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# What China Will Fight For in Latin America in the Coming Generation

R. Evan Ellis

## ABSTRACT

As Chinese trade and investment with Latin America expand, the People's Republic of China (PRC) is accumulating interests in the region. Whatever Chinese intentions toward Latin America may be, the dilemma of when and how to defend these interests is likely to occupy a significant part of the PRC agenda in the region in the coming decades, and to affect China's relationship with the United States as well. This article identifies six emerging Chinese interests in Latin America, and discusses why, and how the PRC may struggle to defend them. These interests are: (1) Access to markets and the fight against protectionism, (2) Protection of investments and contracts, (3) Repayment of loans, (4) Protection of resource flows, (5) Protection of Chinese nationals and operations in the region, and the (6) Isolation of Taiwan.

## Introduction

With the dramatic expansion of China's economic and political engagement with Latin America in the past decade, U.S. policymakers have questioned whether the emerging relationship is primarily economic in nature, or whether it constitutes a threat to U.S. national security. This is a false dichotomy. Although China's activities and goals in Latin America are primarily economic in nature, they have strategic significance for its long-term development and political stability, and create interests that Chinese political leaders and businessmen will dedicate effort to defend, although not necessarily in a military fashion.

The key question for understanding the national security implications of Chinese engagement with Latin America is not whether it is pursuing economic as opposed to strategic objectives in the region. Nor is it whether Latin America is more, or less, important to China than are various other regions of the world. Rather, it is, "What will China fight for in Latin America in the coming generation, and how might those struggles play out and impact the US and the region?"

## Background

The acquisition of port concessions on both sides of the Panama Canal by the Hong-Kong based firm Hutchison-Whampoa in 1997 raised alarm in Washington over China's intentions in the Western Hemisphere. With time, a consensus has emerged among US academics and policymakers that current Chinese activities in the region do not indicate intent to establish military bases and alliances, or other capabilities that would directly threaten the security of the United States in the near term.<sup>1</sup> Experts debate whether the Chinese disposition to seek security of supply through long-term contracts, looking to own part of the supply chain, or otherwise seeking a "seat at the table," is necessary, or cost effective. Similarly, they speculate whether such efforts will "lock up" sources of supply and deny them to Western competitors, or whether by contrast, investments by Chinese companies in the commodity sector, and in infrastructure to access those commodities, may actually make more commodities available more cheaply for all players in the market. None of these debates, however, suggest that the PRC views deliberate action against the United States as either necessary or desirable.

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<sup>1</sup> See, for example, the remarks of Assistant Secretary of State Arturo Valenzuela during his August 2010 visit to the PRC. Zhang Ting, "China 'not a threat' in L. America." *China Daily*. Beijing, China. [http://www.chinadaily.com.cn/china/2010-08/19/content\\_11173376.htm](http://www.chinadaily.com.cn/china/2010-08/19/content_11173376.htm). August 19, 2010. See also Dr. Frank Mora, Deputy Assistant Secretary of Defense for the Western Hemisphere. Presentation to the conference "Strategic Implications of China's Evolving Relationship with Latin America." Fort Leslie J. McNair, Washington DC. <http://www.ndu.edu/chds/>. November 6, 2009.

Beyond economic activities, the PRC continues to wage a diplomatic campaign to convince the 12 states in the region that still recognize Taiwan as the legitimate government of China<sup>2</sup> to change their posture. While the recognition of these states—predominantly in Central America and the Caribbean—is arguably a matter of national survival for Taiwan, its outcome does not have immediate security consequences for the United States, which switched its own diplomatic recognition from Taiwan to the PRC in 1979.

In general, the PRC has been extraordinarily cautious not to give the United States cause for alarm through its dealings with the region.<sup>3</sup> China's first *White Paper on Latin America* was published in conjunction with President Hu Jintao's trip to the Asia-Pacific Economic Cooperation (APEC) summit in Lima, Peru in 2008. It noted: "China is committed to the path of peaceful development and the win-win strategy of opening up. It is ready to carry out friendly cooperation with all countries on the basis of the Five Principles of Peaceful Coexistence and build a harmonious world of durable peace and common prosperity."<sup>4</sup> Nonetheless, PRC loans to, investments in, and commodity purchases from, anti-US populist regimes such as Venezuela, Ecuador, and Bolivia have arguably played a key role in maintaining the viability of these regimes in the face of isolation from traditional customers and lenders, growing mismanagement, and declining commodity production.<sup>5</sup> Moreover, the PRC arguably benefits from the survival of these regimes as a source of resistance to the consolidation by the US of influence in the hemisphere, and the associated risk that the PRC would find itself at a political and commercial disadvantage in its dealings with the region.<sup>6</sup>

Whatever benefits accruing to the PRC from the survival of populist regimes, it ultimately recognizes that its relationship with the United States—in terms of access to markets and technology, and avoidance of conflict—is far more important to its national development than the benefits accruing from overtly anti-US alliances with such regimes.<sup>7</sup> Accordingly, in the course of its dealings with these states, the PRC is very cautious to avoid associating itself too closely with the anti-US rhetoric and the initiatives of leaders such as Hugo Chavez.

