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Introduction: Assessing the Implications of China's Growing Presence in the Western Hemisphere

At the outset of the twenty-first century, China is a rapidly rising global presence. Assessing the implications of its growing economic, political, and security influence is a difficult but critical endeavor because of the potentially serious consequences of misjudging China's intentions and the true scope of its power.[1] China's self-proclaimed "peaceful rise" has led to several major intellectual debates about the changing international landscape, including whether U.S. hegemony has begun an inexorable decline.[2] Among the most salient debates is whether an emerging multipolar international system, with an increasingly powerful European Union (EU) and Asian bloc, will have a destabilizing effect on the current world order founded on U.S. hegemony.

At a time when the United States is concentrating a great deal of attention and resources on the war on terrorism, China has made important inroads in expanding its influence abroad, particularly in developing regions such as Southeast Asia and Africa. Another relatively recent development in China's "going global" strategy is a new interest in engaging Latin America. China's expanding diplomatic and economic ties with the region, the backyard of the United States, have awakened new concerns in U.S. policy circles. Skeptical policymakers in the United States view China's new presence in Latin America as an opening salvo of a larger diplomatic offensive by Beijing to challenge U.S. interests in the Western Hemisphere. A more benign viewpoint considers China's expanding ties with Latin America more of an opportunity than a threat and a natural manifestation of its growing need for commodities and energy resources.

The chapters in this volume provide a variety of perspectives on the implications of China's growing international presence. In part I Chinese and Latin

American scholars offer different views on China's foreign policy, its geopolitical drivers, and the repercussions of deepening Sino–Latin American ties. Part II focuses on the economic and energy security aspects of the China–Latin America relationship. What is the impact of China's economic rise and growing regional engagement on Latin America's development and economic prosperity? What can Latin America learn from China's economic successes and what can losers do? How will China's drive to satisfy its long-term energy needs affect Latin America? In part III the authors analyze China's growing influence in Southeast Asia and Africa in an effort to provide a broader framework of analysis, namely: Can Latin America draw lessons from China's role in other developing regions? Part IV offers some conclusions about the implications of the changing landscape in Sino, U.S., and Latin American relations drawn from the various viewpoints presented in this volume.

Overall, this volume seeks to answer several key questions. Is there any reason to believe that China's economic and commercial interests in Latin America will endanger the strategic relationship between China and the United States? What do the countries of Latin America expect to gain from the expanding economic and diplomatic role of China? Finally, what are the implications of growing economic and diplomatic linkages between China and the Western Hemisphere for the traditional perception of U.S. hegemony in Latin America?

To better understand the current dynamics, this chapter examines the linkages in Sino, U.S., and Latin American relations. As a first step, it is important to recognize the asymmetrical nature of the triangular relationship, an asymmetry resulting from U.S. primacy. Even if U.S. hegemony in the Western Hemisphere is deemed unquestionable, the preeminence of China's economic and diplomatic ties with the United States over its ties with Latin America plays a key role in China's pragmatic approach to greater engagement with the region. Similarly for Latin America, the United States will continue to be its most important export market in the foreseeable future. Nonetheless, China's growing presence in the region presents interesting opportunities, though not without costs in certain sectors. All of these factors must be taken into account when analyzing the prospects for deepening ties between China and Latin America.

China's Strategy: Peaceful Rise?

One of the central reasons China's rapid economic ascent is of concern to the rest of the world is its impact on the price of commodities and on global currency and credit markets. China's growing geopolitical influence is also of increasing concern—in particular to the United States and other developed nations—given the implications for the existing world order. As Xiang Lanxin states in chapter 3, China has "launched a diplomatic offensive" to assuage international fears of a potentially destabilizing geopolitical effect from China's growing power and to convince the world that China is merely following a "peaceful rise" path. Although the official Chinese government view—presented in chapter 2 by Jiang Shixue—contends that China is, indeed, simply pursuing a global strategy, this claim is generally disputed in subsequent chapters with the argument that geopolitical concerns are the primary drivers of China's foreign policy. That said, there is also general agreement among the authors of this volume that China's current international strategy does not appear to be revisionist in nature but, rather, to be characterized by pragmatism and caution and led by necessity and opportunity.

As Robert Devlin explains in chapter 6, China's successful economic diversification and upgrading strategy has been aided by several important policy factors: long-term strategic planning and goal setting; placing priority on the development of local capacity and on sound fundamentals such as competitive exchange rates, high savings and investment rates, education, research and development, among others; and a proactive state that plays a role in horizontal and vertical interventions as needed. This approach to economic development is increasingly viewed as a potential model for other developing regions to emulate.

China is also becoming more sophisticated and influential on the diplomatic front, as Joshua Kurlantzick notes in chapter 9. Several chapters in this volume underscore one of China's most effective diplomatic strategies: forging strategic partnerships through the promotion of South-South cooperation in multilateral forums. In Africa, for example, China has benefited from the largest single bloc of votes in multilateral organizations. As Chris Alden notes in chapter 10, African votes have been crucial in several areas of interest to Beijing, including securing the vote to hold the 2008 Olympics in China. China's diplomatic influence is also increasingly aided by tools such as humanitarian aid, foreign direct investment (FDI), soft power, symbolic diplomacy, and a foreign policy free of conditionalities. This no-conditionalities approach, what Alden calls a policy of no political strings, has led to fears that a Beijing consensus, countering the principles of the so-called Washington consensus, could be emerging. As Alden explains, this foreign policy model is based on noninterference in domestic affairs of states and the promotion of sovereign integrity, which appeals to many developing countries, including pariah states. China has been widely criticized for explicitly employing this approach at the expense of sound business practices, respect for human rights, and good governance.

