

Chinese Influence on the Rise in Latin America

By Saul Landau | June 23, 2005

A century ago, U.S. policy planners looked to a then weak and divided China as the answer to the country's future trade and economic problems. Anxious exporters implored President William McKinley to act because "the Chinese market rightfully belongs to us," a member of the Riverside (New York) Republican Club told Secretary of State William Hay.

This low-wage labor source and vast potential market to the east would also supposedly solve the periodic depression problem, which in 1893, shook the country's economic structure and motivated the elite to think about how expansion eastward would resolve that issue.

"Under the stimulus of a narrowing marketplace at home and widening market opportunity of an awakening China, America's leadership made a conscious, purposeful, integrated effort to solve the economic crisis at home by promoting the national interest abroad," wrote historian Thomas McCormick. It did so "by using America's most potent weapon, economic supremacy, to begin the open door conquest of the China market."

In 1898, President William McKinley "took the Philippines" because they made the ideal jumping off base for future China excursions. The U.S. kept a naval base there for 100 years, when technology no longer required refueling stops. "East Asia is the prize for which all nations are grasping," wrote Brooks Adams, John Quincy Adams' grandson.

In 2005, the weak and vulnerable "prize" that feuding Europeans had carved up for imperial aspirations at the end of the 19th and early 20th Centuries now blankets all continents with its goods – and its capital. As the "made in China" label has become ubiquitous in U.S. department stores and on the wings of commercial airplanes, the Chinese government has scooped up U.S. Treasury securities worth hundreds of billions of dollars. Maybe that makes the U.S. China's "prize." Indeed, U.S. officials may well worry that the Chinese might stop recycling dollars they earn from trade surplus back into the U.S. economy.

In early March, a U.S. Embassy official confided to a visiting businessman that he believed that Chinese

leaders viewed the United States as a declining super-power whose time had passed and will be forced to share world power with other powerful nations, including China.

Latin American Invasion

To demonstrate how China's strategic position has changed in the last two decades, the Embassy official explained that China not only captured the U.S. consumer market, but has invaded Latin America, a region that the U.S. has traditionally dominated.

He referred to two high-level visits. In November 2004, Chinese President Hu Jintao signed 39 commercial agreements with five Latin American nations. Chinese investments in Argentina alone totaled some \$20 billion. He then made an investment trip to the Caribbean as well.

In January and February, Chinese Vice President Zeng Qinghong followed his boss's visit with his own entourage of officials and top business executives. During these two aggressive trips to pursue investment in strategic areas, China stepped into potentially contentious turf when they signed an accord with Venezuela's President Hugo Chávez for future Venezuelan oil and gas exploration. Zeng also offered Venezuela a \$700 million credit line for new housing construction to help reduce Venezuelan poverty, ignoring U.S. whining over Chavez's "authoritarianism."

Chavez, who has won three free and fair elections in the last six years, gets stuck with the "authoritarian" label while his pro-U.S. opponents who staged a 2002 military coup, merit the "democratic" badge. This labeling mystifies those who continue to think logically.

For all the tension between the two nations, the U.S. imports from Venezuela still stood at \$25 billion

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last year, far outweighing exports to that country, which totaled \$4.8 billion.

But Beijing's real poke in Washington's mostly blind eye came with the announcement that it would give credits to Cuba. In the globalization era, Cuba remains the exception to all rules. The Bush Administration's Latin American policy targets the "containment" of Chavez or the "punishing" of Fidel Castro, who holds the World Record for "Most Years of Disobedience."

So far, official Washington has ignored or denied the significance of China's Latin America strategy. Indeed, "President Hu Jintao spent more time in Latin America last year than President Bush," Miami Herald columnist Andres Oppenheimer has observed. "China's vice president, Zeng Qinghong, spent more time in the region last month than his U.S. counterpart, Vice President Dick Cheney, over the past four years."

Helping Meet China's Demand for Energy

At the end of 2004 and the beginning of 2005, China offered more than \$50 billion in investment and credits to countries inside the traditional Monroe Doctrine's shield. That's beginning to rival the cash infusion from President John F. Kennedy's highly-publicized Alliance for Progress, which pumped \$20 billion into the region in the 1960s (that would be worth about \$120 billion today after adjusting for inflation).

Trade with Latin America can help meet China's wildly expanding energy demands. In 2007, the CIA estimated, China will import half its oil. China also needs to import other raw materials and food as its economy grows.

As U.S. dependency on foreign oil grows and the price of crude reaches record levels, most recently the \$60 per barrel mark, the Chinese might maneuver themselves into a position to actually sell some of that viscous substance to the United States – long before the Alaska drilling results in a drop of crude prices, China's new investments have targeted oil, gas and minerals, signs that the Chinese pursue strategic and market rather than simple profit designs.

