

## Testimony to the U.S.-China Commission

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Mr. Chairman and Members of the Subcommittee: I welcome this opportunity to share the results of my research on blossoming links between the People's Republic of China and Latin America. This study coincides with concerns about improving Chinese economic, diplomatic, and military capabilities around the world at the same time that U.S. ties with its neighbors in the hemisphere are fraying. This discussion comes as other commentators review the implications of China's CNOOC bidding for a U.S. petroleum firm, something unthinkable only a few years ago. While I do not believe that Chinese involvement currently indicates a serious threat to the security of the United States, I believe that Beijing seeks to establish networks which will benefit its interests for the long term, possibly to the detriment of U.S. security.

The recent spate of press reports on China's growing energy and natural resource consumption is an initial explanation for Beijing's growing interest in South America. While the continent remains at least *fourth* on China's list of priorities, the vast array of natural resources available, coupled with a growing population eager to increase its consumption of goods, makes Latin America ever more enticing. The PRC seeks to put a modest investment in diplomatic, military, cultural, and trade relations for a possible long-term gain of significant proportion.

Beijing has expanded its role in South America since 1970 when states in the region moved towards it diplomatically. The six nations of Central America, with their small populations and predominantly agricultural-export economies, retain diplomatic recognition of Taiwan (Republic of China). Prior to 1970, only Cuba maintained diplomatic ties - and ideological solidarity - with the PRC, after Castro transferred his allegiance in 1960. Beginning with Chile in 1970, however, all but one South American state have moved to recognize Beijing as the capital of China instead of Taipei. Paraguay has been the sole outpost for Taiwan since Uruguay finally abandoned Taipei in favor of Beijing in 1988.

For much of the past thirty years, China's ties with South American states have come in fourth place, behind growing interests in bilateral relations with the Pacific Rim (especially United States and Southeast Asia), European, and African states. The last of these is a region with which China could project "Third World solidarity" and considerably influence in the absence of competitors. Trade with South America has grown slowly, because Beijing's interests have been elsewhere until recently (so much of its focus was on events within rather than ties with other regions so distant). At the same time, the region has been absorbed first, with the trauma of the "external debt crisis" (1980-1989) and then the giddiness, followed by profound disappointment, of the "marketization-democratization" processes of the 1990s. Along with these processes were the implied expectations that Washington, absolved of the Cold War requirements, would

finally turn its attention to the long-desired partnerships with states in its own hemisphere. The 1990 “Free Trade Zone of the Americas” proposal by the first President Bush, followed by the ratification of the North American Free Trade Agreement (NAFTA) and 1994 Miami Summit commitment to finalise a free trade pact for the entire region, were initial indications that Washington would finally carry out its word. Instead, the 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. In short, neither side of the western hemisphere had a pressing reason to raise the other in its list of priority relationships. The current move towards the Central American Free Trade Agreement (CAFTA), not obviously destined for passage, is an extension of this pattern in Latin American eyes.

#### The last five years of deepening ties

U.S. analysts were startled when PRC President Jiang Zemin embarked on a tour of South America as the EP-3 incident unfolded in early April 2001. A constant stream of senior People's Liberation Army (PLA) officers and PRC political leaders had been arriving in various South American capitals for many years. (Indeed, Latin American military officers had long been welcomed to the PLA’s National Defense University foreign course for professional military education when officers from the “western world” were not welcome to Beijing.) Jiang's willingness to be out of the country at a time of such sensitive negotiations with Washington indicated not only his confidence in the political and diplomatic leadership left behind in Beijing, but the importance he attached to China's relations with South America. The trip to Chile, Argentina, Brazil, Venezuela and Cuba sent that message to these states. A string of meetings between senior officials from the region and the PRC followed Jiang's 2001 visit. Defense Minister General Chi Haotian held talks with Colombian and Venezuelan defense authorities and National People's Congress head Li Peng spent significant time in Uruguay, Argentina, and Cuba during a three-week trip abroad. A host of South American military and political leaders regularly make their way to the PRC for talks on trade, investment, military exchanges, and political ties.

