拉美專題

"Sino-Latin American Economic Relations and Its Implications"

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China's rise as a leading economic power is among the most paramount developments in the twenty-first century. In 2010, China surpassed Japan as the second largest economy in the world. It is now the biggest exporter and an increasingly important investor. The Chinese engagement in Latin America has become more influential and complex.[1] While China was not even on the periphery of many Latin American states' policy agenda ten years ago, it plays a critical role in their overall trade strategy. The Chinese demand for commodities is considered as the leading factor pushing Latin American economies forward and could cause a significant boom in Latin America if the China's demand is sustained.[2]

An increasing quantity of literature has emerged to examine the expanding ties between China and the region.[3] This article is an effort to trace the scope of the Chinese trade and investment in the region, challenges and opportunities of China's commitment in the region, and its implications for the United States.

I. Objectives of the Chinese Engagement in Latin America

China's rise in Latin America is multidimensional, affecting the political, security,

[1] It should be noted that in the Chinese perspective, Latin America consists all countries and territories in Central, South America, and the Caribbean.

[2] Evan Ellis, *China and Latin America: Dynamics and Lessons for Regional Security Cooperation* (Miami: Western Hemisphere Security Colloquium, 2007), p. 8.

[3] For books on the China-Latin America relations published in the last few years, see Cynthia Arnson, Mark Mohr, Riordan Roett with Jessica Varat eds. *Enter the Dragon: China's Presence in Latin America* (Washington, D.C. 2007), Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder, Colo. : Lynne Rienner Publishers, 2009), Adrian H. Hearn, and José Luis León Manríquez, *China Engages Latin America: Tracing the Trajectory* (Boulder, Colo.: Lynne Rienner Publishers, 2011), Kevin P. Gallagher and Roberto Porzecanski, *The Dragon in the Room China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), and Riordan Roett and Guadalupe Paz eds. *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Brookings Institution Press, 2008).

and economic affairs of all states that comprise one of the world's fast growing developing region: Latin America. With increasing trade, China has become the biggest single user of the Panama Canal that connects the Pacific and Atlantic Oceans. Meanwhile, China has increased its participation in regional international organizations in Latin America and the Caribbean. In 2004, it was accepted as a permanent observer to the Organization of American States (OAS). In 2009, China was accepted into the Inter-American Development Bank (IADB) becoming the third Asian country (after South Korea and Japan) to join the IADB. In March 2009, the People's Bank of China signed with the Central Bank of Argentina a currency swap framework deal totaling about 70 billion yuan (some $10.2 billion U.S. dollars), marking the biggest financial deal in both the Chinese and Latin American history.

Nowadays China pursues three strategic goals in the region: (a) to secure the raw materials to meet the demand for energy, mineral, and food staffs; (b) to maintain a high level of access to market in order to assure the exports of its manufactured products; and (c) to promote a multi-polar world by enhancing multilateral relations.

Latin America is valuable in satisfying Beijing's foreign policy goals (See Table 1 for detail). The region exhibits many features that complement Chinese needs and strategy: First, Latin America, with a population of more than 500 million and an economy of $3.3 trillion ($5.6 trillion measured by purchasing power parity), is an attractive market of Chinese products. Second, Latin America has an abundance of raw materials and agricultural products which China needs desperately. Thirty years ago, Taiwan sold more goods to Latin America than mainland China did. Today, Taiwan's trade with the region is lagging far behind that of China.[4]

For many years, the US and Western European countries frequently pressure

[4] Daniel P. Erikson and Janice Chen, "China, Taiwan, and the Battle for Latin America," *The Fletcher Forum of World Affairs*, 31, no. 2 (Summer 2007), 69–89.

China on its internal affairs, especially concerning human rights and the status of Tibet. By contrast, Latin American countries base their interaction with China on always having mutual respect for sovereignty and territorial integrity, non-interference in China's internal affairs, equality and mutual benefit, and peaceful coexistence. A clear example of the success of this position was the vote of the UN Human Rights Commission on April 15, 2004 on actions to be taken before the human rights situation in China. None of the Latin American countries that maintain official diplomatic relations with Beijing voted to take action.[5] Like China, many countries in the region often resent the U.S. criticism of their human rights records as well.

In addition to its close relations with Cuba, Beijing has established strategic partnerships with four major countries in the region: Argentina, Brazil, Mexico, and Venezuela. Latin American exports to China grew much faster compared with their exports to the United and the European Union. The undergoing financial crisis is likely cement that trend, since China has been the fastest-growing major economy in the world, while the U.S. and European economies continue to be weak. In short, Chinese interest in the region is rising swiftly. From the Chinese perspective, Sino-Latin American ties have now entered their best period in history.

Table 1

Basic Economic Indicators:

China and Major Latin American Countries

[5] Federico J. Tabja, "China and Latin America: Mutual Benefit," *Latin American Business Chronicle*, December 23, 2008, available at http://www.latinbusinesschronicle.com/app/article.aspx?id=2974.

	Population (Million) (2008)	Nominal GDP (Billion US$) 2008	PPP based GDP (Billion US$) 2008	PPP based GDP per capita (US$) 2008	GDP Per capita % growth (2007-8)
China	1,326	3,899	7,984	6,020	8.4
Argentina	40	287	720	14,020	6.0
Brazil	192	1411	1,932	10,070	4.1
Chile	17	157	224	13,270	2.2
Columbia	45	297	379	8,510	1.3
Mexico	106	1061	1,517	14,270	0.8
Peru	29	115	230	7,980	8.6
Venezuela	28	258	359	12,830	3.1

Sources: World Bank, *World Development Report, 2010*, 308–309.

