

# **China in Latin America: Political and Economic Implications of Beijing's Involvement in the Region**

**Niccolò Locatelli**

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*China in Latin America:  
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*History has never been produced in the South*  
Henry Kissinger<sup>1</sup>

*People often say that the twenty-first century will be a Pacific Century...but I think it could also be  
a Latin American Century*  
Deng Xiaoping<sup>2</sup>

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<sup>1</sup> Cit. in Herring G.C. (2008), *From Colony to Superpower: U.S. Foreign Relations since 1776*, Oxford University Press., p.805.

<sup>2</sup> *People's Daily*, Beijing, May 16, 1988, p.1.



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## SUMMARY

Relations with Latin America have never been and will probably never be a priority for the People's Republic of China (PRC), as they will be a dependent variable of domestic economic needs and other more important foreign policy goals – among all, the ties with the United States.

During the first forty years of existence, geopolitical and economic considerations (Latin America was considered to be Washington's backyard and the economies of the region were not complementary with that of China) were keeping the PRC away from the area; nevertheless, things have changed ever since the end of the Cold War, and more so since the new millennium.

The PRC finds in Latin America a market of 500 million people and an almost infinite source of commodities: it currently gets from here around 17% of its overall agricultural products imports, and 11% of its fuel and mining ones. It is a big buyer of three of the four Latin American commodities (soy, copper and oil) and it's increasing its purchases of the fourth, coffee.

The region is also a valuable partner in the struggle for a new world order, more democratic and more concerned with the stakes of the developing countries; it is a 33-wide voting block whose consensus is useful whenever the human rights policy of the PRC comes under the scrutiny of the United Nations or any of its agencies. Finally, Latin America is a pawn in the battle for the sovereignty over Taiwan, since 12 of the 23 countries that recognize the Republic of China (ROC) are in the area, mainly in Central America and the Caribbean, plus Paraguay alone in South America.

For Latin America, the PRC is a huge 1.3 billion people market and a potential source of much-needed Foreign Direct Investment, which in actuality turns out to be smaller than expected and mostly concentrated in the fiscal heavens of the Caribbean. Politically, besides the partnership in the struggle for a new world order, the mere existence of a China-option is itself a source of leverage when Latin American countries have to deal with the United States, who now have to face a competitor on trade and politic issues in what used to be their backyard.

Apparently, deepening ties with Latin America is a winning solution for the PRC. The same is not completely true for Latin America, whose relationship with Beijing can be beneficial, but with some

caveats.

As far as bilateral trade is concerned, the problem is that of export concentration: in 2006, 62.5% of the region's exports to China were in the commodity sector - it was just 35% in 1995. This leaves Latin America, especially South America, exposed to the price volatility of its resources, which is historically more elevated than that of the manufactured goods and breeds macroeconomic uncertainty in a region that has always struggled with that issue. Furthermore, export concentration in the commodity sector, as far as the terms of trade are favorable as in the years before the ongoing global crisis, might hinder the upgrading of the industrial structure of those countries who find in it an easy and quick source of revenues. A positive effect on the welfare of the people and the fight against poverty and inequality is not automatically related to the blossoming of exports of natural resources, but depends on economic policy choices.

A more recent, less studied aspect of Sino-Latin American trade is the increasing penetration of Chinese manufactured goods in the domestic markets of the region: while initially outplacating foreign competitors, the flow is becoming a source of concern for businesses in the textile sector of countries like Argentina, Brazil, and Mexico, who find it hard to compete with the minimum cost of labor that makes Chinese goods so cheap. That explains why the region has tariffs on imports from the Middle Kingdom that are 10% above world average (20% in the case of South America).

Competition with Chinese manufactures in the third markets is also Central America's main problem in its relationship with the Dragon. A review of the literature conveys the idea that the trend, especially as far as the U.S. market is concerned, is growing but not alarming; nevertheless, data collected for the first half of the current decade might not show the full effect of two cornerstones: the PRC's admission in the WTO in 2001 and the end of the Agreement on Textile and Clothing (that set a quota on developed countries' imports from the developing countries in that sector) in 2005. Transportation costs offset only about 1/3 of China's competitive advantage, and Latin America has to greatly improve its infrastructure in order not to lose additional market shares.

Politically, the two sides seem to share a common goal: a new world order, more fair and equitable, in which the developing countries have a say. To be sure, the PRC portrays itself as the biggest developing country in the world and stresses the importance of having cooperative relations with Latin America. But, rhetoric aside, the actors might have different goals, or different means to achieve the same goals.

First of all, China will not risk to jeopardize its relationship with the United States for the sake of

Latin America, an area that it still judges as low on its list of priorities and in Washington's sphere of influence: calls for multipolarism will most likely never entail an anti-American alliance in the Western Hemisphere, and partnerships and friendships with the most controversial actors in the area (Venezuela and Cuba) are usually de-politicized and presented as predominantly business-relations. As the voting rights realignments in the World Bank and to a lesser extent in the IMF show, China is usually able to make the biggest improvements of its position and then celebrate them as victories of the developing world as a whole.

Latin America has also to deal with the problem of asymmetrical representation in its relations with China: dignitaries from the PRC's strategic partners (Argentina, Brazil, Mexico and Venezuela) have more opportunities to gather together and exchange views with their Chinese counterparts than the rest of the region – Argentina, Brazil and Mexico are also members of the G-20 and Brazil is one of the BRICs. But, given their size, their economies and their foreign policy goals, they can hardly represent the Central and Southern part of the Western Hemisphere.

The case of the UN Security Council reform is a telling one: the region is basically split in three positions: Brazil wants a permanent seat as one of the G4, Argentina, Mexico and Colombia as parts of Uniting for Consensus oppose any increase in the number of permanent seats, and the Caribbean countries have their own proposal. China is currently supporting none of these, as it gives priority to the African countries and rejects the idea of admitting its long-time rival Japan to the Security Council as a permanent member.

Brazil, together with China and others, brokered the Copenhagen Accord on climate change; but if that was a test of Brasilia's regional power status, it seems to be a failure. Six months after the Accord, about 1/3 of the Latin American countries had not signed it.

