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Executive Summary

China's economic relationship with Latin America has expanded greatly over the past decade. This expansion follows from the growth of China's economy and its increasing dependence on foreign markets and suppliers. In response to the needs of its own economy, the Chinese government has adopted a policy of encouraging enterprises to invest abroad, especially in the resource sector. China's need for resources has been the main driver behind its imports from Latin America, and also its investments in the region.

Since the 1990s, China has made considerable efforts to expand ties with Latin America, efforts which have been reciprocated by governments in the region. China seeks to develop a broad relationship with Latin America at both the bilateral and regional levels, but its main focus has been on expanding economic exchanges. While China has been successful in developing its relations with Latin America, there are constituencies, such as some domestic industries, that see China as a threat. Some countries which have benefited less than others in their economic exchanges with China have been more cautious in their approach to developing relations.

Many Latin American countries have enjoyed increased economic growth as a result of expanded exports, and have surpluses on their trade with China. For the moment, China plays a relatively minor role in the Latin American economy, whose trade and investment continue to be dominated by the US and Europe. Investment by Chinese companies in the resource sector in Latin America is increasing. Nevertheless, the success in terms of China's aim of securing supplies of critical resources has been variable. While Latin America is very important for certain minerals such as copper and iron ore, its role in China's energy supplies remains very limited. The same is also true for timber resources.

A number of studies have supported the contention that there are positive effects on Latin America resulting from its relationship with China. Nevertheless, there are concerns regarding the impact of Chinese activity in Latin America in areas such as the environment, labour standards, human rights, and its impact on political stability and democratisation. However, for the moment, there is little conclusive evidence that Chinese investment has had a significant impact in these areas. Likewise, the fact that Chinese investment remains relatively rare makes it difficult to generalize about any broader effects on EU policy in Latin America.

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1 Context: China's Outward Investment

Outward investment by Chinese enterprises is not a new phenomenon, nor is investment by Chinese enterprises in foreign resources. Outward investment from China recommenced from the earliest days of the policy of opening and reform which began in 1979. Still, it is true to say that outward investment from China has become significant only very recently. There has been rapid growth in outward investment from China in recent years: according to the latest statistics announced by the Chinese government, outward investment in 2006 was US$16 billion, compared with US$5.5 billion in 2004 (see Figure 1). This growth has been associated with efforts by the Chinese government to encourage outward investment, often called the 'go-global' policy.

1.1 Outward investment policy

Since the late 1970s China's policy on outward investment has undergone significant changes, and continues to evolve. For much of the period of economic reform, outward investment was highly restricted and it is only in recent years that a policy of active encouragement of investment has been adopted. Although China's outward investment policy has attracted considerable attention in the media and from commentators in the West, very little serious analysis of its development has been carried out. Both the aims and the substance of policy on outward investment continue to change as reforms progress and the government responds to changing economic circumstances.

In the early 1980s approval at the very highest level by the State Council was required for all outward investment. In 1983 the State Council delegated authority to the Ministry of Foreign Economic Relations and Trade (MOFERT)([1]) to approve outward investment on a case-by-case basis. Subsequently, administrative control over outward investment rested with MOFERT and its successors. Today, the Ministry of Commerce (MOFCOM) and the State Development and Reform Commission (SDRC) are the authorities designated as being in overall charge of the 'go-global' policy. Outward investment in non-financial assets requires approval from one or both of these bodies, depending on the specific circumstances of the project([2]).

Foreign exchange remittances for outward investment projects must also be registered with the State Administration for Foreign Exchange (SAFE), although foreign exchange approvals

[1] The present Ministry of Commerce is the successor to the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) which MOFERT had been renamed.

[2] Projects for resource development requiring Chinese investment exceeding US$30 million and non-resource development projects requiring Chinese investment exceeding US$10 million must be approved by the SDRC. All investments requiring the incorporation of a business entity outside the PRC must be approved by MOFCOM. The requirement for investment approval reflects the fact that China remains an 'approval' based economic system. Foreign direct investment from outside China also requires approval from the authorities.

for outward investment have been considerably relaxed in recent years. Other departments such as the Ministry of Foreign Affairs and the Ministry of Finance are required to support the policy. Depending on the sector concerned, other government authorities are also involved in the formulation and execution of the policy. One of the most important actors is the China Exim Bank, which provides financial support to the policy, enabling Chinese companies to undertake investments abroad([3]).

Until recently China had no policy of encouragement of outward investment, which only began to emerge in the late 1990s. The first policy document that actually sought to encourage outward investment was issued in 1999. In the late 1990s the 'go-global'([4]) slogan began to be used and was formally incorporated in Chinese Communist Party economic policy in 2000([5]), subsequently being included in the overall strategy adopted for economic development embodied in the Five Year Plan.

The go-global strategy encapsulates the general idea of encouraging outward investment by Chinese enterprises. Access to resources outside China figures strongly as a justification for this policy, but it is not the only one. In official pronouncements the policy is usually referred to as permitting the use of both domestic and foreign resources and markets for the benefit of Chinese companies. Other justifications, such as accessing foreign management skills and technology, as well as brand names, also figure in arguments in support of the policy. More recently, outward investment has been advocated as a means of helping to correct external imbalances affecting the Chinese economy caused by its large current account surplus.

The go-global policy has several different strands. To a considerable extent, the promotion of the policy consists of removing previous restrictions, as in the case of foreign exchange remittances. For instance, prior to 2005 there was national limit of US$3.3 billion on the amount of foreign exchange that could be used for outward investment. This limit was raised to US$5 billion in 2005, and removed completely in 2006. At the same time, the government has attempted to make administrative procedures for carrying out investment more efficient. On the other hand, there are specific incentives on offer to encourage outward investment. There has been, for example, concessionary tax treatment for pre-investment expenses such as surveys for natural resource investment projects. Of more importance generally from the point of view of the finances of Chinese enterprises is the concessionary

[3] See for instance China Exim Bank Annual Report 2004, which sets out the bank's role in the go-global policy and the importance it attaches to supporting government policy aims.

[4] *Zouchuqu*, also often translated as 'go-outside', 'go-abroad' or 'go-overseas'.

[5] The first formal policy reference to the 'go-global' strategy is usually taken in China to be the CCP Central Committee Opinion on the Formulation of the 10th National Economic and Social Development Five Year Plan [Translated from Chinese], passed by the 5th plenary meeting of the 15th Session of the CCP Central Committee, 11 December 2000. The concept was subsequently included in the 10th Five Year Plan, see 10th Five Year Plan Outline, Chapter 17, Section 4, "Implement the 'Go-global' Strategy". The go-global strategy also features in the 11th Five Year Plan adopted in 2006.

financing provided by the China Exim Bank. Other policy initiatives consist of providing advice and guidance through official organs to enterprises undertaking foreign investment([6]).

The targets of China's investment strategy are broad. In 2006 the Chinese government issued a policy document intended to give direction to outward investment, which included a catalogue of sectors in which investment is encouraged([7]). Under this policy, sectors in which outward investment is encouraged are defined as those which:

. can obtain resources or raw materials that are lacking within China and which the development of the national economy urgently requires,

. those that can stimulate the export of products, equipment or technology in which China has a comparative advantage and labour service exports, and

. those which can raise China's technological R&D capability, and which can make use of internationally advanced technology, advanced management experience and specialist human resources.

In the Chinese government view, rather than an expression of the strength of the Chinese economy, the go-global strategy is a response its weakness and the challenges it faces in the era of globalization, notably in the field of energy and resources. Rapid economic growth in China has created demand that its own resources are unable to meet. Although China is less dependent on energy imports than some major economies, its imports are nevertheless growing rapidly. Imports of other resources are also growing fast, including imports of minerals, timber and agricultural commodities.

1.2 Energy and resources

China still imports a relatively low percentage of its energy consumption compared with many economies, but that proportion is growing rapidly. Although most of China's energy is derived from coal, of which it has large reserves([8]), domestic production of oil does not meet its needs. China's proven crude oil reserves were only 16 billion barrels in 2005, which is 1.4 percent of total world reserves([9]). Consumption and imports of oil have grown rapidly in

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[6] The Ministry of Foreign Affairs is for instance charged with helping to provide information on matters such as the investment environment and business opportunities in target countries.
[7] The Outward Investment Sector Direction Policy [Translated from Chinese], State Development and Reform Commission, Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Finance, General Administration of Customs, State Administration of Taxation, State Administration of Foreign Exchange, July 5, 2006. The division of outward investment into encouraged, permitted and prohibited sectors mirrors the long-standing practice of the Chinese government with regard to inward investment.
[8] In 2002 China's proven coal reserves were 126 billion tons out of a world total of 997 billion tons.
[9] OPEC (2005), *Annual Statistical Bulletin*, OPEC, see:
http://www.opec.org/library/Annual%20Statistical%20Bulletin/pdf/ASB2005.pdf.

recent years and are forecast to continue rising([10]). China's consumption of refined petroleum products rose from 4.4 million barrels a day in 2001 to 6.2 million barrels a day in 2005([11]). This was an increase from 6.2 percent of world consumption in 2001 to 8 percent of world consumption in 2005. China's crude oil imports rose from 70.3 million tons in 2000 to 126.8 million tons in 2005. China is now the world's second largest importer of oil, and energy insecurity has become a major policy concern for the Chinese government (Bo, K 2006, Tang J 2006).

China has been actively seeking access to resources not only on the international commodity markets, but also through investment in production as part of the go-global policy. In the view of the Chinese government, access to supplies cannot necessarily be guaranteed by the market and control of resources is regarded as a means of ensuring security of supply. Although China's most important energy suppliers are in the Middle East and Africa, it has still sought to expand imports from Latin America. The region currently accounts for only a small percentage of China's energy imports, but there are ambitious hopes on both sides to increase the flow.

Access to energy resources outside China is only one element of the government's efforts to resolve the problems. The Chinese government recognizes that its poor record on efficient use of energy and other resources poses a serious challenge to its continued economic growth. Energy and resource efficiency is increasingly the focus of urgent government attention. In 2005 the government set up a new National Energy Leading Group headed by Premier Wen Jiabao with the intention of bringing greater coordination to energy policy. At the 2006 Central Economic Work Conference, which set the economic tasks for 2007, saving energy and resources was ranked third out of eight main tasks. At the 2005 Central Economic Work Conference, energy and resource saving had been ranked fourth out of eight priorities, but in 2004, energy and resource efficiency did not feature in the six main tasks set, and it was also absent in previous years([12]).

The increasing concern for efficiency is demonstrated by the fact that the government has set a target of a 20 percent reduction in the amount of energy required per unit of GDP by the end of this decade, although it is acknowledged in China that this will be difficult to achieve. Even with efforts to encourage more efficient consumption of energy and resources, the likely continued growth of the Chinese economy means that demand for imports will increase for the foreseeable future, and with it concerns for energy security. China has even gone so far as to propose greater cooperation among oil consuming nations to achieve common energy security.

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[10] International Economic Review, US International Trade Commission, Office of Economics, see: http://hotdocs.usitc.gov/docs/pubs/international_economic_review/pub3742.pdf.
[11] OPEC (2005), op. cit.
[12] Hu, Jintao (2006), Speech to the Central Economic Work Conference, 7 December 2006.

Although China has reserves of many minerals, domestic supply is unable to meet the growing demands of its industries. China is now the world's leading importer of iron ore, manganese, lead and chromium, and it is the second largest importer of copper ore. China's increasing demand for imports is expected to continue for the foreseeable future (Deutsche Bank 2006, KPMG 2006). Deutsche Bank has predicted that China's demand for metals imports will continue to grow, although at reduced rates compared with recent years. According to their forecasts, demand for iron ore, copper and manganese will all grow at about 10 percent a year until 2020. Latin America has an important role in this sector since Brazil is the world's leading exporter of iron ore, and Chile and Peru are the leading exporters of copper.

China has become a major force in the world market for timber resources. Its imports are driven by rapid growth of its production of a wide range of wood-consuming goods. Domestic supplies of timber are limited, and are reduced by restrictions on logging introduced to prevent environmental damage. China is now the world's largest producer of plywood, blockboard and MDF, the second largest producer of furniture and the third largest producer of particle board (Taylor R & Guo J 2006). In addition it is a major consumer of pulp for paper, which is in fact the most important timber resource export from Latin America to China. Latin America occupies a relatively minor position as a supplier of timber to China, with by far the largest supplier being Russia which supplies 70 percent of China's softwood imports. While domestic consumption of timber products has grown, much of the imports go to production of exports. China is now the largest exporter of wood products in the world, most of which go to markets in Europe and the US.

1.3 China's outward investment: recent trends

Investment is playing an increasing role in the economic relationship between China and Latin America. Throughout the 1990s, Chinese outward investment was low, and the flows were flat, even declining from the levels of the early part of the decade. Investment surged in 2001 and then fell again sharply the following year. Since 2002, there has been a dramatic increase in outward investment (see Figure 1). In 2005 outward investment was US$12.26 billion, an increase of 123 percent over the previous year. This rose again to US$16 billion in 2006. Despite this dramatic growth, outward investment from China remains small. China's outward investment is still far outweighed by inward investment flows, and investment from China accounts for only a small fraction of global FDI flows. Even with the large increase, in 2005 China accounted for only 1.68 percent of total global FDI flows.

In global terms, investment in resources constitutes a major part of China's outward investment, although it is not necessarily dominant. In 2005 China's outward investment in business services was US$4.94 billion, although this figure is to a large extent accounted for by Chinese enterprises investing in their own holding companies established abroad. Investment in manufacturing was US$2.28 billion and in wholesale and retail trade it was

US$2.26. Investment in natural resource exploitation was only US$1.68 billion (see Figure 2)([13]). By contrast, in 2004 when total outward investment was much lower, natural resource exploitation was the leading sector for investment with US$1.8 billion, followed by transport and warehousing, wholesale and retail trade and manufacturing.

These figures indicate that Chinese outward investment is evolving rapidly and not simply focused on minerals and energy. Aside from business services, the sector with the largest cumulative stock of investment at the end of 2005 was wholesale and retail trade with US$11.42 billion (see Figure 3). This is followed by resource exploitation with US$8.65 billion, transport and storage (US$7.08 billion) and manufacturing (US$5.77 billion).

It is difficult to assess precisely the flows of Chinese outward investment to Latin America. Chinese statistics show that Latin America became the primary destination for outward investment in 2005([14]). This was almost entirely the result of the use of Caribbean tax havens in the British Virgin Islands and the Cayman Islands([15]) by Chinese investors. In 2005 the Cayman Islands became the leading destination of Chinese outward investment, overtaking Hong Kong, which had previously consistently held that position (see Figure 4)([16]).

Leaving aside the tax havens of the Caribbean, official statistics indicate that Chinese investment flows to Latin America were only US$51.5 million in 2005, which is certainly an underestimate the real figure([17]). No country in Latin America figures in the leading destinations for Chinese investment (see Figure 5). The Chinese statistics show that Brazil was the biggest Latin American recipient of investment from China in 2005, and was also a major destination over the previous two years. In 2005 Panama and Ecuador also received significant investments. In 2004, the leading position was occupied by Mexico. Venezuela has consistently been one of the main destinations for Chinese investment in Latin America in recent years.

