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## Chinese Expansion into the Western Hemisphere

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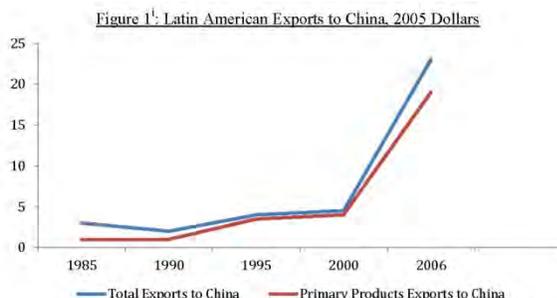
# Chinese Expansion into the Western Hemisphere

Steven Carlson

## Introduction

Since the market-oriented reforms of Deng Xiaoping, China has consistently been increasing its economic interconnectedness with the outside world. The amount of goods flowing both to and from China is enormous and continues to grow. In 2010, China surpassed Japan as the second largest economy in the world. With an annual GDP growth rate averaging at approximately 10 percent, and a highly adaptable, growth-oriented Chinese Communist Party (CCP), one may only roughly estimate the limits of China's future economic strength. This growth has caused China to seek certain goods from abroad for new economic developments in both exportation and domestic consumption. In recent years, China's economic growth has led it to engage in meaningful contact with Latin America. As a net importer of primary products, China's chief reason for involvement in Latin America is for its primary products. China's expansion abroad is driven by economic reasons, with international politics being a means to greater economic gain. As with its dealings in other countries, China approaches Latin American countries with pragmatic, state-specific strategies, playing to the economic and political climates of its partners in order to access much needed natural resources. China's foreign policy is driven mainly by economic concerns and with little ideological content, making China a new and powerful player in the international scene.

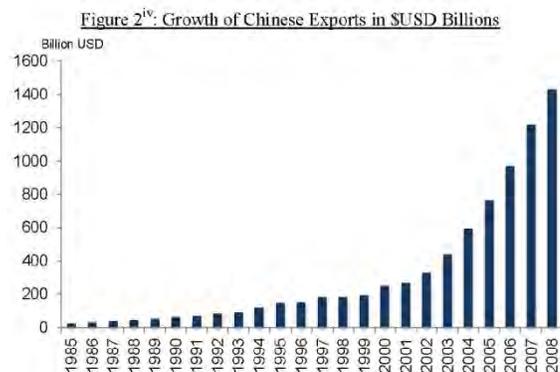
Roughly around the turn of the century, exports from Latin America to China began to climb dramatically (see fig 1). This growth has continued into the present. The majority of these exports are primary products, which include minerals, fuel, and agricultural products.



therefore a net importer of minerals, fuel, and agricultural goods. At the same time, China's economic growth has also been export-driven (see fig 2). China's growth in exports has exceeded that of every other nation on earth. With an export-driven economy, China has been able to make leaps and bounds in its economic development.

## Economic Drivers of China's Natural Resource Demand

In the early stages of China's rapid growth, products that China exported were mostly cheap, low value-added goods. More recently, however, China's exports have become high-tech, high value-added products. In 2006, China surpassed the United States, the EU-27, and Japan to become the largest high-tech exporter in the world. Its high-tech exports grew 33 percent annually from 1995 to 2008, much faster than the growth of overall exports.<sup>iii</sup> These new products necessitate vast quantities of primary products including minerals and fuel, the products that Latin America has in abundance, and the leading cause for China's aggressive economic expansion into the region.



The Chinese leadership works to maintain its ambitious economic growth even with its relatively low per capita levels of natural resources. Over the past 18 years, China has become a net importer of almost all major natural resources. In 1993, China became a net importer of oil. From 1995 and 2005, its oil imports multiplied by a factor of five, becoming the second largest consumer of oil. During the

same time period, imports of iron ore grew 570 percent, copper by 738 percent, cobalt by 4,145 percent, and aluminum by 2,246 percent. China has looked to the developing world for these products. China has developed into an exporter of high-tech products through its investment in education.<sup>vi</sup>

In the decade ending in 2004, enrollment in higher education rose by a factor of 5, exceeding 13 percent of the college-age population.<sup>vii</sup> Although percentage-wise this is not a huge number, in absolute terms it means that China has over 2.4 million graduates per year, showing no signs of ebbing. Furthermore, China's education is dominated by students of science and engineering—two subjects crucial to the development of high-tech industries and key to China's future growth.<sup>viii</sup>