The countries that still recognize Taiwan indeed gain a lot of attention and financial aid from the ROC, and can use that as a bargaining tool with the PRC. Nevertheless, Beijing does most of its trade with the Latin American countries it has diplomatic relations with, and has proven to be quite assertive on what it perceives as national security issues, using and threatening to use its veto power against peacekeeping operations in Guatemala and Haiti.

Henry Kissinger once said that history has never been produced in the South. Some decades later, the People's Republic of China is proving him wrong. All the caveats detailed in this thesis notwithstanding, Latin America can harness its relationship with the PRC to prove him wrong again.



# 1. SINO-LATIN AMERICAN RELATIONS DURING THE COLD WAR

## The early years 1949-1960

Ever since the birth of the People's Republic of China (PRC), Latin America has never been a top priority in Communist China's international relations; Beijing's policy towards the region was - and still is 20 years after the fall of the Berlin Wall – mainly a by-product of decisions that had more to do with its own internal issues and the global dynamics than with specific goals in the area south of the Rio Grande.

In October 1949, after years of struggle against the nationalist Kuomintang, the Chinese Communist Party (CCP) under the leadership of Mao Zedong gained full control of the country's mainland, and founded the People's Republic of China. The CCP had to deal with a big set of problems: domestically, it had to win the political loyalty of part of the population (businessmen, landlords and intellectuals<sup>3</sup>) and to lead the difficult process of economic recovery from the pains of WWII and the civil war. Internationally, a choice had to be made on which camp to join and some security problems had to be addressed; its sovereignty was contended by the Taiwan-based Republic of China (ROC), who occupied the Chinese seat at the United Nations.

In Mao's view, the world after the 1939-'45 conflict was headed towards a confrontation between the Soviet Union and the United States, with Washington scrambling for the control over an intermediate zone that had no say in it<sup>4</sup>: in this scenario, China had to choose its stand and to "lean to one side"<sup>5</sup> in order to avoid international isolation. The PRC picked the side of the Soviets; this implied acceptance and imitation of their economic model and the severance of Kuomintang's

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<sup>3</sup> Mann S. (2002), *Discovery of a Terra Incognita: Five Decades of Chinese Foreign Policy towards Latin America*, Universitat Mainz.

<sup>4</sup> Barmouin B., Changgen Y.(1998), *Chinese foreign policy during the cultural revolution*, New York, Kegan Paul.

<sup>5</sup> Mann, *Discovery of a Terra Incognita*, cit.

diplomatic relations with Western states, who were also deemed responsible for the Century of Shame, that started with the Opium War of 1840-‘42 and ended with the foundation of the PRC.

In this first phase of the Maoist era, ideology<sup>6</sup> was the main driving force of Chinese foreign policy, whose goal was two-fold: support for the anti-imperialist struggle all over the world, and, after the Sino-Soviet dispute of the late ‘50s, fight for supremacy within the communist camp.

When dealing with Latin America, Chinese ideology faced a harsh reality: there really wasn’t much room for the penetration of Marxism-Leninism in the area. The region as a whole was perceived, somehow correctly, as the backyard of the United States, that would hardly tolerate any departure from orthodox capitalist economic policy and western bloc loyalty in its own hemisphere. Bolivia’s Paz Estenssoro was the very only political leader to carry out “policies the Chinese considered generally progressive<sup>7</sup>”. As a matter of fact, until 1970 all Latin American countries, with the exception of Castro’s Cuba, followed the U.S. non-recognition policy towards the PRC.

Other factors were hindering the establishment of relevant ties between China and the region. Distance was a major impediment, to begin with: particularly in the first half of the decade, the Dragon had more compelling problems to solve both outside (the Korean War, worsening relations with the Soviet Union and India) and inside its borders (the consolidation of the Stalinist model and the dreadful Giant Leap Forward hazard).

Neither there was an economic rationale for intensifying contacts with Central and South American countries: their economies were not complementary with the Chinese one, and there was also an official ban on some Chinese products for the fear of communist subversion<sup>8</sup>. Nevertheless, even in the absence of formal ties, trade volume from 1950 to 1959 – especially primary goods with Uruguay, Argentina and Chile – quadrupled, and reached US\$ 38.8 million, 37.5 of which were

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<sup>6</sup> For Robinson and Shambaugh, “an ideology may be roughly defined as a more or less coherent and systematic body of ideas that helps to explain the nature of social reality and provides a programme of action for changing that reality in order to achieve certain desired social goods and values. In this sense, Marxism-Leninism (and its Chinese variant of Mao Zedong Thought) is unquestionably the dominant ideology in shaping and informing the views, preferences, expectations, and assumptions of Chinese Communists who work in the foreign affairs arena.” Robinson T.W., Shambaugh D. (1994), *Chinese foreign policy : theory and practice*, Oxford, Clarendon press.

<sup>7</sup> Ratliff W.E. (1972), *Communist China and Latin America, 1949-1972*, "Asian Survey", Vol. 12, No. 10, pp. 846-863.

<sup>8</sup> Mann, *Discovery of a Terra Incognita*, cit.

China's imports<sup>9</sup>.

Under those circumstances, the main bond between the PRC and Latin America in the first phase of the Cold War was “cultural diplomacy”. Beijing’s interest towards the area was spurred in time and scope by domestic and international considerations: in the second half of the decade, the party’s grasp on the power was strong and consolidated, the Korean War was over and the Soviets had just scored a point in the competition with the West by launching the first earth satellite in 1957. The following year, U.S. Vice-President Richard Nixon was targeted with verbal protests (in Uruguay) and life-threatening hail of stones (in Peru and Venezuela) during his South American goodwill visit. This, together with the overthrow of some dictators, convinced the Chinese Premier Zhou Enlai that “the Latin American peoples are standing in the forefront of... [the] struggle against U.S. imperialism<sup>10</sup>”. Beijing’s contribution to this struggle would be chiefly “moral<sup>11</sup>” and ideological.

