

# Who in Latin America benefits and loses from the rise of China?

Written by Benedict Hayes

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BENEDICT HAYES, SEP 5 2011

The beginning of the twenty-first century has seen the People's Republic of China (PRC) emerge as an important global actor. The 'Peaceful Rise' of the PRC's foreign policy has opened up academic debates over whether the United States (US) has become a declining global force. In this light, this essay shall examine the PRC's new presence in Latin America, especially as a so-called 'US rival' within the Inter-American system. One shall specifically examine Sino-Latin American relations after Chinese President Hu Jintao's first diplomatic visit to the region in 2004, and observe how since then bilateral relations, particularly economic, have developed expeditiously. The distinction between winners and losers with regards PRC involvement in the region is perhaps not as clear as the title suggests. As such, this essay shall assess who benefits in political terms by specifically examining PRC relations with Venezuela, Cuba and Argentina, before commenting on specific commercial sectors, namely energy and textiles.

### Governmental relations

The PRC's foreign policy is currently driven by the nation's domestic economic development. This development has seen the emergence of an energy policy to secure foreign oil and natural gas to satiate its increasing energy demands. In the context of the PRC's bilateral oil diplomacy and its increasing consumption of crude oil, it is important to examine the country's ties with Venezuela, specifically within the parameters of Hugo Chávez and his political ideology.

Venezuela has become the PRC's leading regional strategic partner,[1] and Chávez can be seen to exploit this union within his anti-US rhetoric. This can be witnessed in his threat to gift some of Venezuela's F-16 fighter jets to China in response to what he deemed a contract violation by the US,[2] or by attempting to draw parallels between the ideologies of Venezuela and the PRC, when claiming that Simón Bolívar would have felt great respect towards Mao Zedong.[3] Chávez is also benefiting from the fact that the Sino-Venezuelan oil deals have allowed him to use this natural resource as a 'geopolitical weapon' in his bid for economic independence from the US.[4]

However, this essay posits that Chávez could stand to lose from this bilateral relationship in the long term. Chávez is magniloquent about the new bilateral links, but it should be noted that the Middle East is still the main supplier of the PRC's oil imports,[5] with predictions stating that by 2015 the PRC will receive seventy percent of Middle Eastern oil supplies.[6] It should also be noted that if Hugo Chávez was to completely shift to supplying the PRC, it would significantly increase transportation costs and oblige Chinese refineries to adapt to process Venezuela's high-sulphur crude oil.[7] Whilst this diversification is not impossible, it is somewhat ambitious, especially considering Chávez's current domestic energy problems.[8] Chávez's verbose rhetoric risks over-stretching Venezuela, which could ultimately turn the country from a beneficiary of Chinese investment into a significant 'loser'. Beijing provides non-US centred market diversification, but is ultimately behaving with its own commercial interests as its priority. As such, it will not indulge either political or ideological displays at the risk of production shortcomings. In this light, Venezuela can be seen to benefit from the rise of the PRC with trade agreements; however these trade agreements may in fact be a hindrance to both countries.

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Even before President Hu's visit to Cuba in 2004, Sino-Cuban relations had been close. For example, the Castro regime was the first country in Latin America to recognise the PRC,[9] and was underlined when former President Zhou Enlai stated that "China would furnish all the necessary assistance to the Cuban people fighting for freedom." [10] However, whilst both countries seem to share political ideologies, this dimension is currently outweighed within the context of contemporary bilateral relations. Whilst President Hu has been seen to praise Cuba's ideological struggle, it is in fact more interested in trade and raw materials, such as nickel. In stark contrast to US and EU offers of aid, the PRC offer financial help with no stipulations on national conditions such as human rights. Therefore, in becoming Cuba's second trading partner after Venezuela,[11] and its offers of trade, credits and investment, the PRC has offered the Castro regime space for international manoeuvrability.[12]

In 2004 President Hu Jintao agreed to invest almost £11 billion in Argentina over the following ten years.[13] This economic agreement significantly benefitted Argentina considering that only three years previously the country had been in the midst of a severe financial crisis. Argentine president Nestor Kirchner stood to receive great Chinese investment into such depleted sectors as transport, tourism, education and trade.[14] Further to this, in March 2009 the two countries signed a currency agreement that would allow Argentina to buy Yuan directly from the PRC without having to change it through US dollars. In this manner, the PRC have aided an Argentina that was severely affected by the global economic crisis. Further to their two agreements, the rise of the PRC has provided Argentina with new export opportunities, especially a new market for agro-food industries, as well as seeing an increase in imports.

