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China to the Rescue? Implications of Chinese Aid and Trade in Latin America Based on Evidence from Sino-African Cases

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Abstract

The rise of China is shaping developing countries around the world. The infamous Sino-African relationship has highlighted the detrimental effects of unconditional Chinese aid and trade in developing regions. Corrupt countries are now able to access large amounts of aid with "no-strings attached." Even more, China's hunger for natural resources has caused many African economies to increasingly rely on primary products.

Despite the extensive coverage on Sino-African relations, little light has been shed on the long-term implications of Chinese unconditional aid and trade in Latin America. However, as Latin American economies are forced to "deindustrialize" and corrupt regimes remain intact, it is pertinent to explore the potential consequences of Chinese unconditional aid and trade in Latin America.

This thesis will compare Sino-African and Sino-Latin American cases in order to hypothesize about the future long-term implications of Chinese unconditional aid and trade in Latin America. By examining scholarly works and historical trends, this thesis will argue that Chinese unconditional aid and trade in Latin America supports corrupt and inefficient regimes while also failing to provide long-term growth opportunities.

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Chapter One: Introduction

Since Chinese economic reforms began in 1979, international actors have watched closely as Chinese influence in developing regions has continued to grow at an exponential rate. As the "sleeping dragon" awoke at a breathtaking pace, the world witnessed China's GDP increase from less than $150 billion in 1979 to $1.65 trillion in 2005.[1] With this extreme domestic growth, China is now able to exert influence abroad through a number of political and economic channels, including its unconditional foreign aid and its strategic trade relations. Not only is China using this unconditional aid and trade as a means to increase diplomatic relationships, the emerging international superpower is also using foreign aid and trade as a means to further its strategic goals in developing regions.

Considerable research has been conducted regarding Chinese aid and trade in African countries. More specifically, analysis has been directed towards both the positive and negative consequences of Chinese unconditional aid to corrupt African nations such as Sudan and Zimbabwe, among many. However, little consideration has been given to Chinese aid and trade in Latin America and its underlying long-term implications on the political, diplomatic, and economic landscapes of the region. With China pledging to invest $250 billion in Latin American in the next decade, it is pertinent to understand the potential consequences of such an influx in aid.[2] Generally speaking, without sufficient

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[1] Joshua Eisenman, Eric Heginbotham, and Derek Mitchell, *China and the Developing World: Beijing's Strategy for the Twenty-first Century* (Armonk, NY: M.E. Sharpe, 2007).
[2] Katy Watson, "What will China's investment do for Latin America?" *BBC News*, July 7, 2015.

scholarly analysis on the consequences of Chinese unconditional aid and trade in Latin America, the future of the region is haphazard and unknown.

This paper will seek to give the Sino-Latin American relationship the attention it rightly deserves. This chapter will initially introduce China's international relations, specifically in terms of aid and trade, while also identifying the importance of the Sino-Latin American relationship. After providing this general context, this chapter will conclude by introducing my hypotheses regarding the long-term implications of Chinese unconditional aid and trade in Latin America.

China's Relations with the Outside World

In order to contextualize current Sino-Latin American relations, it is important to first understand the development of China's foreign relations policy. Given its vision of itself as the "Middle Kingdom" (*Zhong Guo*), China did not put significant emphasis on developing foreign economic relations during the empire's earlier years.[3] Despite this, the Spanish Crown was able to form regular commercial ties with Asia, specifically through the Philippines. In the 16th and 17th century, triangular trade between China, the Philippines, and the Americas was the extent of Chinese involvement with other international actors.[4] After Latin American countries' independence from the Spanish crown in the 1820s, their relationships with China lost relevance for a number of reasons.[5] These newly independent countries were neither stable nor large enough for continued trade. Moreover, the Latin American countries were concerned with

[3] Adrian H. Hearn and León José Luisl, *China Engages Latin America: Tracing the Trajectory* (Boulder, CO: Lynne Rienner, 2011): 6.
[4] Ibid., 6.
[5] Ibid., 7.

maintaining sovereignty from other empires, including China.[6] Perhaps most importantly, the Qing Dynasty (1644-1911) was preoccupied with Chinese expansion within East and Central Asia rather than internationally.[7]

With the decline of the Qing Dynasty in the early 1900s, China began redeveloping relationships with non-Asian countries such as Brazil, Cuba, Mexico, Panama, and Peru. Its interest in establishing ties outside of its home territory was, in part, a result of competitive pressure from growing European powers.[8] However, shortly after the last Chinese emperor resigned in 1912, a civil war between the Nationalists and Communists ensued, leaving little room for any international relation reform.

When the Chinese Communist forces overtook the Nationalists in 1949, Latin American countries were largely reluctant to form diplomatic ties with China. Many Latin American countries between the 1950s to the 1970s were anti-Communist and pro-Washington, with the exception of Cuba.[9] After Fidel Castro took power in 1959, Cuba became the first Latin American country to redevelop formal diplomatic ties with China.[10] Throughout the Cold War, Beijing maintained its ideological stance and promoted the "formation of Maoist factions in the Communist parties of Bolivia, Brazil, Colombia, Peru, and others."[11] Contrary to previous years as the "Middle Kingdom," China began viewing itself as a "Third World" country with ties to Latin America, among other developing regions.

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[6] Ibid.
[7] Ibid.
[8] Ibid., 8.
[9] Ibid., 8.
[10] Ibid.
[11] Ibid.

With the fall of the Soviet Union in 1990, international relationships at large began forming on an economic basis more so than an ideological basis.[12] China implemented new policies that focused on maximizing profits rather than spreading Beijing's philosophies. We will further explore these policies in the following sections of this chapter.

The Chinese Foreign Aid Model

Due to the interconnectedness of Chinese aid and investment, I will use the term "aid" to refer to both forms of financing throughout this thesis. Generally speaking, Chinese foreign aid takes the form of grants, interest-free loans, or concessional loans. The Export-Import Bank of China provides concessional loans, and the Chinese state finances grants and interest-free loans.[13] Until recently, Chinese foreign aid was not a highly publicized phenomenon. However, as Chinese aid continues to become more prevalent in developing regions, more scholars have started analyzing its roots, terms, and consequences.

Chinese economic aid and technical assistance to other countries started in the 1950s, when the country itself was short of funds.[14] The first forms of Chinese foreign aid were directed towards the Democratic People's Republic of Korea (DPRK) and Vietnam, both of which had friendly ties with China.[15] In an interest to strengthen political and diplomatic ties outside of Asia, China began aiding African countries in

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[12] Ibid., 10.
[13] China's Foreign Aid. N.p.: n.p., n.d. UNICEF, Apr. 2011. Web. March 2, 2015. <http://www.unicef.org/eapro/China_White_Paper_on_Foreign_Aid.full_text.pdf>.
[14] Ibid.
[15] Ibid.

1956. However, it was not until 1964 that the Chinese government formally declared the "Eight Principles for Economic Aid and Technical Assistance to Other Countries," which stressed equality, mutual benefit, and a "no-strings attached" philosophy.[16] China's opening-up to the global community in 1978 afforded the country new opportunities to revise and strengthen foreign policy.[17] Since then, China has used its unique foreign aid policies to form relationships with developing regions in Southeast Asia, Africa, and Latin America.

With its foreign policy based on the Five Principles of Peaceful Coexistence, Chinese aid stresses the importance of "non-interference in the internal affairs of other states."[18] As Chinese Premier Zhou Enlai expressed during his 1953 visit to India, China's foreign policy focuses on "mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-interference in one another's internal affairs; equality and mutual benefit; and peaceful coexistence."[19] Given this foundation, today China's foreign aid policy stresses the following ideas:[20]

- Helping recipient countries build on their own self-capacity
- Imposing no political conditions and respecting the recipient country's right to choose their own model of development
- Maintaining a focus on equality and mutual benefit, both economically and diplomatically
- Adapting to changing conditions, both domestic and international

[16] Ibid.
[17] Peter H. Smith, Kōtarō Horisaka, and Shōji Nishijima, *East Asia and Latin America: The Unlikely Alliance* (Lanham: Rowman & Littlefield, 2003): 318.
[18] Hearn, *China Engages Latin America*, 84.
[19] Smith, *East Asia and Latin America: The Unlikely Alliance*, 312.
[20] China's Foreign Aid, 3.

As a country with a one-party system, China is notably less concerned with promoting democracy and human rights in comparison to the United States or organizations such as the International Monetary Fund (IMF).[21] Contrary to the “Washington Consensus” which focuses on trade liberalization, privatization, deregulation, and fiscal discipline, the “Beijing Consensus” stresses the mutual help aspect of foreign aid. The non-interference aspect of the “Beijing Consensus” makes Chinese unconditional especially attractive to countries unable to receive funding from other organizations. For example, Angola, a state which has been historically marginalized from international aid due to its high levels of corruption, is a major recipient of unconditional Chinese aid. In the early 2000s, the Angolan government rejected a conditional loan from the IMF and accepted an attractive “unconditional” $2 billion loan from China. Upon receiving this “no-strings attached” Chinese aid, the Angolan government provided China with 40,000 barrels of oil per day.[22] The case of Angola will be further explored in Chapter 3.