While investment in Latin America remains relatively small compared to other regions, China clearly has the intention to increase its involvement in the region, even if President Hu Jintao's widely reported 'promise' in 2004 that China would invest US$100 billion in Latin America within ten years was never actually made([18]). The target actually proposed by Hu in

[13] Of course, much of the investment in holding companies will actually be for business in other sectors, so these figures are unlikely to reflect the real level of investment by sector.
[14] Statistical Bulletin of China's Outward Foreign Investment 2005, Ministry of Commerce.
[15] For Chinese statistical purposes, the Caribbean region is included in Latin America. For this reason, since it includes the tax havens, much reporting of Chinese figures for investment in Latin America that does not take this into account gives an inaccurate impression of the real level of investment.
[16] As with the Cayman Islands and British Virgin Islands, much of the investment in Hong Kong is also believed to be destined for other parts of the world.
[17] Investment flows to the Caymans, British Virgin Isles and the Bahamas in 2005 were US$6.4 billion.
[18] If nothing else, the saga of the 'promise' to invest US$100 billion in Latin America in 10 years supposedly made by President Hu Jintao before the Brazilian Congress in 2004 illustrates the kind of misunderstandings that are likely to continue to bedevil the relations between China and Latin

2004 - doubling of investment in both directions - would still imply a significant increase in flows from China.

Although they are not formal targets, the Chinese government has set out the sectors in which investment is encouraged in a number of countries, including most of its main economic partners in Latin America([19]). Although resources figure strongly in the targeted sectors, they include a broad range of industries such as agriculture, manufacturing and services where the Chinese government believes there is potential for development of investment.

In the case of Brazil, the targeted sectors include forestry development, oil, iron ore, bauxite and copper mining, manufacture of electronics, metal and plastic products, and transport and construction. For Chile, favoured sectors include fisheries, copper mining, manufacturing of machinery and electronics and trade and distribution networks. In the case of Mexico, where resources do not figure greatly in bilateral trade, sectors in which Chinese companies are encouraged to invest include agriculture, textiles and clothing manufacturing, electronics manufacturing and technical services to the oil industry. Although the Chinese government may consider that there is potential for development of investment across a broad range of activities, in reality, to date most major investments in Latin America have been related to the exploitation of natural resources.

Given the needs of the Chinese economy, and government policy, it is probable that China's trade and outward investment in the Latin America region will continue to grow. China's rapidly growing imports from Latin America are driven by resources. Likewise, resources will continue to be a major focus for investment. Despite apparent efforts of the government to encourage diversification away from investment in resources, this sector is likely to continue to be the main focus of Chinese activity in Latin America.

America. What Hu Jintao actually said was, "Both sides [should] adopt positive measures, and, on the existing base, strive to increase bilateral trade 150% by 2010, so that it exceeds US$100 billion, and at the same time work hard to achieve a major development of investment in order to realize a doubling of the total amount, so that each side will become a more important investment destination of the other." See: Hu, Jintao (2006), speech to the Brazilian Congress, 12 November 2004. The target of increasing bilateral trade to US$100 billion a year by 2010 is one that has been referred to by other Chinese leaders.

[19] Ministry of Commerce and Ministry of Foreign Affairs (2004), *The Outward Investment Country and Sector Guidance Catalogue*, 8 July 2004; Ministry of Commerce and Ministry of Foreign Affairs (2005), *The Outward Investment Country and Sector Guidance Catalogue*, 12 May 2005. For details regarding Latin America, see Table 1. [Translated from Chinese]

2 China's Economic Diplomacy in Latin America

During the early part of China's economic reform process, Latin America did not feature strongly in Beijing's foreign policy, but since the 1990s, the region has increasingly been the focus of efforts to strengthen ties. In recent years Latin America has been the target of sustained diplomatic initiatives on the part of the PRC. Although not only focused on developing economic ties, this has been one of the main aims of China's diplomacy in the region. At the same time, Latin American governments have generally been eager to strengthen their ties with China, in large part because of perceived economic benefits. The frequency of visits by senior leaders has increased during the present decade([20]). In the last ten years, senior Chinese leaders have visited 19 countries in Latin America, many of them several times, and there have been 74 visits to China by heads of state, parliament or government from the region([21]).

2.1 China's diplomacy

The foundations on which China bases its diplomacy have changed little in many years. One of the main fundamentals has been the China's self-proclaimed policy of solidarity with the Third World enunciated at Bandung in 1955, and the principles encapsulated in the Declaration made by the nations attending the conference. In its dealings with countries from Africa and Latin America, China still frequently refers to these principles.

If some aspects of the rhetoric remain the same, the substance of China's policy altered. China's leaders and diplomats are still keen to emphasize the common interests which bind it to Latin America, but to a large extent the ideological rhetoric of Third World unity against imperialism has been replaced by the economic need for solidarity of developing countries. In a speech at the Brazilian Congress in 2006, Wu Bangguo, Chairman of the National People's Congress Standing Committee, argued that in a multipolar and globalised world undergoing rapid change, further strengthening of cooperation between China and Latin America meets the basic interests of both sides, aiding the common development of China and Latin America, strengthening South-South cooperation and advancing world peace and

[20] In 1990 President Yang Shangkun visited Latin America and in 1997 President Jiang Zemin also toured the region. In 2001 Jiang toured the region again, spending 13 days visiting Chile, Argentina, Brazil, Venezuela and Cuba. In 2004 President Hu Jintao visited Argentina, Brazil, Chile and Cuba in conjunction with attending the APEC summit in Santiago. Premier Wen Jiabao has also been in the region, and Vice President Zeng Qinghong visited Mexico, Venezuela, Peru, Trinidad and Tobago and Jamaica in 2005. President Hu also visited Mexico in 2005. In 2006, Wu Bangguo, Chairman of the National People's Congress Standing Committee toured the region. Many other senior officials from China in sectors from culture to military have also visited Latin America in recent years.

[21] Wu, Bangguo (2006), Speech at the Brazilian Congress, 31 August 2006. The speech is one of many similar pronouncements of Latin America-China relations, but it gives an authoritative recent statement of China's official position. Similar formulations can be found in: Cheng, Siwei (2005), Speech to the Organisation of American States, 6 December 2005 and Hu Jintao's speech to the Brazilian Congress in 2004.

development([22]). In his speech, Wu was keen to point out that China has no historical issues and no fundamental conflicts of interest with Latin America, and that it is willing to coordinate is position on major international and regional issues with Latin America in order to project the legitimate interests of developing nations, advance the democratization of international relations, and push forward the establishment of a fair and reasonable international political and economic order.

Such rhetoric is commonplace from Chinese leaders, and indicates the broad goals that they aim to achieve in developing relations with Latin America. Of more substance than general proclamations of common interests has been the reality of closer cooperation that has been pursued by both sides, especially in the economic sphere. Since the 1970s, when governments on mainland Latin American began to establish diplomatic ties with the People's Republic of China (PRC), China has developed increasingly close relations with all major countries in the region. China now has a broad array of bilateral arrangements for coordination and cooperation across a broad range of questions, including economic relations.

2.2 Major bilateral relationships

Chile became the first country in South America to recognize the PRC in 1970. China's relations with Chile have long been among the closest it has with Latin America. Since the establishment of diplomatic relations, the two countries have signed numerous agreements, of which their Free Trade Agreement (FTA) covering trade in goods is the only one of its kind between China and the region. Furthermore, China and Chile have recently opened discussions on expanding their FTA to cover services and investment.

Brazil is the largest economy in Latin America, and has been the focus of much attention from China, the two countries having established a strategic partnership as long ago as 1993. In recent years cooperation has increased significantly. In 2006 the two established a China-Brazil Economic and Trade Mixed Commission which has also created a subcommittee on energy and mineral resources, and they held the first meeting of the China-Brazil High-Level Committee on Coordination and Cooperation. Several Chinese leaders have visited Brazil in recent years. The attention has been reciprocal. In 2004 President Lula da Silva visited China at the head of a delegation that included over 400 businessmen. In the same year, the visit of Hu Jintao to Brazil brought a considerable boost to the bilateral relations. The most recent high-level Chinese visitor to Brazil was Wu Bangguo in 2006, when he was also eager to point out key areas for cooperation as being energy and mineral resources, infrastructure and construction, and high technology([23]).

[22] Wu, Bangguo (2006), ibid.
[23] Wu, Bangguo (2006), Speech to the Annual Meeting of the China-Brazil Entrepreneurs Committee, 2 September 2006.

Although China and Cuba established diplomatic relations in 1960, their relationship was frozen by the Sino-Soviet split as Cuba placed itself firmly in the Soviet orbit. Relations began to warm in the 1980s, and were normalized by mutual visits at the foreign minister level in 1989. Since then there have been numerous state-to-state and party-to-party exchanges by senior leaders. To some extent, China has replaced the former Soviet Union as a major underwriter of Cuban socialism, although it does not play the role to the same degree([24]). Since 1989 the two have signed a number of economic agreements, and their economic relationship has become closer more recently as trade and Chinese investment have increased. The visit to Cuba by President Hu Jintao in 2004 brought several agreements in the economic sphere, as well as a proposed US$500 million investment in a nickel plant.

Mexico established diplomatic relations with the PRC in 1972. During a visit by Premier Wen Jiabao in 2003, they agreed on a strategic partnership and in 2004 the two countries established a permanent bilateral commission to handle matters such as trade and the economy, science and technology, politics, education and culture. China has sought to develop ties and the two countries have signed a number of agreements related to economic cooperation. Nevertheless, relations have been strained by economic issues. Mexico, unlike most of China’s major trading partners in Latin America, has a significant trade deficit with China. At the same time China has been blamed for a large loss of jobs in Mexico in the processing industries that are losing out to competition from cheaper Chinese producers in the US market.

The importance of Venezuela’s oil reserves makes it a key country in Latin America from the perspective of China. Friendly relations with China predate the election of President Chavez, but ties have become closer since his election. Chavez has visited China four times, but the most recent visit by a Chinese leader to Venezuela was by President Jiang Zemin in 2001. As far back as the 1980s China and Venezuela had concluded agreements on scientific and technological cooperation in geology and mineral resources, and on petroleum prospecting and development. In 2001 they signed a Memorandum of Understanding on energy cooperation for the years 2001-2010, as well as a new agreement on cooperation in the area of geology and mineral resources. Venezuela and China also established a high-level mixed commission in 2001. President Chavez has shown himself eager to develop the relationship with China, especially with a view to increasing shipments of oil and reducing Venezuela’s reliance on the US market. Chavez is reported to have said in Beijing in December 2004, “We have been producing and exporting oil for more than 100 years. But these have been 100 years of domination by the United States. Now we are free, and place this oil at the disposal of the great Chinese fatherland.” During a visit to Beijing in 2006, Chavez reportedly described China as “a Great Wall against US imperialism”. The visit resulted in several agreements between the two countries.

[24] ‘Trade with China helps Cuba to move up a gear’, in *Financial Times*, 8 March 2006.

China and Argentina established diplomatic relations in 1972, but their relationship remained relatively dormant in the following decades. Since the 1990s there has been a considerable increase in exchanges and in 2004 China and Argentina established a strategic partnership. China established relations with Peru in 1971. During the 1980s there were already quite frequent exchanges and Peru was one of the first countries in Latin America to receive significant Chinese investment. China and Peru have now agreed to commence feasibility studies on the establishment of an FTA.

2.3 Regional institutions

While China has made considerable efforts to advance bilateral relations with governments in Latin America, it has also worked assiduously to establish relations with most of the important regional institutions, including those that are economic in focus. China has become a member of some regional institutions, and has obtained observer status as most others. The People's Republic acquired a permanent seat at the meeting table of the Economic Commission for Latin America and Caribbean. It has been an observer at the Latin American Integration Association since 1994 and is also an observer at the Organisation of American States and at the Latin-American Parliament (Parlatino). China and the Andean Community have established a political consultative mechanism in 2000. In 2005, Beijing and several Caribbean states founded a cooperation forum on trade and economic development.

China is an observer at the Inter-American Development Bank, one of the most important regional economic institutions. Nevertheless, this has been is one area where the steady progress of China's diplomacy in the region has received a set back. China has applied to become a member of the bank, but its application has met with opposition from some existing members. According to some analysts, there are concerns among some members that China would use its position in the bank to advance its own agenda, especially with a view to supporting projects that would further its commercial interests in the region (Jubany, F. and Poon, D. 2006).

Beijing actively seeks to improve its ties with regional organizations. In his speech at the Brazilian Congress in 2006, Wu Bangguo suggested strengthening dialogue and cooperation with the Rio Group, Mercosur (the Southern Common Market), and the Andean Community. China has also used other organizations such as Asia-Pacific Economic Cooperation (APEC) to expand economic relations with Latin America. APEC has 21 member economies, including Chile, Mexico and Peru, whose membership has helped integration of the trans-Pacific economy, not least with China. The main goal of APEC is to advance free and open trade and investment in the Asia-Pacific.

The World Trade Organisation (WTO) was the focus of Chinese diplomacy long before its accession and Latin American governments in general were supportive of China's accession. Subsequently, for China one of the key trade issues at the WTO has been the question of market economy status. This question, which China pursues for both practical and symbolic reasons, has been the target of sustained diplomatic campaign by the Chinese government. Most significant economies such as the US and EU have not accorded recognition, but there are 13 Latin American countries that now recognize China as a market economy([25]). More recently, China has supported the G22 governments in WTO discussions concerning the Doha Round.

2.4 Non-economic issues

While economics has been the main driver of Chinese diplomacy, it is not the only issue that concerns China in Latin America. Other diplomatic issues remain important, among them is the question of Taiwan, and recognition of the PRC as the sole legitimate government of China. Chile became the first country in South America to establish diplomatic relations with China in 1970 and all major countries in the region now have diplomatic relations with the PRC. Nevertheless, the diplomatic struggle over recognition between the PRC and Taiwan remains active in the region, especially in Central America and the Caribbean([26]), and certainly continues to be a factor in diplomacy. Dollar diplomacy, in which each side competes in providing aid, is one of the main means by which this struggle is played out. Clear support for the one-China policy of the PRC, remains an important diplomatic goal of Beijing. When China passed the Anti-Secession Law in 2005 it was criticized by many Western countries, but it was able to claim the support of a number of governments in Latin America.

Human rights issues have often played a crucial role in China's diplomacy, as the PRC has come under criticism from Western governments. This has especially been the case at the UN Human Rights Commission, where China has often been the subject of critical resolutions. Support of other governments has been important in fending off these motions. Latin American countries have on a number of occasions offered support to China in defeating critical motions at the UN Human Rights Commission. China makes clear that it places no conditionality on its relations with Latin America with regard to human rights questions. In general, China's emphasis on non-interference and sovereignty means that its diplomacy has not been focused on questions of human rights or democracy.

Also in other arenas, diplomatic relations have been close. China has offered support to Latin American countries such as Colombia and Peru in being elected as non-permanent members of the UN Security Council. However, on other occasions, there has been less support from China to Latin American governments' bids to get a permanent seat. Brazil has been disappointed in the diffident support provided by China. China rejected a reform proposal at the UN that would have given Brazil a permanent membership of the Security Council, although the main reason was undoubtedly that it would also have given one to Japan.

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[25] Wu, Bangguo (2006), Speech at the Brazilian Congress, 31 August 2006.

[26] Paraguay is the only country in South America that does not have diplomatic relations with the PRC.

