



# Latin America and China: What Do They Mean for Each Other?

Institute of the Americas, Woodrow Wilson Center, and China Institutes of Contemporary International Relations

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## Dr. Peng Yuan

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In understanding China's relationship with Latin America, it is imperative to first analyze the issues important to China regarding its position in the world. Chinese analysts have identified four "hot topics" that play an influential role in China's global relations. The first is a growing concern over how the United States will recover from its ongoing crisis. This problem is not just economic but also structural, and it begs the question of whether the United States is in decline. The uncertainty of where the U.S. stands in the world is at the forefront of discussions in China. A second topic of interest is the increase in China's gross domestic product (GDP) which surpassed that of Japan last year, making China number two in the world in terms of GDP. This improvement signifies continued progress and raises questions about how long it will take for China to surpass the U.S. GDP. Furthermore, this suggests that China may take on a new role, or identity, on the international scale. A third topic concerns how China is viewed in the international system. China's foreign policy is criticized by the U.S. for being too assertive. However, Chinese officials argue that Chinese foreign ministers are too hesitant. The fourth topic regards the reaction from the U.S. to China's growing trade partnerships with Latin American countries. Many maintain that the U.S.'s apprehensive response is a result of the long U.S.-Latin American history, suggesting that the U.S. now sees China's presence in the region as an encroachment on its "backyard." As a result, there is distrust between the U.S. and China. These four "hot topics" set the framework for understanding and analyzing the significance of China's role in the world as it concerns the growing relationship between China and Latin America.

A crucial starting point, from the Chinese perspective, is looking at the U.S.'s power, given the debate on the debt ceiling, the current disputes between the Democrats and Republicans, and President Barack Obama's efforts to increase job opportunities. To reiterate a previous concern, some theorists believe the United States is in decline. On the other hand, many agree that the U.S. is still very strong in light of the difficulties the country faces. Given this context, many are worried about how the U.S. will regain its lost power and where the U.S. will position itself in the years to come. This uncertainty is the hottest topic in China today.

The China Institutes of Contemporary International Studies (CICIR) recently conducted a research discussing the possibility of the United States regaining its power and postulating what can be expected in the future. This research divides the U.S.'s power into fifteen areas in order to analyze all the categories that determine the country's strength. We determined that the U.S. remains very strong in ten of the fifteen areas; however, the U.S. faces serious problems in five. Of the ten catego-

ries in which the U.S. is still strong, analysts have determined that the strongest is natural power. This includes the country's natural resources, population, and geography. In this realm, the U.S. is still very strong, comparatively speaking, and is possibly even stronger because natural resources are currently the most important factor that will define power in the future. The second area is military power which remains robust and high-tech. The third area in which the U.S. is strong is scientific and educational power, the fourth is cultural power, and the fifth is cyber power. The sixth power is alliance power, which is the accumulation of alliances throughout the world that work to the benefit of the U.S. This is followed by, and contributes to, geopolitical power. We assert that the United States is the only power that has a global reach and can control every important country in the world. Eighth is the power of intelligence. The killing of Bin Laden exemplified the power of intelligence as it was achieved through a combination of military and intelligence efforts. Ninth is thinking power or the ability to research and engage in advocacy through a large number of think tanks. There is no other country in the world that compares to the U.S. in this realm. The final strength is strategic power. Chinese experts believe that the United States is the only country that has a global strategy, which is what continues to make the country so influential.

The U.S. continues to be very strong in all of these ten areas and even stronger in some of the ten. This indicates that the United States will continue to be a superpower for at least twenty, or even thirty more years, since there is no country that can compete in these fields. However, the following are five areas in which we have determined the U.S. is currently experiencing problems and will face difficulties in the future. The first is political power, which historically has been the country's greatest advantage. However, political polarization is becoming one of the greatest obstacles for the U.S.' success as a nation. Second and third are economic strength and financial power, respectively. Fourth is social power, comprised of social energy, which is another polarized sector in U.S. society. The fifth weakness is in institutional power which means the ability to control such international organizations as International Monetary Fund, the World Bank, and the World Trade Organization. Relatively speaking, American institutional power are decreasing in influence rather than increasing.

As a whole, the U.S. is not declining per se in these areas but the country is weakened and facing new challenges. After reviewing these weaknesses, an important conclusion can be made about the U.S. social power within the next twenty years: it will be difficult for the U.S. to establish itself as the dominant hegemonic country. The U.S. can continue to be a superpower but not a hegemonic force. It will be more like "first among equals." In the short-term, the U.S.'s future will be determined by President Obama's Jobs Act and other reforms, in the medium-term, by the 2012 elections and the redefinition of national direction. The long-term success will de-

pend on if the next U.S. president can reunite political powers to create real structural reform.

Similarly, the U.S. needs a larger reform rather than a superficial change. On the other hand, these difficulties have put China at ease, provided that China might have been the next area of focus following the effort to locate Bin Laden. The U.S. still needs China and their cooperation to confront present obstacles. Furthermore, a cooperative relationship is in the best interest of both countries.

Another element which must be taken into consideration is China's identity as a regional power with global reach and influence. The first characteristic of China's new identity is that it is a developing country with strong potential for growth. The second characteristic is that China is still a regional power but with global reach and influence. It is often stated that China is everywhere in the world and, if it is not already, China is becoming a global power. However, having some investment in Africa, Latin America, and Libya does not yet signify that China is a world power, solely an Asian Pacific power. China has not yet resolved its territorial and sovereignty disputes with Vietnam, Malaysia, Indonesia and India. The final unification with Taiwan is also incomplete. Therefore, there are remaining security concerns in the region. Additionally, eighty percent of Chinese resources, energy, and time, are focused on the Asian Pacific rather than Latin America, Africa, or the Middle East. Although China has the potential to be more influential in those regions, the country is presently only a regional power, rather than a global power. A third characteristic of China's identity is the fact that it is a socialist country. It is important to note, however, that the Chinese Socialist and Communist parties are different in comparison to the former Soviet Union, and from today's Vietnam and Cuba. For example, the Chinese President can only serve a total of two terms, consisting of five years each, unlike Mubarak in Egypt, or Gaddafi, or Kim, and other Communist leaders throughout the world. China is also different because it is a socialist country which embraces the market economy. China is the strongest supporter of a market economy, even more so than the United States which has become more protectionists.