Overall, the Chinese foreign aid model is controversial in its intentions and outcomes. During the London G20 Summit in April 2009, Prime Minister Gordon Brown formulated a worldwide recovery plan in response to the global financial crisis. This plan sought to encourage Chinese consumers to spend more in return for the Chinese government gaining greater influence in the IMF, a plan Beijing enthusiastically accepted. By the time the G20 Summit had ended, the United States and China were engaged in a battle to protect their currencies from overvaluation. Within the same week,

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[21] Hearn, *China Engages Latin America*, 84.
[22] Yun Sun, "China's Aid to Africa: Monster or Messiah?" The Brookings Institution. N.p., February 7, 2014. <http://www.brookings.edu/research/opinions/2014/02/07-china-aid-to-africa-sun>.

the Chinese government granted Venezuela a $20 billion credit in return for increased oil exports, and acquired the Brazilian part of a Spanish oil company for $7.1 billion.[23]

Another important aspect of Chinese foreign aid is that it is "tied." Chinese aid is considered "tied aid" because it directly benefits the Chinese economy, both abroad and at home, by supporting Chinese businesses and workers.[24] Take for example the $2.2 billion Chinese-funded dam being built in Ecuador. Instead of hiring local Ecuadorians to construct the project, China sent over 1,000 Chinese engineers and workers to the Latin American country.[25]

Chinese Trade

In addition to Chinese unconditional aid, Chinese trade with developing countries has also become a highly-contested phenomenon. The share of exports by BRIC economies (Brazil, Russia, India, and China) more than doubled between 1996 and 2006, increasing from 6 percent to 12.4 percent.[26] Of this astonishing number, China accounted for a significant portion. In fact, China's claim of world exports rose from 2.7 percent to 7.6 percent over the same time period.[27] As China's exports grew, so did its influence over importing developing regions such as Southeast Asia, Africa, and Latin America. This growth is not ending anytime soon; the Carnegie Endowment for International Peace predicts that China's share of exports will increase to 24 percent by 2050.

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[23] Hearn, *China Engages Latin America*, 1.
[24] Yun Sun, "China's Aid to Africa: Monster or Messiah?"
[25] Clifford Krauss and Keith Bradsher, "China's Global Ambitions, with Loans and Strings Attached," *The New York Times*, 2015.
[26] Shimelse Ali and Bennett Stancil, "Developing Countries Changing the World of Trade," Carnegie Endowment for International Peace, November 19, 2009, http://carnegieendowment.org/ieb/2009/11/19/developing-countries-changing-world-of-trade.
[27] Ibid.

Why is trade so important to China, a nation with plentiful resources? The answer is simple: China's overusing population. Take for example the fact that China's forest area measures approximately 1.2 million square kilometers, yet timber resources are about 10 billion cubic meters.[28] After being an oil exporter until the early 1990s, China imported 3,384 thousand barrels of oil per day in 2005, accounting for "just under half of its total daily consumption of 6,988 thousand barrels a day."[29] China has become the main consumer of raw materials worldwide; according to a 2006 statistic, China buys "40 percent of cement, 31 percent of coal, 30 percent of iron, 27 percent of steel, 25 percent of aluminum, and 20 percent of copper sold on world markets."[30] From these percentages, it is apparent that China is constantly experiencing resource strains. Developing countries fill China's resource void by acting as convenient exporters of primary resources such as timber, oil, and other natural resources. In exchange for these raw materials, China offers consumer goods to these developing regions, such as Latin America.[31]

Some scholars argue that this trade trend is pushing Latin America into a dangerous "raw materials corner." In other words, Chinese interest in Latin American raw goods is disallowing Latin American countries to diversify their exporting industries. It is far more profitable for Latin American countries to simply prepare raw materials to sell to China rather than support entrepreneurship and diversification. Therefore, Sino-Latin American trade may actually cause a detrimental "overdependence on natural

[28] Smith, *East Asia and Latin America: The Unlikely Alliance*, 322.
[29] BP Statistical Review of World Energy, 2004-2006.
[30] Hearn, *China Engages Latin America*, 10.
[31] Ibid., 11.

resource exports" in Latin America. I will analyze this idea further throughout the remaining chapters.

The Importance of China's Influence

General literature investigating Chinese aid and trade highlights the importance of subsequent Chinese influence in recipient developing regions. China's model of economic development has afforded the country with immense credibility abroad. Even more, Chinese international ideology stresses state sovereignty, which is an attractive message for developing countries in Southeast Asia, Africa, and Latin America.[32] China's willingness to "engage in development support programs overseas without overt political and ideological strings has given rise to 'The Beijing Consensus'" where China "finds itself now not only in possession of the economic tools to help the world, but the tool of its example as well."[33] This so-called "Allure of China" and commitment to "non-interference in the internal affairs of other states" has further inspired developing countries around the world to seek support for China as an alternative to U.S. aid.[34,35] Despite the fact that China stresses "the resolve of the Chinese government and the Chinese people to stick to the road of peaceful development is unshakeable" (PRC 2005b), the greater question, as will be explored in Chapter 5, lies in the long-term implications of Chinese influence.

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[32] Scott, *The Chinese Century?* 83.
[33] Ibid.
[34] Ibid.
[35] Ibid., 84.

Relevance of Latin America

After a wave of democratization in the mid-1980s and early 1990s, Latin American countries were increasingly opening their markets to the outside world. Today, Latin American countries are welcome global market players. With a third of the world's fresh water sources and vast amounts of farmable land, Latin America is arguably "the next global bread basket."[36] As a major supplier of much of the world's natural resources and foodstuffs, countries seeking economic opportunities are flocking to Latin America for investment and trade. Given China's recent controversial expansion within Latin America, the region deserves more attention. As *New York Times* headlines such as "China's Ambitious Rail Projects Crash into Harsh Realities in Latin America" fill newspapers across the world, it is obvious that the Sino-Latin American relationship may bear important consequences. As Nicaraguan NAFTA negotiator Carlos Zuniga said, "China is an awakening monster that can eat us."[37] Despite these developments, the topic of Chinese influence in the Latin American region has been overshadowed by Chinese actions in African countries.

This thesis will seek to bridge the gap in information that exists in Sino-Latin American relations by providing analysis on the long-term implications of Chinese unconditional aid and trade in Latin America. I will hypothesize (1) that Chinese unconditional aid to Latin America, as an alternative to stringent IMF or U.S. aid, has supported the existence of inefficient, and oftentimes corrupt, regimes. By comparing Sino-Latin American relations to Sino-African relations and researching scholarly works,

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[36] Katy Watson, "What will China's investment do for Latin America?" *BBC News*, July 7, 2015.
[37] Kevin Gallagher and Roberto Porzecanski, "China's Economic Impact in Latin America" *Latin American Research Review* 43, no. 1 (2008): 185.

I will further hypothesize (2) that Chinese unconditional aid and trade will not provide nor incentivize long-term growth in Latin American countries.

In order to test my hypotheses about the long-term implications of Chinese unconditional aid and trade in Latin America, I will initially provide a general literature review in which I will highlight common trends. I will next introduce and analyze a number of Sino-African cases which will highlight the tangible long-term effects of Chinese unconditional aid and trade. Then, I will present four Sino-Latin American cases which will highlight the short and medium-term effects of Chinese influence. I will also discuss the similarities between the Sino-African and Sino-Latin American cases. After exploring and comparing Sino-African cases and Sino-Latin American cases, I will be able to accurately test my hypotheses on the implications of Chinese involvement in Latin America.

On a methodological level, this thesis will use a number of different sources. The historical context will come primarily from books and journals focusing on either Sino-African or Sino-Latin American relations. The specific details of the African and Latin American cases will also come from a variety of books and online journals. I will also utilize news sites in order to provide up-to-date information in my final chapter.

Chapter Two: Literature Review

In order to hypothesize about the consequences of Chinese aid and trade in Latin America and its future implications, I call upon a wide array of multidisciplinary scholarship and research. Although more limited in quantity, various scholars have published literature, both journalistic and academic, regarding the Sino-Latin American relationship. This literature generally focuses on the effects of Chinese aid and trade as well as implications for future developments. Moreover, the resources also introduce important historical context, diplomatic ties, and analyses on general trends.

Substantial literature has been put forth regarding the Sino-African relationship, yet little attention has been given to the developing Sino-Latin American relationship. For this reason, I will use a variety of different sources to support my hypotheses, including scholarly journals and articles, economic theory, and comparative African case studies.

Developing the Sino-Latin American Relationship

Early Chinese Empire: As mentioned in Chapter 1, the relationship between China and Latin America dates back to the early 16th century. Although the Chinese empire did not focus much on foreign relations during this time, the triangular trade between China, the Philippines, and the Americas formed what would become a long-lasting relationship between China and Latin America.

Hearn (2011) and Bingwen, Hongbo, and Yunxia (2012) offer an array of historical context dating back to the early Chinese empire.[38,39] Of notable importance is China's relative "hands off" approach during the years of the Qing Dynasty.[40] As the "Middle Kingdom," China did not feel pressure to expand its power internationally until much later on.

Lai (2009) brings color to this history by providing insight on the early migration between Latin America and Asia. During the second half of the nineteenth century, as the Chinese population skyrocketed and arable land decreased, Chinese citizens began migrating to the Americas. At first, many of these Chinese migrants rushed to the U.S. because of the gold rush. Once they recognized the diminishing returns from gold, many looked for opportunities in Latin America.[41] Migration between China and Latin America continues today. As a form of "tied aid," China often sends Chinese workers to construct Chinese-funded dams, stadiums, and other infrastructure. Migration expanded the relationship between the two developing regions to encompass more than simply economics.