2.5 China's challenges

The growth of China's role in the region has been welcomed by Latin American governments. However, despite the success of its approach to Latin America, China is not without challenges in the region. Early enthusiasm has been replaced by a more mixed response as much of the initial euphoria has worn off([27]). As in every other part of the world, there are constituencies that benefit from Chinese involvement, but there are also those that see their interests threatened by China. Conflicting interests in Latin American countries are likely to create continued domestic pressures that will translate into complications for relations with China. This has in some cases resulted in pressure on governments to adopt policies, such as restricting imports from China, that counter perceived threats. China has for instance been the subject of safeguard measures in Brazil to restrict imports such as toys and footwear. In 2005 Argentina also imposed licencing requirements on toys and footwear from China. Peru, Colombia, Chile, Brazil and Argentina have all taken special safeguard measures against Chinese textiles and China is frequently the target of anti-dumping measures by Latin American governments.

It comes as no surprise that China's increasing activity in Latin America has provoked reaction in the United States, where there have been several commentaries from government officials as well as many from academic and media figures([28]). For most commentators in the US, the key issue is the potential strategic threat posed by China's activity in Latin America. In contrast to some public commentaries, the Bush administration, while expressing some concerns, has not taken an alarmist view([29]). In order to avoid potential conflicts of interest, the US and Chinese government have taken steps to consult on their policies in Latin America([30]). Despite the considerable expansion in its influence, China's approach to Latin America has not been to overtly undermine the status quo. This applies both to the region internally, and to its relations with the rest of the world. In general, China has not sought to confront the US. The anti-American rhetoric that President Chavez has engaged in, even if it is mixed with lavish praise for China, is more likely to be viewed in Beijing with nervousness

[27] 'Falling Out of Love: Brazil's Affair with China is Going Off the Boil', in *The Economist*, 4 August 2005; 'Brazil Regrets its China Affair', in the *Wall Street Journal*, 12 October 2005.

[28] Johnson, S. (2005), *Balancing China's Growing Influence in Latin America*, The Heritage Foundation, Washington; Dumbaugh, K. et al. (2005), *China's Growing Interest in Latin America*, Congressional Research Service, Washington; Ellis, R. (2005), *US National Security Implications of Chinese Involvement in Latin America*, US Army War College, Carlisle, Pennsylvania; Loser, C. (2005), *China's Rising Economic Presence in Latin America*, Testimony for the US China Review Commission, 21 July 2005.

[29] Noriega, R. (2005), *China's Influence in the Western Hemisphere*, Assistant Secretary of State for Western Hemisphere Affairs before the House Subcommittee on the Western Hemisphere, 6 April 2005.

Shapiro, C. (2005), *The Role of China in Latin America: Diplomatic, Political, and Economic Consequences*, Principal Deputy Assistant Secretary of State for Western Hemisphere Affairs, Before the Senate Subcommittee on the Western Hemisphere, Peace Corps, and Narcotic Affairs, 20 September 2005

[30] 'China-US to Launch Latin America Dialogue', in *China Daily*, 22 March 2006

than with pleasure. Indeed, China tends to pass in silence over some his more vivid rhetoric([31]).

At the first sight, it might appear that the recent advent of 'left-wing' governments in several Latin American countries offers an opening to China. Though, it is unclear that Latin America's recent lurch to the left, while distancing some governments from the United States, offers any concrete advantage to China. Ideological ties today are of no real consequence. The emphasis of leftists on national control of resources and their exploitation poses an element of risk for China's commercial interests. As has been pointed out in China, the threat of expropriation of Chinese assets by nationalization is the same as for any other foreign investor. The same goes for the idea that an emerging Chinese power might enable the Latin American countries to lessen their uncomfortable economic and, to a lesser extent, political reliance on the United States. Although the politically *multipolarizing* world and the emerging polycentric global economy is causing a reorientation of the Latin American diplomatic agendas; local elites rather prefer to play off all partners against each other, rather than turning solely towards China .

China will continue to advance its relations with Latin America and the goals and methods are unlikely to change significantly. Changing circumstances and perceptions of China in Latin America will require that Beijing continues to show flexibility in its approach to the region. In order to sustain its growing interests in the region, China will have to continue to convince Latin American governments and increasingly other actors such as business groups and social actors that they can continue to gain from the relationship with China.

[31] For analysis of the difficulties Venezuela presents for China see: Corrales, J. (2005) *Looking For an Alternative Market for Venezuelan Oil: Will China Help?*, Amherst College, Amherst, US, 15 September 2005.

3 China's Latin America Trade and Investment: A Successful Strategy?

Latin America has become an important supplier of raw materials and also a target for investment by Chinese companies. Latin America is a major producer of a number of resources that are essential to China's economic development, notably in certain agricultural commodities such as soy beans and meat([32]), and minerals like iron ore, copper and nickel. Although Latin America has significant energy resources, it remains a relatively minor supplier to China.

Both China and Latin American governments have actively sought to develop bilateral trade and investment relations. The expansion of the relationship is evident from the bilateral trade. Although China's imports from Latin America have tended to outstrip exports to the region, this pattern changed in 2006. According to Chinese statistics, in 2006 Chinese exports to Latin America grew by 52.1 percent to reach US$36 billion, while imports from the region grew by only 27.6 percent to US$34.2 billion([33]). Brazil is by far the largest trade partner of China in Latin America. It is the largest exporter to China, and also a major importer. Brazil's exports to China rose 29.3 percent to US$12.9 billion in 2006, but its imports from China rose 52.9 percent to US$7.4 billion. Mexico, China's second largest trade partner in Latin America, saw its imports from China rise 59.3 percent to US$8.8 billion in 2006, while its exports rose only 17.1 percent to US$2.6 billion. These two countries together accounted for 45.2 percent of Latin America's trade with China in 2006.

Even though Latin America's trade balance with China turned to a deficit in 2006, there are sharp divergences in performance. Those countries that supply resources to China continue to benefit from growing demand and enjoy trade surpluses. In addition to Brazil, Argentina, Chile, Peru and Venezuela all enjoyed surpluses with China in 2006. Mexico, which exports very little in the way of resources to China, runs a growing trade deficit. Panama, which serves as an entrepot for Chinese trade in the region, also runs a significant trade deficit with China.

Although their bilateral trade is growing rapidly, viewed from the point of view of their overall trade, Latin America is not a significant trade partner of China, nor is China very important to Latin America. Nevertheless, China imports of certain resources important to its economic development from Latin America. These imports are also important to a number of Latin American countries, which have enjoyed significant economic benefits as a result of their growth.

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[32] Brazil and Argentina are the world's second and third largest producers of soy bean after the US, and are major suppliers to China. They also export increasing amounts of meat to China. Peru is a major exporter of fisheries products to China.

[33] Ministry of Commerce (2007), http://english.mofcom.gov.cn/aarticle/statistic/ie/200702/20070204358118.html

3.1 Energy

With proven crude oil reserves of 118 billion barrels([34]) in theory Latin America can provide an excellent source of energy supply for China. Latin America currently provides a small but growing percentage of China's energy needs. In 2005, Latin America accounted for only 3.4 percent of China's imports of crude oil (see Figure 6)([35]). With proven conventional crude reserves of 80 billion barrels, Venezuela has by far the largest reserves in Latin America and it is the region's biggest supplier of crude oil to China, exporting 1.9 million tons, or 1.5 percent of China's total imports of 126.8 million tons, in 2005([36]). Brazil, China's second largest supplier in Latin America, provided 1.3 million tones, or only 1 percent of its imports. Argentina was the only other exporter of crude oil of any significance to China, providing 0.7 percent of Chinese imports in 2005.

It is only very recently that Latin America has attained even this level of importance in China's sourcing of crude oil. In the years from 2000 to 2002, Latin America as a region accounted for less than 0.3 percent of China's crude imports. Since then the increase has been quite rapid both in the absolute amount and the share of China's imports, rising to 1 percent in 2003 and 2.7 percent in 2005. In addition to crude oil, Venezuela also accounted for 2.3 percent of China's imports of petroleum products in 2005. Venezuela's President Chavez has pledged to increase exports to China. Nevertheless, there are difficulties with this, not least the fact that Venezuela's conventional oil production has been disrupted, and its crude oil is of a very different type from that which is normally handled by refineries in China. Transportation of Venezuelan crude to China also presents a difficult logistical problem. Although President Chavez had previously said Venezuela would export 300,000 bpd to China by the end of 2006, in August last year Venezuela's oil minister forecast that exports would only reach 200,000bpd by the end of the year.

Viewed from the point of view of some of its Latin American suppliers, China is an important market. In 2005, China accounted for 13 percent of Brazil's crude exports. The share of China in Brazil's exports has varied greatly over recent years. In 2000, for instance, China's share of Brazil's crude oil exports was 23.6 percent, but in 2002 China imported no oil from Brazil. Even for those countries for which China is a significant market, it is normally not the main buyer. In 2005, the US was the chief export destination for crude from Brazil, accounting for 16.6 percent of exports. In 2005, 8.1 percent of Argentina's crude exports went to China, compared with 48.4 percent to Chile and 39.3 percent to the US. Despite Venezuela's increasing ties with China and the rhetoric of President Chavez, the US

[34] This compares with 742 billion barrels in the Middle East and 117 billion barrels in Africa. OPEC (2005)

[35] Comtrade. This is roughly equivalent to what China imports from a single supplier such as Indonesia.

[36] The significance of Venezuela in terms of quantity is much greater than in value terms, since Venezuelan heavy crude is in general priced significantly lower than light sweet crudes. Hence, Venezuela accounted for only 0.8% of China's imports of crude oil by value.

continues to be the dominant market for its crude exports, taking over 45 percent of Venezuela's exports.

3.1.1 Biofuels

In theory there is great potential for cooperation between Brazil and China in the field of biofuels. Brazil has gained long experience in the use of ethanol, and China is one of the fastest growing ethanol producers in the world. The Chinese government has shown increasing interest in the use of ethanol and other biofuels for precisely the same reasons as it has sought to secure supplies of oil in other parts of the world.

China produced 1.02 million tons of ethanol in 2005, compared with 16.9 million tons in Brazil and 15.1 million tons in the US. But it is planned that China's production will reach 6 million tons in 2010 and 15 million tons in 2020. Currently in China nine provinces - Heilongjiang, Jilin, Liaoning, Jiangsu, Shandong, Henan, Anhui, Hubei and Hebei - have fuel mixed with 10 per cent ethanol available in petrol stations

Brazil has signed a number of agreements with other countries on cooperation in the biofuel sector. In March, Brazil and the US signed a major agreement on cooperation on biofuels. Both Brazil and China are members of the International Biofuels Forum which also includes the US, India, South Africa and the EU. The forum established in March 2007 aims to create a world market to boost efficiency of production, distribution and use of biofuels through talks between producers and consumers. Despite this, there has been no agreement in this sector signed between China and Brazil. While China and Brazil have signed agreements on energy cooperation, these do not include biofuels.

China recognizes the lead which Brazil has in ethanol use and has sent numerous missions to study the ethanol sector in Brazil, but so far little has emerged in the way of practical cooperation. One of the main reasons may be that while in Brazil production of ethanol is based on sugar, in China it is corn based. This may change, in China constraints on the supply of corn have brought an effort to diversify the feedstock used. However, sugar is likely to remain only a limited contributor. In 2006 China National Cereals, Oils and Foodstuffs Corporation (COFCO) announced investments of over US$1 billion in the ethanol sector, with proposed plants using cassava root and sweet potato as well as corn as their feedstock. Apart from technology, where China may have more to learn from Brazil is in the formulation and application of policies to encourage development of the biofuels sector.

3.2 Mining

Latin America is considerably more significant as a supplier of minerals of great importance to the Chinese economy than as a source of oil.

China's steel sector has been expanding rapidly, both to supply domestic needs and also for exports of steel products. The sector increasingly relies on imports of iron ore. In 2005 China imported 275 million tons of iron ore, of which 57.8 million tones, or 19.9 percent, came from Brazil, the world's largest exporter of iron ore (see Figure 7). Peru, Venezuela, Chile and Mexico were minor suppliers, accounting for another 3.3 percent of China's imports of iron ore. Imports of iron ore have been a major contributor to the growth of Brazil's exports to China. In 2000 China imported 70 million tons of iron ore, of which 14.8 million tons came from Brazil. The value of Brazil's iron ore exports to China rose from US$437.6 million in 2000 to US$3.9 billion in 2005.

Latin America is extremely important as a source of copper, another material that is of vital importance to many industries in China. In 2005, China's imported 1.6 million tons of copper ore from Chile, 40.1 percent of its total imports of 4.1 million tons. A further 647,000 tons, 15.9 percent of China's imports, came from Peru. Argentina, Mexico and Brazil were also minor exporters of copper ore to China, so that Latin America accounted for 60.5 percent of China's copper ore imports in 2005 (see Figure 8). Copper ore exports have contributed significantly to growth of trade with China. In 2000 China imported 616,000 tons of copper ore from Chile out of total imports of 1.8 million tons. The value of copper ore imports from Chile rose from US$310.7 million in 2000 to US$1.6 billion in 2005. In the case of Peru, the value of copper ore exports to China rose from US$33 million in 2000 to US$647 million in 2005.

China also imports significant amounts of copper metal from Latin America. In 2005, China imported 613,000 tons of copper metal from Chile with a value of US$2.2 billion, 24.2 percent by volume of the People's Republic's total copper metal imports. China has made efforts to secure long term stability of copper supplies from Chile. In 2006 China Minmetals Corporation and Nacional del Cobre de Chile (Codelco) signed a joint venture agreement to mine copper. The total investment is projected to be US$2 billion, with US$550 million in the first phase. Codelco will provide 836,250 tons of copper over the next 15 years to China Minmetals Non-Ferrous Metals Co, which is controlled China Minmetals.

Latin America is a minor exporter of bauxite to China (see Figure 9). Brazil has been the largest supplier in Latin America, and in 2005, exported 154,000 tons of aluminium ore to China. Cuba is a supplier of nickel ore to China (see Figure 10).

3.3 Timber

China's demand for timber has increased enormously. The country's imports of wood and pulp are increasingly used in the production of exports, as its exports of processed wood products have grown rapidly in recent years([37]). However, Latin America plays only a marginal role in China's imports of unworked timber resources. China's imports of rough wood are dominated by Russia which provides 65 percent by volume of China's imports. Latin America had no significant role in this sector. The role of Latin America is more significant in simply worked and processed wood materials. In 2005, Brazil provided 8.9 percent of China's imports of simply worked wood, while Chile provided another 2.5 percent. Other Latin American countries also supplied minor amounts of wood. Wood pulp is the timber resource sector in which Latin America has greatest significance in China's imports. In value terms, wood pulp exports from Brazil and Chile to China are much greater than exports of wood. In 2005 Chile exported wood pulp and waste worth US$383 million to China, 6.2 percent of total imports, while Brazil also exported US$366 million of wood pulp and waste. China also imports small amounts of products such as wood veneers and plywood from Latin America.

3.4 Investment

Measured by the growth of imports of certain critical materials, China has been successful in securing supplies of crucial resources from Latin America. China's involvement in Latin America extends beyond merely importing commodities and investment has been a critical part of its strategy to access resources. It has become clear that investment in resource production alone is insufficient. In order to ensure supplies, China is increasingly looking to invest in processing and infrastructure that will help to deliver the resources it requires. This necessity is likely to drive greater involvement by China in Latin American economies.

