

The United States, Latin America and China: A “Triangular Relationship”?

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In April 2006, then-US Assistant Secretary for Western Hemisphere Affairs Thomas Shannon traveled to the People's Republic of China (PRC) for a landmark meeting with his Chinese counterpart Zeng Gang, head of the Foreign Ministry Department of Latin American Affairs. It marked the first-ever formal consultation between the countries' policymakers on Latin America. It also served as implicit recognition by both of a “triangular” relationship among China, the United States and Latin America in which the interests and actions of each party in the region were acknowledged to potentially affect the others. This interaction, officially designated a “subchapter” of the ongoing US-China Strategic Economic Dialogue, implicitly put the weight of diplomacy behind the concept that interactions among the United States, the PRC and the countries of Latin America could be conceived as a “triangle.”

The first major reference to this “triangular relationship” was “Latin America, China, and the United States: a Hopeful Triangle,” the brief 2007 essay by Juan Gabriel Tokatlian.² However, it was arguably Barbara Stallings' 2008 article, “The US-China-Latin America Triangle: Implications for the Future,” that most definitively introduced the concept; it appeared in *China's Expansion into the Western Hemisphere*, the

first English-language book by a major publisher on the China-Latin America relationship.³ Since that time, the term has been used in other significant works on China's engagement with the region, including the January 2011 study “China, Latin America, and the United States: The New Triangle,” published by the Woodrow Wilson Center, the Institute of the Americas and the Chinese Academy of Social Sciences.⁴

Despite references to a China-US-Latin America triangle in press accounts and academic literature, the term is not a well analyzed academic construct, making it more of a label whose use is associated with a certain level of “intuitive validity.”

At a superficial level, the logic of the term proceeds from the close historical linkage of the United States and Latin America, both in a positive and a negative sense. It is difficult to talk about the PRC's significant expansion in the region without reflexively thinking of the reaction of US policymakers or the possible impacts on US corporations and interests. Ironically, China's own political traditions and strategic interests also lead it to pay particular attention to the United States as it engages with Latin America. Despite emphasis on a “south-south” approach to its interaction with developing countries, such as

¹ The views represented are those of the author and do not necessarily reflect those of the Center for Hemispheric Defense Studies, the Department of Defense or the US government.

² Juan Gabriel Tokatlian, “Latin America, China, and the United States: a Hopeful Triangle,” *Open Democracy*. February 9, 2007.

³ Barbara Stallings, “The US-China-Latin America Triangle: Implications for the Future,” in *China's Expansion into the Western Hemisphere*, Riordan Roett and Guadalupe Paz, eds. (Washington, DC: Brookings Institution Press, 2008).

⁴ *China, Latin America, and the United States: The New Triangle* (Washington, DC: Woodrow Wilson Center, 2011).

FOREWORD

The Inter-American Dialogue is pleased to publish this working paper prepared by Evan Ellis, assistant professor of National Security Affairs at the National Defense University. The author of *China in Latin America: The Whats and Wherefores*, Ellis has published extensively on China-Latin America relations, focusing in particular on the security implications of China's growing presence in the region.

This paper, a product of the Dialogue's China and Latin America program, critically analyzes the notion of a "triangular relationship" involving the United States, China and Latin America. The "triangle" construct has been popular in policy-related and academic literature over the past few years. While the concept of a US-China-Latin America triangle is useful when highlighting interdependencies and identifying opportunities for bilateral and "poli-lateral" cooperation, Ellis argues that it is based on dubious assumptions about dynamics affecting the three actors. It assumes, for example, that Latin America is a unitary actor. It also downplays the role of other actors—India, Russia, and Europe, for example—that have significant relations with the United States, China, and Latin America.

The Dialogue's aim in publishing this report, as well as our series of China and Latin America working papers, is to inform and engage policy makers, civil society representatives, and academics from China, Latin America, and the United States on evolving themes in China-Latin America relations. We seek to determine areas of interest, identify shared priorities, and develop ways by which emerging relationships can be made most productive for all countries involved.

Our China and Latin America Working Group, of which Ellis is a member, has been the centerpiece of the Dialogue's China-related programmatic efforts since it was launched in 2011. The group is made up of approximately twenty select policy makers, analysts, and scholars from Latin America, China, the United States, Europe, and Australia. Group meetings have generated diverse interpretations of the issues driving China-Latin America relations, highlighting opportunities for cooperation and addressing emerging challenges. The Dialogue's China-related papers and reports have dealt with a wide variety of topics including China's loans to Latin America, China's "grand strategy" in the region, energy-based engagement and cooperation, and the possibility of developing an integrated regional approach to China's expanding influence.

We are pleased to recognize the Open Society Institute for its assistance in publishing this report. The views of the author do not necessarily reflect those of the Dialogue.

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those of Latin America,⁵ the PRC has proceeded very cautiously when forming relations. This can be seen, to some degree, as implicit recognition of the region as a US “sphere of influence” and mirrors the PRC’s likely desire to see the United States treat Asia as a “Chinese sphere of influence.” Although the PRC has publicly rejected the concept of “G-2” diplomacy,⁶ coordinating with the United States to “administer” the current global order, its strategic dialogue with the United States over Latin America gave the appearance that it was willing to conduct precisely such “coordination.”⁷

The triangle concept has a certain resonance in both the United States and the PRC, but it is more problematic when viewed from the perspective of Latin America. The region would, arguably, prefer to see itself as strengthening relationships with multiple extra-regional actors as it projects more extensively into the global arena, rather than being “trapped” as a leg in a triangle with the two current global powers. Moreover, many in Latin America would take issue with the concept of the region as a “unitary actor.” Indeed, discussions of China in Latin America are replete with concerns about the region’s inability to present a unified position in dealing with the PRC.⁸

This paper seeks to critically analyze the concept of a triangular relationship among the United States, China and Latin America, both theoretically and empirically. In so doing, it argues that the notion of a triangular relationship is flawed and facilitates erroneous assumptions about the dynamics affecting the three actors. Yet, the concept is useful in that it highlights an important series of interdependencies and

serves as a point of departure for a discussion on the types of bilateral and “poli-lateral”⁹ coordination that are advisable.