Those three characteristics are what shape China today, demonstrating the complexity of the nation and the difficulty of planning the next steps in improving China's future. In regard to the future, China has a three-term strategy. The long-term strategy, according to Deng Xiaoping's design, is to achieve a per-capita GDP of that of medium level developed countries by 2049. This is a significant year because it marks the 100<sup>th</sup> anniversary of the People's Republic of China (PRC). After one hundred years of establishment, Deng Xiaoping envisions China to be wealthy, with a mid-level developed country's per capita income. For a country with a population of 1.3 billion, reaching mid-level per capita GDP is very ambitious. Nonetheless, this is the long-term strategy. The benchmark for the medium-term strategy is 2020 by which date China hopes to achieve a level of wealth and prosperity that benefits all sectors of society. Present day progress and prosperity only reach some sectors. Therefore the Chinese anticipate that it will take ten more years to achieve a more comprehensive wealth. This medium-term goal is also very ambitious.

The short-term strategy consists of a five-year plan which outlines Chinese strategy from 2010 to 2015. This plan is expected to accelerate the transformation of the Chinese model of economic growth because the present model is unsustainable. Although this model has been in place

for thirty years, the Chinese leadership believes that it requires a change within the next five years. This entails an important move from an exclusively export-driven economy to a mixed economy comprised of exportation, investment, and consumption. This is not an easy short-term goal.

Returning to Sino-Latin American relations with an understanding of China's identity and emerging role in the world, we can now better understand the growing relationship China has with Latin America. The nascent relationship between the two regions has a prosperous future for two fundamental reasons. The first is that both China and Latin America are on the rise, suggesting that they can help one another simultaneously grow and develop. The second reason to believe that Sino-Latin American relations would be successful is that there are no historical disputes between the two regions, allowing for the creation of a strong foundation for future collaboration. China has had prior disputes with Russia, Japan, Europe, and the United States concerning the Korean and Vietnamese wars, but there is no history of conflict between China and Latin America. Moreover, the Pacific Ocean also plays an important role because it creates a divide between the regions which has prevented any geopolitical conflict. Lastly, there is no conflict of interest in regard to political ideology, such as that which exists between China and the U.S. and Europe.

In conclusion, given these three advantages, there is no reason that the relationship between China and Latin America cannot expand at a rapid rate. The relations between the two regions have no real intention to challenge the United States' role in the hemisphere, even if China's investment in the last year reached more than 15 billion U.S. dollars in a single year. Overall investment in Latin America is greater than 650 billion U.S. dollars, of which China has invested a small percentage of the total. China's total investment in the region is only around 20 billion U.S. dollars. Sino-Latin American relations are more of an economic freedom than a strategic freedom. Similarly, China's relations with Latin America are quite different than Taiwan-related relations which must be taken into consideration and analyzed from another perspective. One then cannot interpret China's developed relations with Latin America as a means to obstruct U.S. interest in the region. In the future, the hope is that the United States, Latin America, and China may develop their tri-lateral relationship to work towards collective development and growth. Building a Sino-American strategic dialogue on Latin America would work in favor of all the interests and would work to promote China's peaceful coexistence with the United States in Latin America.

## Ambassador Chas W. Freeman Jr.

Chairman, Projects International; former U.S. Ambassador to Saudi Arabia;  
former Assistant Secretary of Defense for International Security Affairs

I had a feeling that Stape Roy didn't invite me to speak this morning because I have a degree in Latin American studies—though I do. I suspected he wanted me to talk about the evolving global order and the place of China, Latin America, and the United States within it. I accept this challenge. But as I try to meet it, I'm afraid it will become evident that I do not share either the complacent or alarmist assumptions of most in Washington. To be specific, I do not think that eternal deference to U.S. leadership of world affairs is in the cards. Nor do I believe that China is destined to displace the United States as a global hegemon.

It is true, of course, that profound shifts in relative economic, financial, political, and—to some extent—even military power are in progress both globally and regionally. These shifts are creating new balances of influence. They are altering the international geometry within which nations great and small must conduct their foreign policies. But the new geometry is inconsistent with global dominance by any single power or alliance structure. It also demands major adjustments in nations' world-views and strategies not just in relation to each other but in relation to third parties and regions as well as to issues of global governance. In this new context, I do not believe that inherited approaches are likely to work at all well for my own country, for China, or for the newly assertive powers of regions like Latin America. Substantial, ongoing adjustments to current policies will be forced on us. In some cases, entirely new policies may be more appropriate and efficacious.

The last time that the international environment saw massive shifts in wealth and power comparable to those underway today was sixty to seventy years ago, during World War II and its aftermath. The world then rose to the challenge of the geopolitical and institutional innovation needed to sustain global peace and development. Major new systems of international governance and rules of behavior were created. These were exemplified by—but not limited to—the United Nations Charter, the General Agreement on Tariffs and Trade, the Bretton Woods Accord, multinational regional alliances, and the institutions that implemented these. The United States led all these developments, which formed the world of the past half century. The United States also formulated the global grand strategy, known as “containment,” which walled off the Soviet Union until it eventually collapsed of its own infirmities. The system that saw us through the last half of the 20<sup>th</sup> Century was largely “made in USA.”

But the institutions and policies the United States and the other victors of World War II created sixty-some years ago are no longer congruent with relevant con-



figurations of global and regional political, economic, financial, cultural, and military power. European representation in these bodies remains both seriously overweighted and unreflective of Europe's post-Cold War reorganization and evolution. Powers like Brazil, China, Germany, India, Indonesia, and Japan are underweighted, unrepresented, or both. So are African, Arab, and Islamic interests. U.S. dominance, even as the United States exempts itself from many of the rules it helped write, is now widely seen as both an anachronism and an overweening abuse of power. And approaches to world affairs forged in hot and cold wars seem increasingly unproductive or even counterproductive.