Not surprisingly, given its huge crude reserves, Venezuela has been a focal point of China's interest in Latin America. China's efforts to develop economic relations with Venezuela in the energy sector date back more than a decade. In June 1997, China Petroleum and Natural Gas Corporation won a tender with a bid of $358 million for the right to drill in the oil fields of Caracoles and the North Intercampo. The company took over the management of two oil fields and put them into operation in 1998. At the time, this was the largest investment by China in Latin America.

In December 2004 during a visit by President Chavez to China, and in January 2005 during a visit by Zeng Qinghong to Venezuela, five agreements on energy cooperation were signed. Among these, China Oil and the Venezuela Oil Corp signed an agreement to establish a joint venture with US$350 million investment to develop 14 oil wells in the east of Venezuela. The Zumaro region is believed to have oil reserves of 400 million barrels and 3,000 million cubic metres of gas reserves. China also agreed to provide a US$4 billion loan to support energy and other projects in Venezuela. Under the agreements, China was scheduled to import

[37] It is worth noting that China imported 17 million tons of waste paper in 2005, making it by far the largest recycler of waste paper in the world. In 2005 China accounted for 42.8% by value of world imports of waste paper.

100,000 barrels a day of crude oil from Venezuela, 3 million tons a year of fuel oil and 1.8 million tons of Orimulsion oil, a heavy emulsified type of oil.

Despite efforts from both sides to boost shipments to China, there have been setbacks. Although Venezuela has the largest oil reserves in Latin America, their usefulness for China is limited by the fact that they are mostly heavy sour oil. Refineries in China are mostly equipped to deal with light sweet crude from its own reserves, or from the Middle East and Africa, and transport of crude oil from Venezuela is costly.

China has shown considerable interest in development of the use Orimulsion. Venezuela has invested efforts in the exploitation of these reserves, and has attempted to commercialize Orimulsion. In 2000 China Petroleum and Natural Gas Corporation and Venezuela Petroleum Corporation signed a memorandum of understanding on joint production of Orimulsion. China has constructed a power plant at Zhanjiang in Guangdong specifically to use type of fuel and shipping to China began in 2006. But in late 2006 the government of Venezuela ordered the ending of production of Orimulsion on the grounds that it was uncommercial at the same moment as the first generator at the power plant in Zhanjiang built to use the fuel was about to come into operation.

Chinese companies have also been active in other countries in the region. In September 2005, Sinopec and Petro China combined forces to form Andes Petroleum, which subsequently acquired the oil and pipeline interests in Ecuador of EnCana Corp of Canada for US$1.42 billion. This included the full ownership of Tarapoa Block producing about 38,000 barrels per day, and a 40 percent economic interest in Block 15 with 30,000 barrels per day, and stakes on other blocks with much smaller output, as well as a 36.3 percent interest in the OCP pipeline with a capacity of 450,000 barrels per day. This investment has proved problematic for the Chinese companies. In 2006 the government of Ecuador seized the assets of Occidental Petroleum Corp, which had previously sold the interest in Block 15 to EnCana. The government has claimed that the sale was illegal, puting in question the subsequent purchase of the interest by Andes Petroleum, which has sought restitution from EnCana.

There have been a number of other agreements concerning Chinese involvement in the energy resource sector in Latin America. In 2004, China National Petroleum Corporation acquired 45 percent of PlusPetrol Norte the main crude oil producer in Peru from the Argentinian company PlusPetrol. PlusPetro retains a 55 percent stake in the company, and the two reportedly plan to bid jointly for tenders in other countries. In January 2005 during a visit of Vice-president Zeng Qinghong to Peru, Petro China signed a memorandum with the Peruvian Energy Ministry covering the strengthening of cooperation between the two countries on exploration for gas and oil refining and petrochemicals sectors. In December 2005, Peru signed a US$8.3 million contract with Petro China on prospecting for oil and natural gas in a 1.5 million hectare area of south east Peru.

In 2006 Sinopec and ONGC of India joined forces to acquire a 50 percent stake in Omimex de Colombia, a subsidiary of a US-based company, for US$800 million. Omimex operations in Colombia include onshore production and exploration areas with gross proved reserves of more than 300 million barrels of oil and current production at approximately 20,000 barrels of oil per day.

In 2004, during the visit of President Lula to Beijing, Petrobras and Sinopec signed a strategic cooperation agreement, covering sales, prospecting, production, refining, pipelines and engineering services. During the Hu Jintao stay in Brazil in December 2004, both parties closed energy deals worth US$10 billion. Among them, Sinopec inked an agreement with Petrobras for US$130 million investment in a 2,000 km natural gas pipeline.

In March 2004, Sinopec signed a memorandum with the Cuba Oil Corp for prospecting in four oilfields. China has also made general commitments to investment in Argentina, but so far no projects in the oil sector have been finalised.

Although these agreements increase China's involvement in the energy sector, there have been other setbacks. In 2004, the Chinese company Shengli Oilfield International Oil Development Investment signed initial agreements with Yacimientos Petroliferos Fascales Bolivianos (YPFB), the state oil company in Bolivia. The investments in Bolivia were subsequently halted by Shengli as a result of the prospective passage of a new hydrocarbons law. In 2006, however, the Bolivian government announced that it had reopened contact with Shengli to discuss the possibility of exploitation of oil in the north of La Paz state.

Despite China's efforts to gain an investment foothold in the energy sector in Latin America, its involvement remains limited. Most of the investments to which it has been committed are small, providing only small amounts of crude oil. The energy sector in Latin America continues to be dominated either by the domestic companies or by those from traditional partner countries in North America and Europe. Investments in the region have only a small impact on China's energy supplies. According to one study, total equity oil imported by China in 2006 was only about 320,000 bpd out of total imports of 3.6 million bpd([38]). China's investments in the oil sector abroad are still minor compared with its purchases on the international oil market.

Apart from energy, Chinese companies have made a number of major investments in the minerals sector. Peru was one of the earliest recipients of significant investment from China when in 1992 Capital Iron and Steel Corporation won a bid for the Peruvian Iron Mine Corporation for US$120 million, and established the Peru Iron Mine Co. China has not only sought to invest in mining to secure iron ore supplies. In 2004 China's Baosteel announced a project to establish a steel plant in Brazil in cooperation with Companhia Vale do Rio Doce

[38] Eurasia Group (2006), *China's Overseas Investments in Oil and Gas Production*, report prepared for the US-China Economic and Security Review Commission, 16 October 2006.

(CVRD), the world's largest iron ore producer. Annual production would be 3.7 to 3.8 million tones of steel. Also in 2004, CVRD and the Aluminium Corporation of China (Chalco) signed an agreement for investment in an alumina refinery in Brazil with a capacity of 1.8 million tons per year in the initial phase, and a final capacity of 7.2 million tons per year. During Hu Jintao's visit to Cuba in 2004, an agreement was signed for US$500 million investment in a new nickel plant.

Infrastructure has become a focus of China's economic policy in Latin America. During his trip to the region in 2006, Wu Bangguo was eager to push for China's involvement in infrastructure development. In his public speeches he listed at length the enormous investments which China has made in its own infrastructure, by implication emphasizing China's capacity to undertake such projects, but also making the contrast with the general failure of Latin American governments to do the same. In Chile, for instance, Wu called for deepening of cooperation concerning infrastructure. Here Wu highlighted the fact that following the development of bilateral economic relations, the demands on infrastructure were increasing, and that it is in the interest of both sides to make improvements([39]). Indeed, poor infrastructure has frequently been identified as one of the main impediments to improving Latin America's export performance in general([40]).

China has already committed to several infrastructure projects in Latin America, and has been associated directly or indirectly in many others. Investment in infrastructure is seen as particularly crucial in the case of Venezuela. Despite growing oil exports to China and ambitious plans for the future, the cost of transport is a major barrier to China being able to effectively access Venezuela's reserves. A number of measures have been proposed or are being implemented.

Presidents Chavez of Venezuela and Uribe of Colombia have discussed a proposal to build an oil pipeline that would connect Maracaibo in Venezuela to Choco province on Colombia's Pacific coast, in part with the intention of facilitating Venezuelan oil exports to China. A gas pipeline between the two countries is also under construction, with the intention that it will link Venezuela to the Pacific coast. The possibility of other pipelines and even development of a port on the Colombian coast has been discussed.

Venezuela is also exploring projects with Panama to improve transport links with China. It has been suggested either that a new pipeline across the isthmus be constructed as the existing pipeline pumps oil from east to west, or that the Panama Canal be enlarged to accommodate large tankers carrying oil to China.. In addition to such projects, PDVSA has also contracted to buy 18 oil tankers from China at a cost of US$1.3 billion. The tankers will be used to transport Venezuelan oil to China, and other markets in Asia.

[39] Wu, Bangguo (2006), Speech to the China-Chile Economic and Trade Cooperation, 6 September 2006.
[40] Fay, M. and Morrison, M. (2005), *Infrastructure in Latin America & the Caribbean: Recent Developments and Key Challenges*, World Bank, Washington, US, August 2005.

China has been involved in other infrastructure projects in the energy sector in Latin America. In September 2004, China signed an agreement with Brazil for a 1,000 km gas pipeline running from Macaé in Rio de Janeiro state to Salvador in Bahia state. The pipeline will be constructed by Petrobras and Sinopec, with financing by the China Exim Bank and the Brazilian Development Bank (BNDES), with China providing US$1.17 billion of the US$1.3 billion estimated cost. Brazil is also reported to have presented numerous other projects in which it is seeking participation from China, including investment in roads and railways as well as energy and the Brazilian government has made it clear that in principle it welcomes China's investment in infrastructure.

Despite the eagerness of the Chinese government to promote its role in infrastructure development in Latin America, China has made only limited advances in this sector, unlike in some other parts of the world. In 2004, China undertook contracted projects with a value of only US$807 million in the whole of Latin America and the Caribbean, an increase from US$648 million in 2003. Labour service contracts were US$65 million in 2004, compared with US$60 million in 2003. This is much lower than in other regions. China had construction contracts worth US$3.8 billion and labour service contracts worth US$182 million in Africa in 2004([41]). Overall, in Latin America China's involvement in the construction sector is low. Mexico was the main location for China's construction contracts in 2004 with US$164 million, followed by Peru with US$92 million, Cuba with US$75 million and Brazil with US$64 milllion([42]).

In most cases in Latin America, while China has provided financing there has been little actual Chinese investment in infrastructure. China's involvement in infrastructure and plant construction in many developing economies is often associated with concessionary finance. The China Exim Bank plays an extremely important role in investment abroad by Chinese enterprises. Financing of projects related to the go-global policy is a rapidly growing part of the bank's business. For instance, in 2004 the China Exim Bank approved export seller's credit of RMB17.96 billion for go-global projects such as construction projects and outward investment([43]). This accounted for 24.6 percent of new approvals in 2004. In 2005 RMB31.02 billion export seller's credit was approved for foreign construction contracts and outward investment projects, accounting for 33 percent of new approvals.

[41] China Statistical Yearbook 2005. Total overseas construction contracts in 2004 were US$17.5 billion, of which US$8.1 billion were in Asia. Total labour service contracts were US$3.7 billion, with US$2.3 billion in Asia. In 2004 China had only 33 design consultancy projects in Latin America compared with 2,472 in Africa and 6,862 in Asia.

[42] This compares for instance with construction contracts of US$2.5 billion in Hong Kong, US$748 million in Sudan, US$488 million in Nigeria and US$229 million in Botswana.

[43] China Exim Bank (2004), *Annual Report 2004*, Exim Bank, Beijing.

In 2004 there was also a huge increase in export buyer's credit offered by the China Exim Bank([44]) and a further sharp increase in export buyer's credits in 2005. The bank is also the sole lender of Chinese government concessionary loans. The China Exim Bank is clear about its role, noting in its 2004 Annual Report that concessionary loans not only strongly supported the implementation of the national strategy of diversifying export markets and "going global", but also proved quite efficient in boosting economic and social development of the recipient countries while strengthening friendly ties and economic and trade cooperation between China and other developing countries"([45]).

Very often, the provision of concessionary finance has been associated with the condition that project inputs including design, labour and machinery must be sourced from China. Latin America has in general been resistant to such deals, which remain relatively rare.

Major projects supported by the bank in Latin America include a US$43.3 million export buyer's credit in 2004 to provide financial support to road building in Suriname by Dalian International Cooperation Group. The bank also provided export buyer's credit for the US$1.3 billion Gasene Gas Pipline Project signed in November 2004 between Sinopec, BNDES and Petrobraz. Minmetals, which has been active in Latin America, is a major beneficiary, with the China Exim Bank announcing in 2005 that it would grant loans of US$2 billion to the company in the following three years.

Despite a number of major investment projects, the overall level of China;s direct involvement in Latin America remains small. While China's involvement in certain sectors, such as copper in Chile, is very significant, in others the role is much more limited. China faces competition both from local and other foreign companies and is also confronted with the same risks and restrictions that other actors in Latin America face.

Looked at from the point of view of China's resource needs, the results are also mixed. Latin America is important to China in certain sectors, such as copper. But in others, such as energy, Latin America remains a relatively minor factor. Those investments that have been made have so far only made a small contribution to China's resource needs. Furthermore, China will continue to face difficulties in realizing the potential it believes exists in Latin America.

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[44] In 2004 the bank signed export buyer's credit loan agreements with a total amount of US$1.8 billion and actual disbursements were US$650 million, increases of 180% and 140% over 2003 respectively. China Exim Bank (2004), op. cit. In 2005 export buyer's credits for US$4.37 billion were signed and actual disbursements were US$1.26 billion, increases of 143.4% and 94.9% respectively. China Exim Bank (2005), *Annual Report 2005*, Exim Bank, Beijing.

[45] Evan, P. and Downs. E. (2006), *Untangling China's Quest for Oil Through State-Backed Financial Deals*, Policy Brief N° 154, Brookings Institution, Washington.

4 Impact on Latin America's Development

4.1. Economic consequences

In analysing the impact of the growing Chinese demand for energy and resources from Latin America, it is important to consider not only the direct effects as manifested in increased exports from the region to China but also the indirect impacts. Because of its size and rapid growth, China has had a significant impact on international prices for those commodities of which it is a significant net importer. This has had a positive impact on the terms of trade of countries which are net exporters of these commodities, whether they export directly to China or not, while it has negatively affected those countries which are net importers of the same products as China([46]).

One indicator of the direct impact of China on the Latin American economies is the evolution of the balance of trade. Figure 11 shows that whereas in the first half of the 1990s trade between China and Latin America was at a low level and roughly balanced, between 1997 and 2002, China has a trade surplus with the region. However the rapid growth of imports between 2002 and 2005 reversed this tendency, although as pointed out above, after three years in deficit China's trade with Latin America returned to surplus again in 2006.

The overall trade deficit of China with Latin America hides considerable differences between countries in the region. Figure 12 shows that in 2005 the countries which were identified as the major suppliers of energy and resource exports to China have significant trade surpluses, whereas all the other Latin American countries (apart from Costa Rica) have bilateral deficits.