The 1956 South American tour of a Chinese art group can be fairly considered the starting point of the Dragon’s cultural diplomacy towards the region; in the following years, Radio Beijing’s broadcasts in Spanish and Portuguese were increased, branch offices of the China News Agency were opened in Cuba, Chile, Brazil and Argentina. Pro-Chinese information in Spanish begun to circulate in the region, mainly via Cuba<sup>12</sup>.

Due to the non-existence of normal diplomatic channels and the shortage of economic resources, it was difficult for Beijing to send large delegations to Latin America periodically, but having Latin Americans visit China – under the supervision of the Chinese People’s Association for Cultural Relations with Foreign Countries, established in 1950, the Sino-Latin American Friendship Association inaugurated in 1960, or sector-based federations - proved to be an efficient way to set up contacts. The common contempt for the materialistic U.S. society helped familiarize well educated Latin Americans (artists, intellectuals, trade union leaders, students, free lancers) with their Asiatic counterparts; Communists were present in all kinds of delegation, often not identified. By the end of the decade the number of Latin American visitors rose up to 500, coming from all over the region; though bigger countries received more attention, the PRC welcomed broad

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<sup>9</sup> He Li (1991), *Sino-Latin American Economic Relations*, Praeger, New York.

<sup>10</sup> Ratliff W.E. (1969), *Chinese Communist Cultural Diplomacy toward Latin America, 1949-1960*, in “The Hispanic American Historical Review”, Vol. 49, No.1, pp.53-79.

<sup>11</sup> Barmouin B., Changgen Y.(1998), *Chinese foreign policy during the cultural revolution*, New York, Kegan Paul.

<sup>12</sup> Garner W.R. (1968), *The Sino-Soviet Ideological Struggle in Latin America*, "Journal of Inter-American Studies", Vol. 10, No. 2, pp. 244-255.

delegations from small States as Uruguay and, for obvious reasons, Cuba<sup>13</sup>. A decline in the number would come in the 1960s.

The visits would usually take the form of a tour and follow a standard pattern: encounters with people of their own occupation, stops at a peasant village or commune, meetings with reformed businessmen, tours to the Great Wall and other attractions, possibility to attend services for those Protestant or Roman Catholic. An interview with Chairman Mao or some other top dignitary, in groups if that was the case, was almost the rule. The guests, especially journalists, were asked “to make speeches and write articles about their countries and give their impression of new China<sup>14</sup>”, and their commentaries usually resembled an eulogy. “A few of the visitors saw through many of the misleading Chinese propaganda claims, which were at an all-time high between 1958 and 1960 during the Great Leap Forward. These individuals, however, did not write as much as the others on their return, or if they did speak out, their remarks were considered biased by the leftists who were their main audience<sup>15</sup>”.

Beijing was thus able to achieve its 3 main goals: increasing anti-Americanism and weakening U.S. position at a regional and global stage; propagating the Chinese way to economic and social development and occasionally to the seizure of political power; improving the PRC’s image and capitalising on that on major foreign policy issues like the contended China’s U.N. seat. Visits and meetings were also a valuable means of providing training in Communist ideology and revolutionary techniques<sup>16</sup>.

Chinese cultural penetration in Latin America in the ‘50s was favoured by Soviet complacency: the events of 1959 would dramatically change the scenario. Not only the Cuban revolution would add on to the ongoing Sino-Soviet dispute, making of Beijing “Russia’s number two enemy in the hemisphere<sup>17</sup>”, but it would also bring about a Chinese reassessment of Latin America’s anti-imperialist capabilities.

### **From the Cuban Revolution to the Strategic Triangle**

The rift within the communist camp had part of its roots in security issues, but ideology played a role too, and different analyses of Castro’s successful seizure of power increased tensions. For Moscow, not only it shattered “the myth of an invulnerable Latin America under U.S. control<sup>18</sup>”, but

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<sup>13</sup> Ratliff, *Chinese Communist Cultural Diplomacy*, cit.

<sup>14</sup> *Ibidem*.

<sup>15</sup> *Ibidem*.

<sup>16</sup> *Ibidem*.

<sup>17</sup> Garner, *The Sino-Soviet Ideological Struggle*, cit.

<sup>18</sup> *Ibidem*.

it was also an injury to the Krushev doctrine of peaceful coexistence; the Chinese on the other hand saw it as a confirmation of Lenin's theory on the inevitability of war, provoked by imperialism<sup>19</sup>. Cuba was the first Latin American country to establish diplomatic relations with Communist China, recognizing it in 1960; the PRC in turn would recognize the "socialist nature" of the Cuban Revolution in 1962, before the Soviet Union<sup>20</sup>.

Castro's triumph caused the PRC to change its mind about Latin American unreadiness for revolution; the Cuban guerrilla was praised as an example<sup>21</sup> and Mao's principles of armed struggle and united front led by the alliance between the working class and the peasantry were emphasized among Latin American opinion makers, journalists and intellectuals, that would now constitute the main target of the Dragon's cultural diplomacy.

Pre-1949 China's semi-feudal and semi-colonial social structure was similar to that of Central and South America, dominated by U.S. imperialism and plagued by latifundium; therefore the Chinese way of a national democratic movement pivoting on the peasants belligerent against the local dictatorships could be the just recipe for revolution. Latin American Sino-Communism would then be in theory mostly rural and *guerrillero*, in opposition to the urban-based Soviet-style parties.

Armed struggle, which in 1958-'59 was invoked as the main form of conflict only against dictators and U.S. puppets, became to be considered the best option for a broader range of countries<sup>22</sup>; the most important pro-Chinese organizations and parties were formed in South America, usually after years of internal conflict, and themselves split up in rival factions; though advocating the need for violence, they mostly abstained from implementing it, asserting that the masses weren't ready for people's war – thereby contradicting the PRC's analysis. The bulk of the "pro-Chinese" youth showed little interest in Mao's theory or the Chinese experience, just associating the term to "super-revolutionary", in a non-pejorative sense<sup>23</sup>. As Mora puts it, "at the end of 1970, there were fifty-nine Communist parties in the region, of which only eight supported Beijing<sup>24</sup>". The breach between what Beijing was championing and what alleged Latin American pro-Chinese groups were doing was apparent.