The misalignment of existing institutions with emerging realities is relentlessly sapping their legitimacy. They no longer seem capable of managing the political and economic domains they were established to oversee. The resulting crisis in global governance has been evident over the past two decades. The inherited system is proving inadequate to deal with an expanding range of issues. The attempt to substitute unilateral U.S. military power for multilateral diplomacy has been a particular disaster. Meanwhile, the failure of any country or group of countries to attempt to lead the world to solutions to its problems, as the United States did more than a half century ago, simply underscores the bankruptcy of existing mechanisms for managing peace, prosperity, and progress. The incapacitation of global decision-making is not something with which any of us should be comfortable.

Neglect is visibly ripening some issues into comprehensive disasters. To cite a few examples: No doctrine or system has been developed or agreed to curtail the human toll of anarchy in failed and failing states in Africa, Southwest Asia, or elsewhere. Consensus on key elements of the rule of law is breaking down and yielding to scofflaw practices based on the concept that "might makes right." Ancient threats to human freedom like piracy and trafficking in the enslaved or indentured are reappearing. Very consequential issues of political transition in places like parts of the Arab world, Cuba, Korea, and other trouble-spots draw no coherent international response. No serious effort is being made to replace an increasingly wobbly international monetary and financial system with one that can sustain global prosperity. Efforts to liberalize and expand global trade and investment flows have halted. There is no strategy or agreed mechanism for mitigating or managing climate change. Environmental degradation—including mounting pollution of the world's oceans and the collapse of fish populations as well as their underlying food chains—is subject to no agreed countermeasures.

Meanwhile, the role of the United States in the maintenance of global and regional order is increasingly problematic. The U.S. commitment to a rule-bound international system administered by multilateral organizations has faltered. The network of U.S. alliances, which has assured much-needed predictability in world affairs, is losing coherence and cohesion. International deference to U.S. management of

international organizations and leadership of regional political orders is receding. U.S. economic advice is more often derided than followed abroad. It has been quite a while since anyone in Washington put forward a visionary proposal on a major international topic. But no other country—certainly not China or any other emerging great power—shows any sign of even trying to step into a global leadership or order-setting role.

It is telling that no international actor has outlined any principles, articulated any vision, or formulated any strategy for the reform of international institutions and practices, fiscal and monetary adjustments, or the maintenance of a peaceful international environment. So far, the United States—to which the world once looked for political leadership and policy innovation—has cast itself as the almost exclusively military defender of vested interests in a crumbling status quo. It has not sought to craft a new strategic order or a more effective international system.

Out of necessity, rising powers are filling the political vacuum left by declining deference to both global institutions and U.S. hegemony. In doing so, they are recrafting regional orders to suit their interests rather than those of the United States, the European Union, China, the World Bank, the World Trade Organization, or other external actors. This trend is readily apparent in Latin America, where, for the first time since the emergence of the United States as a hemispheric superpower, other nations are openly taking leave of U.S. tutelage and charting assertively independent courses. They are doing this without geopolitical stimulus from extra-hemispheric powers, the acceptance of alien ideologies, or the accommodation of foreign bases on their soil. (The international geometry is now much more complex than it was in the last century and, whatever he may be, Hugo Chávez Frías is neither Maximiliano I, Getúlio Vargas, nor Fidel Castro.)

In default of global action to address their interests, regional actors are also reaching beyond their immediate environs to buttress each other's efforts to manage affairs of concern in each other's regions. A recent case involving Latin America was Brazil's backing for Turkey's diplomatic intervention in the Iranian nuclear issue. In the Western Hemisphere, the "American system" symbolized by the Monroe Doctrine, the Rio Treaty and the Organization of American States is breaking down. No one can yet say what will replace this system, but many expect that whatever succeeds it will be largely made in Brazil and elsewhere in Latin America rather than here in Washington. The emerging order seems destined to recognize the fact that South America is a distinct geopolitical region, less connected to North America by history, strategic interaction, or lines of communication than Europe is to Africa or Asia. Inevitably, also, some of the new hemispheric system will be determined in partnership with China, Europe, India, and other places in the "old world" rather than solely with the United States.



Meanwhile, the final collapse of the World Trade Organization's sputtering "Doha Round" has accelerated a trend toward the liberalization of trade and investment through regional and bilateral rather than global trade agreements. This trend is reflected in the development of MERCOSUR and the establishment of UNASUR in South America. Latin Americans are building more robust commercial relationships with China, Europe, India, and the Islamic world. China's rise in bilateral trade with Latin America is the greatest of any region in the world—an astonishing 18-fold increase over the past decade, thanks mostly to exports of raw materials from the region. North American goods and services must now compete with those of indigenous Latin American companies as well as Asians and Europeans. The combination of regional economic integration and globalization has caused U.S. market share in the region to fall dramatically.

Having rediscovered both its Islamic roots and its diplomatic centrality in West Asia, Turkey is exploring new partnerships and markets in the Americas as well as in Africa. Empowered by U.S. and Israeli blunders in Iraq, Lebanon, Syria, and Palestine, Iran too is building ties to the newly assertive power centers of the Western Hemisphere. Russia, though largely inactive outside Eurasia for most of the past two decades, is again beginning to reach beyond its near abroad. India long ago consolidated an assertively dominant position in South Asia similar to that which the United States proclaimed nearly two centuries ago in the Western Hemisphere. Now India too is exploring new political and economic relationships with Latin America. And Africans increasingly look to Asia and Brazil rather than Europeans or North Americans for investment and other forms of economic collaboration. In the aggregate, these developments amount to a major reordering of world affairs.

