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Backgrounder: China in Latin America

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Introduction

China has gradually expanded its economic and political presence in Latin America¹ over the past ten years. Though trade between China and Latin America continues to remain a relatively small share of their respective global trade, it is an increasing source of new economic growth for both. Resource acquisition remains a cornerstone of Chinese trade and investment in the region. China has also sought to use investment and funding to encourage Latin American countries to officially recognize China instead of Taiwan, thereby weakening Taiwan's global support for a role in the international arena. In addition to investments, China has sought to improve its diplomatic presence through an increasing number of high-level visits, military cooperation and exchanges, and involvement in several regional organizations. Although China is currently not a major player in the region, China's appeal as an additional source of investment and a potential new export market for Latin American goods will ensure the growth of its political and economic influence in the region.



Map of Latin America

¹ In this background, Latin America will refer to all countries in the Caribbean, Central America, and South America.

Economic Developments

In the past ten years, trade between China and Latin America has skyrocketed due to China's enormous demand for new sources of natural resources and untapped markets for Chinese companies and brands. From 2000 to 2009, annual trade between China and Latin American countries grew more than 1,200 percent from \$10 billion to \$130 billion based on United Nations statistics.² This rapid growth has led China to designate Brazil, Mexico, Argentina, and Venezuela as its "strategic partners" in the region and to emerge as Latin America's third largest trading partner.³ Nevertheless, overall trade with China remains small, roughly one-quarter of the region's total trade with the United States, and is highly concentrated in resource-rich countries.⁴ For more manufacturing-based economies in Latin America, particularly Central America, trade with China has been less beneficial as China begins to compete with these countries both at home and abroad in industries such as textile manufacturing.

Trade

Trade between China and Latin America has increased dramatically in the past decade, yet still remains small. China has emerged as the largest export destination for Brazil, Chile, and Peru and the second largest export destination for Argentina, Costa Rica, and Cuba.⁵ Despite this enormous growth, only 7 percent of Latin American exports went to China in 2009, mainly consisting of raw materials and commodities (see Figure 1).⁶ For example, agriculture and mining sector goods composed 83 percent of Latin American exports to China, while goods from these two sectors consisted of only 33 percent of the region's exports to the world between 2008 and 2009.⁷ On the other hand, Chinese exports to Latin America, generally industrial and manufactured goods, comprised 5 percent of the region's global exports.⁸



Soybeans from Argentinean farms represent a key agricultural export to China

² John Paul Rathbone, "China is now region's biggest partner," *Financial Times*, April 26, 2011.

³ The United States is Latin America's largest trading partner followed by the European Union. House Committee on Foreign Affairs, *Hearing on The New Challenge: China and the Western Hemisphere*, testimony of Daniel P. Erikson, 110th Congress, 2nd session, June 11, 2008; and R. Evan Ellis. *China in Latin America*. (Boulder, Colorado: Lynne Rienner Publishers, 2009). p. 107; "Latin America and the Caribbean," *European Commission*, March 21, 2011. <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/latin-america-caribbean/>.

⁴ In 2009, bilateral trade with the United States totaled \$486 billion. John Paul Rathbone, "China is now region's biggest partner," *Financial Times*, April 26, 2011.

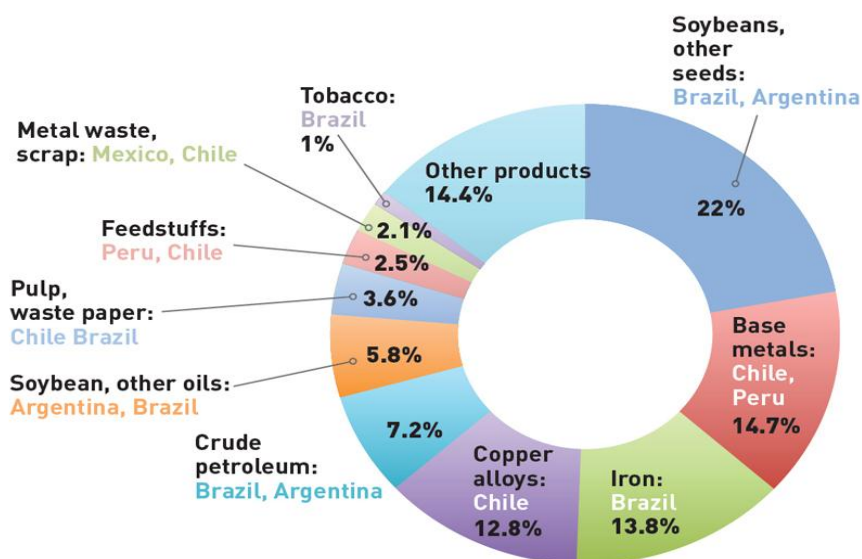
⁵ Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011. http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf. p. 3.

⁶ Kevin P. Gallagher, "Taking the China Challenge: China and the Future of Latin American Economic Development," *Series Brief*, No. 58, December 2010. http://www.latn.org.ar/web/wp-content/uploads/2011/03/Brief58_TakingChinaChallenge_Gallagher.pdf. p. 2; Between 2000 and 2006, 70 percent of the economic growth of Latin America was due to the commodities export boom. Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Palo Alto, CA: Stanford University Press, 2010). pp. 12-15.

⁷ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 12.

⁸ Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011. http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf. p. 8.

Figure 1: Principal Latin American Exports and Leading Exporting Countries to China in 2008



Source: Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Palo Alto, CA: Stanford University Press, 2010).

