

## China and Latin America: A Problematic Relationship?

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*In the last five years, China has burst into Latin America in a way different from what we are accustomed to - that is to say, with a presence linked to the ideological debate between pro-Soviets and pro-Chinese in the heart of left-wing groups - and which had remained embedded in our memory. This slow transformation process began in the seventies, when 11 countries in the region, in general, supporting the standardisation inspired by the US (except for Cuba, already in 1960, and Chile), decided to acknowledge the government of the People's Republic of China (PRC). During the following two decades, economic and commercial exchanges developed, though slowly and highly conditioned by the ups and downs of the Chinese process and the socioeconomic and political difficulties of the Latin American region. However, in the first five years of the twenty-first century, we witnessed a substantial increase in said relations to such an extent that one could almost assert that they are enjoying their finest moment in history;<sup>1</sup> a circumstance which causes concern.*

### Beijing's Objectives

The motivations that justify Beijing's current interest in the region are numerous. In the first place, there are economic and commercial reasons. The PRC is looking for new opportunities for foreign trade and investment in Latin America, and, naturally, access to energetic and natural resources necessary to sustain its rapid economic growth. China is especially interested in fishing and oil (Argentina, Ecuador and Venezuela), iron and steel ore (Brazil), food production (Argentina, Brazil, Chile and Peru), mining and forests (Chile and Peru), copper and tin (Bolivia) and nickel (Cuba).

In the second place, there are policies. It is, on the one hand, about gaining influence in the region. Top-level visit exchanges have already become common currency and are increasingly more institutionalised, both at the bilateral and multilateral levels (China-Latin America Cooperation Forum, China-MERCOSUR Dialogue, China-Andean Community Consultation, China-Caribbean Economic and Commercial Cooperation Forum). In addition, China is gradually participating in regional forums and organisations.

On the other hand, the confrontation with Taiwan has, in Latin America, a major scenario to use aggressive diplomacy favouring the looked-for loyalty shift. A total of 12 countries in the region, out of 33, maintain diplomatic relations with Taipei, including Paraguay and Panama. Beyond the significance of the region itself, this is a prime objective of Chinese diplomacy worldwide.

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<sup>1</sup> Martins, Dora, 'China en el liderazgo de los países subdesarrollados', in Ríos, Xulio (ed.), *Política exterior de China, la diplomacia de una potencia emergente*, Barcelona: Bellaterra, 2005, pp. 251-284.

## An Overview of Current Relations

Latin American countries admire China's economic achievements and its emergence has raised great expectations. Recently, in a controversial report, even the United Nations Conference on Trade and Development (UNCTAD) supported the idea that the macroeconomic model used by the Chinese can be followed by developing countries (Brazil and Argentina were specifically mentioned), particularly, in relation to government intervention in the process of price-fixing and revenue policy-shaping in order to keep inflation rates low.<sup>2</sup> The political shift in some important countries of the region facilitates the perception of the PRC as an alternative partner or, at least, as a *balancing force* in the traditional dependence upon the United States, increasingly less accepted.

In the economic and commercial context, there is a clear evolution. In the nineties, bilateral trade amounted to 2 billion dollars, skyrocketing to 50 billion dollars in 2005. More than 30 percent of Chinese foreign investment takes place in Latin America.<sup>3</sup> The commercial explosion between both parties is basically sustained by the PRC's need for energy and by the enormous wealth of natural resources existing in the subcontinent. More than 70 percent of Latin American exports sent to China consist of primary commodities and commodities manufactured from natural resources, whereas China exports medium and high technology items, a model which sparks off controversy for fear of new dependence and international price variability of commodities, which might suggest few chances for the subcontinent to find an effective opportunity to adopt a sustainable development model.

China's main partners in the region are, by order of importance, Brazil, Mexico, Chile and Argentina. Brazil is the first commercial partner (14,817 million dollars in 2005, with a 20 percent rise in relation to 2004). Their bilateral relationship goes far beyond trade and includes significant political concurrences (the promotion of South-South relations and the bet for multipolarity, among others). China is its third partner, with the US and Argentina occupying the top positions on the list. The relationship with Mexico is more controversial due to Chinese competition in low-cost labour, which results in some of its main manufactured commodities losing market shares. The general complementarity finds an important exception here, as well as in Central American countries - where there are also differences in relation to Taiwan - and Brazil or Peru - whose industries, such as textiles, footwear or electronic product assembly, are highly affected and unable to compete against increasing Chinese exports.

