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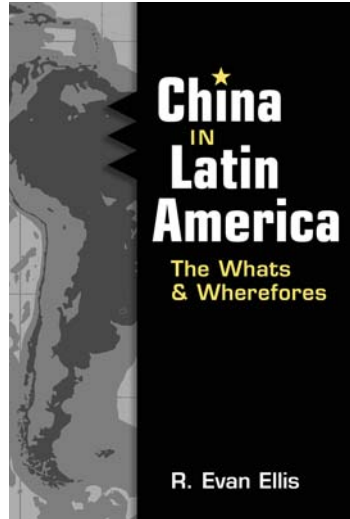
# China in Latin America: The Whats and Wherefores

R. Evan Ellis

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# 1

## China's Expanding Ties with Latin America

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**THE RAPID EXPANSION OF COMMERCIAL AND POLITICAL TIES** between the People's Republic of China (PRC) and Latin America has captured the imagination of a generation of business and political leaders throughout the Latin American region. For many, China represents an important market and a potential new source of investment capital. At the same time, many also look with concern at increasing volumes of competitively priced Chinese goods, both contraband and legitimate, that are beating out the goods of Latin American producers in their own countries and displacing them in their traditional export markets. From a political perspective, some in Latin America also see the increasing role of China in the region as a potential lever for asserting independence from the political influence of the United States and the economic dominance of Western institutions. Still others express concern about the long-term geopolitical ambitions of the PRC and worry about exchanging one form of dependency for another.

An increasing quantity of literature, both journalistic and academic, has begun to emerge in recent years documenting and analyzing the expanding ties between China and Latin America.<sup>1</sup> Many of these investigations document and characterize the growing trade ties between China and the region;<sup>2</sup> they include analyses of the positive and negative economic impacts of the growing ties,<sup>3</sup> of whether the net trade effect is more complementary or more competitive,<sup>4</sup> of whether China has diverted global investment capital away from Latin America,<sup>5</sup> and of various other themes at the sectoral level.<sup>6</sup> Various Chinese political figures and scholars have provided their perspectives on China's relationship with Latin America.<sup>7</sup> Such authors as Joseph Cheng and He Li address dimensions of China's interest in Latin

America that go beyond economic interests; as, for instance, the struggle for diplomatic recognition between the two Chinas that is playing out in Central America and the Caribbean.<sup>8</sup> Some analyze the possibilities of an alliance between the PRC and Latin America,<sup>9</sup> or point to potential threats that the new relationships pose to US interests,<sup>10</sup> while some argue that concerns over such threats are overblown.<sup>11</sup>

Beyond such works, there is a rapidly growing business-oriented literature on China's economy and trade ties in general, including political and cultural drivers.<sup>12</sup> Although these works are not focused on China's relationship with Latin America, they are instructive in understanding the experience that Latin American producers have had doing business in China and competing economically with the PRC in their own countries and in traditional export markets.

While each of these studies makes a valuable contribution to the literature, in late 2008, there were no books describing in detail the emerging relationship between China and Latin America. This book is designed to fill that void, painting a picture of the complex dynamics produced as businessmen, politicians, and social forces interact across the two regions.

## ■ The Scope and Character of China's Expanding Ties

The expansion of China's relationship with Latin America has affected each of the countries of the region. As other studies have noted, China's engagement has created winners and losers at both national and sectoral levels.<sup>13</sup> On the economic spectrum, the PRC has significantly expanded its exports across a broad range of sectors, from such labor-intensive, low-end manufactures as toys, textiles, and footwear to more sophisticated products, such as motorcycles, automobiles, telephones, and computers. At the same time, many Latin American countries have also significantly increased their exports—particularly with respect to primary products (fishing and agricultural products, petroleum, metals, minerals, and so on), and also with respect to internationally recognized consumer goods and premium products catering to the cosmopolitan tastes of a growing new Chinese middle class. Whereas not all Latin American countries have been equally successful in exporting to China, the hope of doing so is virtually ubiquitous in the region. Such hope is reflected in a proliferation of China-oriented business programs and Chinese-language offerings in institutes and universities across Latin America, in increasing opportunities to attend trade fairs in China, and in new service companies to help producers place their products in the Chinese market.

Chinese investment is also on the rise in the region. Although, in many countries, the expectation of funds from the PRC has far outstripped the

reality, Chinese corporations, banks, and state enterprises are investing increasing quantities of capital in Latin America to establish reliable sources of supply for the primary products that China needs to sustain its economic growth. Such investments include acquisitions and joint ventures in petroleum and mining, as well as infrastructure investments to facilitate the import and export of goods between Latin America and China. Many, but not all, of these projects have taken place in countries with relatively anti-US foreign policy positions, such as Venezuela and Ecuador, or countries that have changed their diplomatic posture on Taiwan, such as Costa Rica, reflecting the complex mixture of economic and strategic considerations that drive Chinese investments in the region.

