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Outside Players in Latin America (I): China

Carlos Malamud

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Summary¹

In recent years China's prolonged and sustained economic growth has fuelled a considerable rise in Latin American exports of raw materials (hydrocarbons, minerals, food, etc) to the Chinese market and, at the same time, an increased growth in the region's economies.

Introduction

In recent years China's prolonged and sustained economic growth has fuelled a considerable rise in Latin American exports of raw materials (hydrocarbons, minerals, food, etc) to the Chinese market and, at the same time, an increased growth in the region's economies. This was confirmed more recently by the visit of the Chinese President Hu Jintao and other senior officials of the Chinese government to several countries of Latin America.² At the same time, but in the opposite direction, numerous Latin American leaders, from all over the region and from different ends of the political spectrum, making pilgrimages to China's capital and its main cities, seeking to consolidate the business opportunities that have arisen in recent years, lure new investment for their respective countries and boost bilateral relations. These many trips in each direction confirm a mutual and relatively new discovery, which speaks of the countries' interest in each other. The trend will certainly grow and at times move at surprising speed.

This mutual interest has spurred high expectations on both sides, some of them viable and others totally disproportionate and exaggerated. And if they are not met to a significant extent, this could lead to acute frustration, especially for Latin America. The situation has generated abundant literature on Sino-Latin American relations, a fact which shows how interested international analysts and academics are in these questions.³ Along with it must be noted that Argentina, Brazil, Chile, Peru and Venezuela have recognised China as an attractive market, while China has granted most of them the status of 'tourist destination'. This gesture has eliminated restrictions on the visits that the ever-growing number of Chinese travellers can make to many Latin American tourist resorts. We should also add that Latin America is not looking just to China but also to other countries of Asia, starting with India, the other Asian giant, as well as Vietnam, Indonesia, Thailand, Malaysia and Singapore, to cite just a few examples. So one of the goals of this study is to identify the main characteristics of the massive Chinese penetration in Latin America and discuss what the two sides expect to gain from each other through this phenomenon.

¹ This Working Paper is an updated version of the article 'China y América Latina: ¿qué esperan los unos de los otros?', published in the *Anuario Asia Pacífico 2006*, CIDOB, Casa Asia and the Elcano Royal Institute, Barcelona, 2007, p. 103-114. I would like to express my appreciation to Carlota García Encina for her help in carrying out this study.

² The first visit to Latin America by a Chinese head of state was in 1990 with Yang Shangkun. In April 2001, right after a US EP-3 reconnaissance plane was shot down over Hainan, President Jiang Zemin began a tour of Latin America, surprising many analysts in the US. The presence of Jiang in Argentina, Brazil, Chile, Cuba, Venezuela and Uruguay at that delicate moment was a clear sign of the importance China attached to the region. Later, in November 2004, President Hu Jintao, coinciding with an APEC summit in Santiago, Chile, visited four countries of Latin America: Argentina, Brazil, Chile and Cuba. He signed 39 accords (trade, investment, space research, tourism and education). In January and February of 2005 Vice President Zeng Qinghong travelled to Mexico, Peru, Venezuela, Jamaica and Trinidad and Tobago.

³ Among the many studies done on this issue, the following are worth mentioning: Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes", Working Paper, Inter-American Dialogue, June 2006; Javier Santiso and others, "Angel or Devil? China's Trade Impact on Latin American Emerging Markets", *OECD Development Centre Working Paper*, nº 252, 2006; Diego Sánchez Ancochea, 'El impacto de China en América Latina: ¿oportunidad o amenaza?', ARI, 21/11/2006, www.realinstitutoelcano.org; and Sergio Cesarim, 'China y el espejo latinoamericano', *Foreign Affairs en Español*, vol. 6, nr 1, 2006.

On the one hand there are China's expectations. It must not be forgotten that Latin America is only fourth on China's list of foreign policy priorities. First are the countries of the Pacific Rim (especially the US and South-East Asia), followed by Europe and Africa.⁴ So it is appropriate to pose the question of what China expects from Latin America. Here, numerous issues and problems arise, and they could be summarised as follows: (1) guarantees of continuous and regular supplies of raw materials; (2) recognition of the People's Republic of China by those countries which have not yet taken this step, and the international isolation of Taiwan; (3) to some extent the presence of China in Latin America poses a challenge to the US, which sees another country operating in its own backyard; therefore it is important to keep in mind how this issue influences the pace and modalities of the Chinese 'landing' in Latin America; (4) Chinese expansion clashes constantly with the political changes that are occurring in Latin America, and although pragmatism has been the hallmark of bilateral relations between China and the different countries of the region in recent decades, the deeper problem that arises now is how China views the shift to the left that is theoretically taking place in Latin America and how it will respond to it; (5) cooperation on defence issues. Finally, there is the often-cited question of triangulation between Spain, China and Latin America, about which the Chinese hold a rather sceptical view.