Problems with the Triangle Concept

As with any paradigm for simplifying and organizing thinking about a complex reality, the “triangular” characterization is incomplete. Such simplification is a common, and perhaps necessary, part of the analytical process. The more serious problem with the paradigm, however, is that the nature of that simplification conceals some of the most important and most consequential behaviors for understanding the dynamics of China’s increasing engagement with the Western Hemisphere.

Like the triangle itself, these flaws take on an interrelated form:

- The triangle masks other important actors that must be considered in the dynamic.
- The triangle incorrectly encourages a view of Latin America as a unitary actor.
- At its core, the triangle is a subtly neocolonialist way of approaching Latin America and its external relations.

Other Actors

The triangle concept downplays the importance of other actors whose interaction with the United States, China and Latin America are also important. These include India, Russia, Iran and Europe. While the triangle does not exclude these other actors per se, the focus on the interaction among China, the United States and Latin America tends to conceal how other states, as well as non-state actors, play key roles in that dynamic. For example, the sometimes competing, sometimes complementary balance in Brazil’s relationships with India and China, played out in the Brazil-Russia-India-China (BRICS) and India-Brazil-South Africa (IBSA) forums, is arguably as relevant to Brazil’s foreign policy as is its relationship with the United States. Similarly, although much of the foreign policy of the Chávez regime is defined in terms of its opposition to US “imperialism,” Venezuela’s reliance on Russian arms, Chinese money and its “anti-US” alliance with Iran occupy roughly equal importance. With respect

⁵ Jiang Shixue, *South-South Cooperation in the Age of Globalization: Sino-Latin American Relations* (Beijing: Chinese Academy of Social Sciences, 2005). See also Monica Hirst, “A South-South Perspective,” in *China’s Expansion into the Western Hemisphere: Implications for Latin America and the United States*, Riordan Roett and Guadalupe Paz, eds. (Washington, DC: Brookings Institution Press, 2008).

⁶ “Wen: China disagrees to so-called G2,” *China Daily*, November 18, 2009. http://www.chinadaily.com.cn/china/2009-11/18/content_8998039.htm.

⁷ See, for example, “U.S. Assistant Secretary Thomas Shannon to visit China,” *Peoples Daily Online*, April 11, 2006. http://english.peopledaily.com.cn/200604/11/eng20060411_257620.html.

⁸ See, for example, “Opportunities for Convergence and Regional Cooperation,” Report of the High-Level Summit of Latin America and the Caribbean, Economic Commission for Latin America and the Caribbean, February 2010. http://www.eclac.cl/publicaciones/xml/5/38525/Oportunities_convergence_regional_cooperation_proposals.pdf

⁹ The term “poli-lateral” is used instead of the more conventional term “multilateral” to emphasize that Latin America should not be treated as a single actor in such interactions, nor should interactions necessarily be thought of in terms of traditional “multilateral” forums such as the Organization of American States or the United Nations.

While both China and Latin America are important external referents for the region, Latin American countries increasingly look toward the world in terms of actual and potential partners.

to Argentina, when the PRC ceased taking in that nation's exports of soy oil, India stepped up its purchases, helping to save Argentina from a much more significant economic problem and, in the process, weakening the PRC's ability to pressure the Argentine government.

In states that were Soviet clients during the Cold War, such as Cuba and Nicaragua, the importance of Russia as a partner arguably rivals, or exceeds, that of China.

While the triangle concept conceals other actors that play a fundamental part of the dynamic in the hemisphere, it is important to understand that Latin American nations themselves generally do not define their external relations principally in terms of a triangle involving the United States and China. Indeed, while both China and the United States are important external referents for the region, Latin American countries and actors increasingly look toward the world in terms of a *plurality* of actual and potential partners, including Russia, India, the European Union and Iran. The importance of those partners varies according to context (political alliances versus economic partnerships versus military sales, etc.). The importance also varies according to which Latin American country is doing the looking.

During the Cold War, Latin American states sometimes took a United-States-versus-the-Soviet-Union approach (although the non-aligned movement in the Cold War was an attempt to avoid being pulled in a triangle with the two superpowers). However, Latin American countries today do not conceptualize their external relations in terms of ties with the United States versus the PRC.

Latin America Not a Unitary Actor

The triangle concept implies that it is valid to group together the nations of Latin America with respect to their relationships with the PRC and the United States. But this is not the case. Latin America can be physically grouped as a geographic

region, but referring to Latin America as one leg in a triangular relationship incorrectly assumes that actions by the other legs—the United States and China—impact Latin America as a whole. It also falsely assumes that Latin America “as a whole” deals with the United States and China.

While it is possible to discuss the overall triangular set of interactions

at some level of abstraction, the nature of the relationship between each state and the PRC, and between each state and the United States, varies dramatically.

Moreover, for many countries in the region, the most important issues and external relations are with *each other*, rather than with the United States or the PRC. Further complicating matters, the dynamics of the countries' relationships with the PRC and the United States impact their relationships with each other. Brazil's relationship with Peru and other nations on the western coast of South America, for example, is affected by its expanding ties with Asia, which increase the importance of access to the Pacific Ocean. Venezuela's interest in exporting oil and minerals to China provides an incentive to improve relations with Colombia, in order to realistically contemplate overland highway, rail and pipeline links between Venezuela and Colombia's Pacific ports. Similarly, growth in trade between the PRC and virtually all of the Atlantic-facing nations, including Brazil, Argentina and Uruguay, gives the governments and companies of those nations interest in the Panama Canal expansion project.