China's foreign policy in the twenty-first century clearly will be determined by varying combinations of considerations: security, trade and investment, natural resource needs, and geopolitics. Thus far Chinese efforts have focused on win-win rhetoric of promoting world peace and harmony, South-South economic and diplomatic cooperation, and political stability in Asia, its sphere of influence. As Kurlantzick points out, an interesting aspect of China's foreign policy has been a tendency to successfully reach out to nations whose bilateral relations with the United States are strained. For example, China made an overture of greater cooperation and aid to the Philippines after President Gloria Macapagal-Arroyo pulled Philippine troops out of Iraq in 2004 as part of a deal to win the freedom of a Philippine hostage, an arrangement that led the United States to withdraw its economic assistance to the country. At the same time, China is careful not to incite new tensions with the United States. Although China's economic dependence on the United States is an incentive to diversify its economic relations, Sino-U.S. relations will continue to be of paramount importance in the foreseeable future.

The China-U.S. Relationship

Despite ongoing skepticism in some U.S. political circles, the strategic ties between Washington and Beijing continue to deepen—and become more nuanced—each year. Everything indicates that in the twenty-first century there will be no more important bilateral relationship than that between China and the United States. There are both negative and positive aspects to the linkages between the two countries.

Security Issues: Taiwan and Beyond

Foremost on the negative side is the difference in perception on the part of each country concerning the status of Taiwan. The Taiwan Relations Act (TRA) of 1979 defines U.S. policy regarding Taiwan. The decision by the United States to establish diplomatic relations with the People's Republic of China (PRC) rests on the expectation, outlined in the TRA, that "the future of Taiwan will be determined by peaceful means" and that "any effort to determine the future of Taiwan by other than peaceful means . . . [will be] . . . of grave concern to the United States." The act also authorizes the U.S. government "to provide Taiwan with arms of a defensive character." In effect, the act serves as a guarantee of Taiwan's right to peaceful existence.

Although the TRA considers Taiwan's security "of grave concern to the United States," the act does not specify how Washington would react to a threat to the island's current status. For example, in March 1996 Democratic president Bill Clinton deployed two aircraft carrier battle groups off the coast of the island in response to ballistic missile tests by the PRC. In April 2001 Republican president George W. Bush stated that his administration would do "whatever it took to help Taiwan defend itself" if attacked by the mainland government.[3] These are but two brinkmanship actions by administrations from both political parties.

Relations between Beijing and Taiwan are highly unstable. The Beijing regime has maintained for decades that, at some point in time, Taiwan will revert to mainland sovereignty. For many in the United States and in Taiwan itself, however, the island's thriving democracy contrasts sharply with the authoritarian regime on the mainland, and these proponents insist that Taiwan must maintain its sovereignty. The two sides jostle back and forth, with the mainland sending sharp warnings while some on the island seek greater autonomy. In March 2005, for example, the Chinese legislature adopted an antisecession law. A year-and-a-half later Taiwan proposed to rewrite its constitution to replace the name Republic of China with Republic of Taiwan as a sign of increased independence.[4]

Both the United States and China are deeply concerned about any confrontation between the island and the mainland. China's overall goal is to maintain the status quo while keeping its options open for the future. For any current American government, this is an inherited policy with strong support from the Taiwan lobby in the United States and from a significant number of members of Congress. These tensions probably ensure that the current state of play will continue indefinitely, with all three parties alert to the potential for a rapid escalation if any one undertakes any precipitate action.

Taiwan is not the only concern to U.S. national security officials. In the 2006 Quadrennial Defense Review, China is judged to be the country with the "greatest potential to compete militarily with the United States."[5] The report elaborates by explaining that China is the world power most likely to "field disruptive military technologies that could . . . offset traditional U.S. military advantages."[6] From Beijing's perspective, U.S. strategic relationships in Asia are viewed with equal suspicion. A recent decision by Washington to negotiate a new security agreement with Tokyo—allowing the United States to base a nuclear-powered aircraft carrier and Patriot antiballistic missile batteries in Japan—is seen as provocative by Beijing. The American decision in July 2005 to share nuclear and space technology with India can also be interpreted as an effort to build a military counterpoise to China. Moreover, the United States is now involved in military training programs in two of China's neighbors, Vietnam and Mongolia.

Perhaps in reaction to these U.S. movements in Asia, Beijing supported an East Asian summit in December 2005. The meeting took place in Kuala

Lumpur, Malaysia, as an addition to an Association of Southeast Asian Nations (ASEAN) summit meeting.[7] The new concept is ASEAN-plus-three: the three additional members are China, Japan, and South Korea. The United States was not invited to participate or to observe. China's increased involvement in Asia can also be noted in China's role in the Shanghai Cooperation Organization and the six-party talks involving North Korea.[8] This approach reflects the oft-stated position of Chinese scholars that China seeks a peaceful rise to great-power status and that the PRC understands the possible downside of a more aggressive political or military strategy. Some analysts, however, view these regional moves, and particularly the expanded ASEAN-plus-three bloc, as threats to U.S. leadership in the Asia-Pacific Economic Cooperation Forum (APEC).[9]

Despite these important points of contention, it is North Korea's nuclear arms development that defines the need for China and the United States to work in tandem. The announcement in October 2006 that North Korea detonated a nuclear device heightened the need for collaboration. China is a critical lifeline for the regime in Pyongyang, supplying an estimated 90 percent of its petroleum and 40 percent of its food supply.[10] China's trade and investment with North Korea is estimated to be around $2 billion a year.[11] Their bilateral relationship is founded on the Sino–North Korea Friendship and Mutual Assistance Treaty of 1961. Until the nuclear test in 2006, Beijing refused to consider the use of sanctions against the North Korean regime. That position was driven by the fear of instability in North Korea: an influx of refugees, the collapse of a buffer-state regime, and, although a very different regime, the demise of an ideological colleague. As China's foreign policy has expanded, North Korea is viewed as part of its sphere of influence no matter how strained the bilateral relationship between the two communist states becomes.

Until the recent nuclear test by North Korea, the Chinese had opposed the U.S. position, which is defined as the demand for "complete, verifiable, irreversible dismantlement" (CVID) of nuclear weapons.[12] Beijing also criticized U.S. opposition to direct talks with Pyongyang. The substitute has been the six-party talks involving the United States, China, South Korea, Japan, Russia, and North Korea. With the unanimous approval of Resolution 1718 by the UN Security Council in October 2006, closer collaboration between Washington and Beijing is possible. The resolution puts in place sanctions that bar the sale or transfer of material that could be used to make nuclear, biological, and chemical weapons and ballistic missiles. These sanctions also forbid international travel and freeze overseas assets of anyone associated with North Korea's nuclear program.