At the same time, and in the inverse sense, there are issues related to Latin America's expectations with regard to China, manifested in the many visits that Latin American leaders have made to Beijing.⁵ What does Latin America expect from China? It is clear that here we must start with the most basic issues, stressing the difficulty of generalising about the region because the pros and cons of relations with China vary from one country to the next. It is clear that they all want to cash in on the enormous economic opportunities arising in Asia, beginning but not ending with China, which to some extent involves not getting left out of the big changes occurring around the world. This means choosing between adapting to globalisation –with varying degrees of obligation and willingness– and simply trying to take short-term advantage of China's presence and demands in the region.

In general the following problems and issues can be outlined: (1) the need for dynamic, strong markets for Latin American exports; (2) Chinese competition with local manufacturers, which in some cases is fierce; (3) foreign direct investment of Chinese capital in some specific countries and in certain strategic sectors in the region –energy, export-oriented agriculture, mining, etc–; (4) countering the political and economic presence and influence of the US, and even that of the EU, in Latin America; (5) finally, there are some bilateral relationships which deserve mention, in light of the recent political development of the region. These are the ties between Cuba and China, and Venezuela and China. In the latter case, Venezuela is looking to China as a source of military hardware and perhaps the country that will help it build and launch the Simón Bolívar satellite, which would be Venezuela's first.

China and Latin America

Some of the main reasons for China's interest in Latin America are the spectacular Chinese economic growth of recent years, an exponential rise in the demand (and thus the search) for raw materials and intermediate goods, the quest for diversified supply sources and a constant zeal for new markets in which to sell its excess of manufactured goods. However, this is not a trend that emerged spontaneously as a result of a rise in China's most recent needs for certain products (especially Latin American raw materials, minerals and foodstuffs, but not just these goods). Rather, it is the result of planning by a highly centralised State that is tightly run by the Communist

⁴ For now, for a variety of reasons, it is unfeasible for China to host a summit with all the countries of Latin America, as it did with those of Africa in Beijing in November 2006.

⁵ Those worth mentioning include the ones made by Mexico's Vicente Fox in June 2001; Lula da Silva of Brazil in May 2004; Néstor Kirchner of Argentina in June 2004; and the four trips made by Hugo Chávez of Venezuela in 1999, 2001, December 2004 and August 2006.

Party of China, as seen after the last party congress. This basically means that it is not economic sectors which make decisions on the ways, modes, places and paces at which this expansion and presence take place. Instead, they stem from political and diplomatic action that is planned and carried out by cadres juggling highly diverse variables all at once.

How long has China been interested in Latin America? Some Chinese nationalists, and other people who are not Chinese, argue that Chinese navigators –not Christopher Columbus– were the true discoverers of America. These theories go back to 1761, when a French Sinologist, J. de Giognes, said something similar. Later, some Chinese academics raised the possibility that the monk Hui Sheng had arrived in Mexico, which is *Fusang* in Mandarin, in the 5th century. More recently, a book by Gavin Menzies, titled *1421 – The Year China Discovered America*, was published in 2003. It said the feat was accomplished by Zhen He. But even in the more than hypothetical case that this did in fact happen, its impact was not even remotely similar to that of what Columbus⁶ did, neither in terms of importance nor consequences.

Putting this more than improbable speculation aside, today we are witnessing the re-discovery of America, especially, Latin America, by China. But it is not something that is being left to chance, as the People's Republic has invested physical and human resources to develop think tanks specialising in the political, economic and social realities of Latin America. Examples are the Institute of Latin American Studies at the Chinese Academy of Social Sciences and the Department of Latin American Studies of the Chinese Communist Party.⁷

This rediscovery implies a true and genuine Chinese interest in Latin America, one which is evident for the countries of the region: in the past five years Chinese imports of Latin American products have increased by more than 600%; China invests around US\$1 billion a year in Latin America; it sends dozens of military training teams; has become an observer at the Organisation of American States (OAS); and hopes to be one at the Inter-American Development Bank in 2008 or 2009. This shows how China's presence manifests itself on different levels: bilateral, sub-regional and inter-regional. Also at play are geo-strategic issues linked to international maritime traffic, as seen in China's great interest in anything to do with the Panama Canal and other trans-Pacific routes.⁸

In designing its foreign policy towards Latin America, from a regional perspective China has created the China-Latin America Forum, while at the sub-regional level the government of Beijing has established mechanisms of dialogue with Mercosur and the Community of Andean Nations (CAN in Spanish), which represent the two main integration processes on the continent. With the third integration organisation, the one involving Central America, relations are more complex because some of the countries of the region have recognised the Taipei government.

China's dealings with Mercosur have three main goals: (1) try to neutralise, or at least minimise, Paraguay's relations with Taiwan (Paraguay is the only Mercosur country that still recognises Taiwan); (2) to increase bilateral cooperation with the most important countries of the bloc (especially Brazil and Argentina) in anything that has to do with supplies of raw materials; and (3) to strengthen the role of Chile's ports (although Chile is only an observer at Mercosur) as a platform for imports and exports of Chinese goods.

Finally, at the bilateral level China has developed 'strategic alliances' with Argentina, Brazil and Mexico, while with Venezuela it has forged a 'strategic alliance for common development'. However, the first free-trade accord China signed in Latin America was with Chile (the region's leader in free trade). China is interested not just in Chile's minerals, such as copper, but also, and

⁶ Presentation by Jian Shixue at the Elcano Royal Institute, 1/III/2007.

