

The United States and China in Latin America: Cooperation and Competition¹

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Introduction

The expanded presence of the People's Republic of China (PRC) in Latin America has attracted the attention not only of a generation of political leaders, businessmen and students in the region, but also of their counterparts in the U.S., long accustomed to a dominant and relatively exclusive political and economic position in the Americas.

With respect to China, both the US State Department and the Department of Defense have registered concern over the expansion of PRC engagement in the hemisphere, but have refrained from interpreting such engagement as a threat.

Following his first trip to China, former Assistant Secretary Valenzuela expressed his belief that PRC trade with and investment in the Latin America could contribute to the prosperity of the region, consistent with US interests and objectives,² although he also expressed concerns over the ability of the re-

1 This paper was presented in the Fifth Symposium on US-China Relations in Global Context, Beijing, People's Republic of China – June 1-3, 2011.

2 "China 'Not a Threat' in L. America." *People's Daily Online*. Beijing, China. <http://english.peopledaily.com.cn>. August 19, 2010.

gion to take advantage of the opportunities afforded by that trade and investment to generate economic diversity and sustainable growth. Similarly, the Department of Defense official responsible for the Western Hemisphere, Dr. Frank Mora, noted that economic engagement between the PRC and Latin America could generate benefits for Latin America such as infrastructure improvements and increased revenues to the state, both of which could help governments of the region to address the challenge of “ungoverned spaces.” Secretary Mora also acknowledged that Chinese arms sales to the Latin America were not inherently a problem, insofar as they could help states of the region address legitimate security challenges, often in an economical fashion. Nonetheless, like Secretary Valenzuela, Secretary Mora also tempered such positivism by expressing concern over the lack of transparency with regard to certain PRC activities in, and intentions toward the region.

US Policy Toward Latin America

Under the administration of Barak Obama, the US has generally tried to forge a new partnership with Latin America, as reflected by the President’s speech in Trinidad in April 2009. President Obama has visited the region three times, Secretary of State Hilary Clinton several times and regularly meets with Latin ambassadors in Washington.³

Despite sincere intentions, however, there continue to be complaints of Washington’s neglect throughout the region. The demands of US military involvement in Iraq and Afghanistan, the global financial crisis, and most recently, challenges associated with the Arab spring have limited the amount of time and resources devoted to the region. In general, under the Obama administration, the US has attempted to improve its relationship with the region, engaging it as a partner rather than as a superior.⁴ It has focused on working together to build capability in

3 See Ginger Thompson and Simon Romero, “Clinton Seeks to Improve Ties with Latin America,” *New York Times*, May 18, 2011.

4 In the words of former Assistant Secretary of State for the Western Hemisphere Arturo Valenzuela, “the best framework for engaging with the Americas is one based on mutual partnership and co-responsibility. . .there is no senior partner and junior partner in our relations; there is simply engagement based on mutual respect and common interest and shared values.” Arturo Valenzuela, “Testimony of Arturo A. Valenzuela Assistant Secretary of State Bureau of Western Hemisphere Affairs (WHA) Department of State Before the Subcommittee on the Western Hemisphere., Committee on Foreign Affairs, United States House of Representatives, February 15, 2011. Assistant Secretary Valenzuela resigned his position in May 2011 and has not yet been replaced.

areas such as institutions of democratic governance and economic management. In working with regional partners such as Mexico on transnational issues such as drug trafficking and gun violence, the US has accepted shared responsibility for the problems and sought to work more collaboratively with institutions such as the Mexican federal police, the Ministry of Defense, and the Ministry of the Navy. Notably, the US has also refrained from intervening in the face of regimes which have openly challenged US interests, and arguably, regional norms of democratic practices and non-intervention in the affairs of neighboring states, such as Venezuela, and to a lesser extent, Nicaragua, Ecuador and Bolivia, preferring instead to allow the region to evaluate and react to such behaviors on its own.