They are also a reminder that, in these changing times, China is not alone in rising to greater wealth, power, and influence. Brazil, Russia, Turkey, Iran, Saudi Arabia, India, Pakistan, Nigeria, and South Africa, among others, are now preeminent participants in shaping new regional orders that slight the stated interests and policies of great powers outside their immediate environs. In this context, the United States is not the only established power to suffer something of a crisis of self-confidence. Japan is stuck in the economic and political doldrums. It is troubled by the need to cope both with China's eclipse of it in Asia and with the ebbing global prestige of its American ally. Britain is cutting its military power and diluting its reliance on the United States while building new links to Brazil, India, and even France. Even before the current severe strains in the European Union's fiscal and monetary consensus, Europe was self-absorbed, less than the sum of its parts, undecided about its relationships with Russia, Turkey, and North Africa, resentful of the Muslim presence in its midst, and out of sorts with both the United States and China.

As Asia returns to wealth and power, the Islamic world reasserts itself, and other regions, like Latin America, successfully insist on ordering their own affairs, it is unclear how many of the key ideas and elements of the existing international system will survive. The irony of this should be especially evident to any Chinese statesman or scholar. What is in jeopardy, after all, is the peaceful world order that China embraced to enable it to climb to renewed wealth and power. In the absence of rules, fortune favors the fierce. Disorientation, denial, and dysfunctional politics are not an appropriate or effective response to change. It is not out of the realm of possibility that the world may be in the process of reverting to levels of regional disorder, anarchy, and strife that have not been seen since the Pax Americana was instituted sixty-five years ago. This would be the very opposite of the harmonious world China says it sees as in its interest, that Latin America needs in order to play its proper role in global affairs, and that the United States cannot do without in straitened times.

In many ways, we seem to be on the verge of a world in which there will be no globally paramount power or institutions. In such a world, the responsibility for global governance seems to be devolving willy-nilly to regional sub-orders and cooperation between them. Increasingly, problems of common concern are addressed—if at all—by shifting confederacies of regions and their leading powers and by ad hoc conferences rather than through standing bodies at the global level.

In the end, global dominance is unaffordable even for a country as rich as the United States or as China may in time become. Washington will sooner or later abandon the pursuit of worldwide military supremacy. Beijing has repeatedly declared that it does not aspire to it. There is no other claimant in prospect. The only real question is whether, in yielding ambitions for dominance that it cannot sustain, the United States will use its power to shape a more advantageous future for itself and the rest of the global community.

As the transition to a less centralized world order proceeds—however it is configured—many questions arise. Among them, who will act to sustain the peace in increasingly divergent regions and how will they do it? Will the United States seek partners to share those strategic burdens it can no longer afford or will it turn inward and walk away from its global role as a provider of free “public goods” to the world? In either case, will China take an active role in sustaining a harmonious international order? What role in reordering and sustaining stability in global and regional affairs will the major nations and regional groupings of Latin America play? The difficulty of pursuing peace and development amidst uncertain changes in the international system should not be underestimated. How the United States, China, and Latin America might best cooperate is no longer a moot or irrelevant question.

The United States has long taken its dominance of the Americas for granted and routinely neglected the views of other American nations. It can no longer afford to

do so. It is not just that Latin America is now growing in independent wealth and power, that it has alternatives to reliance on North America, and that its interests are best served by the forging of mutually respectful relations with extra-hemispheric great powers. In the past, external forces shaped Latin America and defined its global role. Now Latin America will, for the first time in its history, participate in reshaping the prevailing orders in both its own region and the rest of the world. China cannot ignore this dynamic any more than the United States can.

It is in the world's interest to craft a new basis for global "peace and development," but this will not be easy. For China, cooperating with the United States and with Latin America and other regions to accomplish this will demand levels of activism, imagination, and diplomatic leadership that contrast with a reactive Chinese foreign policy tradition of passivity, reticence, and risk aversion. Latin Americans must acquire a new spirit of self-confidence amidst acceptance that with greater wealth and power come greater responsibility and accountability for both global and regional affairs. The United States is called upon to demonstrate a measure of humility and respect for others' interests that have been largely absent from U.S. foreign policy in recent decades.

We North Americans as well as Chinese and Latin Americans all have a self-destructive tendency to construe each other's activities as part of some sort of zero-sum imperial adventure or strategic game. Suspicions sometimes run high. Building a basis for cooperation will require mutually considerate dialogue between us. Without such dialogue, we will be unable to respond effectively to the challenges of the rapidly evolving global and regional environments. We owe it to ourselves to try harder to discover our common interests and to work together to protect and advance our prosperity, domestic tranquility, and our differing values as societies. If today's discussion marks a step toward such a dialogue, it will have been very worthwhile.

## Dr. Inés Bustillo

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In analyzing the relationship between China and Latin America, three concepts constantly appear: opportunities, challenges, and the need for a strategic response. I will address each of these concepts.

The United Nations Commission on Latin America and the Caribbean (CEPAL) issues a number of publications on trade and investment in general and on China specifically.<sup>1</sup> In May of each year, we publish a report on foreign direct investment, and the 2011 report includes a special chapter on China. The 2011 yearly publication on international trade also has a special chapter on China, and the data in that publication is reflected in my presentation today. Overall, South-South investment has been expanding. The growth of trade and investment between China and Latin America has strategic implications for countries in Latin American and the Caribbean.

In 1990, a mere 11 percent of global foreign direct investment went to the developing world. By 2010 that figure had grown to more than 50 percent.

