

**CHINA'S GROWING INFLUENCE
IN LATIN AMERICA:
CHALLENGES AND OPPORTUNITIES**

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Executive Summary

1. China is the third largest trading partner of Latin America and a significant actor in the region. In 2007, China's two-way trade with Latin America totaled over \$100 billion, 10 times that a decade ago and 70 times that three decades ago.
2. At present China pursues three strategic goals in the region: (a) secure raw materials needed to meet the demand for energy and agricultural products; (b) maintain a high level of access to market in order to assure the exports of its manufactured products; and (c) compete with Taiwan for diplomatic recognition.
3. Though China's relations with Latin America have important political and security aspects, at present, the most prominent dimension is economic.
4. In 2007, China's top five trading partners in the region were Brazil, Mexico, Chile, Argentina, and Peru. For most countries in the region, one or two commodities dominate their exports to China.
5. 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 oil and commodities they produce. However, Mexico and Central America have suffered from a growing trade deficit with China.
6. The cumulative stock of China's foreign direct investment (FDI) in Latin America and the Caribbean was \$4.6 billion in 2003. In 2006 the figure reached \$19.7 billion. That was about half of the country's total investments abroad that year.
7. Almost 96% of that FDI went to the Cayman Islands and the British Virgin Islands, both well-known tax shelters. Excluding these "tax havens," Chinese

FDI in the southwestern hemisphere is concentrated most heavily in Brazil, followed by Peru, Mexico, Venezuela, and Cuba.

8. The burgeoning Chinese involvement in Latin America, the backyard of the United States, has awakened new concerns in the U.S. policy circles. This development could challenge American primacy in the Western Hemisphere.
9. Given Ma Ying-jeou's pledge to improve relations with China, the competition between Taipei and Beijing in the region could be reduced. Yet, as political disputes between the two sides persist, Central America and the Caribbean remain crucial to Taiwan's international space.
10. Through a mixture of trade ties, direct investment, development aid, and high-level political exchange, China has developed into a new but increasingly 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.

CHINA'S GROWING INFLUENCE IN LATIN AMERICA: CHALLENGES AND OPPORTUNITIES

LI He*

- 1.1 China has become an increasingly important player in Latin America over the past several years.¹ While China was not even on the periphery of many Latin American states' policy agenda ten or fifteen years ago, China is now the third largest trading partner of Latin America and a significant actor in the region. In 2007, China's two-way trade with Latin America totaled over \$100 billion, 10 times that a decade ago and 70 times that three decades ago. China is now the second most important trade partner of Brazil, Cuba, and Peru, the third most important trade partner for Chile, and the fourth largest trade partner for Argentina.
- 1.2 At present China pursues three strategic goals in the region: (a) secure raw materials needed to meet the demand for energy and agricultural products; (b) maintain a high level of market access to assure the exports of its manufactured products; and (c) compete with Taiwan for diplomatic recognition.
- 1.3 China's rise is multidimensional, affecting the political, security, and economic affairs of states that comprise one of the world's fast growing developing regions: Latin America. Many Latin American presidents, including Brazil's Lula da Silva, Argentina's Néstor Kirchner, and Venezuela's

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¹ It should be noted that in the Chinese perspective, Latin America consists of all countries and territories in Central and South America, and the Caribbean. The major countries in the region include Brazil, Mexico, Argentina, Colombia, Chile, Venezuela, and Peru.

Hugo Chávez, have spent more time in Beijing than in Washington.² With increasing trade, China has become the biggest single user of the Panama Canal that connects the Pacific and Atlantic Oceans.

1.4 Meanwhile, China has increased its participation in international organizations in Latin America and the Caribbean. China has formal relations with the Common Market of the South (a.k.a. Mercosur).³ In 2004, China was accepted as a permanent observer to the Organization of American States (OAS). In addition to its close relations with Cuba, Beijing has established strategic partnerships with Argentina, Brazil, Mexico, and Venezuela. From the Chinese perspective, Sino-Latin American ties have now entered their best period in history.⁴

1.5 Though China's relations with Latin America have important political and security aspects, at present the most prominent dimension is economic.⁵ To protect domestic manufacturing industries, Latin American countries have increasingly imposed tariff and non-tariff barriers against 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.

