

What is China's interest in Latin America?

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The People's Republic of China (PRC) has been slowly but surely emerging as world power for the last 30 years. It has become the world's third-largest economy after the United States and Japan and it's leaving behind Germany as the world's top exporter. Nor is China any longer a manufacturer of low value, low technology items: it has become the world's largest producer both of wind turbines and solar panels, and last year its auto sales doubled to more than a million vehicles a month surpassing the United States.

If to that we add that it has the world's third-largest defence budget, and the largest national population (1.3 billion people), it quickly becomes evident that China does not have sufficient oil, natural gas, aluminium, copper, or iron to satisfy its energy and manufacturing needs, and that it necessitates trade partners to sustain its growth.

China is also a key player on the world political scene. Besides the strategic role it plays in Asian geopolitics and its status as a nuclear nation, it is a member of the U.N. Security Council, the World Trade Organization, the Group of 77 Developing Nations, the Asia Pacific Economic Cooperation Group and the Inter-American Development Bank. China has also observer status in the Organization of American States (OAS) and keeps a peacekeeping mission in Haiti.

Moreover, China has started to show the first elements of an imperialist state in the making. It has strengthened its diplomatic presence and economic influence, often referred to as "soft power," in the developing world, specifically in Africa, Latin America, and Southeast Asia. It has tried to earn international goodwill through financing infrastructure and natural resource development projects, assisting in the execution of such projects, and backing PRC state enterprise ventures in many developing countries. If in terms of development grants China is a relatively small source of global aid, when its commercial and concessional loans, technical assistance, and state-sponsored or subsidized investments are included, the PRC becomes a major source of economic assistance. [1]

If the role that China has been playing in Africa has attracted much attention, the one played in Latin America has not nearly as much. And yet, bilateral trade between China and Latin America has been expanding significantly since November 2004, when China's president Hu Jintao promised to invest \$100bn in the region.

According to the Chinese Ministry of Commerce, Chinese investments have mounted from \$200 million per year in 1975 to \$70.2 billion per year in 2006 and are predicted to reach \$100 billion per year in 2010. [2] Even though China's trade figures in the region amount to much less than those of the United States US (\$560bn) or the EU (\$250bn), the trend is significant. A sign of the importance the PRC gives to the region is the publication of its first ever policy paper on Latin America on 5th

November 2008. The trade and investment relationships have been complemented by other contacts, including high-level delegations of political, cultural, trade and military officials, and China's participation in the Latin American institutions above mentioned.

China's twofold strategy in Latin America

The PRC has defined two strategies for Latin America. The first is economic: to secure China's access to the primary materials that it needs for its economic growth and to find a market for its manufactured goods. The second strategy is mainly political: to obtain diplomatic recognition from those countries still recognizing Taiwan as the government of China.

Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Panama, Peru, Venezuela and Cuba play a major role in the first strategy.

Brazil, the first economy of the region, is clearly China's most important partner, both as a market for Chinese goods and as a source of raw materials. Brazil supplies some 45 % of all PRC soybean imports and is also the source for other agricultural products, as well as iron and petroleum. The PRC has launched several major collaborative projects with Brazil in these sectors. Brazil's status as a large middle-income country also makes it important as a market for Chinese goods, including electronics, machinery and labour intensive manufactured goods, such as footwear and toys. Brazil possesses a nuclear industry and uranium resources — important to China as it expands its own nuclear industry to meet its energy needs. The Brazilian aerospace industry has created multiple opportunities for collaboration with China, including technology.

The global recession emphasized and magnified the importance of China to Brazil. While Brazilian exports to the United States fell 37.8 % in the first quarter of 2009, exports to the PRC increased by 62.7 %. Consequently, in the first half of 2009, China became Brazil's number one export destination. China has also emerged as a key financier for Brazil's projects to develop the newly discovered deepwater oil reserves in the Campos and Santos basins. When in May 2009, China and Brazil signed an agreement for a \$10 billion loan from China Development Bank, the president of Petrobras, Sergio Gabrielli, noted, "There isn't someone in the U.S. government that we can sit down with and have the kinds of discussions we're having with the Chinese". [3] According to this agreement, the loan was given in exchange for a guaranteed supply of oil over the next decade. The two nations are also pursuing a range of important joint ventures, including joint production of jets, the China-Brazil Earth Research Satellite (CBERS) program and other space cooperation programs.