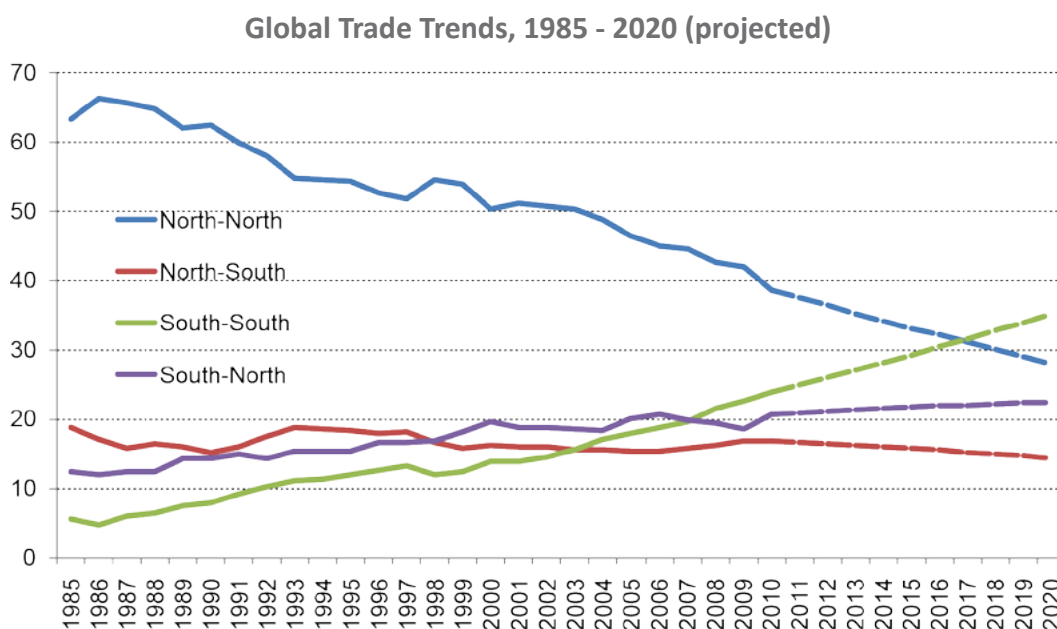
Over the past decade China has strengthened its economic ties with Latin America and the Caribbean. In 2010, China was the third largest foreign direct investor in the region, investing \$15 billion. The United States was first, accounting for 17 percent of the flows of foreign direct investment, and the Netherlands was second. In 2011, China projects its foreign direct investment in the region will be about \$22 billion. Most of the foreign direct investment is concentrated in a few countries—Peru, Argentina, and Brazil—and in a small number of sectors, particularly oil and gas.

The figure below shows fascinating trends. In 1985, South-South trade comprised only 6 percent of global trade, but by 2011 that number had risen to 24 percent. North-North trade, accounting for 63 percent of global trade in 1985, fell to 38 percent in 2011. By 2017, if these trends continue, South-South trade will account for a larger share of global trade than North-North trade. This tremendous growth is a recent occurrence, which affects some countries in the region more than others. Of the 17 countries for which there is data, 14 have experienced a significant increase in trade with China in recent years, so much so that China has become the most important trading partner for both Brazil and Chile. As this trade relationship deepens and strengthens, complications are inevitable. In 2009, there was a significant rise in anti-dumping measures imposed against China by Latin American coun-

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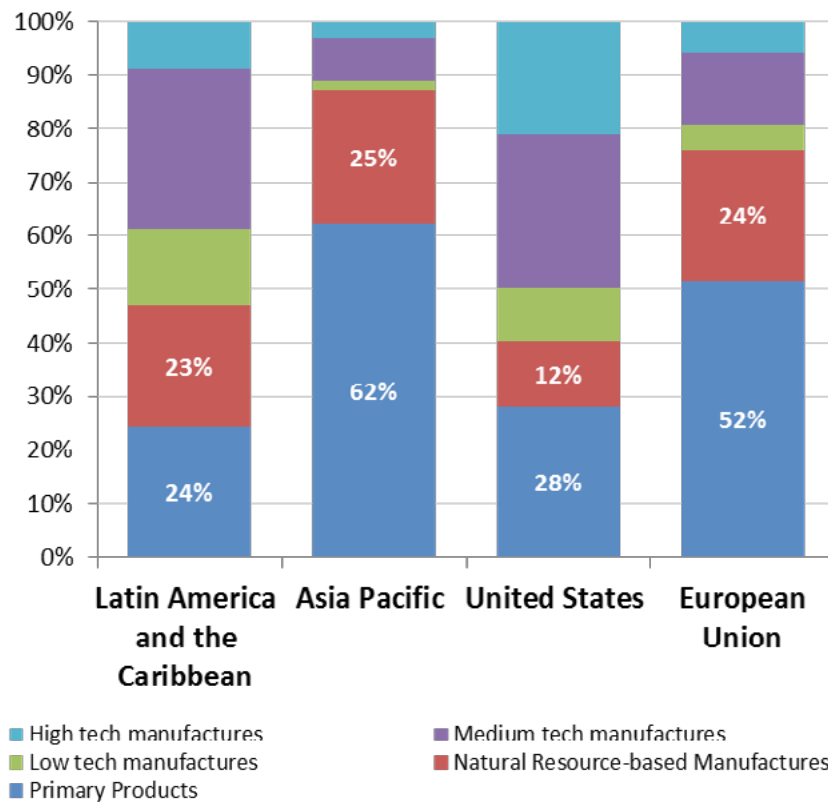
1 CEPAL. <http://www.eclac.cl/publicaciones/>.

tries, particularly in highly competitive sectors such as the steel industries in Brazil and Argentina. Such measures have declined, but as with all trade relationships, problems can always arise.



China has gained a much larger share of the region's trade in the past decade, unlike the United States, whose share has decreased, and the European Union, whose share has stagnated. Adding to the dynamic of the relationship, some countries in Latin America have a trade surplus with China, while others have a trade deficit. Part of the conversation on the re-commoditization of Latin American economies revolves around the structure of exports. The figure below depicts the export structure by technological intensity of Latin American and Caribbean with the rest of the world, including China and the Asia-Pacific region, and shows that most exports from the region are based on commodities and primary products. This is certainly the case for the relationship with the Asia-Pacific region and the European Union, where the export of primary products is the largest share of trade. This is not, however, the case with the United States or for exports to other countries of Latin America. This has interesting implications for the diversification and growth of trade.

