



Latin American and Caribbean Center
FLORIDA INTERNATIONAL UNIVERSITY

China-Latin American and Caribbean Relations & U.S. Policy Response

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Delivered as part of the LACC/ARC/U.S. Southern Command Policy Roundtable Series
April 28, 2014
Miami, Florida

The Core of the Relations: The Economic Sector

China-Latin America and Caribbean relations have been growing dramatically since the beginning of the new century, particularly in the economic arena. Trade has been expanding exponentially in the last fifteen years. It has been frequently argued that despite this remarkable trade growth, the region's trade with China is still less relevant than the region's trade with the United States. This, however, would be misleading. China is now the first or second most important trade partner of most countries in the region, and this is a structural change.

On a more qualitative note, it must be stressed that the trade pattern is one of the region exporting mostly raw materials and commodities such as minerals (iron from Brazil and Argentina, copper from Chile and Peru, nickel from Cuba), oil from Venezuela and food staples from the River Plate basin (soybeans from Argentina and Brazil and increasingly from Paraguay, Uruguay and Bolivia), and importing mostly manufactured goods from China. This classic trade pattern (historically denounced by Raul Prebisch and ECLAC, the dependency theory school of thought, and writers such as Eduardo Galeano) is a source of tension and worry. Nevertheless, Latin American countries without a commodity that is in demand in China, such as Mexico, find themselves in a precarious and serious situation, and have accumulated significant trade deficits with China. China has also signed three free trade agreements with Chile, Peru and Costa Rica, despite the noted cultural divide and significant geographical distance between the regions.

Chinese investment, particularly after 2008, is also expanding in Venezuela, Brazil, Peru and Argentina. China is very focused in keeping an undisturbed flow of oil and minerals and soybeans coming to them from the region. It is no surprise that China already plays an important role in Venezuela's oil sector and is also quite interested in becoming a player in Vaca Muerta,

the monster shale gas and oil field in Argentina's Patagonia region, which boasts the second largest reserves in the world of shale gas and the fourth largest in shale oil.¹

China is also engaging in currency swaps with Argentina and buying Costa Rican external bonds. Chinese loans to the Latin American and Caribbean region are also on the rise, fueled by China's liquidity and by a "no strings attached" policy that entice borrowers when compared to the Inter-American Development Bank (IADB), the World Bank (WB) or the International Monetary Fund (IMF). It has been found that in 2013 China's loans to the region outnumbered Washington-based multilateral loans.

In 2008 it was announced that China was accepted as a member of the Inter-American Development Bank (IADB), a goal that China pursued relentlessly for 15 years. At the beginning of the 2008-2009 financial crises, a Chinese contribution of several hundred millions of dollars helped to ameliorate economic pressure. As a member of the IADB, Beijing has access to reliable and specialized economic analyses of the region and is involved in government procurement and bidding on infrastructure and logistics projects, for example.

Political Relations & "Soft Power"

The political dialogue between China and the region is quite fluid. China has also nurtured contact and exchange between the Chinese Communist Party and more than 120 political parties in most countries of the region. China has established a number of "strategic" partnerships with key Latin American countries, such as Brazil, Mexico and Argentina. While the exact meaning of "strategic" is not that clear, variation in usage exists. China shares membership in APEC with

¹ U.S. Energy Information Administration, "Technically Recoverable Shale Oil and Gas Resources," June 13, 2013.

Mexico, Chile and Peru; in BRICS with Brazil; and in the G-20 with Brazil, Mexico and Argentina. Most Latin American countries usually restrain themselves from criticizing China on human rights, even countries that have made human rights a priority, such as Chile, Argentina and Brazil.

A decade ago, China was accepted as an observer in the Organization of American States (OAS), the L.A.C. region's historic and preeminent organization. An attempt by Taiwan to be admitted to the OAS was successfully blocked by China. China has become an active observer and important donor, even contributing to the support of electoral observation missions, one of the most highly-regarded activities of OAS.