⁷ Jorge Domínguez, *op. cit.*

⁸ China is the third largest user of the Canal, after the US and Japan, and the *China Shipping Company* is the company that sends the most vessels through it. See Jorge Domínguez, *op. cit.*

above all, its deep-water ports as a conduit for boosting trade between China and the countries of South America. Ties with other Andean countries, like Bolivia, Colombia, Ecuador and Peru, fall in the category of relations of global cooperation. It is the same kind of relationship China maintains with Cuba, even though the Castro regime would like to improve substantially a relationship it defines as ideal and it is Chinese financial assistance which has allowed Cuba to overcome some of the economic difficulties associated with what Havana calls a 'special period'. Although in all of these cases, especially that of Cuba, there is potential for upgrading to a strategic bilateral alliance with Cuba, these steps have not been taken.

Raw Materials, Foreign Trade and Chinese Investment

China's interest in Latin America focused first on energy, certain metals such as copper, and some South American natural resources like soybeans. In any case, it is important to point out that for China its relationship with the US is much more important, both from a quantitative and qualitative point of view. Chinese political leaders have no doubts about this and impose limits on China's activities in Latin America. At stake is key access to the US markets in which China sells thousands of tonnes of manufactured goods, and the fact that China is one of the largest holders of US treasury bonds. For now, China's interest in the US is far greater than anything Latin America can offer, including Venezuelan oil which for now is relatively expensive. It is not just a coincidence that China is the US's largest trading partner after Canada. Nor should Beijing's pragmatism in dealing with the world's great superpower be ignored, a policy that is especially visible in all aspects of Chinese foreign policy and in security and defence matters. For this reason, for China it is more important to guarantee continuity in the supply of the products it needs than to embark on new political adventures in Latin America. Thus, it seeks stability, and does nothing without first weighing the consequences.

Oil is one of the products most highly sought by China (Latin America holds 14% of the world's reserves) and this explains to a large extent China's interest in energy-producing countries such as Venezuela, Brazil, Colombia, Ecuador and even Mexico and Argentina. This has led China to develop certain 'strategic alliances' at the bilateral level, such as those mentioned above. Sinopec, China's leading oil company, is developing several major projects with a variety of countries in the region. Besides oil there are other raw materials China is particularly interested in, such as minerals and foodstuffs. Brazil, for example, has uranium and soybeans, but also some manufactured products like Embrear aircraft. China's interest in Latin American foodstuffs stems from the enormous population that China has to feed and the low rate of productivity of the Chinese agricultural sector. It is cheaper for China to buy Latin American foodstuffs at a good price than undertake a transformation and modernisation of its entire farming sector.

Latin America's markets are more and more appealing for exports of Chinese manufactured goods. For this reason the Chinese authorities and exporters are increasingly concerned by protectionist measures, especially anti-dumping steps that some Latin American producers are trying to impose. At the same time, although for now with a less emphatic tone, China is also worried about the nationalist bent of some governments, seen for example in the nationalisation of the hydrocarbon sector ordered by the government of Evo Morales in Bolivia. In the same way, China's interests in the oil sector in Ecuador have already run into some problems with the government of Rafael Correa, although for the time being some governments prefer to deal with state-owned companies and this favours the big Chinese conglomerates. To some extent, populist policies, which are more and more interventionist, are not the best for Chinese investment, even though the rhetoric might sound right for China.

When President Hu made his tour of Latin America in 2004, rumours of a huge investment package for the region began to circulate. Some sources said it could be as much as US\$100 billion. The idea was that investments were to take place by 2015 and would be concentrated basically in Argentina, Brazil, Chile, Colombia and Venezuela. In general, these reports came either from the

governments that theoretically were involved in the investment plans, or from sectors close to them. One of the most prominent cases was that of Argentina, where government officials, starting with President Néstor Kirchner himself, said they expected an investment of between US\$15 billion and US\$20 billion. However, Chinese sources have categorically denied such figures existed and said they were more like just a few billion.⁹ In reality, Chinese investment –foreign direct investment– is basically concentrated in Asia, although in 2005 Latin America did receive US\$659 million, 16% of the Chinese total. It is also important to note that China and Latin America do not compete directly for sources of foreign investment. China basically benefits from Asian investment, while for Latin America the money comes from Europe and the US.

According to data for 2005 from the United Nations Economic Commission for Latin America and the Caribbean, the two regions received US\$68 billion in foreign direct investment. Broken down by country of origin, the main investors in the region were the US (39%), the Netherlands (12%) and Spain (6%). Because of its low volume (less than 1%), there are no specific figures on Chinese investment, which are wrapped into the ‘Others’ section. This has led some analysts to feel that all the talk about Chinese investment in Latin America is really a myth, given the low level achieved so far when expectations had been so high. However, this is an issue that must not be downplayed and will require greater monitoring in the future.