Leading exports from Latin America to China include copper, iron ore, oil, and soybeans (see Table 1). Over the past two years, Chinese demand for these resources has nearly doubled, filling the drop in demand after the global financial crisis. For example, China accounts for nearly 50 percent of the growth in global iron ore exports and 58 percent of additional soybean exports.⁹ This rise in demand is expected to continue with China providing a steady, increasing demand for the commodities market and raising market prices.¹⁰ According to University of East Anglia (United Kingdom) Professor Rhys Jenkins, Chinese demand for 15 of Latin America's major export commodities has caused prices to rise, leading to an estimated \$42 to \$75 million in revenue for the region between 2002 and 2008.¹¹ As a result, benefits from the overall trade relationship are concentrated in a few resource-rich countries.¹² Approximately 90 percent of Latin American exports to China as of 2008 were from four countries: Brazil (41 percent), Chile (23.1 percent), Argentina (15.9 percent) and Peru (9.3 percent).¹³ Economic ties between these four countries and China have continued to deepen with China first becoming Chile's largest export customer in 2007 and Brazil's largest trading partner in 2009.¹⁴

Approximately 90 percent of Latin American exports to China as of 2008 were from four countries: Brazil (41 percent), Chile (23.1 percent), Argentina (15.9 percent) and Peru (9.3 percent)

⁹ Kevin P. Gallagher, "The China Syndrome," *Latin Trade*, August 12, 2010..

¹⁰ Kevin P. Gallagher, "China and the Future of Latin American Industrialization," *Issues in Brief*, No. 18, October 2010. <http://www.bu.edu/pardee/files/2010/10/18-IIB.pdf> pp. 3-4.

¹¹ "Researchers Analyse Changes in Latin American Middle Class and the 'China Effect' on Exports," *Economic Commission for Latin America and the Caribbean Press Release*, April 19, 2011.

¹² Mauricio Cardenas and Eduardo Levy-Yeyati, "Latin America Economic Perspectives," *The Brookings Institution*, September 2010, p. 15.

¹³ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, pp. 7-8.

¹⁴ R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 25; Malcolm Moore, "China overtakes the US as Brazil's largest trading partner," *The Telegraph*, May 9, 2009.

Table 1: Five Countries, Eight Sectors, Dominate LAC Trade to China (2009)

Sector	Share of Total Latin American Exports to China	Country (Share of Total Latin American Exports to China in Sector)
Copper Alloys	17.9 percent	Chile (90 percent)
Iron ore and concentrates	17.3 percent	Brazil (89 percent)
Soybeans and other seeds	16.8 percent	Brazil (83 percent), Argentina (16 percent)
Ores and concentrates of base metals	13.5 percent	Chile (47 percent), Peru (39 percent)
Crude petroleum	4.5 percent	Brazil (65 percent), Colombia (20 percent)
Soybean oil and other oils	4.5 percent	Argentina (79 percent), Brazil (20 percent)
Pulp and waste paper	4.4 percent	Brazil (55 percent), Chile (43 percent)
Feedstuff	2.4 percent	Peru (63 percent), Chile (30 percent)
Other	18.7 percent	
TOTAL	100.0 percent	

Source: Kevin P. Gallagher, "China and the Future of Latin American Industrialization," *Issues in Brief*, No. 18, October 2010. p. 2

Although China's demand for commodities has fueled economic growth in the region, experts have expressed concern regarding Latin American dependence on natural resource exports to China because of the inherent volatility in commodity prices and reliance on low-value added and less labor-intensive exports.¹⁵ Mauriciou Moreira Mesquita, a trade specialist at the Inter-American Development Bank, echoed these concerns stating, "The region is going to have to live with the fact that it is rich in commodities that are in high demand. There are obvious concerns about what happens to the manufacturing sector in that perspective."¹⁶ For example, 81 percent of Chile's exports to China are comprised of copper and copper ore, a product that has seen volatile price swings in recent years.¹⁷

To mitigate the effects of changes in commodity prices, Chile and other resource-rich countries in Latin America have used profits from exporting commodities to China to establish education and job training funds.¹⁸ More specifically, the Chilean government used profits from copper sales to provide a stimulus package in response to the financial crisis.¹⁹ However, experts from Latin America remain concerned about China's rising influence with Chile and other Latin American countries to pursue favorable trade policies and to protect its economic interests.²⁰ For example, Argentina's soybean industry is dependent

¹⁵ Exports of raw natural resources such as iron ore does not allow for firms to earn additional profit from processing the iron ore to create steel. In addition, mining and agricultural sectors are highly mechanized with little opportunity for new job creation in a region of high poverty and underemployment.

¹⁶ Matthew Kennard, "View from the US: 'Backyard' increases its global importance," *Financial Times*, April 26, 2011.

¹⁷ Chris Kelly and Melanie Burton, "Metals-Copper slips from record on China inflation worry," *Reuters*, February 15, 2011; Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011. http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf. p. 4.

¹⁸ Javier Santiso, "Can China change Latin America?" *OECD Observer*, No. 262, July 2007; Brazil, Colombia, and Peru have followed Chile's lead and set up similar offshore funds. John Paul Rathbone, "China is now region's biggest partner," *Financial Times*, April 26, 2011.

¹⁹ Kevin P. Gallagher, "China and the Future of Latin American Industrialization," *Issues in Brief*, No. 18, October 2010. <http://www.bu.edu/pardee/files/2010/10/18-IIB.pdf>. p. 7.

²⁰ R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf. pp. 89-90; Some experts from Latin America that are concerned about China's growing influence in the region include Antonio Delfim Netto, Karen Poniachik, and Rubens Ricupero. Matt Ferchen, "China-Latin America Relations: Long-term Boon or Short-

on Chinese demand with approximately 74 percent of Argentina's soybean exports going to China. When Argentina enacted restrictions to protect domestic manufacturers in 2010, China retaliated by not approving permits to import Argentinean soybeans, resulting in nearly \$2 billion of losses.²¹ With Chile dependent on copper and copper ore for approximately half of its total exports in 2010 and 16.3 percent of its global national product, a sudden drop in Chinese demand would have a significant impact on the economy.²²

Market Access

Both Chinese and Latin American companies have sought to enter each others' respective markets. In an effort to remove barriers to trade and further expand their exports, three Latin American countries have signed free trade agreements (FTA) with China. Chile became the first Latin American country to sign a FTA with China in 2006, followed by Peru in 2010 and Costa Rica in 2011.²³ Within a year of implementing the FTA with Chile, the volume of trade between Chile and China increased 100 percent, leading both countries to expand the scope of the agreement in 2008.²⁴ Peru has also benefited from its FTA with China. According to the Inter-American Development Bank (IDB), the FTA has been mutually beneficial, causing Peru's overall exports to grow 23 percent with a 48 percent increase in agricultural exports and 65 percent increase in processed food exports.²⁵