As far as Chile is concerned, China has been its main partner in Asia since 2003, followed by Japan. In 2005, it became the second commercial partner, with the US on top of the list. Bilateral trade increased by 704 percent between 1996 and 2005. By signing a Free Trade Agreement, which recently came into force, their relations will be strengthened and China's integration into MERCOSUR will be fostered, making Chile its bridgehead in the region. Fifty percent of the copper imported by China comes from Chile.<sup>4</sup> As regards Argentina, China has been its third commercial partner since 2004; 56 percent of its soy and derived product exports are sent to the Asian country. Buenos Aires is making its best efforts to attract Chinese investments in such industries as infrastructure, communication satellites, railway development or mining, with poorer results, so far, than expected.

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<sup>2</sup> UNCTAD, Annual Report, 31 August, 2006, available at: <http://www.unctad.org/>

<sup>3</sup> *Xinhua News Agency*, 25 June, 2006.

<sup>4</sup> *Xinhua News Agency*, 1 October, 2006.

Generally, the economic complementarity between the PRC and almost all the countries in the region create many opportunities. In this sense, given the fact that they are developing countries, one should note the possibilities of convergence in many areas, which creates a real South-South cooperation, capable of countering potential, though not minor, specific negative effects.

The current failure of the Doha Round may make China's presence in the region stronger through the establishment of free trade agreements. The agreement signed with Chile is just the first step; highly significant given its economy is the most open in the region.

China's presence in the energy industry is increasingly stronger. The China National Petroleum Corporation (CNPC) is already the second oil-producer in Peru. Export and investment agreements have been signed with *Petrobrás* in Brazil. Investments have also been made in Ecuador through Andes Petroleum. As far as Venezuela is concerned, during Hugo Chavez's visit to Beijing in August, 2006, cooperation agreements were signed considering an ambitious investment framework by 2010 in order for Caracas to provide half a million crude oil barrels a day, an amount three times higher than the current one.<sup>5</sup>

In the political arena, the PRC has formed strategic associations with Brazil, Mexico, Argentina, Venezuela and Chile, in addition to maintaining the 'traditional friendship' with Cuba. On the other hand, formal bonds have been forged with the Organisation of American States (OAS), the Latin American Parliament (*Parlatino*), the Rio Group, the Andean Community of Nations (*CAN*), the Caribbean Community and MERCOSUR. Similarly, China has not hesitated in supporting Brazil in its ambition to win a permanent seat in the United Nations Security Council, or Venezuela in its nomination for non-permanent member, to the detriment of Guatemala's candidacy backed by the US. Many countries in the region share China's desire to strengthen national independency and sovereignty. Finally, as opposed to the situation in other places (in Africa, for instance), a deeper understanding of the democratic model sets an important boundary to the political proximity between China and Latin America, whose political system generates much less enthusiasm than its economic achievements.

In the security and defence areas, exchange and relations have also been singularly strengthened. Armament sale, cooperation in the aerospace arena, support given in terms of training and increasing visits of high-ranked military officials show a marked fluency, favoured, in most cases, by the discontinuation of military cooperation programmes held with Washington due to some Latin American countries' refusal to offer immunity to American troops stationed in their territories (11 Latin American countries refused to sign said treaty).

In real terms, there can be several problems. On the one hand, a stronger presence in Cuba is shown. Intelligence operations are apparently conducted in the island and, in addition, military technology and armament supply is increasing. As for Venezuela, the sale of arms, cooperation in the aerospace arena and the transfer of technology for military use are supplemented with high-ranked official training. Cooperation with Brazil in the military industry arena (especially with EMBRAER<sup>6</sup>) is also a fact. Likewise, some industries are concerned about the stronger presence of Chinese multinational companies linked to the military sector in delicate areas such as sea route control (Panama Canal) and the new participation of the People's Liberation Army (PLA) in peacekeeping missions (Haiti) in the region.

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<sup>5</sup> Ríos, Xulio, 'China y América Latina: ¿una relación sin doctrinas?', at [www.lainsignia.org](http://www.lainsignia.org) (5 September, 2006).

<sup>6</sup> Empresa Brasileira de Aeronautica S.A.

## US's Fears

The relationship with the US is of vital importance to the PRC. Thus, China's diplomacy concentrates on efforts to avoid all the obstacles which might cloud a good understanding with the superpower, always so difficult but crucial to the stability of the reform process in China. In this sense, Beijing is trying to be as cautious as possible, preventing its improved relations with Latin America from affecting that priority, however, without renouncing its autonomy, which adds uncertainty to its behaviour, being it difficult for the US to control Beijing's decisions. For the time being, however, caution is the rule in that approach to the region and any action which might be interpreted as a challenge will always be avoided. Nevertheless, if the European Union has been unable to substantially enter the region or challenge US hegemony, even if it was in China's interests to pursue this objective, it might encounter more difficulties.

The rapprochement between China and the American subcontinent has not passed unnoticed to Washington, watching it, in general, with suspicion, fearing a competitor's consolidation. Certain administration sectors and American pressure groups insist on the negative effects, both in the medium and the long-run, of China's access to the region's energy and economic resources, its growing political influence and closer military bonds. Nonetheless, it is true that these considerations are, in general, highly overestimated and ignore the fact that China's real influence is almost insignificant compared to the American global and military projection. To a greater extent, there are concerns about its implications in the fight against drug trafficking (presence of the Chinese mafia in the Tri-Border Area - Argentina, Brazil, and Paraguay - and in Central America) and its possible connections to the Muslim community settled down in the region, which might result in support to Islamic fundamentalists linked to terrorism.

In the political arena, the relations between the PRC and Venezuela and Cuba can lead to a significant dissent framework. In Cuba, which is in the middle of a transition period, a hypothetical shift based on the Chinese experience would ruin Washington's plans. Nonetheless, at the present time, reality is that relations between both countries are good<sup>7</sup> but not significant and, by no means, are they based on ideological affinity, which is clearly non-existent. China is the island's second commercial partner, with Venezuela on top of the list. However, there is no indication that it can play a role similar to that of the former Soviet Union in the past.

China gives no priority to strengthen bilateral bonds and, as it has been mentioned, it has very specific reasons, which can be explained in terms of Washington's own decisions. For instance, it is completely irrational to believe that China is undermining US security by trying to control navigation through the Panama Canal. It is true that a Chinese company was awarded the concession of two of the four ports of the Canal, but there is no indication that this fact might result in a potential interruption of free sea traffic, which would harm the country's interests and image worldwide.

The bilateral dialogue on Latin America, initiated in April this year in Beijing by the Assistant Secretary of State for Western Hemisphere Affairs, Tom Shannon, can help resolve riddles, bring positions nearer, and calm down those advocating for limiting China's presence in the region before it is too late.

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<sup>7</sup> *Xinhua News Agency*, 2 October, 2006.

## Conclusion

China's priorities are not in Latin America; they are basically focused on its own regional scenario, where it aspires to reformulate a stability framework to favour its own development dynamics, a process that will take many decades and will demand great concentration in internal affairs. Nevertheless, China has powerful interests in Latin America and it will try to serve them relying on the positive image it projects in the region in the political and intellectual spheres and the decline of American power itself, on the wane, due to the changes that took place in the Latin American political context, characterised by the rise of left-wing forces (Chavez, Lula, Kirchner, Tabare, Morales) and criticism-boom against neo-liberal policies imposed by the Washington Consensus.<sup>8</sup> These forces might be tempted to use China as a counter-power to reduce the chances of US meddling in regional affairs. China, however, will be extremely cautious and try to avoid a direct confrontation with the US, which, in any case, is not looking kindly upon China's moving into its backyard. Beijing, being pragmatic as usual, acknowledges that the region is directly influenced by the US and its deployment in the region will be essentially moderate.

Strengthening PRC's relations with Latin America can result in two main scenarios. The first one would be determined by taking advantage of its participation in the economic process of the region, thus entailing the development of formulae that would favour regional stability. In the second scenario, disadvantages would outweigh advantages, not only due to the immediate negative effects of said relation, for instance, in terms of employment, environment or by highlighting the farm-export profile of some economies - in addition to establishing a new dependency that might prevent the region from adequately entering the world economy - but also due to the possibly greater US interference, in the event it considers it necessary to restrain Chinese influence.

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<sup>8</sup> Cesarin, Sergio, *China y América Latina, Ejes para el debate*, Buenos Aires: International Workshop, 12 September, 2006, available at <http://www.nuso.org/>

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