Taiwan and Recognition of the People’s Republic of China

From a political standpoint, one of the main goals of the People’s Republic of China in Latin America is more to isolate Taiwan than it is to gain full recognition of the Beijing government. It should not be forgotten that of the 27 countries that grant diplomatic recognition today to Taipei, 12 are in Latin America or the Caribbean, although some have relations with both.¹⁰ This is perhaps the most traditional component of China’s foreign policy with regard to Latin America, as it is a tendency that has existed since the beginning of the second half of the 20th century. Then, the entire American continent turned its back on the People’s Republic and chose to maintain diplomatic ties with Taipei.

Cuba was the first country of Latin America to recognise the People’s Republic, doing so in 1960. But for a long time Fidel Castro’s alignment with the Soviet Union strained bilateral relations with China and stalled some projects that had begun to take shape thanks to shared ideology. The Chinese presence in the region increased starting in 1970, when Chile recognised the Beijing government. From then on, all the countries of South America except Paraguay followed suit. Uruguay, in 1988, was the last country of South America to turn its back on Taiwan. Mexico did the same, and more recently Costa Rica. This means Paraguay and most of the countries of Central America (El Salvador, Guatemala and Honduras; Nicaragua, which under the Sandinista government had recognised the People’s Republic, later switched and restored ties with Taiwan) are the only ones that still support Taiwan. Panama recognises both the Beijing and Taipei governments, but even so Taipei considers Panama one of its closest allies in the world.

The US and China: Latin America’s Shift to the Left

The US position on the Chinese offensive in Latin America is uneven, and based more on perceptions, speculation and fear than on hard facts. These different attitudes can be addressed with two questions that are quite simple but far-reaching: does the Chinese presence in Latin America really pose a threat to the US position (as a whole) in its so-called backyard? If that is actually true, the second question is how much does the US lose because of that presence. The issues related to these questions explain why, beyond the growing concerns of the US authorities, politicians and the media over the Chinese initiative in Latin America, there is no unanimity as to how much of a threat that presence poses for the US economy and national security.

⁹ Presentation by Jian Shixue at the Elcano Royal Institute, 1/III/2007.

¹⁰ Sergio Cesarin, *op. cit.*

In recent years many sources, especially those in the most conservative quarters or close to them, have stressed that the Bush Administration, too preoccupied with Iraq and the Middle East, has ignored Latin America despite the growing threat from Venezuela. The argument is that, while China has clearly been strengthening its economic, political and military ties in the region, the government in Washington has displayed almost complete paralysis. For now, none of this has happened and in terms of foreign direct investment, as seen earlier, the difference between US investment (especially in terms of the accumulated stock) and that of China is still huge. Therefore, it is important to see things over the course of time and look to the mid- and long-term. Cynthia Watson does not think the current Chinese presence in Latin America poses a serious threat to the security of her country, although she does feel the Chinese strategy of establishing ever closer ties with the region can affect US security over the long term.¹¹

In Washington, in the various departments of the Administration, there is no unanimity on this issue. On the one hand, the Defense Department expresses a certain fear that China will end up becoming the main source of military training for some armies, in part due to the US law that bans military aid to countries which allow the arrest of US soldiers so they can be taken before the International Criminal Tribunal in The Hague. The Americans are also worried about Chinese activities in intelligence and cyber war in the region, especially out of Cuba. The US State Department does not see China as a concrete threat in Latin America but rather as a nation in growth that requires a large amount of fuel and raw materials. In reality, for the Americans the idea is that China's concerns over the evolution of its domestic situation sap it of energy to embark on adventures outside its borders, starting with Latin America.¹²

In any case, the Bush Administration is worried about the Chinese presence in the region and evidence of this is the visit that Thomas Shannon, Undersecretary of State for Hemispheric Affairs, paid to Beijing in April 2006, at the invitation of Zeng Gang, in charge of Latin American affairs at the Chinese Foreign Ministry. The trip came shortly after President Hu Jintao's tour of the US, and was the first time that a senior State Department official went to Beijing for direct talks on issues related to China, Latin America and the US. Beijing sees US concerns over these issues –and the close eye America is keeping on China's penetration– as something normal.¹³

From this perspective, it is understandable that China should proceed carefully in its dealings with leftist governments in Latin America, especially those which fall under the populist umbrella, such as Bolivia, Ecuador and Venezuela. As stated earlier, the growing protectionism of these governments, added to the strong nationalism they espouse and their unpredictability, make them less attractive for countries which, statism and ideological affinity aside, follow the logic of business when they operate abroad and for this reason are seen as foreigners, with all the problems this carries with it. Meanwhile, the government of the People's Republic was never all that keen on some leftist activities, such as those of the Shining Path guerrillas in Peru. Even though this terrorist group has defined itself as Maoist, Beijing condemned it for engaging in counter-revolutionary revisionism.¹⁴

Defence Cooperation

This is an area with a growing profile and rising expectations on both sides. Thus, it is quite common to see Latin American military officers attending courses at the National Defence University of the Chinese People's Army. Western officers are not usually invited to these

¹¹ Cynthia Watson, appearing before the US House of Representatives' Subcommittee on Hemispheric Affairs, 6/IV/2005.

