

Background

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Balancing China's Growing Influence in Latin America

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In the 1960s, the Soviet Union defied America's Monroe Doctrine by supporting Fidel Castro's military buildup in Cuba. Later, it supported insurgencies in Central America. This triggered a competition among existing right-wing dictatorships, Marxist authoritarianism, and the U.S. democratic model. In the end, democracy and open markets won. Promoted by the United States, these principles have generally made Latin American states more viable politically, economically, and commercially.

Today, another communist state—the People's Republic of China (PRC)—is seeking trade, diplomatic, and military ties in Latin America and the Caribbean. The region is rich in natural resources and developing markets for manufactured goods and even arms. China does not currently pose a direct military threat in Latin America and has steadily embraced market concepts, but it represents serious competition that could dilute U.S. influence. Washington could ignore this intrusion or attempt to contain it. Ignoring it leaves a vacuum for China to fill, while trying to contain it runs against America's own free market ideals. Instead, the United States can best look after its hemispheric interests and moderate China's presence by:

- Consolidating trade relations with Latin America and removing protectionist U.S. trade barriers,
- Emphasizing comprehensive relationships as opposed to narrow-interest diplomacy such as counternarcotics,

Talking Points

- With the world's sixth-largest economy, third-largest defense budget, and highest national population, China has become a serious contender for political and economic influence around the globe, including in Latin America.
- China sees the United States as its principal rival for global preeminence.
- Latin America has the raw materials and markets that China needs to fuel its rapidly growing economy.
- Ties with China offer certain advantages to Latin American countries, such as few trade restrictions and direct negotiation with leaders of state industries. Meanwhile, Latin American workers cannot compete with inexpensive Chinese labor, resulting in trade deficits. Moreover, state-to-state commerce supplants progress toward free market reforms.
- The United States can be more competitive by concluding regional free trade agreements, developing broader and deeper ties with neighbors, and cutting bureaucratic restrictions on assistance.

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- Minimizing unproductive restrictions on assistance to U.S. neighbors, and
- Pressing harder for democratic and economic reforms, prioritizing support for these purposes, and reenergizing public diplomacy.

China's Interest in the Americas

China is the world's oldest continuous civilization with more than 3,500 years of written history. Its power has risen and declined, most notably in the mid-1800s, when the ruling Qing Dynasty crumbled, inviting rebellion and foreign intervention. At the end of World War II, the Nationalist government, weakened by a decade of war against Japan and wracked by corruption and incompetence, fought a civil war against the Chinese Communist Party and was defeated.

By 1950, communist leaders like Mao Zedong believed their authoritarianism would return China to glory, a belief that expired after 30 million people starved to death in state-induced famines in the early 1960s and another 10 million perished in fanatical ideological campaigns. In December 1978, after several "great leaps" backward, Communist Party leader Deng Xiaoping introduced economic reforms that have steadily transformed the PRC into a remarkable hybrid—a "socialist market economy"—in essence, a communist state that uses market-based pricing principles.

Feeding the Dragon. Twenty-five years into this experiment, China has the world's sixth-largest economy, the third-largest defense budget according to some estimates, and the largest national population (1.3 billion people). According to the World Bank, its gross domestic product of \$1.6 trillion is growing about 9 percent per year. China needs resources to feed its rapidly expanding economy, but it does not have sufficient oil, natural gas, aluminum, copper, or iron to satisfy its energy and manufacturing needs. Furthermore, it needs trade partners to buy its electronics, apparel, toys, and footwear. While communist China is embracing market concepts, it still has a non-market economy in which a disciplined totalitarian party retains full authority (through the central

government) over non-state investment, import, export, and financial decisions.

China's neighbors are competing for many of the same world markets, as are Europe and the United States. Latin America is a particularly promising prospect. It is relatively unindustrialized and has an abundance of raw materials. Moreover, authoritarian leaders and/or corrupt oligarchies control a number of governments. Signing purchase agreements with them is much easier than dealing with the panoply of private corporations found in more democratic countries.

Challenging the United States. China's main rival for global preeminence is the United States. China sees the United States as preventing Taiwan's reunification with the mainland and thwarting Beijing's rise as a power. Previously, China was isolated, but now plays key roles in Asian geopolitics and aspires to do so elsewhere. Besides 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, and the Asia Pacific Economic Cooperation group. It also holds observer status in the Organization of American States.

