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Strategies, Aims and Limits

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Electronic version

URL: <http://journals.openedition.org/chinaperspectives/3053>

DOI: 10.4000/chinaperspectives.3053

ISSN: 1996-4617

Publisher

Centre d'étude français sur la Chine contemporaine

Printed version

Date of publication: 1 November 2006

Number of pages: 2-11

ISSN: 2070-3449

Electronic reference

François Lafargue, « China's Presence in Latin America », *China Perspectives* [Online], 68 | november-december 2006, Online since 01 December 2009, connection on 28 October 2019. URL : <http://journals.openedition.org/chinaperspectives/3053> ; DOI : 10.4000/chinaperspectives.3053

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EDITOR'S NOTE

Translated by Philip Liddell

- ¹ For its first fifty years the People's Republic of China (PRC) took little interest in Latin America¹. The United States exercised unrivalled political and economic power in the region, and is still the dominant influence². While Cuba established diplomatic relations with China from 1960 onwards, most Latin American governments waited until President Nixon's visit to Beijing in February 1972 before recognising the People's Republic: in 1972 Argentina and Mexico recognised the PRC, followed by Brazil two years later and, later still, Bolivia in 1985. This period of relative indifference was now at an end. President Hu Jintao's visits, towards the end of 2004, to Brazil, Argentina, Chile and Cuba and, a year later, to Mexico attested to Beijing's interest in the region³. While numerous studies have focused on China's policy towards Africa, its role in Latin America is less frequently touched upon. Yet, its growing presence there is of the greatest economic and geostrategic significance; and raises concerns and anxieties both in Latin America and in the United States, where Beijing's interference in the region has aroused something less than enthusiasm. In media and political circles, periodic alarms have been sounded over the Chinese presence in America's "back yard"⁴. Washington's fears have been strengthened over the past year with the electoral triumphs of Michelle Bachelet in Chile, Alan García in Peru and then Lula da Silva in Brazil, all of whom are openly seeking closer relations with Beijing.

China in Latin America: a growing influence

- ² China's influence in Latin America can be evaluated in two ways. From the outset, one objective consideration must be noted: so far, China's presence is limited. As a proportion of China's overall trade, Latin America represents only 3.55%—a modest total as yet⁵. According to Chinese government data, in 2004 less than 18% of all China's

Foreign Direct Investment (FDI), that is US\$8.2 billion⁶ worth was placed in Latin America. And China's share of the incoming flow of FDI amounted to only 6%⁷. Yet this data has to be treated with caution. On a careful reading of the MOFCOM statistics, it appears that China's investment in the region is mainly concentrated on the Cayman Islands and the Virgin Islands, both of which are notorious as tax havens. In all probability, this capital is sent back to mainland China for reinvestment, qualifying now for the benefits accorded to foreign investors. When this investment in the Caymans and the Virgin Islands is excluded, Latin America receives no more than 1.5% of China's overall FDI. And a comparable figure is suggested by UNCTAD⁸: in 2002, China invested US\$653 million overall, 1.5% of its total outward investment. But these figures do not reflect the rapid expansion of financial relations between Beijing and Latin America. China's total foreign investment in 2005 is put at US\$6.9 billion, bringing the cumulative figure for its investment across the world to US\$50 billion. And, since 2003, China has signed public and private investment projects in Latin America, detailed below, worth nearly ten billion dollars in all. In November 2004, in Brasilia, President Hu addressed members of the National Congress promising that China would be investing US\$100 billion in the region over the next ten years. The promise is in the process of being fulfilled.

- 3 At the same time, the volume of bilateral trade is increasing exponentially, from US\$12.6 billion in 2001 to US\$40 billion in 2004, settling at over US\$50 billion in 2005 (see Table 1). By 2010 the figure of US\$100 billion should have been reached. China's main trading partners are Brazil, Mexico and Chile, who between them represented 62.2% of all exchanges⁹ in 2004 (charts 1 and 2). Data provided by MOFCOM is set out in Tables 1 and 2; it is used as reference material for the international institutions. But most Latin American countries reject these figures, putting China's exports to them at lower levels. And the gap may be significant. There is a simple reason for this underestimate. A large proportion (12%) of China's exports to the region are officially destined for Panama—rather surprisingly, considering Panama's small population (3 million) and the fact that it does not maintain diplomatic relations with Beijing. The truth is that Panama performs on the American continent a role comparable to that of Hong Kong in Asia (an area where industrial products are assembled and China's exports are packaged) and is in reality no more than a point of transit.
- 4 It is also worth noting that Mercosur or, in English, the Southern Common Market (linking Argentina, Brazil, Paraguay, Uruguay and Venezuela) allows for Chinese goods to be circulated far from its initial destination¹⁰. China's interest in Latin America may be explained in terms of three imperatives: oil supplies, minerals and agricultural products.