At the official level, the authoritative statement of US interests in Latin America comes from the U.S. Secretary of State,⁵ with elaboration from the State Department Bureau of Western Hemisphere Affairs.⁶ The website of the Director for Western Hemisphere Affairs refers to four areas: *democracy, trade, sustainable economic development, and fostering cooperation*.⁷ Within this broad framework, however, it is possible to identify multiple overlapping perspectives from different US government organizations, businesses, and other relevant actors framing what those interests.

Although the US has many sincerely stated objectives with respect to Latin America – such as democracy, development, and respect for human rights – the core US interests in the region may be understood in terms of three imperatives, in roughly the following order of importance:

1. The region does not present a security threat to the US.
2. The region supports commercial interactions consistent with the health of the US economy.
3. Conditions in the region are consistent with US values concerning democracy, respect for human rights, and a decent standard of living for all.

Through its advocacy and programs, the United States seeks to nurture in the region countries which share an outlook with the US on important issues such

5 Hon. Hillary Rodham Clinton. "Our Opportunity in the Americas," Remarks to the Center for Strategic and International Studies. Washington DC. March 18, 2011.

6 See, for example, Valenzuela, "Testimony..." February 15, 2011.

7 "Bureau of Western Hemisphere Affairs." U.S. Department of State. Official Website. <http://www.state.gov/p/wha/>. Accessed April 13, 2011.

as democracy, human rights, or the fight against terrorism, can serve as trusted partners for the US throughout the world. This includes not only support within the international community, but regimes with mature institutions, who are able to cooperate with the US and uphold international norms on a range of issues, from the fight against terrorists, transnational criminal organizations, and money laundering, to respect for intellectual property rights and contract law.

While some US leaders in both the executive branch and Congress have expressed their discomfort with PRC advances in the region, by contrast to the orientation toward the Soviet Union during the Cold War, they have consistently refrained from casting the PRC as an “opponent” in the hemisphere. Indeed, the continuation of the “Latin America” segment of the US-China strategic dialogue by Assistant Secretary of State Arturo Valenzuela under the presidential administration of Barak Obama illustrates the consistent desire under both Republican and Democratic Presidents to eliminate sources of misunderstanding and conflict arising from China’s expanding engagement with Latin America, and to work together with respect to policies and initiatives toward the region in areas where interests shared by the US, the PRC, and the nations of the region permit outcomes beneficial to all.

While both the Bush and Obama administrations have noted that the US is not intrinsically concerned about the Chinese presence in the region, senior Department of State and Department of Defense officials from both administrations have indicated that the US is monitoring these activities very closely, for signs of emerging threats to US national security interests in the region.⁸

No Security Threat to the US from Latin America

The primary interest of the United States with respect to Latin America is that the region does not present a security threat to the US or its citizens. The September 11, 2001 attacks against the United States and the subsequent “war against terrorism” arguably broadened the nation’s focus with respect to

8 This includes statements by Roger Noriega and Thomas Shannon, each of whom served as Assistant Secretaries of State under the George W. Bush administration, and most recently, by Deputy Assistant Secretary of Defense Frank Mora, of the Obama administration.

national security threats, shifting attention from state actors seeking to challenge the United States globally, to harm emanating from non-state actors and natural disasters. While the US does not face a traditional security threat from an opposing state in the region, it *does* face a variety of pressing non-traditional security threats. In this context, and in the absence of a declared global opponent, the US began to give new attention to how longstanding problems in the region with respect to poverty, inequality, and badly functioning institutions, which could nurture phenomenon that could ultimately damage the United States, including the activities of narcotraffickers and other transnational criminal organizations (TCOs), refugees, or terrorists operating from the region's weakly governed spaces.

There are three principal concerns with respect to the countries that form the land and maritime "southern approaches" to the United States: (1) that violent criminal activity currently destroying these societies, including violence associated with Mexican cartels and Central American violence, will spill over into the United States, (2) that violence and state failures associated with these regions will produce a flood of refugees with accompanying economic and public health impacts on the United States, and (3) flows of migrants and contraband goods to the United States, in the context of weak states, could provide the opportunity for smuggling terrorists and associated devices into the United States.