**Latin America and the Caribbean:  
Export Structure by Technological Intensity (Percentage)  
Major Export Markets, 2008-2010<sup>2</sup>**



The trade relationship between Latin America and China comes with both opportunities and challenges. Some exporters are benefitting, while others are facing stiff competition. Ultimately, the situation for exporters depends on the product being exported.

When considering growth and development, we should look at the issue of convergence. From the beginning of the century up to around 1975, Latin America did not converge with more developed countries, but it did not diverge either. Nevertheless, around 1975 Latin America started losing ground with respect to the rest of the world. Since 2003, however, there is evidence that Latin America and the Caribbean has started to converge. Between 2003 and 2008 many Latin American

<sup>2</sup> Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations-COMTRADE and official national statistics.



countries had the best economic performance in 40 years. Part of this growth is explained by the trade relationship with China. Latin America faces tremendous challenges to continuing sustainable growth, but it also has great opportunities. These challenges and opportunities demand a strategic response.

Recent trends that strengthen the region include economic growth, macroeconomic stability, and improvement in employment and poverty indicators. A growing middle class in Latin America also contributes to making sustainable growth possible in the region. There are also abundant natural resources in Latin America. For example, 48 percent of the world production of soybeans is produced in Latin America. Biofuels, petroleum, beef, milk, corn, copper, molybdenum, and zinc are other natural resources that largely come from Latin America. A third of the world's potential farming areas and freshwater reserves are in Latin America.

There are also significant weaknesses in the region. Production and export structure is based on static comparative advantages more than dynamic competitive advantages. Other weaknesses include serious lags in innovation, science, technology, education, and infrastructure. There are also productivity lags and large gaps between sectors.

Several countries have grown on a sustained and inclusive basis with natural resources as a base while other countries have not, as a result, a whole series of public policies and public-private partnerships need to be addressed. Addressing such lags is even more important because of the Chinese trade and investment relationship with Latin America and the Caribbean. This relationship puts emphasis on establishing agendas with various sets of policies within each country and for the region as a whole. Aside from the domestic agenda, there is a strategic regional or sub-regional response that needs further attention on dealing with infrastructure and logistics. There are macroeconomic challenges, such as getting the exchange rate where it needs to be in order to be competitive in the market, and forming productive development policies such as diversification, more value added, and adding more to the technological content to exports. Latin America should address these issues with a greater degree of intensity and a greater degree of urgency to increase the opportunities and benefits that can be gained from stronger economic ties with China.

To increase the opportunities and benefits, each country must improve its position in the international economy. First, Latin America needs to strengthen countercyclical macroeconomic policies. This includes preparing for the possibility of a period of currency appreciation in commodity-exporting countries, which would make export diversification more difficult, increasing the need for greater productivity across all

sectors of the economy. The monetary and fiscal policy must be coordinated with reserves accumulation, regulation of capital flows, and macro-prudential measures. Productive development policies need to incorporate more value added and knowledge into exports. These policies should also diversify across products and markets, promote clusters underpinned by comparative advantages and public-private partnerships, improve governance of natural resources, promote innovation, encourage internationalization, and support Small and Medium Enterprises. Second, Latin America needs to strengthen open regionalism through the infrastructure of energy, transport and logistics. Regionalism can also be strengthened through financial support for intraregional trade, innovation and regional value chains, payment settlement mechanisms, regional reserve funds, and progress toward a more integrated regional market. Third, Latin America should rethink strategies for global and regional alliances to exploit opportunities for South-South trade and investment and to have a joint approach to building closer ties with the Asia-Pacific region.

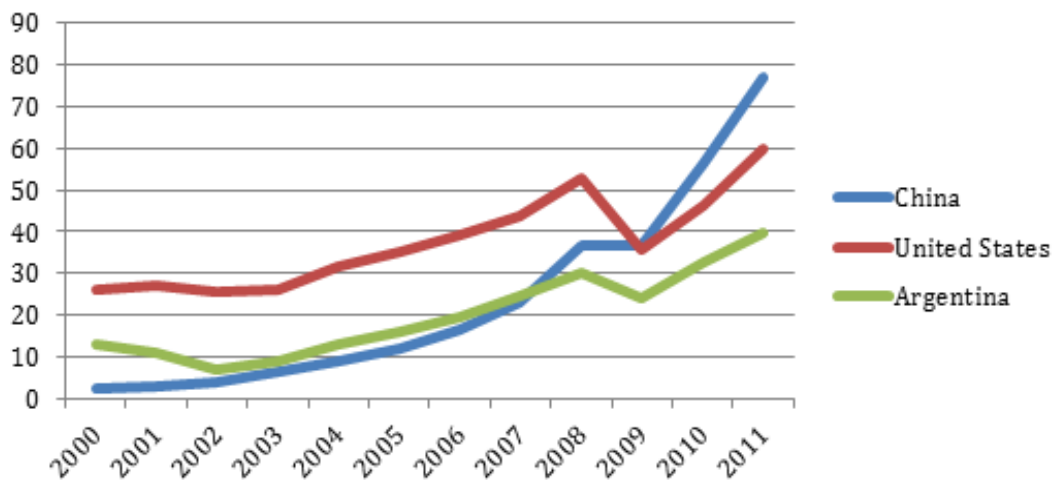


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For almost a decade, trade relations with China have been an important motor of economic expansion in Brazil. Total bilateral trade, both exports and imports, has seen exponential growth since 2003, rising from nearly US\$7 billion to over US\$70 billion in 2011. In fact, in 2010, China became Brazil's main trading partner, surpassing two traditional partners, the United States and Argentina (see Figure 1).