Investments in infrastructure and research and development are also signs that China's growth will be long-lasting. China spends at least 1.2 percent of its GDP on research and development, more than any Latin American country.<sup>ix</sup> By 2020, the CCP has a formal goal of making it 2.2 percent of GDP, with its main objective to have 60 percent of the country's economic growth driven by science and technology by 2020.<sup>x</sup> China's investment in fixed assets is about 40 percent of GDP, twice that of the Latin American average.<sup>xi</sup> This investment means better roads, better access to electricity, and better telephone land lines; all crucial to future economic growth.<sup>xii</sup>

Its investment in research and development and internal infrastructure are powered by its access to cheap bank credit. China's people save extraordinary amounts of money. Their savings rate is approximately 50 percent of China's GDP. This offers the Chinese government access to cheap credit. Provided with this capital, China can develop forward-looking economic developments.

China's demand for foreign natural resources will continue along with its economic advancement. China's booming railway construction, shipbuilding, and automobile manufacturing sectors are all natural resource-intensive industries, necessitating primary products such as metals, rubber, fuel, etc. Ownership of domestically produced automobiles has sky rocketed. In China, car ownership more than doubled between 2004 and 2009, from 12 percent of the population to 28. One report concludes that it is possible for car

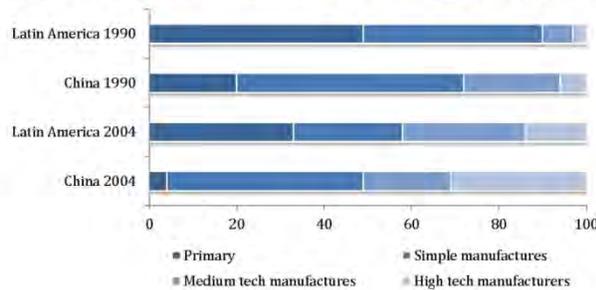
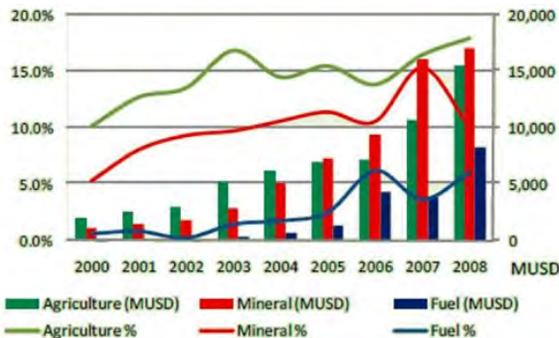
ownership to top 50 percent of the population by 2015.<sup>xiii</sup> Growth in Chinese domestic consumption continues to drive its need for foreign natural resources, making China and Latin America complementary partners.

With this economic growth has come a higher standard of living for most Chinese, who now demand more agricultural products from abroad. China is by no means a food insecure country; however, there are some agricultural products that China cannot sufficiently supply to its own people. While China is a major producer of many agricultural products, overall it is a net importer of bulk food commodities. China has become a major market for imports of oilseeds (i.e. soybeans), vegetable oils, oil meal, and grain.<sup>xiv</sup>

### **China's Access to Latin American Natural Resources**

Latin America offers vast amounts of agricultural products, metals, and fuel. Latin America's agricultural land per capita is three times greater than China's while forest land and fresh water per capita is more than five times greater. Latin America produces about 50 percent of the world's soybeans, over 20 percent of global refined aluminum, 20 percent of the world's zinc, 30 percent of the world's oilseeds, 40 percent of the world's copper<sup>xv</sup> and at least 14 percent of the world's petroleum.<sup>xvi</sup>

Latin America's economic environment is complementary to China's. China has increased its exports of high-tech products from approximately 3 percent of total exports in 1990 to approximately 33 percent in 2004 (see fig 3). Meanwhile, Latin America's economy has continued to rely on the exports of primary products. Since China's new high-tech industries are natural resource-intensive, Latin America's economy is complementary to China's. China's imports from Latin America have shown<sup>xvii</sup> tremendous growth (see fig 4).

Figure 3<sup>xxiii</sup>: Technological Content of Exports, China and Latin America, 1990 and 2004Figure 4<sup>xxix</sup>: China's Imports from Latin America: Value & Percentage of World Total

These natural resources, however, are not found in significant quantities in every Latin American country. The bulk of the exports from Latin America to China has been heavily concentrated in the few countries that contain the primary products that China demands. In 2008, while the total volume of Latin American exports to China accounted for only 5.6 percent of the region's overall exports, for a number of countries in South America, China has become their top export customer, including Chile and Brazil's. China has become the second most important export customer for Argentina, Peru,

Costa Rica, and Cuba.<sup>xx</sup> By 2008, just 10 commodities in only six Latin American countries accounted for 74 percent of the region's exports to China.<sup>xxi</sup>

These same 10 commodities made up 91 percent of the region's overall commodity exports to China.<sup>xxii</sup> China's expansion in trade with Latin America has primarily involved those countries with large amounts of natural resources.