1.6 For the majority of governments in Latin America, China plays a critical role in their overall trade strategy; the Chinese purchased commodities and raw materials from them, and generating the much needed trade surplus. The Chinese demand for commodities is considered as the leading factor pushing

² Andrés Oppenheimer, "China's Foray into Latin America May Be Mixed Blessing for the Region," *The Miami Herald*, 24 February 2005.

³ Mercosur includes Argentina, Brazil, Paraguay, and Uruguay.

⁴ Li He "China's Growing Interests in Latin America and Its Implications," *Journal of Strategic Studies*, 30, nos. 4 & 5 (August–October 2007), p. 834.

⁵ For details, see 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).

Latin American economies forward and possibly causing a significant boom in Latin America if the demand is sustained.⁶

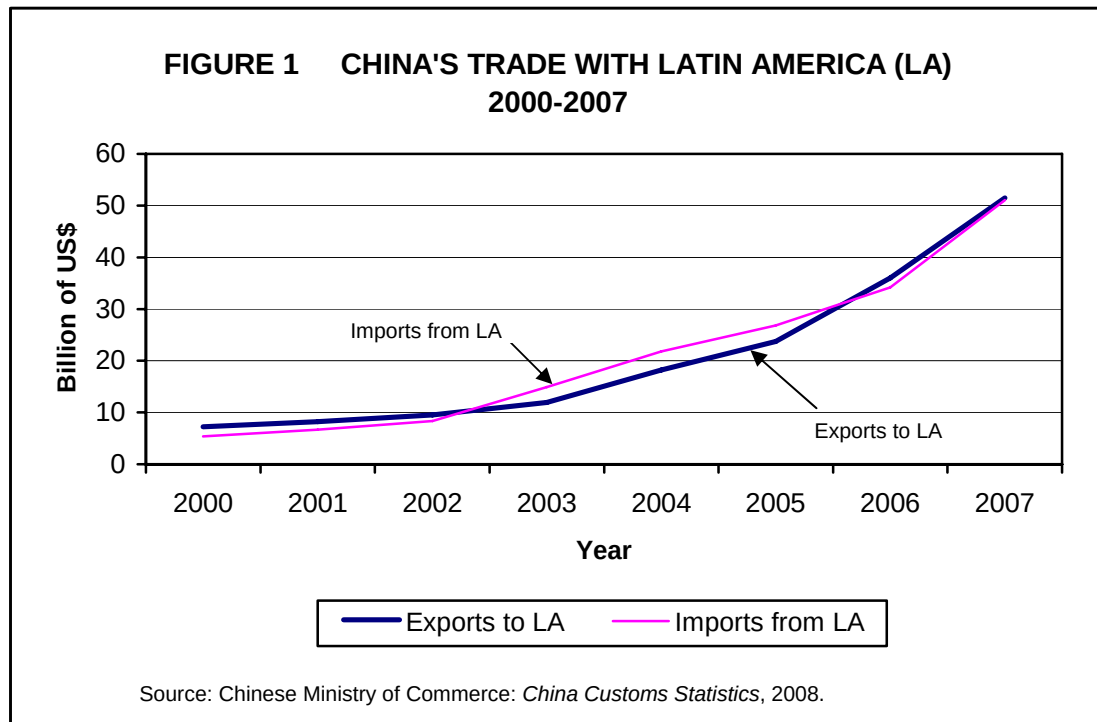
- 1.7 The lack of cultural ties, language barriers, and high transportation costs are all obstacles that inhibit closer Sino-Latin American ties. While China's trade with Latin America has grown considerably in the past few years, it has not yet reached its full potential.
- 1.8 Through a mixture of trade ties, direct investment, development aid, and high-level political exchange, China has developed into a new but increasingly 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.

Burgeoning Trade Ties

- 2.1 China's trade with Latin America has increased sharply in recent years (see Figure 1). In 2000, China's trade with Latin America was only US\$13 billion. China's 2007 trade volume with Latin American countries skyrocketed to US\$103 billion. Chinese import volume amounted to US\$51 billion, a 49 percent increase over 2006. Export volume climbed to US\$52 billion, a rise of 43 percent over the previous year. In comparison, China's two-way trade with the United States was \$302 billion in 2007, and with Africa, \$73 billion.
- 2.2 China's trade with the region as a percentage of its world trade increased from 2.3% in 1999 to 4.6% in 2007. For many countries in Latin America, China has become a major trading partner and one of the top export and import markets. In 2007, China's top five trading partners in the region were Brazil (US\$29.7 billion), Mexico (US\$14.9 billion), Chile (US\$14.6 billion),

⁶ Evan Ellis, *China and Latin America: Dynamics and Lessons for Regional Security Cooperation*. (Miami: Western Hemisphere Security Colloquium, 2007), p. 8.