Within the past five years, China has signed FTAs with Chile, Peru, and Costa Rica

Chinese brands in the consumer appliance, telecommunication, and automobile industries have been able to successfully compete in Latin American markets mainly due to their low cost appeal to price-sensitive consumers. For example, Chinese firms' automobiles cost on average 15 to 30 percent less than those of their competitors.²⁶ As a result, Chery, China's largest automobile firm, has become very popular, selling out its 2007 supply to Chile and leading to a long waiting list for its 2008 supply.²⁷ Similarly, the sale of

term Boom?, *The Chinese Journal of International Politics*, Vol. 4., 2011. p. 69-72; Alexei Barrionuevo, "China's Interest in Farmland Makes Brazil Uneasy," *New York Times*, May 26, 2011; Karen Ponichik, "China's Buying Spree: Life beyond commodities," *Latin Trade*, February 7, 2011.

²¹ Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Palo Alto, CA: Stanford University Press, 2010). p. 20; William Bi, "China Said to Halt Import of Argentine Soybean Oil," *Bloomberg*, April 11, 2010; Rodrigo Orihuela, "Argentina Soybean Growers 'Optimistic' Talk Will End China's Oil Blockade," *Bloomberg*, April 6, 2010.

²² Steve Anderson, "Chile's copper dependency has taken a turn for the worse: 55% of all exports," *MecroPress*. November 16, 2010.

²³ Javier Santiso, "Can China change Latin America?" *OECD Observer*, July 2007, No. 262; Shayne Heffernan, "IDB and China's Eximbank Sign Deal to Boost China-Latin," *Live Trading News*, October 25, 2010; Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 16.

²⁴ R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 42.

²⁵ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 16.

²⁶ In 2010, Chinese automobile manufacturers controlled 7 percent of the Chilean and 4 percent of the Peruvian automobile market. According to the Economist Intelligence Unit, the market share of Chinese vehicle exports to Chile rose sharply to 5.5 percent in 2008 but then stabilized in 2009. R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 38.; "Peru: Automobile Market Outlook," *BBVA Research*, 2010, https://ws1.grupobbva.com/KETD/fbin/mult/automobile_market_outlook_peru_tcm348-239550.pdf?ts=2222011 p. 11.; Economist Intelligence Unit, "Chile: Automotive Report," August 4, 2010. http://www.eiu.com/index.asp?layout=ib3Article&article_id=827322267&country_id=1500000150&pubtypeid=1112462496&industry_id=&category_id=

²⁷ In 2010, Chery experienced significant growth in 2008 after the enactment of the China-Chile FTA to gain 1.3 percent of Chile's light automobile vehicle market share, but it failed to further expand in 2009. R. Evan Ellis, *China*

Chinese motorcycles from 2003 to 2007 in Chile increased 1,650 percent due to their cost competitiveness, with Chinese firms dominating approximately 75 percent of the Chilean motorcycle market.²⁸ Chinese firms are aggressively competing to establish themselves as a household brand for Latin America's emerging middle-class consumer market.

Latin American mining, oil, and agricultural industries have successfully exported to China, but manufacturing industries such as textiles, footwear, and furniture have been less successful due to global and domestic competition with Chinese firms.²⁹ According to Kevin Gallagher, Associate Professor of International Relations at Boston University, 92 percent of Latin American companies faced competition from Chinese firms in 2009. The rise in imports of Chinese manufactured goods has begun to impact Latin American firms. The U.N. Economic Commission for Latin America and the Caribbean estimates that 60 percent of anti-dumping complaints initiated by Latin American countries are against China.³⁰ As a result of competition between Chinese and Latin American manufacturing companies, there has been backlash by local businesses in Mexico, Brazil, Argentina, and Colombia against local Chinese business competitors and the influx of Chinese made products.³¹

Brazil's Growing Trade Relationship with China

Brazil is one of China's largest trading partners in the region. From 1998 to 2008, trade between the two countries increased 1,838 percent.³² This rapid growth in trade and investment has fueled Brazil's economy and provided needed demand in a slumping global market.³³ However, similar to the rest of the region, Brazil exports mainly raw commodities and imports manufactured products from China. In 2009, 77 percent of Brazil's exports to China consisted of raw materials and commodities while industrial products were only 23 percent. Of Brazil's total exports to China, iron ore accounted for approximately 40 percent and soy beans and soy oil accounted for an estimated 23 percent.³⁴ In contrast, Brazil's imports from China are 98 percent industrial products.³⁵

While these exports have led to further economic growth in Brazil and improved quality of life by providing low-cost products, competition in manufacturing sectors has led to the outsourcing of factories

in *Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 39; "Latin America: Automobile Market Outlook," *BBVA Research*, December 2010,

http://serviciodeestudios.bbva.com/KETD/fbin/mult/INTAULT_14122010_tcm348-239499.pdf?ts=2222011 p. 7.;

Economist Intelligence Unit, "Chile: Automotive Report," August 4, 2010.

http://www.eiu.com/index.asp?layout=ib3Article&article_id=827322267&country_id=1500000150&pubtypeid=1112462496&industry_id=&category_id=

²⁸ R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 39.

²⁹ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 1.

³⁰ Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011.

http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf p. 4.

³¹ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 18.

³² Expo 2010 Brasil, "China and Brazil strengthen trade relations," *Press Release*, March 24, 2010.

<http://www.expo2010brazil.com/en/press-releases/88-china-and-brazil-strengthen-trade-relations>.

³³ For example, China was the largest single source of foreign direct investment for Brazil in 2010 with 15 percent of the total followed by Switzerland with 13 percent and the United States with 11 percent. Economic Commission for Latin America and the Caribbean, "Foreign Direct Investment in Latin America and the Caribbean, 2010," *United Nations*, May 2011. http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI_2010-WEB_INGLES.pdf p. 41.