1. Trade between Latin America and China (US\$ billion)

	2000	2003	2004	2005
Exports from the PRC	7.2	11.9	18.2	23.7
Imports to the PRC	5.4	14.9	21.8	26.8
Total	12.6	26.8	40	50.5

Source : MOFCOM and the UN, *Op cit.*

2. China's share in Latin American countries' trade in 2004 (US\$ billion)

	China's share of exports	Ranking among trading partners
Argentina	7.7 %	4th
Brazil	5.6 %	4th
Chile	10.4 %	3rd
Mexico	0.3 %	15th
Peru	10.2 %	2nd
Venezuela	0.8 %	5th

Source : Report of the Economic Commission for Latin America and the Caribbean (ECLAC): *Panorama de la inserción internacional de América Latina y el Caribe, 2004, 2005, p.151.*

3. Top five recipient countries of Chinese exports in Latin America (2004)

Source : Ministry of Commerce of the People's Republic of China (Mofcom) and the UN:
<http://unstats.un.org/unsd/databases.htm>

4. China's top five suppliers in 2004

Oil supplies

- 5 By 2002, China had become the world's second biggest consumer of oil, after the United States but ahead of Japan. And between 2000 and 2005, Beijing moved up from ninth to

third place among the world's oil importers. These foreign purchases, representing nearly one-third of China's oil consumption in 2000 and rising to one-half today, is likely to reach 60% between now and 2010. So China has committed itself to a policy of diversifying its supplies of hydrocarbons by investing in Africa, (Sudan and Angola in particular), Central Asia and Latin America.

- 6 Latin America, with 9.7% of the world's oil reserves, was producing by 2005 8.8% of world output¹¹. For the time being, China's presence in the hydrocarbon sector remains modest. It is, admittedly, the third largest importer of Latin American oil, but lags far behind the United States in terms of volume¹². By 2005, the region provided 3.1% of China's oil supplies, 107,000 barrels per day (bpd). This may seem a small amount, but these exports were up by 28% on the previous year (83,000 bpd) and were nearly twenty times more than in 2001. An undeniable rise in importance is taking place, with Latin America's contribution to China's oil imports estimated to have doubled last year.
- 7 China has established particularly close relations with Venezuela, an oil producer in the first league. Venezuela has 6.6% of the world's oil reserves (putting it in sixth place) and 68% of Latin America's reserves (as against Mexico's 11.3%). As a producer it ranks in seventh place, with 4% of world production.
- 8 In December 2004 and again more recently in August last year, President Hugo Chávez paid an official visit to Beijing, where he and President Hu signed several agreements on economic and commercial co-operation. Bilateral trade between the two countries rose from US\$150 million worth in 2003 to US\$1.2 billion in 2004 and US\$2.14 billion in 2005. China's Vice President, Zeng Qinghong, visited Caracas in January 2005, attesting Beijing's interest in Venezuela. On that occasion, several new contracts were signed. China plans investments worth US\$350 million in the development of 15 oilfields (which might contain up to one billion barrels of oil) and US\$60 million towards infrastructure costs (building a rail network, refineries . . .). The China Petroleum and Chemical Corporation (Sinopec) and Petróleos de Venezuela (PDVSA) have also signed agreements on offshore gas exploration. Then, at the end of August 2005, the two countries formed a joint company to develop the Zumano oilfield in Anzoátegui State, which promises an output of 50,000 bpd. China has also created a US\$40 million credit line for Venezuela's purchase of agricultural equipment from China.
- 9 The volume of Venezuela's oil exports to China rose between 2004 and 2005 from 12,300 bpd to 70,000 bpd. Last year it reached 160,000 bpd¹³, a figure likely to double over the year ahead, on course to reach 500,000 bpd by 2010. By the second half of 2006, Venezuela was supplying about 5% of China's oil imports. China is its second biggest customer, after the United States, purchasing about 15% of its oil exports.
- 10 Yet, the volume of hydrocarbon exports remains restricted for the present: the Panama Canal is too narrow¹⁴ for large tankers to pass through it. The other sea route, around the Cape of Good Hope, takes twice as long (nearly 45 days) as the Pacific crossing. In May 2006, Beijing and Caracas signed a contract worth a total of US\$1.3 billion for China to supply 18 oil tankers and to provide technical aid for Venezuela to build more tankers of its own.
- 11 A further difficulty worth noting is that the Venezuelan oilfields yield a crude that is extra heavy (high in sulphur); and China's refineries are not properly equipped to process it. While Venezuela is looked on as the linchpin of China's oil strategy, Beijing does not neglect the more modest producers such as Ecuador and Peru.