As in the case of Brazil, China's economic policy in relation to Argentina, the other large South American economy, is not restricted to buying natural resources. Argentina has collaborated with China in space projects, such as a satellite laser ranging project in Argentina's San Juan University, and has discussed collaboration in designing a new-generation nuclear reactor.

However, China main interest is in Argentina's mining and oil sectors. In 2003, the CNPC (China National Petroleum Company) acquired a stake in the Argentine oil and gas firm Pluspetrol, which operates fields in northern Argentina and Peru, and there has already been an investment from the Chinese-Angolan company Sonogol. In May 2010, China National Offshore Oil Corporation (CNOOC) purchased a 50 percent stake in Argentina's Bidas Holdings for \$3.1 billion. There have also been rumoured talks between the Spanish firm Repsol-YPF and CNOOC regarding Repsol-YPF's Argentine holdings -although none of the possibilities raised has yet materialized.

The USA views with suspicion the PRC financial deals to facilitate commerce with Argentina. In March 2009, China signed a \$10.2 billion debt swap with Argentina, [4] in what the American

government considers an expanding challenge to the primacy of the dollar as an international reserve currency. [5] It is to be noted that Brazilian President Lula explicitly argued for working with China to move away from the dollar during his trip to China in May 2009. [6]

The PRC has also been courting Argentina as a purchaser of its own manufactured goods, but here, the relationship has been much more conflictive owing to Argentina's plan to redevelop some industrial sectors.

For two of the three Latin American members of APEC (Asian Pacific Economic Co-operation), Peru and Chile, China has become a crucial trading partner. According to UN figures, in 2007 nearly 40% of Chile's exports went to the Asia-Pacific region, mostly China. For Peru, the figure was 19%. This has moved countries such as Colombia and Costa Rica to want to join APEC.

The PRC has invested in Peru in the oil and gas sectors. It has purchased fishing fleets and fishmeal processing facilities, and has made investments in the mines in Toromochó, Río Blanco and Marañón. This is not surprising if we consider that 85.2% of Peru's exports to China are copper, fish flour and iron ore.

The PRC has an interest in Bolivia's gas and iron resources. Bolivia has the second largest natural gas reserves in South America, behind only Venezuela. Bolivia's lack of sea access poses a problem, but the introduction of new refining technologies, such as the liquefaction of gas or its use in producing other fuels, increase the feasibility of exporting Bolivian gas to China. And Evo Morales has opened up a number of possibilities for an expanded Chinese presence in that country: a concession has been signed to the Chinese conglomerate Shandong Llueng, granting them the right to develop all or part of the iron deposits at El Mutún—one of the largest in the world, if not the largest; and Chinese oil companies have signed agreements to help YPFB to overcome some of the problems with capital and experience which the nationalization of the country's oil brought about.

The investments in Ecuador have also been huge and have had diplomatic effects. China has invested in oilfields, port operations and pipeline assets. In 2003, China bid on concessions to Ecuador's major oil fields. The oil operations by CNPC have caused serious problems with the indigenous populations in Tarapoa and Succumbios particularly because of the lack of interest of Chinese investments in the preservation of the environment. The decision by the Ecuadorian regime of Rafael Correa not to renew the agreement giving the U.S. access to Manta was the necessary first step to invite the Chinese to develop the airport into a hub for trans-pacific flights, even though the PRC never made any explicit suggestions.

China has also set up investments and joint ventures with state-owned petroleum and mineral extractive companies such as PdVSA (Venezuela), YPFB (Bolivia), Petrobras (Brazil), and Cubaniquel (Cuba).

The case of Panama is slightly different due to its strategic position. Panama's primary-product exports or its potential as an import market are minor. However, as owner of the Panama Canal, it has an enormous strategic value for China. The PRC firm Hutchison-Whampoa, with alleged connections to the Chinese People's Liberation Army (PLA), owns property on either end of the Panama Canal, giving it visibility over military and commercial traffic transiting the canal, and potentially serving as a staging area for future operations to control transit through this strategic checkpoint.