The main indirect impact of China on Latin America has been through rising international prices for primary commodities, particularly fuels and metals. Oil prices increased by 157 percent between 2002 and 2006 while the IMF metals index rose even more, by 180 percent (IMF, 2006). While it is difficult to estimate the precise extent to which these price increases have been the result of the growth of demand in China, there is general agreement that this has been a major factor (UNCTAD, 2005, Ch.II; IMF, 2006)([47]). China's growth of demand for lead and zinc between 2002 and 2005 was greater than the total increase in world consumption and it accounted for almost all the increase in world demand for nickel and tin, almost half the increase for aluminium, copper and steel, and almost a third of increased demand for oil (IMF, 2006, Table 3).

[46] Although not directly related to China's demand for energy and resources, it should also be noted that the increased supply of manufactured goods, particularly (but not exclusively) labour-intensive manufactures, has also had an effect on international prices. This has reinforced the tendency for the terms of trade of primary commodity exporters to improve, while those of countries which are importers of primary commodities and which export manufactured goods that compete with China on the world market, have tended to deteriorate.

[47] Estimates of the contribution of Chinese demand to the increased price of oil between 1995 and 2004 vary between 12% and 37% (Castro, 2007).

The strong demand for oil and metals has had differential effects on the terms of trade of the Latin American countries (see Figure 13). Between 2002 and 2005, the terms of trade improved substantially for mineral exporters such as Bolivia, Chile and Peru and oil exporters such as Venezuela, Colombia and Ecuador. The more industrialized Latin American countries, Brazil, Mexico and Argentina, which although significant exporters of primary products also export manufactured goods, saw more modest improvements in the terms of trade. On the other hand the Central American countries and the Dominican Republic and Haiti, which are exporters of manufactured goods and depend on imports of energy and other natural resources, saw their terms of trade deteriorate([48]).

Thus the growing Chinese demand for Latin American energy and resources has had a clear positive economic impact on Argentina, Brazil, Chile, Peru and Venezuela which has contributed to significant growth, at least in the short-term. However in terms of development, questions have been raised about the sustainability of this growth. Latin American countries have experienced commodity booms in the past, but these have proved short-lived and when international prices fall, the region's economic performance deteriorates. Does the emergence of China represent an entirely new global situation in which high (and rising) commodity prices are here to stay, or is it just a reflection of a temporary disequilibrium in commodity markets as supply has not caught up with the sudden increase in demand brought about by the emergence of China? There are already worrying signs for commodity exporters that the prices of their exports are beginning to soften. The IMF projects significant falls in metal prices between now and 2010 as new sources of supply come on stream (IMF, 2006, Ch.5).

A second concern in terms of long-run development in Latin America is the possible impact of the growth of China on the manufacturing sector in the region (Mesquita Moreira, 2007). High commodity prices may have "Dutch Disease" type effects on other sectors of the economy as resources are pulled in to primary production and there is upward pressure on the exchange rate. This is particularly acute for the manufacturing sector which faces increased competition from Chinese produced goods both in the domestic market and in export markets (in the case of those countries which have developed significant manufactured exports).

Development is a broader concept than simply economic growth and must also include a recognition of the impacts on poverty in the countries of the region. It is unlikely that the growth of energy and resource exports to China will make a significant contribution to poverty reduction([49]). The exports involved tend to be capital-intensive and therefore

[48] Part of this deterioration can be attributed to the fall in the prices of manufactured goods which they export as a result of increased Chinese competition, although the major factor has been the oil price rise.
[49] For a more detailed discussion of the effects on poverty reduction, see: Jenkins and Edwards (2004).

generate limited additional employment. The main potential channel through which poverty might be affected is through the impact on government revenues. This is particularly significant where some of the exports are in the hands of state companies as in the case of CODELCO in Chile. In contrast where exports are controlled by multinationals, as in Peru, the government finds it much more difficult to capture a significant part of the increased export revenue (Gottshalk and Prates, 2005). Even if part of the increased revenue from commodity exports is captured by the state, there is a further question of the extent to which this is used for poverty reduction which will of course depend on the government of the country concerned.

4.2 Political consequences

Have the increased economic links between Latin America and China over the past decade led to closer political relations and if so, what have been the political consequences of these links? There has undoubtedly been increased high-level political contact between China and the major Latin American countries reflected in the visits by Chinese president Jiang Zemin to Latin America in 2001 and by his successor Hu Jintao in 2004 and 2005 and in visits to China by a number of Latin American leaders over the last few years. However these visits have largely focussed on developing the economic links between China and the countries of the region and have had only a limited political impact.

China's policy towards Latin America has in recent years been pragmatic and non-ideological. The Chinese government has maintained good relations with Latin American governments of both the left and the right since diplomatic relations were established, mainly in the 1970s (Dominguez, 2006). It has emphasized non-interference in the internal affairs of Latin American countries.

Some on the right in the US have claimed that the growing influence of China represents a threat to democracy in Latin America([50]). They argue that Chinese willingness to sign agreements with authoritarian leaders and corrupt oligarchies will discourage the emergence of democracy in the region (Johnson, 2005). However there is no evidence that China is actively seeking to undermine democratic regimes in Latin America and it is more likely that the real concerns which lie behind these claims is that the increased involvement of China in the region will reduce the leverage of the US over its Latin neighbours.

In terms of international relations, China's main objective in the region is to persuade the dozen Latin American and Caribbean countries that still recognise Taiwan to break off diplomatic relations. The countries which continue to have diplomatic relations with Taiwan are all small Central American and Caribbean countries (plus Paraguay) none of which have

[50] See the statement by congressman Dan Burton to the Subcommittee for the Western Hemisphere of the House Committee on International Relations in April 2005 quoted in Jiang Shixue (2006).

significant energy or resource supplies in which China is interested. Thus the increased economic involvement of China in the region has had little impact on this issue.

Some Latin American countries do see China as something of a counter-weight to US hegemony in the region. While some countries, most notably Cuba and Venezuela, are keen to develop political alliances with China to provide a "hard balance" to US influence, others such as Brazil and Argentina would like China to provide them with new political-economic options, without directly confronting the US ("soft balance")([51]). Up to now China seems to have been anxious not to upset the US in its own "backyard" and has therefore tended to be respond cautiously to the approaches of Venezuelan President Chavez. China sees its interests in the region as primarily economic and has therefore prioritized those countries where there are strong economic links (Brazil, Mexico, Chile and Argentina) while giving a much lower priority to the countries where the overall motivation for their policy is political (Venezuela and Cuba) (Dominguez, 2006).

4.3 Labour and environmental standards

Energy and resource exports are often environmentally damaging unless there are stringent environmental regulations in place. Consumers and civil society groups in developed countries have put pressure on exporters to take into account the environmental impacts of their activities. One of the best known areas in which this has occurred is in forestry where the Forest Stewardship Council has established standards for sustainable timber. However certification is only relevant where an informed public and consumers demand it. This is not the case in the Chinese market, so that potentially the increased importance of exports to China could have a negative impact on sustainable production. Although the example given here applies to forestry, in principle it is an issue wherever different standards are applied in different markets([52]).

Concerns have also been raised in some quarters regarding the lower environmental and social standards applied by Chinese investors in the developing countries in which they operate. Recently the President of the European Investment Bank claimed that they were losing out in Africa and elsewhere, particularly in the mining sector, to Chinese lenders who do not require environmental assessments or adherence to labour standards (BIC, 2006).

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[51] This is a contrast made by Dominguez (2006).

[52] One area in which the growing Chinese demand has had a significant environmental impact in Latin America has been the expansion of soya exports from Brazil. This has led to an expansion of the area of cultivation which is contributing to deforestation in Amazonia. In 2006 the major exporters, faced with the threat of a boycott from European supermarkets, food manufacturers and fast-food chains responding to public pressure, agreed that they would not export soya from deforested land (Lawrence and Vidal, 2006). The grain exporters have not come under pressure in this way from China.

Chinese firms often perform poorly relative to multinational companies from Europe or North America in comparisons of different aspects of Corporate Social Responsibility. The Accountability Rating for 2006 has Sinopec at 57 and CNPC at 63 out of a total of 64 companies listed([53]). A survey of revenue transparency in the oil and gas industries, PetroChina and CNPC were listed amongst the four worst performers out of 25 companies covered (SCF, 2005, Table 3). This reflects the fact that Chinese firms are less subject to the kind of pressures from civil society in China than Northern multinationals face in their home countries.

While the poor performance of Chinese companies in terms of Corporate Social Responsibility is generally recognised, there is relatively little evidence that they have had a significant negative effect on labour or environmental standards in Latin America. This reflects the limited direct investments made by Chinese firms in the region up to now. There are however a number of reported instances of problems with Chinese investments in mining and energy in Latin America.

In Peru there have been reports of protests by miners at the Chinese iron mining firm Shougang Hierro Peru SA against unsafe labour and environmental standards (Jubany and Poon, 2006, p.6). Also in Peru, indigenous communities are taking Pluspetrol Norte, which is 45 percent owned by China National Petroleum Corporation, to court because of alleged presence of heavy metals in indigenous communities in the Corrientes River Basin([54]).

In Ecuador, there have been protests against Andes Petroleum, a joint venture between China National Petroleum Corporation and China Petrochemical Corporation, by local communities demanding more investment by the company in health and education and the creation of more jobs([55]). Andes Petroleum had acquired the Ecuadorian assets of the Canadian pipeline company EnCana which had itself faced protests earlier. Chinese companies appear to be more willing than Western companies to take on the political risks involved in such investments.

Although up to now the direct impact of Chinese investment on labour and environmental standards in Latin America have been limited because of the scale of direct investment, there is a concern that increased competition from Chinese firms may undermine the efforts of Western multinationals to raise standards in these areas.

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[53] The Accountabaility Rating, Global Results at: www.accountabilityrating.com/latest_overview.asp

[54] Salazar, Milagros (2006), 'Indigenous Community to Take Oil Company to Court', in *IPS*, 17 Augustus, 2006.

[55] Kerr, Juliette (2006), 'Protests Against Chinese Company's Oil Operations End in Ecuador', *Global Insight Daily Analysis*, 13 November 2006.

4.4 Impact on security

There is some evidence of increased military exchanges between China and Latin America in the past few years. As with China's political involvement in the region, some in the US view this with alarm (Johnson, 2005). China's increased reliance on Latin America for energy and natural resources does increase the strategic significance of the region for Chinese policy makers. However this does not presage a major military involvement in Latina America. The focus is rather on maintaining good relations with the countries of the region. Where the US has cut off military assistance from countries which refuse to exempt US citizens from the jurisdiction of the International Criminal Court, China has stepped in to provide military training. However as Dominguez (2006, pp.8-9) concludes: 'There is little evidence that China's presence in Latin America has a military dimension or purpose that should worry other countries. Military considerations did not cause the development of China's relations with Latin America. Rather, these modest military relations are a delayed effect of China's greater engagement with Latin America.'

4.5 Conclusion

One should be careful not to exaggerate the global significance of China's increased involvement in Latin America. Although the growth of Chinese demand for primary commodities has been a welcome boost for the region's economy, leading to four successive years of growth, for only the second time in the past quarter century, China still lags a long way behind the US in significance in terms of trade and investment for the region.

Only a few Latin American countries are of strategic significance for China as suppliers of energy and resources. However most of the countries of the region have been affected either directly by competition from Chinese imports or indirectly as a result of the effect of China on world prices. In some countries, especially Mexico and Central America, the negative economic aspects probably outweigh the positive effects. Even in those countries where energy and resource exports to China have contributed to economic growth there are some concerns over the developmental impacts including the environmental effects.

The political and security impacts so far are less significant than the economic impacts. Although this may change in the future, it is probable that in political terms Latin America will remain a lower priority for China than other regions, including its Asian neighbours and Africa. Its political relations with Latin America will continue to be affected very significantly by its relations with the United States and the relations between Latin America and the US.

5 China's Impact on EU-Latin America Relations

In contrast to China, the history of Europe's relations with Latin America is long, although not all of it has been positive. These relations remain important to both Europe and Latin America in both political and economic terms. European investment in Latin America remains far larger than investment by China. Investment by the EU in Latin America peaked at €46.1 billion in 2000, but fell in subsequent years to a low of €5.1 billion in 2003.[56] In 2004 investment flows from the EU recovered to €13.4 billion. At the end of 2003, the stock of EU investment in Latin America was €130.1 billion. Even taking into account the more recent increase in investment from China, it remains a small factor in the Latin America investment landscape compared to the EU and the US.[57] In recent decades the EU has played an important part in strengthening relations between Europe and Latin America.

5.1 Impact on EU policy goals

The current EU strategy on Latin America was formulated before the impact of China became a focus of attention and has been built on many strands.[58] Despite China's efforts to develop relations with Latin America, and rapidly expanding economic exchanges, it has yet to develop the same kind of deep relationship that the EU has with the region. One of the main differences concerns the approach that is the basis of the relationship. The EU sees its relationship with Latin America in very different terms from China. According to the EU, one of the main elements of its relationship with Latin America is a common commitment to human rights, democracy and multilateralism. While the last of these may figure strongly in China's diplomacy in Latin America, the others do not. Unlike China, the EU is active in many sectors: democracy and human rights, health, education, transport, food security and sustainable rural development, institutional capacity building and the rule of law.

While both Europe and China have strong commercial interests in Latin America, the EU seeks to develop a relationship that goes beyond this. Support for development in Latin America is one of the focal points of the EU's policies in the region. The EU's policies in Latin America are not only commercial, but include programmes that focus on implementation of the Millennium Development Goals and reduction of social equality, poverty and exclusion that are intended to advance a broad development agenda.

To date, despite the fact that it has declared its commitment to the Millennium Development Goals, China does not acting directly to support them in Latin America. Nevertheless, to the extent that China's involvement in the region promotes growth, these goals will be advanced. However, there are risks that growth focused on exploitation of resources which is being

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[56] Eurostat (2006), *Foreign Direct Investment Yearbook 2006*, Eurostat, Luxembourg.
[57] US investment in Latin America is more than US$300 billion (Noriega, R 2005)
[58] European Commission (2005), *A Stronger Partnership Between the European Union and Latin America*, Com (2005) 636, European Commission, Brussels.

encouraged by China's involvement in the region may act against these goals. The concentration on resource extraction may do little to create employment and relieve poverty and reduce exclusion. The concentration on resource extraction may also pose challenges for the EU's efforts to promote sustainable development. Nevertheless, while there has been some criticism of problems related to particular investments by China, there is so far little evidence that Chinese investment in the energy, minerals or timber sectors has undermined the EU efforts to promote its goals in Latin America.

Support for human rights is an important element of the EU policy in the region, in contrast to China, which makes a virtue of its policy of non-interference in such matters. It is unclear that European policy on human rights has been directly affected by China's growing presence in Latin America. China does not support any human rights initiatives in Latin America, but there is little sign that it has sought to influence developments negatively. However, mutual support by China and some Latin American governments in international forums such as the UN Human Rights Council could present problems for the EU in advancing a human rights agenda in Latin America.

The EU has made it a goal to promote democratic governance in Latin America. While China has no commitment to this goal, there is no sign that it seeks to undermine democratic governments in the region, nor to interfere in the process of democratization. China above all seeks stability that minimizes risks to its economic interests and has in the past shown itself to be pragmatic in its approach to such issues.

The EU has an interest in promotion of sustainable development in Latin America. This goal may face greater challenges as a result of China's investment in the region. This will not necessarily be because China's investors are less concerned by their impact on the environment than others, but because their concentration on resource exploitation has an impact on the environment that is often greater than other sectors. In general, demand from China for resources that increases dependence on this sector is likely to increase environmental impacts.