These critical security issues provide an important justification for the high priority given to the China-U.S. relationship. Despite important differences on security priorities, there is a fundamental understanding of the sensitive policy issues that could suddenly intensify and create a crisis situation. That overarching objective—to remain alert and avert international crises—is the principal driver in relations between the two states and helps explain the relations of each with the countries in the Western Hemisphere.

China-U.S. Economic Ties

The Sino-U.S. economic relationship is also of critical importance. The numbers are staggering. Total trade between the two countries grew from $5 billion in 1980 to an estimated $343 billion in 2006, a growth rate unmatched by any other major U.S. trade partner.[13] For the United States, China is not only its fourth largest and fastest growing export market but also its second largest trading partner overall.[14] U.S. exports to China grew 20.5 percent between 2004 and 2005, compared to only an 8.4 percent increase to its second largest export market, Mexico.[15] One analysis suggests that this growth in Chinese consumption will continue, estimating that by 2014 China will be the world's second largest consumer market after the United States (China was seventh in 2004), with total household spending of approximately $3.7 trillion.[16] China's enormous infrastructure needs and an increasingly wealthy population will boost global demand for foreign capital, expertise, and consumer goods in the years ahead, and the United States stands to be a major beneficiary of these trends.

While the trade numbers are extraordinary, there is a downside to the relationship. Although China absorbs large amounts of U.S. imports, China exports an even larger, and growing, volume of goods to the United States. China is currently the second largest source of U.S. imports, which increased 18.2 percent from 2005 to 2006.[17] The large and growing U.S. trade deficit with China, up from $30 billion in 1994 to $232 billion in 2006, has created a major controversy in the United States.[18]

The U.S. trade deficit with China for the foreseeable future will be the most contentious issue between Washington and Beijing. Critics in the United States, both in Congress and in the private sector, argue that China uses unfair trade practices: an undervalued currency, a lack of intellectual property protection, dumping, and few labor and environmental standards. United States trade officials argue that the Chinese currency, the yuan, is undervalued by 15–40 percent, giving China's exporters an unfair advantage in the U.S. market.[19] Some in the United States claim that the undervalued currency threatens U.S. jobs and wages, but a recent study by the U.S. Bureau of Labor

Statistics shows that only about 2 percent of gross layoffs are due to a transfer of job opportunities outside the United States.[20]

The issue is further complicated by the accumulation of U.S. Treasury securities by the Chinese government. According to official figures, China's foreign-exchange reserves had surpassed $1.4 trillion by late 2007.[21] While the purchases fund the federal deficits of the United States and help keep U.S. interest rates relatively low, there is concern that China may control the economic future of the United States. Any move to transfer its holdings to other currencies would have an immediate, devastating impact on the U.S. economy. Others argue that China's financial interests are so intertwined with those of the United States that such a move is highly improbable if not unthinkable. The visit to Beijing by Secretary of the Treasury Henry M. Paulson in September 2006 was cordial, but it did little to achieve the U.S. administration's goals: Chinese currency realignment, restrictions on China's capital markets, resolution of trade disputes, and elimination of widespread piracy of U.S. software, movies, and pharmaceuticals. While Paulson and his Chinese counterparts agreed to a new strategic economic dialogue, it provided no concrete promises or results.

Efforts in the U.S. Congress to "punish" China for its recalcitrance to move on these policy questions are ongoing. For example, in 2005 Senators Charles Schumer (D-N.Y.) and Lindsey Graham (R-S.C.) introduced legislation to apply a 27.5 percent tariff on Chinese imports to the United States in an effort to force the government in Beijing to raise the value of its currency. Senators Charles Grassley (R-Iowa) and Max Baucus (D-Mont.) introduced a measure that would have forced the United States to veto any increase in International Monetary Fund (IMF) voting rights of a country with a "fundamentally misaligned" currency. Both measures were dropped after the Paulson visit to Beijing, but there is continuing unhappiness on Capitol Hill over the inability to win greater concessions from China.

The White House is keenly aware of the need to engage China on trade issues. In her first visit to Beijing as U.S. Trade Representative in August 2006, Susan Schwab urged China to play a greater role, commensurate with its new economic power, in reviving the cause of global trade liberalization, following the collapse of the Doha Round of the World Trade Organization (WTO) negotiations.[22] Schwab indicated that the United States would like to see new alliances formed between global trading powers to advance the stalled negotiations, including a more active role by China. To date, China has resisted taking a high profile in the Doha Round, arguing privately that concessions it made as part of its own entry into the WTO make it difficult to take a stand on a new round of market-opening measures.[23]

The 2006 annual meetings of the World Bank and the IMF in Singapore offer further insight into how the United States envisions China's responsibility in multilateral organizations. Despite the attempts of Senators Grassley and Baucus to the contrary, the United States was a strong supporter of increasing IMF quotas for China as well as for South Korea, Turkey, and Mexico. This reform process has been driven by the need to adapt IMF rules to reflect significant shifts in global economic power, particularly the rise of Asian and other rapidly developing countries. Clearly, the decision reflects the inexorable growth of the Chinese economy and the need to provide a greater role in the decisionmaking process for Beijing.

Sino-U.S. Energy and Environment Cooperation

An often overlooked area of importance in the bilateral relationship is the need for cooperation in the energy field. David M. Lampton argues that "the energy-related fates of China and America are intertwined in key areas—oil dependence, global warming, and air pollution."[24] Both countries are major petroleum consumers, and both are contributing to increasing demand. There is growing automobile ownership on the mainland due to a rapidly expanding, energy-consuming middle class. The challenge for both nations is to manage rising demand by cooperating in the development of new transportation, industrial, and construction technologies.