China already operates two Venezuelan oil fields and after signing a January agreement in Caracas, China will also begin developing other fields – seemingly in decline — in eastern Venezuela. China also agreed to buy 120,000 barrels of oil a month and build an additional fuel producing facility. Venezuelan officials announced that they expect trade with China to reach \$3 billion in 2005, more than double 2004. And –Bush Administration Castro-haters hold onto your hats — a huge Chinese oil company will begin searching for potential oil fields off the Cuban coast.

When Chinese President Hu visited several Latin American countries in November 2004, he told the Brazilian Congress that China would invest \$100 billion in Latin America over the next 10 years. In Argentina alone, China reportedly would invest \$20 billion in the next decade.

Foreign direct investment has declined Latin America in recent years, dropping from \$78 billion in 2000 to \$36 billion in 2004. That's why "many Latin American nations welcome the increase in foreign capital that the Chinese are promising," according to a recent Congressional Research Service report by Kerry Dumbaugh and Mark P. Sullivan.

China has also invested in energy, primary resources and food in Peru and Chile. Colombian President Álvaro Uribe traveled to China in mid-April 2005 promoting increased investment in his country.

Why did Chinese leaders choose late 2004 and early 2005 to make their whirlwind spending tour of several Latin American nations? First, they may well have noticed that Latin American governments no longer race to sign onto the U.S.-backed Free Trade of the Americas agreement as they did previously to NAFTA in the 1990s.

Because the free-trade-free-market model failed to perform as predicted – in Argentina it led to bankruptcy — governments that question Washington's economic model now sit in Uruguay, Argentina, Brazil, Venezuela and Cuba. Bolivia and Ecuador may be next. Indeed, if the radical populist Mexico City mayor Lopez Obrador succeeds in winning the 2006 Mexican presidential election – he is currently

the leading contender — U.S.-sponsored trade agreements in the region may all be doomed.

Second, the petroleum mavens don't expect supply to rise above demand in the near future. So, given this climate, China's gaining access to oil and gas sources in the U.S. backyard has flustered the Bushies, who remain preoccupied with Iraq Afghanistan, North Korea and Iran, social security privatization and abortion criminalization.

Turnaround in 35 Years

Under George W. Bush, the United States has shelved its national interests and pursued imperial adventures in the Middle East. While Beijing has invested strategically, Washington has spent resources on a strategy that will only further deplete the national wealth.

Latin America has said "basta" to the U.S. development model. In Argentina, Brazil, Uruguay, Venezuela, and Bolivia, presidents who adhered to the International Monetary Fund's notion of development have had to look for other jobs. This should send more than a hint to Washington.

China has behaved in a civil and friendly manner and invested in the very resources it will need in the coming years. Over the next decades the leading economies will vie for the fuels that drive their production and distribution machines. It might take several buckets of ice water to wake up the policy planning dreamers at the White house that war and military occupation of foreign lands and threats to governments that don't share a common world view — like Venezuela and Cuba — do not bode well for the future.

China apparently sees its future in the U.S. and Latin American markets. That's a complete turnaround from 35 years ago, when China remained "unrecognized" by the U.S. and most of its lackey governments in Latin America. In 1975, Chinese trade with the region amounted to \$200 million. In 2004, trade between China and all the Americas had soared to over \$40 billion. China has become one of the foremost players in the era of globalization, which U.S. leaders promoted without considering that China might avail itself of this opportunity to move into its own turf.

While government leaders silently wring their hands in frustration over China's capital moves into "our backyard," some journalists are beginning to report on China's investment invasion. China is "nurturing alliances with many developing countries to solidify its position in the World Trade Organization, flex its muscles on the world stage and act as a counterbalance to U.S. power," according to Chicago Tribune reporter Gary Marx.

Indeed, China has succeeded in forcing an Open Door policy on the United States, one similar to that fashioned in 1898 by Secretary of State Hay. China's leaders now say implicitly to Washington what Acting Secretary of State Edwin Uhl wrote to the U.S. Minister in China in 1895: "This country will expect equal and liberal trading advantages..."

Now China expects the United States to offer it "equal and liberal trading advantages." Senator Richard Lugar (R- IN), chair of the Senate Foreign Relations Committee, has worried aloud about the contradictions that arose from Venezuela's new deals with China. Like other prudent and truly conservative Republicans, Lugar wonders whether Bush's aggressive anti-Chavez rhetoric and actions might lead Venezuela to retaliate and cut the U.S. off from its oil supply. After all, China will pick up the purchase slack.

"For years and years, the hemisphere has been a low priority for the U.S.," a Lugar aide told The New York Times. "The Chinese are taking advantage of it. They're taking advantage of the fact that we don't care as much as we should about Latin America."

Likewise, China has undercut Washington's policy of starving Cuba for resources. Chinese leaders pledged large investment credits for Cuban nickel. Beijing thus befriends U.S. enemies, Chavez and Castro, as U.S. prestige slips in its own "backyard." It has used the "open door" ploy against the United States in Latin America as the U.S. once used it against Europe to get at Chinese resources and labor.

Hey, doesn't globalization mean that all's fair in the game of trade?

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