A Neocolonialist Paradigm

Although the concept of a triangle to define the relationship among China, the United States and Latin America is not, in itself, morally offensive, it subtly advances a neocolonialist paradigm by suggesting that best way to understand Latin America's complex relationships with important parties beyond the region is to focus on two countries, the United States and China. It also implies that the actions and decisions of these two actors will largely define outcomes for Latin America as the third “leg” of the triangle. This is flawed on two counts. First, as already noted, it conceals other possibilities, including a dynamic relationship between Latin America and multiple other global actors,

creating space to have multi-dimensional relationships and achieve benefits from interactions that permit the growth of all parties. Second, it implies a logic, and perhaps even a legitimacy, for the United States and China to “coordinate,” not only with respect to their policies toward and activities in Latin America, but also in their “management” of Latin America as the two dominant stewards of the global order, just as Great Britain, France and Spain negotiated over colonies and “subordinate” states in a prior era.

Applying the Triangle Concept

Against a backdrop of cautions about the flaws and analytical pitfalls of the triangle concept, the balance of this paper turns to the interdependencies implied by that triangle and their significance. There are three important sets of interdependencies in this complex group of relationships: the impact of the China-Latin America relationship on the United States, the impact of the US-Latin America relationship on the PRC and the impact of the US-China relationship on Latin America.

Impact of the China-Latin America Relationship on the United States

China’s relationship with the nations of Latin America impacts the United States, both in terms of the US relationship with the region and the US relationship with China itself. These effects are economic, as well as political and social.

In economic terms, the region’s purchase of goods from the PRC, to some degree, displaces the region’s purchase of products from US companies. Despite the adverse effect of direct competition from China, in many cases US-registered companies actually produce part or all of their products in the PRC or they source components there, increasing the competitiveness of those goods as they sell them to Latin America and other markets.

The mixture of competition and complementarity in investment is similar. Chinese investment in Latin America, to some degree, gives Chinese firms control over the region’s resources, such as petroleum and minerals. This implies that companies from the United States and elsewhere must source those same resources from other regions in order to service their customers or, alternatively, buy the resources at less advantageous prices and conditions on global commodities markets. Such logic suggests that commodities

such as petroleum and minerals, over time, would cost US consumers more or that periodic sourcing problems would become more probable. Nonetheless, with most commodities available in a number of regions, and with the major Western multinationals still enjoying global positions that are generally stronger than those of the major Chinese state-owned enterprises, the extent of damage felt by the United States as a result of Chinese investment in Latin America is limited at best.

At the same time, Chinese purchases of US assets in Latin America provide liquidity to US companies to invest elsewhere. Although it eventually fell through, the \$7.1 billion deal in which China National Overseas Oil Corporation was to purchase 30 percent of the assets of British Petroleum, to help BP cover obligations stemming from the Deepwater-Horizon oil spill in the Gulf of Mexico, is a primary example.¹⁰

Beyond such “direct” impacts of Chinese investment in Latin America, in sectors such as cars, heavy machinery and telecommunications equipment, investment by Chinese companies in the region also situates them to enter US markets. Such was the case with Chinese auto manufacturer First Auto Works (FAW), which positioned itself to invest in the Mexican *maquiladora* sector with the hope of assembling Chinese cars using Chinese components for export to the United States, leveraging advantageous tax treatment under the North American Free Trade Agreement. Similarly, investment promoters have cited other Latin American opportunities as indirect channels to the US market. They include Chinese companies’ production in Central America in order to export goods to the United States under the advantageous tax terms of the Central America Free Trade Agreement (CAFTA), or production in Colombia, Panama and Peru in order to enter the United States under the bilateral free trade agreements those nations share with the United States—although the ability to meet the provisions of the relevant agreements (particularly domestic content requirements) in order to realize such tax savings is questionable. To date, Chinese investments in final assembly operations in Latin American countries, with an eye on entering the US market, have been limited.

¹⁰ Brian Swint and Brett Foley, “BP’s \$7 Billion Argentina Pan American Sale to Cnooc Said to Risk Collapse,” *Bloomberg*, September 30, 2011. <http://www.bloomberg.com/news/2011-09-30/bp-s-7-1-billion-sale-of-argentina-unit-to-cnooc-said-at-risk-of-collapse.html>.

To a lesser extent, Chinese companies may see sales to Latin American markets as a way of incrementally increasing quality, giving them the experience and reputation required to successfully penetrate more discriminating US markets.

Moving from economics to political and social interdependencies, it is important to note that Chinese trade and investment with Latin American regimes indirectly undermine the ability of the United States to pursue its agenda in the region. This agenda focuses on multiple topics, from trade and respect for private property, to defense of the interests of US companies, to adherence to certain principles of democracy and human rights.

With respect to trade and investment, the availability of the PRC as an alternative market was one factor leading Latin America away from the US-oriented Free Trade Area of the Americas trading regime and, instead, toward establishment of a network of bilateral free trade agreements. Under these agreements certain nations, such as Chile, Peru and Costa Rica, would attempt to both take advantage of the emerging Chinese market and serve as the link through which other nations in the region would do the same.¹¹

Loans, investments and commodity purchases from China have allowed regimes relatively hostile to the United States, such as Venezuela, Bolivia and Ecuador, to turn their backs on Western lending institutions like the International Monetary Fund and the World Bank. They also opened the way in some cases for default on loans, the nationalization of industries or other actions hostile to the interests of Western companies; in the short term, these regimes were able to sidestep the negative consequences that such actions bring from traditional capital markets.