Whilst these agreements and the conversion of Argentina into a 'Strategic Partner' to the PRC have seen the country benefit from the transformation of the PRC into a significant world power, this essay argues that this overly idealistic viewing of Sino-Argentine relations would be deceptive and naïve. Whilst the PRC is of course eager to invest in Argentina and import vital food supplies, this essay takes a sceptical view of the bilateral relations, arguing that the PRC is more concerned about achieving market economy status (MES).

## The other side of the Yuan. Trade sector limitations

Since the 'Peaceful Rise' of the PRC began, Argentina has experienced significant losses due to Chinese competition. Beijing's offer of investment could be seen as an attempted placation of the Argentine manufacturing sector, which initiated 31 World Trade Organisation (WTO) allegations of 'dumping' or predatory pricing against the PRC and specifically its mechanics and transport sectors between 1995 and 2004.[15] Beijing has been lobbying for MES since 2001,[16] when it became a member of the WTO as a non-market economy. The PRC is pushing for recognition to negate large anti-dumping duties,[17] western protectionism or trade retaliation from other countries in the WTO, and protect Chinese companies within fields of increased industrial competition, such as textiles. If, or perhaps when, Beijing were to be granted this status, Latin American states would find it increasingly harder to impose anti-dumping duties on exports from the PRC. Peru, Brazil, Chile and Argentina have all made this concession, but have received relatively little in comparison,[18] thus highlighting the 'asymmetric bargaining power [of]... China.' [19] This essay therefore posits that Chinese investment in such countries as Argentina and Brazil is part of a comprehensive campaign to obtain MES. Thus, while the current benefits of the relationship are being bestowed upon both Argentina and Brazil, the long-term beneficiary will undoubtedly be the PRC; whether or not this shall be to the detriment of such countries as Argentina remains to be seen.

Following in its habit of investing and trading predominantly with countries not closely linked to Washington, the PRC has occupied a significant role in Ecuadorian oil production. The 2005 PRC acquisition of Encana assets in Ecuador could have a significant effect on both Central America and Peru. Until 2005, these two destinations were the most important consumers of Ecuadorian oil exports after the US.[20] However, the PRC's control of Encana, whilst not looking to antagonise the US and their oil imports could in fact severely hurt both Central America and Peru, with the PRC usurping their place in the market, and directing vital supplies to the Far-East instead.

Within the idea of PRC investment in energy sectors in Latin America, it is important to consider whether 'Dutch Disease' may reoccur. It is possible to view the PRC's role in the region from a neo-mercantilist perspective, with Beijing forcing certain countries to depend on exporting their raw materials. Even though the PRC's growth resulted in a significant increase in the oil price, the domination of the energy sector may see the region loose out over the

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long term. Too much focus on raw materials could generate inflation with the money being received not being put into diversified sectors.

In contrast to the natural resource exporting Southern Cone countries, who have benefited from the PRC's pursuit of raw materials, are Mexico and a number of Central American nations. These latter two have suffered from the 'Rise' of the PRC in the region. Mexico and Central America are prime exporters of labour-intensive products by an unskilled workforce, predominantly to the US market, and have encountered severe economic competition from the PRC. The aggressive economic expansion policy of the PRC in Latin America has particularly threatened the textile and clothing sector in the region. Originally, preferential US trade policies and protection from low-cost Chinese producers aided the Mexican and Central American textile sector to grow.[21] However, as part of the Uruguayan Round of The General Agreement on Tariffs and Trade (GATT), the US agreed to eliminate previous textile import limiting quotas.[22] This GATT concord has consequently allowed Chinese textile exporters to enter the world market, and more specifically the US market, to the detriment to Mexican and Central American traders. An example of this can be seen in the fact that the PRC overtook Mexico as the biggest international textiles supplier to the US in 2002, accounting for 13 percent of total clothing imports in comparison to Mexico's 11.3 percent.[23] Benefitting from both paying lower wages and the lower costs of certain key elements, such as electricity,[24] the PRC has been able to increase its share of the US market through cheaper prices, thereby disestablishing Latin American nations, and using fiscal incentives and a cheaper labour force to encourage US companies to relocate their factories to coastal Chinese cities.[25] Thus, the PRC's economic development policy has taken a piecemeal approach, and enabled Beijing to progressively advance up the value production chain, thereby undercutting and significantly harming Mexican and Central American textile and clothing producers.