China's air pollution—sulfur dioxide, nitrogen oxides, particulates, ozone, and heavy metals—directly affects the United States. Up to one-third of the air pollution in the western U.S. states comes from China, as does one-fifth of the mercury in the Great Lakes. In addition, the United States is the world leader in pollution from carbon dioxide emissions and China is second.[25] It is thus clear that China and the United States need to work together in improving energy and environmental policy.

The Sino-U.S. Relationship in Perspective

Although China's economic clout and status should not be exaggerated, the fact that it has become an important global player calls for careful attention on the part of Washington in its strategic policy planning. As some analysts point out, because China's future and internal stability are far from certain, "further integrating China into the global community offers the best hope of shaping China's interests and conduct in accordance with international norms on security, trade and finance, human rights, and encouraging collaboration to confront the challenges both countries face."[26] Policymakers in the United States have encouraged China to become a responsible stakeholder in the international system, so that the management of differences between the two countries can be negotiated in a more stable framework of shared political, economic, and security interests.[27]

There is no doubt that the U.S.-China bilateral relationship is a top priority for both countries. A Chinese commentator put it this way: "The United States is a global leader in economics, education, culture, technology, and science. China, therefore, must maintain a close relationship with the United States if its modernization efforts are to succeed. Indeed, a cooperative partnership with Washington is of primary importance to Beijing, where economic prosperity and social stability are now top concerns."[28] These issues bind China and the United States in an ongoing dialogue and provide the framework for considering China's expanding role in the Western Hemisphere as well as the implications of that role for the future of U.S.–Latin American relations.

The United States and Latin America

Another key linkage in the newly emerging Sino, U.S., Latin American triangle is the relationship between the United States and Latin America.[29] There is no question that the United States remains a crucial market for the region's exports. U.S. foreign direct investment remains highly significant, and most Fortune 500 companies participate in the Latin American marketplace.[30] Moreover, the Organization of American States (OAS) and the Inter-American Development Bank (IADB), both organizations in which the United States is the largest contributor, remain important players in the Western Hemisphere.

But there has been a sense that relations are changing. Some Latin American governments blame the United States for the failures of the economic reform process instituted in the 1990s. Known as the Washington consensus, these market-oriented reforms were intended to make the region more competitive and to address critical issues such as unemployment, skewed income distribution, and lack of property rights. There is a general agreement that the program failed.

Beginning with the election of Hugo Chávez in Venezuela in 1998, political leaders have criticized both the philosophy and implementation of the Washington consensus. They argue not only that it failed to achieve its goals but also that it may actually have made the social and economic condition of many of the region's citizens worse. The rhetoric in some countries has become increasingly and jarringly antimarket and antiglobalization. In fact, the World Bank and the IMF, two institutions in which the United States is the major decisionmaker, are accused of adopting Washington consensus policies to benefit U.S. economic and financial interests.

The war in Iraq, U.S. military action in Afghanistan, the crisis in Lebanon, and related controversies are very unpopular in the region. In particular, the administration of President George W. Bush is widely viewed with antipathy. Expectations are low that the next U.S. administration will significantly improve U.S.–Latin American relations. Two important policy areas illustrate the troubled nature of the U.S.–Latin American relationship: U.S. immigration policy and trade policy. Both are considered critical to the region's security and development, and on both issues the United States has been found wanting.

Immigration Policy and the Failure to Reform

Immigration policy is of particular importance for Mexico and the countries of Central America and the Caribbean, but it has come to symbolize the indifference in the United States to the fate of millions of Latin American citizens. What is most striking about the failure of immigration reform is that it was originally a priority of the Bush administration. In his State of the Union address on January 20, 2004, President Bush proposed a guest worker program. This was primarily in response to homeland security concerns about illegal immigration and possible links to the war on terror as well as to pressure from both sides of the political spectrum.

Conservatives on the right expressed concern about uncontrolled flows of illegal immigrants into the country, who, they argue, often take jobs away from American citizens, cause a rise in community crime, and use scarce public resources for health and education. On the liberal left, the call to protect the civil rights of immigrants, both documented and undocumented, has grown. However, the need to protect the basic rights of anyone residing and working in the United States has been overtaken by the fear of open borders and the war on terror. The obvious contribution to the U.S. economy and to their home economies by immigrants is too often ignored. It has been argued that immigrants are crucial to the American economy because they do the jobs that even poor Americans will not. Furthermore, the billions of dollars they send home help maintain economic stability in their home countries.

The debate over immigration reform has deeply divided the United States. Public opinion polls show a hardening attitude toward immigrants, even legal ones. In three polls in mid-2006, nearly half of the respondents said immigration hurts the United States by taking jobs, burdening public services, or threatening "customs and values."[31] This indicates that immigration, once thought to be a foreign policy issue, is now driven by domestic political concerns.

In sum, a critical issue for many of the countries in the Western Hemisphere has been stalemated by U.S. domestic and partisan political concerns, and legislators are increasingly fearful of taking any action lest they suffer the electoral consequences. The prospects for effective legislation in the near future are poor, as is the likelihood that the necessary congressional leadership will emerge to make significant progress. In addition, the outgoing, lame-duck Republican president has limited suasion on Capitol Hill, especially when Democrats control both houses of Congress.

Regional Trade Policy

Another issue of critical importance to Latin America is access to the overly protected internal market of the United States (as well as that of the EU). On this issue, as with immigration, the United States and Latin America find themselves on opposite sides of the debate. The Free Trade Area of the Americas (FTAA), first proposed by President Bill Clinton at the 1994 Miami Summit of the Americas, has been recently described as "moribund."[32] The Clinton White House lost momentum for the FTAA when Congress refused to extend fast-track authority for the president. Fast-track authority allows the White House to submit a trade bill for an up or down vote without amendments. When President George W. Bush took office in 2000, he promised to restart what he called a "stalled" trade agenda. Congress granted the White House fast-track authority under a new name, trade promotion authority, or TPA, and supported the president in approving bilateral pacts with Jordan, Singapore, Morocco, and Australia.