There are areas where the EU and China share similar interests and goals in Latin America. One of the goals of the EU is to create a climate favourable to trade and investment. If only from its own self-interest, this is a goal shared by China, which has shown itself to be concerned by protectionist trade and investment policies adopted by some Latin American governments. The EU has also sought to support integration of the market in Latin America. To the degree that regional integration forwards China's economic interests, it is likely to support this goal. Apart from institutional arrangements, infrastructure is one of the keys to market integration, and China has expressed interest in a number of projects that cross national boundaries, especially those that allow it to transport resources to the Pacific Coast.

5.2 Impact on EU-Latin America relations

It has been the EU's policy for a number of years to seek to strengthen ties with Latin America. Despite the diplomatic efforts of Beijing, European engagement in Latin America is well ahead of China. Given the depth of the EU's relations with Latin America, it is unlikely that investment by Chinese enterprises will significantly undermine this.

There is little sign that Latin American governments in general, with the possible exception of Venezuela, are seeking Chinese investment in a way that undermines their wider development policies or to the detriment of their relations with other partners. Unlike in Africa, there is no Latin American country where China is the dominant economic partner. Even in the case of Chile, probably its closest economic partner in Latin America, China's influence is far from overriding. The increasing focus on national control of resource assets in a number of Latin American countries suggests that China is as much dependent on domestic policies as any other investor. Domestic pressures in Latin America may also limit the freedom of action of governments should they attempt to offer China excessive concessions.

Economic exchanges between European and Latin America are not growing as rapidly as those between China and Latin America, but they remain strong. China's trade with Latin America is roughly of the same order as the EU's, but European investment in the region dwarfs that by China.

At both the bilateral and regional level, the EU has strong relations with Latin America embodied by regular summits and meetings of senior officials. Given the broad nature of EU engagement with Latin America, there is little evidence that China has displaced the EU. Although there are some grounds for concern, the direct impact of China's presence in Latin America on the EU activities in the region has been limited.

There is little sign that Latin American governments are seeking to advance relations with China at the cost of those with the EU. Latin American leaders have made it clear that they continue to regard the EU as a major partner. The rhetoric that portrays China as an alternative to Latin America's traditional partners is not necessarily matched by reality. The earlier enthusiasm for expanding relations with China that gripped the region has been replaced by a more cautious realism. Although China has clearly has had a significant and growing impact on Latin America, for reasons of history, culture and geography as much as any other, Europe will remain an important partner for Latin America.

6 Recommendations

Given that to date China's impact in Latin America has been limited, the EU has few specific policy options that can directly respond to its effects. The potential effects of China's involvement in the region are both positive and negative. The negative effects are not necessarily the result of specifically Chinese problems, but are part of wider development problems. For instance, China's demand for resources from the region may lead to dependence on this sectors to the detriment of broader economic growth. In the absence of clear evidence of widespread problems related to Chinese investment in areas such as labour standards, the environment, human rights and equality, democratization or political stability, the EU's policy should continue to be directed towards ensuring that broader development goals are met.

. The EU should continue to monitor Chinese investment in Latin America and wider economic exchanges with the region, and assess its impact, especially with regard to EU policies. It should also monitor the development of Chinese outward investment and government policy, especially in developing countries.

. The EU should initiate a dialogue with the Chinese government on its outward investment policies, especially in developing countries. Such a dialogue should include the development agencies of member states as well as international institutions and non-government development agencies. The EU should endeavour to ensure that the Chinese government understands its wider goals in Latin America. Existing exchanges with China on issues such as corporate social responsibility should include Chinese corporations and their activities outside China.

. The EU should continue to ensure that it is regarded as a strong bilateral and regional political and economic partner of Latin America. The EU should ensure that its current policies with regard to Latin America are pursued to develop the broadest possible relationship with the region. This should include not just development goals, but also those concerning trade and investment with Latin America. The strongest argument for ensuring that Europe retains influence in Latin America will be if it continues to be a major investor in the region and export market for its companies.

. The EU should continue to support Latin American governments in adopting policies that achieve economic growth and development, and that policies in the region with regard to labour standards, human rights and the environment are applied on an equal basis to all foreign investors.

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ANNEX

Annex 1: Economic statistics

Figure 1: China's Outward Investment 1990-2006 (Billion USD)

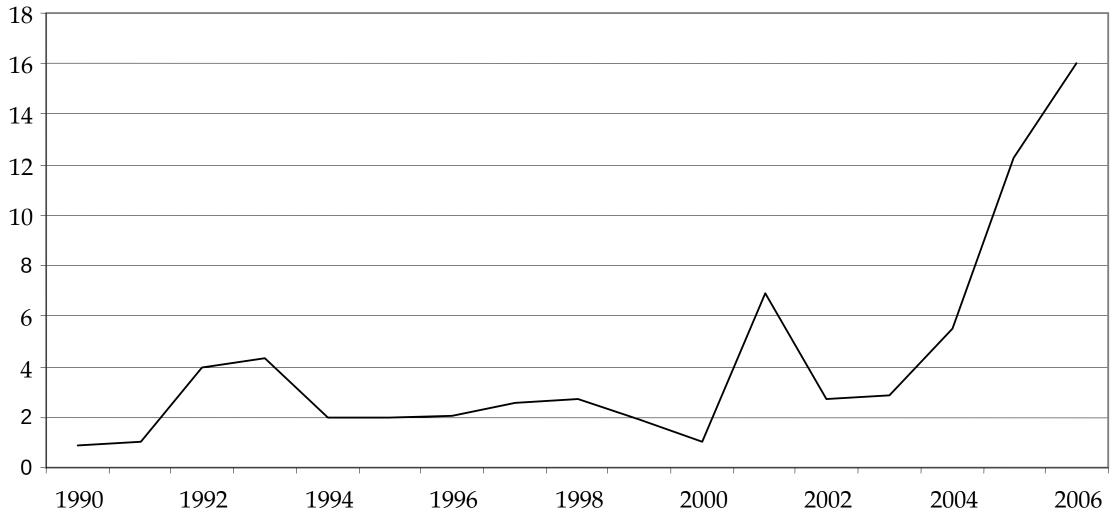
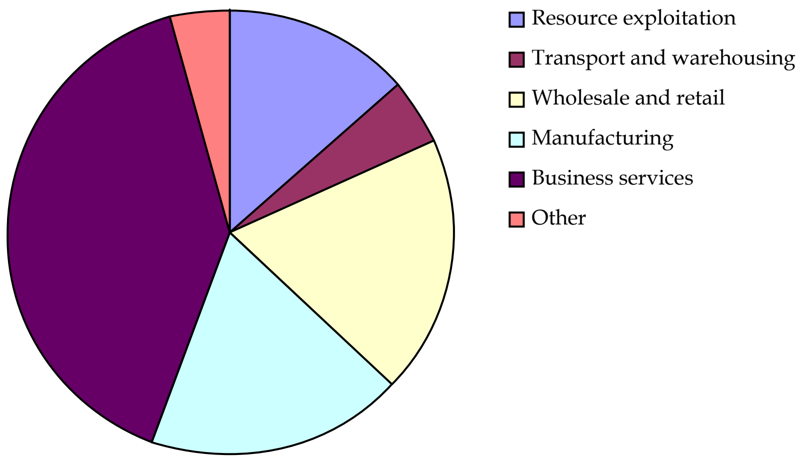
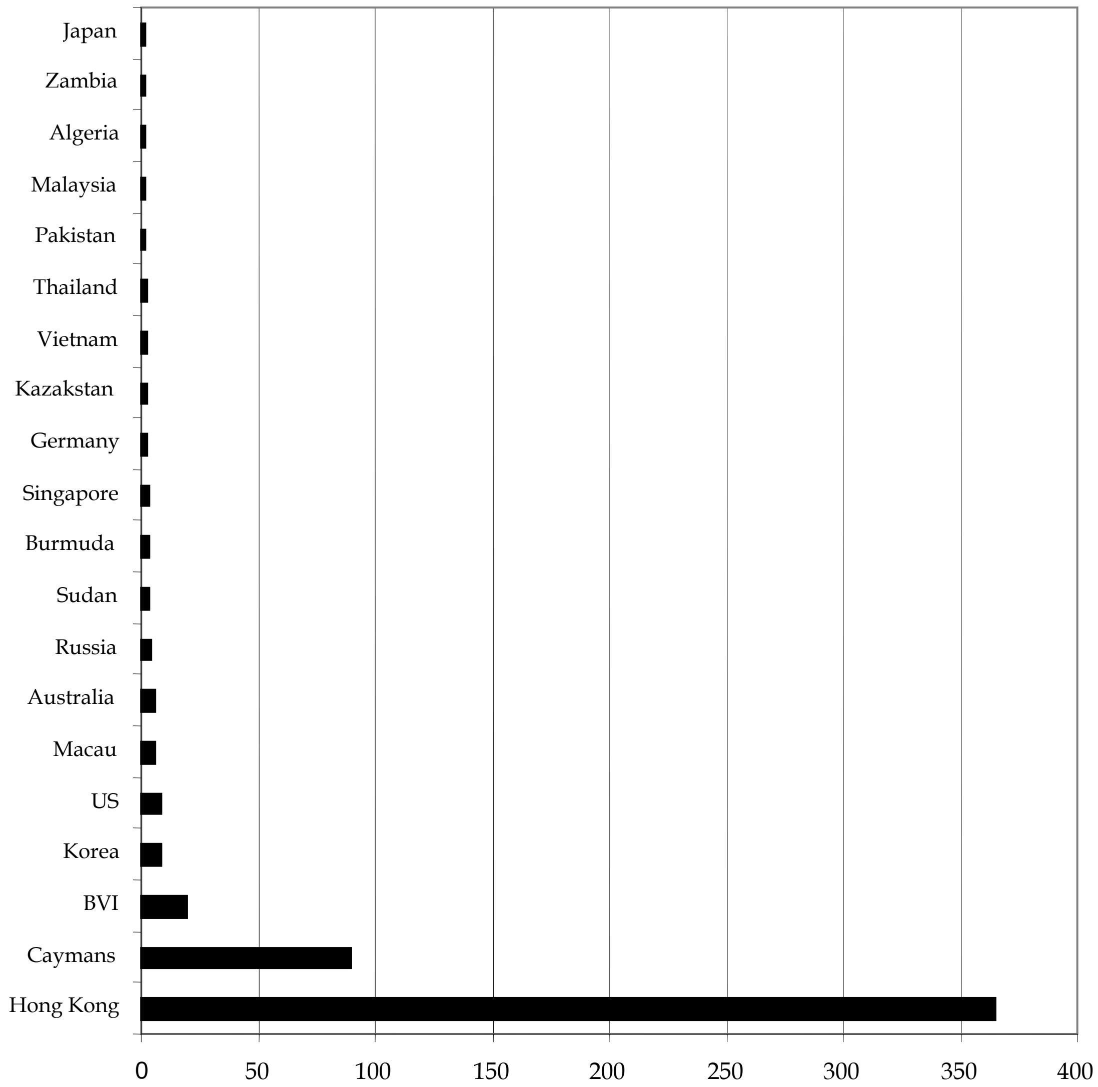


Figure 2: China's Outward Investment Flow by Sector 2005



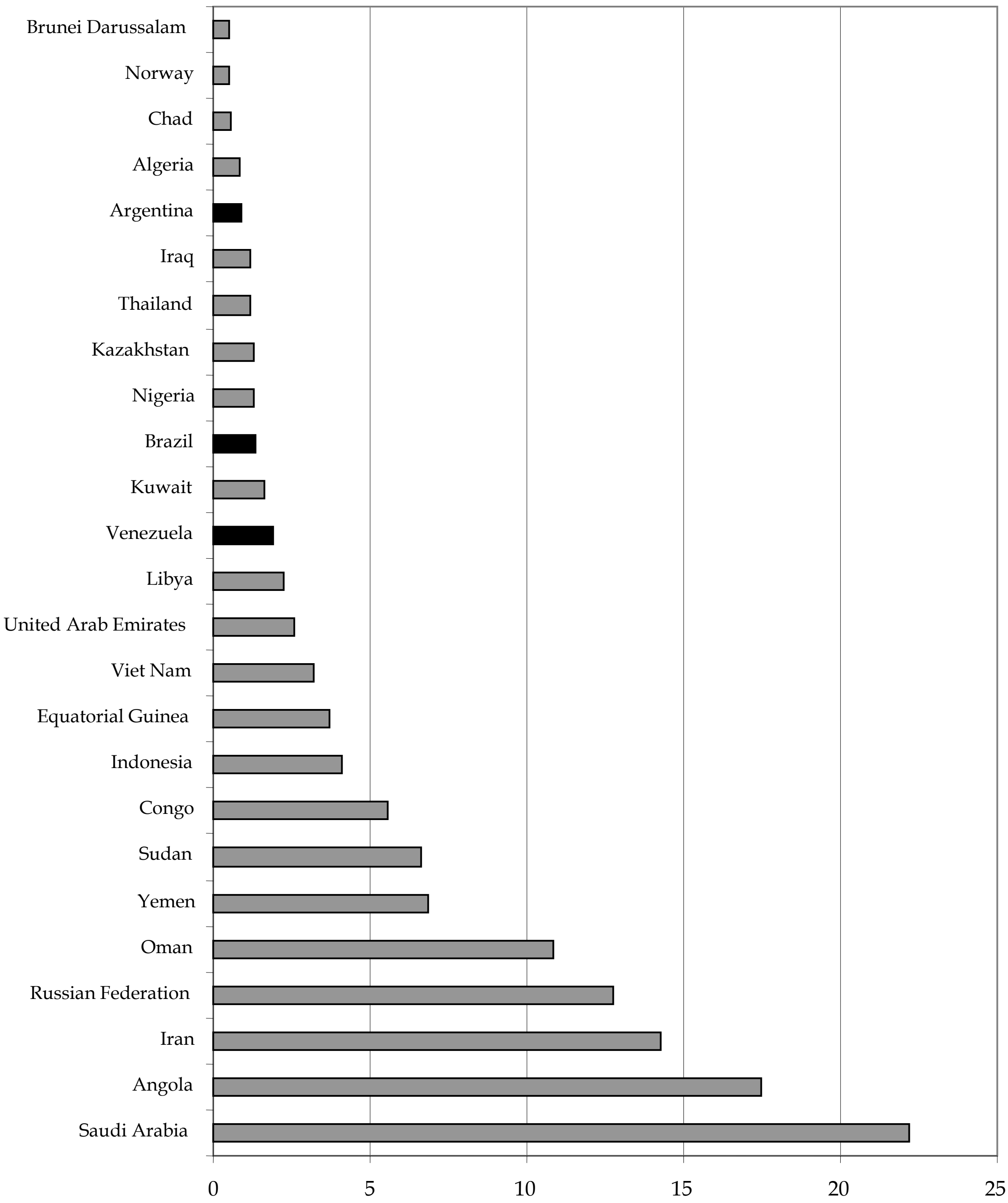
Source: Ministry of Commerce.