II. Booming Trade

China's trade with Latin America has increased sharply in recent years. For instance, China's trade with the region as a percentage of its world trade increased from 2.3 percent in 1999 to 4.6 percent in 2007. Until the late 1990s, China's economy had little need for Latin American exports, which were largely commodities. In 2003, China became the world's second-largest importer of oil, after the United States, and the International Energy Agency estimates that China will import as many as 6.9 million barrels of oil per day by 2020, making it by far the largest consumer. China used to the world's largest soybean producer, now it is the world largest soybean importer.

In 2000, China's trade with Latin America was only $13 billion. China's 2009 trade volume with Latin American countries skyrocketed to $150 billion. China is now the third-largest trade partner for Latin America after the United States and the EU. For many countries in Latin America, China has become a major trading partner and ranks as one of the top export and import market. For most countries in the region, one or two commodities dominate their exports to China.[6]

Table 2

China's Trade with Latin America
(billion dollars)

Year	2001	2002	2003	2004	2005	2006	2007	2008
Total	14.9	17.8	26.8	40.0	50.5	70.2	102.6	124.1
Export	8.2	9.5	11.9	18.2	23.7	36.0	51.5	61.1
Import	6.7	8.3	14.9	21.8	26.8	34.2	51.1	63.0
Balance	1.5	1.16	-3.0	-3.6	-3.1	2.2	0.4	-1.9

Source: Chinese Ministry of Commerce.

China has served as a new and more dynamic destination for Latin American products: buying $63 billion worth of the region's exports in 2008, about 10 times more than in 2000. Besides, Chinese demand for those exports–80 percent of which are primary commodities–played a key role in driving up global prices. Thus China has helped boost economic growth in Latin America.[7]

As Latin America's largest country, Brazil has attracted special attention from China, having become its largest trade partner in Latin America, while China is Brazil's second largest trading partner, exceeded only by the United States. China has benefited greatly by importing huge quantities of petroleum, iron ore, and soybeans. However, China is replacing Brazil as a supplier to other countries in South America

[6] Cited in Mark Sullivan, "Latin America and the Caribbean," in *China's Foreign Policy and "Soft Power" in South America, Asia, and Africa* (Washington: Congressional Research Service, 2008), 20–21.

[7] Kevin Gallagher, "**Latin America Must See China as Trade Threat, Partner**," available at http://www.worldpolicy.org/blog/2010/11/22/latin-america-must-see-china-trade-threat-partner.

and Brazil has held trade deficit with China since 2007.[8] While Brazil's exports to the United States fell by 43 percent over 2009, Chinese purchases of Brazilian goods expanded by 14 percent during this period, the only major market in which purchases of Brazilian products did not decrease.[9]

Trade volume between China and Chile hit $24.7 billion in 2010.[10] More and more Chilean products, such as wines, salmon and copper, have entered the Chinese market, while home appliances, textile, and communication products from China have gained more popularity in Chile. Right now the PRC is Chile's number one export customer, surpassing the United States and number two trade partner of Mexico and Brazil behind the United States.

But China's trade relations with Latin America have not affected all countries in the same way. South American countries have largely benefited from the rise in Chinese demand for the commodities they produce, especially soybeans, iron ore, and copper. China's exports to those counties are dominated by machinery and electrical products, especially those with high value added, like automobiles, tractors, motorcycles, televisions, computers, and so on. The increased trade linkages are therefore complementary.

According to the Brazilian government data, about 80 percent of Brazil's exports to China are agricultural and mineral commodities; about 90 percent of its imports from China are manufactured goods, many of them things that Brazil can't make as cheaply as China because wages are higher in Brazil.[11]

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8 Shixue Jiang, "The Panda Hugs the Tucano: China's Relations with Brazil." *China Brief*, 9, no. 91 (May 15, 2009), 7–10.

9 Evan Ellis, "China's Bet on Brazil: Drivers, Dynamics, and Implications of the Expanding Brazil-China Relationship," The Center for Hemispheric Defense Studies, "Regional Insights" series, no. 1, 2011.

10 Figures are from the Chinese Ministry of Commerce, available at http://www.mofcom.gov.cn/aarticle/tongjiziliao/fuwzn/ckts/201102/20110207415946.html.

11 David Wessel and Paulo Prada, "China Forces Global Shift in Commerce," *Wall Street Journal*, March 11, 2011.

Mexico and Central America have suffered from a growing trade deficit with China as well. Chinese trade with Mexico is growing: it now approaches $40 billion dollars a year, most of which heavily favors Beijing: China ran a huge trade surplus with Mexico of about $30 billion in the first 9 months in 2010.[12] Imports from China accounts for small percentage of Mexico's total exports but China is the second supplier for its imports. Mexico tends to see China as formidable competitor, because of its ability to lure investment away from the low-cost manufacturing plants just south of the U.S. border.

To promote trade, Beijing is also looking at free trade agreements (FTA). The PRC hopes that FTA can further stimulate the growth of its export-led economy. In the past few years, Chile, Costa Rica, and Peru have entered free trade agreement (FTA) with China. All these Latin American countries already have free trade agreements with the United States. Thus, it can potentially provide China with a dynamic channel to the American market. Currently, Beijing has FTA with nine countries/regions, 3 of 9 are in Latin America.[13]

Services could also be an immense area of opportunity. There is an increasing interest in the tourism industry, posing significant economic opportunities for both regions. China Tourism Academy estimates in 2009 alone, there were 47 million Chinese tourists visiting locations outside China, the number in 2010 could reach 54 million.[14] Since 2005, 17 countries in Latin America and the Caribbean have been designated as "tourist destinations." Such agreements allow the countries to take advantage of the increase in Chinese tourist travel worldwide, which is expected to

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[12] Chinese Ministry of Commerce , available at http://www.mofcom.gov.cn/static/column/tongjiziliao/fuwzn/ckts.html/1.