### A mutually beneficial relationship?

Chinese President Hu Jintao was extremely well received upon his first state visit to Latin America. Since then, governments from Brazil to Venezuela to Argentina have been exceedingly enthusiastic to establish bilateral ties with the People's Republic of China, and thus offer themselves an alternative and counterbalancing option to US 'unipolarity' in the region. This essay argues that whilst the PRC and Latin America have strengthened strategic and economic ties, the PRC and its relatively cheap goods compose a relative 'threat' to the region. The PRC can be seen to use its economic might in a clientelist fashion to almost buy Latin American acceptance and grant it MES. The specific political figure who stands to both potentially benefit and 'lose' from the 'rise of China' is Hugo Chávez. He has been able to use China's growing global stature within his anti-US rhetoric. However, the PRC are reluctant to tolerate too much of this ideological grandstanding, as they understand that Chinese presence in the Western Hemisphere is part of a triangular relationship, constituting the US, Latin America and the PRC, and that Chávez's initiatives may off-set Hemispheric balance. Equally, it is also important for the US not to antagonise the PRC, due to Beijing's ownership of a significant amount of market bonds. As such a mutual relationship has occurred between the two nations.

Whilst, it is of course naïve to suggest that when one country is economically growing it must be at the expense of others, the PRC is obliging Latin American countries to hurriedly reconfigure some of their export sectors to defend their positions within international and global trade markets. Beijing can be seen to hold all the cards within the terms of financial aid, trade and investment. Whether the PRC's decision to invest primarily in raw materials weakens Latin American economies and leads to a repeat of the 'Dutch Disease' is still an open question.

[1] 'China and Venezuela boost links' <http://news.bbc.co.uk/1/hi/world/americas/7898809.stm>

[2] 'Venezuela threatens US over F-16s' <http://news.bbc.co.uk/1/hi/world/americas/4398914.stm>

[3] Reid, Michael, *Forgotten Continent: The Battle for Latin America's Soul*. (Lancaster: Yale University Press, 2007), p.301

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[4] Although, it should be noted that 60% of Venezuelan exports are still with the US, according to the US State Department

[5] Luft, Gal, 'Fuelling the dragon: China's race into the oil market' analysis paper produced by the Institute for the Analysis of Global Security, accessed from <http://www.iags.org/china.htm>

[6] Ibid.

[7] Roett, Riordan & Paz, Guadalupe (eds.), *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States*. (Harrisonburg, Virginia: Brookings Institution Press, 2008), p. 184

[8] 'Blackouts Plague Energy-Rich Venezuela'

[9] Wang Taiping, ed., *Xin zhongguo waijiao 50 nian [50 Years of the New China's Foreign Diplomacy]* (Beijing: Beijing chubanshe [Beijing Publishing House], 1999), pp. 1636–37

[10] Zhang Guang, *Zhongguo de waijiao zhengce [China's Foreign Policies]* (Beijing: Shijie zhishi chubanshe [World Affairs Press], 1995), p. 91.

[11] 'China Signs Trade Deals with Cuba' <http://news.bbc.co.uk/1/hi/7733811.stm>

[12] Indeed, the PRC's role in Cuba could even be seen as a factor in the Obama administrations recent opening towards the island.

[13] 'Argentina gets China investment' <http://news.bbc.co.uk/1/hi/world/americas/4018219.stm>

[14] Ibid.

[15] Oropeza Garcia, Arturo, *China: entre el Reto y la Oportunidad*, (Mexico City: UNAM, 2006), p. 262

[16] Roett, Riordan, 'Relations Between China and Latin America/ the Western Hemisphere', statement given before the Subcommittee on the Western Hemisphere, United States Congress, 6<sup>th</sup> April 2005, p. 5

[17] Green, Stephen, 'China's Quest for Market Economy Status', Briefing note published by The Royal Institute of International Affairs: Asia Programme, May 2004

[18] Dominguez, Jorge, I., 'China's Relations with Latin America: Shared Gains, Asymmetric Hopes', Inter-American Dialogue Working Paper, June 2006, p.25

[19] Ibid.

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[20] Roett, Riordan & Paz, Guadalupe (eds.), *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States*. (Harrisonburg, Virginia: Brookings Institution Press, 2008), p. 178

[21] 'The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean' Draft Discussion Paper produced by The Inter-American Development Bank: Integration and Regional Programs Department, October 2004, p. 137

[22] 'The Uruguay Round' paper produced by the World Trade Organisation, accessed at: [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact5\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm)

[23] Figures taken from USITC 2004 National Trade Estimate Report on Foreign Trade Barriers. Washington, DC.

[24] 'The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean' p. 146

[25] United States General Accounting Office: Report to Congressional Requesters, 'International Trade Mexico's Maquiladora Decline Affects U.S.- Mexico Border Communities and Trade; Recovery Depends in Part on Mexico's Actions' July 2003 accessed at: <http://www.gao.gov/new.items/d03891.pdf>

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