In the early 1900s, China became increasingly interested in forming more solidified diplomatic ties outside of its East Asian sphere. In many ways, this desire was a result of pressure from growing European powers. Despite this, Hearn (2011) explains that China experienced a civil war between Nationalists and Communists in 1949, "leaving scant room for new initiatives in the international arena."[42]

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[38] Shaungsheng He, "China-Latin America Relations: Review and Analysis" (Paths International, 2012).
[39] Hearn, *China Engages Latin America.*
[40] Shaungsheng He, "China-Latin America Relations: Review and Analysis," 1.
[41] Hearn, *China Engages Latin America,* 7.
[42] Ibid., 8.

1949 to 1980s: An important pivotal moment in the Sino-Latin American relationship was the rise of communism in China. As Hearn (2011) describes, the triumph of the Chinese Communist Party put a strain on Sino-Latin American relations since many Latin American countries were conservative, anti-Communist, and pro-Washington at the time. Despite U.S. surveillance on Chinese trade transactions, Sino-Latin American relations did not cease. After the Cuban revolution in September of 1960, Cuba became the first Latin American country to develop formal relations with China. U.S. rapprochement with China in the late 1970s under the Nixon administration pushed Beijing to forfeit their attempt to spread socialist revolution in Latin America in favor of forming diplomatic ties with the developing countries.[43]

Beyond the political landscape, Bingwen, Hongbo, and Yunxia (2012) speak to the cultural "people-to-people" exchanges between China and Latin America that occurred during this time period despite the ideological tension. These cultural exchanges are important to analyze as they deepened the Sino-Latin American relationship and laid the foundation for Chinese "soft power" in the region.

1980s to Today: Hearn (2011) also analyzes the trajectory of Sino-Latin American relations after the Cold War and the demise of the Soviet system. By the 1990s, "the emphasis of Sino-Latin American engagement had undergone quite a remarkable shift from political to economic affairs."[44] During the 1990s China began undertaking serious efforts to expand its exporting markets. Scholars such as Smith (2013) and Gallagher (2008) argue that due to a flood of cheap Chinese products, Latin American economies experienced pressure to downgrade the sophistication of their

[43] Ibid., 9.
[44] Ibid., 10.

products and focus solely on producing raw materials.[45] This phenomenon will be further explored later in this chapter and throughout this thesis, as it is still a relevant topic for Sino-Latin American relations today.

Scholars of contemporary Sino-Latin American relations also focus on the non-interference aspect of what is called the “Beijing Consensus”. In many ways, the “Beijing Consensus” is a direct competitor with the “Washington Consensus” and similar conditional aid programs such as those of the IMF and World Bank. In fact, Sun (2014) argues that the “Beijing Consensus” fills the “empty space [in the ‘Washington Consensus’] for new models of economic development.”[46] The controversial “no-strings attached” feature of Chinese aid will be important to consider throughout this thesis.

Mutual Attraction

A mutual and non-violent relationship would not be able to form between two countries if they did not foresee positive outcomes. It is widely accepted that both the Chinese government and many Latin American governments are motivated to maintain the Sino-Latin American relationship due to the benefits each country will receive. Whether this idealistic theory will hold in the future is to be determined, but in the meantime scholars such as Ellis (2009) have hypothesized about these motivations.

Ellis (2009) defines the factors that fuel the evolving, multidimensional Sino-Latin American relationship.[47] He argues that China’s interests in Latin America fall into four distinct categories: (1) acquiring primary products, (2) cultivating markets for

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[45] Smith, *East Asia and Latin America: The Unlikely Alliance*, 322.
[46] Hearn, *China Engages Latin America*, 27.
[47] R. Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder, CO: Lynne Rienner, 2009): 9-32.

Chinese exports, (3) gaining international isolation of Taiwan, and (4) securing strategic alliance with Latin America.[48] This thesis will focus primarily on categories 1, 2, and 4; the consequences of these interests will be further analyzed in terms of its impact on Sino-Latin American relationship in the next two sections of this chapter.

On the other hand, Ellis (2009) also presents reasons why Latin America is likewise interested in China. In agreement with many other scholars, Ellis (2009) argues that Latin America is interested in China for three main reasons: (1) creating export-led growth, (2) attracting investment in fuel development, and (3) an alternative to U.S. dominance.[49] Although there is less literature regarding Latin America's interest with China, Hearn (2011) agrees with the above listed reasons while also emphasizing China's attractiveness as an alternative to U.S. influence.[50]

Chinese Aid to Latin America

Many scholars focus on the impact of Chinese unconditional investment and aid to Latin America. China has been able to increase its influence dramatically abroad through its distribution of unconditional aid to a number of third world countries, including those in Latin America. Although it is difficult to find exact measurements on Chinese aid, Lum (2009) and Toro (2013) offer substantial facts and data. China directs a significant portion of their overall foreign aid towards Latin America. Of the Chinese loans, infrastructure projects, and other aid between 2002 and 2007, 36 percent went to

[48] Ellis, *China in Latin America: The Whats and Wherefores*, 9-22.
[49] Ibid., 23-28.
[50] Hearn, *China Engages Latin America*, 42.

Latin America.[51] However, as Lum (2009) notes, the amount of aid China gives Latin America is substantially less than Chinese aid to Africa. Comprised of many developing countries, Latin America is a recipient of foreign aid from a number of countries and institutions. However, some donors such as the U.S. and the World Bank provide loans with stringent conditions. In an extensive Chinese aid study, Gallagher (2012) found that although Chinese aid to Latin America is a relatively new phenomenon, by 2010 China had already loaned more than the World Bank, IDB and US Export-Import Bank combined.[52] Furthermore, although Chinese banks impose no policy conditions on borrowing governments comparatively, they do oftentimes require equipment purchases or oil sale agreements.[53] This form of "tied aid" helps ensure that the Chinese government will be able to fulfill its "mutual benefit" principle introduced in Chapter 1. In fact Gallagher (2012) estimates that two-thirds of all loans to Latin America were loans-for-oil.[54]

Chinese aid to Latin America is an attractive alternative for corrupt governments. As a country characterized by a persistent presence of political and financial corruption in government, the influx of Chinese aid to Venezuela has filled the vacuum created from a lack of World Bank loans. Sanderson (2013) explains how in an oil-rich country such as Venezuela, unconditional aid can increase the risk of political disruption and

[51] Thomas Lum, "China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," Congressional Research Service (November 25, 2009): 5.
[52] Kevin P. Gallagher, Amos Irwin, and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," Inter-American Dialogue (February 2012): 7.
[53] Ibid., 1.
[54] Ibid., 5.

corruption.[55] In the first nine years of Hugo Chávez's presidency, an estimated $300 billion of oil income entered the Venezuelan national treasury. Despite this extraordinary number, Gustavo Coronel, president of Agrupacion Pro Calidad de Vida, says the money was "nowhere to be seen in terms of public works or effective health and education programs."[56] Ellis (2009) corroborates this argument, stating that Chinese aid and trade with Venezuela has allowed administrative inefficiency and corruption to persist, even under the present-day leadership.[57]

It will be beneficial to refer to cases of Chinese aid to Africa in order to support my hypotheses regarding the long-term implications of Chinese aid to Latin America. As mature examples, Sino-African relationships can be used to hypothesize about the discretion, or lack thereof, that the Chinese government uses when allocating aid. Brautigam (2009) explains that in many African cases, the danger of this unconditional aid lies in its long-term consequences on recipient countries. As the Chinese government continues to blindly distribute aid to developing regions, it subsequently runs the risk of maintaining and fueling corrupt regimes such as those in Angola or the Democratic Republic of Congo.

Chinese Trade with Latin America

Another aspect of Chinese influence is its "unconditional" trade. Unlike the U.S. or European countries, the Chinese would rarely, if ever, impose a trade embargo based

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[55] Sanderson, Henry, and Forsythe, Michael. Bloomberg , *China's Superbank : Debt, Oil and Influence : How China Development Bank is Rewriting the Rules of Finance* (Somerset, NJ, USA: John Wiley & Sons, 2012)*:* 164.
[56] Gustavo Coronel, "The Corruption of Democracy in Venezuela," CATO Institute, March 2008. http://www.cato.org/publications/commentary/corruption-democracy-venezuela.
[57] Ellis, *China in Latin America: The Whats and Wherefores*, 290.

on violations of human rights. Instead, as explained earlier, China prides itself on its "no-strings attached" approach.

Chinese trade with Latin America is a differentiating factor between the Sino-Latin American relationship and the Sino-African relationship. Specifically, unique to the Sino-Latin American cases is the abundance of natural resources. Many sources, including the *Economist* magazine and even the World Bank, have argued that Latin American countries "should be rooting for more growth" in China.[58] Gallagher (2010) alludes to this opinion, popular before the financial crisis of 2008. China's rise would expectedly increase the demand for Latin American exports and "help pull LAC [Latin American countries] out of its worst recession in decades."[59] However, more recently scholars have focused on deeper analysis on the Sino-Latin American trade relationship. With a more critical eye, scholars such as Devlin (2007), Gallagher (2010), and Hearn (2012) share data and analyses that support a more precarious view on the Sino-Latin American trade patterns.