Over the long term, however, there is potential for a “feedback effect” beneficial to the United States and other Western investors. High interest rates in the case of Ecuadoran loans¹² and the questionable loan terms in

Venezuela¹³ have already been used as political fodder by the opposition in those countries,¹⁴ increasing the likelihood that an explicit movement away from such loans and capital, and back to Western financial markets and institutions, may be on the agenda when changes in political regime occur in these states.

Chinese purchases, loans and investments in Latin America have undercut the United States’ leverage in demanding adherence to certain practices of democracy, human rights and free trade. This is particularly relevant with respect to the nations in the Bolivarian Alliance for the Americas (ALBA). In contrast to Western governments and institutions, Chinese investors traditionally do not link their loans and investments to the political practices of the recipient states. That said, recognition of the PRC diplomatically is often an implicit condition, as is special treatment of Chinese investments and protection from expropriations and other administrative action for companies operating in the country—even where such actions are being taken at the same time against Western companies.

The economic success of the PRC, while pursuing relatively mercantilist policies and limiting democratic freedoms and Western-style human rights, sends a powerful message to Latin American regimes and societies that growth and prosperity can be achieved independent of adherence to Western economic proscriptions, political norms and human rights practices. It is important to distinguish the lesson from Beijing that “prosperity can be achieved without heeding the United States” from the concept of a specific “Beijing Model” that the West can follow. Latin American leaders do not have to believe that they can follow in Beijing’s footsteps, only that they do not have to follow in those of the United States.

With respect to defense and security relationships, China’s engagement with Latin America has the potential for both positive and negative impacts on the United States.

On the positive side, China’s donation of goods to countries and its sale of goods at relatively low prices have contributed to the ability of governments in the region to assert control over national territory and meet such challenges as

¹¹ Strong ideological opposition to the Free Trade Area of the Americas by states such as Venezuela, as well as concerns by nations such as Brazil that the United States would use such an agreement as a platform for exporting finished manufactured goods to the region while continuing to protect its agricultural markets against the entry of Latin American products, were also important factors in the “death” of the agreement.

¹² “Ecuador negocia crédito de \$ 2.000 millones con China,” *El Universo* (Guayaquil), June 15, 2011. <http://www.eluniverso.com/2011/06/15/1/1356/ecuador-negocia-credito-2000-millones-china.html>.

¹³ José de Cordoba, “China-Oil Deal Gives Chávez a Leg Up,” *Inter-American Security Watch*, November 9, 2011. <http://interamericansecuritywatch.com/?s=China-Oil+Deal+Gives+Chavez+a+Leg+up>.

¹⁴ See, for example, “Chinese loans put Venezuela over barrel,” *The Washington Times*, February 22, 2012. <http://www.washingtontimes.com>.

narcotrafficking. The use of Chinese K-8 aircraft, purchased by Bolivia from the PRC, is one example. The donation of trucks and buses to the Bolivian armed forces and non-lethal gear to the Jamaica Defense Force are other such examples.¹⁵

Meanwhile, PRC loans for regimes hostile to the United States, such as those of Hugo Chávez in Venezuela, Rafael Correa in Ecuador and Evo Morales in Bolivia, provide these regimes with liquidity that they would not otherwise have. This indirectly helps them persist in policies that are potentially harmful to US interests, such as allegations that the Venezuelan government provided support for the Revolutionary Armed Forces of Colombia (FARC) as well as to radical indigenous groups in Peru, Bolivia and elsewhere.

China's willingness to sell low-cost arms to countries such as Venezuela has undermined the ability of the United States to work with its allies to impose arms-purchase controls on certain regimes. Chinese sales of K-8 and Y-8 aircraft to Venezuela, mentioned earlier, as well as sales of mobile radar systems, are the two highest-visibility examples.¹⁶ Chinese loans to Venezuela have also indirectly freed that government's funds in other areas, making it easier for it to acquire large quantities of military equipment from Russia, including Mi-17 helicopters, Su-24 fighter aircraft, Kalashnikov rifles, tanks and armored vehicles.

Beyond the nations of ALBA, Chinese military training and educational opportunities for virtually all Latin American countries that diplomatically recognize the PRC have opened the door for officials of these militaries to obtain a diversity of experience, undercutting to some degree their interest in working with the United States as a military partner.¹⁷ Nonetheless, the relatively low level of Chinese military engagement with the region to date has limited this impact.

Expansion of Chinese humanitarian military initiatives to the region, including participation in the United Nations

Peacekeeping Force in Haiti (MINUSTAH), the Angel de Paz bilateral humanitarian exercise between Peru and the PRC in November 2010 and the visit of the hospital ship USS Comfort to the region in December 2011, represents an important additional dimension of this effect. At best, such initiatives send a subtle message to regional militaries that the United States is not the "only game in town," (although US failure to give greater priority to the region arguably undercuts US influence more than any Chinese initiative. At worst, these initiatives permit the Chinese to enhance their working knowledge of Latin America's mili-

Chinese military engagement with the region is also likely to cause discomfort because of the United States' traditionally close security relationships with countries in Latin America.

taries and facilities while allowing them the experience of operating in the region. The value of this experience would become obvious in the remote and undesirable event that the "friendly competition" between the PRC and United States turns more hostile and the Chinese seek to project a less benevolent military presence into the region.

Chinese military engagement with the region is also likely to cause discomfort because of the United States' traditionally close security relationship with countries in Latin America. The PRC's position may present particular challenges with respect to initiatives to ensure the security of Chinese companies and nationals. The growing physical presence of Chinese companies in the region in the coming years is likely to drive them, and their government, to collaborate more closely with Latin American security forces in managing the risk that comes from operating in remote or dangerous areas in extractive industries and on construction projects. This is already happening in Honduras, where the Honduran military provides security for Chinese firm Sinohydrowork on the Patuca III hydroelectric project, as well as in Colombia, where China and the Colombian government coordinated to secure the release of the Great Wall Drilling Company oil crew kidnapped in Colombia in June 2011.¹⁸ In the course

¹⁵ Ellis, "China-Latin America Military Engagement: Good Will, Good Business, and Strategic Position."