[13] For detailed discussion on the topic, see http://fta.mofcom.gov.cn/english/index.shtml.

[14] Yu Tianyu, "Number of Outbound Tourists Soaring," *China Daily*, March 29, 2010, http://www.chinadaily.com.cn/cndy/2010-03/29/content_9653736.htm.

reach 100 million by 2020.[15]

In the global market, China competes intensively with an increasing numbers of Latin American manufacturers. China has replaced Mexico as the top supplier of goods to the United States. The Central American nations have also been severely hurt by the Chinese competition in the U.S. market, despite their greater proximity to the U.S. and benefits they received from the NAFTA (North American Free Trade Agreement) and the Dominican Republic-Central America Free Trade Agreement, commonly known as the DR-CAFTA. Fear of competition from Chinese apparel and textile exports was a major factor for Central American nations and the Dominican Republic in negotiating the DR-CAFTA agreement with the United States.

As recently as 2001, China and Central America were on a par, each selling about $6.5 billion worth of apparel to the United States and each holding a 12 percent share of the American apparel market. In 2005 the Central American Free Trade Agreement (CAFTA) took effect. By lowering tariffs and locking in access to the US economy, CAFTA was supposed to solidify Central America as a clothing hub. Instead, clothing exports from Central America to the US plunged 25 percent from pre-CAFTA days to $5.6 billion in 2009. Central America's share of American apparel imports has slipped to 8.7 percent, while China now enjoys a commanding 38 percent share.[16]

To protect domestic manufacturing industries, several Latin American countries have increasingly imposed tariff and non-tariff barriers against the Chinese exporters. In spite of increasing trade frictions, many in the region view the engagement with China as a welcome opportunity to promote economic growth and diversification – and to reduce their dependence on the United States.

15 http://www.chinadaily.com.cn/english/doc/2006-02/04/content_517047.htm.
16 Kevin Gallagher, "China Discovers Latin America," *Berkeley Review of Latin American Studies*," (Fall 2010), 11–12.

On balance, China's rise in Latin America is an opportunity because China's direct and indirect impacts on Latin America exports will allow a handful of countries in the region to build reserves and bolster the region's fiscal position, enable Latin American countries to rekindle a serious discussion about industrial development for the twenty-first century.[17] The growing trade between China and Latin America was driven by the Chinese efforts of modernization and globalization and is likely to continue in the years to come.

III. Fast-growing Investment

China has been a magnet for foreign direct investment (FDI) since the country opened its door to the outside world in the late 1970s. In the past few years, China is also increasingly a source of FDI. Beijing has enacted policies to encourage Chinese investment abroad. Whereas for many years, China's development policy relied almost exclusively on a strategy called "welcome in" (*yinjinlai*), i.e., attracting foreign capital, technology, and managerial skills, today it also pursues a strategy of "going out" (*zouchuqu*).[18] This has led China to become one of the most intrepid investors in the Western Hemisphere. According to the Ministry of Commerce (MOC), China's "going out" strategy has progressed well and growth in overseas investment has increased. By the end of 2009, Chinese firms established more 700 enterprises in Latin America.[19]

The expectation of a huge Chinese investment initially cheered many, but with the exceptions of the Cayman Islands and the British Virgin Islands, its investment in

[17] Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), 2–3.
[18] For more on the Chinese outward foreign direct investment, see Yang Mu and Teng Siow Song "China's Overseas Direct Investment," *EAI Background Brief*, no. 340, July 12, 2007.
[19] Ministry of Commerce, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 30.

Latin America and the Caribbean remains small.[20] According to some observers, China's inexperience in investment abroad, its lack of information about business in Latin America, and concerns about the risks of investing in the region all combined have limited China's investment in the region.[21]

As indicated in Table 3, the cumulative stock of China's foreign direct investment (FDI) in Latin America and the Caribbean rose from $4.6 billion in 2003 to $30.6 billion in 2009, surged more than six fold in 7 years. Latin America accounts for almost 12.5 percent of China's FDI stock worldwide. The British Virgin Islands ($15.1 billion), and the Cayman Islands ($13.5 billion) are the second and third largest destination of the Chinese outward FDI in the world (just after Hong Kong). Almost 93.6 percent of that China's FDI in the region went to the Cayman Islands and the British Virgin Islands, both are also major sources of FDI into China. In these two well-known tax shelters, some Chinese firms channel their funds, only to move them back as FDI, sidestepping strict foreign-exchange controls and tax regulations. This practice, known as "round tripping," is a feature of the Chinese investment abroad.[22]

Excluding the tax havens, by 2009 the Chinese FDI in the Western Hemisphere concentrate most heavily in Brazil ($360 million), followed by Peru, Venezuela, Mexico, and Ecuador (see Table 3). Of this, much of the investment has been in the energy sector. China is, after all, the world's second-largest importer of oil, and faces a huge and widening gap between its stagnant energy production and booming consumption. This has prompted Chinese leaders to identify Latin America, together with Russia/Central Asia and the Middle East/Africa, as a candidate to be a principal energy supplier.

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[20] He Li "China's Growing Interests in Latin America and Its Implications," *Journal of Strategic Studies*, 30, nos. 4 & 5 (August–October 2007), 844.