In addition to expanding economic ties, China is establishing an array of new political, social, and cultural links with Latin America. In the political realm, as Shixue Jiang notes, in the past decade, seventy-four Latin American heads of state and members of the legislature have visited China, while Chinese leaders have visited nineteen Latin American countries.<sup>14</sup> Exchanges are increasingly occurring at all levels; they include trips by parliamentary and party delegations and by military officers; the establishment of cultural programs such as the Confucius Institutes, which promote the spread of Chinese language and traditions in the region; and almost one hundred sister-city relationships.<sup>15</sup> China has also been involved with such multilateral and supranational institutions in the region as the Inter-American Development Bank (IADB),<sup>16</sup> the Caribbean Development Bank (CDB),<sup>17</sup> the Organization of American States (OAS), the Latin American Parliament, and the Corporación Andino de Fomento.

The issue of ties with China plays an increasing role in the politics and policy debates of individual Latin American nations. In virtually all countries of the region, expanding commerce with the PRC, including the promotion of exports and the attraction of Chinese investment, has become an important objective of national policy. Although some countries—for example, Venezuela, Bolivia, and Ecuador—have adopted very different approaches than the more traditional market-oriented policies of others—like Chile, Colombia, and Peru—each has sought to attract Chinese investment in one way or another.

Engagement with the PRC is also profoundly impacting the performance and structure of Latin American economies. As Carol Wise and Cinthia Quiliconi note in “China’s Surge in Latin American Markets,” China’s expanding demand for such primary products as copper, petroleum, and soy has generated a commodity-led export boom that has affected virtually all countries of the region. At the same time, Chinese manufactured goods are increasingly gaining market share in individual countries, as well as displacing Latin American producers from their traditional export markets.<sup>18</sup> As a result, increasing trade with the PRC has begun to move Latin

America away from its development of manufacturing industries, and “back” toward greater reliance on export-oriented primary product sectors. Although Latin America is currently experiencing a period of unprecedented growth, this structural shift will have important long-term implications for both the development and the political stability of the region.

### ■ Key Considerations in the Dynamics of China’s Relationships

I argue that China’s relationship with Latin America is an evolving, multidimensional phenomenon, and that the dominant characteristics of China’s ties with individual countries of the region vary greatly as functions of both the economic attributes and the political orientation of each particular country. The PRC has been very effective in building individual relationships with the region’s countries by engaging each according to its unique political circumstances and by basing ties on what each country offers in terms of resources, markets, and strategic advantage.

In understanding the dynamic of China’s relationship in each country, it is useful to look at a number of factors.

- The historical context in which the relationship between that country and China has evolved—including the legacy of alignment on international issues—shapes the political landscape by which the PRC relates to the country in the modern context.

- The size and characteristics of a country’s ethnic Chinese community, including its economic and social position, influence both the commercial opportunities presented by the PRC to that country, and the socioeconomic tensions resulting from the expanding relationship. As Sergio Cesarin notes, the ethnic Chinese in Latin American countries play roles as traders and link-builders between both sides.<sup>19</sup>

- The products that each country has available to export, in combination with China’s needs, shape the pattern of China’s imports and investments with each country. In some cases, Chinese activities are devoted not simply to establishing supplier relationships and importing goods, but also to creating a local presence in the country and/or an infrastructure to ensure a reliable future supply of products.

- The volume and type of sales by China to each country of Latin America depend on the level of personal income in the country, the structure of the local market, and attitudes of the population toward Chinese products. The level of personal income and the structure of the market are important in determining whether Chinese sales are concentrated in light manufactures or extend to more sophisticated goods, such as autos and

computers, as well as whether they are concentrated in the formal or informal sector. The existence of an infrastructure to import and sell Chinese products in the country is also key, as is the existence of regulatory and other mechanisms to protect local producers.