¹² Andrés Oppenheimer, 'EEUU y el "peligro chino" en América Latina', *El Nuevo Herald*, 9/IV/2006.

¹³ Said Jiang Shixue, 'It shows in a certain sense that the development of China-Latin America relations has drawn Washington's attention', in 'A Positive Outlook', *Beijing Review*, nr 49, December 2006.

¹⁴ Jorge Domínguez, *op. cit.*

programmes.¹⁵ Defence relations have also included more instances of dialogue, and after President Jiang's tour in 2001, Defence Minister Chi Haotian held talks with the defence authorities of Colombia and Venezuela. This was another sign of Chinese pragmatism in the region.

As far as defence is concerned there is one issue that is of particular interest to China, especially with regard to its relations with Brazil and Suriname. Due to their geographic locations, both countries have facilities for launching satellites and spacecraft into orbit. These facilities are also used by other powers such as the EU. Similar sites are hard to find in China, so it is easy to see why China is interested in this issue. Nor must it be forgotten that Venezuela wants China to build and launch the Simón Bolívar satellite.

These and other circumstances explain the growing fear in the US, which is more acute in the Defence Department, that China will become the main source of military support for radical governments in the region, such as that of Venezuela. Memories of what the Soviet Union was for Cuba are still too fresh. It is through this prism that must be seen Venezuela's efforts to acquire from China a large part of the weaponry it wants for the National Armed Forces in order to face the challenges posed by commander Chávez has called an 'asymmetrical war'.¹⁶

Latin America and China

As far as relations between Latin America and China are concerned, here it is as hard to generalise as it is in other aspects of life in the region. This means the behaviour of the various countries is not uniform, and depends to a large extent on the expectations each has –and the results it obtains– from China's growth and greater presence in a globalised world. Although in general it can be said that Latin America has a small trade surplus with China,¹⁷ this is not so on a country-by-country basis because there are some cases where things are not going so well. Mexico has the largest trade deficit with China, followed by Panama, which imports US\$1 billion in Chinese textiles each year. Given the moderate importance of Chinese direct investments, and their still-limited impact on the Latin American productive sector –Chinese FDI in Latin America in 2005 was less than 10% of China's total for the world– it is clear that the degree of enthusiasm of the various countries of Latin America will depend to a large extent on how things go in their trade relations with China and their expectations in other areas of their bilateral agenda with the Chinese.

From a bilateral standpoint, the countries with the strongest political and economic relations with China are Argentina, Brazil, Chile, Cuba, Mexico, Panama, Peru and Venezuela. Chile is one of the Latin American countries with which China maintains the closest ties. In its support for globalisation and the opening of all markets, Chile is looking to the Pacific and in particular to China, the third-largest market for its exports and its second-largest supplier of imports. Chile signed a free trade accord with China in 2005. At the time, Chile was the first non-Asian country to sign such an agreement with China. This particular accord is limited to exchanges of goods only. Later, in a second phase of this free trade accord, Chile hopes to become a platform for Chinese investment in the Latin America energy, infrastructure, mining and agriculture sectors. This is to be complemented by the formation of Chinese-Chilean business alliances and Chinese investment in the mining, forestry, fishing and services sector.

Latin America has been growing at a rate of more than 4% for the past five years and it is clear this trend will continue at least in 2007. This genuine growth in the region –in recent years all countries have grown, although at different rates– stems to a large extent from external factors, and the

¹⁵ This has not prevented Spanish military officers from being invited sometimes to teach courses.

¹⁶ Carlos Malamud & Carlota García Encina, *¿Rearme o renovación del equipamiento militar en América Latina?*, DT nr 31/2006, Elcano Royal Institute Elcano, <http://www.realinstitutoelcano.org>.

¹⁷ In 2005, Latin American exports totalled US\$26.8 billion, compared with US\$23.7 billion in imports, *Latin America-Asia Review*, May 2006.

strength and demand of Chinese markets is one of the key reasons. Beyond the typical demands of the Chinese economy, any change in consumption habits can affect the future of a variety of products, given the size of the Chinese market. An example is meat, demand for which has increased substantially in recent years, and also coffee. In the latter case, although there has not been a mad rush of Chinese consumers to start drinking coffee, the mere fact that several hundred thousands have taken up the habit is positive for Latin American producers. In this way demand from Asia affects a large number of Latin American countries, regardless of their political stripe, the ideology of their governments and how efficient their economic policy is. For this reason it is inevitable for these countries to look to Chinese markets, which need a large number of raw materials.

Competition from Chinese Manufacturers

A wide variety of industrial sectors in Latin American countries are worried about the massive entry of low-cost Chinese manufactured goods in their domestic markets, which enjoy varying degrees of protection. It is here where these goods compete with an advantage over local goods, due mainly to low wages in China, state loans to Chinese businesses, trade barriers imposed against competitors, Chinese companies' capacity for copying and international acceptance of their products. To all of this should be added migration from the countryside to the cities in China, a process which provides a large pool of cheap, unskilled labour from people willing to work long hours.