[21] Claudio Loser, *The Growing Economic Presence of China in Latin America*, China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, December 15, 2006.

[22] Lawrence Brainard and Jonathan Fenby, "Chinese Takeout," *Wall Street Journal*, January 20, 2007.

Table 4 reveals that China's outward FDI net flow in Latin America and the Caribbean increased from $3.63 billion in 2008 to $7.33 billion in 2009. Latin America accounts for 13 percent of total Chinese FDI net flow in 2009. The Cayman Islands was the top regional recipient of Chinese investment with $5.37 billion, followed in second place by the British Virgin Islands with $1.61 billion. The next four largest host countries were Brazil ($116 million), Venezuela ($115 million), Peru ($58.49 million), and Argentina ($22.82 million).

According to the official Chinese statistics, foreign direct investment (FDI) to Latin America has been relatively limited. What is more, not accounting two financial havens and the region only received about $1.958 billion in Chinese FDI as of 2009. The United States continued to be the main investor in the region, followed by Spain and Canada.[23]

Since the 2008 financial crisis, the volume of investment projects by Chinese companies in the region has expanded exponentially. Whereas the Chinese investments in Brazil in 2009 totaled a modest $82 million, by the end of 2010, almost $15 billion in new projects had been announced, and the investment firm Deloitte estimated that total PRC investment in Brazil could reach $40 billion by 2014.[24] Chinese oil giant Sinopec acquired Brazil assets of Spain's Repsol for $7.1 billion and US-based Occidental's Argentina E&P assets for $2.5 billion. Meanwhile, Chinese chemicals company Sinochem acquired 40 percent of the Peregrino oil field project in Brazil for $3 billion, while the State Grid Corp. of China acquired several Brazilian power firms for $1.7 billion.[25]

[23] Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean*, 2010.
[24] Evan Ellis, "China's Bet on Brazil: Drivers, Dynamics, and Implications of the Expanding Brazil-China Relationship," The Center for Hemispheric Defense Studies, Regional Insights series, no. 1, 2011.
[25] "Latin America M&A's China Surges," *Latin American Business Chronicle*, January 19, 2011.

In Brazil, China's unquenchable appetite for raw materials is changing the landscape of that country. Eike Batista, Brazil's richest man, is building a $2.6 billion superport north of Rio de Janeiro for massive tankers headed for China. Brazil and Peru have nearly completed a highway to carry goods from Brazilian farms through the Amazon and over the Andes to Peru's Pacific ports. In addition, China and Brazil have engaged in the sharing of high technology, most notably in the form of building satellites.

The governments of Colombia and China are in talks to construct a "dry canal" alternative to the 97-year-old Panama Canal. China would fund the project, which would link Colombia's Atlantic and Pacific coasts together by rail in an attempt to facilitate increased trade between the two countries. China has agreed to invest in the $7.6 billion project, which would stretch about 140 miles from Colombia's northern Caribbean region, near Cartagena, to an as-yet undesignated site on its western Pacific coast, mainly to ferry Colombia's abundant coal to Asia.

China has been largely pursuing investment in primary products such as iron, copper, and soybeans. In addition to being "resource seeking," Kevin Gallagher contends that the Chinese FDI is also "market-seeking" and "efficiency seeking." Chinese steel makers and auto companies such as Chery Auto have invested in Brazil in order to serve Brazil's large market. Chinese auto firms and electronics have also located in Uruguay and Mexico to seek "efficiency"—or to serve as export platforms to larger markets, namely Brazil (Uruguay) and the United States (Mexico).[26]

China's sudden emergence as the new FDI source on the world stage is explained in large part by its export-driven economic growth model. In order to maintain undervalued currency and rapid economic growth and which is also a political

[26] Kevin Gallagher, "China Discovers Latin America," *Berkeley Review of Latin American Studies*," (Fall 2010), p. 9.

imperative, China must export $250 billion of capital each year to balance its excess trade and tourism surpluses. Until recently, the easy solution was for the Central Bank of China to buy U.S. Treasury bills, thus helping to stoke the engine of U.S. consumerism (and Chinese exports) with record low U.S. interest rates. That formula looks less attractive due to undisciplined U.S. monetary and fiscal management which represses U.S. interest rates and weakens the dollar, as the prospect of much higher U.S. inflation looms ahead.[27] In spite of rapid growth of Chinese FDI in Latin America, it will take many years if not decades for China to approach the level of the U.S. investment in the region.

Table 3

Cumulative Stock of China's FDI in Selected Latin American Countries

(U.S. $ million)

	2003*	2006*	2009*
Argentina	1.05	11.34	69.05
British Virgin Island	532.64	4,750.40	15,060.69
Brazil	52.19	130.41	360.89
Cayman Islands	3,690.68	14,209.19	13,577.07
Chile	.75	10.84	66.02
Cuba	13.95	59.91	85.32
Ecuador	.55	39.04	106.60
Mexico	97.18	128.6	173.90
Panama	0.16	36.92	81.09
Peru	126.18	130.4	284.54
Venezuela	19.39	71.58	271.96
Total	4,619.32	19,694.37	30,595.48

* End of the year.

Source: Ministry of Commerce, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*.

[27] John Price, "**Decade of the Panda? – Kroll Tendencias**," available at http://www.nearshorejournal.com/2010/01/decade-of-the-panda/.