Although Chinese objectives and actions in Latin America do not directly oppose the United States, engagement with Latin America by the PRC, its companies, and associated actors is simultaneously transforming the region, while creating increasingly important Chinese interests there. While there is no "unified plan" by which the diverse array of Chinese corporations and other entities pursue their interests in Latin America, their actions are shaped by the guidance of the State, and their successes and difficulties have profound implications for it. As a consequence, the Chinese government, Chinese corporations, and other Chinese actors will face an array of situations in which they will be motivated to use their growing power and influence to defend its interests in Latin America, in ways that may put to the test the PRC's often proclaimed "non-interference in the domestic affairs of other States."<sup>8</sup>

The types of interests and the reasons to defend them will parallel the situation faced by the United States during the last century as its own corporations and personnel became increasingly

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<sup>2</sup> These states are Paraguay, Panama, Honduras, El Salvador, Nicaragua, Guatemala, Belize, Haiti, the Dominican Republic, Saint Lucia, St. Kitts and Nevis, and Saint Vincent and the Grenadines.

<sup>3</sup> See, for example, Xiang Lanxin, "An Alternative Chinese View." In *China's Expansion into the Western Hemisphere*. Riordan Roett and Guadalupe Paz, Eds. Washington D.C.: Brookings Institution Press, 2009. Pp. 44-58.

<sup>4</sup> "China's Policy Paper on Latin America and the Caribbean (full text)." Ministry of Foreign Affairs. [http://english.gov.cn/official/2008-11/05/content\\_1140347.htm](http://english.gov.cn/official/2008-11/05/content_1140347.htm). November 2008.

<sup>5</sup> "Venezuela's Relationship with China: Implications for the Chávez Regime and the Region." University of Miami Center for Hemispheric Policy. [https://www6.miami.edu/hemispheric-policy/Ellis\\_Venezuelas\\_Relationship\\_w\\_China.pdf](https://www6.miami.edu/hemispheric-policy/Ellis_Venezuelas_Relationship_w_China.pdf). August 18, 2010.

<sup>6</sup> For a fuller development of this argument, see R. Evan Ellis, *China in Latin America: The Whats and Wherefores*. Lynne Rienner Press, 2009.

<sup>7</sup> See, for example, María Cristina Rosas, *China en el siglo XXI: ¿hacia una nueva bipolaridad?* Mexico City: Universidad Nacional Autónoma de México, 2007, p. 32.

<sup>8</sup> See, for example, "China's Independent Foreign Policy of Peace." Peoples Republic of China. Ministry of Foreign Relations. Official Website. <http://www.fmprc.gov.cn/eng/wjdt/wjzc/t24881.htm>. August 18, 2003.

involved in Latin America. In contrast to the United States, however, it is likely that Chinese actions to defend their interests in Latin America will rely less on military force, and more on economic forms of coercion, indirect pressure, and soft power.<sup>9</sup> In part, this reflects previously noted incentives for the PRC to avoid provoking concerted action in the U.S. that would deny it access to United States technology and markets, or otherwise precipitate an active resistance to China's global re-emergence. In part, it reflects the way in which Chinese strategic thinking, going back to the writings of thinkers such as Sun Tzu, has viewed the use of force as one means among many, and often not the most effective one, for achieving a strategic objective.

## Six Struggles

This paper argues that the current trajectory of expanding Chinese engagement with Latin America is likely to continue in the foreseeable future, and will give rise to six significant interests that China will increasingly struggle over in Latin America in the coming generation: (1) Access to markets and the struggle against protectionism, (2) Protection of investments and contracts, (3) Repayment of loans, (4) Protection of resource flows, (5) Protection of Chinese nationals and operations in the region, and (6) Isolation of Taiwan. In listing those areas, it provides a necessary background for understanding how China is likely to fight for its interests in Latin America (albeit not necessarily through military means), and the way that it is likely to leverage emerging sources of power and influence to do so.

### *1. Access to markets and the struggle against protectionism*

As traditional markets for Chinese manufactured products such as the United States, Europe, and Japan continue to grow very slowly, alternative markets such as Latin America—which is collectively a 515-million-person market that imported over \$769 billion in goods in 2009<sup>10</sup>—become increasingly important for China's maintenance of an export-led growth strategy. As Chinese companies seek to move into the production and export of increasingly higher value-added products such as motorcycles, cars, and consumer electronics, Latin America takes on even more importance, because of the willingness of its middle-income consumers to try new brands, if the price is sufficiently competitive.