This situation has led to sharp criticism of Chinese imports, and these comments have become quite common in countries such as Argentina¹⁸ and Mexico. Of all the countries affected by this competition, the one most worried is Mexico. For the business people concerned, it is very difficult for low-quality Latin American products, which are less protected and less favoured by their socio-political environment, to compete with Chinese goods. The jitters are greater in certain specific sectors, such as textiles and shoes, which had experienced a certain development in many countries of the region and now face very stiff competition from China. But the problem of competition from China is not limited simply to what happens in the domestic markets; even though it is tough there, local entrepreneurs have a greater flexibility because they know the rules of the game. Rather, this competition also shows up in regional markets. This is the case for Mexican industry, which is watching with great concern as Chinese products compete in the US market, which the Mexicans had conquered thanks to the North American Free Trade Agreement. It also applies to Brazil, which must now compete for Latin American markets on the Pacific coast.

While Chinese competition has led to the moving of some cross-border assembly plants, as far as conquering the US markets is concerned Mexico still has location advantages. This stems fundamentally from its being so close to the markets on the other side of the US border, as seen in investments that major Japanese companies have made in car assembly plants. Such is the case of Toyota, which in a short span of time has become a major leader in the US car market. It should be noted that this was possibly due in large part to the existence of a free trade accord between Japan and Mexico. And although the proximity of the US markets makes Mexico especially interesting for the Chinese, bilateral relations are very complex. Evidence of this is the fact that Mexico was the last country with which China negotiated its entry into the World Trade Organisation. In Brazil, some factories have also been uprooted because of the Chinese 'invasion', although here contradictory factors are at work. One notable case is that of a Brazilian footwear company that exported its products to the Pacific coast of Latin America. In order to continue competing on a level playing field, it decided to establish a presence in China and in this way take advantage of wages and other production costs that were lower than they are in Brazil.

¹⁸ Mauricio Naiberger, 'China, la revolución empresarial', *Clarín*, 21/III/07. The author is the Secretary of the Argentine Chamber of Commerce for the Clothing Industry.

China as a Counterweight to the US and the EU

Brazil, Mexico, Chile, Argentina and Panama are China's largest trading partners in Latin America. Even for other countries that have a more modest trade volume with China, the Asian country is critical. In this case China has quickly become the second most important market for Peruvian goods. At the same time China is Brazil's third-largest trading partner and Argentina's fourth. Brazil is not only China's largest trading partner in Latin America, but also the most important one in the region from a Chinese strategic point of view. Brazil alone absorbs 42% of the goods China exports to the region. The two countries have developed a 'strategic partnership' since 1994, share similar visions on the international stage (they joined together against the US and the EU in the Doha round of the WTO talks) and are grouped together in the category of the BRIC.¹⁹ In 2002, China overtook Japan as the top trading partner in Asia and many Brazilian companies have conquered Chinese markets or invested in them. Such is the case of the oil company Petrobras, the steelmaker CVRD (Companhia Vale do Rio Doce), Embraco (refrigeration equipment) and the aeronautical firm Embraer.

Argentina is China's second most important trading partner in Latin America. It has had diplomatic relations with the People's Republic since the third Perón government (1973) and trusts in China as a permanent member of the UN Security Council to resolve its claim of sovereignty over the Falkland Islands.²⁰ For political reasons this issue has become one of the foreign policy priorities of the government of President Néstor Kirchner.

All of these circumstances, along with others that have been described earlier in this paper, have led many Latin American leaders to believe that in no time at all China could become the counterweight to the US in the region, or possibly even overtake it. This explains the high expectations with which these leaders look at everything to do with China, and also the furious speculation over the amount and destination of its investments, as well the political support some of their most controversial measures might receive from China in international organisations.

Still, China prompts ambivalent attitudes among Latin America's elite and in public opinion. On the one hand, Latin Americans expect a lot from China. Depending on the case, they expect a veritable flood of investment that would overshadow the need for that which comes from the US or the EU, or even that the Chinese arms industry can replace traditional suppliers, and also, as stated, that Beijing will lend political support to Latin America. Taken to an extreme, this raises the possibility that one day the desire and power of the Asian giant would banish forever the unwanted omnipresence of US imperialism. However, a major lack of knowledge about China, its true intentions and its military might, added to reserves about the sometimes aggressive Chinese style of negotiating, the way the environment has suffered in China, its poor human rights record and other legal issues, have raised fears over and resistance to a rapprochement that is viewed with contradictory feelings. With this in mind, China's arrival in Africa is being watched with keen interest in Latin American capitals, especially everything related to Chinese methods for consummating its investments on that continent, including bringing in Chinese labour to work on African projects.

In 2004, public opinion in Argentina, Brazil, Chile and Mexico had a more favourable opinion of China's rising influence in the world and its economic growth, but was much more wary of its increasing military power. Chile (56%) and Brazil (53%) were the countries that most approved of China's international role, while the most sceptical were Argentina (44%) and Mexico. With regard to China's economic growth, Mexicans were the most enthusiastic (54%), followed by Brazilians and Chileans (48%), while Argentines, perhaps because of their fierce nationalism and the greater

¹⁹ A group of countries (Brazil, Russia, India and China) which are expected to become major powers in the 21st century, despite the very different economic performances in recent years of Brazil and China.