China's political strategy affects mainly Central America and the Caribbean. Here, the PRC has mainly focused on using economic and diplomatic levers to secure diplomatic recognition from those countries still recognizing Taiwan as the government of China. Of the remaining 23 countries that

still recognise Taiwan, 11 are found in this region. So far, Costa Rica is the only country that changed alliances in 2007, and has been consequently rewarded: Hu Jintao visited Costa Rica in 2008 to inaugurate a new football stadium donated by the PRC.

Who benefits?

The China-Latin America relationship is not win-win for all partners. As of 2005, the trade surpluses that Latin American countries had with China have been reversed. Nowadays, 93% of China's exports to Central and South America consist in manufactured goods (25% of textiles and garments, and 44% machinery and equipment). This is negatively affecting the efforts of the most advanced Latin American economies to develop their own local industry and is beginning to create problems.

Mexico, Latin America's third APEC member has been particularly affected for two main reasons: its close ties with the US economy and the overlap between Chinese and Mexican exports. Of Mexico's 20 main exporting sectors, 12 are in open competition with China. This not only reduces Mexico's possibility to export to China to only about 3% of its total exports, but it also affects its trade relations with the USA. In 2003, China ousted Mexico from its position as the second largest exporter to the USA. With a \$28bn trade deficit with China, it is no wonder that the Mexican government wants to review the trade agreements. An official of the Mexican government complained that "for every \$30 of Chinese goods that Mexico imports, Mexico only exports \$1 of Mexican goods to China."

Something similar is happening with the textile industry from Central America, which is being smothered by Chinese textile exports.

Another example of tension in the relations with the largest Latin American economies is the case of Argentina. Argentina supplies 23 % of all soy product imports of the PRC. China has suspended an order for more than 2 million tons of soya oil, part of which is in transit, because Argentina decided to tax shoes imported from China as a measure to protect its local producers. Argentina's commercial deficit with China in 2009 reached \$1200 million and for the first two months of 2010 it is already \$600 billion. The Argentinean government is not willing to let it increase. China's response has nothing to envy to those of other imperialist powers when their "commercial rights" are affected by uppity emerging countries.

Basically, Latin American governments find two problems with Chinese investments: 1) their main purpose is to serve China's development needs by facilitating the export of the raw materials, often imposing the demand that a significant portion of project to obtain and process those materials and services be sourced in China; 2) they have found that the level of Chinese direct foreign investment in the region is not as high as it seems, and that much of the official figures go into offshore tax havens.

What is clear is that Chinese trade with Latin America has fuelled a boom in the region's commodity-export sectors in countries such as Argentina, Brazil, Chile, Peru and Venezuela, at the same time that Latin American manufacturing sectors have been badly damaged by expanded competition from Chinese goods. The situation is even worse for countries and regions with large manufacturing sectors and limited primary-product export sectors such as Mexico and Central America.

China: The new kid in the American's backyard

Does China want to replace the USA as the ruling power in the region? Nothing's farther from the truth. So far, the PRC has clearly shown that its main concern is not to undermine the Chinese-US relation, which it considers of the utmost importance from the strategic and economic point of view. At most, the PRC would be willing to occupy the empty spaces that the USA may leave. The strongest Latin American economies have been trying to profit from the power triangle that China's policy is bringing about with diverse luck.

China's concern not to cross the USA also affects its relations with Venezuela, Bolivia, Ecuador, and above all Cuba. China has signed military agreements with Venezuela, but this should not be seen as an outright backing of the Bolivarian regime. Even if China has signed an extensive military cooperation with Venezuela, it is doing so reluctantly, forced by its need for oil. To some extent, China is unwillingly filling a gap created by the deterioration of Venezuela's political and military relationship with the United States. The fact that the Venezuelan government has frustrated the operations of some Chinese corporations such as CNPC shows that the relations between the two countries are not free of contradictions.