The greater question is whether Sino-Latin American trade is a one-sided gain or a two-sided mutually beneficial relationship. Devlin (2007) provides statistics that prove this relationship is mostly one-sided; China exports large amounts to Latin America while it imports a very small percentage of Latin America goods, other than natural resources. Devlin (2007) explains that Chile, Argentina, and Mexico were the "only Latin American countries among China's top 40 suppliers in 2002, accounting together for just 1.3

[58] Kevin Gallagher and Roberto Porzecanski, *Dragon in the Room: China and the Future of Latin American Industrialization* (Palo Alto, California: Stanford University Press: 2010): 14.
[59] Ibid., 11.

percent of total imports."[60] In fact, Devlin (2007) shows that Latin American growth rates are not concentrated in sectors that are growing fast globally, but rather the undiversified exports are focused on Chinese desires.[61] Hearn (2011) shares Devlin's sentiments. As Hearn explains, only three Latin American countries had China among their top five export destinations in 2000, but this number increased to eight in 2009.[62] On a larger scale, the number of countries importing Chinese goods increased from three to thirteen over the nine year period.[63] Hearn (2011) argues that the "most prominent transformation in Sino-Latin American trade is the massive growth of China's exports." Toro (2013) agrees that Latin American has become "China's most dynamic export market with an annual growth of 31% between 2005 and 2010, versus 16% for the rest of the world."[64] Even further Sino-Latin American trade has been characterized by substantial deficits, a disappointing phenomenon for many Latin American countries.[65]

What are the implications of this one-sided relationship? Gallagher (2010) and Elson (2014) discuss the role of natural resources in the formation and sustainment of Sino-Latin American relations. Specifically, Gallagher (2010) provides statistics on the true "winners" of this relationship while also assessing long-term repercussions. For example, Gallagher finds that 74 percent of all Latin American exports to China were in primary commodities.[66] Many scholars share Gallagher's opinion that China has played

[60] Robert Devlin, Antoni Estevadeordal, and Andrés Rodríguez, *Emergence of China: Opportunities and Challenges for Latin America and the Caribbean* (Washington, DC, USA: Inter-American Development Bank, 2007): 76.
[61] Ibid., 78.
[62] Hearn, *China Engages Latin America,* 94.
[63] Ibid., 94.
[64] Hardy Alfredo Toro. *World Turned Upside Down : The Complex Partnership Between China and Latin America* (Singapore, SGP: World Scientific Publishing Company, 2013): 118.
[65] Hearn, *China Engages Latin America,* 95.
[66] Gallagher, *Dragon in the Room: China and the Future of Latin American Industrialization,* 12.

a notable role in cornering Latin America into a world of primary product dependency. As Matt Ferchen, resident scholar at the Carnegie-Tsinghua Center for Global Policy, shared with *BBC News* in July 2015, "The imbalanced South American commodity-for-manufactures relationship with China has long caused some in the region to worry about a repeat of historical raw material 'dependency' relations."[67] In 2014, for every single product Mexico exported to China, it imported 11 times that from China.[68]

Future Implications

Most literature surrounding the Sino-Latin American relationship includes hypotheses for future relations. These predictions focus mainly on the areas discussed earlier in this chapter including Sino-Latin American aid and trade.

The Sino-Latin American relationship appears to be based on a mutual dependency; Latin America needs aid and money for primary products and China needs to sell its exports and use resources for its manufacturing. However, Ellis (2009) argues that this reliance on comparative advantage, or specializing in what makes your economy advantageous, is a dangerous trap for developing countries in Latin America. Latin American countries certainly find their comparative advantage in producing primary resources in the short-term; however, as China increases its comparative advantage in manufacturing, it is inevitable that income for Latin American countries and workers will be lower in the long-term.[69] Although Latin American economies have prospered in the short-term from Chinese aid and trade, the increased demand is not permanent. Ellis

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[67] Katy Watson, "What will China's investment do for Latin America?" *BBC News*, July 7, 2015.
[68] Ibid.
[69] Ellis, *China in Latin America: The Whats and Wherefores*, 287.

(2009) argues that “China’s deliberate effort to move up the value-added chain into manufacturing and high technology implies that this demand and its benefits may not be lasting.”[70] Even if China continues to buy Latin American resources, demand from China alone is not enough to sustain entire economies.[71]

What is the problem with depending solely on income from natural resources? We can turn to the well-known “resource curse.” Although controversial among economist and scholars today, Stiglitz (2007) argues that “an obvious fact in most poor, oil-rich countries is that the income from oil wealth is usually spread very unevenly through the country.”[72] Even for those who do not agree with the idea of the “resource curse,” we can look to the widely-accepted Solow Growth Model used in economic analyses. The Solow Growth Model explains that an increase in a country’s savings rate will decrease the market interest rate and encourage substitution of capital for labor, especially in a resource-rich country.[73] Rather than seeking new varieties of output and new methods of production, the country will focus solely on producing more of the same good.[74] In order to create an actual shift in the production function and permanently increase long-term output, a technical change is necessary. This technical change can only arise from innovation or entrepreneurship, both of which are discouraged when a country is able to make quick money by exporting primary products. We will refer to the Solow Growth Model again in Chapter 5.

[70] Ibid.
[71] Ibid.
[72] Joseph E. Stiglitz, Jeffrey Sachs, and Macartan Humphreys, *Escaping the Resource Curse* (New York: Columbia University Press, 2007): 171.
[73] Richard Pomfret, *The Age of Equality* (Belknap Press of Harvard University Press. 2011): 94.
[74] Ibid.

In terms of political stability and transparency, the Sino-Latin American relationship may bring both positive and negative consequences. Ellis (2009) argues that in corrupt countries such as Venezuela and Ecuador, Chinese aid and trade may help sustain unethical and inefficient regimes.[75] However, he contrasts this negative impact by calling attention to the cases of Chile, Peru, and Costa Rica in which Chinese aid and trade actually contributes to the success of effective regimes with a commitment to democratic processes.[76]

Although scholars such as Watson (2008) believe that physical distance and cultural differences may slow the development of strong Sino-Latin American ties, Ellis (2009) argues that Latin American engagement with China is transforming the region.[77,78] Specific to my hypotheses, Ellis (2009) argues that Chinese trade and aid have supported corrupt regimes and deterred countries from achieving long-term growth strategies. As previously mentioned, Ellis (2009) maintains that the policies of the Chavez regime in Venezuela "…have given rise to a cycle of unpredictability, particularism, and administrative inefficiency that may ultimately render the country incapable of having a productive commercial relationship with any party."[79]

Scholars have offered a wide array of analysis on both the Sino-African and Sino-Latin American relationship. These ideas will be further explored in the subsequent chapters as we seek to delve deeper into the future implications of Chinese unconditional aid and trade in Latin America.

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[75] Ellis, *China in Latin America: The Whats and Wherefores,* 289.
[76] Ibid.
[77] Cynthia A. Watson, "U.S. Responses to China's Growing Interests in Latin America: Dawning Recognition of a Changing Hemisphere," In Enter the Dragon? China's Presence in Latin America, (DC: Woodrow Wilson International Center for Scholars, 2008) 65-71.
[78] Ellis, *China in Latin America: The Whats and Wherefores,* 289.
[79] Ibid., 290.

Chapter Three: Historical Context on Sino-African Relations

In order to better understand Chinese motivations for providing aid and trade while also assessing its effectiveness, this chapter will analyze previous Sino-African aid and trade relations. Furthermore, these cases will provide additional historical context and highlight the tangible implications of Chinese aid and trade, which will afford the opportunity to hypothesize about future implications of the Sino-Latin American relationship.

In this chapter, I will briefly present three different cases of Chinese involvement in African countries. The first, Sudan, will demonstrate China's support of corrupt regimes and human rights abuse. Next, the case of Angola will highlight China's use of "tied aid" to create frivolous and disadvantageous investment projects. Lastly, China's involvement in Zambia will highlight the danger of seeking profits at the cost of safety and cultural concerns.

Why Africa?

Contrary to many Western views of Africa as a "failed continent," Beijing has eagerly invested in and traded with many African countries, the majority of which are resource-rich. China solidified its commitment to maintain relations with Africa with the establishment of the Forum on China-Africa Cooperation (FOCAC) in October 2000.[80] Since then, as Brautigam (2009) explains, China has taken a two-pronged approach in its economic relations with Africa. It has offered resource-backed development loans to

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[80] Li Anshan and Yazini Funeka April, *Forum on China-Africa Cooperation: The Politics of Human Resource Development* (ZAF: Africa Institute South Africa, 2013).

resource-rich countries, and developed trade and economic cooperation zones in other African nations.[81]

In many ways, Sino-African relationships are quite similar to many Sino-Latin American cases. Although the differences between the two regions will be noted in the remaining chapters, for the purposes of this chapter, a number of similarities should be emphasized. For one, Africa and Latin America are both developing regions that share a third-world sentiment with China. Secondly, these developing regions are key recipients of Chinese "soft power."[82] Lastly, China indiscriminately distributes its aid, therefore allowing corrupt regimes in both regions to form beneficial relationships with China. As Robert B. Zoellick stated in his remarks to the National Committee on U.S.-China Relations, "China's involvement with troublesome states indicates at best a blindness to consequences and at worst something more ominous."[83]

Sudan: Oil at the Cost of Human Rights

Leading up to the Beijing-based Olympics in 2008, China received international pressure to cut ties with Sudan due to its gross human rights violations in the Southern and Darfur region.[84] Despite this international scrutiny, China continued to give aid and engage in trade with the controversial country. With nearly 70 percent of Chinese infrastructure financing concentrated in four African nations including Sudan, it was and

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[81] Christopher Alessi and Beina Xu, "China in Africa," *The Council on Foreign Relations*, April 27, 2015.
[82]Lum,"China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," 1.
[83] Robert Zoellick and Richard J. Ellings, "NBR Analysis," *The National Bureau of Asian Research* 16.4 (2005). http://www.nbr.org/publications/nbranalysis/pdf/vol16no4.pdf.
[84] Meine Pieter van Dijk, *New Presence of China in Africa* (Amsterdam, NLD: Amsterdam University Press, 2009): 142.

is apparent that China is committed to maintaining this Sino-Sudanese relationship, even today.[85]

The relationship between China and Sudan dates back to 1959, when Sudan became the fourth African country to recognize the People's Republic of China.[86] Early in their relationship, Sudan would export cotton to China in return for aid and "attractive trade agreements."[87] However, this notorious, oil-infused relationship did not truly progress until the African nation was isolated from the developed world. After U.S. sanctions against Sudan's government required U.S. companies to flee the country, "China's oil company CNPC [the mother company of Petro-China] took over Chevron's discarded assets."[88] The Sudanese economy continued to undergo extreme turmoil in the years to follow, including defunding from the IMF and World Bank. Sudan's marginalization from other aid organizations forced the country to rely heavily on China for aid and trade.