- 12 Ecuador has the third largest oil reserves in South America, after Venezuela and Brazil. It produces 11.5% of South America's oil exports, ranking next to Venezuela with 74.2% and its potential is significant. Ecuador has the further advantage of a coastline on the Pacific side, which facilitates trade with Asia. In August 2003, in Ecuador, the China National Trading Corporation (CNPC)¹⁵ was granted prospecting rights by President Lucio Gutiérrez. A few months later, China National Chemical (SINOCHEN) bought 14% of an oilfield (2,200 square kilometres designated as "bloc 16") in Orellana Province from Conoco Philipps for the sum of US\$100 million. The oilfield, expected to produce 8,000 bpd for SINOCHEN, is being mainly developed by the Spanish company Repsol-YPF (55%) and the Taiwanese company Chinese Petroleum Corporation (CPC) (31%).
- 13 Lastly, in September 2005, the consortium Andes Petroleum led by the CNPC bought out the interests of the Canadian company EnCana Corporation for US\$1.4 billion—that year's third most significant financial transaction in Latin America. By means of this acquisition China will have access to oil production of 75,000 bpd (thanks mainly to the output from the Tarapoa and Shiripuno oilfields) and to reserves put at around 143 million barrels. In Peru, as early as 1993, the CNPC had acquired drilling rights in block 6 (155 square kilometres) and block 7 (184 square kilometres) of the Talara oilfield, with reserves estimated at 22 million barrels.
- 14 In Brazil, where China's investments are more limited, SINOPEC and the Brazilian firm Petrobras have pledged themselves to increase their joint ventures in foreign countries, such as Iran. In Argentina, during President Hu's visit in 2004, he promised to invest US\$20 billion over ten years, of which a quarter would go into the oil industry. Energía Argentina and a Sino-Angolan company (China Sonangol International) are jointly engaged in offshore exploration in waters off Argentina.
- 15 In 2004, the CNPC bought out the subsidiary of Grupo Pluspetrol in Peru, Pluspetrol Norte¹⁶ for a total of US\$200 million. Then in Cuba in March 2005, SINOPEC concluded a deal with Cubapetróleo (CUPET) in order to develop the Pinar del Río oilfield on the west coast of the island. Similarly, Mexico has not avoided China's envious attention, even though it is a member of the NAFTA Secretariat. The visits there by Prime Minister Wen Jiabao in December 2003 and by President Hu in September 2005 led to the signing of oil contracts. So far, Mexico is not exporting any hydrocarbons to China, but the CNPC has obtained exploration permits.
- 16 Beijing's presence in Bolivia is still modest; but this country, with its significant gas reserves¹⁷, could also in the long run become an important supplier. The triumph in the 2005 presidential election of Evo Morales, a harsh critic of the United States, might seem to favour a rapprochement with China. In January 2006, Morales undertook a ten-day foreign tour, taking in Cuba, Venezuela, Spain, France, China, South Africa and, finally, Brazil. While he was in Beijing, he met President Hu and pressed China to come and invest in Bolivia. Above all, the decision last May to nationalise the assets of foreign hydrocarbon producers (such as Repsol, and Total—but also the Brazilian Petrobras) will deprive the country of investment in this sector and oblige it to seek new partners. This is because these enterprises must now agree to sign new and much less generous contracts or else leave the country.
A mining interest
- 17 Latin America has 45% of the world's copper reserves, a quarter of its silver reserves and a third of its pewter reserves: for China it represents an invaluable source of raw materials to draw upon. Chile and Peru between them produce 44% of world copper

output and for China, the world's biggest consumer, half its imports. It is hardly surprising that China is building up its investments in the mining sector. Its giant steel-maker, Shougang Group, via its subsidiary Shougang Hierro Peru, has since 1992 been working several Peruvian iron ore mines, including the one at Marcona to the south of Lima.