Figure 3: China Outward Investment Stock by Country (Top 20) End 2005



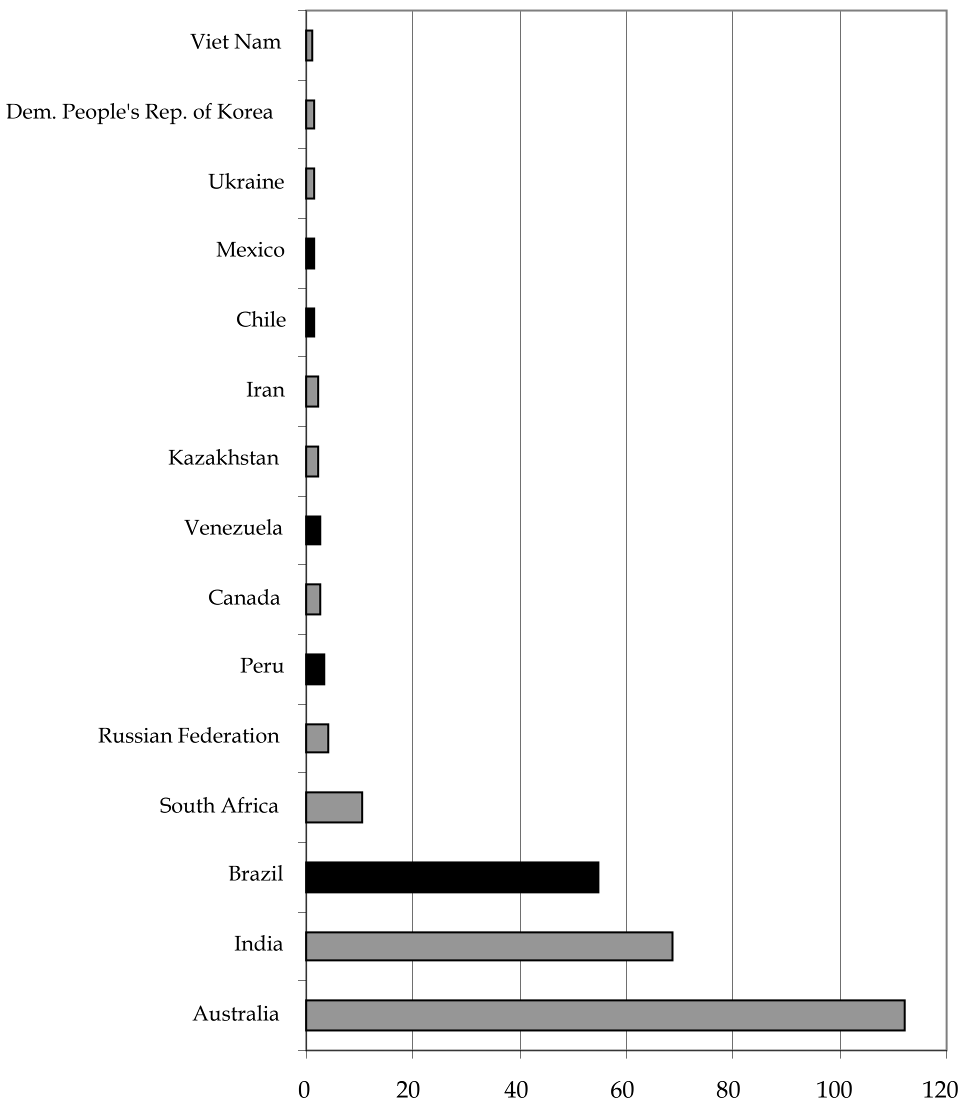
Source: Ministry of Commerce (2005).

Figure 4: China's Leading Sources of Crude Oil Imports 2005 (million tons)



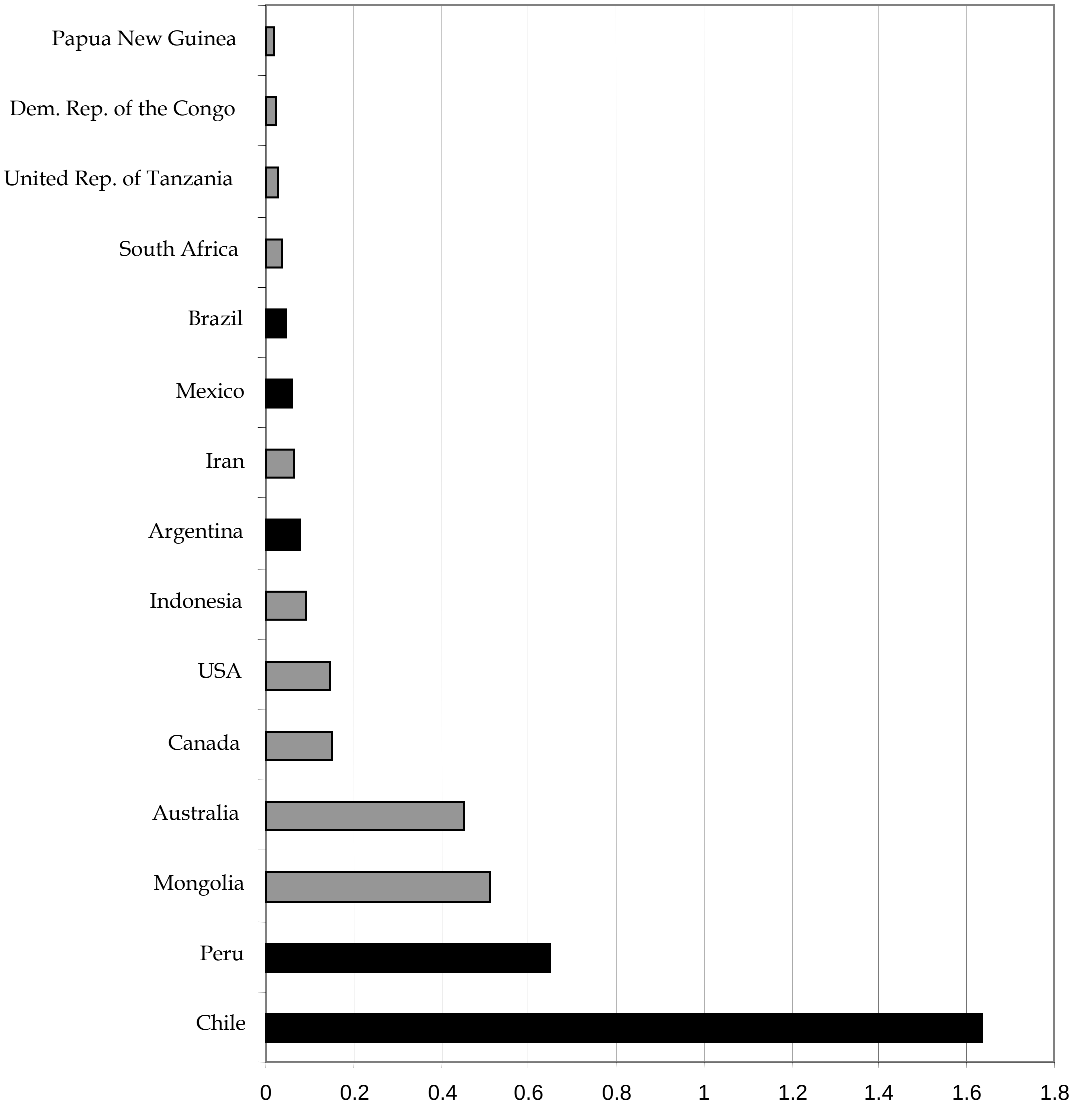
Source: Comtrade

Figure 5: China's Leading Sources of Iron Ore Imports (million tons)



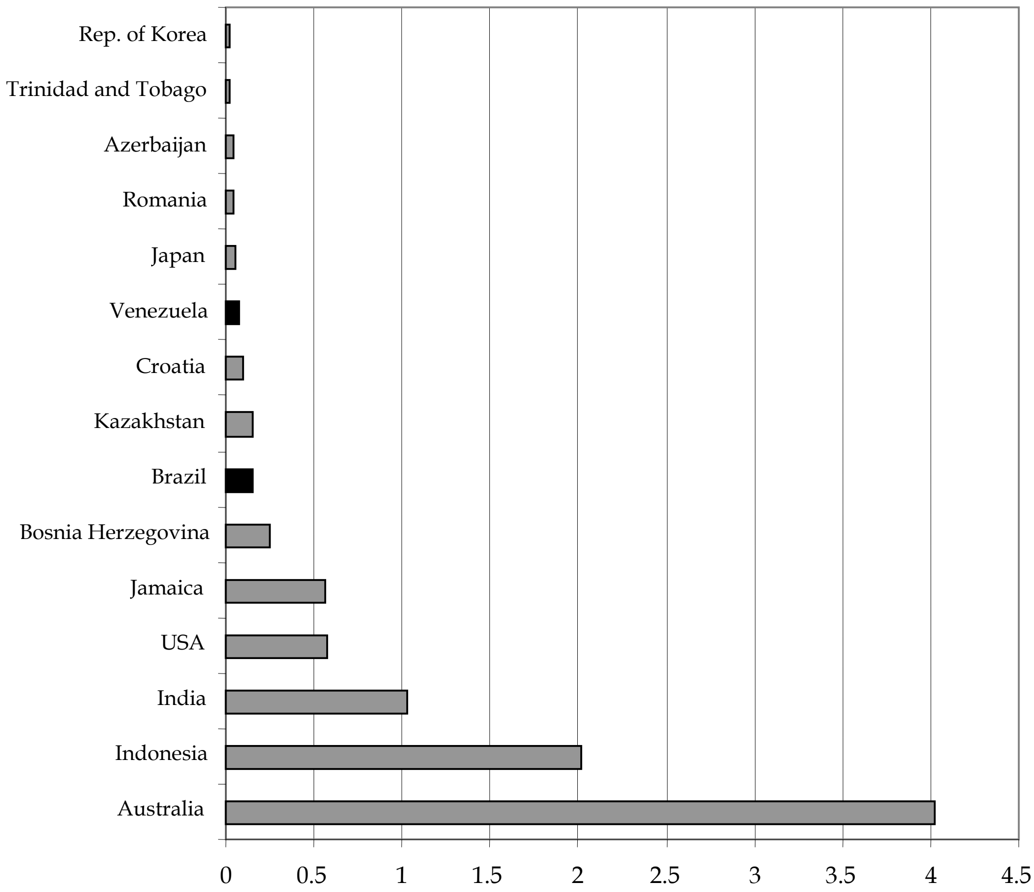
Source: Comtrade

Figure 6: China's Leading Sources of Copper Ore Imports (million tons)



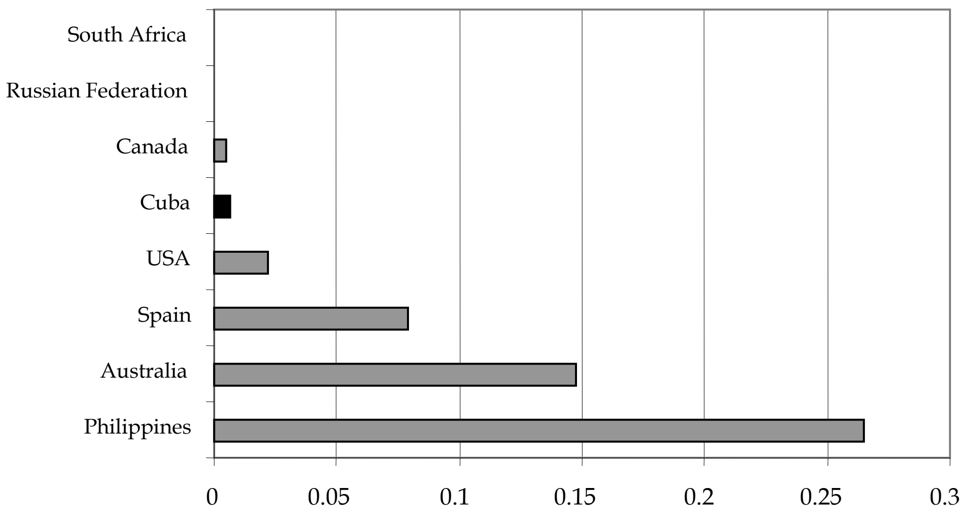
Source: Comtrade

Figure 7: China's Leading Sources of Aluminium Ore Imports (million tons)



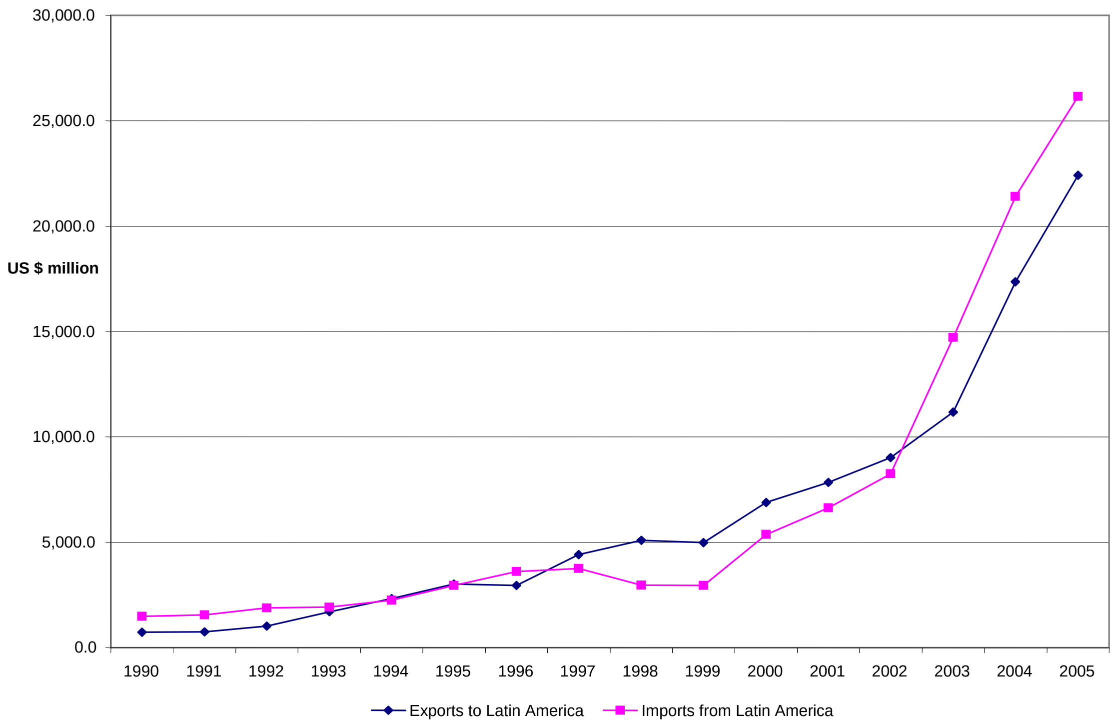
Source: Comtrade

Figure 8: China's Leading Sources of Nickel Ore Imports (million tons)