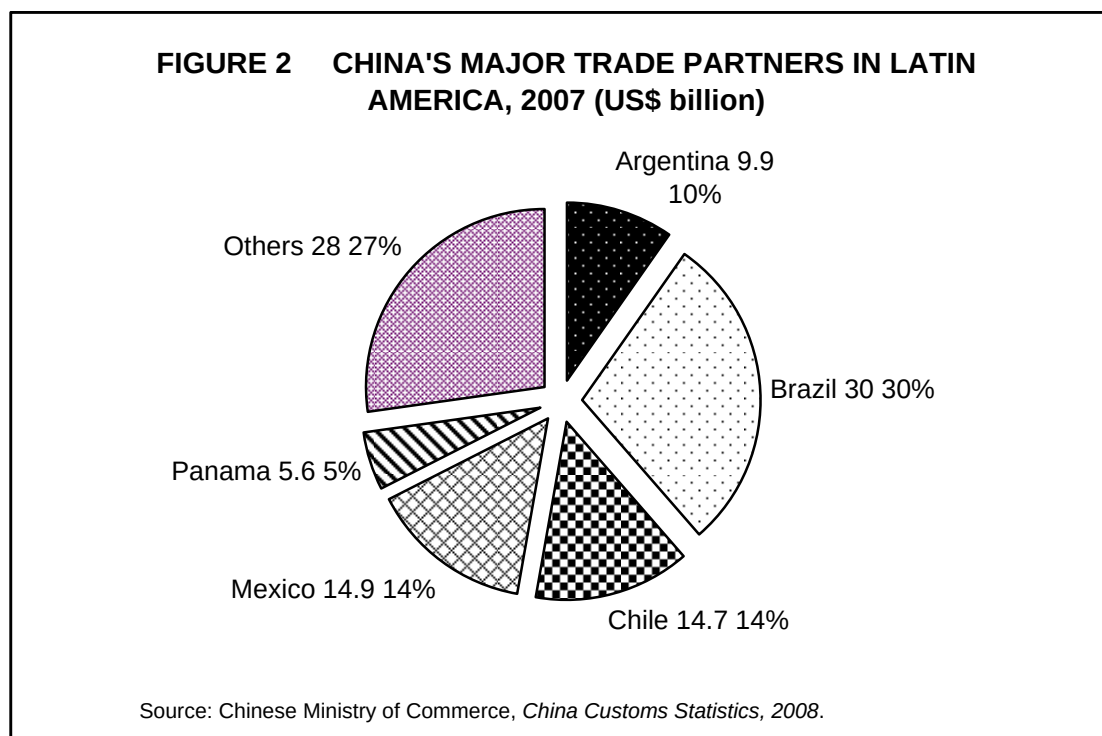
Argentina (US\$9.9 billion), and Peru (US\$6 billion). For most countries in the region, one or two commodities dominate their exports to China.⁷



2.3 Latin America plays a role in satisfying Beijing's foreign policy goals. 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 US\$3.3 trillion (US\$5.6 trillion measured by purchasing power parity), is an attractive market for Chinese products. Second, Latin America has an abundance of raw materials and agricultural products which China needs desperately. In recent years, the PRC has secured the market economy status from a number of Latin American countries, including Argentina, Brazil, Chile, Peru, and Venezuela. Twenty 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.

⁷ 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), pp. 20–21.

- 2.4 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 from the import of huge quantities of petroleum, iron ore, and soybeans. However, China is replacing Brazil as a supplier to other countries in South America and Brazil has held trade deficit with China since 2007.