In November 2004, both Presidents Hu Jintao and George W. Bush visited the region in conjunction with the APEC summit in Santiago. What was most noteworthy about these visits was Chinese President Hu Jintao’s visit to four Latin American countries rather than the summit itself. While President Hu met with President George W. Bush for fifty minutes in one of the first foreign discussions the latter has had since his reelection victory, the meeting was anticlimactic compared with the interest that Hu’s tour generated in the region. Hu’s was not the first visit by a Chinese president but China remains an exotic place in the Latin American mind. The historical connections which China has long had with Africa, for example, have not existed with Latin America even though the majority of regional states shifted diplomatic recognition from Taipei to Beijing as early as 1970. The ties between Beijing and Latin American states

have remained relatively low-keyed. Latin America, particularly Brazil, has had a history of some Chinese immigration but at a miniscule level compared with that of Italy, Germany or other European states. Latin America just hasn't had China much on its mind.

Two fundamental shifts, one on each side of the Pacific, have made this infatuation with Hu and China possible. On the Chinese side, energy requirements have grown, along with Beijing's increasing global presence and confidence. Beijing routinely has major delegations visiting states around the world.

Hu's visit to Latin America was seen in China as an event in conjunction with a major world meeting of interest to the People's Republic and its rightful role in the world. Fear of a negative U.S. reaction was not a concern; the trip through Brazil, Argentina, Chile and even Cuba attracted little attention in the United States, generating some curiosity on the part of regional specialists, but not the sustained concern one might have expected if U.S. attention was not consumed by events in southwest Asia and the Middle East.

For Latin America, long impatience with U.S. neglect translated into virtual giddiness at the Chinese leader's appearance in the region. The contrast between President Hu's triumphant week-long tour of the region contrasted starkly with President George W. Bush's limited time in Santiago, followed by four hours on an island off the Colombian coast. Additionally, the protesters who filled the Santiago's streets indicated that the U.S. President's message was not welcome in Latin America. Ironically, Hu Jintao's vision of greater economic, financial, trade, and technology ties was precisely the sort of engagement that Latin America has long wanted from Washington.

Latin America was ready to welcome someone who came with a smile and an outstretched hand, rather than the lecture and wagging finger Latins have received from so many high level U.S. visits. While Latin American sky-high expectations of enhanced ties with Beijing are probably exaggerated and likely to lead to disillusionment, the partner in this case is fresh and hence likely to be forgiven if it does not come through immediately. After all, Latin America has awaited Washington's attention for generations. Surely, some will argue, China merits some time to get serious about its long-term interest in greater economic and political interaction with Latin America.

In December 2004, Venezuelan president Hugo Chávez Frías made a trip to China where he was fêted and discussions of long-term Chinese-Venezuelan relations got ink since Chávez Frías has made clear his intention to deemphasize—but not break—relations with Washington for the sake of meeting his core constituency's concerns about Venezuela being exploited by the United States. Chávez Frías and the Chinese leadership signed a number of agreements, largely in the energy field, to boost Beijing's role in the South American state. In this particular instance, China seeks to better its position on *orimulsión*, a type of power plant fuel in which the Venezuelans excel at production and export.

#### Unreasonable Expectations and Clashing Goals

Beijing will not fully meet the expectations of Latin Americans because the leadership appears to be calibrating carefully its involvement in the region. Hu visited Fidel Castro's Havana but it was a low-key affair concentrating on possible biotechnology sharing between the two regimes. This did not even attract much attention.

That Hu did not include oil-rich but politically unstable Venezuela on his itinerary is a key indicator. In 2001, Jiang Zemin stopped in Caracas on his extended tour of the region. That preceded the 2002 coup attempt where Washington appeared to be on the wrong side (supporting the coupmeisters) and has led to a terrible state of affairs between Caracas and Washington. While Hu would like to solidify ties with Venezuela to increase the access to petroleum supplies, he delicately avoided that stop. By meeting with President Hugo Chávez Frías, the Chinese would have attracted much more attention and potentially negative consequences. Additionally, Hu chose not to visit Colombia where there are many resources, including petroleum that interest Beijing, but President Bush has his strongest regional ally in Álvaro Uribe Vélez.

Despite seven decades of attempting to industrialize their economies, South American states still depend almost entirely on exporting raw materials and light processed goods. Brazil is the exception, having worked assiduously over the past twenty years to develop an autonomous space program, with an equatorial launch site that appeals strongly to Beijing. Petroleum leads the list of resources South American states have to offer the PRC. Despite the erratic nature of its current government, led by the virulently anti-U.S. President Hugo Chávez Frías, Venezuela is an important source of energy to China. Beijing has invested over \$1 billion in the nation and seeks to maintain good, even warm, relations with Caracas, primarily to take advantage of the aforementioned orimulsion. Beijing has such rising energy needs that it is willing to overlook Chávez Frías' eccentricities (which are not aimed at him at present) to take advantage of poor U.S.-Venezuelan ties. China also seeks to buy petroleum elsewhere in Latin America, which may contain as much as 14% of the recoverable petroleum deposits in the world.