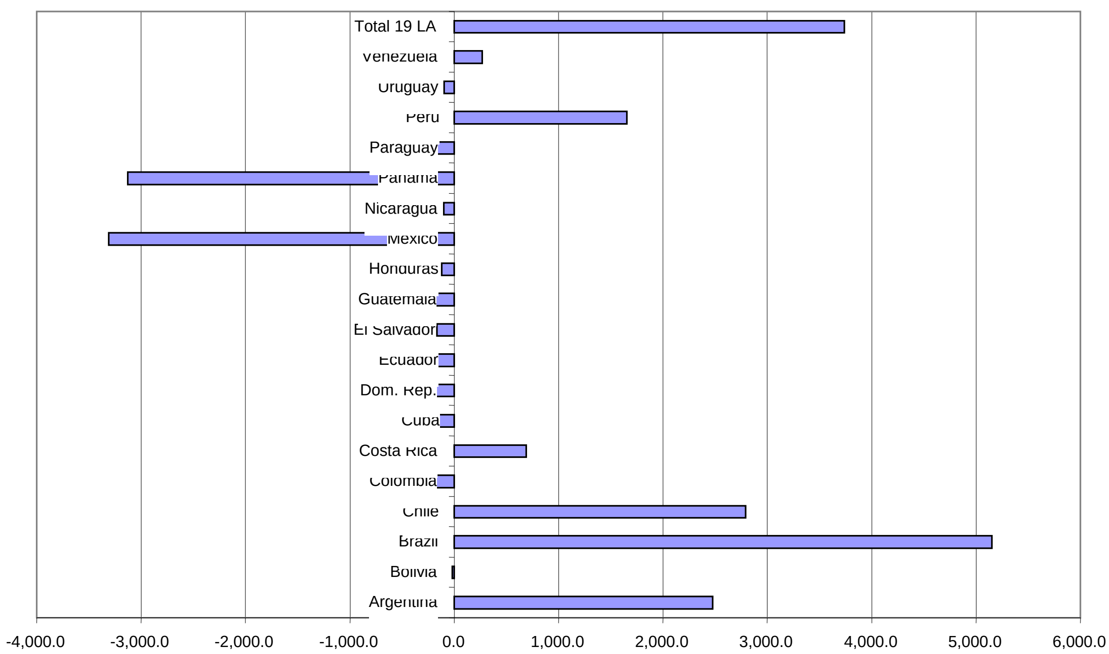
Source: Comtrade

Figure 9: China's Trade with Latin America, 1990-2005



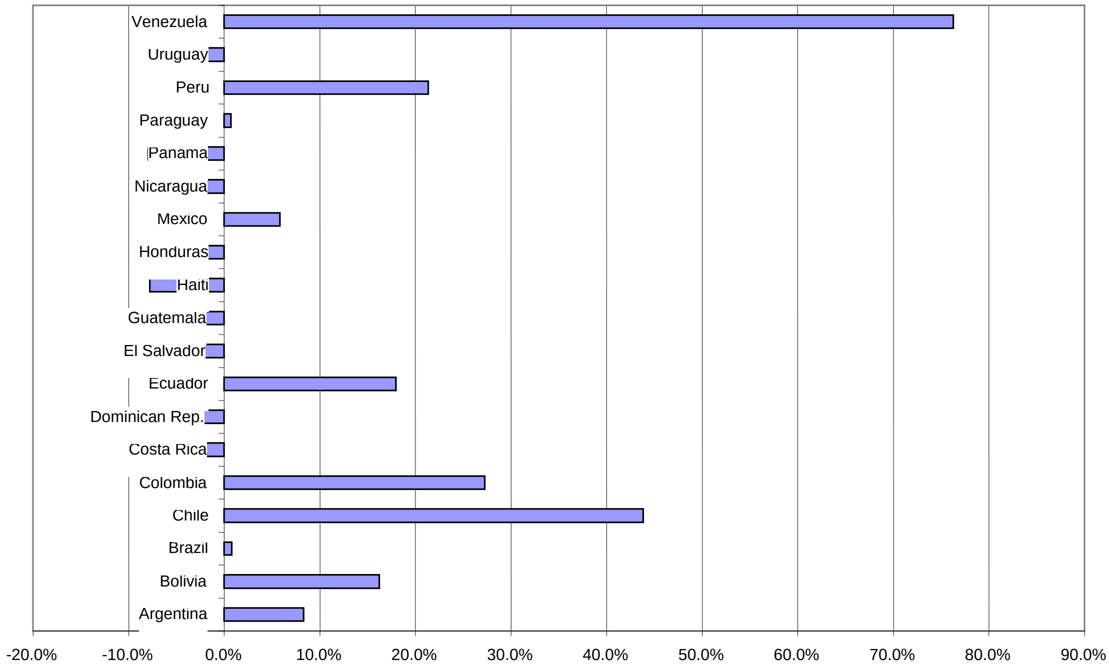
Source: IMF, Direction of Trade Statistics

Figure 10: Trade Balances of Latin American Countries with China 2005



Source: IMF, *Direction of Trade Statistics*

Figure 11 : Change in Terms of Trade 2002-2005



Source: CEPAL, *Estudio Económico de América Latina ue el Caribe, 2005-2006,* Table A-11

Table 2: Share of Total Exports to Different Markets for Latin American Countries

	USA	EU	China
Argentina	11.4	15.9	7.9
Bolivia	14.6	5.8	0.7
Brazil	18.0	22.1	6.1
Chile	16.2	23.3	11.4
Colombia	41.8	13.9	1.1
Cuba	0.0	41.5	3.4
Ecuador	50.1	12.6	0.1
Mexico	85.8	4.2	0.5
Peru	30.7	16.6	10.9
Uruguay	23.1	17.2	3.5
Venezuela	43.1	4.6	0.4

Source: Economic Commission for Latin America, *Sistema Interactivo Grafico de Datos de Comercio Internacional*.

Annex 2: Sectors Targeted by China for Investment in Latin America

Country	Agriculture, forestry,	Resource exploitation	Manufacturing	Services
Colombia	Crops	Oil, natural gas, nickel mining	Textiles and clothing; electrical machinery and parts such as generators, air-conditioners, refrigerators, etc; electronic equipment such as televisions, etc	Telecommunications
Surinam	Forestry	Oil, bauxite mining		
Chile	Fisheries	Copper mining	Machinery for processing of agricultural by-products; electronic machinery and parts such as electric tools, etc; toys; food; manufacturing	Trade, distribution
Argentina	Animal feedstuffs, grain		Gardening equipment; electronic machinery and parts such as electric tools, etc; transport equipment and parts such as motorcycles, etc; food processing from agricultural by-products; agricultural machinery	
Venezuela	Crops	Oil, natural gas	Electronic equipment and products such as refrigerators, air conditioners; electronic equipment such as televisions, laser disk players, radios; food; textiles and clothing; agricultural machinery	Infrastructure
Brazil*	Forestry development	Oil; iron ore, bauxite, copper ore mining	Electronic equipment and products such as refrigerators, air conditioners, etc; electronic equipment such as televisions, laser disk players, radios, etc; metal products; plastic products	Trade and distribution; transport; construction
Cuba	Rice	Oil; nickel	Food Manufacturing; electronic equipment; textiles and apparel	Telecommunications
Mexico	Crops		Textiles and apparel; electronic equipment	Oil technical services

* In case of Brazil electricity generation and supply is a fourth targeted category for FDI.

Source: Ministry of Commerce and Ministry of Foreign Affairs.

Annex 3: Major country and sector overviews

Brazil and China

Brazil is China's largest economic partner in Latin America. The two have had a strategic partnership since 1993 and have signed many agreements to formalize their relationship at the government level. The relationship has been strengthened by multiple visits by leaders of both countries. Their economic relationship is broad, and is not confined only to resource trade. Nevertheless, resources form the backbone of Brazil's exports to China. Brazil's exports to China rose 29.3 percent to US$12.9 billion in 2006, but its imports from China rose 52.9 percent to US$7.4 billion. Despite the rapid growth in trade only 6.1% of Brazil's exports went to China in 2005.

Brazil's biggest single export to China is iron ore. In 2005 China imported 275 million tons of iron ore, of which 57.8 million tones, or 19.9 percent, came from Brazil, the world's largest exporter of iron ore. In 2000 China imported 70 million tons of iron ore, of which 14.8 million tons came from Brazil. The value of Brazil's iron ore exports to China rose from US$437.6 million in 2000 to US$3.9 billion in 2005.

Brazil also supplies some other metals to China. Brazil is the largest supplier in Latin America of aluminium ore to China and in 2005 exported 154,000 tons. It is also a minor supplier of copper.

Latin America is a relatively minor supplier of timber to China, but Brazil is significant in some sectors. In 2005, Brazil provided 8.9 percent of China's imports of simply worked wood. Its most important role is as a supplier of wood pulp, of which is exported US$366 million-worth to China in 2005.

Brazil is China's second largest supplier of crude oil in Latin America. In 2005, it provided 1.3 million tones, or 1 percent of China's imports. In 2005, China accounted for 13 percent of Brazil's crude exports. The share of China in Brazil's exports has varied greatly over recent years. In 2000, for instance, China's share of Brazil's crude oil exports was 23.6 percent, but in 2002 China imported no oil from Brazil.

In as far as it is possible to discern from Chinese statistics, Brazil is one of the largest recipients of Chinese investment in Latin America. There have been several major projects announced. In 2004 China's Baosteel announced a project to establish a steel plant in Brazil in cooperation with Companhia Vale do Rio Doce (CVRD), the world's largest iron ore producer. Annual production would be 3.7 to 3.8 million tones of steel. Also in 2004, CVRD and the Aluminium Corporation of China (Chalco) signed an agreement for investment in an alumina refinery in Brazil with a capacity of 1.8 million tons per year in the initial phase, and a final capacity of 7.2 million tons per year.

In September 2004, China signed an agreement with Brazil for a 1,000 km gas pipeline running from Macaé in Rio de Janeiro state to Salvador in Bahia state. The pipeline will be constructed by Petrobras and Sinopec, with financing by the China Exim Bank and the Brazilian Development Bank (BNDES), with China providing US$1.17 billion of the US$1.3 billion estimated cost. Brazil is also reported to have presented numerous other projects in which it is seeking participation from China, including investment in roads and railways as well as energy and the Brazilian government has made it clear that in principle it welcomes China's investment in infrastructure.

Venezuela and China

The importance of Venezuela to China is founded on its vast energy reserves, and it has been a focus of Beijing's efforts in developing economic relations with Latin America. Nevertheless, the development of relations with Venezuela has been far from straightforward. There have been frequent exchanges at the highest level between China and Venezuela. President Chavez has visited China four times. However, the most recent visit by a Chinese president to Venezuela was Jiang Zemin in 2001. There are signs that China does not want to be seen as too closely associated with Venezuela's provocative stance towards the US.

China and Venezuela have signed a number of agreements in the field of energy cooperation and Chinese companies have become active in the exploitation of resources in Venezuela, but oil exports to China remain small, and have not reached the ambitious targets that have been set by the two governments. The two main impediments are the cost of transport and the quality of Venezuelan crude. Transport is rendered difficult by the limited access possible via the Panama Canal for tankers heading China. Solutions have been mooted for this problem, but none is likely to make a significant difference in the short term. Venezuela's exports are dominated by heavy sour crude, while China's refineries are mostly equipped to handle light sweet crude from its own oilfields and from the Middle East.

Venezuela is the region's biggest supplier of crude oil to China, exporting 1.9 million tons, or 1.5 percent of China's total imports of 126.8 million tons in 2005. Venezuela's efforts to boost exports to China have not yet significantly reduced its reliance on the US market. In 2004, 43.1 per cent of Venezuela's total exports went to the US, compared with only 0.4 per cent to China.

Venezuela is one of the main targets for Chinese investment in Latin America. Chinese companies have signed a number of agreements on exploitation of oil in Venezuela. In June 1997, China Petroleum and Natural Gas Corporation won a tender with a bid of $358 million for the right to drill in the oil fields of Caracoles and the North Intercampo. At the time, this was the largest investment by China in Latin America.

China Oil and the Venezuela Oil Corp have also signed an agreement to establish a joint venture with US$350 million investment to develop 14 oil wells in the east of Venezuela. China has also agreed to provide a US$4 billion loan to support energy and other projects in Venezuela.

Crude Oil

Latin America has proven crude oil reserves of 118 billion barrels, but supplies only a small proportion of China's energy imports. In 2005, Latin America accounted for only 3.4 percent of China's imports of crude oil. In the years from 2000 to 2002, Latin America accounted for less than 0.3 percent of China's crude imports. Since then the proportion has increased, rising to 2.7 percent in 2005.

With proven conventional crude reserves of 80 billion barrels, Venezuela has by far the largest reserves in Latin America and it is the region's biggest supplier of crude oil to China, exporting 1.9 million tons, or 1.5 percent of China's total imports of 126.8 million tons, in 2005. Brazil, China's second largest supplier in Latin America, provided 1.3 million tones, or only 1 percent of its imports. Argentina was the only other exporter of crude oil of any significance to China, providing 0.7 percent of Chinese imports in 2005.

Viewed from the point of view of some of its Latin American suppliers, China is an important market. In 2005, China accounted for 13 percent of Brazil's crude exports. The share of China in Brazil's exports has varied greatly over recent years. In 2000, for instance, China's share of Brazil's crude oil exports was 23.6 percent, but in 2002 China imported no oil from Brazil. Even for those countries for which China is a significant market, it is normally not the main buyer. In 2005, the US was the chief export destination for crude from Brazil, accounting for 16.6 percent of exports. In 2005, 8.1 percent of Argentina's crude exports went to China, compared with 48.4 percent to Chile and 39.3 percent to the US. Despite Venezuela's increasing ties with China, the US continues to be the dominant market for its crude exports.

Copper

Latin America is extremely important as a source of copper, which is of vital importance to many industries in China. In 2005, China's imported 1.6 million tons of copper ore from Chile, 40.1 percent of its total imports of 4.1 million tons. A further 647,000 tons, 15.9 percent of China's imports, came from Peru. Argentina, Mexico and Brazil were also minor exporters of copper ore to China, so that Latin America accounted for 60.5 percent of China's copper ore imports in 2005.

Copper ore exports have contributed significantly to growth of trade with China. In 2000 China imported 616,000 tons of copper ore from Chile out of total imports of 1.8 million tons. The value of copper ore imports from Chile rose from US$310.7 million in 2000 to US$1.6 billion in 2005. In the case of Peru, the value of copper ore exports to China rose from US$33 million in 2000 to US$647 million in 2005.

China also imports significant amounts of copper metal from Latin America. In 2005, China imported 613,000 tons of copper metal from Chile with a value of US$2.2 billion, 24.2 percent by volume of the People's Republic's total copper metal imports. China has made efforts to secure long term stability of copper supplies from Chile. In 2006 China Minmetals Corporation and Nacional del Cobre de Chile (Codelco) signed a joint venture agreement to mine copper. The total investment is projected to be US$2 billion, with US$550 million in the first phase. Codelco will provide 836,250 tons of copper over the next 15 years to China Minmetals Non-Ferrous Metals Co, which is controlled China Minmetals.

Timber

China's demand for timber has increased enormously. The country's imports of wood and pulp are increasingly used in the production of exports, as its exports of processed wood products have grown rapidly in recent years. However, Latin America plays only a marginal role in China's imports of unworked timber resources. China's imports of rough wood are dominated by Russia which provides 65 percent by volume of China's imports. The role of Latin America is more significant in simply worked and processed wood materials. In 2005, Brazil provided 8.9 percent of China's imports of simply worked wood, while Chile provided another 2.5 percent. Wood pulp is the timber resource sector in which Latin America has greatest significance in China's imports. In 2005 Chile exported wood pulp and waste worth US$383 million to China, 6.2 percent of total imports, while Brazil also exported US$366 million of wood pulp and waste.

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