Table 4

China’s Outward FDI Flow in Latin America: 2006–2009
(U.S. $ million)

	2006*	2007*	2008*	2009*
Argentina	6.22	136.69	10.82	-22.82
Bahamas	2.72	38.99	-55.91	1
Barbados	1.85	0.41	0.82	0.87
Belize	-	-	0.06	-
Bolivia	18	1.97	4.14	18.01
Brazil	10.09	51.13	22.38	116.27
Cayman Islands	7,832.72	2,601.59	1,524.01	5,366.3
Chile	6.58	3.83	.93	7.78
Colombia	-3.36	0.22	6.76	5.74
Cuba	30.37	6.58	5.56	12.93
Dominican Republic	-	-	0.06	0.06
Ecuador	2.46	3.58	-9.42	17.90
Grenada	-	-	.12	-
Guyana	-	60	-	-
Honduras	-	-4.38	-0.9	-
Jamaica	-	-	2.14	-
Mexico	-3.69	17.16	5.63	0.82
Panama	-	8.33	6.52	13.69
Paraguay	-	-	3.00	6.47
Peru	5.4	6.71	24.55	58.49
St. Vincent & Grenadines	2.91	5.88	9.46	-9.46
Surinam	-	17.57	2.42	1.1
Uruguay	-	.48	-	4.98
Venezuela	18.36	69.53	9.78	115.72
Virgin Island	538.11	1,876.14	2,104.33	1,612.05
Total	8,468.74	4,902.41	3,627.25	7,327.90

* End of the year.

Source: Ministry of Commerce, *2009 Statistical Bulletin of China’s Outward Foreign Direct Investment*.

IV. "South-South Cooperation" or "South-South Competition"?

Too weak to stand as a counterweight to the Soviet Union or the United States during the Cold War, China emphasized the equality of nations as promised by the United Nations and advocated multilateral forums for international negotiations concerning the rules of world order. The split between Moscow and Beijing helped China to solidify a role as part of the "Third World." Beijing emphasizes economic cooperation among the developing nations and talks about the South-South cooperation as the pillar of China's policy toward developing world including Latin America.

The PRC's external diplomatic model can be appealing to many in Latin America because it stresses "multi-polarism" instead of unipolarism, "multilateralism" instead of unilateralism, "noninterference" instead of interventionism, "soft power" instead of hard, "pragmatism" instead of ideologization, "collaboration" not domination, and "persuasion" instead of coercion. "These policies coincide with certain Latin American traditions and aspirations and have become more captivating by virtue of recent developments in U.S. foreign policy."[28] Deng Xiaoping's "peace and development" strategic thinking has been incorporated as a key part of Chinese foreign policy doctrine. Furthermore, unlike the United States and Europe, China has no history of invading and colonizing other countries beyond its immediate border, what is today called Greater China.[29]

President Hu Jintao and Premier Wen Jiabao have been sensitive to foreign reactions to China's growing power. Their pursuit of cooperative security, win-win economic cooperation, and an increasingly multilateral approach to foreign policy in

[28] Juan Gabriel Tokatlian, "A View from Latin America," in Riordan Roett and Guadalupe Paz, eds. *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Washington: Brookings Institution Press, 2008), p. 64.

[29] William Ratliff, "The Makings of a China-Latin Love Affair," May 31, 2008, available at http://www.atimes.com/atimes/China/JE31Ad01.html.

general have so far met with greater success than any of their predecessors.[30] The Chinese leaders enunciate a doctrine of South-South cooperation, highlighting that even as China rises to great power status it will not interfere or meddle in other countries' internal affairs—a sharp contrast with the United States, which has a history of interventions in Latin America. Instead, Chinese leaders insist, Beijing will listen to other countries' needs and craft responses accordingly.

The Beijing leadership announced constantly that China would always "stay on the side of the developing countries." Lower-ranking officials echo this message, addressing both China and Latin America belong to the developing world and have identical or similar views on many issues."[31] Since the economic reform launched by Deng Xiaoping three decades ago, China has deepened its relations with Latin American countries in a wide range of areas including diplomacy, trade, investment, aid, and energy cooperation.

However, increasing economic interaction is not without its problems. In fact, Beijing could end up looking little different to Latin Americans than the old colonial powers, who mined and dug up the region, doing nothing to improve the capacity of locals. If Chinese investment focuses on extractive industries and adds little to the skills of the local workforce, the region could become trapped in a pattern of mercantilism with China, in which it sells natural resources to buy higher-value manufactured goods, without developing a cadre of local-country managers for Chinese firms. More significantly, commodities markets are notoriously volatile, and long-term trend for commodities price is negative. In other words, in the long run, the terms of trade is unfavorable to Latin American countries that export primary goods to

[30] Yong Deng and Thomas G. Moore, "China Views Globalization: Towards a New Great Power Politics?" *The Washington Quarterly,* 27, no. 3 (summer 2004), 118.
[31] Joshua Kurlantzick, "China's Latin Leap Forward," *World Policy Journal*, 23, no. 3, (2006): 33–41.

China.