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<sup>19</sup> Mann, *Discovery of a Terra Incognita*, cit.

<sup>20</sup> Ratliff, *Communist China and Latin America*, cit.

<sup>21</sup> Lee J.J. (1964), *Communist China's Latin American Policy*, "Asian Survey", Vol. 4, No. 11, pp. 1123-1134.

<sup>22</sup> Ratliff, *Communist China and Latin America*, cit.

<sup>23</sup> *Ibidem*.

<sup>24</sup> Mora F.O. (1997), *The People's Republic of China and Latin America: From Indifference to Engagement*, "Asian Affairs", Spring: 24, p.35-58.

International and domestic problems intertwined again in the 1960s: fearful of a U.S. encirclement and worried about the growing tensions with the Soviet Union (and its consequent shrinking financial and technical aid), Mao set the worldwide exportation of the Chinese revolutionary model, with its corollary of self-reliance, at the core of his foreign policy; the battle, in Latin America as elsewhere in the developing world, was double: against U.S. imperialism and Soviet revisionism. By the end of the decade it was evident that Beijing was unable to win either, and that it had more pressing problems to solve at home; its efforts to initiate armed struggles in the region proved vain.

Economic considerations and a changing global scenario determined the PRC's re-thinking of some of its traditional foreign policy assumptions and its new behaviour in the international arena.

The party dignitaries realized that opening to the outside world was a key to achieve development, but the most radicals among them feared the birth of a technocrat elite that would transform itself into a new bourgeoisie. A compromise between these two different demands resulted in a new definition of economic self-reliance, which evolved into "the ability to take advantage of external factors without becoming dependent on them<sup>25</sup>"; politically, the concept now implied that China would stop trying to export its experience and respect each country's political choice, while at the same time guaranteeing support for liberation and independence.

Between 1968 and 1969 the split from the Soviet Union was a fact. Moscow's invasion of Czechoslovakia came as a threatening sign to Beijing, who, in accordance to the Breznev Doctrine, was breaking away from socialism and could have been object of "reorientation" intervention just like the Czechs; the border conflict on the Ussury River and the menace of a Soviet nuclear attack were the final straws and forced the PRC to break its isolation and approach the United States, who had their own stakes in containing the USSR and engaging with the Chinese.

Reconciliation with Washington brought tremendous benefits to Communist China, the election at the U.N. in replacement of the ROC as unique representative of China to begin with (October 1971). Along came the establishment of diplomatic relations with fifteen countries, Chile, Peru, Mexico and Argentina among them (from 1970 to 1972). In return for Latin American support for its entry in the U.N., the PRC backed the region in its claims relative to the Law of the Sea, hereby

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<sup>25</sup> Mann, *Discovery of a Terra Incognita*, cit.

inaugurating a tit for tat policy that would be used again.

### **The pragmatic 1970s**

The shift in Chinese foreign policy couldn't be greater: by re-approaching the United States and entering the strategic triangle with Washington and Moscow, Beijing had evolved from a revolutionary destabilising to a status quo power. A theoretical justification for its new preference for stability over support to uprisings was necessary, and came in two steps: in 1972 Deng announced the end of the socialist camp and categorized China as belonging to the Third World; two years later Mao elaborated the Three-Worlds Theory, according to which the industrialized allies of the U.S. and the USSR (the Second World) should tag along the less developed and non-aligned countries (the Third World) in search for a more just and peaceful international order, against the two superpowers' (the First World) hegemonism. Though still pitting the U.S. (and the Soviet Union) against the poor and oppressed nations, and calling for action, the theory was remarkably less ideological than the past ones, and its implications were indeed very pragmatic: "cooperation with any government other than the superpowers could be justified as a means of promoting solidarity against hegemonism [...] even with the fascist regimes in Greece and Spain<sup>26</sup>".

A natural corollary of this was a reduction in Chinese support for revolutionary movements in Latin America and the development of a government-to-government diplomacy: "China was willing to maintain diplomatic relations with all nations and governments in Latin America and promised to respect the principle of non-interference in internal affairs<sup>27</sup>". Ideology was giving way to politics and economics; at the cost of losing leverage and credibility within the communist camp, Beijing now focused on official and institutional bonds. This innovation - Cuban criticism notwithstanding<sup>28</sup> - came at the right time, because governments in the region were ready and willing to develop ties with States other than the U.S. and its Western allies.

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<sup>26</sup> Roy, D. (1998), *China's foreign relations*, Basingstoke, London, MacMillan.

<sup>27</sup> Mann, *Discovery of a Terra Incognita*, cit.

<sup>28</sup> A thorough analysis of the topic is beyond the scope of this dissertation, but two considerations can be made about Sino-Cuban relations: 1) besides bilateral matters, they reflected Cold War dynamics, especially the conditions of Sino-Soviet ties and its implications on Cuba's economy and internal politics; 2) at times, they were "particularly tense because Beijing and Havana both claimed Third World leadership". Mora F. (1999), *Sino-Latin American Relations: Sources and Consequences, 1977-1997*, "Journal of Interamerican Studies and World Affairs", Vol. 41, No. 2, pp. vi-116. Cheng Y. (2007), *Sino-Cuban Relations during the Early Years of the Castro Regime, 1959-1966*, "Journal of Cold War Studies", Vol. 9, No.3, pp.78-114.

Chile is an obvious example of that: it's no surprise that the socialist president Salvador Allende was eager to establish relations with Communist China, and his country - the first in South America to do so - recognized the PRC in 1970, even before Beijing's admission to the United Nations. Interestingly, ties weren't cut in 1973, when a military coup overthrew Allende's government and installed the fascist dictatorship of Augusto Pinochet; common anti-Sovietism helps explaining this decision, but above all was the principle of non-interference: China was the only country in the U.N. not to condemn Chile's events. For another reason, 1973 was a milestone year in Sino-Latin American relations, as the first Head of State from the region visited Beijing: it was Mexican President Luis Echeverría, also the first to sign an agreement of scientific and technological cooperation with China two years later.

