

China and Latin America
By Derek Mitchell & Chietigj Bajpae
July 2006

China has two primary interests in Latin America: gaining access to natural resources and export markets to fuel its domestic economy, and wresting diplomatic recognition from Taiwan (Republic of China). Consistent with booming growth in its global trade generally, China has a rapidly expanding economic relationship with Latin America that has helped fuel the region's development in recent years. China was the region's third largest trading partner in 2005. China conducted \$50 billion in trade and had \$6.5 billion worth of investments in the region in 2004.ⁱ Chinese imports from Latin America have grown 60 percent on average each year since 1999. In absolute terms, however, these numbers remain small compared to Latin America's economic relations with the United States -- \$195 billion in trade and about \$25 billion in investment in 2005.

While Latin America seems to need China more than China needs the region -- Latin America absorbed only 3 percent of China's exports and accounted for 4 percent of Chinese imports in 2004 -- Beijing has increasingly looked to Latin America to satisfy its critical raw material needs, buying vast quantities of bauxite, copper, iron ore, manganese, soybeans, timber, tin, and zinc from the region. Now the world's largest consumer of copper, China receives about 20 percent of its copper imports from Chile, for instance.ⁱⁱ

China relies little on Latin America for its energy needs, and this is unlikely to change significantly in the future. Latin America currently supplies only 3 percent of China's oil imports. This percentage is likely to grow somewhat, as the PRC has signed oil-related contracts with Brazil, Cuba, and Venezuela, and is exploring deals with Argentina, Bolivia, Columbia, Ecuador, and Peru.

China's growing economic engagement with Latin America has not been entirely positive for the region. Mexico lost more than 200,000 textile and factory jobs to China between 2000 and 2004, and a growing number of Mexicans are betraying concern about alleged unfair competition from China.ⁱⁱⁱ Argentine and Brazilian manufacturers also face stiff competition from Chinese imports, although Brazilians overall view their economic relations with China positively. President Hu Jintao pledged in 2004 that China would invest \$100 billion in the region over the next decade; lackluster follow-through, however, has frustrated regional states and raised questions whether China's promised contributions to regional development will be met. Overall, China and Latin America have complementary rather than competing economies given China's need for raw materials, which Latin America has supplied, and Latin America's need for cheap manufactured goods, which China has provided.

China's economic engagement has helped facilitate its political relationships in the region, although economic ties remain far ahead of politics. Hu Jintao and other senior leaders have steadily increased their visits to the region in recent years. In April 2001, President Jiang Zemin conducted a 13-day tour of Latin America; Hu Jintao visited four Latin American states in November 2004 (a trip connected to the APEC Summit meeting in Santiago, Chile, at the time). In 2005, Vice-President Zeng Qinghong visited the region in March, Communist Party Chairman Jia Qinglin toured the region in May,

and Hu Jintao visited Mexico in September. President Hu has touted a “new era” in Sino-Latin American political relations, with particular emphasis on enforcing a “One China policy” with respect to Taiwan (see below), and achieving “market economy” status to acquire greater protection under WTO rules against anti-dumping duties on its exports.

China’s most important relationship in the region is with Brazil, with which China shares common goals of seeking a leading role in international affairs and constraining U.S. power. In 1994, China and Brazil termed their relationship a “strategic partnership,” a designation that reflects less the depth of current ties than China’s interest and aspiration to develop the relationship in the future. In recent years, the two sides have cooperated in satellite technology, energy and infrastructure development, and aircraft manufacturing, among other ventures. They have joined together as leaders of the “Group of 20” within the Doha Round of negotiations within the WTO to demand agricultural safeguards for less-developed nations. Despite such cooperation, China has not supported Brazil’s bid for permanent membership on the UN Security Council, an elite club of which China is a member and that China apparently would prefer remain exclusive.