- 2.5 Trade volume between China and Chile hit US\$14.6 billion in 2007, and more and more Chilean products, such as wine, salmon and copper, have entered the Chinese market, while home appliances, textile and communication products from China have gained popularity in Chile. In 2007, the PRC became Chile's most important export market, surpassing that of the United States.⁸
- 2.6 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

⁸ http://english.gov.cn/2008-04/14/content_944767.htm.

soybeans, iron ore, and copper. China's exports to those counties are dominated by machinery and electrical products, especially high value added products, like automobiles, tractors, motorcycles, televisions, computers, and so on. The increased trade linkages are therefore complementary.

- 2.7 However, Mexico and Central America have suffered from a growing trade deficit with China. Chinese trade with Mexico is growing: it now approaches \$12 billion a year, most of which heavily favors Beijing. China ran a huge trade surplus with Mexico of about \$8.5 billion in 2007. China imports less than 1% of Mexico's total exports but is the second supplier of its imports. Mexico tends to see China as a formidable competitor because of its ability to lure investment away from low-cost manufacturing plants just south of the U.S. border.
- 2.8 In the global market, China competes intensively with many Latin American manufacturers. The Central American nations and Mexico 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.
- 2.9 Beijing is also looking at free trade agreements (FTA) as a means to integrating its economy with the global economy. The PRC hopes that an FTA can further stimulate the growth of its export-led economy. China signed an FTA with Chile in 2005. In October 2007, China and Costa Rica announced that they would explore the feasibility of an FTA. Peru and China concluded the first round of FTA negotiations in early 2008. The two countries hope to finalize an FTA by November this year when Peru is hosting the Asia-Pacific Economic Cooperation (APEC) summit. All these Latin American countries already have FTAs with the United States. Thus, it can potentially provide China with a dynamic channel to the American market.

- 2.10 To promote further bilateral interaction, 16 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 arrivals worldwide, which are expected to reach 100 million by 2020.⁹

Growing Chinese Outward Foreign Direct Investment

- 3.1 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 pursues a strategy of “going out” (*zouchuqu*).¹⁰ This has led China to become one of the most intrepid investors in the Western Hemisphere.
- 3.2 China’s cumulative foreign direct investment (FDI) in Latin America and the Caribbean was \$4.6 billion in 2003, accounting for almost 14% of China’s FDI worldwide. In 2006 the figure reached \$19.7 billion, or 26.3% of China’s investment worldwide. That was about half of the country's total investments abroad that year.¹¹
- 3.3 Almost 96% of that FDI went to the Cayman Islands and the British Virgin Islands, both major sources of FDI into China as well. 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.

⁹ http://www.chinadaily.com.cn/english/doc/2006-02/04/content_517047.htm.

¹⁰ For more on Chinese outward foreign direct investment, see *EAI Background Brief* no. 340 “China’s Overseas Direct Investment” by Yang Mu and Teng Siow Song.

¹¹ Chinese Ministry of Commerce, National Bureau of Statistics, and State Administration of Foreign Exchange, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*.

**TABLE 1 CHINESE DIRECT INVESTMENT IN LATIN AMERICA
AND THE CARIBBEAN: 2003–2006 (US\$ million)**

	2003	2004	2005	2006
Argentina	1.05	19.27	4.22	11.34
Bahamas	44.45	80.10	14.69	17.52
Brazil	52.19	79.22	81.39	130.41
Cayman Islands	3,690.68	6,659.91	8,935.59	14,209.19
Cuba	13.95	14.85	33.59	59.91
Ecuador	.55	2.19	18.12	39.04
Mexico	97.18	125.29	141.86	128.61
Panama	.16	.41	34.77	36.92
Peru	126.18	125.82	129.22	130.40
St. Vincent & Grenadines	5.60	5.60	12.27	14.92
Surinam	10.06	10.25	13.02	32.21
Venezuela	19.39	26.78	42.65	71.58
British Virgin Island	532.64	1,089.38	1,983.58	4,750.40
Others	25.26	39.3	24.65	61.82
Total	4,619.34	8,268.37	11,469.62	19,694.37

Source: Ministry of Commerce, National Bureau of Statistics, and State Administration of Foreign Exchange, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*.

3.4 Excluding the tax havens, Chinese FDI in the southwestern hemisphere is concentrated most heavily in Brazil (\$130 million), followed by Peru, Mexico, Venezuela, and Cuba (see Table 1). 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 facing 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 of a principal energy supplier.