¹⁶ Ellis, "China-Latin America Military Engagement: Good Will, Good Business, and Strategic Position."

¹⁷ Nonetheless, the scope of Chinese military initiatives in the region is modest compared to US programs in the region. See Ellis, "China-Latin America Military Engagement: Good Will, Good Business, and Strategic Position."

¹⁸ "Secuestran a tres chinos en Caquetá," *El Tiempo* (Bogotá), June 9, 2011. <http://www.eltiempo.com/archivo/documento/MAM-4610503>.

of protecting their companies and nationals, Chinese private security firms may also inadvertently become involved in violence in the region, including controversial incidents in which locals are killed by those security forces.

Chinese engagement with Latin America—economic, military or otherwise—also impacts the United States at the political level. Hu Jintao's five-nation trip to Latin America in November 2004, in conjunction with Chinese attendance at the APEC summit in Santiago, Chile, sparked a wave of political activity in the United States. This included not only public events by Washington, D.C. think tanks, but also hearings on Chinese engagement in Latin America in both the US House of Representatives (April 2005) and the US Senate (August 2005). Indeed, Latin American leaders recognize the effect their China initiatives have within the US political system. The February 2011 announcement Colombian President Juan Manuel Santos made to *The Financial Times* concerning Chinese plans to build a “dry canal” across Colombia,¹⁹ for example, seemed timed to influence US congressional approval of the US-Colombia Trade Promotion Agreement.²⁰

Chinese engagement with the region ultimately impacts the United States in broader terms, because the United States is intimately tied to the region in geographical, human and economic terms. To the extent that PRC activities in Latin America inadvertently generate economic displacement and sociopolitical problems among nations in the region, the resulting turmoil potentially spills over to the United States. Examples could include future crises in countries that become heavily dependent on Chinese loans, such as Venezuela and Ecuador, or political tension sparked by displaced manufacturing sectors in countries such as Brazil and Mexico, or controversy over the entry of Chinese firms into new extractive sectors such as agriculture in Brazil and Argentina or mining in Peru. Reciprocally, to the extent that Latin America's exports to the PRC increase prosperity and bolster development, the US benefits: Latin America is able

to purchase more US goods, and Latin American migration to the United States for economic reasons does not grow.²¹

Impact of the US-Latin America Relationship on the PRC

In economic terms, the attractiveness of the US market and trade agreements between the United States and Latin American countries condition where in the region Chinese investors calculate it profitable to go. Chinese auto companies and other manufacturers investing in the Mexican *maquiladora* sector, for example, have been motivated in part by interest in exporting Chinese firms' products to the US market under provisions of NAFTA.²² The possibility of countries in Latin America serving as export platforms for Chinese goods into the United States has also been mentioned in the context of the US-Colombia Trade Promotion Agreement and in the process of negotiating and securing approval for the Central America Free Trade Agreement (CAFTA-DR).²³

In a more diffuse fashion, because of the close economic relationship between the United States and Latin America, US consumption and business activity that indirectly benefits Latin America enables the region to purchase Chinese products. At the level of the commercial enterprise, exports to the United States from the region may include goods sourced in China by Latin American manufacturers. At the personal level, some of the corporate earnings and salaries from these companies naturally go to the purchase of goods from the PRC, among other sources. Beyond corporations, although not traditionally considered in such terms,

²¹ Aside from the heated debate in the United States regarding both the contributions and harm to the US economy by such immigration, it is important to recognize that migrant traffic—particularly across Central America through Mexico—has the undesirable side effect of providing a source of illicit revenue (via extortion) to the transnational criminal organizations operating in the area. It is also a source of manpower for their activities, which include illegal narcotics smuggling and feeding the ranks of the cartel “armies.” And there is the associated impact on organized crime and drug flows that such human flows imply.

²² Examples include Chinese automakers FAW and Geely. See Marla Dickerson, “Mexican Retailer, Partner to Build Cars,” *Los Angeles Times*, November 23, 2007. <http://articles.latimes.com/2007/nov/23/business/fi-mexcars23>. See also Emanuel Moreno, “La empresa china Geely se instalará en León,” *El Sol del Bajío*, July 11, 2008. <http://www.oem.com.mx/esto/notas/n766910.htm>.

²³ See discussion in J.F. Hornbeck, “The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR),” RL31870, Congressional Research Service, January 16, 2008.

¹⁹ “Propuesta china de un ‘canal seco’ revive un viejo sueño,” *El Tiempo* (Bogotá), February 15, 2011. <http://www.eltiempo.com/archivo/documento/MAM-4397011>.

²⁰ “Rail alternative to the Panama Canal proposed by China to Colombia,” *Mercopress*, February 14, 2011. <http://en.mercopress.com/2011/02/14/rail-alternative-to-the-panama-canal-proposed-by-china-to-colombia>.

a portion of the approximately \$50 billion in remittances sent annually to families in Latin America by immigrants living in the United States²⁴ ultimately enables the purchase of Chinese goods in the region.

The ability of the United States to serve as a market and a source of investment for Latin America has influenced the region's receptivity toward the PRC. The initial openness of the region to promises of investment and trade by Chinese President Hu Jintao came just after Latin America reached a historic low with regard to flows of investment from the United States and other sources.²⁵ The 2007-2009 global financial crisis, which significantly impaired US purchases of Latin American exports and US credit

to the region, strengthened the perceived importance of the PRC for Latin American governments, and Chinese commodity purchases and investments emerged as one of the key factors helping these governments weather the crisis. Nonetheless, as noted earlier, while the PRC has occupied an important symbolic role as the largest and most visible source of new capital and markets, it has not been the only player to which Latin America has looked as the region seeks to engage globally. Attention also has been given to India and other emerging markets of Asia, as well as traditional players, such as the European Union, and actors such as Russia and Iran.