Trade conflict between the two has intensified in the past few years and such conflict is likely to continue for the foreseeable future. A recent study by Kevin Gallagher and Roberto Porzecanski suggests that Latin American manufacturing industries are increasingly being outcompeted by China in both the world and in regional market.[32] Their study also finds that the Chinese demand for commodities that Latin America produce is here to stay for the foreseeable future. Yet in the long run, price and demand for these types of commodities tend to decline.[33]

When China joined the WTO in 2001, Beijing agreed that it would be recognized as a non-market economy within 15 years of its entry.[34] Owing to this status, a group of countries, many come from Latin America, have turned anti-dumping measures into a means of trade protectionism against China. China has become the world's largest anti-dumping target and faces its biggest wave of trade disputes at the WTO. Typically, antidumping duties are levied on countries that are not designated as "market economies," because some subsidies are assumed in those countries. The WTO permits importers to calculate probable cost of the good using another country as a reference. For China, it is often another emerging economy such as Turkey or Mexico.[35] Consequently, Beijing has been campaigning hard for market-economy status from Latin America because it would make it harder for those countries to levy antidumping duties. Beijing has made the market economy status issue as one of the highest priority on its economic agenda. In recent years, the PRC has secured the

[32] Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), p. 56.
[33] Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), p. 137.
[34] Chung-chian Teng, "Hegemony or Partnership: China's Strategy and Diplomacy Towards Latin America," in Joshua Eisenman; Eric Heginbotham; Derek Mitchell eds., *China and the Developing World: Beijing's Strategy for the Twenty-First Century* (M.E. Sharpe, 2007), 111.
[35] John Miller, "Trade Body Rules in Beijing's Favor," *Wall Street Journal*, March 13, 2011.

market economy status from a number of Latin American countries, including Argentina, Brazil, Chile, Peru, and Venezuela.

Increasing commercial interactions have also created new competition to China in Latin America in currency area. The past few years have seen significant currency appreciation across Latin America, though it remains unclear whether such appreciation has been due to rising commodities prices or to other factors. It is clear that maintenance of an undervalued currency may cause imbalances and excesses in export-oriented manufacturing to build up. Brazilian officials argue that with increasing vehemence, China is giving its exports an extra advantage by undervaluing the yuan. Brazil backs for the calls from Washington for China to revalue the yuan, though Brazil's policymakers also blame the Federal Reserve's loose monetary policy for the overvaluation of the real. At the political level, China joined the United States in rejecting the increase in the number of permanent seats on the Security Council of the United Nations in 2005. This upset the hopes of Brasilia to receive support from Beijing to become a permanent member of that institution. Ironically, Beijing and Washington did this for different reasons.

The market capacity of a handful of Latin American countries is anything but large and the room for further growth in bilateral trade is limited. Actually, six countries and ten commodities dominate all Latin American trade with China, meaning that many countries in the region have not seen much of a change in exports at all as a result of China.[36] Weak institutional and political instability in some Latin American countries also hinder China's economic expansion in the region.

All is not rosy in China. Future growth of the Chinese economy has become an area of concern. After three decades of rapid growth, the Chinese economy tends to

[36] Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), p. 7.

slow down. Demand for commodity might be curtailed and the commodity price could fall. There are other problems reflecting patterns and behaviors that have existed in China's domestic economic development, such as "Latin Americanization of China." The "Latin-Americanization" of China, has been popular with Western Sinologists since the late 1990s.[37] The term refers to income disparity, dual economy (coexistence of modern urban sector and backward sector in rural areas), reliance on foreign capital and technology, rampant corruption, and slower growth rate that occurred in Latin America. In this sense, China brings us back to development debates of the 1960s and 1970s over dependent growth in Latin America, then the most industrially-advanced region of the Global South. In the past few years, a growing number of the Chinese intellectuals express concerns about the "Latin Americanization" of China.[38] Some assert that Latin Americanization is developing in China. [39]

Though China has remained socialist at least on paper, there is a huge problem of income inequality in China. The gains from China's remarkable growth have gone disproportionately to the new rich and the coastal regions, leaving many rural areas and low income people far behind. China's Gini index—a standard measure of income inequality across a society—has increased to almost Latin American levels over the past generation. Meanwhile, there has been a sharp increase in labor costs in coastal regions, which could make the Chinese products less competitive in the global market.

The PRC has established co-dependency economies with a handful of Latin

[37] Willy Lam, "The 'Latin-Americanization' of China's Domestic Politics," *China Brief*, 6, no. 21 (May 9, 2007).

[38] When one searches for "lameihua" (Latin Americanization in Chinese) in Baidu.com, the most popular search engine in China, one can get over 50,000 results.

[39] George J. Gilboy and Eric Heginbotham, "The Latin Americanization of China?" *Current History*, 103, no. 674, (September 2004): 256–261.

American countries such as Argentina, Brazil and Chile. Latin America's new dependency on China is different from their dependency on the West. In spite of "unequal exchange" between raw materials and manufactured goods, there is burgeoning technology cooperation between China and Latin American countries such as Sino-Brazilian cooperation in the field space program. Whatever the side-effect, Latin America has got to be better than the European and American precedent. Meanwhile, lack of cultural ties, language barriers, and high transportation cost are additional obstacles that inhibit closer Sino-Latin American ties. Under such circumstance, Sino-Latin American relations might have a bumpy ride in the years to come.

V. Challenger or Stakeholder?

The United States has long exercised significant influence in the region, while historically the relations between China and Latin America were relatively weak and sporadic. From the early 1950s to the late 1970s, China's presence in Latin America was limited to a marginal cultural diplomacy. Nonetheless, in recent years, China's attempts to engage the region politically and economically have expanded enormously.