³⁴ Brian Winter and Brian Ellsworth, "Brazil and China: A young marriage on the rocks," *Reuters*, February 3, 2011.

³⁵ Expo 2010 Brasil, "China and Brazil strengthen trade relations," March 24, 2010.

<http://www.expo2010brazil.com/en/press-releases/88-china-and-brazil-strengthen-trade-relations>.

to China or an inability of domestic firms to compete with the lower prices of Chinese firms.³⁶ According to a study of 1,529 firms conducted by Brazil's National Industrial Confederation, one-fourth of Brazilian manufacturers face competition from Chinese firms in the domestic market, and two-thirds of Brazilian exporters have lost foreign clients to China.³⁷ The Federation of Industries of the State of Sao Paulo estimates that this competition with China has led to the loss of approximately 70,000 Brazilian manufacturing jobs in 2010 and \$10 billion in expected earnings for local industry.³⁸

As these two countries compete in the same manufacturing sectors, the results of this competition have led to some recent political tensions. For example, in statements with union leaders, Brazilian President Rousseff stated that "There is a misbalance in our relations with China. Brazil exports commodities and imports too many knick-knacks. This happens particularly between Christmas and Carnival. I'm told that 80 percent of this year's [2011] Carnival costumes came from China."³⁹

Foreign Direct Investment (FDI)

China is also becoming a new source of FDI in the world as the world's fifth largest investor country.⁴⁰ Since 2003, China has increased its global outward FDI flows 1,880 percent to \$56.5 billion in 2009. According to the Chinese government's *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, only 13 percent of this outward FDI is in Latin America, whereas nearly three-fourths is in Asia. Of the \$7.33 billion in Chinese FDI for Latin America in 2009, the Cayman Islands and British Virgin Islands received 73 percent and 22 percent respectively.⁴¹ A majority of the money invested in these two financial tax havens is sent to take advantage of tax breaks for "foreign companies" and is then reinvested in China.⁴² For a more accurate view of FDI in the region, these two countries' figures will be excluded.

Excluding the Cayman Islands and British Virgin Islands, Chinese FDI to the region increased approximately 1,500 percent from US\$21.86 million in 2003 to US\$349.55 million in 2009, becoming the region's third largest FDI provider.⁴³ The largest recipients of Chinese FDI parallel China's most important trading partners in the region: the leading recipients of Chinese FDI from 2003 to the first semester of 2010 were Brazil (41 percent), Venezuela (15 percent), Peru (12 percent), Argentina (11

³⁶ For example, the Brazil-China Business Council estimated that Brazil lost 90 percent of its share of the U.S. shoe market to Chinese competition in 2008. Julie McCarthy, "Growing Trade Ties China to Latin America," *National Public Radio*, April 1, 2008.

³⁷ Iuri Dantas, "Brazil Will Work With Obama to Counter Rising China Imports, Official Says," *Bloomberg*, February 3, 2011.

³⁸ Joe Leahy, "Brazilian factories tested by Chinese imports," *Financial Times*, January 30, 2011.

³⁹ "Brazil's Plan to Cut Chinese Imports & Stimulate Industry," *Merco Press*, March 14, 2011.

⁴⁰ For a breakdown on Chinese FDI worldwide see: Nargiza Salidjanova, "Going Out: An Overview of China's Outward Foreign Direct Investment," *U.S.-China Economic & Security Review Commission*, March 30, 2011. <http://www.uscc.gov/researchpapers/2011/GoingOut.pdf>; Economic Commission for Latin America and the Caribbean, "Foreign Direct Investment in Latin America and the Caribbean, 2010," *United Nations*, May 2011. http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI_2010-WEB_INGLES.pdf, p. 17.

⁴¹ Ministry of Commerce of the People's Republic of China, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, (Beijing, China: 2009).

⁴² Thomas Lum, Hannah Fischer, Julissa Gomez-Granger, and Anne Leland, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia," *Congressional Research Service*, February 25, 2009, p. 13.

⁴³ Ministry of Commerce of the People's Republic of China, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, (Beijing, China: 2009); The United States is the region's largest investor with 17 percent of total FDI to the region followed by the Netherlands at 13 percent and China at 9 percent. Economic Commission for Latin America and the Caribbean, "Foreign Direct Investment in Latin America and the Caribbean, 2010," *United Nations*, May 2011. http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI_2010-WEB_INGLES.pdf, p. 9.

percent), and Chile (2 percent).⁴⁴ However, Chinese FDI composes a relatively small portion of total FDI to the region with the United States investing approximately \$142 billion in the region last year by comparison.⁴⁵ Despite the small relative share, the rapid growth of China's global outward FDI has attracted the attention of many Latin American governments and businesses as an alternative source of investment to fuel economic growth and fund infrastructure and resource projects.⁴⁶

Chinese FDI in the region has focused on three key objectives: resource acquisition, market access, and efficiency seeking.⁴⁷ Recent projects in the region have focused largely on resource acquisition (See Table 2). According to the United Nations Economic Commission for Latin America and the Caribbean, 90 percent of China's investment in the region has gone to natural resource extraction.⁴⁸ In 2010 alone, China spent \$13.3 billion on oil and gas deals in countries such as Ecuador, Argentina, and Venezuela.⁴⁹ Moreover, some Chinese companies have been able to win contracts in Latin America through their ability to secure additional funding from the Chinese banks. For example, the ability of the Chinese company SinoHidro to self-finance 85 percent of the construction of the Coco Coda Sinclair Hydroelectric plant through loans with Chinese banks assisted the Chinese company in bypassing the local partner requirement and securing a \$1.7 billion loan deal with the Ecuadorian government.⁵⁰ Although Chinese investment has provided critically needed infrastructure for the region, many Latin America governments would like to see more diversification of Chinese investment to other sectors besides mining and agriculture to ensure long-term economic development.⁵¹ In addition, the rise of China as an alternative source of financing for projects has raised concerns about the ability of the United States and Europe to encourage progress on human rights and/or environmental protection issues with countries such as Venezuela.⁵²

*Natural resource extraction
composed 90 percent of
Chinese investment in the
region*

⁴⁴ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, p. 26.