- The ability of Latin American companies to do business with China on favorable terms is a function of the legal, financial, and logistics infrastructures that support this commerce. The capability of placing products in the Chinese market in a sustainable fashion, or of establishing other successful commercial relationships, is facilitated by such factors as knowledge of the language, culture, and transactions required. Such knowledge—leveraged either from within the company itself or through consulting firms—is important to establish and maintain long-term supply relationships in a geographically and culturally distant market. At the country level, the viability of an arrangement, and thus ultimately of the pattern of trade, is conditioned by the availability of a supporting logistics infrastructure (such as efficient Pacific ports and the ability to transport products to those ports), including effective support by the Latin American government.<sup>20</sup>

- China's relationship with each Latin American country includes, and is shaped by, its interactions with each country in the political and military spheres. Initiatives in this category include a myriad of items, from visits between heads of state to legislative exchanges to donations for projects meant to advance goodwill. In the military realm, Chinese cooperation with Latin America is generally limited to the construction of personal relationships through officer exchanges and military visits, although China does sell or donate military goods—generally of the nonlethal variety—to various Latin American countries, from Venezuela and Bolivia to Argentina and Colombia.

Each of the themes presented in the analytical framework above is touched upon in subsequent chapters of this book.

## ■ The Issue of Comparative Advantage

The new commercial relationship emerging between the PRC and the countries of Latin America calls attention to the traditional question of comparative advantage in the modern global economy, including whether and under what conditions an economic approach based on comparative advantage in the production of primary products can serve the long-term development goals of the country. On one side of the question, Raul Prebisch,<sup>21</sup> Andre Gunder Frank,<sup>22</sup> and others have argued that Latin America's participation in the system of global economic relations is actually prejudicial to its development. Urging a different view, some contemporary literature—rep-



resented by authors (e.g., Franko)<sup>23</sup> and studies by such institutions as the World Bank<sup>24</sup> and the International Monetary Fund—emphasizes that pursuing economic activity in areas in which a country has a comparative advantage, under the right conditions and with effective management by the state, can contribute to development of the country.

In the economic interactions between China and Latin America examined by this book, evidence suggests that patterns of trade specialization are indeed emerging, with each partner tending to export those goods in which it has comparative advantage. In general, as Robert Devlin and others have noted, the PRC leverages its advantages in manufacturing, including inexpensive labor, to sell products to Latin America and other global markets.<sup>25</sup> Reciprocally, as noted by Francisco González, Latin American countries have capitalized on abundant natural resources, including petroleum, iron, and copper, as well as available land for export-oriented agricultural crops such as soy.<sup>26</sup>

Despite the general pattern of specialization, the countries of Latin America vary greatly with respect to their primary-product endowments, industrial and technological bases, infrastructures, political and regulatory environments, and other factors. For this reason, the economic interaction between China and Latin America provides insight on the ability of comparative advantage to promote mutual development of trading partners over the long term.

The China–Latin America interface also includes many situations in which the PRC is competing head to head with Latin American exporters in markets like the United States, where gains by Chinese companies come at the expense of Latin American producers.<sup>27</sup> Such cases serve as a reminder that the economic and social dislocations produced by generating “winners” and “losers,” and the policies to address the economic and social consequences of those outcomes, are significant components of pursuing comparative advantage in the modern global age.<sup>28</sup>

The examination of China’s interactions with each country in the region puts such questions of comparative advantage in a dynamic context, which includes the effects from, and consequences for, economic and political structures and political actors. Free-trade agreements, political orientation, and government and business infrastructures help to shape in what sectors and in what form the dynamics of comparative advantage are realized. The fact that the Chinese are actively seeking to move up the manufacturing value-added chain into such sectors as computers, cars, and aircraft<sup>29</sup> while Latin America undergoes a process of progressive “deindustrialization”<sup>30</sup> illustrates that comparative advantage is a dynamic process, whose evolution is shaped by policymakers and individual economic actors.

This book also highlights the importance of intangible considerations with a bearing on comparative advantage (such as differential access to

intellectual property) that complement production costs. It suggests the manner in which new infrastructure investments—generated by the pursuit of that comparative advantage—potentially create long-term benefits for the region's development, even if the activity in which the region's comparative advantage is concentrated is not associated with high salaries or the diversification of the economic base. The analysis also touches on the interaction between the economic dynamics of comparative advantage and its social and political consequences, asking the question whether pursuing an activity that generates significant profit at a macro level but ultimately destabilizes the society is the most economically rational course of action.

## ■ Organization of the Book

Chapters 2 and 3 explore the motives driving China's interests in Latin America and, reciprocally, Latin America's interest in China. This establishes the context for the regional and country-specific analyses in Chapters 4–6, which are organized to facilitate comparisons among the cases. Chapter 4 focuses on the relationship between China and countries of the Southern Cone: Argentina, Brazil, Chile, Paraguay, and Uruguay. Chapter 5 examines China's relationship with the countries of the Andean region: Bolivia, Colombia, Ecuador, Peru, and Venezuela. Chapter 6 turns to China's relations in Mexico, Central America, and the Caribbean. Chapter 7, the final chapter, marshals evidence from the previous chapters to identify and discuss the key implications of Latin America's growing relationship with China.