Ecuador is another particular target of PRC petroleum interests, who hope to sign exploration agreements which will lead to a "strategic alliance" between the two states. China has also shown interest in projects in Argentina, Colombia, and Mexico. Quito, however, has moved with great caution for fear that such an agreement might leave the country too dependent upon SINOPEC, China's leading overseas petroleum investor. The Ecuadoran response highlights the residual concern that some smaller states have of Chinese investment becoming so significant that it will create a dependence that South American states ardently hope to avoid. With the region's difficulties in the diversification efforts of the past, it is surprising—and a reflection of the unrealistic expectations—that more states are not heeding Quito's caution in moving full steam ahead in welcoming Chinese penetration of their economies.

#### Other motives than energy

However, Latin America does not interest Beijing solely for energy resources; the region is an important source of a variety of other minerals and foodstuffs. Brazilian president Luiz Inacio "Lula" da Silva's May 2004 state visit to China highlighted the range of desirable items beyond petroleum, including uranium, soybeans, and aircraft. Indeed, one of the changes in China that has received little attention in the outside world is how China will feed itself. As China works to decrease its dependence upon a highly

inefficient agricultural sector, food for the vast population is increasingly important. Buying that food from abroad, especially the successful agricultural products of Latin America, is a logical trade item for China and the region. As Latin American states are increasingly efficient at producing food, Beijing can buy at a more reasonable price than trying to reform agriculture at home.

South America is important for two other reasons as well. Brazil and Surinam, a remote and oft-forgotten state in the northeast of the continent, both offer space launch facilities with geography far superior to anything available in China. While ties to these states have not fully developed, the likelihood of Beijing increasing its interests there is high.

Additionally, South America is a region with which the PRC has a natural affiliation in its traditional role as "protector of the Third World." The South American experience with colonial and U.S. interventions over the past century has made Beijing's search for like-minded states to create a block in the international community to protect sovereignty against "hegemony" an attractive prospect. This is a natural area for ties to grow, as the power of the United States is so important to both the PRC and Latin America. It is easy for U.S. strategists to underestimate the importance of national prestige for all of these states. Informal alliances in organizations such as the United Nations, allow voting blocks to deliver messages otherwise difficult to convey to a hyperpower accused of unilateralism. Additionally, knowing that the United States will oppose any Latin American permanent membership on the Security Council is an easy 'win' for China as it seeks to assume a more visible, leadership position in the world. If the truth be known, Beijing probably also opposes any expansion of the Permanent Five to anyone at all (certainly it opposes Japan and probably New Delhi as well) but can take political cover from Washington's more vocal position.

I find that since Hutchison-Whampoa, a Hong Kong-based company with activities across the globe, won the contract to maintain facilities at both ends of the Panama Canal, people speculate about possible Chinese influence over the operation of the Canal. One such speculation assumes the company has close ties to the PLA. On closer examination, it appears that there is a tenuous, if any, link between Hutchison-Whampoa and the Chinese military in Panama or anywhere else. The economic restructuring in the PRC in the 1990s meant that the PLA discontinued most of its financial links with non-military activities. Moreover, as one of many companies that operate in Panama, it is not clear why this speculation assumes this one company has extraordinary influence over the Canal, a facility rarely used by the U.S. military. First, with the changes taking place in the PRC in the 1990s, the PLA has been pressured to discontinue most of its financial links with non-military activities such as Hutchinson. In exchange for withdrawing from the commercial sector, the PLA has seen hefty increases in its budget for the past decade. More significantly, Panama still retains recognition of Taiwan as the government of China. Indeed, Panama is seen by Taipei as 'the jewel in the crown' of its formal allies around the world. If Beijing were as able to control Hutchinson as is widely assumed, the first thing it would have done is to pressure Panama to switch recognition from Taipei. That symbolism is something that

bothers Beijing profoundly and they would have moved quickly to remedy the 'problem' that currently exists.

Finally, Beijing maintains a minor interest in Latin America because of increasing concerns about "Triad" activities in the Tri-border area (where Brazil, Argentina and Paraguay meet) as well as in Paraguay itself. Criminal syndicates operating in the area have been cited in international law enforcement's concerns about the growing transnational illegal activities in the Tri-border area. Beijing monitors this activity but has little control, since it does not have relations with Paraguay and the problem is not yet a major threat in the eyes of Buenos Aires or Brasilia.