⁴⁵ For example, the United States foreign direct investment totaled \$57 billion in Brazil and \$23 billion in Chile by the end of 2009. White House Press Office, "Fact Sheet on the U.S. Relationship with Central and South America: An Emerging Partnership for Economic Growth," (Washington, DC: March 15, 2011).

⁴⁶ Simon Romero and Alexei Barrionuevo, "Deals Help China Expand Sway in Latin America," *The New York Times*, April 15, 2009.

⁴⁷ Efficiency-seeking FDI is investing in foreign markets to take advantage of a lower cost structure.

⁴⁸ Economic Commission for Latin America and the Caribbean, "Foreign Direct Investment in Latin America and the Caribbean, 2010," *United Nations*, May 2011. http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI_2010-WEB_INGLES.pdf, p. 18; In February 2011, China indicated that it would like to derive 40 percent of iron ore imports Chinese-invested sources by 2015. To meet this goal, China may start investing more in iron ore mining operation in Brazil, Venezuela, Chile, and Peru. Chuin-Wei Yap, "China Plans Overseas Iron Ore Asset Spree," *The Wall Street Journal*, February 23, 2011.

⁴⁹ Jim Bai and Farah Master, "China's Sinopec buys Occidental Argentine assets," *Reuters*, December 10, 2010.

⁵⁰ R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFO60_85-91_Ellis.pdf, pp. 89-90.

⁵¹ Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, pp. 29-30.

⁵² Cynthia J. Arson and Jeffrey Davidow, ed. "China, Latin America, and the United States: The New Triangle," *Woodrow Wilson International Center for Scholars*, January 2011. http://wilsoncenter.org/topics/pubs/LAP_120810_Triangle_rpt.pdf, p. 5.

Table 2: Major Chinese Investment Projects in Latin America 2009-2011

Date	Investor	Partner	US\$ million	Country	Sector
<i>2009</i>					
February	Shougang Group	Shougang Hierro Peru	\$1,000	Peru	Iron
May	China Development Bank	Petrobras	\$10,000	Brazil	Oil
October	Baosteel	Anglo American	\$1,600	Brazil	Iron
December	Shunde Rixin		\$1,900	Chile	Iron
<i>2010</i>					
March	CNOOC	Bridas Holdings	\$3,100	Argentina	Oil
March	State Grid	Quadra Mining	\$1,050	Chile	Copper
March	East China Mineral	Itaminas	\$1,200	Brazil	Iron
April	Wisco		\$4,700	Brazil	Steel
April	CNPC		\$900	Venezuela	Oil
May	State Grid	Cobra, Elecnor and Isolux	\$1,720	Argentina	Power
May	Sinochem	Peregrino field	\$3,070	Brazil	Oil
October	Sinopec	Repsol/YPF	\$7,100	Brazil	Oil
<i>2011</i>					
January	Tierra del Fuego Energia y Quimica*		\$1,000	Argentina	Infrastructure
February	China Development Bank and China Railway Group		\$7,600	Colombia	Infrastructure
Total			\$45,940		

Compiled from Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," Inter-American Development Bank, October 2010, p. 27; Kevin P. Gallagher, "China and the Future of Latin American Industrialization," Issues in Brief, No. 18, October 2010; and press releases.

**Tierra del Fuego is a Chinese joint-venture between Shaanxi Coal and Chemical Industry Group Co, Ltd., Shaanxi Xinyida Investment Ltd., and Jinduicheng Molybdenum Group Co. Ltd.⁵³*

Besides resource acquisition investment, Chinese firms are beginning to expand their operations in the region through market access investment. For instance, Chery, a leading Chinese automobile manufacturer, has invested in Latin America, establishing plants in Uruguay in 2007 and dealerships in Brazil in 2009.⁵⁴ Through these investments, Chery is well-positioned to become a lead competitor in the world's fourth largest new car market, Brazil.⁵⁵ In addition, Lenovo, the world's third biggest computer manufacturer, invested \$40 million to open a plant in Mexico in 2009 to produce computers for the North and South American markets.⁵⁶

⁵³ ñKBR wins Argentina ammonia plant contract, ñHouston Business Journal, June 22, 2010.

⁵⁴ Kevin P. Gallagher, ñChina and the Future of Latin American Industrialization, ñIssues in Brief, No. 18, October 2010. p. 3. <http://www.bu.edu/pardee/files/2010/10/18-IIB.pdf>; ñRamping up Business in Brazil, Chinese Chery Deeply Exploiting South American Auto Market, ñChery Press Release, September 3, 2009.

⁵⁵ Glenn Brooks, ñThe battle for Brazil's car market, ñAutomotiveWorld.com, July 19, 2010.

⁵⁶ ñLenovo to Increase Global Footprint With New Manufacturing Plants in Mexico and India, ñLenovo Press Release, July 26, 2007.; John Hobbes, ñLenovo factory in Mexico starts up, ñLenovo, March 2, 2009.