## ■ Notes

1. See, for example, Domínguez, 2006; Cesarin, 2008; Kurlantzick, 2006; Dunbaugh and Sullivan, 2005; Li, 2007; Montalva and Navia, 2007; Dreyer, 2006a; Dreyer, 2006b; and Oppenheimer, 2005.

2. Maciel, 2008; ECLAC, 2005; Mesquita-Moreira, 2007; Loser, 2006; Devlin, Estevadeordal, and Rodríguez-Clare, 2006; Blázquez-Lidoy et al., 2006; Jenkins and Dussel Peters, 2006.

3. Lederman et al., August 2007a; Lederman et al., August 2007b; and Colburn, 2008.

4. See, for example, Gallagher and Porzecanski, 2008; González, 2008; Lora, 2007; Trinh et al., 2006; Blázquez-Lidoy et al., 2006; López-Córdova et al., 2008; Castro, Olarreaga, and Saslavsky, 2007.

5. Cravino, Lederman, and Olarreaga, 2007a; Cravino, Lederman, and Olarreaga, 2007b.

6. See, for example, Palacios, 2008; Loser, 2005; CEPAL, 2007; Hulse, 2007; and Agostin, Martini, and Saavedra-Rivanro, 2004.

7. See, for example, Shixue Jiang, 2008a; Xiang Lanxin, 2008; Cheng Siwei, 2005.
8. He Li, 2005; He Li, 2008; Cheng, 2006.
9. Stallings, 2008.
10. See Kenny, 2006; Lafargue, 2006; Kurlantzick, 2006; Ellis, 2005; Dreyer, 2006a; and Erikson, 2006.
11. See Tokatlian, 2008.
12. See, for example, Naughton, 2007; Chi Lo, 2007; Rongxing Guo, 2007; Xueyuan Zhang and Reinmoeller, 2007; Dutta, 2006; Guthrie, 2006; McGregor, 2005; Mastel, 1997.
13. See, for example, Jenkins, Dussel Peters, and Mesquita-Moreira, 2008.
14. Shixue Jiang, 2008b, p. 43.
15. *Ibid.*
16. In October 2008, the PRC was officially accepted as a member of the Inter-American Development Bank, contributing a modest \$350 million in capital to the institution, and culminating a long process that began with its formal application to join the bank in 1993. The success to date of the PRC bid for membership reflects a number of factors. From within the bank itself, the new IADB president, Luis Alberto Moreno, lobbied for inclusion of China as a vehicle for attracting more capital and attention to the institution. The United States, which had previously opposed Chinese membership, dropped its objections as part of a broader agreement with China to support the nation's expanded integration into international institutions. Japan, which was, for a time, the only Asian member of the bank, had also previously opposed the PRC bid, but was persuaded by the United States to drop its objections.
17. In May 1997, China was admitted into the Caribbean Development Bank. He Li, 2005, p. 87.
18. Wise and Quiliconi, 2007.
19. Cesarin, 2008, p. 24.
20. The latter includes such considerations as commercial enabling agreements, activities by embassies and trade promotion organizations, etc.
21. Prebisch, 1981.
22. Frank, 1971.
23. Franko, 2007.
24. Lederman and Maloney, 2007.
25. Devlin, 2008; Mesquita-Moreira, 2007.
26. González, 2008.
27. Gallagher and Porzecanski, 2008. See also López-Córdova et al., 2008.
28. See González, 2008.
29. Naughton (2007, p. 394) notes that the rapid surge in China's export of high-technology goods is "truly impressive."
30. See, for example, González, 2008, p. 160.

The Whats and Wherefores. R. Evan Ellis. Copyright © 2009 ISBNs: 978-1-58826-650-7 hc 978-1-58826-675-0 pb E-FM 3/13/09 10:24 AM Page vii.Â increasing quantities of capital in Latin America to establish reliable sources of supply for the primary products that China needs to sustain its economic growth. Such investments include acquisitions and joint ventures in petroleum and mining, as well as infrastructure investments to facilitate the import and export of goods between Latin America and China. As Ellis documents, China is investing heavily in Venezuelan crude oil, despite worries over Hugo ChÃ¡vez's volatility and fears of embroiling itself in disputes between Caracas and Washington. China -- together with illiberal petrostates -- is a vital backstop for ChÃ¡vez's authoritarian populist project and unrelenting drive to undercut U.S. interests and influence in the region. Inexplicably, Foggy Bottom has seemed largely oblivious to this concerted geopolitical challenge so close to home.