In order to maintain vital relations with China, the Sudanese government turned to its large primary products supply. As the government's main source of income, oil is a driving force of the Sudanese economy. Correspondingly, China is a country with an extreme thirst for oil. This classic case of supply-and-demand has formed a profitable Sino-Sudanese relationship. In fact, China is Sudan's biggest foreign investor, spending approximately $4 billion per year, according to a 2006 statistic.[89] Even more, China is

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[85] Ibid., 9.
[86] Ibid., 143.
[87] Ibid.
[88] Ibid.
[89] Ibid., 145.

responsible for 25 percent of the oil-rich country's FDI.[90] Additionally, China bought 50 percent of Sudan's oil exports in 2005.[91] Due to China's interest in Sudanese oil, Sudan is one of the few countries that actually export more to China than it imports.[92]

The Sino-Sudanese relationship seems to benefit each side in theory; China secures oil and Sudan receives much-needed funding. However, by providing an alternative source of income, Chinese unconditional aid undermines attempts by organizations such as the United Nations to suppress the violence in Darfur. The violence in Darfur is detrimental to the Sudanese people. According to the United Nations, "the conflict in the Darfur region has killed 300,000 people and displaced 2.5 million people since 2003."[93] The Janjaweed militias in the Darfur region attack locals, burn down villages, and terrorize civilians with arson, massacre, and rape. Despite this violence, China continues to send unconditional aid to the Sudanese government. Moreover, China fuels the corrupt Sudanese government via oil revenues. Perhaps most notably, a panel of UN experts found that "Chinese weapons were making their way to Darfur."[94] As Macdonald (2010) explains, "China has been exporting arms and ammunition to Sudan as well as constructing factories for Sudan to produce its own weapons."[95] Beijing justifies supplying weapons to unstable regimes, such as Sudan's, by citing the rights of the sovereign state and maintaining its "non-interference" stance.[96] Even further, the Chinese

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[90] Ibid.
[91] Firoze Manji and Stephen Marks, *African Perspectives on China in Africa* (Capetown, ZAF: Pambazuka Press, 2007): 47.
[92] Ibid.
[93] Ibid., 148.
[94] Ibid., 153.
[95] Bobbie Macdonald, "China's Policy of Non-Interference in Sudan," *The Canadian Undergraduate Journal of Development Studies* 7, no. 3 (2010): 11.
[96] Alden, "China and Africa's Natural Resources: The Challenges and Implications for Development and Governance," 21.

government states that weaponry to these regions works to strengthen and stabilize the political environment.[97] This thought process is inherently flawed as sending arms to unstable regions only supports pre-existing oppression by supporting the corrupt political elite.

The case of Chinese aid to Sudan shares a number of similarities and differences with the Latin American cases. Sudan and many Latin American countries are similar in their abundance of natural resources. Due to the available resources, China engages in strategic trade with both Sudan and Latin American countries. Although beneficial for the developing countries in theory, in reality, this trade tends to benefit corrupt governments that ignore human rights abuses, among other things. However, it is important to note that the Sudan case differs from Latin American cases in that Sudan does not import a large amount of Chinese goods. Rather, Sudan is a primary exporter to China; on the contrary, as we will find in Chapter 4, Latin American countries tend to also be importers of Chinese manufactured goods.

Angola: Empty Aid and Extravagant Projects

After the Angolan civil war ended in 2002, the developing country was in dire need of foreign aid. The Angolan government was close to reaching an agreement with the IMF for a "few hundred million dollars for the development of the economy" when Chinese aid emerged as an attractive alternative.[98] In contrast to a conditional loan from the IMF, the Chinese government offered $1 billion, "no-strings attached."[99] Expectedly,

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[97] Ibid.
[98] Van Dijk, *New Presence of China in Africa*, 159.
[99] Ibid.

the Angolan government accepted the unconditional Chinese loan. This was just the beginning of what would become a long-lasting and controversial relationship.

In line with other Sino-African cases, China is highly interested in Angola's vast oil supply. In fact, China's trade with Angola has surpassed that of the U.S., with a focus on the oil industry.[100] However, unique to the Angolan case, China is not solely interested in the country's oil; China also funds and constructs roads and railways across the country. As mentioned in Chapter 2, the catch with this aid is that it is "tied." Tied aid "requires recipients to use goods and services from the donor country."[101] Many of these Chinese-led projects in Angola employ only Chinese workers and Chinese companies; therefore, in reality the investments rarely benefit the Angolan economy.[102] Data published by China's ministry of Commerce revealed that more than 31,000 Chinese laborers were in Angola by 2009. Even more, the former Chinese ambassador to Angola estimated that between 60,000 and 70,000 Chinese were in Angola in 2011 in order to "implement projects financed through the Chinese credit line."[103] Indeed, seventy percent of oil-backed infrastructure credit offered by China in Angola is reserved for Chinese companies. Although projects financed by tied aid may seem superficially beneficial, studies show that "tying aid reduces its effectiveness by some 10 to 30 percent."[104]

Chinese tied aid to Angola is leading to the creation of ghost towns throughout the country. For example, Chinese aid and labor supported a $3.5 billion development

[100] United States. Government Accountability Office. Case Studies of U.S. and Chinese Engagement in Angola, Ghana, and Kenya. By David Gootnick. 280th ed. Vol. 13, 3.
[101] Deborah Brautigam, *The Dragon's Gift* (Oxford: OUP Oxford, 2009), 151.
[102] Ibid.
[103] United States. Government Accountability Office. Case Studies of U.S. and Chinese Engagement in Angola, Ghana, and Kenya. By David Gootnick. 280th ed. Vol. 13, http://www.gao.gov/assets/660/652043.pdf, 14.
[104] Brautigam, *The Dragon's Gift*, 151.

covering 12,355 acres which was expected to house 500,000 people.[105] However, this satellite city, constructed by Chinese workers and companies, remains untouchable for many Angolans. Given Angola's average per capital GDP of $5,144 per year, Angolans are unable to afford the apartments, which range in price from $120,000 to $250,000.[106,107] It is clear that such extravagant projects benefit the Chinese, not the Angolan civilians.

In many ways, the Angolan case is very similar to a number of Sino-Latin American relations. In particular, as discussed in Chapter 2, the use of tied aid is quite common in many Latin American countries such as Ecuador. In most cases, the general wastefulness of Chinese investments is quite indisputable. Similar to Angola, many Latin American countries undertake large Chinese-funded infrastructure projects that are either never finished or fail altogether. The similarities between Angola and many Latin American countries, such as Ecuador and Brazil, cannot be ignored.

Zambia: Safety Concerns

Compared to other African countries, Zambia boasts a relatively diversified economy. Therefore, unlike in the case of Sudan, China invests in "practically all sectors of the Zambian economy."[108] The case of Zambia is important to include because it acts as one of the few non-oil driven Chinese investments in Africa.

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[105] Mamta Badkar, "Check Out The Massive Chinese-Built Ghost Town in the Middle of Angola," *Business Insider*, July 3, 2012. http://www.businessinsider.com/chinese-built-ghost-town-kilamba-angola-2012-7
[106] This statistic was accessed via IMF.org on October 26, 2015.
[107] Badkar, "Check Out The Massive Chinese-Built Ghost Town in the Middle of Angola."
[108] Van Dijk, *New Presence of China in Africa*, 119.

China has been a present actor in Zambia since its independence in 1964. Since then, China has undertaken at least 25 development projects in Zambia, with a majority concentrated in the manufacturing, construction, and agricultural sectors.[109] Each of these investments, regardless of sector, is tied directly to Chinese companies. In fact, 20 Chinese companies were operating in the Zambian construction sector alone in 2006.[110] These investments are massive—in 2007, China gave Zambia $39 million to “reconstruct transport essential infrastructure.”[111]

Despite a relatively more diversified market, copper is still a major driver of the Zambian economy. In fact, Zambia is responsible for nearly 60 percent of African copper and copper exports make up 40 percent of Zambia’s total exports.[112] Conveniently, China is the world’s largest copper consumer.[113] China is eager to enter the Zambian copper industry. With the privatization of Zambian mines in the 1990s, the NFC Africa (a subsidiary of a Chinese company) immediately swept in to purchase an 85 percent share of the Chambishi mine for $20 million and invested another $130 million for its rehabilitation.[114,115] This purchase afforded China with substantial control over a large portion of the African country’s copper. China quickly implemented new procedures to ensure more efficient processes. However, in April 2005, an explosion at the Chambishi mine grounds killed 51 factory workers.[116] Following the disaster, China received a

[109] Ibid., 126.
[110] Ibid.
[111] Ibid., 131.
[112] Ibid., 128.
[113] In 2005, China accounted for over one-fourth of the world’s copper consumption. Ibid., 129.
[114] Ibid.
[115] Brautigam, *The Dragon’s Gift*, 5.
[116] Ibid.

number of accusations including those regarding safety standards. Even more, many officials linked the “law safety standards” with fatalities in China’s own mines.[117]

As tensions between Zambia and China grew, Zambian presidential candidates began voicing their opinions. Opposition Patriotic Front candidate Michael Sata shared his suspicious feelings towards China throughout the campaign. Sata expressed, “We have to be careful because if we leave them [the Chinese] unchecked, we will regret it. China is sucking from us. We are becoming poorer because they are getting our wealth.”[118] On the other hand, Zambian President at the time, Levy Mwanawasa argued “The Chinese government has brought a lot of development to this country and these are the people you are demonstrating against?”[119] These conflicting sentiments highlight the internal tension Zambia experienced after receiving immense amounts of Chinese aid. Although varied in scale, the feelings of neglect were widely shared among politicians and civilians.