- 18 In Chile, in June 2005, the Chinese company Minmetals Corporation joined forces with Codelco (Corporación Nacional del Cobre)¹⁸ to secure annual deliveries of 55,000 tons of copper for 15 years. China may also take a share in developing the Gaby copper mine with its expected yearly production (from 2008 onwards) of 150,000 tons.
- 19 Among Cuba's trading partners, China now ranks third after Spain and Venezuela. The relationship is being extended. The island is the world's third largest producer of nickel¹⁹ and has significant reserves of copper and cobalt. In November 2004, on the occasion of President Hu's visit to Havana, Minmetals and Cubaniquel agreed jointly to develop the nickel deposits at Las Camariocas in Holguín Province, 800 kilometres east of Havana: production has reached 22,500 tons a year. This collaboration is expected to push Cuba's annual copper production, currently 75,000 tons, up to nearly 132,000 tons. A further deal has been signed between the China International Trust and Investment Corporation (CITIC) and Cubaniquel to develop the nickel deposit at San Felipe in Camaguey Province. Chinese investments look likely to swell still further in the years ahead. On September 9th 2005, a colloquium was held in Xiamen on China's opportunities for investment in Cuba. The Cuban delegation proposed 12 projects including building sugar houses and tourist infrastructure.
- 20 Brazil is also one of the main targets for Chinese investment. After India and Australia, Brazil ranks as China's third biggest supplier of iron ore, providing a quarter of all its imports. In five years, 2000-2005, China moved up from fifteenth place among Brazil's trading partners to being its third biggest customer. In October 2001, the Brazilian firm Companhia Vale do Rio Doce (CVRD), the world's leading producer and exporter of iron ore, undertook to deliver six million tons of ore per year to the steel-maker Baosteel, China's leading producer. From 2010 onwards the annual order will increase to 20 million tons. In spring 2004, Baosteel, CVRD and Arcelor decided jointly to build a steel-making complex in Brazil, near the port of São Luis in Maranhao state. The plant is designed to produce 3.7 million tons of steel plate per year, from 2007 onwards. It is no further than a day's journey by rail from the mine at Carajas and a few days by sea from Panama. The total investment came to US\$2.5 billion, of which Baosteel put up 60%. CVRD has also concluded agreements with Shougang to deliver iron ore. But Latin America represents not just a source of raw materials, but an agricultural storehouse too.

An agricultural interest

- 21 In China, the damage wrought in some regions by industrialisation and poor irrigation has diminished the available farmland and progressively reduced national farm production. Thus, the soya crop, 17 million tons in 2005, was no bigger than it had been ten years before. Today, China is the world's leading consumer and importer of soya (38% of world imports). Half of its soya consumption is imported, mainly from the United States, Brazil and Argentina, the world's three biggest exporters²⁰. Argentina by itself provides a third of China's soya imports. Between 1999 and 2004, the value of Chinese imports of soya from Brazil and Argentina increased ten times over. Improvements in living standards also led to an increase in meat consumption: per

person, it has doubled since 1990. The meat was bought in large measure from Brazil and Argentina, which provide between them 20% of Beijing's meat imports.

Concerns over the Chinese presence

- 22 China's presence has upset the economic and geostrategic balance in the region. These massive investments have provoked a real debate²¹ across Latin America, where governments fear their countries may be confined to the role of providing agricultural and mineral raw materials. The figures speak volumes: three quarters of Argentina's exports to China consist of agricultural products. China is the main customer for soya beans, buying 45% of the total exported; Thailand comes next with 13% and Spain with 7%. And when it comes to Brazil's exports to China, 37% consist of agricultural products. The dependence of the Latin American countries is undeniable. China is the destination for 70% of the iron ore, 47% of the lead and 37% of the copper exported by Peru, 33% of the pewter exported by Bolivia and 16% of the copper leaving Chile. Far from allowing development, trade with China tends over the long term to weaken the Latin American economies. China reinforces the rentier attitude in these countries. The appreciating prices for raw materials²² and the growth rates in Chile (5.9% in 2004 and then 5.1% in 2005) or Argentina (9.2% in 2005) do little to encourage people to diversify their production. The opening up of trade is the root of many disappointments. Imports from China swamp the local markets, a situation that might be aggravated by the creation of a bilateral free-trade area. The sometimes unfair competition from Chinese goods has also been denounced. In 2005, several governments including Brazil and Argentina²³ did not hesitate to employ anti-dumping measures against textiles and toys. Beijing's trading deficit with Latin America is fairly quickly absorbed. Brazil's trading surplus with China has been considerably reduced, falling from US\$5 billion in 2004 to US\$1.48 billion the following year. On top of everything, Latin American countries are up against Chinese competition in foreign markets, especially in the United States. Between 2003 and 2005, with the end of the Multifibre Agreement (MFA), China's share in US textile imports doubled, increasing from 25% to 56%.
- 23 It is also worth noting that recriminations against Chinese investors and their management methods are rising sharply. Brazilian workers at the Gree Electric Appliances factory, a Chinese investment in Manaus, complain of excessive production rates and insensitivity to social etiquette. There are many such examples.
- 24 Even so, a study by the Inter-American Development Bank²⁴ sets out to be reassuring: it considers that Latin American economies are not endangered by direct Asian competition. Quite the contrary: China appears to offer a potential export market, especially for Brazil. Moreover, China is the target for a third of Brazil's foreign investments, including those by Brasmotor and Embraco Snowflake, producers of domestic appliances, and by Sabó and Marcopolo, makers of cars and buses respectively. The Brazilian aircraft manufacturer Embraer has also embarked on a joint venture with China Aviation Industry Corporation, to produce in Harbin the ERJ 145 regional transport aircraft.
- 25 Thus, it may be an exaggeration to see in these Chinese investments only the behaviour of an economic predator, as the United States frequently asserts. As evidence of this bilateral rapprochement, in November 2004, Brazil, Argentina, Peru and Chile awarded to China the status of market economy, a recognition still withheld by the United States and the European Union. Beijing is asking its main trading partners to make this