But the broader, hemisphere-wide negotiations slowed and then stopped. Brazil, the cochair with the United States in the original effort to finish an FTAA agreement by January 2005, often led South American resistance to Washington in what was seen in the United States as a clear win. The task was complicated further by the election of Hugo Chávez in 1998, who declared the FTAA to be part of a U.S. strategy to exercise undue control over trade policy in the Americas, claiming it was part of an imperialist scheme. The FTAA also became an issue in the controversy surrounding the completion of the WTO Doha Round trade negotiations.

When it realized the FTAA talks were stalled, the White House opted for a second-best strategy: subregional or bilateral agreements. Chile was the first country in the region to sign a bilateral treaty with the United States. Santiago was pessimistic about the prospects for Mercosur (the common market of South America of which it is an associate member) and increasingly put off by the fiery anti-American rhetoric of Venezuela and the obstructionist tactics of Brazil and others, so it seized an opportunity to conclude an agreement with the United States.

The U.S. Trade Representative (USTR) office then pursued an agreement with the Dominican Republic and the countries of Central America. But when the draft legislation was submitted to Congress, anti–free trade sentiment in the United States was on the rise. Individual members of the House felt that important business and trade groups in their districts would be impacted negatively. The debate was heated, and the White House achieved victory by only two votes in the House in 2005 (the Senate had passed the bill by 54 to 45 votes earlier). But this difficult victory required significant high-profile lobbying: Vice President Dick Cheney spent most of the final day in the House soliciting votes. The administration was forced to horse trade with individual members of Congress, granting relief and concessions for special interests like the sugar and textile industries, in exchange for votes.

Subsequently, the United States negotiated bilateral agreements with Colombia and Peru; initiated talks with Panama; and encouraged interest from Uruguay in a framework trade agreement with the United States. But free trade sentiment remains low on Capitol Hill. Many members of Congress argue that free trade agreements often ignore lower labor and environmental standards in the smaller, developing countries, and job loss in the United States is a constant concern. Given the Democratic Party leadership's refusal to support President Bush on trade issues in November 2006, pending bilateral agreements with Latin American countries appear defeated. The FTAA will not move forward in the near future, if ever.

A parallel issue is the status of the Doha Round. That too appears to have lost momentum. As with the FTAA, the most contentious issue is agricultural subsidies in the developed world. Efforts over the last few years have failed to find a compromise, and each side blames the other for the failure. Frustrated with the lack of progress, the international business community has called on political leaders to find a compromise. Recently, the Transatlantic Business Dialogue (TABD) declared it "unacceptable" that differences over agriculture, representing less than 3 percent of transatlantic GDP, were dictating progress on increased market access for goods and services that compose the majority of world trade.[33] In essence, the TABD was far more sympathetic to the developing world than to the industrial countries.

One important event in the Doha process was the creation of the Group of Twenty (G-20) developing nations.[34] As Monica Hirst explains in chapter 5, the developing nations G-20 was established in August 2003 during the final stages of preparation for the Fifth Ministerial Conference of the WTO held in Cancún, Mexico. The focus was, and continues to be, fair agricultural policies on the part of the industrial countries. Although the Cancún meeting ended in failure, the G-20 has continued to be an important political force, lobbying for fairer trade rules. The G-20 has held frequent ministerial meetings and a series of technical exchanges. The latest meeting was held in

Rio de Janeiro in September 2006 with the significant participation of key trade officials from the United States, the EU, and the WTO. The Rio meeting called for a return to the negotiating table, but prospects for a breakthrough remain slim.

In early 2007 the Bush administration proposed serious reforms to current U.S. agricultural policies in a new farm bill submitted to Congress. The Bush initiative, deemed "the most reform-minded farm bill in decades," proposed to reduce farm subsidies by $10 billion over the next five years and eliminate payments to wealthy farmers.[35] The White House is concerned that without a substantial reduction in subsidies—especially for the key crops of cotton, corn, wheat, rice, and soybeans—the agriculture-exporting countries, particularly in the Americas, will "pick apart U.S. farm policies piece by piece" in the WTO dispute panel process in Geneva.[36] Brazil has already successfully done so in the case of cotton, winning a landmark decision against the United States. At the close of 2007, however, significant reform in U.S. farm policy seemed unlikely. In June of that year the House Agriculture Committee of the U.S. Congress rejected the White House reform proposals and chose to retain farm subsidies. The Senate version of the farm bill passed in November 2007 also left subsidies largely unchanged. Despite threats of a veto by the Bush administration, the prospects for significant reform in the foreseeable future are dim.[37]

Even with a U.S. initiative, progress would require reciprocal concessions by the EU to reduce its farm tariffs further and by the G-20 states to make deeper industrial tariff reductions. Given the internal dynamics of the EU, this appears unlikely. From the perspective of the Latin American countries and the G-20, the outlook is pessimistic. Rigidities in the industrial countries are driven by domestic constituent concerns of elected lawmakers. There is also deep-rooted resistance in Latin America to meeting the demands of the industrial countries for concessions on such key issues as intellectual property rights. While all of the participants in both the FTAA and the Doha talks trumpet the benefits of free trade, there is no appetite for concessions and compromise.

On the other hand, it is well understood in Latin American capitals that China plays a critical role in overall trade strategy. Its purchases of commodities and raw materials from the region drive trade surpluses year after year. For many observers, current prosperity in South America, at least, is in large degree due to the China trade dynamic. As Hirst explains in chapter 5, China has also made it clear on a number of occasions that it is a sympathetic member of the G-20. There are legitimate reasons for China to support Brazil, India, Argentina, South Africa, and the other members in terms of trade issues. But the importance of diplomatic and political support from Beijing is not yet recognized and appreciated in the region.