²⁰ Jorge Domínguez, *op. cit.*

protectionism present in their economic policy (30%), were the most wary. In terms of military might, negative views outnumbered positive ones. Those most dubious were Argentines (58%), followed by the people of Chile (53%) and Brazil (50%), whereas Mexico, a neighbour of the US, had only a 37% negative perception.²¹

China, Cuba and Venezuela

As we have stated, so far China has staged its incursion into Latin America very carefully, trying not to irritate the US. When Hu visited the region in 2004, he did not stop off in Venezuela and when he went to Cuba he tried to keep a rather low profile, concentrating on joint projects, particularly in the area of biotechnology. And even though China is seeking to boost its ties with Caracas, especially in the area of oil, the care it is taking reveals a clear will to avoid triggering unwanted reactions from other players in the region.

Beginning with Cuba, it can be seen how after the long period in which the regime of Fidel Castro maintained a strategic alliance with the Soviet Union and kept it up until the Soviet bloc collapsed, its relations with China only began to improve after June 1989, when Havana backed the Beijing government in its repression of the Tiananmen Square pro-democracy demonstrations and in its refusal to engage in political openness. Since then, the two countries have backed each other's claims in the international arena, such as denouncing the US trade embargo against Cuba, or China's position against the secession of Taiwan, in 2005. It is a well-known fact that Raúl Castro and other Cuban leaders have looked for inspiration in the Chinese development model, despite Fidel Castro's more closed stance.

Cuba, with great effort, managed to survive the economic crisis of the 1990s following the dissolution of the Soviet bloc, on which it depended for survival. The Cuban government later tried to reconfigure its international alliances, focusing on two countries, Venezuela and the People's Republic of China. However, while at least superficially, relations with Venezuela are quite satisfactory and well-oiled with the more than 90,000 barrels a day of petroleum that the Chávez government sells Havana at a subsidised price, with China things are much more complicated, as argued by William Ratliff.²² This is mainly because the two countries attach greater prominence to their international relations, which means leaving ideology aside. Although China wants to import nickel from Cuba, for now Cuban exports are minimal, even though China is Cuba's third-largest trading partner, after Venezuela.

Bilateral relations rest on three pillars: political, economic and strategic. While Cuba gains from China's political and economic support, China benefits from Cuban government intelligence data on the US. Fidel and Raúl Castro and many other of the main Cuban leaders have visited China at least once or twice; and two Chinese Presidents (Hu Jintao in November 2004) and many other Chinese leaders have been in Cuba. In different ways, China supports Cuban education, oil exploration, nickel mining, technological development and transport infrastructure. China is looking to the energy sector and important reserves in Cuban waters of the Gulf of Mexico, where Sinopec is prospecting for oil. In Cuba, China has a good observation post for watching the US. While Washington and its intelligence agencies have many places from which to monitor China, beginning with Taiwan, China has only Cuba for this purpose. It can be said that to some extent Cuba's relationship with China is much more intense than its ties with other countries of the region.

Energy is the basis of the privileged relationship between China and Venezuela, which have established a 'strategic alliance for common development'.²³ From China's standpoint, despite the difficulties caused by it being so far away, Venezuela is of great strategic importance as a supplier

²¹ Jorge Domínguez, *op. cit.*

²² William Ratliff, 'Cuba & China', *Latin Business Chronicle*, January 2006.

²³ Florencia Jubany & Daniel Poon, 'China and Latin America: Historic Opportunity', *Latin Business Chronicle*, May 2006.

to meet China's growing appetite for oil. But it is also an investment stepping-stone for Chinese firms that want to get in on the business of developing the extra-heavy crude in Venezuela's Orinoco Belt. Some analysts and especially the Venezuelan government say these reserves could yield spectacular revenue in the future. In December 2004, during one of his many visits to China, President Hugo Chávez said his hosts would invest large amounts of money in the Venezuelan oil sector. Just over two years later, in March 2007, the creation of a US\$6 billion investment fund was announced (Venezuela would contribute US\$2 billion and China the other US\$4 billion). However, to date China has only invested just over US\$1 billion in Venezuela. This does not come close to meeting the needs of the Venezuelan oil sector. Even the US\$6 billion that were announced fall short. This provides yet more evidence of how hard it is to implement that 'strategic alliance for common development'.

During that visit in December 2004, Chávez not only said that the Chinese would invest large amounts of money in the Venezuelan energy sector, something which so far has not happened, but also that there would be a substantial rise in bilateral trade. He even said that in 2005 it would reach US\$3 billion (more than double the figure for 2004). This did in fact happen. According to official statistics of the People's Republic of China, bilateral trade in 2006 totalled US\$4.34 billion, an increase of 102.5% from the previous year and well above the forecast for 2005.