These states that China is engaging are adapting their economies to meet China's demands. For example, China has had a profound impact on Latin American soybean production. Soybeans and soybean-derived products are an important part of the Chinese diet and are used for soy flour, soymilk, soybean oil, tofu, textured

vegetable proteins, and soy sauce.<sup>xxiii</sup> China consumes about 40 million tons of soybeans annually, and it is predicted that China may soon import over 50 percent of the world's soybean production. Brazil and Argentina are two of the largest soya producers in the world. In 2009, China surpassed the U.S. as Brazil's most important trading partner. Argentina now devotes over half of its farmable land to the production of soybeans.<sup>xxiv</sup> China's economic demands now determine economic production in large Latin American economies.

While the physical distance between Latin America and China is long and inhibitory to trade, developments are in place to facilitate commerce. Already under construction is a \$5.25 billion expansion to the Panama Canal that will add an extra lane and two sets of locks, tripling cargo capacity through the canal, and allowing China to have easier access to Latin America's eastern countries. China will be able to use its large, more efficient cargo vessels to transport raw materials from northeastern Latin America, particularly Brazil for iron ore and Venezuela for oil. Construction of the additional parts to the canal are projected to be completed by 2014.<sup>xxv</sup> Another possibility for linking the eastern Latin American economies to the Pacific is through a proposed "dry canal" through Colombia. China and Colombia are in advanced talks to develop a \$ 7.6 billion 791 kilometer railway through Colombia.<sup>xxvi</sup> These talks represent China's aggressive push for greater access to Latin American natural resources.

### China's Engagement with Latin America

China engages natural resource-rich Latin American trading partners regardless of their political environment or the ideologies of their governments. Its interactions with Latin American countries are dependent on economic opportunities. In market-oriented countries, it has signed several Free Trade Agreements (FTAs). For example, China signed a FTA with Chile in 2006, with Peru in 2009, and with Costa Rica in 2010. China has also engaged Colombia for a FTA.<sup>xxvii</sup> In socialist, revolutionary countries found in Latin America, China has engaged them in state-level economic developments. The leaders of Venezuela, Bolivia, and Nicaragua

have all increased their anti-American rhetoric, turning to China as alternative leader in the region. China has not shied away from business opportunities with the revolutionary governments of these countries. Its opportunistic play on Latin America's domestic politics is conducive to its economic advancement in the region.

### Other Chinese Concerns in Latin America

Besides China's interest in Latin American exports, it also works to open markets for the sale of Chinese goods. Although Chinese firms seek to sell their products to any country they can, Latin America is particularly important for a number of reasons. First, China would like to diversify its export base. China relies mainly on developed nations for the purchasing of their goods. With the economic crisis of 2008 and the contraction of consumption by developed nations, China recognizes the need to diversify its export base to middle-income economies as a way to further guarantee the advancement of its economic

goals.<sup>xxviii</sup> The growth of Chinese goods being imported to Latin America coincides with and is comparable to that of Latin American goods exported to China (see fig 5).

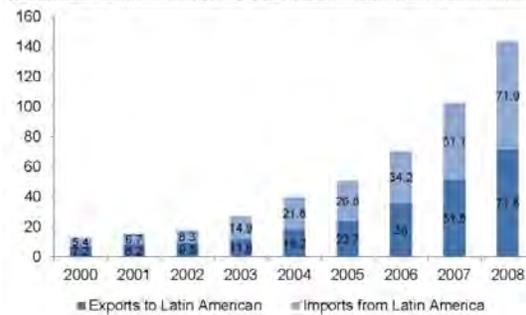
Latin Americans are important consumers for knock-off products of things like designer clothing, pirated music CDs, DVDs, footwear,<sup>xxx</sup> and other products.<sup>xxxi</sup> While this kind of trade is illegal, many customs authorities are not able to block the entry of these products or their sale, because these organizations are often under resourced, corrupt, or overwhelmed by the

volume of products.<sup>xxxii</sup> Products like computers, motorcycles, and cars from China are much cheaper than those from the developed world. While these products are often lower quality, many Latin Americans cannot afford products from developed countries. Therefore, "Latin America, with a population of over 500 million and an economy of nearly \$3 trillion is an attractive market for Chinese products."<sup>xxxiii</sup> By selling low quality, and even illegal goods, the Chinese make economic gains from exporting to Latin America.