In Latin American countries with significant manufacturing sectors, governments have initiated tariffs and other measures to protect local producers, as well as initiating or joining in “anti-dumping” cases against China in the World Trade Organization.<sup>11</sup> In general, the greatest quantity of protectionist initiatives have been taken by countries whose manufacturing sectors are both relatively well organized, important to the national economy, and badly damaged by competition with the Chinese, such as Mexico and Argentina. In other countries, such as Peru and Chile, with relatively smaller and less well-organized manufacturing sectors and current governments strongly oriented toward promoting Chinese trade and investment, protectionist responses have been more limited.

As products from the PRC continue to undercut local manufacturers, protectionist legislation and initiatives are likely to grow, in some countries more rapidly than others, creating pressures for the Chinese government to use diplomatic, economic and other levers of power to maintain open markets for its producers. An indication of how the Chinese may wage this struggle comes from Argentina, where the PRC began enforcing a longstanding phytosanitary regulation to retaliate against Argentine barriers to the entry of Chinese manufactures. The action effectively blocked the entry of Argentine

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<sup>9</sup> See R. Evan Ellis, “Chinese Soft Power in Latin America – A Case Study.” *Joint Forces Quarterly*, January 2011 (Forthcoming).

<sup>10</sup> International Monetary Fund. Direction of Trade Statistics. *Quarterly*. June 2010. p. 4.

<sup>11</sup> See, for example, “Mexico slaps anti-dumping duties on China steel.” *Reuters*. <http://www.reuters.com>. May 25, 2010. See also Rodrigo Orihuela, “Argentina Sets Levies and Ends Anti-Dumping Investigation on Chinese Goods.” <http://www.bloomberg.com>. July 22, 2010.

soy oil into the country, a flow which had been worth \$1.4 billion during the previous year.<sup>12</sup>

Despite such omens, it is likely that the Chinese will employ collaboration, as much as confrontation, in their struggle to maintain Latin American markets open to their manufactured goods and service exports. As Chinese companies have grown in sophistication in their relationships in the region, for example, they have also begun building manufacturing and technology partnerships with local companies, in part to avoid tariffs and other barriers to entry. In addition, they have begun offering large loans to Latin American governments to finance infrastructure projects and other needs, while tying those loans to the use of Chinese companies and products, such as was the case with the Sopladora<sup>13</sup> and Coca Coda Sinclair<sup>14</sup> hydroelectric projects in Ecuador, or the Jamaica road maintenance fund.<sup>15</sup>

## 2. Protection of investments and contracts

Although the PRC had the reputation during most of the decade for investing very little in Latin America,<sup>16</sup> since 2008, it has begun to inject significant capital into the region, including in sectors such as petroleum and mining, which by nature require significant up-front investment expenses that are difficult to recover if the project does not work out. These investments include \$16.3 billion to develop the Junin-4 oil fields of the Orinoco basin of Venezuela; \$7.1 billion for assets of the Spanish petroleum company Repsol in Brazil;<sup>17</sup> \$3.1 billion by Sinochem to acquire the rights to Brazilian offshore oilfields from the Norwegian company Statoil,<sup>18</sup> and the possible acquisition of a stake in the Brazilian oil company OGX.<sup>19</sup> Investments also include the acquisition of a 30 percent stake in the Brazilian firm MMX by Wuhan steel, in addition to \$5 billion to jointly build a steel mill in conjunction with MMX in the Brazilian port of Açú.<sup>20</sup> In Argentina, the Chinese firm CNOOC invested \$3.1 billion to acquire 50 percent of the assets of the petroleum company Bidas.<sup>21</sup> In Peru, it has invested \$1.4 billion,<sup>22</sup> and confirmed commitments to invest a total of \$3.7 billion to develop the newly acquired mines in Toromocho and Rio Blanco; to invest an additional \$1.1 billion to expand the operations at the Hierro Peru mine near Marcona, and to possibly invest an additional \$2.5 billion in the Galeno mine in Cajamarca.<sup>23</sup> In Ecuador, in 2005, Chinese oil companies invested \$1.42 billion to purchase the local assets of the Canadian firm EnCana. In December 2009, also in Ecuador, the mining firm Tongling acquired the Canadian firm Corriente for \$646 million,<sup>24</sup> and together with China Railway Construction Corporation, has indicated intent to invest more than \$3 billion in developing the Corriente copper mine.<sup>25</sup>

As the Chinese become increasingly committed to large loans and sunken investments in

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<sup>12</sup> In an interview to the Chinese news agency Xinhua commenting on the China-Argentine trade dispute, Vice Commerce Minister Jiang Yaoping said that China would have “no alternative other than to consider countermeasures” to protectionist moves in Argentina restricting the entry of Chinese manufactured products. “Argentine Soy Oil Quality Key to Resuming Trade, Xinhua Says.” *BusinessWeek*. <http://www.businessweek.com>. April 22, 2010.