Cooperation and trade were on the top of Chinese Latin American agenda in the '70s: commercial ties were established before the diplomatic ones, and "irresistible<sup>29</sup>" financial and disaster relief aid came along. Beijing had made public in 1960 its desire for Latin America's "rich industrial raw materials and mineral products, particularly nitrate and copper from Chile<sup>30</sup>"; in that decade, average annual two-way trade figures had reached US\$ 200 million, and the main partners became Cuba, Argentina, Mexico and Chile. Chinese imports from the region were showing the usual pattern of extreme concentration: in 1965, just 3 goods made up 99% of Latin America's export to the Asian country: wheat (90%), maize (3.9%), cotton (5.4%)<sup>31</sup>. The trend continued in the 1970s.

Economic benefit was just part of the picture: "the ulterior motive was to use trade as a tool for attaining political objectives, such as diplomatic recognition<sup>32</sup>", in order to eventually isolate Taiwan at the international level.

Following the death of Mao and Zhou, the struggle for succession was won by Deng, who in 1978 inaugurated the "Open Door" policy: "modernization in terms of economic development became the centre of Chinese national interest. Therefore, China had to accept opening up to the outside world and entering into the interdependent system of global economy<sup>33</sup>". In Deng's opinion, Mao

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<sup>29</sup> Even though the region received the lowest amount of the overall Dragon's foreign aid, its conditions were particularly profitable, and better than the Soviet ones: "loans generally have repayments delayed for ten years, are repayable in 20 to 30 years, and are interest free." Ratliff, *Communist China and Latin America*, cit. Mann, *Discovery of a Terra Incognita*, cit.

<sup>30</sup> He Li (1991), *Sino-Latin American Economic Relations*, cit., p.23.

<sup>31</sup> *Ibidem*.

<sup>32</sup> Mora F. (1999), *Sino-Latin American Relations*, cit.

<sup>33</sup> Mann, *Discovery of a Terra Incognita*, cit.



had overemphasized the risks of having economic connections with foreign countries, and now that international conditions had turned for the better, it was time for Beijing to take advantage of what the others had to offer<sup>34</sup>. The fallout in the international relations realm was a thrust towards South-South dialogue and cooperation, believed to be means to oppose hegemonism, preserve world peace (vital for the Third World and China's own economic development) and escape from the exclusionary logic of the Strategic Triangle.

### **The blossoming of trade in the 1980s**

Both China's new economic and political purposes matched perfectly with Latin America's aims for the 1980s. Beijing's support for the regional integration process (e.g. the creation of the ALADI in 1980), for Argentina's claims over the Falkland/Malvinas Islands, and its opposition to the U.S. embargo against Nicaragua and its invasion of Grenada were all welcome in the area; so was the PRC'S backing of the Contadora Group effort to stop conflict in Central America and the empathy showed towards the Cartagena group when the latter was dealing with the debt crisis.

To leave the debt crisis behind, the new democratic Latin American governments tried to expand and diversify their markets. Conveniently, "foreign trade became the most important element of Beijing's new development strategy [...]. The new Sino-Latin American economic relationship was characterized by technology transfers, direct investments, extension of credit, and increased trade in commodities<sup>35</sup>". It is fair to say that the contemporary pattern of commercial ties between the Dragon and the region south of the Rio Grande began to emerge in the 1980s.

China would buy commodities and spread its products in Latin America, while the region would harness the joint venture investments and the technological and scientific cooperation agreements to try to construct a more efficient national industry. By the end of 1990, the PRC had signed long-term agreements with thirteen Latin American countries and economic and technical cooperation agreements with ten<sup>36</sup>. Commerce sky-rocketed, more than doubling between 1979 and 1989, increasing at a much faster trade than China's trade with the rest of the Third World. By the end of the decade the economies and goals of the PRC and Latin America, at last complementary and overlapping, tied the two closer together. The latter was be the only developing region of the world to have a trade surplus with the Asian country, for three reasons: for a long time the production

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<sup>34</sup> Roy, D. (1998), *China's foreign relations*, cit.

<sup>35</sup> Mora F. (1999) *Sino-Latin American Relations*, cit.

<sup>36</sup> He Li (1991), *Sino-Latin American Economic Relations*, cit., p.57.

patterns of the two had been similar; Chinese exports were subject to tariffs and quotas during the ISI period; the PRC bought more goods than what it really needed for broader foreign policy goals<sup>37</sup>.

The honeymoon was also political: eight countries, including Ecuador, Colombia and Uruguay, established official relations with Beijing. As Premier Zhao Ziyang explicated during his 1985 visit to South America, the similarities between China and the region were striking: both had suffered from foreign oppressors, both belonged to the Third World but were rich in resources, both pursued an independent foreign policy abiding by the principle of non-interference and works for preserving peace<sup>38</sup>.

Nevertheless, solidarity with Latin America “seemed to be a reaction to US or Soviet hegemonic attempt to intervene in the rest of the world<sup>39</sup>”; China’s policy towards the region would never be, throughout all the Cold War, an independent variable, but would always reflect Beijing’s domestic priorities and its relations with the superpowers. First ideology, later on economy and the Taiwan issue would be the cards on the table. The events of 1989 and thereafter would bring about a major transformation in the international scenario, and Sino-Latin American relations would be partially affected by that.

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<sup>37</sup> *Ibidem*.

<sup>38</sup> Mora F. (1999) *Sino-Latin American Relations*, cit.

<sup>39</sup> Mann, *Discovery of a Terra Incognita*, cit.

## 2. LATIN AMERICA, U.S. AND CHINA SINCE THE END OF THE COLD WAR

### **The aftermath of 1989**

Needless to say, the events that took place between 1989 and 1991 changed the world. The demise of the Soviet Union had a tremendous impact on the international relations, on Latin America and on the People's Republic of China; the latter was also affected by the June 1989 Tiananmen incident, which drove to a reassessment of its foreign policy objectives and its network of friends and foes. To better understand contemporary Sino-Latin America ties, it is useful to take an overview of what happened in the Western Hemisphere, in the Middle Kingdom, and globally in the last 20 years.