China engages countries for economic purposes, with ideological concerns only being a secondary matter. However, there is one exception to this rule. This exception pertains to the extension of its "One China Policy," or the

diplomatic isolation of Taiwan. Some countries in the region still recognize Taiwan's independence.

Figure 5<sup>xxxiv</sup>: China's Bilateral Trade with Latin America (SUUSD Billions)



However, these countries are not large natural resource producers, so they are not economically significant to China. The countries that recognize Taiwan's independence are mostly located in Central America and the Caribbean, and do not serve as highly important natural resource providers to the People's Republic of China (PRC). China uses its economic might to gain adherents to its policy. For example, it gave \$11 million in aid in 2005 to the Commonwealth of Dominica and a \$100 million grant over the next six years in return for its recognition of the PRC. The isolation of Taiwan in Latin America is China's main political concern; however, it does not significantly effect China's economic goals, and its economic expansion into Latin America is not to isolate Taiwan.<sup>xxxiii</sup> China's government's main goal in Latin America is for natural resources.

### China's Government Facilitates Expansion

China's government works to facilitate the acquisition of foreign natural resources while maintaining oversight of this crucial sector of the economy. The CCP has reacted to China's dependence on foreign natural resources in two ways. Firstly, it has opened its markets to foreign suppliers by lifting quantitative restrictions on almost all commodities and by curtailing import subsidies.<sup>xxxiv</sup> Secondly, because they realize the strategic importance of these commodities, leaders in the government have worked to maintain control over the production and trade of these natural resources through State Owned Enterprises (SOEs).<sup>xxxv</sup>

The Chinese government works actively to increase China's natural resource acquisition throughout the world. It supports and advances SOEs specializing in natural resources in order to

keep oversight and control over the trade of these commodities. The Ministry of Foreign Affairs and the Ministry of Commerce oversee the execution of national policy governing natural resources, with the exception being over oil. The Ministry of Foreign Affairs and the Ministry of Commerce are funded by the Ministry of Finance, which provides cheap credit for the companies' acquisition of natural resources. The oil trade is supervised by the Energy Leading Group. Because of the increased security importance of oil, the Energy Leading group is chaired directly by the Prime Minister. China's government has a coordinated strategy for natural resource acquisition.<sup>xxxvi</sup>

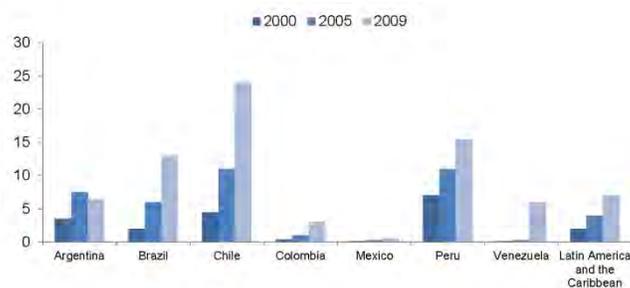
The Chinese government knows that natural resources are connected to national security and international politics. China has been discriminated against in its quest for natural resources in Canada and the United States because of both security and nationalistic reasons.<sup>xxxvii</sup> The natural resource markets are strategic and can be volatile in times of international crisis. It therefore behooves all governments to work to ensure a diversified portfolio of natural resource access. China continues to diversify its sources of natural resources.

China's foreign policy is sometimes controversial because of its seeming lack of moral guidance. In Africa, it is notorious for doing business with the worst of governments, in countries where most Western companies will not even enter because of humanitarian concerns. An example of this is in Sudan, where China has millions of dollars invested in the oil sector, and has worked to ensure "stability," by blocking U.N. military action to stop the genocide occurring there. While the West is steering clear of Africa because of humanitarian and political concerns, China has swiftly moved in for natural resources. It is opportunistic in Africa, working to win natural resources where the West does not have a strong presence. China uses this same pragmatism in Latin America, and is willing to adapt its strategy to each country's political and economic concerns. Driven by its desire for primary products, China engages each trading partner opportunistically. Where China can access natural resources through FTAs, China does so, but where state-level development projects are the only means, China engages on these terms. When it comes to natural resource security and

acquisition, China's does not take moral, political, or ideological concerns into account, making it a rational, powerful player in the international scene.