At the political level, US engagement with Latin American countries has impacted the ability of the PRC to develop military and other ties in the region. Although journalistic and academic accounts often suggest that the 19th century Monroe Doctrine continues to be pursued by contemporary US policymakers, with a presumed desire to "keep China out" of the region,²⁶ official US policy has repeatedly met Chinese

initiatives in the hemisphere with a cautiously welcoming tone.²⁷ Nonetheless, Latin America's own leadership has responded to Chinese initiatives with a view of how engagement with China could damage its relationship with the United States. Colombia's close relationship with the United States, for example, made the military leadership of the country reluctant to procure major military items from the PRC.²⁸

The same logic has also applied to countries such as Venezuela, Ecuador and Bolivia, for whom embracing the

The global financial crisis... strengthened the perceived importance of the PRC for Latin American governments.

PRC politically and economically signaled displeasure with the United States. The degree to which a "bad" relationship with the United States has propelled a "positive" relationship with China has increasingly gone beyond symbolism. The desire of Venezuelan President Hugo Chávez to diversify away from Venezuelan dependence on the United States as the nation's primary oil export market, for example, opened the door for massive loan-backed Chinese construction projects, the purchase of Chinese commercial goods and greatly expanded participation by Chinese oil companies.²⁹ US refusal to sell F-16 fighter aircraft and components to Venezuela in 2006 prompted Venezuela to engage with China, and other countries, to procure military hardware. Similarly, Bolivia purchased Chinese K-8s after the United States blocked it from acquiring a comparable aircraft from the Czech Republic.³⁰

²⁷ See, for example, the statement by former Assistant Secretary of State for the Western Hemisphere Arturo Valenzuela in Zhang Ting, "China 'not a threat' in L. America," *China Daily*, August 19, 2011. http://www.chinadaily.com.cn/china/2010-08/19/content_11173376.htm.

²⁸ R. Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009).

²⁹ Chinese loans to Venezuela to date under the Chávez regime exceed \$33.5 billion, including three injections of \$4 billion each into the Heavy Investment Fund, \$20 billion for the Long Range fund and \$1.5 billion to cover Venezuela's obligations for the Abreu e Lima oil refinery, among others.

³⁰ "Bolivia confirma compra de cazas chinos y un avión presidencial ruso," *El Universal* (Caracas), October 10, 2009. http://www.eluniversal.com/2009/10/10/int_ava_bolivia-confirma-coma_10A2879171.shtml.

²⁴ "The Changing Pattern of Remittances: 2008 Survey of Remittances from the United States to Latin America," Inter-American Development Bank, 2011. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35128373>.

²⁵ *Foreign direct Investment in Latin America and the Caribbean 2010*. Economic Commission on Latin America and the Caribbean. May 2011.

²⁶ See, for example, Dai Bingguo, "Stick to the path of peaceful development," *China Daily*, December 13, 2010. http://europe.chinadaily.com.cn/opinion/2010-12/13/content_11690780.htm.

Impact of the China-US Relationship on Latin America

In the commercial realm, US purchases of goods from PRC companies often come at the expense of Latin American exporters, thus mirroring the impact of Latin American purchases of Chinese goods on the United States. This has been shown, in particular, by the loss in Mexico's market share vis-à-vis China in the US market.³¹

PRC interactions with the United States also affect Latin American currencies. Specifically, US officials' argument that there is an "undervaluation" of the Chinese currency, the RMB, against the US dollar³² not only undermines the competitiveness of US goods but also undermines the competitiveness of goods from Latin American economies that use dollars (such as Ecuador and El Salvador) and those whose currency value is closely tied to the US dollar (such as Brazil's real).

With respect to investment flows, there is a concern that capital injected into the PRC by US-based multinationals would otherwise have gone to destinations such as Latin America.³³ Indeed, evidence indicates that expanded investment by Western companies into the PRC in the early 2000s came, to some degree, at the expense of FDI going into Mexico and Colombia.³⁴ Reciprocally, decisions by US firms not to invest in China (in light of weak intellectual property protection, the inability to withdraw profits from China or other concerns), potentially frees resources for projects in other global destinations, including Latin America.

Companies and projects in Latin America have been benefited from other actions,³⁵ such as the PRC government's desire to diversify away from holding its foreign reserves primarily in US treasury assets,³⁶ including high-profile opportunities such as the Commodity Investment Fund in 2007. Still, although not a likely scenario, were the PRC to rapidly unload its holdings of US treasury assets because of a loss of confidence in the United States' ability to pay or a (possible but improbable) scenario of escalating hostilities with the United States, a financial crisis could be generated that would adversely impact Latin America—as well as the rest of the globe.³⁷

In the political realm, China's relationship with the United States has conditioned how the PRC behaves toward Latin America, just as Latin America's relationship with the United States conditions how it behaves toward the PRC, and Latin America's relationship with China conditions its behavior toward the United States. This is because the re-emergence of China in the contemporary global system is tied to access to developed country markets and technologies. Since the United States is one of the principal markets and technology sources, it carries critical strategic value for the PRC.

Whatever the truth regarding America's "decline,"³⁸ the United States still retains considerable power in the global system, as well as influence with allies and within global institutions. Theoretically it retains the ability to significantly impair the re-emergence of the PRC, were a consensus to appear in the United States to deny the PRC access to technology and markets and to use alliance structures and institutions to motivate others to follow suit.