acknowledgement, in order to defend itself against anti-dumping proceedings that governments may bring against it²⁵.

Washington's distrust

- 26 In the United States, most reports and assessments devoted to China's presence in Latin America come to the same conclusion. Beijing is a real threat²⁶, in three areas, political, diplomatic and military.

Latin America without the United States?

- 27 Within a few years, following the elections of Hugo Chávez in Venezuela (1998) and Lula Da Silva in Brazil (2002), most Latin American countries elected governments of the populist left, with mostly hostile attitudes to American policy; their leaders include Nestor Kirchner in Argentina (2003), Tabaré Vasquez in Uruguay (2004), Evo Morales in Bolivia (2005) and Michelle Bachelet in Chile (2005). In particular, the victory of Daniel Ortega in Nicaragua last November perplexes the United States, which dreads even the thought of any lessening of its influence in the Latin American continent. US fears are all the more justified because, since September 11th 2001, the United States has paid scant attention to Latin America. On the political front, China's presence erodes the influence of Washington, whose growing isolation is evident. Only Nicaragua, Honduras, the Dominican Republic and Salvador joined the United States-led coalition to fight in Iraq²⁷. Latin American countries are no longer afraid to defy Washington; and they see in China a more conciliatory partner than the IMF. The point is illustrated by Bolivia's decision to follow Ecuador's example in nationalising its hydrocarbon sector. China will be taking over the American and European investments.
- 28 On the oil front, Latin America provides more than a quarter of US imports²⁸; but they have had to reduce their purchases from Venezuela because of President Chávez' policies. Relations between Caracas and Washington are on the slide. Chávez is seeking to create a common front against what he calls North American imperialism. His rhetoric is reflected in closer relations with governments condemned by Washington, such as Belarus and Iran.
- 29 China, being a major investor, may enable Venezuela to rid itself of US influence²⁹. But Chávez looks well beyond the function of supplying hydrocarbons. He sees a political role for himself on the international stage. In October 2006, Venezuela made a bid—with China's support—for one of the non-permanent seats on the UN Security Council—in vain, however. Venezuela fought a bitter battle with Guatemala (which had support from Washington)—and Panama won the election.
- 30 And China will probably be asked to deliver arms to Caracas, following in the footsteps of Spain (due to supply transport aircraft and corvettes) and Russia (Sukhoi fighter planes). Chávez' self-confidence has been rewarded by the links forged with China. His project, the "Bolivarian Alternative for the Americas" is designed to strengthen co-operation between economies in the region. In June 2005, Venezuela concluded an alliance known as Petrocaribe³⁰ with 13 Caribbean states, enabling it to support socialist municipalities in Salvador and Nicaragua³¹ and to contribute to the popularity of left-wing movements. Similarly, Cuba has achieved oil independence thanks partly to its own production (which covers half the island's needs), and partly to deliveries from Venezuela. Meanwhile, the region's two other powers, Mexico and Brazil, are the focus for real attention from Beijing.

- 31 In 2001, the Sinatex textile company, a subsidiary of China Worldbest Group, was established in Obregón in Mexico. This is China's most significant investment in the country to date. Bilateral trade, still limited, is growing fast. By 2004, the volume of commercial exchanges had risen to US\$7.112 billion, 44% up on the previous year. The political closeness between Mexico and Washington, and the ban on foreign enterprises investing in the oil sector, have the effect of discouraging joint projects, at least for the present.
- 32 With Brazil, China has formed a real partnership since 1986 in the space sector. The two countries have pushed ahead with the China-Brazil Earth Resources Satellite (CBERS) programme. The highlight of this joint venture was the launch in October 1999 of the CBERS satellite (known in China as Zong guo Zi Yuan) designed to collect meteorological information. In October 2003, China went ahead with the launch of a second satellite (Zi-Yuan-2), the technical specifications of which have not been disclosed. The launches of two new satellites, CBERS-3 and 4 are planned for 2008 and 2010. This Sino-Brazilian collaboration extends to the energy field, with Brazil now planning to supply China with uranium to fuel its nuclear power stations.
- 33 Lastly, Beijing's presence in the region seriously compromises the plan for a Free Trade Area of the Americas (FTAA) promoted by President Bush. In November 2006, at the Mar del Plata summit, the 34 participants were unable to reach any agreement. Latin-American governments considered Washington's concessions too meagre. For its part, Beijing is proposing to conclude preferential trade agreements. In November 2005, China and Chile signed a first bilateral free trade treaty, designed to be extended in due course to the other countries in the region. Already 92% of Chile's exports to China are exempt from customs duties.

Diplomatic issues

- 34 China's peaceful ascendancy in Latin America may induce some governments to break with Taiwan, thus intensifying the island's isolation. Among the 25 states that maintain diplomatic relations with Taiwan, nearly half are in Latin America and the Caribbean: Belize, Costa Rica, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, the Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Salvador. Taiwan could lose the support of a close ally since Daniel Ortega won last November's election in Nicaragua. The United States is also concerned by China's growing military influence.

A contested military role

- 35 For the present, admittedly, military co-operation is still limited³²; but there is every indication that Beijing will not reject the approaches of some countries in the region. Bolivia, like Peru, is one of the few Latin American customers for Chinese military hardware. Military co-operation between La Paz and Beijing began as far back as the 1980s. In 1993, China delivered to the Bolivian government 28 surface-to-air missiles (SAMs) in respect of a bilateral co-operation agreement. In October 2005, anticipating Evo Morales' victory, American military advisers working in complicity with Bolivian army commanders succeeded in moving the missiles to the El Alto airbase near La Paz and then flew them to the United States³³.
- 36 Cuba allows China to use the telecommunications installations built—and later abandoned—by the Russians, including the Lourdes spy base at Torrens near Havana, which houses some sophisticated equipment. The base was built in 1964 and up until 2001 was home to over a thousand Russian technicians. In strengthening Chinese

influence (reflected in exchanges of military missions), Beijing is taking advantage of Washington's relative self-effacement, which has intensified since the creation of the International Criminal Court (ICC) governed by the Rome Statute. The United States does not recognise the competence of the Court³⁴: it adopted in August 2002 the American Service Members Protection Act, which blocks any military co-operation with states that recognise the ICC's status. So far, with the exception of Chile, Salvador, Guatemala and Nicaragua, all Latin American governments have signed and ratified the Rome Statute. In response, the United States demanded that its personnel should be granted immunity from the Court's proceedings³⁵ by means of Bilateral Immunity Agreements (BIAs)—but in vain. To persuade the most reluctant, the Nethercutt amendment, voted through in December 2004, provided for financial sanctions against ICC member states refusing to sign the BIAs. After Colombia, Bolivia too was forced in May 2005 to submit to a bilateral agreement. It is understood that Honduras and Panama have also signed confidential deals with Washington. Reporting to the US Senate, General Bantz J Craddock³⁶ declared that it was dangerous to suspend military co-operation with most Latin American countries, those which have rejected the principle of allowing immunity to the United States. He said the United States was denying itself the opportunity of providing military training for countries in the region.

- 37 So Washington considers China's presence as disadvantageous. The sharp increase in bilateral trade is reflected in a worrying rise in criminal activity (such as smuggling and counterfeiting). Beijing's attitude, in lending support to populist and demagogic political parties, is a destabilising influence on the American continent.
- 38 Yet, it would be wrong to conclude that Latin America was coming under Beijing's influence or that such influence was all-powerful. Electoral changes in Latin America owe more to the development of Latin American societies (a financial crisis in Argentina, the rejection of the multinationals, the emancipation of Indian majorities, the final stages in the process of democratisation) than to any particular Chinese influence or strategy. Instability and political changes are also weakening Chinese enterprises, as in Bolivia and still more recently in Ecuador.
- 39 In September 2004, two Chinese enterprises, Lutianhua and Chengda Chemical announced their joint venture with the Bolivian firm LisaTum to build a petrochemical plant designed to produce ammonia. Three months later, in December, a subsidiary of SINOPEC, Shengli Oilfield, signed several contracts with YPFB³⁷, the Bolivian state oil company; their projects included two refineries, a power station near Villamontes, ten oilfields in the Chaco and the Chapare region. The agreement had been made possible when China accepted a minority stake with 49% of the shared enterprise: this would have been a colossal investment³⁸, amounting to US\$1.5 billion, the equivalent of 18% of Bolivia's GNP in 2004. However, the legal minefield surrounding investments in Bolivia's hydrocarbon sector eventually prompted Shengli to pull out of the project.
- 40 China has also become embroiled in legal difficulties in Ecuador. In May 2006, the state oil company revoked the operating contracts awarded the US oil company, Occidental Petroleum. Oxy, as it is known, was accused of having illegally transferred, six years before, a 40% interest in its fields to the Canadian group EnCana. EnCana, however, had then passed these holdings on to the Chinese consortium, the Andes Petroleum Company, which now finds itself having to contest ownership.

Conclusion

- 41 In Latin America, China finds itself adapting to an environment less familiar than that which it previously found in Africa³⁹. Ever since the 1950s, China has been forging its links with black Africa and has helped some of its peoples in their struggles for freedom. With Latin America, shared memories are fewer and friendships are quite recent. The Chinese political system arouses distrust in a region that has its own tragic experience of dictatorships, a region where democratic institutions are still fragile. The relationship between Beijing and Latin America is not one of subjection. Brazil, the world's tenth-ranking economic power (its GDP is twice that of sub-Saharan Africa) sees itself more as China's partner than as its henchman.
- 42 Looking beyond the fine words in praise of friendship and cooperation, one can detect a hint of mistrust. In 2004, Beijing joined the Organisation of American States (OAS) with the status of permanent observer; but its application for membership of the Inter-American Development Bank has so far been rejected several times over. There is a fear that, within that body, Beijing might weigh still more heavily on the economies and the governments of the region.
- 43 China does not hesitate to sacrifice its friendships when its fundamental interests are at stake. Beijing refused to support Brazil's claim to a UN Security Council seat, though Brazil is one of the original Group of Four (with Germany, India and Japan) proposed for permanent membership. The plan is for enlarging the Council from 15 to 25 members, six of the seats permanent, of which two would be for the African continent and four for non-permanent members. No decisions have been reached. Within the World Trade Organisation (WTO), China is very far from being supportive to the Latin American countries in their battles against the agricultural subsidies paid by the EU and the United States to their producers. Beijing is not affected by this question and is reluctant to add any extra source of grievance to its trading relations, already stormy, with the West. Yet, Beijing will not be able to maintain its stance of cautious commitment, with the growing involvement of India in Latin America, for long. Delhi is seeking new sources of raw materials and political support in its bid for a Security Council seat: it too is taking an interest in Latin America.
- 44 For the present, Latin America amounts to only 2.2% of India's foreign trade⁴⁰. Yet, these figures should not be allowed to mask the real dynamic for growth or the acceleration in trade exchanges over the past few years⁴¹. These bilateral exchanges have increased since January 2004 when India and the members of Mercosur⁴² signed a preferential trade agreement on 450 products, intended over the long term to create a Free Trade Area. Indian investments in the region are still limited, as noted in an UNCTAD report.⁴³ In 2004, India's overall FDI amounted to US\$6.6 billion, of which only 2% was in Latin America. But, over the past three years, the presence of Indian enterprises in Latin America has been built up. Quite soon, Latin America will become a fiercely contested market. And the three leading powers of the mid twenty-first century will confront one another there.

NOTES

1. In this article, Latin America includes South America, Central America, Mexico and the Caribbean.
2. The United States is still the leading investor in Latin America, being the main customer and among the main suppliers of most countries in the region (it is the main customer of Brazil, Chile, Colombia and Mexico . . .) But these countries' individual share in US trade is still small, apart from that of Mexico, which takes 13% of US exports. Brazil represents 1.1% of US trade. The total amount of trade between the United States and Latin America (worth US\$445 billion in 2004, and then US\$461 billion in 2005) is ten times the exchanges between China and Latin America.
3. In April 2001, Jiang Zemin made an extensive tour of the area, visiting Argentina, Brazil, Chile, Cuba, Uruguay and Venezuela.
4. Cf. Peter Hakim, "Is Washington Losing Latin America?", *Foreign Affairs*, January-February 2006.
5. Sources: Ministry of Commerce of the People's Republic of China (MOFCOM) and the United Nations: <http://unstats.un.org/unsd/databases.htm>
6. This figure is given by MOFCOM and cited in William Hess's study, "Going Outside, Round-Tripping and Dollar Diplomacy, An Introduction to Chinese Outward Direct Investment", *Global Insight*, January 2006.
7. In 2005, Latin America received US\$68 billion worth of investment, as against US\$61 billion the previous year.
8. UNCTAD report: "China: an emerging FDI outward investor", December 4th 2003
9. By 2005, China was the second largest trading partner of Chile and Peru and Brazil's third largest. Beijing was set to become Brazil's second largest trading partner by the second half of 2006.
10. Smuggling is an equally flourishing activity in the Tri-Border Area (TBA) where Paraguay, Argentina and Brazil meet. On this subject, cf. François Lafargue, "Stratégies pétrolières chinoises en Amérique latine", *Défense nationale*, January 2006, pp. 84-93.
11. Source: "BP Statistical Review of World Energy", 2006.
12. In 2005, China bought 1.9% of the oil exported from Latin America, while the United States took 81% and the EU 9.2%.
13. As reported by the Associated Press, July 18th 2006.
14. Several plans for widening the canal are under consideration, but they are up against financing problems.
15. The CNPC is the second largest of China's national oil companies, ranked after SINOPEC (China Petroleum and Chemical Corporation) and ahead of CNOOC (China National Offshore Oil Corporation).
16. Pluspetrol is an Argentinian company, but its majority shareholder is the Spanish firm Repsol YPF.
17. Bolivia has the second largest proven reserves of gas in Latin America, after Venezuela.
18. Codelco produces 12% of the world's output of copper.
19. Nickel accounted for 36% of Cuba's exports in 2003.
20. Brazil is the world's second biggest producer of soya (35% of world production), after the United States and ahead of Argentina.

21. *The Economist*, "China and Latin America, Magic, or Realism?", No. 8407, January 2005. The Inter-American Development Bank, in many reports, stresses the threat represented by China. <http://www.iadb.org/>
22. Between November 2001 and May 2006, the price of a ton of copper on the London spot market rose by nearly seven times.
23. Matt Moffett, Geraldo Samor, "Brazil Regrets its China Affair" *The Wall Street Journal*, October 12th 2005.
24. Inter-American Development Bank, "The Emergence of China, Opportunities and Challenges for Latin America and the Caribbean", March 2005.
25. China is denied the status of market economy by the EU and the United States because of its impenetrable financial and banking system and the interference of the state in the economy.
26. US Senate report "China's role in Latin America" 2005; or again, Evans Ellis, "US national security implication of Chinese involvement in Latin America", Strategic Studies Institute, 2005.
27. By the start of this year, only Salvador still had troops in Iraq (nearly 400 men).
28. In 2005, the United States imported 12% of its oil from Mexico, 11% from Venezuela and 3% from Brazil, Colombia and Argentina. At present, the United States buys 60% of Venezuela's oil exports.
29. At present, the United States buys 60% of Venezuela's oil exports.
30. In 2005, the United States imported 12% of its oil from Mexico, 11% from Venezuela and 3% from Brazil, Colombia and Argentina. The alliance provides for Venezuela to supply oil at preferential rates, so as to diminish US influence over economies in the region.
31. In April 2006, a deal was signed between Venezuela and several Nicaraguan municipalities led by the Sandinistas. It provided for the supply of 10 million barrels per year at market prices, 60% of the payments being made within three months and the rest over 25 years. Of Salvador's municipalities, 16, controlled by the Farabundo Martí National Liberation Front, have signed a similar agreement for Venezuelan oil supplies.
32. The armies of Latin America are mainly equipped with American and French hardware.
33. Martin Arostegui, "Removal of missiles roils U.S.-Bolivia ties", *Washington Times*, December 22nd 2005.
34. Bill Gertz, "China Military Trains in West", *Washington Times*, March 15th 2006.
35. These Immunity Agreements prohibit the surrender to the ICC of any US military personnel, diplomats, members of the government or public officials.
36. Report to the US Senate, "China's Role in Latin America", September 2005.
37. Yacimientos Petrolíferos Fiscales Bolivianos.
38. For 2004, foreign direct investment in Bolivia amounted to US\$134 million.
39. Cf François Lafargue, "La Chine, une Puissance africaine", *Perspectives Chinoises*, 2005, pp 2-10; and *Etats-Unis, Inde, Chine*, "Kriegspiel pétrolier en Afrique", *Politique internationale*, n°112, 2006, pp 402-422.
40. Latin America receives 2.7% of India's exports (half going to Brazil and Mexico) and supplies 1.8% of its imports. Source: Indian Department of Commerce <http://commerce.nic.in/>
41. Since 2000, trade between India and Latin America has increased by two and a half times.

42. Since 1991, Mercosur or, in English, the Southern Common Market, brings together Argentina, Brazil, Paraguay, Uruguay and, since December 2005, Venezuela.
43. According to the UNCTAD report “India’s outward FDI, a Giant Awakening?”, 2004.
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ABSTRACTS

For half a century, the People’s Republic of China took only limited note of Latin America, a region over which the United States exercised real political and economic hegemony. This period of indifference is today at an end. For five years now, China has been extending its investments from the Rio Grande to Tierra del Fuego, and is now a leading partner of Brazil, Argentina and Chile. Yet, this new presence is raising doubts and anxiety both in Latin America and in the United States, which is less than enthusiastic about China’s involvement in the region. China has also run up against the ambitions of India, equally concerned about supplies of raw materials.