<sup>13</sup> “El Eximbank financiará otros \$ 600 millones para central Sopladora.” *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. June 14, 2010.

<sup>14</sup> “Carta de intención entre Sinohydro y Coca Codo.” *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. April 21, 2010.

<sup>15</sup> Martin Henry, “Working the Road Maintenance Fund.” *Jamaica Gleaner*. Kingston, Jamaica. <http://mobile.jamaica-gleaner.com/gleaner/20100228/focus/focus3.php>. February 28, 2010.

<sup>16</sup> Jorge I. Dominguez, et. al. “China’s Relations with Latin America: Shared Gains, Asymmetric Hopes” *Interamerican Dialogue*. June 2006.

<sup>17</sup> Sonya Dowsett and Chen Aizhu, “China’s Sinopec paying \$7 bln for Repsol Brazil stake-UPDATE 5.” *Reuters*. <http://www.reuters.com>. October 1, 2010.

<sup>18</sup> Vibeke Laroi and Meera Bhatia, “Sinochem to Buy 40% of Brazil Offshore Field From Statoil for \$3.1 Billion.” *Bloomberg*. <http://www.bloomberg.com>. May 22, 2010.

<sup>19</sup> Cathy Chan and Peter Millard. “CNOOC, Sinopec Weigh \$7 billion Offer for Assets of Brazil’s OGX.” *Bloomberg*. <http://www.bloomberg.com>. September 10, 2010.

<sup>20</sup> “China refuerza su presencia económica en Venezuela.” *El Universal*. Caracas, Venezuela. <http://www.eluniversal.com>. September 19, 2010.

<sup>21</sup> “Cnooc Buys Bidas Stake for \$3.1 Billion to Gain Oil (Update1).” *BusinessWeek*. <http://www.businessweek.com>. 14 March 2010.

<sup>22</sup> “Perú es el principal destino de la inversión china en América Latina al superar los US \$1.400 millones.” *El Comercio*. <http://elcomercio.pe>. April 21, 2010.

<sup>23</sup> “Cartera de proyectos mineros a ejecutar en Perú suma US\$ 39,323 millones.” *Andina*. <http://www.andina.com>. July 29, 2010.

<sup>24</sup> “China quiere profundizar intercambio bilateral con Ecuador.” *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. January 2, 2010.

<sup>25</sup> “Tongling, Partner to Spend \$3 Billion in Ecuador Mine.” *BusinessWeek*. <http://www.businessweek.com>. August 13, 2010.

infrastructure in the extractive sectors of Latin American countries, they are likely to discover that their expanding portfolio of investments is increasingly at risk of nationalizations, the forced renegotiation of contracts when commodity prices change, and similar problems that have periodically confronted Western investors in the region. Although populist regimes such as that in Venezuela currently favor Chinese companies and their projects, there is no guarantee that the relationship will not sour in the future. Ecuador's president Rafael Correa has already forced the Chinese oil consortium and other petroleum companies operating in his country to twice renegotiate the terms of its operations,<sup>26</sup> while Venezuela's taxing authority has tried to revise the back taxes allegedly owed by China National Petroleum Corporation.<sup>27</sup>

In part, the enthusiasm with which Chinese companies are expanding their investments in Latin America may be conditioned by their relative lack of bad experiences to date with expropriations and asset seizures there, reinforced by faith that their influence over, and special relationships with, the region's populist leaders will protect them from such actions. In those countries with more traditional capitalist leaders, the Chinese companies have also put much faith in contracts and legal guarantees, although in the same countries the PRC government is simultaneously reaching out to alternative leaders, such as the Ollanta Humala, who narrowly lost the presidency to Alan Garcia in 2006, and who traveled to China in April 2010, where he was received by senior Communist party officials.<sup>28</sup>

In light of China's desire to avoid open confrontation with the United States, it is virtually unthinkable that the PRC would intervene with force in Latin America against a regime that had seized its assets. More likely, it could be tempted to use its influence within government ministries that depend on its investments and technical support, and even among neighboring states, to head off a pending nationalization. In the same vein, the PRC could also be tempted to work against the rise of a Latin American leader who gravely threatened one of their key investments, or to work to undermine the power of such a leader, once in office, before he or she could take action against those investments.