In general, US security concerns in Latin America have primarily focused on three areas: (1) the populist states of the Andean region, including Venezuela, Ecuador, and Bolivia, (2) weakly governed spaces such as the "Tri-Border Area" between Paraguay, Brazil, and Argentina, and (3) the land and maritime "southern approaches" to the United States, including the states of Mexico, Central America and the Caribbean.

Commercial Interactions Consistent with the Health of the US Economy

Beyond its direct national security concerns, the US seeks to maintain a legal, political, and economic environment in the region that supports commercial interactions in support of the health and stability of the US economy. Such an environment includes the ability of US producers to sell their goods to the region. This includes a functional banking system and a legal framework which

afford predictability and which equally protect the rights of entities entering into contracts or making investments in the region. The openness and efficiency of the trade infrastructure of Latin America is important, including government regulations, tax policies and currency exchange rates which are not prejudicial to US companies seeking to sell their goods to the region. While the displacement US products by those of Chinese raise concerns, the US culture of “fair play” and “equal rules for all” leads to a distinction in the US discourse between that which may be “undesirable” (e.g. being beaten out by other competitors), and that which is “unjust” (losing market share because the playing field is biased against US sellers, or because non-US firms have achieved a monopoly position blocking access by others). In this regard, the stability and prosperity of the region is also important the US, both because of US interest in the welfare of the people of the region, and also because such a prosperous Latin America is also a good market.

In addition to sales of its goods, the US has a stake in the continuing ability of its companies to purchase goods from the region, including both commodities such as petroleum, metals and agricultural goods, as well as intermediate goods which form a part of US production chains. The US culture of *laissez faire* capitalism puts significant faith in the ability to supply fungible goods at a price that reflects the balance between supply and demand. Nonetheless, there is recognition that the ownership of supply chains, and government policies influences who gets priority to a stable supply of goods, and at what price. The efforts of regimes openly hostile to US interests such as that of Hugo Chavez in Venezuela, willing to incur higher costs and less advantageous conditions to explicitly avoid selling products to the US are thus a long run concern, as are countries whose national companies purchase assets in tightening commodity markets such as petroleum, decreasing the pool available for purchase on the spot market, and creating the risk of high or volatile prices which could be disruptive to US and global consumers depending on those goods.

Such concerns are heightened where there are relatively limited sources of supply for the goods, and they play a key role in production chains in strategic industries, such as rare earth elements. Other elements of the supply chain are also important, such as efficient and functional infrastructure, as well as stability in the legal framework and economic conditions. Political crises, economic downturns, and nationalizations are each of concern because of their ability to cause supply disruptions which adversely impact production chains, and ultimately the US economy in the modern globalized economy.

Democracy, Human Rights and a Decent Standard of Living in the Region

While a Latin America characterized by free trade and respect for property rights is beneficial to US economic performance, the US interest in democracy, respect for human rights, and a decent standard of living reflects a more generalized human compassion for the people of the region by the US, reflecting an important dimension of the culture of the people of the US and not just its government. Although such compassion is occasionally viewed cynically in other parts of the world, and may benefit US interests, it is also genuine. The current US administration sees Latin America making significant progress on issues of democracy and human rights, although it has expressed concern regarding the usurpation of legislative powers by the Executive in Venezuela as “circumscribing the popular will” in violation of the Inter-American Democratic Charter.⁹ Similarly, the US views Latin America’s strong economic growth as a key vehicle for improving the condition of its people, and views crime and violence, particularly that tied to transnational criminal organizations in Mexico and Central America, as undermining those conditions.

Areas of Potential Competition

China’s rapid emergence on the Caribbean and Latin American stage can potentially threaten US interests in three areas: national security; commerce; and political values. The competition in the political realm, on its face, appears less directly conflictual, yet if not carefully managed has a greater capacity in the short term to damage the relationship between the US and the PRC.