Latin America and the New Left

A final consideration in U.S.–Latin American relations is the emergence of what some have called the wrong left, as opposed to the right left. As Jorge Casteñada wrote:

> The leftist leaders who have arisen from a populist, nationalist past with few ideological underpinnings—Chávez with his military background, Kirchner with his Peronist roots, Morales with his coca-leaf growers' militancy and agitprop, López Obrador with his origins in the PRI—have proved much less responsive to modernizing influences. For them, rhetoric is more important than substance, and the fact of power is more important than its responsible exercise. The despair of poor constituencies is a tool rather than a challenge, and taunting the United States trumps promoting their countries' real interests in the world.[38]

From the viewpoint of some analysts as well as government officials, the wrong left appears to have the upper hand, at least in terms of rhetoric. For others, the situation is more nuanced. Some leaders committed to social change and development are also fiscal conservatives, such as the presidents of Chile, Brazil, and Uruguay. But Hugo Chávez of Venezuela embodies an ideological threat in the Americas not seen since Fidel Castro came to power in 1959. The wrong left is indeed anti-American, antimarket, anti-FTAA, anti-Doha, and antiimperialist. But is it the future of the region? And is it predominantly against any U.S. presence in the Western Hemisphere, or does it speak for long excluded and marginalized sectors of society that have never benefited from any model of economic development?

The United States fares badly in this debate. With huge budget and trade deficits, there is little disposable wealth to address pressing social needs. Foreign aid is not popular in Congress or with the American people. Moreover, in the region, the wrong left views institutions such as the IMF, the World Bank, and the IADB with great suspicion and as stalking horses for the United States. For the pessimists, the arrival of China in the Americas is inexorably going to lead to a strengthening of the wrong left. China's Communist Party and its ideological stance loom large for those leery of Beijing's strategic interests in the region. For those more optimistic, the expansion of China's interests in Latin America is a logical development given the mainland's rapidly growing economy, the need for natural resources and commodities, and the complementarities of its economy with most of the region's.

The Changing Relations between China and Latin America and the U.S. Response

Most authors in this volume agree that China's strategic agenda with Latin America is driven primarily by economic interests, although China has also noticeably intensified its diplomatic engagement with the region. For Latin America, China offers several attractive opportunities. Economically, Latin America can benefit from trade diversification, foreign direct investment, low-cost imports, and growth in sectors that are complementary to China's trade with the region. Diplomatically, Latin America stands to gain a higher profile in the international system through the proposed South-South cooperation agenda, at a time when the traditional engagement of the United States in the region has diminished due to events elsewhere in the world.

In her chapter, Monica Hirst argues that China and Latin America share a regionalist approach that fosters economic cooperation and peaceful coexistence among states, motivated by an interest in offsetting U.S. influence. Latin America and China could work toward a strategic partnership based on political and economic complementarities. Furthermore, as Hirst notes, there is strong potential for greater collaboration in education, science and technology, and health. However, Xiang Lanxin warns that the economic strategy China is following in Latin America resembles more a North-South model in terms of concentrated investments in the energy and commodities sectors, a pattern similar to the one China has been following in Southeast Asia and Africa.

Although China's increasing involvement in Latin America opens new opportunities for trade and investment, the downside to the expanding relationship is that, in the long run, it may work primarily in China's favor.[39] To date there have been significant complaints that cheap Chinese manufactured goods are replacing those produced domestically, in part because the wage differential is substantial. Thus far the country that has suffered most from Chinese competition is Mexico, as Francisco González explains in chapter 7. To protect themselves, Latin American countries have increasingly imposed nontariff barriers against Chinese exporters. In fact, the countries in the region have together brought more antidumping cases against China in the WTO than has the United States.[40]

But overall the evidence indicates significant complementarities. As Devlin explains, export similarity indexes suggest that Chinese and Latin American exports are significantly different and, therefore, do not compete directly in third markets, with some important exceptions (certain sectors in Mexico and the Caribbean countries have been hard-hit by Chinese competition). The observed decline in Latin American exports to third markets, they contend, is due more to domestic, supply-side conditions than to lower demand because of competition with China's growing exports.

In chapter 7, González describes the China–Latin America economic relationship as a function of competition for the U.S. market. He asserts that the so-called commodity lottery helps explain the general trends in the Sino–Latin American economic relationship. Natural-resource-exporting economies like Chile and Peru are among the most complementary vis-à-vis China and have thus experienced big windfalls. Countries with a mixed-export structure, like Brazil and Argentina, have experienced large gains in the commodities sector but significant losses in the manufacturing sector. Countries that rely on low-skilled, labor-intensive manufactured goods, in particular Mexico and Costa Rica, have suffered the worst effects of China's growing presence in the Western Hemisphere.

For the majority of governments in Latin America, the trade relationship with China has been a bonanza, producing much-needed trade surpluses. While total trade is relatively small for both parties, the trend line is growing sharply upward. However, as Latin America's terms of trade improve as a result of commodity and raw material exports to China, concern over the apparent correlation between Chinese business cycles and world commodity prices continues to grow.[41] Some have also raised the fear that the heavy emphasis on exporting raw materials and commodities, which is the historical role and comparative advantage of Latin America, will preclude countries from seeking to add value to their exports. Thus the region will be vulnerable to the natural resource curse, in which foreign exchange earnings are obtained by the production of raw materials and commodities instead of the development of alternative exports with greater value in world markets.

As Devlin and González argue, the issue of competitiveness is crucial to the future participation of Latin America in the global economy. The 2006–07 Global Competitiveness Report, prepared annually by the World Economic Forum (WEF), supports the argument that Latin America needs to catch up with other developing regions, in particular Southeast Asia. Each year the WEF ranks a number of countries (125 in 2006) on a set of key indexes, the most important of which is the global competitiveness index, or GCI. The GCI "provides a holistic overview of factors that are critical to driving productivity and competitiveness, and groups them into nine pillars: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation."[42]

Chile, as usual, ranks the highest in Latin America, at 27th place. Brazil, the most important economy in the region, fell from 57th to 66th place due to a particularly poor position in the macroeconomic column. Mexico, the region's second highest ranked economy, remained stable with a rank of 58. However, a lack of sound and credible institutions remains a significant stumbling block in many Latin American countries, such as Venezuela (88), Ecuador (90), Honduras (93), Nicaragua (95), Bolivia (97), and Paraguay (106). Their low overall rankings, which place them among the worst performers, are due to the absence of the basic elements of good governance, including reasonably transparent and open institutions. All of these countries suffer from poorly defined property rights, a top-heavy bureaucracy, and inefficient government operations. In addition, they suffer from unstable business environments, making it difficult for the domestic business community to compete effectively either within the region or in the world.[43] The lesson is clear: Latin America and the Caribbean must recognize the unflattering contrast with China in terms of competitiveness and view it as a wake-up service, as Devlin argues, to improve on the institutional deficiencies discussed by the WEF.