3.5 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 Latin America and the Caribbean remains small.¹² According to some observers, China's inexperience in investment abroad, its lack of

¹² Li He, "China's Growing Interests in Latin America and Its Implications," *Journal of Strategic Studies*, 30, nos. 4 & 5 (August–October 2007), p. 844.

information about business in Latin America, and concerns about the risks of investing in the region have limited China's investment in the region.¹³

- 3.6 Chinese direct investment in Latin America is still miniscule compared to that of the United States in the region. The cumulative U.S. FDI in the region amounted to US\$366 billion in 2005, and grew to US\$403 billion by 2006.¹⁴

Deepening Political Relations

- 4.1 The Chinese are eyeing Latin America as a new expansion destination for trade and investment. Prior to the Cuban Revolution in 1959, Beijing had neither the opportunity nor the incentive for involvement in Latin America. For China, Latin America was too remote geographically and the new regime in Beijing was too domestically preoccupied. In 1960, Cuba under Fidel Castro became the first Latin American country to recognize the PRC (People's Republic of China); however, through much of the 1960s, except for Cuba, trade and cultural exchanges between China and Latin America were virtually nonexistent. Prior to the market-oriented reform launched by Deng Xiaoping in 1978, Chinese presence in Latin America was marginal.
- 4.2 Politically, China needs Latin America's support and cooperation in playing a pivotal role in the international arena. At present, of the 33 independent countries in Latin America and the Caribbean, China has official diplomatic relations with 21, while the remaining 12 nations maintain relations with Taiwan. China hopes its growing presence in the region will encourage the remaining supporters of Taiwan to abandon Taipei in favor of the mainland and push Taiwan towards peaceful reunification.

¹³ Claudio Loser, *The Growing Economic Presence of China in Latin America*, China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, 15 December 2006.

¹⁴ 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), p. 26.

- 4.3 Both China and Brazil are leaders in the G-20 group of developing nations, and are predisposed to work together for greater “south-south” cooperation. Additionally, Brazil gained Beijing’s support for its ambition to become a permanent member of the United Nations Security Council. While both China and Brazil favor a multi-polar international system without the predominance of the United States, neither state has interest in directly challenging the United States.
- 4.4 China is a member of the Forum for East Asia-Latin American Cooperation (FEALAC), an organization first established in 2001 that brings together ministers and officials from 33 countries from the two regions for strengthening cooperation in such areas as education, science and technology, and culture.¹⁵ The PRC is also a member of the APEC forum that annually brings together leaders of 21 Pacific Rim nations (including Singapore) as well as the Latin American nations of Chile, Mexico, and Peru.
- 4.5 In 2007, China signed an agreement with the Inter-American Development Bank (IDB) to formalize talks on Beijing’s request to become an IDB member. The bank has launched an internal discussion on whether to accept China as a member. If accepted, China would join Japan and Korea to become the third Asian country to join the IDB.
- 4.6 The promotion of Chinese culture and Chinese language is also a major component of China’s new public diplomacy tools. In the past few years, China has increased student and educational exchanges with the region. In 2006, it established the first Confucius Institute in the region, in Mexico City. There is a small but fast-growing overseas Chinese community in Latin America, and these ethnic Chinese play a key role in bridging the business interests between both sides and in supporting China's unification with Taiwan.

¹⁵ The FEALAC was first proposed by Singapore’s former Prime Minister Goh Chok Tong during his visit to Chile in October 1998.

Implications for U.S. interests in the Region

- 5.1 The burgeoning Chinese involvement in Latin America, the backyard of the United States, has aroused new concerns in the U.S. policy circles. This development could challenge American primacy in the Western Hemisphere. Beijing's engagement with "problematic regimes," such as Cuba and Venezuela, directly opposed the policies of the United States and has put Beijing 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.
- 5.2 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 support for anti-hegemony remains. Jorge Dominguez, a Latin American specialist at Harvard University, has found that Sino-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.¹⁶
- 5.3 With the implosion of the Soviet Union, Sino-Cuban relations have improved significantly. China supports Cuba's right to determine its own political system as well as its protests against U.S. sanctions. In return, Havana firmly endorses Beijing's positions on human rights, Tibet, and Taiwan issues. China is now Cuba's second most important trade partner (after Venezuela) and Cuba's exports to China had risen from less than 6 percent of total Cuban exports in 1998, to more than 18 percent of Cuban exports in 2006. China also agreed to invest in the nickel-mining sector and in oil fields in Cuba. Sino-Cuban linkages are not strategically significant for China, but they do represent a vital form of support for Cuba.