While China has become the second-largest U.S. trade partner after Canada, it challenges U.S. influence wherever it can. In fact, it will soon have more attack submarines than the United States, with the addition of four Russian *Kilo*-class subs and new diesel-electric vessels equipped with technology that will allow them to run quieter than nuclear submarines.¹

According to former U.S. Ambassador to Beijing James Lilly, "[T]he facts are that [the Chinese] run massive intelligence operations against us, they make open statements against us, their high-level documents show that they are not friendly to us." Chinese military white papers promote power projection and describe U.S. policies as "hegemonism and power politics."²

In the Western Hemisphere, the Chinese are taking advantage of failures of half-hearted market reforms and Washington's unwillingness to

1. See Michael Kilian, "U.S. report warns of China sub threat," *Chicago Tribune*, August 11, 2005, p. 4.

pursue neighborhood relations with much enthusiasm. National Defense University professor Cynthia A. Watson notes, “[T]he 1990s turned into a period of severe disappointment as free markets led to rampant corruption and unfulfilled expectations in Latin America while Washington became the world’s superpower rather than a partner for the region.”³

Isolating Taiwan. Since the 1949 civil war, Taiwan has been separate from the PRC, and the PRC views Taiwan as a “renegade province” that must be reunified with the rest of China. Part of Beijing’s plan to bring it back into the fold has been to isolate Taiwan diplomatically. In the 1950s, most of Latin America had diplomatic relations with Taiwan. Then, Cuba’s Fidel Castro regime established ties with China in 1960. In the 1970s, Chile led a major shift in favor of the PRC. Currently, only 25 countries accord Taiwan diplomatic status, and one-fourth of them are in Latin America: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Paraguay. Taiwan pays dearly for this recognition, providing development aid and disaster assistance to these states.

Frequent Flyers

Science, sports, and military exchanges characterized Chinese–Latin American relations in the 1980s. Economic relations did not develop significantly until after 1990. A year after China repressed dissidents in Tiananmen Square, President Yang Shangkun visited Latin America. His trip heralded the beginning of an increasing number of high-level missions to lay the foundation for what he described as “a new international political and economic order.”⁴

The pace picked up at the turn of the century. In April 2001, Chinese President Jiang Zemin pre-

sided over a 12-day mission to cement economic and trade ties, as well as attack what he called Washington’s “unipolar” scheme.⁵ His itinerary included Argentina, Uruguay, Brazil, Cuba, and Venezuela. Li Peng, chairman of the Standing Committee of the People’s National Congress, followed up with more visits in November 2001. In November 2004, President Hu Jintao flew to Argentina, Brazil, Chile, and Cuba, where he signed 39 bilateral agreements and announced \$100 billion in investments over the next 10 years. In May of this year, Communist Party Chairman Jia Qinglin visited Colombia, Mexico, Uruguay, and Cuba.

Building on simple commercial agreements, China has advanced to economic assistance, direct investment, a few joint ventures, and military ties. When Argentina’s financial collapse rippled through South America’s Southern Cone, China quickly seized the chance to increase its stake in Argentina and Brazil, while U.S. investment declined by nearly half. Joint ventures include partnerships with Great Dragon Telecom in Cuba as well as Colombia. China is partnering with Brazil to improve that country’s railways and establish a rail link to the Pacific to cut transportation costs of iron ore and soybeans. Chile’s congested port at Antofagasta may get a facelift thanks to the PRC.

To meet domestic industrial needs and consumer demand, China has pursued investments and agreements with such oil producers as Venezuela, Ecuador, Colombia, Argentina, Brazil, and even Mexico. The best fit is with Venezuela’s authoritarian leader Hugo Chávez, who directly controls the state oil industry. President Chávez has invited the Chinese National Petroleum Corporation (CNPC) to participate in exploring the rich Orinoco belt. Meanwhile, the CNPC has invested \$300 million in

2. Jane Bussey and Glenn Garvin, “China Exerting Regional Influence, Analysts Warn of Political, Strategic Challenges to U.S. in Latin America,” *The Miami Herald*, April 15, 2001, p. A1, at www.latinamericanstudies.org/cuba/china-influence.htm (October 13, 2005).
3. Cynthia A. Watson, Ph.D., testimony to the Subcommittee on the Western Hemisphere, Committee on International Relations, U.S. House of Representatives, April 6, 2005, at www.house.gov/international_relations/109/wat040605.pdf (October 7, 2005).
4. Xinhua News Agency, “Beijing Liaowang Number 15,” April 9, 2001, pp. 3–4, cited in “Chinese Infrastructure Projects in Latin America,” *Intellibridge*, July 19, 2004, p. 2.
5. Bussey and Garvin, “China Exerting Regional Influence.”

technology to use Venezuela's Orimulsion fuel in Chinese power plants.

For now, Venezuela plans to increase exports to China by 300,000 barrels per day and recently signed an agreement with Colombia to build a pipeline to the port of Tribuga on the Pacific coast, since supertankers cannot pass through the Panama Canal. An additional proposal with Panama would modify a Panamanian oil pipeline to facilitate shipping oil to the Pacific coast. On his 2004 visit to Beijing, President Chávez said shifting exports to China will help end dependency on sales to the United States.

