international relations theory of *realpolitik*: what’s good for my adversary must be bad for me.

The risks of arousing *realpolitik* in the United States, particularly as the nation faces increased frustration with the reality of the Middle East, is significant, probably more than the PRC bargained for when it began engaging more with Latin America over the past decade. It appears unlikely that Beijing will seriously accelerate its involvement in the region because of the number of Congressional hearings, public conferences and assessments, and other warnings alerting the United States to China having discovered Latin America. To accelerate its involvement would risk the relatively strong relations with Washington at a time when other trade problems and overall concerns about China’s growing power are already rising in the United States.

With U.S. interests directed elsewhere, it seems highly likely that  
Beijing will be able to maintain the level of involvement in the region  
it already has, without Washington raising too great a ruckus.

At the same time, Washington’s ability to focus equally on all areas of the world is not possible. With U.S. interests directed elsewhere, it seems highly likely that Beijing will be able to maintain the level of involvement in the region it already has, without Washington raising too great a ruckus. Indeed, Beijing’s best outcome from its current balance of involvement in the area is probably going to be the long-term development of trust and ties over several decades with the leaders of this region, rather than immediately creating crucial, highly public ties between itself and Latin American leaders. As so often appears true in the international system, probably the old tale of the tortoise and hare applies here, where China’s biggest gain will be accomplished over a long time of getting to know the region, rather than showing up repeatedly in the ‘rock star’ role which is too soon and too rash for a long-term, stable set of ties. Washington seems likely to worry about the rock star phenomenon, rather than attempting to manage the emergence of another state becoming a long-term partner with its Latin American neighbors.

Washington should not blame Beijing for moving into an area made attractive because of historic and current absence of consistent U.S. policies.



## List of Contributors

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