China has also placed particular emphasis on its relations with Argentina, Chile, and Mexico, with whom China also has concluded strategic partnerships. Nonetheless, relations have varied with each state. Argentina is ambivalent about China’s growing economic influence in the region, for instance: while China and Argentina have a burgeoning trade and investment relationship, Argentina has a diverse export portfolio, while its manufacturers are subject to import competition from China in the fields of footwear, textiles, consumer electronics and toys. Between 1995 and 2004 Argentina was responsible for one-tenth of anti-dumping cases brought against China at the WTO. Chile and China, meanwhile, share cordial relations fueled by their growing economic interdependence and depoliticized interactions. China’s relations with Mexico have deepened considerably in recent years fuelled by their growing bilateral trade (Mexico is China’s second largest trading partner in Latin America) and shared views of the international system. However, Sino-Mexican relations have also been subject to frictions in recent years given China’s growing trade surplus with Mexico and competition from Chinese manufacturing and textiles, especially in the U.S. market where China has overtaken Mexico as the second largest source of U.S. imports.

Although Venezuela’s overtures to China have caused concern to some U.S. observers, China’s economic relationship with Venezuela is relatively weak, constraining political ties. The great distance and high costs of transporting goods from Venezuela to China complicates President Hugo Chavez’s attempts to reduce his country’s dependence on the United States, as does the requirement that China refit its refineries to process Venezuela’s heavy crude oil. China thus only receives slightly more than one percent of its oil imports from Venezuela, an amount that, while small, constitutes a substantial export market for Venezuela. China is also quite wary of appearing to lean too closely toward a nation whose leader, Hugo Chavez, so openly opposes the United States.

China’s relations with Cuba have undergone significant evolution in recent years. They were adversaries during the Cold War given Sino-Soviet tensions, although their relations improved considerably following the collapse of the Soviet Union. Trade between the two sides remains modest, although China has emerged as Cuba’s second-

largest trading partner fueled by China's interests in Cuba's nickel reserves; the third largest in the world. Nonetheless, China's relations with Cuba have placed more emphasis on the rhetoric of shared ideology rather than substance. The lack of substantial economic interests in Cuba, and general Chinese disinterest in playing political games against the United States on a highly sensitive matter, have limited the extent of ties: during Hu Jintao's last trip to the region, for instance, he spent the least time in Cuba, and signed no significant agreements with the country comparable to those signed in Argentina, Brazil and Chile.

As elsewhere, China has used its growing economic and diplomatic weight in the region to isolate Taiwan and enforce a "One China policy." Twelve of the 26 countries that still grant diplomatic recognition to Taiwan are in Latin America, with all but one (Paraguay) located in Central America and the Caribbean.^{iv} China and Taiwan continue to engage in "dollar diplomacy" in the form of aid and infrastructure projects to compete for recognition. China has used its role as a formal observer at the Organization of American States (OAS) to prevent Taiwan from gaining observer status at the forum and to foster relations with member-states that grant diplomatic recognition to Taiwan.

China's outreach to Latin America is consistent with its vision of an evolving multi-polar world and with its historical self-conception as a leader of the developing world. Beijing has made numerous good-will gestures to win sympathy and support, such as the deployment of a "special police" UN peacekeeping contingent to Haiti in September 2004, China's first military deployment to the Western hemisphere. Yet economic rather than ideological considerations drive Chinese foreign policy in the region, and its influence other than economic remains limited.

Derek Mitchell is a Senior Fellow for Asia in the CSIS International Security Program (ISP).

Chietigj Bajpae is a Research Associate for Asia in the CSIS International Security Program.

Research assistance provided by Jonathan Czin, Intern for Asia in the CSIS International Security Program.

ⁱ Jorge Dominguez, "China's Relations with Latina America: Shared Gains, Asymmetric Hopes," *Inter-American Dialogue Working Paper*, June 2006.

ⁱⁱ China and Chile also concluded a free trade agreement in November 2005, which will go into effect in July 2006, the only such agreement that has been reached between China and a Latin American country.

ⁱⁱⁱ *Ibid.*, p. 39.

^{iv} The 12 nations include Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines.