

A Cause for Worry?

By Sam Logan in Buenos Aires and Ben Bain in Washington, DC | August 24, 2005

Last November Chinese President Hu Jintao swept through South American capitals with pledges of future investment and carrying a “golden pen” that he used to sign agreements along the way with Chile, Argentina, Peru, and Venezuela. Hu even gave a speech in front of the Brazilian Congress, vowing that China would invest up to \$100 billion in the region over the next decade, and he made a goodwill offer of up to \$20 billion in investment in Argentina alone. The trip emphasized China's increased desire to begin a long march toward economic and trade integration with the region.

Chinese attention to the Western Hemisphere has sounded the “red alarm” in Washington, where many fear a Chinese economic invasion of South America. According to figures from a recent report published by fellows Tomoe Funakushi and Claudio Loser from the Inter-American Dialogue (IAD), Chinese trade with Latin America jumped from \$200 million in 1975 to \$40 billion in 2004. Trade with Brazil alone totaled \$8 billion in 2003. However, those numbers pale considering Chinese trade still only accounts for 3.9% of total Latin American trade, while in 2003 the United States accounted for 48%.

Although trade between China and Latin America has increased, Beijing remains reticent to hastily spend the billions of promised investment in a region that is culturally distinct for the Chinese. A good deal of Chinese foreign direct investment (FDI) now goes to countries in East Asia, such as Indonesia, where customs and business practices are far more familiar.

Counselor Cai Runguo, the alternate Chinese observer to the Organization of American States (OAS), explained that while the Chinese are planning to step up investment in the region, they are cautious. “Interest is different than an agreement,” he told the Americas Program. “When the President of China visited South America he spoke of many things, but much of it was unofficial.” Cai pointed out that Latin America is very different culturally from China, adding, “Chinese entrepreneurs have very little knowledge of [South America], and when they have begun to invest or explore the possibilities of investment they have encountered difficulties.”

However, Chinese prudence has not derailed all major investments, nor has it curtailed South American aspirations for funding much-needed infrastructure improvements. For example, the Chinese mining company, Minmetals, has entered an agreement with Chilean copper mining company Codelco to open a new mine in a joint venture

that will supposedly supply China with copper for the next 20 years. On July 18, Brazilian state oil company Petrobras announced it agreed to sell 12 million barrels of crude oil to the Chinese oil company Sinochem International Oil in a contract worth \$600 million. Petrobras claims that the Chinese market could represent up to \$1 billion in revenue a year for the company. Such deals represent what Cai considers “mutual investments,” in which Chinese companies stake claim to much-needed natural resources in South America, and regional companies, in turn, gain access to a rapidly expanding market.

The Cristo Redentor Pass between Argentina and Chile closes every year due to snow buildup. This past June, up to 2,500 trucks, loaded with goods from Brazil, Paraguay, and Argentina to be exported through Chile, waited for over a week before being able to cross into Chile, costing Argentina alone over \$4 million. Winterizing this pass has been a focal point for discussion between Chile and Argentina. But their governments simply don't have the millions necessary to build a cover over it or an alternate route. Sources close to the free trade negotiations underway between China and Chile, claim that Chinese officialdom has a strong interest in becoming a silent partner in the construction of a cover or a road and rail tunnel. It would be the first Chinese government investment in the region.

Meanwhile, Chilean negotiators are currently in Geneva to push forward free trade negotiations with China. According to a Chilean negotiator close to the discussions, talks have progressed well, and are as much as 70% complete. With China's first free trade agreement signed with the Chileans, the relationship will be in place for future considerations of state-level investment.

Counselor Cai explained that while the recent and visible economic development of China has fueled the hopes of many South Americans that China can fill their investment needs, the plethora of recent visits by Chinese delegations to the



region may have inflated some South American aspirations to unrealistic. “There is little understanding of the reality of China. Many people speak of the rise of China, but they don’t know it well. I don’t think the power of China is what some foreign people make it out to be,” he explained.

Regardless of assertions by Beijing that investment is for mutual economic gain and is in no way tied to ideology, many from Washington to Buenos Aires have been pondering the possible ideological effects that a Chinese presence could have in the Western Hemisphere. “Somebody like Chavez sees China as the counterpart to the U.S. It is the balance, the young, big country or power. They see it as a way to diversify their sources of influence,” Dr. Loser, who was also head of the International Monetary Fund (IMF) Western Hemisphere Department and is a native of Argentina, explained to the Americas Program.

But an increased Chinese presence in the hemisphere is not seen as a good thing by all countries in Latin America. Dr. Loser added that some in South America fear that the Chinese have a master plan for a kind of economic invasion—a view he says is largely exaggerated. According to Pieter Bottelier, former chief of the World Bank’s Resident Mission in Beijing from 1993 to 1997 and the bank’s Mexico Division chief from 1983 to 1987, many in Mexico worry that China spells direct competition for shares of the U.S. market for low-cost manufactured goods.

A focus on the Middle East and a rigid U.S. foreign policy toward Latin America has left regional leaders with no option but to look for other patrons. Net foreign direct investment in Latin America has fallen from \$78 billion in 2000 to \$36 billion in 2003, according to the Congressional Research Service. And with little promise of increased investment from the United States outside the normal package of “drug war” money, regional leaders are more than enthusiastic listeners when the Chinese talk of investing in regional infrastructure, which is a major block to trade.

“The United States, as a government, has been out of the business of financing infrastructure in Latin America for a long time,” Dr. Loser said. As a supplement to lackluster U.S. support, those in South America who are interested in improving railways, highways, ports, and mountain passes for the Southern Cone may have found a long-term supporter for such projects—China.

“China represents hope to [Latin Americans] that a poor backwater nation can make it,” Sanho Tree, fellow for the Institute of Policy Studies in Washington, DC, told the Americas Program, adding that, “[China is] a potential trading partner and benefactor willing to invest \$100 billion that doesn’t come with the usual strings attached and humiliating lectures from Washington.” Many countries here in South America that lean more toward the left on the political spectrum are open to seeking alternate patronage. They view China as an “uncle [they] can like,” Tree said.

The possibility of this long-term symbiosis between China and countries here disturbs many on Capitol Hill. It has been the subject of numerous congressional hearings. Just a few months ago the chairman of the Subcommittee on the Western Hemisphere Committee on International Relations, Rep. Dan Burton (R-IN), told the subcommittee in an opening statement entitled “China’s Influence in the Western Hemisphere,” how he saw the situation. “Until we know the definitive answer to this question of whether China will play by the rules of fair trade, and engage responsibly on transnational issues, I believe we should be cautious and view the rise of Chinese power as something to be counterbalanced or contained, and perhaps go so far as to consider China’s actions in Latin America as the movement of a hegemonic power into our hemisphere.”

China’s long march toward trade and economic integration with South America has only just begun. Cultural differences and a need for mutually beneficial agreements ensure a slow pace. While it is still unclear whether China’s presence in Latin America represents a threat to security, Washington observers do have something to worry about. After decades of perceived mistreatment, some Latin American leaders have grown weary of looking toward what they see as a condescending patron. China says it’s strictly business and is offering billions. Latin America sees a new hope in Sino-Latin relations, and the United States can do little but watch.

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