Returning to the issue of energy, this is quite complicated. There is a peculiar impasse at work here despite all the rhetoric. The difficulties begin with the quality of Venezuelan crude, which is heavy or extra heavy, and end with the enormous distance that separates the two countries. This means transport adds a lot to the total cost of the Venezuelan products that China imports, especially oil. For now, the main refineries for processing Venezuelan crude are in the US, specifically on the Gulf of Mexico. So the US market is still the main destination for exports of Venezuelan crude. In order to alter the flow, several refineries specialising in processing this kind of crude would be needed, either in China or Venezuela.

Then there is the issue of transport, and the fact that Venezuela has no ports on the Pacific coast. Enlargement of the Panama Canal, which interests China so much, could be a solution for the passage of supertankers. But even in this case, the long distance between the ports of Venezuela and the ports of China mean that for China, oil from the Persian Gulf or Central Asia is still cheaper than Venezuela's. One solution for cutting transport costs would be to build an oil pipeline across Colombia to reach the Pacific Ocean, but this idea is still on the drawing board and far from being a reality. All of these projects require hefty investments of many billions of dollars, something which has not happened, and a lot of time. Indeed, investments and time are necessary for these projects to take shape, but the Venezuelan government is short on both: inflation and the earmarking of PDVSA profits for activities other than necessary reinvestment are two sources of potential conflict.

Finally, there is another factor which must not be ignored. So long as Chávez is in power, his presence is more of an obstacle than a catalyst for good Chinese-Venezuelan relations. This is not just because of his rhetorical habit of repeating time and time again his admiration for Mao Zedong. Without him, the pace of China's business dealings and presence in Venezuela would probably be greater. The important thing to keep in mind is the Chinese government's goal of not provoking the US too much with its penetration of Latin America. This means the Chinese do not want to see their long-term positions and projects threatened by supporting political options that Washington frowns upon.

China, Spain and Latin America

In the last few years Spain has become the main outside player in Latin America, if the US is viewed as participating in the same hemisphere as the rest of the region. However, if the Chinese presence continues to advance, this position could be clearly threatened. Therefore, it should be asked whether China really does threaten Spanish interests and what the Spanish authorities should do about this. For now, and in general, Spain's position is not in jeopardy because of the Chinese

arrival. But this does not mean the Spanish Foreign Ministry should not follow the issue with interest and concern, albeit without panicking.

In this regard the issue of energy is very important. It is worth noting that Spain hardly imports any gas or oil from Latin America. But if it wants to broaden its supplier base to reduce the chances of an energy crisis, it needs to be able to rely on the possibility of these imports. Such a Spanish aspiration would clash with the needs of China, which is already eyeing the best way to benefit from the Latin American market. At the same time, the tendency in many countries of the region to encourage the presence of state-run rather than private companies might favour Chinese state-owned firms to the detriment of Spanish private sector companies like Repsol-YPF.

The other aspect that tends to be present in the relationship, generally on the Spanish side, is triangulation between the three parties involved. Spain basically serves as an intermediary between China and Latin America. Jacinto Soler Matutes, author of the study ‘Triangulación Asia-España-América Latina: una visión desde la empresa’,²⁴ puts it this way: ‘Spain should boost its presence in natural markets such as... Latin America so that Asian companies will have the incentive of going through Spain to gain market share’. This means these companies using Spain as a platform, an issue in which logistical, fiscal and human resources factors come together. However, despite the enthusiasm the Spaniards show for the idea of triangulation, China and Latin America tend to view it with greater scepticism.

Conclusions

Relations between China and Latin America are often formulated as a ying and yang dichotomy. In this model, the question is whether the relations are an opportunity or a threat, or if China is an angel or a devil for Latin America. To some extent, this approach masks the existence of a complex reality which varies from one country to the next and has many new features that remain to be discovered. Although both sides have gained from having closer relations, their respective expectations, as Jorge Domínguez states, are asymmetrical. China is realistic and pragmatic. But the expectations of Latin America, especially those of countries characterised by a lesser institutional density, such as Argentina, Bolivia, Ecuador and Venezuela, are marked by thinking that assigns an element of magic to the Chinese presence, treating China as a saviour in the face of other countries viewed as traditional enemies. While China has developed important think tanks to learn more about Latin America, and more and more academic studies of the region are coming out, the other side has done no such thing. The main exception is Mexico, especially the Centre for Asian Studies at the Colegio de México. But the rest of the Latin American countries are not following suit. Rather, they are leaving the future to chance.

Despite all of this, one of the most important conclusions of this study is that relations between China and Latin America do not depend on political or ideological factors. Indeed, this alleged affinity, which at times is not affinity at all, as much as either side may claim allegiance to the thinking of Mao Zedong, can be more of an obstacle than a stimulus. China’s pragmatism includes an acute awareness of the role of the US in the region. China knows it has very intense relations with the US, and reaches the conclusion that there is nothing in Latin America which justifies jeopardising those ties. However, the potential for growth in relations between China and Latin America is enormous, and to the extent that realism also sets in on the Latin American side, the gains will continue to grow and benefit everyone.

Carlos Malamud
Senior Analyst for Latin America, Elcano Royal Institute

²⁴ Published by CIDOB and Casa Asia, Barcelona, 2007, www.cidob.org.