The situation at the beginning of the 1990s is well described by a Crs report on global influence:

The victory by the Western world in the Cold War brought triumph not only for the military strategists but also for those engaged in the great intangible battle for the hearts and minds of aspiring peoples everywhere. The American model reigned supreme: democracy; free markets; privatization; flows of international trade and investment; and a lifestyle of a home, car, and education for one's children. The model also placed the United States as an arguably benign global power with unquestioned military supremacy and which could marshal European and other resources to keep the peace<sup>40</sup>.

The fall of the Berlin Wall and the dissolution of the Communist superpower sparked a heated theoretic debate within the academia of the winning side, the United States. The practical fallouts of the events of 1989 and 1991 would be both political and economic: the collapse of the Soviet empire would come along and in part bring about the third wave of democratization in Eastern Europe and Asia; and the socialist model of planned economy all of a sudden ceased to be a credible alternative to capitalism. Democracy and free market seemed to be the formula for the new millennium.

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<sup>40</sup> Crs Report for Congress (August 2008), *Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World*, <http://www.fas.org/sgp/crs/row/RL34620.pdf>.

In the new, “multi-layered<sup>41</sup>” international system, economic power is diffuse; military capacity is strongest in the United States, whose political influence is instead constantly under challenge. Washington is, according to Huntington, the single superpower that can settle key international issues but always with some combination of other major states; it can also veto action on key issues by combinations of other states. The system is defined as “uni-multipolar<sup>42</sup>”.

In the globalized post-1989 world, politics and economy intertwine: so it was for Latin America, that had lost an international political counterweight to Washington (notably precious for leftist governments), but could autonomously gain bargaining power by participating in the international institutions – and by creating its own ones. No viable alternative to liberalization and economic openness seemed to exist: finding a specific development pattern that would best suit the region’s opportunities and meet its need for an equal growth, in the context of worldwide cut-throat competition for capital and markets, was the challenge. As it was the case for the United States, domestic and international issues would interplay in Latin America too.

While the spread of free and fair elections under the rule of law proved to be limited in space, capitalism became a global phenomenon. The end of the Cold War brought down the last walls – ideological, more than actual – that were obstructing the multidimensional process, known as globalization<sup>43</sup>, in which the constraints of geography on the economies, politics and societies of the world gradually recede. Increasing level of economic and social interconnectedness derived from both technological change in the communication and information industries and policy-driven reforms for the reduction of barriers to trade and capital<sup>44</sup>. The follow-up of this process was clear: more exposure to the international economy meant more incentive for freemarket, a less statocentric approach and a growing attention to economic and social issues. Conversely, “what previously were domestic policy decisions – interest rate, currency exchange levels, wage rates, environmental laws, foreign investment – now have international implications<sup>45</sup>”. World trade nearly doubled from 1987 to 1997<sup>46</sup>; the era of “king capital<sup>47</sup>” had begun.

“The disenchantment with socialist ideas and central planning, which had likewise pervaded many

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<sup>41</sup> Tulchin J.S., Espach R.H. (2001), *Latin America in the new international system*, Lynne Rienner, Boulder, Co, Usa, p.1.

<sup>42</sup> Huntington S. (1999), *The lonely superpower*, “Foreign Affairs”, Vol.78, No.2, March/April.

<sup>43</sup> Tulchin J.S., Espach R.H. (2001), *Latin America in the new international system*, cit.

<sup>44</sup> Tulchin J.S., Espach R.H. (2001), *Latin America in the new international system*, cit.

<sup>45</sup> *Ibidem*.

<sup>46</sup> *Ibidem*.

<sup>47</sup> Roett R, Paz G. (2003), *Latin America in a Changing Global Environment*, Lynne Rienner, Boulder.

developing countries outside the Soviet bloc, created an urgent and widespread need for an alternative set of ideas on how to organize economic and political life<sup>48</sup>”. This need was as urgent as ever in Latin America, a region that was hardly recovering from the debt crisis. Mainstream analyses of the roots of the crisis and the lost decade blame it on the exhaustion of the Import Substitution Industrialization (ISI) model, the paradigm of development since the 1950s, particularly on protectionism and subsidies<sup>49</sup>. In 1990 economist John Williamson framed a cluster of 10 precepts under the label “Washington Consensus”, meaning that the policies he was putting forward were broadly acclaimed by members of the U.S. Congress, the administration and the major international financial institutions<sup>50</sup>.

Williamson’s 10 topics were: reduction of the fiscal deficit; reduction and reconstruction of public spending, prioritizing health and education and preferably eliminating subsidies; broadening of the tax base and a moderate marginal tax rate; market-determined interest and exchange rate; import liberalization; FDI-friendly approach (while liberalization of financial flows was not deemed a priority); privatization; deregulation; guaranteeing property rights.

Latin America’s performance under the Washington Consensus was far from exciting: the reforms successfully reduced inflation and fiscal imbalances, but the region’s real GDP increased at an annual rate of 3.3% during 1990-2000, much slower than the 5.3% annual rate registered during 1950-1980; poverty, extreme poverty and income inequality grew<sup>51</sup>. Williamson pins the poor results on the countries that reformed their system in an incomplete, at times foolish way, and asserts that redistribution wasn’t part of its concern<sup>52</sup>. Stiglitz argues that “one size fits all policies are doomed to failure<sup>53</sup>”, especially if they don’t take into account views and opinions from those who will have to implement them in their countries. The 10 prescriptions were presented with an ideological frenzy that would eventually hinder their meaningful application and nurture dissent within Latin American populations, now able to express their preferences at the ballot box.

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<sup>48</sup> Moisés Naím (2000), *Washington Consensus or Washington Confusion?*, “Foreign Policy” n.118.

<sup>49</sup> J.C. Moreno Brid, E. Pérez Caldentey, P.R. Napoles (2004-2005), *The Washington consensus: a Latin American perspective fifteen years later*, “Journal of Post Keynesian Economics”, n.2.

<sup>50</sup> Williamson J. (1990), *What Washington means by policy reform*, in *Latin American Adjustment: How Much Has Happened*, <http://www.iie.com/publications/papers/paper.cfm?researchid=486>.