Fortunately, in recent years, Latin America has not been the scene of large-scale human rights violations and genocide, as has been the case in Africa. However, Latin America has a wide range of ideologies, both economic and political, in the governments of the particular nations. As a rational actor in the international scene, China engages these states with expedience, with the primary purpose being natural resource acquisition. While there are numerous examples that demonstrate China's pragmatic, state-specific strategies, China's dealings with Chile and Venezuela are two exemplary cases of its adaptability in the region. These two countries have seen the greatest percent increase in their exports to China (see fig 6). They have very different governments, economic systems, and reasons for increased trade with China. Nevertheless, China has made extraordinary gains in accessing their most important natural resources.

Figure 6<sup>xxxviii</sup>. Latin American Exports to China as a Percent Share of Total Exports



### China's engagement with Chile

The historical relationship between China and Chile and the recent uptake of Chilean natural resources demonstrate how China's foreign policy in Latin America is based mainly on its demand for primary products, the most important of which is copper. China has supported Chile politically in international organizations and its leaders have engaged in numerous meaningful state visits to Chile. Playing to Chile's tradition of free market economics, China engages Chile with free market initiatives. At the same time, state level action has been taken in many instances for the production and sale of Chilean minerals to China. China has successfully gained profound interconnectivity with the Chilean

economy, gaining access to Chilean minerals by political and economic advancement.

Chile's geography and abundant mineral wealth make it a logical trading partner for China. Lining the west coast of South America, Chile's ports serve as intermediate stops for many goods flowing between the continent's interior; including Argentina, Brazil, Bolivia, Paraguay, and Uruguay; and Pacific-bound destinations like China. Ninety-eight percent of Chilean exports come from nine primary-

product sectors.<sup>xxxix</sup> Chile holds approximately 17 percent of the world's copper reserves and is the world's largest producer of the metal. In the first half of 2007, over 83 percent of Chile's exports to China were copper.<sup>xi</sup> Chile's geographic location and vast natural resources make it a crucial partner.

Chile was the first country in South America to establish diplomatic relations with China in January of 1971. Recognition of the PRC came during the leadership of the Marxist president Salvador Allende, who looked to China's Communist regime as a potential political and economic partner. The two nations engaged in trade; Chile exporting mining products, fishmeal, and agricultural products, and China selling cheap manufactured goods. While formal diplomatic relations between Chile and China began during the presidency of this leftist, China's reasons for its relations with Chile were less about their shared ideology than about China's access to Chile's resources.<sup>xii</sup>

With the fall of the Marxist regime in Chile, China demonstrated its apathy for Chile's political ideology. In 1973, Allende was ousted and the anti-Communist military dictator Augusto Pinochet took power, establishing a radically anti-Communist government. During this phase in Chile, the two nations retained economic and diplomatic relations with low ideological content.<sup>xiii</sup> The new regime implemented free-market reforms in an attempt to curb inflation and spur economic growth, while at the same time stifling civil liberties and violating human rights. The target of this aggression was usually Marxists and others who had left-leaning tendencies. Pinochet left Chile with a legacy of anti-Communist, free market oriented reforms.

Up until the turn of the century, China and Chile's relations maintained cordial but lukewarm.<sup>xliii</sup> Changes in Chile's internal government to a more centrist, liberal democracy had little bearing on the Sino-Chilean relationship. Besides Chile's support for China's membership in the World Trade Organization in 1999, the 1990's showed little change in the interaction between these two countries.<sup>xliv</sup>

Since the 1990's, however, China has engaged Chile bilaterally and supported Chile in international organizations, coinciding with a stark growth in China's imports of Chilean goods. This correlation is no accident, as China uses international politics for economic gain. Between 1997 and 2006 Sino-Chilean bilateral trade increased by 641 percent.<sup>xlv</sup> President Hu's visit to Chile in 2004 during the annual Asia Pacific Economic Cooperation (APEC) summit demonstrated the increasing importance of Chile and China's economic relationship. China supported Chile's bid for a nonpermanent seat on the United Nations Security Council in 2003-2004.<sup>xlvi</sup> By 2007, the PRC became Chile's most important export customer, and by 2009 the PRC surpassed the United States as Chile's most important trading partner overall.<sup>xlvii</sup> China's political support of Chile internationally coincides with increased trade between the two.

Chile's conservative, free trade tradition has served as an opportunity for China to increase its economic activity with them. Free trade in Chile is a result of the market reforms of the post-Allende era. The "Chicago Boys," a group of Chilean economists educated at the Chicago School of Economics, influenced Chile's economy by starting free-market oriented reforms that have made Chile a pioneer in the region. Since 1985, Chile has had an average GDP growth of approximately 6.9 percent.<sup>xlviii</sup> Many attribute Chile's economic success to their free trade. In light of Chile's free trade tradition, China has engaged Chile with free trade initiatives.