The Zambian case again shares a number of similarities and differences with Sino-Latin American relationships. The substantial Chinese interest in natural resource is a phenomenon many Latin American countries are all too familiar with. The cases of explosions and disasters at Chinese-owned project sites may be a phenomenon Latin America will soon be familiar with.

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[117] Ibid.
[118] Ibid.
[119] Ibid., 6.

Overview of Sino-African Trends

These three cases highlight trends such as fueling corruption, empty investment, and China's hunger for natural resources. Arguably the most prominent and relevant trend is China's desire for primary products. This trend will be particularly useful in analyzing long-term implications of the Sino-Latin American relationship. Although there are a number of similarities and differences in African exports and Latin American exports to China, the overall primary products trend holds for many countries in both regions. Table 1 below, adopted from Lum (2009), explicitly lists African countries' main exports to China and evidences the concentration in the primary products sector.

TABLE 1*
AFRICA MAIN EXPORTS TO CHINA
Selected African Countries with Large Reported PRC Aid and Trade, 2002-2007

	Main Exports to China	**Chinese Financed Projects**
Sudan	Oil	Oil refining; infrastructure, hydro power, humanitarian
Angola	Oil	Infrastructure
Zambia**	Copper	Mining, infrastructure
Nigeria	Oil	Offshore oil development, infrastructure, medical training
Congo (DRC)	Oil, minerals	Mining, infrastructure

*Adopted from Table 6 in Thomas Lum, "China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," *Congressional Research Service,* November 25, 2009, 12.
** Barry Bearak. "Zambia Uneasily Balances Chinese Investment and Workers' Resentment," *The New York Times,* November 20, 2010.

The concentration of trade within the natural resources sector is apparent in both African and Latin American cases. However, Sino-African circumstances vary from Sino-Latin American relations in terms of type of Chinese involvement. In general, China focuses on investment in Africa and trade in Latin America. I will further develop this claim in Chapter 4 where I will present specific cases of both Sino-Latin American aid and trade. Altogether, although aid is certainly present in Sino-Latin American relations, the major differentiator between Sino-African and Sino-Latin American relations is the emphasis on trade with Latin American counterparts.

Despite these differences, using information on the heavily researched and analyzed topic of Sino-African relations will afford the opportunity to hypothesize about future effects of Sino-Latin American relations, especially in terms of the long-term implications of Chinese unconditional aid and trade.

Chapter Four: Latin American Cases

Given that I have already introduced historical context, general literature, and a number of Sino-African cases, this section will focus specifically on four Latin American cases that will each uniquely support my broader thesis. These cases will prove that (1) Chinese unconditional aid and trade in Latin American countries is supporting corrupt and ineffective regimes. Moreover, these cases will further prove (2) that Chinese unconditional aid and trade will not cause positive long-term changes. In fact, these cases will illustrate how concentrated trade within the primary products sector and cheap Chinese manufactured goods actually harm Latin American economies in the long run.

In order to provide context on Sino-Latin American relations, I will focus specifically on Mexico, Brazil, Chile, and Venezuela. Each case explicitly demonstrates the consequences of Chinese unconditional aid and trade. First, the case of Mexico exemplifies the detrimental effects of dumping cheap Chinese exports. Second, the case of Brazil demonstrates how Chinese interest in natural resources forces developing countries to focus solely on primary products at the cost of diversifying their economies. Then, the case of Chile highlights a unique combination of problems posed by Chinese unconditional trade. China burdens Chile with its cheap manufactured exports and also forces Chile into a simple economy focused solely on copper. Lastly, the case of Venezuela highlights how unconditional Chinese aid and trade allows for the perpetuation of corruption in developing countries.

As Hearn (2011) explains, “The emergence of China is a momentous development not simply because of its impact on the world, but because it challenges the world to engage China in a constructive dialogue and elicit new forms of mutual respect, compromise, and cooperation."[120] This chapter will seek to offer specific cases, anecdotes, and facts that will bring light to the important developments within Sino-Latin American relations. As China continues to expand its interests in Latin America, it is crucial to take a critical look at past relations.

Mexico: The Infiltration of Chinese Goods

Mexico is one of four Latin American countries recognized by China as a strategic partner.[121] As one of the most recent strategic partners, Ellis (2009) argues that China "awarded this honor to Mexico because of [its] importance as a trading partner and because of the leadership role that is has historically played in the region."[122] Despite this historic bond, the relationship between China and the developing country divides many Mexican businesspeople today. One of the most disputed aspects of the Sino-Mexican case is the influx of cheap Chinese manufactured goods to Mexico. On one hand, China offers cheap goods; on the other hand, these cheap goods flood Mexican stores and undermine the domestic economy. Generally speaking, the economic aspect of the Sino-Mexican relationship has been tense since trade has increasingly favored the Chinese.[123] The case of Mexico will highlight this enormous trade imbalance, a phenomenon many other Latin American countries are all too familiar with.

[120] Hearn, *China Engages Latin America,* 19.
[121] The other four "strategic partners" are Brazil, Venezuela, and Argentina. Ellis, *China in Latin America: The Whats and Wherefores*, 200.
[122] Ibid.
[123] Ibid.

It is widely acknowledged that, from the Mexican perspective, the Sino-Mexican trade relationship has allowed China to boast a significant balance-of-trade surplus.[124] In 1995, Chinese imports accounted for 0.9% of total imports to Mexico. By 2005, they accounted for 3.1% of all Mexican imports.[125] According to the Chinese Ministry of Commerce, in 2007 Mexico exported $3.3 billion worth of goods to China.[126] On the other hand, China exported $11.7 billion in goods to Mexico.[127] This gap widened by 2009; according to Mexican figures, Mexico imported $31.9 billion in Chinese goods while only exporting $2.2 billion to China.[128] However, the actual value of this trade imbalance is highly disputed as Mexican data and Chinese data differ significantly. Despite these differences in reported numbers, it is undeniable that there is a trade imbalance in favor of China.

How does China maintain a trade surplus with a resource-rich country such as Mexico? This imbalance is partially due to the fact that "Mexico consumes, rather than exports, the vast majority of its primary products."[129] Unlike many African countries, Mexico is not a large petroleum provider to China; therefore, Mexico has not benefited greatly from an increase in Chinese consumption of primary products. Although Mexico produces large quantities of oil, its reserves are generally declining.[130] Of these remaining

[124] Ibid.
[125] Rhys Jenkins, Enrique Dussel Peters, and Mauricio Mesquita Moreira, "The Impact of China on Latin America and the Caribbean," *World Development* 36, no .2 (2007): 239.
[126] Ellis, *China in Latin America: The Whats and Wherefores,* 200.
[127] Ibid.
[128] Hearn, *China Engages Latin America,* 140.
[129] Ibid.
[130] Ellis, *China in Latin America: The Whats and Wherefores,* 202.

reserves, Mexico has an allegiance to a number of pre-existing export commitments, including the United States.[131]

Therefore, rather than reaping the benefits of exporting primary products to China, Mexico has felt the burden of a flood of cheap Chinese manufactured goods. From 2006 to 2007, Chinese exports to Mexico increased by 32.7 percent.[132] Chinese goods have infiltrated the low-end manufactured goods market in Mexico. Even the figurines of the Virgin of Guadalupe that are sold to tourists in Zocalo, Mexico City are made in China.[133] Beyond this low-end market, Chinese goods also penetrate the high-end marketplace with cheaper motorcycles, computers, and cars. Furthermore, some scholars argue that Mexican and Chinese labor-intensive goods are so closely priced that they are export market competitors.[134] In fact, a number of Mexican industries have "demanded that their government protect them from a flood of low-priced products arriving legally and illegally from China, and from the loss of employment due to low wages in Chinese factories." [135]

The infiltration of cheaper Chinese products into the Mexican market has dramatically affected the lives of Mexican citizens. The attractiveness of cheaper operations in China has caused Mexican workers to lose their jobs at an exponential rate. Between October 2000 and December 2002, Mexico lost 270,000 manufacturing jobs.[136] In the textile sector, an industry heavily affected by the influx of Chinese goods, between

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[131] Hearn, *China Engages Latin America,* 141.
[132] Ellis, *China in Latin America: The Whats and Wherefores,* 203.
[133] Ibid.
[134] Ibid., 201.
[135] Hearn, *China Engages Latin America,* 141.
[136] "Mexican Business and Infrastructure," *Financial Times,* London, England. http://www.ft.com.