#### Argentina, Brazil, and Chile

Argentina remains a broken economy with strained ties to Washington. Nationalist sentiment in the Republic is going to require considerable time before the blame for the 2001-02 collapse of the economy and concomitant political chaos is turned on anyone but Washington. The Chinese interest, thus, is likely to be the least important in this state of the major economies in South America. Argentina has a number of investment projects, beyond energy, which interest China and are likely to continue the relationship into the foreseeable future.

Chile is the most stable economy in the region and will be of interest to Beijing for copper and food stuffs (second largest producer of salmon in the world behind Norway). Additionally, the predictability of Chile's economy, coupled with its desire to move into the Asia Pacific rim in a more concerted way, will make it an increasingly appealing site for Chinese investment. At the same time, Chile does not offer tremendous energy resources and it is a relatively small economy based on a small population.

Brazil is the state which is bound to have the greatest ties to China in the future and has the most that could potentially affect the United States. It is a vast landmass with a large population. More so than any state in the region, Brazil chafes at U.S. dominance of the western hemisphere and seeks to be on a par with Washington. Beijing appears a logical, welcome partner in endeavors to remedy the disparity. The space ties noted earlier along with food stuffs and research into alternative energy sources are easy connections between Brasilia and Beijing. For my money, it is this diverse set of shared interests, along with the practical sizes of the states and their populations, that make this the most important area for Chinese expanded influence and investment in the foreseeable future.

#### The future relationship

The potential for longer-term rivalry between China and Brazil, the likely South American leader, is currently ignored for the sake of creating better ties, as evidenced by President Lula's recent visit to the PRC. Beijing's path to increased interest and influence in Latin America will be marked by many bumps along the way. Latin America is an area of growing, logical interest to Beijing, but there is no reason to believe the southern

hemisphere states will suddenly leap to the top of Beijing's priority list. The region may also grow skeptical of Beijing as the latter's power grows, and it assumes roles more in keeping with a superpower than a victimized state. Latin America is highly sensitive to states that can violate sovereignty issues at will, the essence of hyperpower status.

Beijing's interests in Latin America also include its quest to isolate Taiwan further by enticing Latin American nations to shift diplomatic recognition from Taipei to Beijing. Six Central American states, and Paraguay, recognize Taiwan as the government of China but Beijing will undoubtedly try to change that equation in the future as it continues pressuring Taiwan to abandon independence goals.

None of this is good news for Taiwan in the region. While the Hu visit focused on strengthening ties with South American states, it also emphasized how little Taiwan presence there is in that hemisphere, Paraguay being the sole state formally to recognize Taiwan instead of Beijing. Taiwan has given some indications that it hoped that other South American states might join those which recognize it by helping Taiwan with entry into various international organizations or pressing Beijing to accept Taiwan as a state. The success of Hu's visit made this already extremely remote possibility disappear in the reality of South American states embracing Beijing wholeheartedly.

Latin America probably read too much into the growing ties, as it did about Hu's highly successful visit last November. Beijing must now calibrate subsequent ties to maximize Chinese economic benefits from the region without alarming Washington. This will be an interesting test of the sophistication of Chinese strategy in Latin America.

For the immediate and intermediate term, Beijing will do nothing to upset its trade relationship with the United States. The access to the U.S. market far outweighs any possible benefits that China might gain from greater relations with Latin America, including access to Venezuelan petroleum. The desire to continue the economic growth that has given the Communist Party its ability to claim successes, hence keeping it in power, would be seriously undercut by any actions that caused Washington to shut off that market access. This risk is too high for the Party to take and this is a conscious calculation on the part of the Chinese leadership. The lesson of the UNOCAL uproar will reverberate in Beijing's thinking.

But, Beijing remains interested in exploiting all cracks in the Latin American system which would allow them access. These cracks may be microscopic, such as a relatively low level trade visit, or considerably greater, to include more visits by the heads of state from the region. Beijing can simply wait for the Latin American leadership to make the first moves and respond appropriately since the Latin American leadership is increasingly reacting to its growing frustration with the state of the overall regional ties with Washington. As long as Washington continues to promote democracy and free trade in the Middle East to the perceived exclusion of Latin America, this region is going to reach to China as a market and as a counterbalance to the United States. While Latin America seeks to create this balance in an effort to get Washington's attention, it will increasingly benefit Beijing's goals of finding new markets, new sources of raw materials, food, and energy resources while also strengthening ties with a portion of the

world where Beijing has had little historical connection but where ties in the future look lucrative and encouraging.