Chinese Firms Outcompete U.S. Firms in Telecommunications

Chinese telecommunications firms Huawei and ZTE have been particularly successful in winning lucrative contracts in Latin America due to their low cost advantage.⁵⁷ Many Latin American countries deregulated the telecommunications industry in the late 1990s and early 2000s, thereby opening up this market to foreign competition.⁵⁸ For example, when Argentina fully deregulated its telecommunications market in 2000, U.S. companies such as Nextel, Bell South, and AT&T quickly entered this rapidly growing market and spent billions of dollars to attract customers in urban areas.⁵⁹ In contrast, Chinese firm like Huawei and ZTE focused on supplying equipment and technology to the less profitable rural and less developed areas, gradually building their experience competing in foreign markets.⁶⁰

However, shortly after the influx of foreign companies into the market, Argentina experienced a significant economic downturn in 2001-2002. Faced with enormous losses, many U.S. firms exited the market, leaving it open for Huawei and ZTE to begin supplying equipment to Latin America's leading telecommunication operators.⁶¹ As Alex Zorning, the Chief Financial Officer of Tele Norte, stated, "The Chinese are filling the space left empty by Americans and Europeans. They [the Chinese] are very aggressive, and they have a lot of money."⁶² When U.S. firms sought to reenter the market several years later, they faced stiff competition from Chinese firms. U.S. firms Cisco and Nokia have had some issues maintaining market share as their Chinese competitors' prices have been 20 to 50 percent lower.⁶³ According to Steven Davidson, leader of strategic change at IBM in Asia, "A Cisco [representative] always starts a discussion with its software superiority, but many companies in developing countries would rather pay half the price for software that gets the job done."⁶⁴

Huawei and ZTE are able to provide these price advantages in part because of low to no-interest loans from the Chinese government. Huawei received a \$10 billion loan in 2004 and a \$30 billion credit line in 2009 from the China Development Bank while ZTE received a \$15 billion credit line in 2009.⁶⁵ Although similar export credit programs are available to American and European companies, Adolfo Hernandez,

⁵⁷ For information on the background of these telecommunications firms see: "The National Security Implications of Investments and Products from the People's Republic of China in the Telecommunications Sector," *U.S.-China Economic & Security Review Commission*, January 2011. http://www.uscc.gov/RFP/2011/FINALREPORT_TheNationalSecurityImplicationsofInvestmentsandProductsfromThePRCintheTelecommunicationsSector.pdf.

⁵⁸ Anton A. Huurdeman, *The Worldwide History of Telecommunications*, (Hoboken, NJ: John Wiley & Sons, Inc, 2003) pp. 556-559.

⁵⁹ AT&T spent \$2 billion to build a fiber optic network in Argentina, Brazil, Chile, Colombia, and Peru and sold it for just \$207 million in 2004 to the Mexican company Telmex. Janie Hulse, "China's Expansion into and U.S. Withdrawal from Argentina's Telecommunications and Space Industries and the Implications for U.S. National Security," *Strategic Studies Industry*, September 2007. pp. 26-27; Gissel Gazek and Sebastian Pawlowski, "IT Landscape in Argentina: Liberalization and Deregulation," *American University*, <http://www1.american.edu/carmel/gg7870a/Liberalization.htm>; Geri Smith, "The Telecom King of Latin America?," *Business Week*, March 29, 2004.

⁶⁰ Janie Hulse, "China's Expansion into and U.S. Withdrawal from Argentina's Telecommunications and Space Industries and the Implications for U.S. National Security," *Strategic Studies Industry*, September 2007. p. 6.

⁶¹ Ibid. pp. 26-27.

⁶² Edmond Lococo, Crayton Harrison, and Michael Forsythe, "Huawei's \$30 Billion China Credit Opens Doors in Brazil, Mexico," *Bloomberg*, April 24, 2011.

⁶³ Pete Engario, Michael Arndt, and Geri Smith, "Emerging Giants," *Businessweek*. July 31, 2006..

⁶⁴ Ibid.

⁶⁵ Mitchell Silk and "Are Chinese Companies Taking Over the World?" *The Chicago Journal of International Law*, Volume 7, Number 1, Summer 2006.; Carolyn Whelan, "China's new frontier," *Fortune Magazine*, June 25, 2009.

Alcatel-Lucent's President for Europe, the Middle East, and Africa, notes that, "The difference in China is mainly that they [export credit programs] are bigger."⁶⁶ As a result, Huawei and ZTE are able to provide larger, lower-interest loans to customers in Latin America than those offered by Americans or Europeans.⁶⁷ For example, Tele Norte Leste Participacoes SA, Brazil's largest land-line company, choose Huawei to supply their network equipment in part from the lower interest offered on the credit agreement: 4 percent versus 5.99 percent.⁶⁸ In addition to low costs, ZTE and Huawei have attracted government support in the region by providing pro-bono work or donated equipment to local governments, reducing overall costs to provide telephone service to rural areas.⁶⁹ As a result, Huawei and ZTE became the 4th and 8th largest global telecommunication equipment and service vendors in 2008 and are leading suppliers to Teléfonico and América Móvil, Latin America's largest telecommunication firms.⁷⁰

⁶⁶ Edmond Lococo, Crayton Harrison, and Michael Forsythe, "Huawei's \$30 Billion China Credit Opens Doors in Brazil, Mexico," *Bloomberg*, April 24, 2011.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Janie Hulse, "China's Expansion into and U.S. Withdrawal from Argentina's Telecommunications and Space Industries and the Implications for U.S. National Security," *Strategic Studies Industry*, September 2007. pp. 7-8.

⁷⁰ The ability of these Chinese firms to provide low-cost, quality equipment is believed to have caused the mergers of leading Western telecommunications firms including Nokia and Siemens, Alcatel and Lucent, and the sale of Nortel's assets to Ericsson. "China has made huge strides in network equipment," *The Economist*, September 24, 2009.

Political Developments

In the past ten years, China has taken on a larger role within Latin America. The rising importance of this relationship was highlighted in the release of the first policy paper on Latin America by the Chinese government in 2008 and the growing number of high-level visits and bilateral agreements. China also has become an increasingly higher priority for Latin American countries, which see China as an alternative to the United States and the European Union as an ally in the international community, a source of funding for infrastructure projects and humanitarian aid, and a driver of economic growth. Although the United States remains the dominant power in Latin America, China's influence has grown as the United States has become less active within the region due to its focus on wars in Iraq and Afghanistan and recovering from the global financial crisis.