Because of this, China's leadership and that of its companies and agents have proceeded with caution in their relationships with countries that are overtly hostile to the United

³¹ With respect to the displacement of Mexican sales to the United States by the Chinese, see Kevin P. Gallagher and Roberto Porzecanski, *The Dragon in the Room* (Stanford, CA: Stanford University Press, 2010). See also Enrique Dussel Peters, "The Mexico-China Economic Relationship in Electronics: A Case Study of the PC Industry in Jalisco," in *The Impact of China's Global Economic Expansion on Latin America*, R. Jenkins, ed. (Norwich, UK: University of East Anglia, 2008).

³² See, for example, Glenn Somerville and David Lawder, "Treasury's Geithner says China needs faster yuan rise," *Reuters*, January 12, 2012. <http://www.reuters.com/article/2011/01/12/us-usa-china-geithner-idUSTRE70B3RJ20110112>.

³³ Rhys Jenkins and Enrique Dussel Peters, "The Impact of China on Latin America and the Caribbean," DFID. No. AG4419, April 2006. <http://www.dusselpeters.com/32.pdf>.

³⁴ Alicia García-Herrero and Daniel Santabárbera, "Does China have an impact on Foreign Direct Investment to Latin America?" in *The Visible Hand of China in Latin America*, Javier Santiso, ed. (Washington DC: Organization for Economic Cooperation and Development, 2007).

³⁵ Hui Ching-hoo, "China Investment Corp sets sights on Latin America," *Asia Asset Management*, March 31, 2011. <http://www.asiaasset.com/news/China-Investment-Corp.aspx>.

³⁶ See Jamil Anderlini and Tracy Alloway, "Trades reveal China shift from dollar," *The Financial Times*, June 20, 2011. <http://www.ft.com>.

³⁷ One vehicle for this impact would be to create a US liquidity crisis that would rein in investment spending and expand payrolls by US corporations, ultimately impacting US consumption. Latin American exporters of capital goods would, presumably, be affected first under such a scenario, followed by Latin American retailers.

³⁸ See, for example, Robert Kagan, "Not Fade Away: The myth of American decline," *The New Republic*, January 11, 2012.

States.³⁹ These include Venezuela, Ecuador and Bolivia. China's leadership has also been cautious with countries politically close to the United States, such as Colombia,⁴⁰ and those geographically close, such as Mexico.⁴¹ While the PRC has proceeded in supplying billions of dollars in loans to the ALBA countries, often to fund construction projects for Chinese companies or for the purchase of Chinese goods, it has been prudent about becoming associated with initiatives and rhetoric linked to regimes that could be perceived as hostile to the United States.⁴²

Implications

Interdependencies among the United States, the PRC and Latin America call attention to the importance for each to consider how engagement with one partner will impact, and will be interpreted by, the other.

However, as noted in previous sections, there are several key things that this interdependence *does not* imply.

First, it does not imply that the China-Latin America-US triangle should be assumed to be the most important relationship binding these actors (even though it may be true in some cases). Russia, Iran, India and the European Union, among others, have important relationships in the region, including a role in the dynamics of the China-US-Latin America triangle itself. India, for example, may be a useful US partner in certain parts of Latin America—such as the English-speaking Caribbean, Mexico, Colombia, Chile, Brazil and the Southern Cone—as the United States addresses China's engagement with those countries.

Similarly, it may be better at times to view individual Latin American countries in terms of interactions and tradeoffs

among a *multiplicity* of external partners—among them the United States, China, India, Russia and the European Union—rather than thinking first of a triangle involving the region, the PRC and the United States.

In addition, many of the effects of the interactions between two sides of the triangle, particularly the United States and the PRC, go far beyond the triangle itself. Some are best characterized as global in nature, rather than just influencing Latin America. Indeed, the ripples produced by US-China dynamics on international markets, currency relationships and financial transactions, among others, often produce effects in Asia or Europe that eclipse those felt in Latin America.

The interdependence of the United States, the PRC and Latin America does not imply that the United States and China should treat Latin America as a “unitary actor.” Nor should the United States and China necessarily “pact” with respect to their collective treatment of Latin America, even were this possible given the divergent interests and commercial competition among US and PRC interests in the region. Likewise, it is unlikely and inadvisable that Latin America, through an entity such as UNASUR or ECLAC, should coordinate with the PRC to assert a joint position toward the United States, just as it is unrealistic and inadvisable for the United States, through the Organization of American States or other multilateral forums, to forge such a joint position with the states of Latin America toward the PRC.

If it is neither advisable nor feasible for two parties in the triangle to develop a coordinated posture toward the third, it is also not necessarily in the strategic interests of any one party to seek to ensure that all three actors are automatically represented in the arenas in which they interact. For example, for the United States to bring the PRC into current bilateral security relationships or multilateral security institutions as a partner could send an undesirable signal that it unequivocally encourages and facilitates PRC engagement. Such a US posture could accelerate a process that should be approached cautiously in order to best serve US interests. Similarly, China's pursuit of commercial and strategic interests with countries such as Venezuela, Ecuador and Bolivia may be favored by an engagement that excludes the United States, just as part of the point of China's interactions with multilateral regional bodies, among them UNASUR, CELAC and ALBA, is that these forums, by design, exclude the United States.

³⁹ See Suisheng Zhao, “China's National Security Strategy and Diplomatic Engagement,” China-Latin America Task Force. University of Miami Center for Hemispheric Policy, December 12, 2006. http://www6.miami.edu/UMH/CDA/UMH_Main/0,1770,45362-1;51219-3,00.html.

⁴⁰ This has not prevented China from extensive commercial engagement with Colombia, particularly under its new president, Juan Manuel Santos.

⁴¹ This does not, however, explain the relatively large number of commercial initiatives that China has pursued in the Bahamas, whose islands are close to the southeast of the United States. These initiatives include operation and development of the Freeport Container Terminal and construction of the \$2.5 billion Baha Mar resort in Cable Bay.