<sup>51</sup> J.C. Moreno Brid, E. Pérez Caldentey, P.R. Napoles (2004-2005), cit. Ffrench-Davis R., Muñoz O., Palma J.G., *The Latin American Economies, 1950-1990*, in Bethell L. (editor, 1998), *Latin America economy and society since 1930*, Cambridge University Press.

<sup>52</sup> *Ibidem*; Williamson J. (2004), *A Short History of the Washington Consensus*, Paper commissioned by Fundación CIDOB for a conference “From the Washington Consensus towards a new Global Governance,” Barcelona, September 24–25, 2004.

<sup>53</sup> Stiglitz J.E. (2005), *The Post Washington Consensus Consensus*, Initiative for Policy Dialogue, [http://www.policyinnovations.org/ideas/policy\\_library/data/01232](http://www.policyinnovations.org/ideas/policy_library/data/01232).

Ironically, and shortcomings notwithstanding, the Consensus would be the most considerable sign of attention coming from Washington to its southern neighbors after the end of the Cold War. In the early '90s, both the United States and Latin America had to rethink their approach to each other and to the world.

### **U.S.-Latin American relations under the Bushes and Clinton**

For the U.S., the end of the competition with the Soviet Union bred the end of the national security driven approach<sup>54</sup> towards the region that had been a key feature of its history ever since the Monroe Doctrine. According to Gaddis Smith, Washington had undergone “long periods of ignoring Latin America alternating with moments of frantic obsession [...]. Latin American governments and people were seen as pawns, not as autonomous actors with self-generated hopes, fears and policies<sup>55</sup>”. Given its distance from the Red Army’s capabilities, the area (except Cuba) hardly kept any U.S. president awake at night. But now the Monroe Doctrine itself looked redundant: the U.S. had won hegemony “by default<sup>56</sup>”, as non-hemispherical powers were withdrawing from the Americas (by 1993 the Soviet military presence in Cuba was over) and directing their attention elsewhere.

Washington was not ready to deal with this kind of situation, both on a regional and on a global scale. The new world order envisioned by President Bush in his January 1991 speech – a world “in which the principles of justice and fair play protect the weak against the strong [...] in which freedom and respect for human rights find a home among all nations<sup>57</sup>” couldn’t survive the outbreak of ethnic wars in the Former Yugoslavia, in Africa and in the Middle East. Indeed, the perspective of assuming leadership in solving world problems didn’t look so enticing, now that the highest threat to national security was removed; as in the aftermath of WWI and WWII, the Americans preferred to focus on domestic issues<sup>58</sup>; during the 1992 presidential campaign, candidate Clinton criticized Bush for paying too much attention to foreign policy.

In Latin America, the situation was somehow unique: there was no extrahemispherical rival, the asymmetry in power had never been so vast, but the United States lacked clear ideas on what to do, also because hegemony came by default. And it came about during a period of falling U.S.

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<sup>54</sup> Palmer D.S. (2006), *U.S. Relations with Latin America during the Clinton Years*, University Press of Florida.

<sup>55</sup> Smith G. (1994), *The Last Years of the Monroe Doctrine 1945-1993*, Hill and Wang, New York.

<sup>56</sup> Smith P.H. (2000), *Talons of the Eagle: Dynamics of U.S.-Latin American Relations*, Oxford University Press.

<sup>57</sup> Cameron F. (2002), *US foreign policy after the Cold War: global hegemon or reluctant sheriff?*, New York Routledge.

<sup>58</sup> Herring G.C. (2008), *From Colony to Superpower: U.S. Foreign Relations since 1776*, Oxford University Press.

preponderance: Latin American exports to the north were declining, and so were FDI and arms sale from Washington. The Carter and Reagan administrations had proved unable to convince the region as a whole to boycott the Moscow 1980 Olympics, and to prevent the Falkland/Malvinas conflict of 1982.

Except for the Alliance for Progress, Washington's policy towards Latin America throughout the Cold War had always focused on low politics, lacking a grand strategy; size, proximity and the level of perceived threat set the pattern of U.S. interests<sup>59</sup>. The collapse of the Soviet Union brought about two changes: obviously, a credible immediate threat to the hemispheric security was now extinct, and the interplay of domestic interests could weight in the definition of the foreign policy agenda.

The Bush administration tried to adapt to this changing scenario and to make some historic departures from its country's previous positions. It developed a multilateral approach that would encompass its most relevant hemispheric initiatives. Democracy, drugs and trade would be the new keywords. The loss of strategic leverage and importance for Latin America was nevertheless utterly evident, and inescapable; the region would inexorably slide out of Washington's list of priorities.

The 1989 (Secretary of Treasury Nicholas) Brady Plan was a stunning innovation in comparison to the 1985 (then Secretary of Treasury James) Baker Plan to deal with Latin America's debt problems. While the latter prescribed structural reform and suggested private and international funding, the former openly admitted debt forgiveness for the first time. Under the Brady Plan, deals were cut with Mexico, Brazil, Argentina, Venezuela and Uruguay among others, with debt forgiveness up to 86%<sup>60</sup>.

Increasing hemispheric commerce would be a key tenet of the Bush and Clinton administrations, and in 1991 it secured legislative Fast Track authority to speed up the voting process on trade negotiations. A little more than a year later, the North American Free Trade Agreement (NAFTA) with Canada and Mexico was signed by the presidents, and waiting for ratification; it would enter into force on January 1, 1994.

NAFTA established one of the largest trading blocs in the world but, despite its name, it was not only concerned with free trade. To be sure, it "promoted a free flow of goods between member

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<sup>59</sup> Roett R, Paz G. (2003), *Latin America in a Changing Global Environment*, cit.

<sup>60</sup> Palmer D.S. (2006), *U.S. Relations with Latin America during the Clinton Years*, cit.

countries by eliminating duties, tariffs and trade barriers over a period of 15 years<sup>61</sup>”; but in 1990 tariff and nontariff barriers to U.S.-Mexican commerce were already low.