With respect to national security, the US is particularly sensitive to PRC military relationships with the region. Arms sales, such as K-8 aircraft, JYL-1 radars and command and control equipment to Venezuela, K-8s and MA-60s, small caliber arms, busses, trucks and motorboats to Bolivia, YLC-2V-3D radars and MA-60s to Ecuador, and WMZ-551 armored vehicles to Argentina, are closely monitored. While acknowledging that arms may contribute to the legitimate security needs of governments, the US administration is concerned that arms sales

9 Valenzuela, “Testimony...” February 15, 2011.

to regimes such as Venezuela could contribute to the destabilization of the region, including the diversion of arms to terrorists and transnational criminal organizations. Similarly, training of Latin American personnel in the Defense Studies Institute in Changping, the PLA Army Command College and Navy Command School near Nanjing, in PLA facilities in Shijiazhuang, and other locations, in the absence of transparency, raises questions about the nature of the military relationship being forged. With respect to Cuba, while the US is not concerned by China's commercial relationship with the Castro regime, reports that PRC personnel are operating in Soviet-Era facilities in Bejucal, Lourdes, and Santiago de Cuba raise concern, given the proximity to the US mainland and the absence of information about such activities. Given emerging competitions in space and cyberspace, China's role in constructing the space and telecommunications architectures of regimes hostile to the US, such as Venezuela and Bolivia, also raise concerns.

On the commercial side, the competition with China comes in three forms. First, the advances of Chinese companies in selling products to the region have come partly at the expense of US companies. This is particularly the case with respect to higher value added items such as consumer appliances, cars, heavy machinery, and electronics, although European and Latin American manufacturers such as Brazil have also lost market share to China. Although the loss of market share by US companies to Chinese competitors is a politically charged issue in the United States which has received significant media and Congressional attention in recent years, the globalization of production chains in recent years, to some extent blurs who is being helped or hurt by this phenomenon. It is not necessarily unfair that an increasing portion of the value generated by economic activity is flowing to Chinese companies, rather than Western ones, and to a great extent it reflects US mismanagement of its own economic house. Nonetheless, it is a world that the US is not accustomed to, and an emerging reality for which the implications are only beginning to be understood.

A second dimension of the US-China commercial competition involves access to energy resources, minerals, and raw material commodities. In recent years, Chinese companies have purchased and/or built significant positions in Latin American upstream petroleum assets and mineral deposits, including a \$40 billion commitment to develop the Junin 1, 4, and 8 blocks in the Orinoco belt, the Andes Petroleum and Petroriental positions in Ecuador, the acquisitions of Bridas (\$3.1 billion), Oxy (\$2.4 billion), and Pan American (\$7.1 billion) in Argentina, the Brazilian holdings of Statoil (\$3.1 billion) and Repsol YPF (\$7.1 billion), commit-

ments of almost \$11 billion to develop five mines in Peru (Marcona, Toromocho, Rio Blanco, Galleno, and Pampa de Pongo). In addition, loans such as the copper advance purchase agreement with the Chilean state mining company Codelco, the two \$1 billion loans to Petroecuador, the recent \$20 billion loan to Venezuela, and the offer to loan the Bolivian government \$15 billion to develop the El Mutun iron field each involve repayment in petroleum or minerals. Even in Colombia, the initially modest investment by CNPC to form Mansrovar Energy has expanded to account for almost 24% of the country's oil production.

Although traditional trade theory suggests that, in perfect markets, all commodities are available at some price, markets are not, in reality, perfect, and in tightening commodity markets, the entities with ownership stakes in those resources have a significant advantage, while the price and reliability with which those commodities are available to the rest may not be consistent with their continuing economic health.

Similarly, in the domain of free trade, the proliferation of bilateral agreements between China and Latin American trading partners, such as those with Chile, Peru, and Costa Rica, do not preclude US access to those markets, but clearly privileges Chinese companies and purchasers, and thus accelerates the ongoing shift of global value added from the West, toward China.