¹⁶ Jorge I. Dominguez, *China's Relations with Latin America: Shared Gains Asymmetric Hopes*. Washington: Inter-American Dialogue, 2006.

- 5.4 China's economic development model, the Beijing Consensus, challenges Western notions of political liberalization or market reforms as indispensable to 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 without meddling in their affairs and certainly not dictating their policies, as in the famous structural adjustment of neoliberalism.
- 5.5 The PRC's external diplomatic model can be "seductive" 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."¹⁷ In addition, unlike the United States and Europe, China has no history of invading and colonizing other countries beyond its immediate border, in what is today called Greater China.¹⁸
- 5.6 As Chinese leaders 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. Indeed, Fidel Castro and several other Latin American officials have expressed their admiration for China's economic model.
- 5.7 Compared with U.S.' trade with Latin America (US\$561 billion in 2007),¹⁹ China's US\$103 billion trade with the region (in 2007) seems insignificant. In absolute terms, the economic and political relations of the U.S. in the region

¹⁷ 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.

¹⁸ William Ratliff, "The Makings of a China-Latin Love Affair," 31 May 2008, <http://www.atimes.com/atimes/China/JE31Ad01.html>.

¹⁹ "US-Latin America Trade Grows," *Latin American Business Chronicle*, 19 February, 2008, <http://www.latinbusinesschronicle.com/app/article.aspx?id=2081>.

remain predominant while those of the PRC have been catching up rapidly since the turn of the twenty-first century.

Rivalry with Taiwan

- 6.1 While China's strategic agenda with Latin America is driven primarily by economic interests, reunifying Taiwan with the mainland is the key tenet of China's Latin American strategy. Fearing Taiwan's push for international recognition will lead to its declaration of independence, Beijing is determined to contain Taiwan in every corner of the world, especially in Central America and the Caribbean, the stronghold of Taiwan. At present, Taiwan maintains formal diplomatic relations with 23 countries. Of those 23 states, 12 of them are located in Latin America and the Caribbean.
- 6.2 For many years, both Taipei and Beijing have consistently provided financial assistance to countries that maintain official relations with them, and both have established trade offices in countries where no diplomatic relationships have been established, often the first step toward changing diplomatic recognition. Yet, the Chinese strategy in the region has become more pragmatic. For instance, Panama's diplomatic relation with Taiwan did not deter Chinese investment in the Panama Canal. In 2004, China decided to deploy 125 riot police to Haiti, a country with which the PRC does not have any diplomatic relations.²⁰
- 6.3 Given the new Taiwan president Ma Ying-jeou's pledges to improve relations with China, the competition between Taipei and Beijing in the region could be reduced. Yet, as political disputes between the two sides persist, Central America and the Caribbean remain crucial to Taiwan's international space.

²⁰ For details, see Li He, "China's Growing Interests in Latin America and Its Implications," *Journal of Strategic Studies*, 30, nos. 4 & 5 (August–October 2007), p. 835.

APPENDIX

BASIC ECONOMIC INDICATORS: CHINA AND MAJOR LATIN AMERICAN COUNTRIES

	Population (Million) (2006)	Nominal GDP (Billion US\$) 2006	PPP based GDP (Billion US\$) 2006	PPP based GDP per capita (US\$) 2006	GDP Growth Rate (%) (2006)	GDP Growth Rate (%) (2000-06)	Inflation (CPI) (%) 2006
China (2007)*	1,321*	3,430*	6,092	7,740	11*	9.8	4.8*
Argentina	39	201	469	15,390	8	3.6	10.9
Brazil	189	893	1,694	8,800	4	3.0	4.2
Chile	16	115	214	11,270	4	4.3	3.4
Columbia	46	125	290	7,620	7	3.9	4.3
Mexico	104	820	1,269	11,410	5	2.3	3.6
Peru	28	83	195	6,080	8	4.9	2.0
Venezuela	27	164	298	7,440	10	3.4	13.7

* Data of 2007.

Sources: World Bank, *World Development Report, 2008*, *World Development Indicators* and National Bureau of Statistics of China, *China Monthly Statistics*, no. 1, 2008.