New Challenger

The burgeoning Chinese involvement in Latin America, the "backyard" of the United States, has awakened new concerns in the U.S. policy circles. The rise of China could challenge the American supremacy in the Western Hemisphere. Beijing's engagement with "problematic regimes," such as Cuba and Venezuela, directly opposed to the policies of the United States, have put Beijing itself at odds with Washington. China is viewed as a potential threat to the long-standing pillar of the

U.S. policy in the Western Hemisphere, the Monroe Doctrine. China's focus on energy could complicate U.S. access to resources. Global reserves of cheaply obtainable oil are decreasing rapidly, and Latin American imports—particularly from Venezuela—are among the nearest and cheapest for the United States. The US Congress convened hearings to examine China's presence in the Western Hemisphere, and the White House instituted a dialogue with China to explore the two powers' aims in the region.[40]

The Zogby poll exhibits a whopping 83 percent believe China in Latin America poses a threat to the United States. Only 10 percent believe China in Latin America is not a threat.[41] An article published in *Foreign Affairs* wondered if Washington was "losing. Latin America."[42] In 2006, Washington dispatched the Assistant Secretary of State for Western Hemisphere, Thomas Shannon, to Beijing to find out what was going on, the first time in the history of the American foreign policy. His aim was to negotiate the precise line which China must not cross in creating its new strategic alliance with Latin America. According to one of the officials who arranging the talks, "We want to make sure we don't get our wires crossed."

China's emergent soft power is another area of grave concern.[43] China's economic development model, also known as the Beijing Consensus, challenges Western notions of political liberalization or market reforms as indispensable for long-term, sustained development. The Beijing Consensus represents an attractive alternative to the Washington Consensus largely because Beijing respects the sovereignty of Latin American nations, not meddling in their affairs and certainly not

[40] Joshua Kurlantzick, "China's Latin Leap Forward," *World Policy Journal*, 23, no. 3, (2006): 33.
[41] **"U.S. Favors Free Trade, Sees China Threat,"** *Latin American Business Chronicle*, **August 13, 2007,** available at http://www.latinbusinesschronicle.com/app/article.aspx?id=1525.
[42] Peter Hakim, "Is Washington Losing Latin America?" *Foreign Affairs*, 85, no. 1 (January/February 2006).
[43] Evan Ellis, "Chinese Soft Power in Latin America," *Joint Forces Quarterly*, 60, no. 1 (January, 2011), 85–91.

dictating their policies, as in the famous structural adjustment of neoliberalism.[44] As Chinese scholars see it, their country could be both a partner and a model for the developing world – a model of state-directed market economy without liberal democracy.

In truth, the fears of China's presence in the Western Hemisphere did not accurately capture the current state of Beijing's dynamic engagement with Latin America. Beijing understands that "soft power" carries more influence than "hard" military power. Until now, Beijing does not have sufficient either soft or hard power in the region. China's rise in Latin America may not be the problem. Washington's focus on war on terror and "benign neglect" of the region is likely the real cause for the decline the American dominance in the hemisphere.

From Challenger to "Responsible Stakeholder"[45]

In a sense, the emergence of a new great power in an important region could intrinsically harm the U.S. interests, since relative American power and influence in that region might proportionately decline unless the United States expends more efforts and resources to counteract the new player.[46] After a period of fundamental reassessment in the late 1990s, China decided to avoid directly challenging the U.S., Beijing is taking a less confrontational, more sophisticated, more confident, and, at times, more constructive approach toward regional and global affairs. In contrast to a decade ago, the world's most populous country now largely works within the international system. As the largest benefactor of the globalization, it is not in Beijing's long-term interests to bring down the existing world order.

[44] For detailed discussion on the subject, see Baogang Guo and He Li eds. *The Chinese Labyrinth: Exploring China's Model of Development* (Lanham, MD: Lexington Books, forthcoming).

[45] Robert B. Zoellick, U.S. Deputy Secretary of State, called on China to act as a "responsible stakeholder" in global affairs on September 21, 2005.

[46] Evan Ellis, *U.S. National Security Implications of Chinese Involvement in Latin America* (June 2005) available at http://carlisle.army.mil/ssi.

The Chinese foreign policy has shown dramatic changes that underscore the priority that Beijing assigns to economic growth and its interest in 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."[47] At the APEC summit in 2008, Hu Jintao declared that "China now wants to show it is a responsible stakeholder in the region."[48]

Some Chinese scholars claim that there are no fundamental differences between Washington Consensus and Beijing Consensus. The key difference between the two is the speed of the reform. That is to say, the Chinese reform is much more gradual: 30 years after the reform, the Chinese development is still shaped by the nature of the Chinese state: a highly capable developmental state. Indeed, Fidel Castro and several other Latin American officials have expressed their admiration for China model. In broad terms, a large number of Latin America countries share the democratic values of the West. In that regard, China model is, in general, not very appealing for the majority of countries in the region. Unlike in Africa and Middle East, Chinese model (economic freedom plus tight political control) does not win many fans in Latin America.

The Chinese endeavors in the region have become pragmatic and non-ideological. The world expects a lot from China these days, but China is not ready, or willing, to take up the leadership role. It prefers to keep a low profile and continue to build its economy.[49] There is little evidence to suggest that the series of high-level Chinese visits to the region in recent years and its economic and strategic policies are targeted

[47]The concept of "responsible stakeholder" was suggested by the U.S. Deputy Secretary Robert Zoellick in September 2005.
[48] Cited in Antonio C. Hsiang, **"**China Rising in Latin America: More Opportunities than Challenges," *Journal of Emerging Knowledge on Emerging Markets*, 1, no. 1 (November 2009), 38.
[49] David Pilling, "China Will not Be the World's Deputy Sheriff," *Financial Times*, January 2010.

at undermining the interests of the United States.[50] Since the late 1970s China has largely abandoned the export of revolutionary ideology and replaced it with the economically successful model of market socialism; yet its policy of support for anti-hegemony has not been deserted. Jorge Dominguez, a Latin American specialist at Harvard University, has found that China-Latin American ties do have an anti-hegemony tone. However, they lack an ideological basis and are pragmatic in nature. Increased trade ties between China and the region have not affected Latin American countries' voting behavior in the United Nations.[51]

As Deng Xiaoping said economic development is the priority of the whole nation. This new doctrine explains, for example, that China maintains close commercial tie with Caracas, however nonetheless has shown little enthusiasm in becoming entangled in Chavez's larger goal of counterbalancing U.S. influence in the hemisphere. It is doubtful that China wishes to establish client states in Latin America as the Soviet Union did with Cuba and Nicaragua during the Cold War. In the words of Xi Jinping, the vice president of China and the apparent successor to President Hu Jintao, "Some foreigners with full bellies and nothing better to do engage in finger-pointing at us. First, China does not export revolution; second, it does not export famine and poverty; and third, it does not mess around with you. So what else is there to say?"[52] Apparently, the ideological affinity is not a factor with a great explanatory power when analyzing trends in relations between China and Latin America.