In 2008, China produced a white paper on Latin America, which served as a general road map of relations between China and the region. More than two hundred experts and policy makers likely took part in the preparation which lasted more than one year. The November 5, 2008 release shows remarkable timing: the day after the U.S. presidential elections. China did not want to become caught up in presidential debate, although then-candidate Barack Obama mentioned China's presence in the region during the September 2008 debate.

The first China-CELAC meeting is scheduled to take place before the end of 2014, in Beijing. but it has been delayed mainly due to Chinese restraint to deploy an overly politicized initiative in the "backyard" of the U.S. President Obama's "pivot" to Asia, however, made China react to what has been perceived as encirclement, as in the ancient game of *Weichi*. This new desire of China to increase its profile in the region was clear in Wen Jiabao travel to the region and particularly in his speech to ECLAC in Santiago, Chile.

It is worth to mention two of China's special bilateral relations—Cuba and Venezuela. Despite the fact that during the split between the Soviet Union and China, Cuba opted for the former, in recent years the relationship with Cuba has flourished. Although Cuba's main economic partner is Venezuela (due to oil imports), China remains in a privileged second position. In fact, China's impact in Cuba is far-reaching, from transportation to communications to mining (nickel). It is worthwhile to question whether China is in fact the number one economic partner; however, to make this claim would raise U.S. concerns.

There has also been speculation about Chinese use of Lourdes and Bejucal signals facilities based in Cuba, but there is no reliable open source confirmation. Despite Cuba's proximity to the United States, conflict continues and has been compared with that between China with Taiwan. Keeping both cases in mind, it is useful to explore possible connections, under certain conditions. Although this “mirror” situation appears to have many common elements has on the surface, it remains intrinsically different, both politically and strategically.

Since the proclamation of the People's Republic of China by Mao Zedong in Tiananmen Square on October 1, 1949, there has been a protracted struggle for diplomatic recognition between Beijing and Taipei. Still today, roughly half of the international support of Taiwan comes from countries in the Caribbean, Central America and Paraguay (the only country in South America that still supports Taiwan). Switching recognition, and frequently related episodes of corruption, have been a sport in the region, but since the Ma presidency in Taiwan there has been a gentleman's truce between China and Taiwan, only broken with the switch of Costa Rica, that fractured the solid Central American block of Taiwanese support.

China also has extensive economic engagement in Venezuela, in particular investment and loans but is resisted Chavez's attempts to enlist Beijing support as an external balancer vis-à-vis his confrontation with the United States.² So far, president Maduro seem to be less capable of doing the same.

Probably no other country in the world, with the obvious exception of the United States, has been so interested in the concept of soft power than China. This is demonstrated by the dramatic expansion of Confucius Institutes (C.I) around the world. In the region, in the last ten years, more than 30 C.I.s have been created-counting both formal institutes and Chinese language "classrooms."

U.S. Reactions Towards China's Growing Presence

While China's expansion in the region has been and is debated almost daily in the press, and remains of academic interest, U.S. reactions, although important, are less well known and not studied. A reason for this has been U.S. engagement in the war on terrorism after September 11, and the major wars in Iraq and Afghanistan. It has been argued that there is no such a thing as a U.S. policy towards Chinese engagement in the region. The policy exists, however. An important moment took place in April 2006. Then Assistant Secretary for Western Hemispheric Affairs, Thomas Shannon, visited Beijing to talk with his Chinese counterparts about Latin America. It is important to notice, too, the timing of the dialogue. The first round of dialogue took place just weeks before the historic first official visit of Hu Jintao to Washington. The meeting was publicly known but the content was not. The focus of discussion intended to develop a clearer

² Please see my chapter "China-Venezuela: Oil, Technology, and Socialism," in A. H. Hearn and J. L. León Manríquez (eds), *China Engages Latin America: Tracing the Trajectory*, Boulder: Lynne Rienner Publishers, July 2011, pp. 221-234.

understanding of each position regarding the region in order to avoiding misunderstandings. The United States accepted that China has a legitimate interest in the economic realm in the region, but wanted to prevent the consolidation of any regional block against U.S. foreign policy and national interest. Additionally, there were concerns about potential losses in the political realm, such as the erosion of L.A.C. democracies, human rights and rules of law and increased corruption. Among the issues discussed were Cuba and Venezuela. Clearly, both powers considered the bilateral relations as the single most important relationship in the world and shared an interest in the prevention of conflict escalation and control of potential triggers for strategic competition and violence. Thus, the initial bilateral dialogue created a new status quo as part of an implicit or explicit pact for stability and acceptable behavior.