### 3. Repayment of loans

As a complement to PRC direct investment in Latin America, Chinese state-owned banks such as the Export-Import Bank (ExIm Bank) and China Development Bank (CDB) have begun to make major loans to Latin America, often in support of a bid by Chinese companies to win a major investment project. Chinese banks have committed \$28 billion in funds to Venezuela, including \$8 billion in contributions to the "Heavy Investment Fund," and a \$20 billion loan, half in Chinese currency, negotiated in 2010.<sup>29</sup> In Brazil, Chinese banks have lent \$10 billion to the Brazilian state oil firm Petrobras to develop its offshore oil resources, in order to support a broader Chinese bid to participate in deepwater exploration projects in the Campos and Santos basins. In Ecuador, PRC banks have loaned the country \$2 billion over the course of two years, and have committed to finance the bids by Chinese companies on two major hydroelectric projects—Coca Coda Sinclair, and Sopladora, with a combined value of more than \$2.4 billion.<sup>30</sup> The Chinese government has even offered to loan Bolivia \$15 billion to extract iron from the El Mutún mineral fields in the east of the country,<sup>31</sup> although Bolivia has not yet taken the PRC up on the offer.

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<sup>26</sup> "Ministro comenzó diálogo directo con cada petrolera." *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. May 5, 2010.

<sup>27</sup> Peter Millard, "Venezuela Tax Office Fines CNPC \$11 M in Industry Audit." *Wall Street Journal*. <http://www.wsjonline.com/americas>. September 7, 2006.

<sup>28</sup> "Senior CPC official meets President of Peruvian Nationalist Party." Official Website of the Chinese Communist Party. <http://english.cpc.people.com.cn/66102/6950543.html>. April 14, 2010.

<sup>29</sup> "Destinarán al pago del préstamo con China 200.000 b/d." *El Universal*. Caracas, Venezuela. <http://www.eluniversal.com>. September 18, 2010.

<sup>30</sup> "Estado garante de préstamo para Coca Codo." *El Universo*. Guayaquil, Ecuador. <http://eluniverso.com>. April 2, 2010.

<sup>31</sup> "Bolivia seeks other partners for El Mutun iron ore project." Mineweb <http://www.mineweb.com/mineweb/view/mineweb/en/page39?oid=107781&sn=Detail>. June 12, 2010.

As is the case with Chinese investments, loans from Chinese banks appear driven by a combination of a desire by the PRC to use its enormous currency surplus strategically and to diversify away from dollar-denominated resources, and to the fact that no Latin American country, to date, has defaulted on a major PRC loan.

While some countries receiving Chinese loans, such as Brazil and Peru, have demonstrated relatively solid fiscal and monetary policy, others such as Venezuela and Ecuador appear to be mirroring the behavior of Latin American regimes of the 1970s and 1980s, which borrowed large sums from the International Monetary Fund (IMF) and World Bank, using the loans to sustain current spending, without generating the productive resources that would be used to repay the loans, and ultimately being forced to default. In the case of Venezuela, Ecuador and Bolivia, the dynamic is particularly worrisome, since commodity production generating the resources that would pay off the debt is actually declining, while corruption and management inefficiency appear to be on the rise.<sup>32</sup>

The Chinese have already taken steps in an attempt to hedge against loan default, including tying the deal to petroleum in the case of Ecuador, and establishing binding 3<sup>rd</sup> party international arbitration procedures in London for disputes arising out of repayment of that loan.<sup>33</sup> With respect to Venezuela, the PRC has not only linked loan repayment to future oil deliveries, but in some cases, actually has physical control of the oil being extracted in Venezuela for repayment, implying that the Venezuelan government would have to actively block the Chinese from extracting and shipping Venezuelan oil out of the country, in order to stop repayment of the loan.

As with the issue of nationalization, it is unlikely that the Chinese would use overt coercion against nations defaulting on major loans. Nonetheless, as China's August 2010 attempts to "counsel" Venezuela suggest,<sup>34</sup> as the balance of soft power and economic influence in the region shifts toward the PRC, it may become progressively more deeply involved in providing "technical assistance" in the management of the revenue generating activities of populist states, and other activities tied to the repayment of those loans.

#### 4. Protection of resource flows

Although the percentage of Chinese imports coming from Latin America constitutes only 5.3 percent of its imports globally, this percentage has doubled in the past eight years,<sup>35</sup> with increasing PRC reliance on Latin American commodities in select sectors such as petroleum, metals and minerals, soy, fishmeal, and other agricultural products. While an interruption of one or more of these flows in the short term may not "wreak havoc" on the Chinese economy, their importance will motivate Chinese business and government leaders to dedicate effort to preserve them, in the interest of sustaining Chinese economic performance.

Numerous potential risks exist to the flow of resources from Latin America to the PRC, many of which have already impacted the Chinese, albeit in a limited fashion. In August 2010, a strike paralyzed operations at the PdVSA refinery in Curacao, responsible for processing the majority of Venezuelan oil sent to China.<sup>36</sup> Similarly, in Marcona, Peru, the mining operation of the Chinese firm Shougang, has suffered an average of 1-3 strikes per year since acquiring the operation in 1992. Beyond protests and work stoppages, Chinese operations have also been subject to violence,

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<sup>32</sup> See, for example, Kevin Casas-Zamora, "The Devil Comes to Collect His Due." *Foreign Policy*. <http://www.foreignpolicy.com>. September 24, 2010.