In addressing these concerns, Devlin and González share the view that Latin American governments need to implement smarter industrial policies that promote more efficient private-public alliances, innovation investment, and assistance in overcoming market failures as trade diversification increases—in sum, policies geared toward increasing international competitiveness. Xiang Lanxin argues that Latin America has much to learn from the Asian model about striking the right balance between the role of the state and that of the market. Mexico and the Central American and Caribbean countries, González asserts, should also take further advantage of their proximity to the United States.

The growing number of agreements between the governments of Latin America and China is a trend that signals a likely increase in Chinese FDI in the region. One recent example are agreements between Brazil and China on satellite development, in which China provided 70 percent of the financing and technology and Brazil the remaining 30 percent.[44] The two countries have also concluded agreements to build steel mills in the north of Brazil to process iron ore into steel.

In addition, as explained in chapter 8 by Luisa Palacios, China has been active in Latin America's oil industry. With China's oil consumption projected to reach 14 percent of total world consumption by 2030 (Palacios notes that in 2006 China accounted for 9 percent of the world's crude consumption), and with Chinese domestic oil production declining, China's dependence on oil imports will inevitably increase. The Chinese are already becoming important oil producers in Peru and Ecuador, and they are beginning to invest in the energy sectors of Bolivia, Brazil, Colombia, and Venezuela.

Nonetheless, Devlin explains that, to date, information on Chinese FDI in the region is scant, while China remains a relatively modest overseas investor. According to Devlin, officially approved Chinese FDI in Latin America only reached $77 million in 2005, less than 1 percent of China's total FDI that year. Thus Latin America is, in relative terms, still a minor destination for Chinese FDI.[45]

The Taiwan issue also plays an important role in Sino–Latin American relations, as China campaigns to displace official recognition of Taiwan in favor of the one-China policy. As noted by Juan Gabriel Tokatlian in chapter 4, twelve of the twenty-four countries that currently recognize Taiwan are in Latin America—primarily Central America and the Caribbean—and they have been the focus of China's foreign aid programs, which have funded the construction of hospitals, schools, and roads in many of these countries.

China's Expansion into the Western Hemisphere in Context: A New Transpacific Triangle?

Thus far there is little or no evidence that China's growing presence in Latin America has other than diplomatic, trade, and investment goals. Beijing has been careful to downplay any connection with the wrong left. Relations with states such as Venezuela, Cuba, and Bolivia have been carefully correct and courteous. If there is any warmth in emerging relationships, it is with countries like Chile, which clearly belongs to the right left, and Brazil, which offers the richest variety of needed commodities and raw materials. In this sense, as Xiang Lanxin notes, China cannot avoid the geopolitical implications of its ties with Latin America, because the U.S. factor remains key in Sino–Latin American relations.

The United States needs to carefully balance the high-politics bilateral relationship and not let it be colored by concerns that China has nefarious goals in the Americas. As Jiang Shixue and Xiang Lanxin explain, the fourth generation of Chinese leaders is well aware of the skepticism in some U.S. circles about the new and expanding presence of China in the region. And they are aware that transparent relations best serve their longer-term interests in the Western Hemisphere. Other Asian analysts also stress the peaceful goals of China in the emerging global system. Zheng Bijian, for example, argues that China is not seeking international hegemony but, rather, is engaged in advocating "a new international political and economic order, one that can be achieved through incremental reforms and the democratization of international relations."[46]

Just as the arrival of China may provide an important opportunity for Latin America to rethink its need to increase its competitiveness in the global market, it may also serve to open a debate in U.S. policy circles about more imaginative policies regarding immigration, trade and investment, and other priorities of the region. There is only slight room for optimism in this regard, however. Ultimately, what is clear is that we do not need a debate about whether or not the United States has lost Latin America, particularly to China. As Tokatlian notes, "it would be counterproductive to return to an apocalyptic geopolitics approach based on an overblown fear of an alleged Chinese takeover of Latin America." Instead, the expanding role of China in Latin America should be viewed as a singular opportunity to strengthen all three relationships in the Sino, U.S., Latin American triangle.

Notes

1. For more on assessing China's power, see David M. Lampton, "The Faces of Chinese Power," *Foreign Affairs* 86, no. 1 (2007): 115–27.

2. For more on China's peaceful rise, see Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84, no. 5 (2005): 18–24.

3. Christopher Bolkcom, Shirley A. Kan, and Amy F. Woolf, *U.S. Conventional Forces and Nuclear Deterrence: A China Case Study,* Report RL33607 (Washington: Congressional Research Service, 2006; www.fas.org/sgp/crs/natsec/RL33607.pdf [December 2007]).

4. Domestic Taiwanese politics were probably a significant factor in this move, as Taiwanese president Chen Shui-bian sought to deflect attention away from charges of corruption.

5. U.S. Department of Defense, *Quadrennial Defense Review Report, February 6, 2006,* p. 29.

6. Ibid.

7. ASEAN was established in 1967 with the objective of accelerating economic growth, social progress, and cultural development in the region, in addition to promoting regional peace and stability. The ten ASEAN member states are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

8. Created in 2001, the Shanghai Cooperation Organization (SCO) is an intergovernmental group focused on mutual security and is composed of six countries: China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan.

9. APEC was established in 1989 with the goal of facilitating economic growth, cooperation, trade, and investment in the Asia-Pacific region. The forum's twenty-one members are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand,

Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States, Vietnam.

10. Larry A. Niksch, *North Korea's Nuclear Weapons Program,* Report IB91141 (Washington: Congressional Research Service, 2006; www.au.af.mil/au/awc/awcgate/crs/ib91141.pdf [December 2007]).