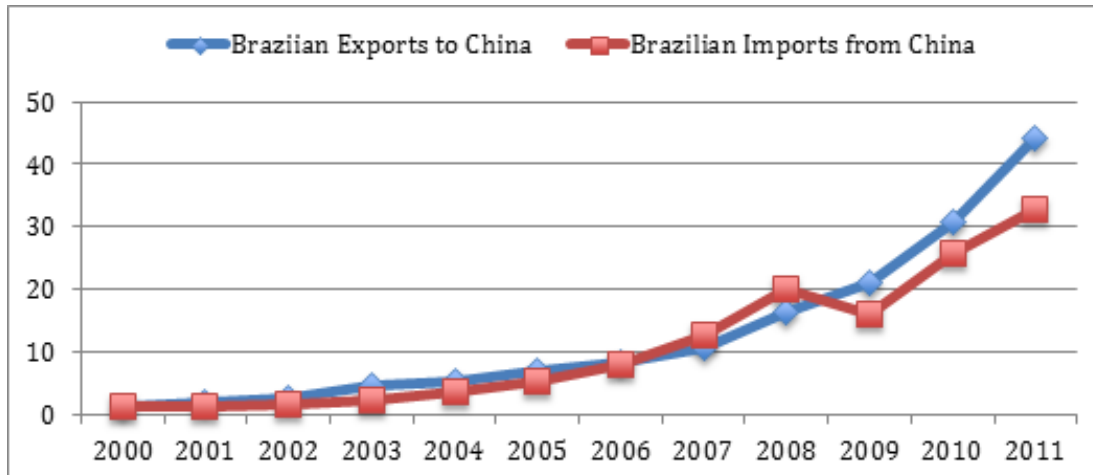
**Figure 1: Brazil's main trading partners (total trade exchange, in US\$ billions)**



Source: Brazilian Ministry of Development, Industry, and Trade (MDIC)

Historically, trade relations with China have modestly favored Brazil, with the exception of 2007 and 2008, when trade flows favored China (see Figure 2). But it is noteworthy that three basic goods (iron ore, soy, and oil) account for approximately 90 percent of Brazil's exports to China. The asymmetry in the nature of the trade flow is confirmed by the fact that nearly 90 percent of Brazil's imports from China are of manufactured goods.

Figure 2: Brazil-China Trade (US\$ billions)



Source: Brazilian Ministry of Development, Industry, and Trade (MDIC).

Chinese investment in Brazil is also on the rise, focused on energy production (oil and gas), agriculture, mining and steel (see Figure 3). According to figures from the United Nations Economic Commission on Latin America and the Caribbean (ECLAC) and reported by the Brazil-China Business Council (CECB), in the almost twenty-year period between 1990-2009, Brazil received just 3.5 percent of confirmed total Chinese investment in Latin America. By 2010, that figure had jumped to fully 62.7 percent.

The numbers are impressive. Yet the Brazilian government is also trying to channel this Chinese investment to technology-intensive sectors (electronics, telecommunications, heavy machinery, and automobiles) as a strategy to compensate for the asymmetry in trade. It is possible that China will diversify its investments in Brazil in 2011-2012 to comply with this initiative. For example, the Chinese firm Foxconn Technology Group is now investing millions in Brazil to produce iPads for the company Apple Inc. Recently the Brazilian government approved a decree for tax reductions or exemptions pertaining to tablet production in the country. The decree (Decree 34) states that companies investing in the research and development of touchscreen tablets weighing 750 grams or less, as well as the accessories associated with these tablet computers, qualify for various tax incentives. This eases Foxconn's entry to start the production of iPads in Brazil, which is expected to begin in 2012.

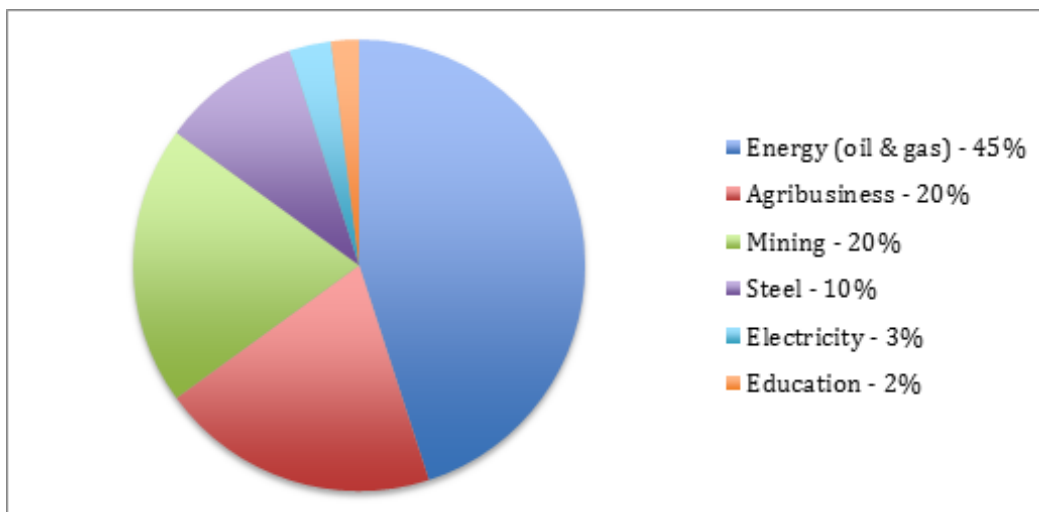
Despite the increase in investment, Brazil's ambivalence regarding trade relations with China can be seen with recent protectionist trade measures, in particular the

increase in the industrial products tax (IPI) on imported goods (imported automobiles). One Chinese auto manufacturer already announced that it will not invest in Brazil if the government maintains its decision to increase the IPI on imported goods. As it stands, only car manufacturers that abide by the 65 percent local or regional content rule will be exempt from the 30 percent tax hike (also exempt are automobiles from Argentina, Uruguay, and Mexico).

Land purchases by foreigners, for the purpose of soy production, have also engendered concern. The increase in foreign purchases of land has had an impact on the price of land, on commodity prices, and on defense matters (for the land near the border). For this reason, Brazil has been trying to implement a more protectionist stand, targeting mainly Chinese buyers.

These issues, along with Brazil's regulatory framework, tax policy, quality of infrastructure, etc., influence the pace of the announced investment and implementation of it, which historically has been sluggish. This is an area of the bilateral relationship that needs improvement.