<sup>33</sup> "Prestamo chino se hará con garantía petrolera." *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. September 4, 2010.

<sup>34</sup> Roger F. Noriega, "Chávez and China: Challenging U.S. Interests." *Latin American Outlook*. <http://www.aei.org/docLib/03-LAO-2010-g.pdf>. No. 3, August 2010.

<sup>35</sup> In 2001, PRC imports from Latin America were \$6.6 billion, out of \$244 billion of imports from all parts of the world. By 2009, the PRC was importing \$53.4 billion from Latin America, out of \$1004 billion in imports globally. International Monetary Fund. *Direction of Trade Statistics*. Quarterly. June 2010, Yearbook 2008.

<sup>36</sup> "Trabajadores de refinería Isla en Curacao entran en huelga." *El Universal*. Caracas, Venezuela. <http://www.eluniversal.com>. August 8, 2010.

such as the takeover of CNPC oilfields in Tarapoa, Ecuador in November 2006,<sup>37</sup> or the protests against Petrooriental in Orellana that turned violent in July 2007, ultimately forcing the Ecuadoran government to declare a state of emergency.<sup>38</sup>

The increasing presence of Chinese companies on the ground in Latin America, and in particular in mining and petroleum extraction in remote areas with complex populations, is likely to spawn a range of challenges with which those companies, with or without the support of the PRC government, will have to deal. On one hand, new operations, such as those proposed by the mining firm Tongling in Corriente copper belt of southern Ecuador,<sup>39</sup> or those planned at Toromocho, Rio Blanco, and Galleno in Peru, are likely to spawn unrest with local populations over a range of issues, from Chinese management practices and the use of Chinese versus local workers, to issues of invasion of and rights to the land, issues. (These generated violence by indigenous groups in the remote Peruvian region of Bagua in 2009.) Already, the new Chinese mining project in Toromocho has run into problems with residents of the town of Morococha, which is located on the mining site and has to be relocated by the concession owner, China Aluminum Corporation (Chinalco).<sup>40</sup>

Chinese operations in remote areas will increasingly involve the shipment of high value-added goods through relatively isolated mountainous, or jungle terrain, where security of the shipments will be a challenge. Chinese suppliers, customers, facility operators such as Hutchison-Whampoa, and logistics firms such as China Shipping and China Overseas Shipping Company (COSCO) will also have to concern themselves with port and airport security, including not only the risk that their merchandise will be stolen, but also that it could be used for the shipment of narcotics and other illegal activities, which could ultimately lead to a police incident causing a costly disruption of their operations.

In protecting its resource flows, the PRC will also have to prepare for the risk of radical political change, and associated violence, which has frequently occurred in the region. A civil war, such as that which seemed possible in Bolivia during the 2007-2008 timeframe; the expansion of a narcoinsurgency, such as that of Sendero Luminoso in the valley of the Apurimac and Ene rivers (VRAE) in Peru, or an interstate conflict, such as that between Colombia and Venezuela, could have a major disruptive influence on Chinese extractive operations. An even more serious problem would be violent regime collapse, were the escalating crisis of governability to expand out of control in a state such as Venezuela, with significant ongoing Chinese oil and mining operations and a well-armed local militia with a strategy of decentralized resistance to fight against challengers to the regime.

## 5. Protection of Chinese nationals and operations in the region

As noted in the previous section, the expansion of Chinese commercial projects in Latin America will be accompanied by a growth in the number of Chinese companies, businessmen and other nationals on the ground in the region, in a context in which the nature of their activity, and their location often in remote areas, will put them in harm's way with respect to criminals, guerrillas, and simply un-accepting, potentially violent local populations. The growing occurrence of incidents such as those seen in Tarapoa in 2006 and Orellana in 2007 will force the PRC and its companies to consider the question of how to best ensure the security of its personnel.

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<sup>37</sup> "Concluye toma de petrolera china Andes Petroleum." *El Universo*. Guayaquil, Ecuador. <http://www.eluniverso.com>. November 11, 2006.

<sup>38</sup> "Protestas contra Petrooriental dejan 31 heridas en ocho días." *El Comercio*. Quito, Ecuador. <http://www.elcomercio.com>. July 4, 2007.

<sup>39</sup> "Tongling, China Railway Plan to Invest \$3 Billion in Ecuador Copper Mine." *Bloomberg*. <http://www.bloomberg.com>. August 13, 2010.