China increased its access to Chilean natural resources through the groundbreaking Sino-Chile FTA that went into effect in 2006, guaranteeing increased trade and investment between the two countries. In October of that

year, China lifted tariffs on 2,834 products imported from Chile, including its most important commodity, copper. Chile gave duty-free status to 5,891 products from China.<sup>xlix</sup> Chile's exports to the PRC jumped 140 percent in 2006, the first year in which the FTA went into effect.<sup>i</sup> The FTA represents China's first ever FTA with any nation outside of Asia. By 2009, trade between the two nations reached record levels at \$16.5 billion.<sup>li</sup> In signing this FTA, the Chinese were able to guarantee greater access to the primary products that it needs from Chile.

China has also engaged Chile on a state level basis in order to better control the flow of Chilean natural resources. In February 2006, China and the Chilean copper company CODELCO signed an agreement where China agreed to purchase Chilean copper at a fixed price, providing \$550 million in advance to help the Chileans increase their output in order to keep up with growing Chinese demand.<sup>lii</sup> This agreement has an estimated value of about \$2 billion.<sup>liii</sup> Through state level deals, China is able to better coordinate from government to government the flow of natural resources.

The growth of China's influence on Chile's copper industry has caused concerns of Chinese dominance and possible dependency for some in Chile. A controversial provision of an accord between CODELCO and China Minmetals, the Chinese state-owned mineral company, was an option for them to buy up to 49 percent interest in a new Chilean mine, Gabriela Mistral. To many Chileans, metals and minerals are a national patrimony and the possibility of foreign dominance of them touches a nationalistic sensitivity.<sup>liv</sup> When in 2007 China Minmetals expressed its interest in purchasing 49 percent of the mine, workers in one of CODELCO's leading mines protested, causing a sharp reduction in its production.<sup>lv</sup> The Chilean government decided to forbid the Chinese from exercising its option. This growing concern by many in Chile shows the profundity of China's presence.

China's trillions of dollars in reserves allowed it to continue its natural resources buying spree from Chile even during the Financial Crisis of 2008. In 2008, Chinese

imports from Chile rose 204.3 percent.<sup>lvi</sup> This rise was driven by copper. In that year, China's imports of refined copper and alloys increased by 640 percent, imports of copper waste and scrap went up 716 percent, imports of copper ores went up 732 percent, imports of copper wire went up 300 percent, and imports of other copper products rose at comparative levels. While the U.S.' and Europe's economies were contracting, China's ability to buy Chilean copper increased.<sup>lvii</sup>

The relationship between these two countries has been so lucrative, that in 2010 the two states began a new phase in the FTA to expand their free trade to include greater access of service suppliers into a wide array of sectors including mining and geological prospecting. In August 2010, Mario Artaza, head of Asia and Oceania affairs at the Chilean foreign ministry said, "since 2005, China and Chile have walked on a joint path toward free trade."<sup>lviii</sup> China's imports of Chilean primary products have increased dramatically since the turn of the century. Engaging Chile with bilateral FTAs and state-level deals has given China greater access to Chile's natural resources, especially copper. China has become an integral part of Chile's economy. China has achieved economic interconnectivity with Chile because of its adaptable strategies of bilateral engagement.

### China's engagement with Venezuela

Another example of China's expedience in its natural resources acquisition in Latin America is in its relations with Venezuela. China's expansion in bilateral trade and investment into Venezuela corresponds with the leadership of the revolutionary, anti-American president Hugo Chavez. Chavez offers China access to Venezuela's petroleum as a way to increase economic and political relations between the two countries. This is driven by his desire to lower Venezuela's dependence on the United States for consumption of its oil. With a foreign policy in Latin America based primarily on its quest for natural resources, China takes advantage of the political situation of Venezuela in order to access Venezuela's vast reserves of petroleum.

Although Venezuela does have large

reserves of other natural resources such as aluminum, iron, gold, and coal, by far its most important and abundant natural resource is petroleum. Venezuela has the second largest reserves of oil in the world, just behind Saudi Arabia Brief.<sup>lix</sup> Venezuela is the seventh largest exporter of oil in the world.<sup>lx</sup> Oil makes up 80 percent of Venezuela's total export revenue and contributes to approximately 50 percent of the central government's income.<sup>lxi</sup> It is responsible for about one-third of the country's GDP.<sup>lxii</sup> Including the deposits of hard-to-reach oil deposits in the Orinoco belt, Venezuela has approximately 211 billion barrels of proven oil reserves.<sup>lxiii</sup> The majority of Venezuela's oil is consumed by the United States.