Political and Military Ties

Following President Hu Jintao's 2004 visit to Latin America, the number of high-level exchanges between Latin American governments and China has rapidly increased. President Hu Jintao has visited the region twice since 2004 and sent various high-level officials to further engage the region, including heir-apparent Xi Jinping in 2009.⁷¹ Between 2004 and 2010, the most frequent countries visited by Chinese officials were Venezuela, Mexico, Brazil, Peru, and Cuba. Latin American government leaders have reciprocated with frequent visits to China.⁷² These visits have also corresponded with the signing of 121 bilateral agreements and cooperation initiatives with Latin America and Caribbean nations since 2000.⁷³ Approximately three-fourths of these agreements focus on six key areas: cultural (17), economic and trade (15), protection of investment (14), public administration/consular (13), science and technology (17), and tourism (13).⁷⁴ Although the impact of these agreements has varied, the overall number and frequency of high-level visits indicates a concerted effort by China to engage the region.

China has also begun to expand its military ties with the region. Current military relations focus mainly on military-to-military exchanges through frequent official visits and the regular exchange of flag officers.⁷⁵ Venezuela, Chile, Bolivia, and Cuba maintain strong ties to the Chinese military through a high number of official visits, military officer exchanges, port calls, and limited arms sales.⁷⁶ For example, Venezuela, Bolivia, and Ecuador have begun to buy Chinese arms and military equipment such

⁷¹ President Hu Jintao visited Brazil, Argentina, Chile, and Cuba in 2004 and Costa Rica, Cuba, and Peru in 2008. In 2010, he had to shorten the duration of his trip to Brazil, Venezuela, and Chile to address the aftermath of the Qinghai earthquake. Vice-President Xi Jinping visited Mexico, Jamaica, Colombia, Venezuela, and Brazil in 2009. Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," *Congressional Research Service*, April 20, 2005. <http://fpc.state.gov/documents/organization/45464.pdf>, p.5; Rory Carroll, "China pours its wealth into Latin America," *The Observer*, April 18, 2010; "Chinese VP returns to Beijing after six-nation visit," *Xinhua*, February 23, 2009.

⁷² Since entering office in 1998, Venezuelan President Hugo Chavez has traveled to China six times. "Venezuelan President Hugo Chavez Concludes China Trip," *Xinhua*, April 9, 2009.

⁷³ Compiled data from Integration and Trade Sector, "Ten Years After the Take-off: Taking Stock of China-Latin America and the Caribbean Economic Relations," *Inter-American Development Bank*, October 2010, pp. 35-37.

⁷⁴ Ibid.

⁷⁵ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Mexico, Peru, Uruguay, and Venezuela all have military exchanges with China. Compiled from R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009).

⁷⁶ In December 2009, the Chinese naval fleet made an official port call to Peru, Ecuador, and Chile. In addition, Cuba is believed to host Chinese signal intelligence gathering operations. Xiong Tong, ed. "Chinese Naval fleet concludes goodwill port call in Peru," *Xinhua*, December 8, 2009; R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009) p. 242.

as radar and aircraft.⁷⁷ In addition, Bolivia solidified this growing military-to-military relationship in March 2011 by signing a military co-operation agreement with China.⁷⁸ However, for the rest of the region, China's current arms sales are generally uniforms and other nonlethal equipment due to the inferiority of Chinese weapons and equipment to U.S. and Russian equivalents.⁷⁹

Regional Participation

China has recently increased its participation in Latin American regional organizations. In 2004, China joined the Organization of American States as a Permanent Observer.⁸⁰ Four years later, China joined IDB as a Donor Member and donated over US\$350 million for public and private sector projects.⁸¹ In 2009, the IDB signed partnership agreements with the Export-Import Bank of China and China Development Bank to finance various projects in the region, strengthening China's presence in the region as an alternative to the United States and European Union for funding.⁸² More specifically, China has used its membership in the IDB to open the region to Chinese imports and direct funding for less-developed countries in the region as a member of the special committee.⁸³ China has also expanded its diplomatic ties to the following regional organizations⁸⁴: Group of Rio,⁸⁵ Andean Community,⁸⁶ and Caribbean Community (CARICOM).⁸⁷ These developments have provided Latin American countries with an additional source of funding and a partner beyond the United States and European Union.

⁷⁷ More specifically, Bolivia spent US\$58 million in 2007 on six aircraft to assist with counternarcotic operations. R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf pp. 87-88; R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009); "Bolivia and China sign military co-operation agreement," *Jane's Intelligence Weekly*, March 9, 2011.

⁷⁸ "Bolivia and China sign military co-operation agreement," *Jane's Intelligence Weekly*, March 9, 2011.

⁷⁹ R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf pp. 87-88.

⁸⁰ Ambassador Zhou Wenzhong, Permanent Observer of China to the Organization of American States. Santo Domingo, Dominican Republic, June 4, 2006.

⁸¹ William Ratliff, "China's Latin American Tango," *Wall Street Journal*, November 27, 2008.

⁸² R. Evan Ellis, "The New Chinese Engagement With Latin America: Understanding Its Dynamics and the Implications for the Region," *Booz Allen Hamilton*, March 3, 2006. <http://www6.miami.edu/hemispheric-policy/EllisTheNewChineseEngagementWithLatinAmerica030306.pdf>.

⁸³ R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf p. 88.

⁸⁴ Speech by Mr. Chen Siwei, Vice Chairman of the NPC Standing Committee at the Organization of American States. Washington, DC. December 6, 2005.

⁸⁵ The Group of Rio is an organization of Latin American states established in 1986 as an alternative to the US-led Organization of American States. Member states include: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Coalition for the International Criminal Court, "Rio Group," <http://www.iccnw.org/?mod=riogroup>.

⁸⁶ The Andean Community is a regional organization made up of Bolivia, Colombia, Ecuador, and Peru. Its Associate Members include Argentina, Brazil, Paraguay, Uruguay, and Chile. Comunidad Andina, "About Us," <http://www.comunidadandina.org/ingles/who.htm>.