2003 and 2006, approximately 250,000 jobs were lost.[137] According to a study cited by Ellis (2009), "40 percent of all the losses in the maquiladora sector during this period [2003 to 2006] were due to companies moving their operations to Asia [for cheaper operations]."[138] Therefore, not only is the influx of cheap Chinese products harming the Mexican economy, the attractiveness of the unregulated Chinese market has even swayed companies to move their production lines and job opportunities, to Asia.

Beyond trading, China has made "tentative" investments in Mexico.[139] Between 2000 and 2009, Mexico received $222 billion in foreign direct investment from a number of developed countries.[140] Of this substantial figure, China only contributed a total of $109.4 million.[141] Although only accounting for a small portion of overall aid, these Chinese investments have led to a number of successful and failed projects.[142] The Chinese-aided failed projects are important to analyze as they all tended to neglect Mexican regulations. For example, the Xinjianghai fishing company was prevented from opening a processing plant in San Luis Rio Colorado in the Mexican state Sonora due to its inability to comply with Mexican regulatory laws. Another example was the 2007 joint venture by Mexican Salinas Group and China's First Automobile Works. The Mexican automobile industry "pressured the [Mexican] government to impose stricter quality-control regulations on Chinese products," in part due to the competitive tension mentioned above.[143] The estimated cost of the failed project was at least $27.6 million.[144]

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[137] Ellis, *China in Latin America: The Whats and Wherefores,* 205.
[138] Ibid.
[139] Ibid., 141.
[140] Ibid.
[141] Ibid.
[142] One successful Chinese-aided project was the construction of the Golden Dragon Precise Copper Tube Group. This project successfully became the "world's largest producer of copper tubes." Ibid., 142.
[143] Ibid.

These failed projects have not positively contributed to the Mexican economy; rather, they have further infuriated Mexican companies and businesspeople.

In conclusion, the Sino-Mexican relationship highlights the detrimental effects of imbalanced trade. With a flood of cheap Chinese products, the Mexican economy and civilians have felt intense consequences. The Mexican government has taken steps to address growing Chinese influence, including diplomatic trips to China in order to promote ties. For example, Marcelo Ebrard took a trip to China immediately after being elected mayor of Mexico City in an attempt to mend ties.[145] Although the Sino-Mexican relationship appears to be growing both diplomatically and economically, it is inevitable that such a large trade deficit for Mexico negatively affects the country. The extraordinary number of Chinese imports to Mexico is distorting the domestic economy, which will have grave long-term effects.

Brazil: The Risk of "Deindustrialization"

Relations between China and Brazil were among the first in Latin America, with trading relations dating back to the 1800s. The countries formed formal diplomatic ties in 1974 and became official strategic partners in 1993. By 2004, hundreds of positive media portrayals of the Sino-Brazilian relationship emerged. With a slew of presidential visits and numerous publicized business deals that year, it was easy to convey an optimistic story. In 2004, the positive representation of the Sino-Brazilian relationship materialized once Brazil, among other Latin American countries, signed a bilateral memorandum to recognize China's status in the market economy. This occurred shortly after China

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[144] Ibid.
[145] Ibid, 211.

accepted its exclusion from the list of market economy nations in order to enter the World Trade Organization.[146] In return for Brazil's recognition, scholars expected that China was planning to invest enormous amounts of appreciative aid.[147] However, the year 2004 "turned out to be an anomaly."[148] Chinese-funded projects were either stopped or failed altogether, the Brazilian media aggressively criticized Brazil's recognition of China as a market player, and Brazilian businesses worried about Chinese competition in the domestic economy. Since the commotion of 2004, scholars such as Maciel (2011) note that Sino-Brazilian "bilateral ties are [still] far from realizing their potential" and "there are important obstacles and disagreements that have thus far been downplayed or avoided."[149] Further, he argues that "silences are neglected" including "cancelled visits, unsuccessful initiatives, missed opportunities, veiled tensions, unspoken disagreements, and investments that fail to materialize."[150]

However, as the region's largest exporter to China and the region's second-largest consumer of Chinese products, China considers Brazil one of its favorite, and oldest, strategic partners.[151] According to the Chinese Ministry of Commerce, Brazil accounted for over 36 percent of all Latin American exports to China in 2007.[152] Similar to many Sino-African cases, the main Brazilian exports to China were primary products, with soy, iron, and petroleum accounting for 70 percent of the exports.[153] This concentration on

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[146] Ibid., 163.
[147] Ibid., 249.
[148] Ibid., 243.
[149] Rodrigo Tavares Maciel and Dani K. Nedal are the authors of Chapter 13 in the book, *China Engages Latin America*. This chapter is entitled "China and Brazil: Two Trajectories of a 'Strategic Partnership'." Ibid., 235.
[150] Ibid., 236.
[151] Ibid.
[152] Ibid.
[153] Ibid.

primary products is atypical for Brazil and has sparked fear of "deindustrialization."[154] This section will seek to uncover negligent acts by China and highlight the signs of Brazilian "deindustrialization."

Similar to the Mexican case, Sino-Brazilian trade greatly benefits the Chinese. Similar to the Mexican case, China is notorious for penetrating the Brazilian market with cheap manufactured goods.[155] Moreover, China's concentrated interest in primary products prevents diversification of Brazilian products and markets, thus inhibiting the domestic Brazilian economy even more.[156] China has made obvious its hunger for primary products; in terms of Brazil, China is mostly interested in iron ore and oil.[157] Soon after 2004, Chinese companies acquired a stake in Brazilian miner MMX, bought an iron-ore mine in Bahia, secured the Itaminas mining company in Minas Gerais, and installed a steel plant in Rio de Janeiro.[158] These Chinese investments provoked the Brazilian anti-China lobby to denounce the aid as "attempts by the Chinese government to buy up Brazilian land and resources, distort markets, and destroy Brazilian industry from within."[159] Since then, prominent figures such as former minister Antonia Delfim Netto have openly opposed Chinese investment in natural resources.[160] This has translated into legislation to limit foreign purchases of Brazilian land.[161]

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[154] Hearn, *China Engages Latin America,* 246.
[155] Ibid.
[156]Hearn, *China Engages Latin America,* 250.
[157] Ibid.
[158] Ibid.
[159] Ibid.
[160] Ibid.
[161] This has recently been reconsidered as the Brazilian economy has experienced lagging growth in the past few years. See (http://www.bloomberg.com/news/articles/2015-05-05/brazil-reconsiders-land-ban-for-foreigners-in-commodities-bust) for more information.

Even beyond trade, China has advanced its own agenda without considering the effects on Brazilian diplomacy. Take for example the fact that the Brazilian embassy in Beijing and consular office in Shanghai reportedly “receive little support and attention from the Foreign Ministry, and both are severely understaffed.”[162] On the contrary, the China has an embassy in Brasilia which employs 40 diplomats in addition to consular offices in both Rio de Janeiro and São Paulo.[163] Furthermore, Brazilian national interests are allegedly blatantly ignored by Chinese officials. A 2009 trip by Brazilian Foreign Minister Amorim was abruptly cancelled. Shortly after, Brazilian President Lula’s visit was cut short after neither Hu nor Premier Wen Jiabao would meet with him.

The case of Brazil shares a number of similarities with Sino-Mexican and Sino-African relations since China shows a distinct interest in Brazil’s natural resources. However, Brazil has a pre-existing diversified economy that runs the risk of “deindustrialization” from an increase in primary products sales to China. Although ties between the two countries are strong, the lack of communication and coordination among the two governments highlight the weaknesses within the relationship. China is harming the Brazilian economy with its concentrated trade in the primary products sector and China’s neglect of the Brazilian government only deepens the wound.

Chile: The Crisis of Commodity Dependence

Seeing as Chile was the first South American nation to establish formal diplomatic ties with China in 1971, the Sino-Chilean relationship is one of significant importance. One central key to the original formation of this relationship was the socialist

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[162] Hearn, *China Engages Latin America*, 244.
[163] Ibid.

orientation of both governments at the time. In light of these political similarities, Chile and China had a historically positive relationship within the international sphere.[164] However, as both countries industrialized throughout the 1990s, their economic relationship began expanding and complicating, thus causing a number of subsequent problems.

As Ellis (2009) describes, "Chile is both a leader among nations of the region in building a commercial relationship with the PRC and an exemplar of challenges that such a relationship can create."[165] Of the southern region of Latin America, Chile's commercial and bureaucratic infrastructure is among the best.[166] With convenient access to Pacific coastlines, Chile boasts some of the most logical ports for Asian goods. In fact, Chile is one of the only three nations in Latin America that are members of the Asia Pacific Economic Cooperation (APEC) forum.[167] Between 1997 and 2006, bilateral trade between China and Chile expanded by 641 percent.[168] Specifically, in 2006, Chilean exports to China increased by an impressive 140 percent.[169] As in most other cases, 98 percent of these exports were primary products.[170] Although China's imports of most primary products come from a diverse number of African and Latin American countries, 30 percent of China's entire copper supply comes from Chile.[171] Due to China's unmatched desire for copper, Chile typically runs a trade surplus with China. In 2009, the

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[164] Ellis, *China in Latin America: The Whats and Wherefores,* 35.
[165] Ibid., 34.
[166] Ibid.
[167] Ibid.
[168] Ibid., 35.
[169] Ibid.
[170] Ibid.
[171] Anthony Elson, "Dragon Among the Iguanas," *IMF,* December 2014. http://www.imf.org/external/pubs/ft/fandd/2014/12/pdf/elson.pdf

Chilean trade surplus was $7.49 billion.[172] Even in 2013 Chile maintained a trade surplus of $2.38 billion, despite a decline in copper prices.[173] In fact, Chile is the world's largest copper exporter and China is the world's largest importer of the metal, therefore safeguarding the Chilean surplus.[174]

Similar to the Mexican case, diplomacy and mutual support are important aspects of Sino-Chilean relations. In 2001, Chile supported China's entry into the World Trade Organization.[175] Thereafter in 2004, Chile also recognized China as market economy.[176] Later in 2004 during Chinese president Hu Jintao's visit to Santiago, talks of a free trade agreement (FTA) began to circulate. The first FTA between China and a Latin America country was signed in 2005. The Chile-China FTA covered not only trade and investment, but also education, culture, and environment.[177] Hearn (2011) argues that this was "the most comprehensive agreement China has ever signed."[178] This agreement seemed to be a step towards long-lasting Sino-Chilean relations.