<sup>40</sup> See, for example, "Minera CHINALCO en Morococha tras los pasos de SHOUGANG. Mantuvo cerrada vía de acceso a Yauli por 1 año. Alcalde impone principio de autoridad. ¿A quién pertenece el Perú?" <http://marconaprotesta.wordpress.com/2008/08/27/minera-chinalco-en-morococha-tras-los-pasos-de-shougang-mantuvo-cerrada-via-de-acceso-a-yauli-por-1-ano-alcalde-impone-principio-de-autoridad-%C2%BFel-peru-a-quien-pertenece/>.

In some cases, Chinese companies, like others, may in order to avoid problems pay protection money or otherwise “cut deals” with criminals and guerillas in the areas in which they operate. In Colombia, for example, former congressman Óscar Tulio Lizcano, has charged that between 2006 and 2008, while he was being held hostage by the Fuerzas Armadas Revolucionarias de Colombia (FARC), he observed helicopters from CNPC carrying doctors and medical supplies into the guerrilla camp in which he was being held prisoner,<sup>41</sup> suggesting that CNPC was effectively providing assistance to the FARC, in an effort to prevent it from making problems for CNPC operations in the region.

Beyond collaboration, to the extent that Chinese companies hire private security forces in Latin America, as they have in Africa,<sup>42</sup> they will risk generating even greater conflict with local populations and governments, should those security forces commit abuses. To the extent that the PRC engages in security cooperation with the governments of the region to better protect its companies and nationals, its actions will likely raise red flags in the United States.

As PRC commercial, political, and cultural activities with Latin America expand, Chinese populations at risk will not be limited to oil industry workers and miners in remote regions, but will also include businessmen, tourists, and ethnic Chinese residing in the region. For example, in 2004, in Maracay and Valencia, Venezuela, ethnic Chinese shopkeepers became the focus of violent protests, vandalism and looting when they attempted to close their stores in sympathy with a strike against the regime of Hugo Chavez.<sup>43</sup> In Buenos Aires, Chinese shopkeepers in the suburbs of the federal capital became the target in 2007 of a strike by local truckers, focalizing community resentment over the Chinese, who were seen to have replaced Spanish shopkeepers, and who were believed to unfairly collaborate and associate with mafias to undercut the competition with their prices.<sup>44</sup>

In previous years, Chinese leaders have not believed that the PRC had the power or the responsibility to defend its nationals abroad, many of whom had immigrated prior to the Communist revolution, and who were seen as anti-communist defectors and traitors. Today, however, many of the ethnic Chinese in Latin America are part of a different cohort, which immigrated to Latin America for largely economic reasons. Others, such as businessmen and tourists, are citizens of the PRC, with reason to expect that their government will protect them if they come into harm's way.

## 6. Isolation of Taiwan

As noted previously, for the PRC the issue of the diplomatic recognition in the international community of the Republic of China (ROC; otherwise known as Taiwan) as the legitimate government of all of China is an important matter of domestic security. Therefore, Latin America is a particularly important battleground, since it is the home of 12 of the 23 States worldwide that continue to recognize the ROC. These states are relatively small in terms of population and economic activity, with the consequence that a relatively small amount of investment, public works projects, or promised trade, can constitute an enormous incentive for changing their diplomatic posture.

Since the victory of the Kuomintang party in Taiwan and the ascension of its leader Ma Ying-jeou to the presidency in May 2008, an informal agreement has been established in which, so long as China and Taiwan continue on their path of rapprochement with each other, neither will attempt to change the diplomatic allegiance of States recognizing the other, whether through offers of aid, or

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<sup>41</sup> “Lizcano dice que petrolera daba apoyo logístico a las Farc.” *Tierra*. Bogotá, Colombia. <http://www.terra.com.co>. 15 de Julio 2009.

<sup>42</sup> Andrew Erickson and Gabe Collins, “Looking After China’s Own: Pressure to Protect PRC Citizens Working Overseas Likely to Rise,” *China Signpost*. No. 2. August 17, 2010.

<sup>43</sup> Yolanda Ojeda Reyes, “Ciudadanos chinos reciben protección.” *El Universal*. Caracas, Venezuela. <http://www.eluniversal.com>. November 11, 2004.