Mexico was looking for an international benediction of its political and economic choices (pro-market reforms within a not completely democratic regime), hoping to attract foreign direct investment (FDI) from the U.S., the EU and Japan, and enhancing its diplomatic leverage, acting as a bridge between the first and the third world<sup>62</sup>. The country is also the first and so far only OECD member from Latin America<sup>63</sup>; it entered the organization in May 1994, a few months after NAFTA came into force and after laws on FDI and capital movements liberalization had passed.

NAFTA’s main achievement, in Washington’s mind, was the opening of Mexico to investments from the North, whether they came from banks, firms, or private citizens. Other domestic and foreign policy goals were also reached, such as: access to Mexican petroleum, stability on the southern border, and support from Mexico on foreign policy in general<sup>64</sup>.

Some fundamental implications of this vast agreement would nonetheless transcend bilateral (and trilateral, for that matter) issues and have an impact on regional and global themes.

NAFTA “provided the United States with an important bargaining chip in its trade negotiations with Europe, Japan, and the General Agreement on Tariffs and Trade<sup>65</sup>”: more that the threat of an exclusive economic protectionist bloc in North America, the rest of the world saw in the ratification a proof of U.S. commitment to free trade. Clinton’s decision to schedule the decisive vote just days before a major meeting with some Asian heads of state on trade liberalization, and the ongoing negotiations of the Uruguay Round, put added pressure on the legislators in that sense<sup>66</sup>.

From the very beginning, the agreement with Mexico and Canada was seen as a stepping stone towards economic integration encompassing the whole hemisphere, in accordance with Bush’s vision of a free trade zone “stretching from the port of Anchorage to the Tierra del Fuego<sup>67</sup>”. The 1994 seemed to be a golden year, since for the first time 34 elected Heads of State were brought

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<sup>61</sup> Smith P.H. (2000), *Talons of the Eagle*, cit., p.257.

<sup>62</sup> Smith P.H. (2000), *Talons of the Eagle*, cit.; Tulchin J.S., Espach R.H. (2001), *Latin America in the new international system*, cit.

<sup>63</sup> Chile received an invitation to join OECD in December 2009. Its membership will become official once necessary formalities, including Parliament approval, have been completed. *Chile Signs up as First Oecd Member in South America* (January 11, 2010), [http://www.oecd.org/document/26/0,3343,en\\_2649\\_34487\\_44365210\\_1\\_1\\_1\\_1.00.html](http://www.oecd.org/document/26/0,3343,en_2649_34487_44365210_1_1_1_1.00.html).

<sup>64</sup> Tulchin J.S., Espach R.H. (2001), *Latin America in the new international system*, cit., p.42.

<sup>65</sup> Smith P.H. (2000), *Talons of the Eagle*, cit., p.260.

<sup>66</sup> Palmer D.S. (2006), *U.S. Relations with Latin America during the Clinton Years*, cit., p.46.

<sup>67</sup> Smith P.H. (2000), *Talons of the Eagle*, cit., p.264.



together in Miami for the Summit of the Americas, in an effort to develop a blueprint for hemispheric cooperation in the 21<sup>st</sup> century<sup>68</sup>. Economic integration and free trade were part of the Declaration of Principles agreed upon in the Summit, but by the time the Presidents gathered together again (in Santiago de Chile, in 1998) the situation looked dismal.

Not only hadn't the dream of Western Hemisphere Free Trade Agreement become reality, but President Clinton had lost his battle over the renewal of Fast Track: this meant that even smaller schemes of commercial integration with the U.S. would just not be. Opposition from organized labor, environmental groups and Republicans, and public opinion's unease and unready for such an agreement with Latin America were stronger than what the administration had thought.

Negotiations virtually came to a halt after stark difference of positions had emerged at the La Plata Summit of 2005, when they were scheduled to be completed<sup>69</sup>.

Besides negotiating NAFTA, the Bush administration sealed other agreements on trade throughout the region, under the Enterprise of the Americas Initiative (EAI), whose main goal was to promote structural adjustments and open-investment policies in exchange for official debt-relief from Washington. A Caribbean Basin initiative (CBI) was formalized to expand exports from the subregion to the United States. Even if the U.S. approach to interamerican issues had indeed ceased to be unilateral, involvement from the government was in the background, as preeminence was given to private investments. The Washington Consensus was the ideological corollary of all this.

So, at the beginning of the 21<sup>st</sup> Century, U.S.-Latin American trade had grown almost threefold from its 1988 levels, and U.S. direct investment there had grown almost fourfold<sup>70</sup>. However, the region was feeling left alone and abandoned from its northern neighbor, as far as commerce was concerned: only Mexico and Brazil were among its top ten trading partners<sup>71</sup>, and, besides NAFTA, free trade agreements were in vigor only with Chile and some Central American countries; Bolivia was suspended from ATPDEA drug eradication-related trade benefits under the George W. Bush administration<sup>72</sup>. In the international fora, the Americans' staunch refusal to reconsider their

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<sup>68</sup> Smith P.H. (2000), *Talons of the Eagle*, cit., p.267. Palmer writes that "the extensive process of prior consultation with all parties involved and with many nongovernmental organizations on specific issues helped to create the sense that the SOA was indeed a genuine collaborative enterprise among equals". Palmer D.S. (2006), *U.S. Relations with Latin America during the Clinton Years*, cit., p.57.

<sup>69</sup> Fourth Summit of the Americas (November 5, 2005), *Declaration of Mar del Plata*, <http://www.summit-americas.org/Documents%20for%20Argentina%20Summit%202005/IV%20Summit/Declaracion/Declaracion%20I%20Cumbre-eng%20nov5%209pm%20rev.1.pdf>.

<sup>70</sup> Palmer D.S. (2006), *U.S. Relations with Latin America during the Clinton Years*, cit., p. 83-84.

<sup>71</sup> *Top Ten Countries with which the U.S. Trades* (October 2009), <http://www.census.gov/foreign-trade/top/dst/2009/10/balance.html>.

<sup>72</sup> Under the December 2009 extension of APTDEA, Colombia, Ecuador and Peru are provided with preferential access to the U.S. markets until December 31, 2010. *Senate Approves One Year Extension of Tow Trade Programs*