In 2003, China bid on concessions to Ecuador's major oil fields. The same year, the CNPC acquired a stake in the Argentine oil and gas firm Pluspetrol, which operates fields in northern Argentina and Peru. Although Mexico's constitution prohibits foreign investment in Pemex, a boost in petroleum exports is expected to address Mexico's trade gap with the PRC. While China has no current profile in Bolivia, a future populist president, such as Evo Morales, could find China's presence ideologically acceptable in lieu of Western private investment.

On the military front, China has expanded ties through exchanges. It reportedly has direct military-to-military relations with Venezuela, Argentina, Chile, Peru, and Uruguay. The PRC began collaborating with Brazil on spy satellite technology in 1999, providing rocket launch expertise in exchange for digital optical technology that would permit high resolution, real-time imaging. Moreover, access to Brazil's space tracking facilities could give China the ability to attack U.S. satellites with a variety of technologies currently under development.

Perhaps the most fruitful collaboration has been with dictator Fidel Castro. In 1999, China was reportedly intercepting satellite signals from facilities in eastern Cuba. In 2000, it obtained access to a base outside of Havana to intercept U.S. tele-

phony. In 2001, Russia announced that it would abandon its extensive electronic espionage center at Lourdes. PRC personnel reportedly now occupy it. A February 2004 agreement cloaks such operations under the pretext of technical communications cooperation. In fact, Radio China International signals originate from Cuba, as does interference with U.S. East Coast radio communications and air traffic control, according to Federal Communications Commission complaints.⁶

Closer Ties: Boon or Bane?

From Latin America's perspective, expanding relations with China might seem like a good idea. It offers the following advantages:

- **Prestige.** Dealing with China, a major world power, elevates a small country into the big leagues of global actors. It supplies respect for those living in the shadow of the prosperous U.S. colossus. The novelty of frequent high-level Chinese visits suggests that American leaders, who visit less often, have ignored the region.
- **Deals with few requirements.** China can bargain on the spot without a lot of caveats. Its transactions are based on simple exchanges. Their leaders have broad authority to negotiate foreign deals without worrying about legislative oversight, the rule of law, or altruistic objectives. Unlike Western leaders, Chinese leaders represent state monopolies—which mesh well with Latin American government ownership or management of telecommunications, mining, and energy industries. They do not need to build up Latin American trade capacity to deal with diverse businesses.
- **Leverage against Uncle Sam.** China's expanding industries are a temporary boon to resource-rich Latin America. Exports (mostly commodities) to China have grown by more than 600 percent in five years.⁷ Compared with U.S.–Latin America trade (\$410 billion in

6. Albert Santoli, "China's Strategic Reach into Latin America," testimony before the U.S.–China Economic and Security Review Commission, Washington, D.C., July 21, 2005, at www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/santoli_albert_wrts.htm (September 18, 2005).

7. Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," Congressional Research Service, April 20, 2005, p. 2, at www.milnet.com/archives/China-Latin-America-7B6C19.pdf (October 18, 2005).

2004), China's \$40 billion trade with the region might seem inconsequential.⁸ However, Chinese trade and investment gives Latin politicians and business elites, who largely control commodities, a bargaining chip when dealing with the United States.

However, closer ties to China also have significant disadvantages for both Latin America and the United States:

- **Growing trade deficits.** Latin American leaders who sign trade and investment deals with the PRC have noticed that China's exports are more affordable than their own goods, which contributes to trade deficits. Chinese goods are made by laborers who work for one-third of the wages of Latin American counterparts and who tolerate worse working conditions. Officials in Argentina, Brazil, and Mexico have signaled their unease about trade with such a hot competitor. In September 2005, Mexican President Vicente Fox made it clear to visiting President Hu Jintao that dumping electronics and clothing was unacceptable. For every dollar that Mexico makes from exports to China, the PRC makes \$31 from exports to Mexico.⁹
- **Disinterest in economic reform.** Some analysts believe that the commodities-based trade model used by China will undermine the progress that Latin America has made toward industrialization. While countries like Chile and Brazil have moved beyond raw materials exports, others with powerful presidents or ruling oligarchies may be tempted to fall back on plantation economics. Income gaps between the rich and poor may widen as a result. Moreover, such narrowly focused economies are vulnerable to downturns in commodity prices. Some 44 percent of Latin Americans already
- live below the poverty line. If these countries fail to adopt reforms, social inequality and political instability could depress U.S. exports to the region and increase migration problems.
- **Scramble for resources.** To obtain commodities, China offers tempting investments in infrastructure. In contrast, the United States cannot offer direct tie-ins to state industries and can only offer development aid, now in decreasing amounts. Chinese competition may make Millennium Challenge Account (MCA) money a less effective incentive to democratize governments and liberalize markets. The one-to-two year lead time from proposal to disbursement of MCA aid gives volatile governments a chance to back away from market-oriented performance requirements.
- **Evasion of American-style bottleneck diplomacy.** China's flexibility counters more rigid U.S. approaches. Obtaining any kind of assistance from the United States requires compliance on a battery of restrictions, including observing human rights, protecting the environment, promising not to send U.S. military personnel to the International Criminal Court (ICC),¹⁰ not assisting current or former terrorists, and not using U.S.-provided equipment for any other than its stated purpose. American commitments also depend on legislative approval and can be reversed if the mood in the U.S. Congress shifts.
- **Prying eyes on America.** From electronic espionage facilities in Cuba to port facilities run by Hong Kong billionaire Li Ka-Shing's Hutchison-Whampoa conglomerate in Panama, China has an eye trained on the United States. U.S. intelligence agencies are aware of this, but Washington's penchant for focusing on one threat at a time, such as the war on terrorism, could leave America vulnerable to Chinese