The relation with Cuba is slightly different from that with Venezuela. In spite of China's pragmatic approach to foreign policy, there is still a slight ideological element at play. The economic relations are closer, and the PRC ranks ahead of Spain and second to Venezuela among Cuba's trade partners. China also played a key role in upgrading the Cuban Air Defence System, and has frequently exchanged high-ranking Chinese military delegations. Cuba also supplies the PRC with strategic materials and agricultural products. In addition to sugar, Cuba also has both offshore petroleum and the world's largest proven nickel reserves. In January 2005, China's oil and gas giant Sinopec Corp. signed an agreement with Cuba's state-run Cubapetroleo (Cupet) to jointly produce oil on the island. However, the relationship is not without problems. A \$500 million joint venture to produce 68,000 tonnes a year of ferro-nickel in eastern Cuba signed between Cubaniquel and the Chinese firm MinMetals was abruptly cancelled, and the concession was given, instead, to Venezuela.

Conclusion

How the relationship between China and Latin America will develop in the future is a matter of speculation, although certain tendencies are already clear.

The PRC has no interest in damaging his strategic economic and political relation with the USA. The relation with the governments in Venezuela, Bolivia, Ecuador and Cuba has been restricted mostly to commercial agreements in which it has proved to be practically the sole beneficiary.

The relation between the PRC and Latin America is one of unequal partners owing to the potential of the former's economy and the limits of latter's. This is a source of constant conflict with those emerging economies —like Mexico and Argentina— that have plans to develop an independent industry and set up barriers to defend their national manufacturers from Chinese exports.

Another source of conflict with Chinese investments is the fact that Chinese direct investments seek high levels of return regardless of social, labour or environmental conditions. This has already created conflicts with native populations in Ecuador, Peru, Venezuela and Argentina.

Virginia de la Siega

Timeline on Chinese investments in Latin America's energy and commodities sector since 2005

Jan. 2005

- Cuba:

China's oil and gas giant Sinopec Corp. signs an agreement with Cuba's state-run Cubapetroleo (Cupet) to jointly produce oil on the Caribbean island.

China's state-owned Minmetals is investing \$500 million in a joint venture to produce 68,000 tonnes a year of ferro-nickel in eastern Cuba.

Feb. 2005

- Chile:

China's Minmetals Corporation signs an agreement to invest an initial \$550 million, which could eventually rise to \$2 billion, to set up a joint venture with Chilean state copper company Codelco.

Sept. 2005

- Bolivia:

China's Shengli International Petroleum Development Co. Ltd. signs a framework pact with state-run Yacimientos Petroliferos Fiscales Bolivianos to invest \$1.5 billion over 40 years in Bolivia's onshore oil and gas sector.

—Ecuador:

Chinese-led consortium Andes Petroleum, which includes China National Petroleum Corp. and Sinopec group, buys Canada-based Encana's oil and pipeline assets in Ecuador for \$1.42 billion.

June 2007

- Peru:

Peru Copper Inc. agrees to be bought by state-owned Aluminum Corp. of China Ltd. in a friendly deal worth C\$840 million (\$792 million) in cash, the Canada-headquartered company says.

May 2009

- Brazil:

China Development Bank announces that it will lend \$10 billion to Petrobras, the state-owned Brazilian oil company, in exchange for a guaranteed supply of oil over the next decade.

July 2009

- **Ecuador:**

China forges a \$1 billion loan-for-oil deal with South American OPEC member Ecuador.

Sept. 2009

- **Venezuela:**

Venezuela signs a \$16 billion investment deal with China over three years to raise oil output by several hundred thousand barrels per day in the OPEC member's Orinoco belt.

Oct. 2009

- **Brazil:**

Chinese steel and iron ore group Baosteel proposes to pay 1 billion pounds (\$1.6 billion) for a 30 percent stake in Anglo American's huge Minas Rio iron ore mine in Brazil.

March 2010

- **Argentina:**

CNOOC purchases a 50 percent stake in Argentina's Bidas Holdings for \$3.1 billion.

P.S.

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Footnotes

[1] China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia, Report for (US) Congress Prepared for Members and Committees of Congress, Thomas Lum, November 25, 2009.

[2] Latin Business Chronicle, China Undermines U.S. in Latin America, Monday, June 04, 2007, see:
<http://www.latinbusinesschronicle.com/app/article.aspx?id=1297>

[3] *The Wall Street Journal*, May 18, 2009.

[4] *La Nacion* [Argentina], March 31, 2009.

[5] *Nacion* [Costa Rica], March 31, 2009.

[6] Xinhua News Agency, May 22, 2009.