Venezuela's leadership before Chavez showed little interest in economic and diplomatic relations with China, and there was little bilateral activity. However, Venezuela granted China diplomatic relations in 1974. The first visit to China by a Venezuelan president did not occur until 1981.

Likewise, the first visit of a Chinese premier to Venezuela did not occur until 1985, 11 years after Venezuela established diplomatic relations with China.<sup>lxiv</sup> In 1996, Premier Li Peng visited Venezuela. With only three high-level visits up until 1999, relations between the two nations were of little consequence.<sup>lxv</sup>

The political relationship between China and Venezuela increased dramatically with the election of Hugo Chavez. Immediately after winning, Chavez made his first visit to the PRC in October 1999, and repeated visits six more times by 2011. Chavez' statist, anti-free-enterprise stance and desire to increase political and economic ties with China have strengthened the relationship of the two. In 2001, China named Venezuela a "strategic partner," signaling its desire for increased cooperation and bilateral progress.

Because of Chavez, Venezuela has become an undesirable market for many Western companies. Starkly anti-capitalist, in 2006 he nationalized all of the oil fields in the Orinoco region that were owned by foreign companies, resulting in an increased ownership stake from 40 percent to 60 percent

for the central government.<sup>lxvi</sup> The American companies ConocoPhillips and ExxonMobil, Venezuela's two biggest partners in heavy oil development at the time, decided to pull out of the country all together and settle it by international arbitration.<sup>lxvii</sup> Seeing opportunities left by these private companies, China has worked to take advantage of the situation.

Chavez has clearly positioned himself as both anti-American and pro-Chinese. In 2006, at a U.N. conference in New York, Chavez was quoted as saying "The American empire is doing all it can to consolidate its hegemonistic system of domination, and we cannot allow him [President George W. Bush] to do that. We cannot allow world dictatorship to be consolidated."<sup>lxviii</sup> President Chavez blames the attempted pro-United States coup in 2002 on the United States government, and was angered that the United States diplomatically supported the usurping regime. Since the failed coup, Chavez' anti- American sentiment has grown. Chavez desires to decrease Venezuela's dependence on the U.S. as its most important importer of oil and would like to increase the prominence of the newly rising power, the PRC. In a 2004 state visit to Beijing, Chavez said "You should realize we've been producing and exporting petroleum for more than 100 years, but they were 100 years of domination by the United States. Now we are free and at the disposal of the great Chinese nation."<sup>lxix</sup> Statements like these give China confidence for aggressive development in the petroleum sector with Venezuela.

However, there are significant obstacles to Chavez' desire to meaningfully decrease Venezuela's dependence on the United States. First is the U.S.' close proximity to Venezuela. Just across the Caribbean, sending petroleum to the United States makes the most economic sense. That contrasts to China's far distance and the fact that in order to reach China's shores, ships must either go through the Panama Canal, around South American, or around Africa. Today, about 60 percent of Venezuela's oil exports go to the United States, making Venezuelan oil imports 11 percent of all oil imports to the United

<sup>lxx</sup> States. Petroleos de Venezuela SA (PDVSA), Venezuela's state owned oil company owns five oil refineries in the United States and has partial ownership in four <sup>lxxi</sup> through its U.S. subsidiary, CITGO.

Nevertheless, Chavez has pledged to increase its supply of oil to the PRC significantly. In 2004, on a visit to Beijing, he told the Chinese that his country would put many of its oil facilities at the disposal of China, saying that Chinese firms would be allowed to operate 15 mature oil fields in the heart of Venezuela, capable of producing more <sup>lxxii</sup> than one billion barrels. In 2008 he pledged that Venezuela would supply China with 500,000 barrels of oil per day by 2009. <sup>lxxiii</sup> According to his statements, he actually came <sup>lxxiv</sup> close, with 460,000 barrels. Thanks to Wikileaks, it has been discovered that much of this oil was sold to China at as little of a price as \$5 per barrel when the market price was <sup>lxxv</sup> \$78 per barrel. According to an unnamed official at PDVSA, China then sold the cheap <sup>lxxvi</sup> oil elsewhere at a "sizable" profit. The Chinese willingly accept the economic concessions that a politically driven Venezuela offer them.