8. See U.S. International Trade Administration, "U.S. Aggregate Foreign Trade Data," Table 6 and Table 7, at www.ita.doc.gov/td/industry/otea/usfth/tabcon.html (September 18, 2005).

9. James C. McKinley, Jr., "Mexico Builds Trade Ties with China," *The New York Times*, September 13, 2005, p. A3.

10. Signing an Article 98 agreement—named after a section of the Rome Statute of the International Criminal Court—with the U.S. exempts U.S. service personnel from jurisdiction under the ICC. America's reservations are justifiable since the court is accountable to no one and uses legal procedures incompatible with U.S. law. Congress and the White House approved a law that would bar security assistance if governments refused to sign.

industrial and military espionage.

What the U.S. Should Do

The United States and China have competing interests in Latin America. Washington would like to see its hemispheric neighbors develop into stable, democratic, prosperous trade partners that embrace the rule of law. Beijing sees the region as a source of raw materials, a market for manufactured goods, and a platform for power projection. U.S. interests probably coincide more with Latin American needs. In contrast, China represents an opportunity to temper American dominance with broader alliances.

Regrettably, Chinese aid and commodity imports may buy time for state industries, powerful presidents, and influential oligarchs. Most of all, such commerce could delay needed reforms and industrialization that might lift Latin America's near majority underclass out of poverty.

America's strength is competition, and it should influence the rules of the game in that direction. As a good neighbor and in its own and Latin America's interests, the United States should:

- **Accelerate free trade agreements.** Free trade agreements have been the hallmark of U.S. policies toward the region since the 1990s. As an inducement, America should drop its agricultural and steel subsidies that dissuade potential partners and cost taxpayers money. Improved U.S. trade relations with Andean neighbors (and eventually Southern Cone countries) will open market access for both U.S. and Latin American enterprises and provide an outlet for industrial growth.
- **Adopt more comprehensive relationships.** Single-issue diplomacy that emphasizes U.S. interests, such as counternarcotics, leaves vacuums in other areas such as security assistance and trade capacity development that other powers can fill. Plan Colombia is working because the United States is helping Colombia to combat terrorism, expand public safety zones, strengthen institutions, reactivate the

economy, and promote rural peace.¹¹

- **Cut red tape on assistance.** This policy should be followed to the greatest extent possible. Performance requirements are blunt instruments that do not cover every situation. Constraints such as annual certifications on counternarcotics cooperation and Article 98 letters that withhold security assistance occasionally backfire by withdrawing support for allies in areas of mutual interest. If Congress considers such restrictions absolutely necessary, it should tailor them to suspend only economic aid that is not crucial to immediate U.S. interests.
- **Press harder for reforms and use public diplomacy.** Once Latin America had elected leaders and fledgling markets in the 1990s, U.S. support for democracy and economic reforms declined. Although each country is responsible for solving its own problems, external pressure can encourage progress. U.S. public diplomacy, which is mostly reactive toward Latin America, should be strengthened and more supportive of U.S. development goals.

Conclusion

The United States has become the greatest power in the world based on its tradition of free choice. Choice goes hand-in-hand with competition, because these keep markets vibrant and governments accountable. In a globalized world, democracies have relations with whom they wish and nation-competitors such as China cannot be blocked from visiting the Western Hemisphere. However, the United States can best look after its regional interests by cultivating closer political and security ties with neighbors, advancing free trade, and encouraging respect for the rule of law and liberal economic principles among all players—including China.

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11. See Stephen Johnson, "Helping Colombia Sustain Progress Toward Peace," Heritage Foundation *Backgrounder* No. 1887, October 19, 2005, at www.heritage.org/Research/LatinAmerica/bg1887.cfm.