⁴² See, for example, “Alianza china con Venezuela es comercial y no ideológica,” *El Universal* (Caracas), April 7, 2010. <http://www.eluniversal.com>. See also “Periplo accidentado,” *El Universal* (Caracas), September 27, 2008. <http://www.eluniversal.com>.

Still, there are interactions for which dialogue that simultaneously involves the PRC, the United States and Latin America is constructive. Among these are discussions of loans and infrastructure projects that ultimately impact all three parties. Because of this, Chinese participation in institutions such as the Inter-American Development Bank (IDB), which it formally joined in February 2009, is a positive development. However, it is positive to the extent that such participation is not perceived as pressuring countries that do not embrace diplomatic recognition of the PRC but still find themselves with PRC-supervised loans through the PRC's role in the Fund for Special Operations.⁴³ PRC participation

There are interactions for which dialogue that simultaneously involves the PRC, the United States and Latin America is constructive.

in such institutions may be particularly valuable if future Chinese lending to Latin America can be channeled through them, reinforcing important norms such as transparency and financial accountability by the recipient countries.

There may also be a China-US-Latin America “poli-lateral” approach to trade. At the policy level, such forums could be used to address technical issues involving “triangulation,” in which goods with components manufactured in the PRC are shipped to Latin America for final assembly and export to the United States. Export to the United States takes advantage of the growing patchwork of free trade agreements between China and countries of the region (such as Chile, Peru and Costa Rica); free trade zones in the respective countries; and agreements with the United States, such as NAFTA, CAFTA-DR and US-bilateral free trade with Panama, Colombia and Peru. Moreover, the analytical capabilities of existing multilateral regional institutions, including the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and the IDB, could be leveraged to support the formulation of effective policy on this issue.

⁴³ “China to join the Inter-American Development Bank,” Inter-American Development Bank press release, October 23, 2008. <http://www.iadb.org/en/news/news-releases/2008-10-23/china-to-join-the-inter-american-development-bank,4828.html>.

Another potential vehicle for “poli-lateral” engagement at the official level is the newly formed Trans-Pacific Partnership. The organization is currently focused on a subset of countries willing to meet a relatively stringent set of requirements with respect not only to trade, but to issues such as intellectual property. The partnership does not explicitly include China. Nonetheless, behind expansion it could become a vehicle through which nations of the Pacific coast of Latin America, including those currently excluded from APEC, such as Colombia, Costa Rica and Panama, work with the United States to build trade relations with Asia. Over time, the PRC would have an interest in joining this forum, not only expanding the opportunity for trade and investment but also strengthening the multilateral regime of standards and protections that govern those increasingly important transactions.

Beyond economic issues, trilateral engagements that involve the United States, China and Latin America may also be useful for a subset of defense and security topics, from medical cooperation and disaster response to dealing with organized crime.

An example of medical cooperation could be a collaboration by medical teams of US Southern Command and those of the People's Liberation Army (PLA) with the goal of providing medical care to Latin Americans as well as a multilateral response to a Latin American disaster scenario. Similarly, it is possible to envision participation by US personnel during visits to the region of the Chinese hospital ship, N866, or by Chinese doctors on visits of the USS Comfort. Such collaboration would build confidence and trust among all parties while putting both the United States and the PRC in a positive light—as structural competitors that still find ways to collaborate for the benefit of other parties, in this case for the countries of Latin America.

Increased trilateral cooperation also could provide benefits in the fight against organized crime. Joint training and perhaps even joint operations could be undertaken to block the use of Asian banking institutions by Latin American-based transnational criminal organizations. Collaborations could also work to end the flow from the PRC of chemicals that support cocaine production in South America and methamphetamine production in Canada and Mexico; the destination for those end products is the US

market. Three-way collaboration could be useful in halting human trafficking from the PRC through South and Central America and then to the United States; this trafficking currently involves Chinese criminal organizations, such as Red Dragon and the Snakeheads, Central American gangs and Mexican cartels. Such cooperation could also play an important role in fighting illegal arms trade, including the black market entry of Chinese arms destined for Mexican cartels and insurgent groups such as the FARC in Colombia.

In each area mentioned, Latin American governments are restricted in their ability to penetrate the workings of ethnic Chinese groups in their territory. Difficulties include language limitations and a paucity of ethnic Chinese agents, as well as more general problems of limited resources and other difficulties. Latin American law enforcement organizations currently have very little visibility into the financial entities and other contacts of these institutions in the PRC. Greater inroads would allow them to more effectively understand and address the activities of those organizations in Latin America.

Finally, all sides should take fuller advantage of opportunities for engagement through multilateral institutions in which the PRC is already present. These institutions include the Organization of American States, where China has had observer status since May 2004. Engagement within the OAS framework might also include US engagement with the PRC's military representative to the Inter-American Defense

College in Washington, D.C. That representative has been at the institution interacting with Latin American military officers since 2011. Although the institution is located on the US military base at Fort Lesley J. McNair in the District of Columbia, US interactions with the Chinese observer outside of the Inter-American Defense College context have been minimal.

Even if China's current rate of economic growth slows significantly, as analysts were predicting at the outset of 2012, the structure of the current, globalized world order implies that the PRC's economic presence in and political impact on Latin America will continue. It will remain a permanent fixture of the hemisphere, alongside that of the European Union, India and a host of other extra-regional actors. The United States is affected by this engagement, just as US activities in the region impact the PRC. This is not because the United States has a privileged position in the hemisphere but because it is inherently connected with Latin America in geographic, human, economic and other terms. It is, thus, in the interests of the United States to recognize the interdependencies among itself, the PRC and the nations of Latin America as "one triangle among many." It is also in the interests of the United States to simultaneously engage with all relevant parties to ensure that those relationships develop in a manner that furthers the region's stability and advances the interests of all parties involved, wherever those interests coincide.



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