**Figure 3: Chinese Investments in Brazil, by sector (2010)**



Source: Brazil-China Business Council (CEBC), 2011.

At the same time, China's importance to Brazil appears to have gone well beyond the economic realm in the last decade. President Lula's inauguration in 2003 brought to power not only a left-wing government, but also a party—the Workers' Party (PT)—with a clear foreign policy agenda. Lula's administration had a clear objective of strengthening Brazil's relations with other developing countries, the so-called

South-South cooperation. For this reason Brazil's approach to China was mainly to create a possible partner for broader political and strategic objectives, such as the pursuit of a multipolar international order, less centered on traditional Western powers, namely the United States.

Consequently, the established Brazilian perspective regards China not only as a crucial consumer of goods but also as a key player in Brazil's global diplomatic strategy. Several coordinated efforts on the global stage underline this importance. Both countries play significant and complementary roles when it comes to agricultural issues in multilateral trade negotiations (G20+); in climate change talks (BASIC—Brazil, South Africa, India and China, from the Copenhagen Climate Summit); in deliberating on the new architecture of the international financial system (G20); and in setting up a coalition of emerging powers that allude to a new and more representative world order (BRICS—Brazil, Russia, India, China and newly-anointed member South Africa). Needless to say, without China, these groupings would be less meaningful if not non-existent.

China's increasing presence in the developing world also seems to be having two very different effects on Brazilian diplomacy. On one hand, it has generated a positive reaction in the sense that China presents itself as an ally of Brazil's global diplomatic strategy toward great powers. Historically, Brazil has tried to hedge between great powers, like the United States and Europe. But on the other hand, China's interests may be conflicting with Brazil's interests in regions such as Africa and Latin America (competition among Chinese and Brazilian companies, for example), not to mention different global interests, like the United Nations Security Council (UNSC). The BRICS represent an effort to try to coordinate the interests of both countries, and to reduce the friction and tension caused by the abovementioned issues.

In light of this, it came as no surprise President Dilma Rousseff's decision to visit Beijing at an early stage of her administration—her trip on April 2011 was her third abroad since inauguration in January. Confirming China's new found place among Brazil's top foreign policy concerns, President Rousseff signed nearly 20 deals with Chinese President Hu Jintao, ranging from defense-related matters to trade, environment, and technological cooperation. Additionally, her trip to China was also an opportunity to strengthen ties with other emerging nations at the 3<sup>rd</sup> summit of the BRICS.

Despite some palpable results, President Rousseff's trip still left unanswered several important questions concerning the future of Brazil-China relations. Going back to the economic realm, concerns over possible negative externalities of the bilateral exchange are growing. In terms of trade, for example, there is a mounting





perception that growing economic interdependence does not rule out dangerous asymmetries, favoring China, that tend to fuel the fear of deindustrialization of the Brazilian economy in the long term. This perception is generated from two main concerns. First, the obvious qualitative unbalance of the exchange: while nearly 80 percent of Brazil's exports to China are of basic goods (iron ore, soy beans and oil), over 90 percent of Brazil's imports from China consist of manufactured goods. Second, with a more aggressive trade policy abroad, China has become a threat to Brazilian manufactured goods in foreign markets, especially in Latin America and in the United States. Despite the rewards in bilateral trade relations for both China and Brazil, there has been a growing perception among Brazilian authorities and the private sector that China is increasingly becoming a direct competitor of Brazilian manufactured goods abroad.

According to IBGE (the governmental Brazilian Institute of Geography and Statistics), the industrial sector share of Brazil's GDP fell to 15.5 percent in 2009, the lowest figure since 1947. A look at a list of 31 main Brazilian exports to the United States between 2003 and 2010 (1<sup>st</sup> quarter data) shows that Brazil decreased its total share on the U.S. market by 0.15 points (from 1.42 to 1.27), while China gained 6.54 in the same period (from 12.10 to 18.64). The correlation between Brazilian losses and Chinese gains becomes clear when one takes into account the export of manufactured goods to traditionally important markets for Brazil.

In Latin America, Brazil faces a similar problem. From 2002 to 2010, China's share of Argentina's total import market grew at a faster pace than Brazil's, rising from 5.6 percent to 12.5 per cent (Brazil's share went from 25.6 percent to 31.4 per cent in the same period). In the home appliances sector, for example, China surpassed Brazil as Argentina's main supplier on the first quarter of 2010. In Mexico, the evidence is even starker. Brazil's share of the Mexican market went from 1.3 percent in 2002 to 1.4 percent in the first quarter of 2010 while China's soared from 2.6 percent to 13.9 percent in the same period. While Brazil still benefits from an automotive deal with Mexico, it is losing market-share. This evidence raises the question: Is China's growing economic presence in Latin America a threat to Brazil's economic relations with the region?

On the political side, to affirm that these two emerging powers believe that they should play a more prominent role in global affairs is not the same as saying that both countries hold a common view on what a more representative or just global order entails. China's reluctance to endorse Brazil's bid for a permanent seat in the UNSC is but one example of this. Other disagreements are likely to surface in the long-run, as the two countries are pressed to position themselves with regards to such issues as human rights and nuclear proliferation. Even areas where some degree of bilateral coordination exists today, such as climate change, are not immune

to future divergences. Although labeled as developing countries and listed among the world's top producers of greenhouse gas emissions, Brazil and China are on opposite ends when it comes to the development of renewable energies.

That said, the difficulties that are likely to arise within the context of a more comprehensive bilateral relationship should not trump the efforts to try to understand what China means to Brazil in the 21<sup>st</sup> century. The PT-led administration's excessive optimism with the "strategic partnership" should not be contrasted with an ideological and counterproductive anti-China stance. In a sense, history may provide some clues for Brazil. In the beginning of the 20<sup>th</sup> century, Brazilian leaders foresaw not only the rise of a new great power, the United States, but also the need to combine different forms of engagement as well as to maintain with other established and emerging powers the foundations of a more balanced foreign policy strategy.



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