Turning to the political dimension, while there is no overt "ideological competition" between the PRC and the United States, China's role as an alternative market and source of loans and investment, coupled with its policy of "non-interference" in the affairs of other states, indirectly undercuts the ability of the US to advance its beliefs regarding "democratic practices" and "human rights" in the region, as well as contributing to the survival of regimes such as Venezuela which actively work against US interests in the region.

Shared Interests and Possibilities for Collaboration

Despite the inherent competition between Chinese and US interests in Latin America, and various possibilities for conflict, China and the United States also have multiple shared interests in the region, that create the basis for the two countries to cooperate for the benefit of all parties. These shared interests fall into three areas:

1. Strengthening of the rule of law and administrative efficiency in countries of the region
2. Creating a secure and stable security environment for all
3. Achieving an efficient and effective commercial infrastructures

Strengthening of the Rule of Law and Administrative Efficiency

As companies from the PRC, the US, and other states invest in, and operate on the ground in Latin America, all benefit from contractual relationships which are clear and predictable, judicial mechanisms that can resolve disputes in a fair and timely fashion, and efficient processes that allow investors to move quickly from signing agreements to initiating work that generates value. Indeed, the desire for such an environment for doing business has been important factor behind the signing of reciprocal investment protection agreements between the PRC and various countries of the region. By extension, it is also in the interest of both the PRC and the US, as well as other actors, to uphold free trade and property rights. While the tendency of certain regimes such as Venezuela, Ecuador, and Bolivia to revise legal and constitutional structures has created short-term opportunities for previously excluded actors, such as Chinese companies, to enter new markets, the administrative and legal unpredictability of such regimes ultimately works against Chinese goals of achieving markets and secure sources of supply.

Stable Security Environment for All

Both Chinese and US companies benefit from a Latin American security environment in which competent military and police institutions can provide protection to foreign workers and immigrants of all nationalities living in the country. Both also benefit from an environment in which their facilities in the country can operate without threat of extortion, terrorist attacks, and other risks to their operations, including professional, appropriately trained, and adequately equipped security forces who can respond effectively to the challenges that inevitably arise. There are areas, such as economically priced security equipment, in

which China may be able to make a particular contribution, while in other areas, such as training, the US may be particularly effective leveraging its knowledge of, and special relationships with the region. Working together to strengthen the security environment, and the capability of partner institutions in the region is likely to generate unexpected synergies for all sides.

Achieving an Efficient and Effective Commercial Infrastructure

As the volume of trade between Latin America and all countries of the world expands, efficient and secure ports, airports, road and rail infrastructures serve to lower transport cost, achieve greater security of supply, and customer responsiveness. Such infrastructure also supports development of the region, including remote mountain and jungle regions of the countries involved, by providing them with improved access to the rest of the national economy, and opportunities to participate in supporting industries. Both the US and China have important resources to bring to the table to help Latin America develop its commercial infrastructure including both financial resources, capable companies, and knowledge of the region. Working together, potentially through the establishment of a joint projects fund, could serve to increase collective resources and likelihood of success with respect to infrastructure projects, while helping to overcome concerns over issues such as transparency and the use of financial leverage to gain work for one's own companies.

Conclusions

China's expansion into Latin America can be understood in terms of the pursuit of legitimate national security goals such as diversification of markets and the pursuit of secure sources of supply. At the same time, despite an inherent dimension of commercial and political "competition" between the PRC and the United States in the region, the US is open to identifying ways to collaborate with China in Latin America for the benefit of all sides, and in the interest of preventing the inherent competition between the US and China in the region, from evolving into a new "cold war" style conflict. Nonetheless, the expansion of

PRC interests in the region and the imperative to defend them in the context of a fluid Latin American political and security environment will create numerous opportunities for misunderstanding. If those risks can be overcome, however, there are more than sufficient shared interests between the US and China in the region to forge a win-win partnership, and in the process, allow both the US and China to forge new and constructive relationships with the region.