China wanted to make known its interest in the continuity of the political transition in Cuba without U.S. interference. The United States was very concerned about China's relations with Venezuela. Caracas's campaign to obtain the non-permanent chair at the United Nations Security Council was also of concern to Washington.

The creation of this dialogue is a noteworthy event in U.S.-Latin American relations and in U.S.-China relations. Since the times of the Monroe Doctrine (1823), the United States has considered the region as its own sphere of interest. Despite efforts to downplay the dialogue and consider it as simply a part of the comprehensive strategic bilateral dialogue between China and the United States, the "sub" dialogue on Latin America is a departure from previous historical policy. It symbolizes acceptance of China's new status as a major player in a region outside of its immediate proximity.

China is well aware of US predominance in the region and frequently the press and even some scholarly articles consider the region as the United States' "backyard." There is an important difference, however, between China's use of "backyard" with that of Japan and South Korea, for example. Japan and South Korea never challenged the preeminence of the U.S. in the region and, in some instances even supported it. China recognizes "backyard" as a fact, but it will not work to support it, having refused most U.S. proposals for cooperation in the region. To engage in common cooperative projects with the United States carries with it the very concrete risk of being perceived in the region as establishing a "condominium" or "G2" in the region, something that China has always tried to avoid.

In my talks with Latin American and Caribbean academics and policymakers, many expressed the view that the US was attempting to impede Chinese inroads in the region, but that this attempt was doomed to fail: "*no la van a poder parar*" (they will be unable to stop China).

In my view, this perception of U.S. policy is mistaken. The United States is not attempting to stop China's activities in the region. Instead, Washington has been trying *to shape* China's behavior in a way that is consistent with U.S. national interest, strategic goals and even values. A nice metaphor that I have used before to illustrate this policy of *shaping* is Machiavelli's discussion of *Virtù* and *Fortuna* in chapter 25 of *De Principatibus* (The Prince). Machiavelli compared *Fortuna* with the force of a swollen river, destroying houses, flooding the agricultural areas, killing cows, horses and people. Once calm returns, with good weather (*quando sono I tempi quieti*), men of virtue create dams, walls, and channels so when the river rises again, the massive force will be redirected in effective ways. Policymakers in Washington's response to China *Virtù* took the form of *shaping* rather than blocking.

So, the next question is: has the US achieved this goal? A tentative answer would be that China's behavior has shown so far remarkable restraint but necessarily because of U.S. shaping policies. Chinese policies have been shaped by its own interest and strategic priorities and visions, and less by U.S. policy. Thus, the implicit or explicit bilateral pact mentioned has been so far relatively easy to sustain and honor.

Conclusions

China presence in Latin and the Caribbean is already extremely important and continues to grow. This is particularly true in the economic realm (trade, investment, finance). Expanding economic engagement also provides new opportunities for friction and disagreement. Political dialogue is fluid and regular. Institutional framework has been established at the bilateral level between China and many countries in the region, but at the multilateral level China has shown some reluctance. However, there is some progress in this area as China and CELAC are scheduled to have their first meeting in November/December 2014 in Beijing. United States preoccupation with other more pressing global commitments has directed attention away from China's relations with Latin America; nevertheless, since 2006 Washington and Beijing have institutionalized an annual bilateral dialogue about the region helping to achieve an implicit and explicit "code behavior" for their relationship vis a vis Latin America and the Caribbean.

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