⁸⁷ The Caribbean Community is a regional organization between 15 Caribbean nations that has established a single market and economy between countries. Member states include: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Haiti, Jamaica, Grenada, Guyana, Montserrat, St. Lucia, Suriname, St. Kitts and Nevis, St. Vincent and the Grenadines, and Trinidad and Tobago. Caribbean Community, "The Caribbean Community," http://www.caricom.org/jsp/community/community_index.jsp?menu=community.

Taiwan

A key issue for China remains the continued recognition of Taiwan by many Central American and Caribbean nations. Currently, 12 of the 23 countries with diplomatic relations with Taiwan are located in this region. These countries are mainly located in Central America and the Caribbean and include Belize, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Saint Christopher and Nevis, St. Lucia, and St. Vincent and the Grenadines.⁸⁸ In the past, Taiwan used to play a role in military exchanges and training, but more recently, Taiwan has focused its efforts on providing significant economic incentives, humanitarian assistance, and frequent high-level official visits. Taiwan regularly provides grants and infrastructure support such as housing projects and a new congress building for Paraguay costing over US\$50 million.⁸⁹



To encourage Latin American countries to switch their support from Taiwan to mainland China, China has followed Taiwan's "checkbook diplomacy", offering significant aid packages and other economic incentives.⁹⁰ For example, Dominica shifted its recognition to Beijing in 2004 with a pledge of US\$112 million in aid over six years. Costa Rica followed suit in 2007 receiving various benefits, most notably a US\$300 million in government bonds and various infrastructure and public works projects, US\$10 million cash donation, US\$83 million for a new national soccer stadium, US\$1 billion joint venture for petroleum refinery, and a free trade agreement finalized in 2010.⁹¹ More recently, Taiwan has been less able to compete with China's offers, leading Taiwan to officially renounce its "checkbook diplomacy" practices in 2008.⁹² The remaining countries are believed to be holding out for more lucrative deals with China and, in the meantime, use China's offers to secure additional funding from Taiwan. For example, St. Kitts was considering switching its recognition to mainland China until Taiwan provided US\$8 million for a stadium.⁹³ This type of behavior is expected to continue as these countries work to negotiate more expensive economic packages in the future.⁹⁴

⁸⁸ The remaining countries are: Burkina Faso, The Gambia, Sao Tome and Principe, Swaziland, Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, Tuvalu, and The Holy See. "List of Embassies & Missions Abroad," Ministry of Foreign Affairs of the Republic of China (Taiwan),

<http://www.mofa.gov.tw/webapp/lp.asp?ctnode=1867&ctunit=34&basedsd=32&mp=6>.

⁸⁹ Carola McGiffert, Ed. *Chinese Soft Power and Its Implications for the United States – Competition and Cooperation in the Developing World*, Center for Strategic and International Studies, March 2009.

http://csis.org/files/media/csis/pubs/090305_mcgiffert_chinesesoftpower_web.pdf p. 98.

⁹⁰ China's willingness to contribute civilian police to assist with the United Nations' peacekeeping operation to Haiti, a country that still recognizes Taiwan, is believed to be another method the Chinese are using to encourage countries to switch recognition from Taiwan to mainland China. Bates Gill and Chin-Hao Huang, "China's Expanding Role in Peacekeeping," *Stockholm International Peace Research Institute*, November 25, 2009.

<http://books.sipri.org/files/PP/SIPRIPP25.pdf> pp. 8, 14.

⁹¹ Carola McGiffert, Ed. *Chinese Soft Power and Its Implications for the United States – Competition and Cooperation in the Developing World*, Center for Strategic and International Studies, March 2009.

http://csis.org/files/media/csis/pubs/090305_mcgiffert_chinesesoftpower_web.pdf p. 99-100; R. Evan Ellis,

"Chinese Soft Power in Latin America: A Case Study," *National Defense University*, Issue 60, 1st Quarter 2010. http://www.ndu.edu/press/lib/images/jfq-60/JFQ60_85-91_Ellis.pdf p. 89.

⁹² Peter Ritter, "Taiwan's Leader Keeps Low Profile Abroad," *Time*, August 11, 2008.

<http://www.time.com/time/world/article/0,8599,1831382,00.html>.

⁹³ Carola McGiffert, Ed. *Chinese Soft Power and Its Implications for the United States – Competition and Cooperation in the Developing World*, Center for Strategic and International Studies, March 2009.

http://csis.org/files/media/csis/pubs/090305_mcgiffert_chinesesoftpower_web.pdf p. 98.

⁹⁴ For example, St. Lucia switched its allegiance back to Taiwan after frustration with the terms of Chinese aid. R. Evan Ellis, *China in Latin America* (Boulder, Colorado: Lynne Rienner Publishers, 2009). p. 248.

Conclusion

Over the past ten years, China has deepened its economic and political ties with Latin America. Trade between China and Latin America has grown rapidly with China emerging as the largest export destination for Brazil, Chile, and Peru and the second largest export destination for Argentina, Costa Rica, and Cuba. However, overall trade between China and Latin America remains relatively small and concentrated in resource-rich countries. China has focused this economic relationship on expanding its domestic industries' access to raw materials and emerging consumer markets. Chinese investment has mirrored this trading relationship with more than three-quarters of Chinese investment directed towards resource acquisition. As a result, resource-rich countries such as Brazil and Chile have benefited from China's growing demand and investment, while more manufacturing-based economies such as Guatemala and Mexico have faced stiff global and domestic competition with Chinese firms.

Complementing its growing economic ties, China has actively engaged the region through high-level visits, bilateral agreements, military cooperation and exchanges, and participation in regional organizations. China's high-level of engagement as well as its growing economic ties with the region have attracted the attention of many Latin American countries to China's potential as a driver of economic growth, ally in the international community, and source of investment and funding for infrastructure projects and humanitarian aid. However, the continued recognition of Taiwan by many Central American and Caribbean nations remains an important issue to China and has led China to offer significant investment and economic incentives as a way to encourage these remaining countries to officially recognize China instead of Taiwan. Although China is currently not a major player in the region, China's growing economic ties and investment, potential as a new export market for Latin American goods, and high degree of engagement will ensure the continued growth of its influence in the region.