While the Venezuelan-produced statistics show 460,000 barrels per day in 2009, the Chinese-produced statistics show equivocating figures. For the first few months of 2010, Chinese figures showed that China was importing only an average of 132,000 barrels per day in the first few months that year. Also, a U.S. Embassy cable published by the Spanish newspaper "el País" shows mismatches on Venezuelan data, citing a PDVSA official's January 2010 estimates of oil exports to China that was nearly five times greater than the Chinese figures on such imports. To save face at not accomplishing his goal of 500,000 barrels per day, Chavez both offered oil to China at a steep discount and gave fake statistics. While the importance of bilateral trade between China and Venezuela has not reached the levels that Chavez purports it to, China does recognize the opportunities that an ideological pro-China <sup>lxxvii</sup> government in Venezuela offers.

China has engaged Venezuela

successfully with bilateral deals, almost always involving petroleum. In 2007, China and Venezuela signed several bilateral agreements, the most important of which was a \$6 billion development fund to deepen collaboration in the areas of energy, technology, and financing, particularly with <sup>lxxviii</sup> regards to the Sino-Venezuelan oil trade. Of the total \$6 billion, the Chinese Development Bank contributed \$4 billion, while the Venezuela's National Development <sup>lxxix</sup> Fund contributed \$2 billion. By 2011, the fund has reached \$12 billion, with another \$4 billion coming from China and \$2 billion from <sup>lxxx</sup> Venezuela. Also in 2007, Venezuela signed agreements with the China National Petroleum Company (CNPC) for cooperative projects in the petroleum sector, most importantly an increased participation of CNPC in Venezuela's Orinoco reserves. There have been over 300 bilateral investment commitments between the two countries, and by 2009, China became Venezuela's second-<sup>lxxxi</sup> largest trading partner.

China, with vast reserves of currency, takes advantage of Venezuela's inability to attract meaningful private investment. Since private companies are often wary of investment into Venezuela, many development projects are underfunded. But with the political connections between China and Venezuela, China has more confidence in Venezuela's ability to pay back its loans in oil. The China Development Bank (CDB) provided a soft loan in April 2010 to Venezuela of \$20 billion, to be repaid over a <sup>lxxxii</sup> ten year period, guaranteed by oil supplies. By trading its vast reserves of currency, China guarantees access to Venezuela's oil.

China has aggressively pursued state level deals with Venezuela for petroleum. Chávez offers China an opportunity to gain a foothold in the region- the goal of which in the end is greater energy and natural resource security. China obviously is using Venezuela's political environment and statist leader to get access to their oil and has successfully taken advantage of the political situation to do so.

## Conclusion

Exports of Latin American primary products to China have increased tremendously since the turn of the 21st century. China's economic growth, powered by its high-tech exports and responsible governance, is the main reason for the uptake in these products. Latin America holds some of the world's largest reserves of minerals, agricultural products, and fuel. Latin American economies have adapted to Chinese demand through developments of industries and the growth of transportation infrastructure. China works with Latin American governments to gain access to their natural resources with a state-specific, pragmatic approach, adapting itself to the economic and political considerations of the countries in question. China's government also maintains oversight of the process of natural resource acquisition. The examples of China's advancement with Chile and Venezuela show the Chinese government's ability to work in starkly different economic, political, and ideological environments for the main purpose of the acquisition of natural resources.

Due to China's growing influence in the region, China's expansion into Latin America may threaten United States hegemony in the Western Hemisphere. The United States has traditionally been the economic and political hegemonic power in the Western Hemisphere. While the United States was busy dealing with issues in the Middle East such as the Iraq War and the War in Afghanistan, the Chinese advanced into the United States' "back yard." China now holds more economic and political sway with a few important Latin American countries. The United States must develop a comprehensive strategy to deal with the growth of Chinese influence in its hemisphere.

China's advancement into Latin America could also be seen as a form of neocolonialism. While many Latin American countries have feared economic dominance by and dependence on the powerful Western states like the United States and Western Europe, they may find that China is no different. Latin American economies are becoming even more dependent on natural resource exports because of the growth of the Chinese presence. It is particularly ironic that the Venezuelans work to decrease their dependence on the United States by increasing their dependence on China.

Although China's government is in name Communist, its foreign policy is driven by its economic markets. It is also ironic that the world's foremost Communist nation is now playing the role of a large, dominating economic power. Latin American nations should pay close attention to Chinese action in the region, and work to mitigate domination of their economies by China.

China's export driven economic growth has led it to Latin America for the acquisition of rich natural resources. Latin American countries have adapted to China's demand with economic developments for the extraction and movement of natural resources to the Pacific Ocean. China has engaged the different players in the region with thoughtful and often opportunistic strategies and has gained significant influence in the region. It will be interesting to see the future of Sino-Latin American relations given the possible implications of China's economic advancement in the region.

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