<sup>44</sup> “Los camioneros ratifican el boicot a los súper y autoservicios chinos.” *Clarín*. Buenos Aires, Argentina. <http://www.clarin.com>. June 26, 2006.

by other means.<sup>45</sup> Since the last switch in diplomatic recognition—by Costa Rica in May 2007—a range of newly-elected leaders in other states that recognize Taiwan have expressed their interest in changing the diplomatic posture of their respective countries, including Ricardo Martenelli of Panama,<sup>46</sup> Fernando Lugo of Paraguay,<sup>47</sup> and Mauricio Funes of El Salvador.<sup>48</sup> Although the interest expressed by each of these leaders was made before being elected to office, to date none has evolved into a public action, although as recently as June 2010 Paraguayan government officials have spoken of changing recognition.<sup>49</sup>

Although in the short term the “pact” between the PRC and the ROC has put an end to some of the most aggressive maneuvering for diplomatic recognition, it has not altered the fundamental competition between the two states, and remains in effect only while both sides consider it useful to adhere to it. It is likely, thus, that when the treaty breaks down, perhaps with an unsolicited change in sides by one of the remaining states that recognize Taiwan, the PRC will return in earnest to a struggle for the diplomatic recognition of countries of the region, in order to advance the diplomatic isolation of Taiwan as a fundamental national policy goal.

### Implications for the U.S. and the Region

China’s growing engagement with, and interests in, Latin America is frequently downplayed because the PRC currently has very limited capability for projecting military power into the region, and thus far has not demonstrated an interest in doing so. As this article has argued, to apply such a framework of “gunboat diplomacy” to assess the implications of China’s expanding engagement with Latin America is misleading.

The Chinese government and its companies have powerful and growing sources of leverage in Latin America that are appropriate to the types of interests that it is struggling to defend, including leverage stemming from its purchases of Latin American commodities, its multi-billion dollar investments in the region, and the expanding presence of its companies on the ground, paralleling the ability of Western companies of the previous century to play a significant role in Latin American politics, even without the involvement of U.S. military forces.<sup>50</sup>

At the same time, China is also likely to become increasingly willing to fight for those interests, as it transitions to a new generation of leadership that is less disposed than the previous ones to view the PRC from a perspective of weakness, and by extension, less disposed to defer to concepts of the previous world order, such as an exclusive US “sphere of influence” in Latin America.

In particular, PRC decision-makers evaluating how to protect China’s growing interests in Latin America are progressively less inclined to view the nation from a position of weakness; the emerging 5th and 6th generations of PRC leadership have come to power in a China which is much stronger and more self-confident than the China of the generation of Mao, which was grasping from a position of weakness to define its identity in a struggle for survival between the United States and the Soviet Union. The China of the generation of Hu Jintao is less likely to defer to the sensibilities of other powers, such as that was represented by the Monroe Doctrine in Latin America, when it perceives that important issues are at stake.

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<sup>45</sup> “President Ma defines ‘flexible diplomacy.’” *The China Post*. Taipei, Taiwan. <http://chinapost.com>. November 11, 2008.

<sup>46</sup> Jenny W. Hsu, “Panama respects Taiwan, China ‘truce’: ambassador.” *Taipei Times*. Taipei, Taiwan. <http://www.taipeitimes.com>. February 6, 2010.

<sup>47</sup> “Posible relación con China Continental.” *ABC Digital*. Asuncion, Paraguay. <http://www.abc.com.py>. June 7, 2007.

<sup>48</sup> “El Salvador anuncia que restablecerá relaciones con Cuba.” *Hoy*. Quito, Ecuador. <http://www.hoy.com.ec>. March 18, 2009.

<sup>49</sup> “Ministro habla en China de establecer relaciones.” *ABC Digital*. Asuncion, Paraguay. <http://www.abc.com.py>. June 7, 2010. See also “Canciller, a favor de relación con China.” *ABC Digital*. Asuncion, Paraguay. <http://www.abc.com.py>. November 15, 2009.

<sup>50</sup> It is a symbol of the growing weight of Chinese companies in Latin America, for example, that Jaime Thorne, who was name Minister of Defense of Peru in September 2010, held a seat on the board of China’s oldest and previously largest mining operation in that country, Shougang Hierro Peru. “Jaime Thorne León, Nuevo Ministro de Defensa de Perú.” *InfoDefensa*. <http://www.infodefensa.com/lamerica/noticias/noticias.asp?cod=2536&n>. September 16, 2010.

Although it is not possible to predict how China's struggle to defend its interests in the region will play out, it is reasonable to infer that its deepening engagement with the region will undercut its ability to remain aloof from the politics and, more importantly, outcomes, in the region. In the coming years, the six struggles outlined in this paper are likely to play a key role in the PRC's agenda with individual Latin American countries, and in its strategic dialogue with the United States.

As Chinese economic influence and bargaining position expand, it will be surprised to discover that Latin America resents its power, and will occasionally act against its interests in the region, regardless of longstanding Chinese rhetoric about mutually beneficial South-South relations and non-intervention in the internal affairs of other states.

It is likely that Chinese government and business leaders are aware of the risks and imperatives arising from their activities in Latin America. However, it is not clear whether they have consciously embraced, at a political level, the struggles that will likely be required to defend those interests, or the impact that these struggles may have on China's relationship with the United States, and other aspects of its strategic position globally.