11. "North Korea and Those Six-Party Talks," *Economist,* February 11, 2006, p. 62. All currency amounts are in U.S. dollars unless otherwise noted.

12. Niksch, *North Korea's Nuclear Weapons Program,* p. 5.

13. Craig K. Elwell, Marc Labonte, and Wayne M. Morrison, *Is China a Threat to the U.S. Economy?* Report RL33604 (Washington: Congressional Research Service, 2007; www.fas.org/sgp/crs/row/RL33604.pdf [December 2007]).

14. Ibid.

15. Ibid.

16. This study was conducted by Credit Suisse using 2004 U.S. dollars. Credit Suisse, *The Rise of the Chinese Consumer Revisited* (2006), quoted in ibid.

17. Elwell, Labonte, and Morrison, *Is China a Threat to the U.S. Economy?*

18. Ibid.

19. "Sen. Schumer, 34 Other Lawmakers File Petition Calling for Action against China's Unfair Currency Manipulation," press release, office of Senator Charles Schumer, April 20, 2005 (http://schumer.senate.gov/SchumerWebsite/pressroom/record.cfm?id=261020& [December 2007]).

20. Elwell, Labonte, and Morrison, *Is China a Threat to the U.S. Economy?*

21. "Monthly Foreign Exchange Reserves," State Administration of Foreign Exchange, Beijing (www.safe.gov.cn [December 2007]).

22. Richard McGregor, "U.S. Presses China to Take Doha Role," *Financial Times,* August 30, 2006, p. 6.

23. Ibid.

24. David M. Lampton, "Rapporteur's Summary," *U.S.-China Relations, Eighth Conference* (Washington: Aspen Institute, 2006), p. 1.

25. Ibid., p. 2.

26. Council on Foreign Relations, *U.S.-China Relations: An Affirmative Agenda, a Responsible Course* (Washington: Council on Foreign Relations, 2007), p. 97.

27. Robert B. Zoellick, deputy secretary of state, "Whither China? From Membership to Responsibility," remarks to the National Committee on U.S.-China Relations, New York, September 21, 2005.

28. Wang Jisi, "China's Search for Stability with America," *Foreign Affairs* 84, no. 5 (2005): 39–48, quotation on p. 39.

29. This section is based on "Estados Unidos y América Latina: estado actual de las relaciones," *Nueva Sociedad,* no. 26 (2006): 110–25.

30. U.S. direct investment on a historical cost basis was $353 billion in 2005. Bureau of Economic Analysis, "U.S. Direct Investment Abroad: Country Detail for Selected Items" (http://bea.gov/bea/di/usdctry/longctry.htm [December 2007]).

31. June Kronholz, "Immigration Stalemate: Congress' Failure to Resolve Issue Feeds Ire of Activists on Both Sides," *Wall Street Journal*, September 6, 2006 (Eastern edition), p. A6.

32. Guy de Jonquieres, "Do-It-Yourself Is the Best 'Plan B' for Free Trade," *Financial Times*, August 23, 2006, p. 15.

33. Stephanie Kirchgaessnerin, "Business Chiefs Call on Bush to Spur Doha Talks," *Financial Times*, August 21, 2006, p. 7.

34. This G-20 should not be confused with the Group of Twenty created in 1999 and composed of developing as well as industrialized nations.

35. Alexei Barrionuevo, "Bush Offers to Cut Farm Subsidies by $10 Billion," *International Herald Tribune,* February 1, 2007, p. 11.

36. Philippe de Pontet, "Eurasia Group Note—TRADE: G20 summit in Rio to call for resumption of Doha negotiation this year," September 8, 2006; e-mail newsletter.

37. Dan Morgan, "Bush Vows to Veto Senate's Farm Bill," *Washington Post,* November 6, 2007, p. A8.

38. Jorge Castañeda, "Latin America's Left Turn," *Foreign Affairs* 85, no. 3 (2006): 28–43, quotation on p. 38.

39. Thus far the trade component has been most important; China's commitment to foreign direct investment has been less apparent.

40. Argentina alone brought forty antidumping cases against China between 1995 and 2004; combined with Peru (seventeen) and Brazil (fifteen) during the same period, the total number of antidumping cases in the region exceeded those brought against China by the United States (fifty-seven) and by the European Union (fifty-two). Scott Kennedy, "China's Porous Protectionism: The Changing Political Economy of Trade Policy," *Political Science Quarterly* 120, no. 3 (2005): 407–32.

41. Daniel Lederman, Marcelo Olarreaga, and Eliana Rubiano, "Latin America's Trade Specialization and China and India's Growth," quoted in Daniel Lederman, Marcelo Olarreaga, and Guillermo Perry, "Latin America and the Caribbean's Response to the Growth of China and India: Overview of Research Findings and Policy Implications," paper prepared for World Bank and IMF annual meetings, Singapore, August 2006, p. 13.

42. Augusto Lopez-Claros, ed., *The Global Competitiveness Report, 2006–2007* (Geneva: World Economic Forum, 2006), p. xiv.

43. Ibid., p. xvi.

44. Lederman, Olarreaga, and Perry, "Latin America and the Caribbean's Response to the Growth of China and India," p. 4.

45. It should be noted that most Chinese FDI figures for Latin America obtained from the Chinese Ministry of Commerce include what is known as round-tripping—funneling funds from domestic offshore tax havens before channeling them back as FDI—which distorts outflow and inflow FDI data. Thus there is a wide variation in figures cited. Figures that claim that Latin America is one of the largest recipients of Chinese FDI include round-tripping in the countries that are the main beneficiaries

(offshore tax havens), such as the Cayman Islands, the Virgin Islands, and Bermuda. The oft-repeated promise by President Hu Jintao to increase Chinese investment in Latin America to $100 billion by 2010, which Jiang Shixue contends was a misunderstanding by the media, illustrates the challenge in reading actual figures and estimated future investment.

46. Bijian, "China's 'Peaceful Rise' to Great-Power Status," p. 18.