Given Beijing's paramount near-and mid-term priority to attend to its internal

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[50]Wenran Jiang, "China's Energy Engagement with Latin America," 6, no. 16 (August 2, 2006) available at <http://jamestown.org/print_friendly.php?volume_id=415&issue_id=3821&article_id=2371339>.

[51] Jorge I. Dominguez, *China's Relations with Latin America: Shared Gains Asymmetric Hopes* (Washington DC : Inter-American Dialogue 2006).

[52] Quotation from the speech of Xi Jingping in Mexico on February 11, 2009, available at http://topics.nytimes.com/top/reference/timestopics/people/x/xi_jinping/index.html.

challenges and maintaining peaceful international environment, China places enormous value on maintaining a positive relationship with Untied States.[53] Thus the Chinese would rather to uphold the status quo of supporting a liberal international trade regime and preparing themselves to be efficient competitors.

The Chinese are very aware of the sensitivities [of their economic expansion in Latin America] and have been very clear about not putting at risk their long-term relationship with America. China's have tried very hard to be accepted into established institutions that regulate relations in the hemisphere like the OAS, IADB, and UN peacekeeping operations in Haiti. These are important signals that China intends to remain a major stakeholder in the long run.

China's presence in the region not only has serious impacts on the U.S.'s role in its "backyard," to some extent it has consequences for the security situation in the Taiwan Strait. For many years, isolation of Taiwan was one of main objectives of the Chinese policy in Latin America. That has been changed since Ma Ying-jeou came to office in 2008. There has been a "diplomatic truce" between Beijing and Taipei.[54] Yet, as political disputes between the two sides persist, Central America and the Caribbean remain to be crucial for Taiwan's international space. Currently, of 24 countries that recognize Taiwan, 12 are in Latin America.

In terms of their economic interests in Latin America, at present there is no direct and fundamental conflict between China and the United States. In fact, to some extent, Beijing and Washington pursue a similar goal in Latin America: that is to promote economic growth and political stability. China will overtake the EU to become Latin America's second largest trading partner in the years to come which underlines

[53] Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek Mitchell, *China: The Balance Sheet–What the World Needs to Know Now about the Emerging Superpower* (New York: Public Affairs, 2006), 122.

[54] Antonio C. Hsiang**,** "China Rising in Latin America: More Opportunities than Challenges," *Journal of Emerging Knowledge on Emerging Markets*, 1 no. 1 (November 2009): 33–47.

China's support of growth and stability. China has become an engine of Latin American economic recovery. The principal reason for improved Sino-Latin American relations was the extraordinary growth of China's export-led industrialization. Sino-Latin American trade improved as a function of that worldwide trend, not because China preferred to develop its relations with Latin America.

While China's trade and investment in Latin America have grown tremendously, Latin America remains at the bottom of priority list of Chinese grand foreign policy strategy. China's push could eventually constitute a threat to U.S. political, security, and economic interests. In the final analysis, nowadays China is a stakeholder, and endeavors to become a "responsible stakeholder" at least on paper. The degree to which increasing Chinese power might endanger the U.S. interests could vary greatly, depending on how Beijing ultimately seeks to employ its power and how Washington responses to the rise of China.

Conclusion

The past few years witnessed a boom of China's trade and investment in Latin America. However, the numbers reflect a very small base to begin with. Compared with the U.S. trade with Latin America, China's trade with the region seems insignificant.[55] Similarly, the size of the Chinese direct investment in Latin America is still very limited. China's engagement with Latin America, although increasing, simply cannot compare to long-standing commercial and political ties that Latin America has had with the U.S. and Europe. In absolute terms, the economic and political relations of the U.S. in the region remain predominant, but the PRC is has been catching up rapidly since the turn of the twenty-first century.

[55] In 2009, PRC bilateral trade with Latin America, counting Cuba, was $111.5 billion, while U.S. trade with the region was $530 billion, about 4.75 times larger. See *Direction of Trade Statistics* (Washington, DC: International Monetary Fund, June 2010). Cited in Evan Ellis, "Chinese Soft Power in Latin America," *Joint Forces Quarterly*, 60, no. 1 (January, 2011), 91.

The Soviet expansion in Latin America and the Caribbean were short-lived and tragic for the region. The fantasy in the 1970s that Japan would come to the Western Hemisphere with huge investment and trade deals never materialized. Through a mixture of trade, direct investment, cultural and high-level political exchanges, China has developed into an important player in Latin America. With its rapid economic growth and increasing appetite for minerals and agricultural products, China's involvement in Latin America is likely to deepen and intensify in the years to come. Though China's relations with Latin America have important political and security aspects, right now the most prominent dimension is economic. In the post-cold war era, Chinese pragmatic approach could, in the end, benefit all parties—the U.S., Latin America, and China.