Despite what may appear to be a jointly beneficial agreement, Chilean officials are oftentimes critical of the Sino-Chilean relationship. President of the Asociación de Industrias Metalúrgicas y Metalmecánicas de Chile, Abraham Ducasse, argued for Chile to maintain tariffs on Chinese goods "until China had shown convincing evidence of having dismantled its subsidy structure."[179] The Chilean textile sector voiced similar concerns as the number of employees in the Chilean textile industries decreased from

[172] Hearn, *China Engages Latin America,* 165.
[173] http://www.wsj.com/articles/SB10001424052702303433304579306591661224108
[174] Hearn, *China Engages Latin America,* 165.
[175] Ibid.
[176] Ibid.
[177] Ibid.
[178] Ibid.
[179] Ibid., 166.

240,000 to 30,000 employees from 1994 to 2009 due to an increase in Sino-Chilean trade.[180] However, scholars such as Ellis (2011) argue that the Chilean case is more encouraging than the Mexican case, explained earlier. Unlike in Mexico, Chilean companies have been proactive in protecting themselves by "developing aggressive strategies for commercializing copper in China."[181] Agencies such as Pro-Chile have conveyed strategic information and analysis to Chilean exporters in order to lower the risk of Sino-Chilean relations.[182]

Nonetheless, with falling commodity prices and increasing Chinese imports, Chile runs the risk of falling into economic traps evident in the Sino-Mexican case.[183] Argentine economist Raul Prebisch (1950) disagreed with the optimistic view that Chile could bypass the trap many Latin American countries fall into. He argued that, over time, the prices of primary products fall in the international market whereas the prices of manufactured goods steadily rise.[184] In agreement with Prebisch's analysis, Ellis (2011) hypothesizes and warns that if Chilean copper continues to devalue, "Chile cannot compensate for growing Chinese industrial and consumer imports."[185]

Venezuela: Fuel for Corruption

The case of Venezuela is vital in highlighting the importance of Chinese aid and trade as a dangerous and attractive alternative to conditional U.S. and IMF assistance. As self-proclaimed strategic partners, the Sino-Venezuelan relationship is one of the most

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180 Ibid.
181 Ellis, *China in Latin America: The Whats and Wherefores,* 165.
182 Ibid.
183 Ibid.
184 Prebisch, "The Economic Development of Latin America and its Principal Problems," *Economic Commission for Latin America,* 1950: 14. http://archivo.cepal.org/pdfs/cdPrebisch/002.pdf
185 Ellis, *China in Latin America: The Whats and Wherefores,* 174.

controversial in Latin America. Upon arrival in China in 2008, Venezuelan President Hugo Chávez exclaimed, "Venezuela is no longer the backyard of the United States" and that it is "more important to be in Beijing than New York."[186] Chávez was adamantly opposed to forming relations with the U.S. due to opposing ideologies. Therefore, scholars claim that he turned to Beijing "as part of his efforts to veer away from his ideological foes in Washington."[187]

Known for his anti-corruption campaign platform, Hugo Chávez ironically facilitated and perpetuated corruption at all levels of Venezuelan government. During his campaign and throughout his presidency, Chávez notoriously accepted foreign contributions and aid.[188] Further, under Chávez, the interconnectedness between oil and politics in Venezuela was unmatched.[189] Venezuelan oil income greatly increased during his regime and the "management of those resources [became] less and less transparent."[190] Even after the death of Chávez in March of 2013, millions of dollars of Chinese oil-directed aid continued to fall into corrupt hands under the current Maduro regime. For example, in late 2013, five Venezuelan government officials were charged with embezzling approximately $84 million from a Chinese development fund.[191] By January 2015, there were three different official exchange rates in Venezuela. Those who were "well-connected" were able to send cheap dollars abroad or cash them on the black

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[186] Christopher Bodeen, "Chavez: Beijing, not U.S., Is Key," Associated Press, September 24, 2008.
[187] Kejal Vyas, "China's President Pledges Continued Aid to Venezuela," *The Wall Street Journal,* July 21, 2014. http://www.wsj.com/articles/chinas-president-pledges-continued-aid-to-venezuela-maduro-1405974441
[188] Gustavo Coronel, "Corruption, Mismanagement, and Abuse of Power in Hugo Chavez's Venezuela," *CATO Institute Center for Global Liberty and Prosperity,* November 27, 2006: 9. http://object.cato.org/sites/cato.org/files/pubs/pdf/dpa2.pdf
[189] Hearn, *China Engages Latin America,* 226.
[190] Ibid., 5.
[191] Vyas, "China's President Pledges Continued Aid to Venezuela."

market.[192] Despite the obvious signs of deeply-rooted corruption, China continues to be one of the largest investors in Venezuela.

In reference to the wide-range of Chinese-funded projects in Venezuela, Chávez "frequently point[ed] out that Sino-Venezuelan cooperation extends 'del subsuelo a la estratosfera' (from under the ground to the stratosphere)."[193] Although China has generally been cautious about solidifying any nuclear or military alliances with Venezuela, the Asian superpower has been eager to invest in Venezuela. By 2006, according to the Chinese embassy in Caracas, "Venezuela was home to the most important stocks of Chinese investment in Latin America."[194] Strategic investments became such a critical component of the Sino-Venezuelan relationship that in November 2007, the two countries established the Heavy Strategic Fund of $6 billion.[195] Although China administers the specified funds, Venezuela is ultimately responsible for repaying the loans. Projects aided by the Heavy Strategic Fund are voted on by a committee in which votes are proportional to the amount of contributions per country. By April 2009, the fund had expanded to $16 billion after "an injection of Chinese capital in return for commitments of Venezuelan oil."[196] Later that year China announced it would provide Venezuela with an additional $20 billion in aid. Chávez was quick to acknowledge the "generous conditions of this financing" and contrasted it against the "inflexible requirements of the International Monetary Fund and Inter-American Development

[192] "The revolution at bay," *The Economist*, February 14, 2015, http://www.economist.com/news/americas/21643223-mismanagement-corruption-and-oil-slump-are-fraying-hugo-ch-vezs-regime-revolution
[193] Hearn, *China Engages Latin America,* 223.
[194] Ibid., 224.
[195] Ellis, *China in Latin America: The Whats and Wherefore*s, 110.
[196] Hearn, *China Engages Latin America,* 224.

Bank."[197] Altogether, China has put about a third of its overseas lending into Venezuela.[198] This aid generally comes with little, if any, restrictions or conditions.

Unlike other Sino-Latin American cases, Venezuela is not notably burdened with cheap Chinese manufactured goods. As explained earlier, oil continues to be the most distinguished Chinese interest in the Latin American country. Consequently, Venezuela exports more than 700,000 barrels of oil a day to China.[199] Even more, Venezuelan officials claim that they "plan to increase shipments to one million barrels a day in the coming years."[200]

Despite the allegations and evidences of corruption in Venezuela, and contrary to U.S.-Venezuelan relations, "the level of political interaction between China and Venezuela is significant."[201] In fact, as of 2008, Chávez had visited China five times during his presidency.[202] Even as recently as July 2014, Chinese President Xi Jingping pledged additional financial support to Venezuela under the present-day Maduro regime.[203] Despite this, these large investments "have done little to turn around Venezuela's economic fortunes" and simply broadened China's oil supply.[204] Director of the Center for International Development at Harvard Ricardo Hausmann argues that "the billions of dollars China loans to Venezuela in exchange for oil are a 'disgrace' and used

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197 Ibid., 226.
198 Sanderson, *China's Superbank : Debt, Oil and Influence : How China Development Bank is Rewriting the Rules of Finance,* 123.
199 Katia Porzecanski, "Harvard's Hausmann Calls Chinese Loans to Venezuela a 'Disgrace'," *Bloomberg Business,* September 28, 2015. http://www.bloomberg.com/news/articles/2015-09-28/harvard-s-hausmann-calls-chinese-loans-to-venezuela-a-disgrace--if47489t
200 Vyas, "China's President Pledges Continued Aid to Venezuela."
201 Ellis, *China in Latin America: The Whats and Wherefores,* 121.
202 Ibid.
203 Vyas, "China's President Pledges Continued Aid to Venezuela."
204 Ibid.

for corrupt purposes."[205] Therefore, similar to many Sino-African cases, the Sino-Venezuelan relationship has supported corrupt and inefficient regimes by offering the Venezuelan government with an easily-accessible alternative source of unconditional aid and trade.

Overview of Sino-Latin American Cases

Each of these cases embodies a unique problem Chinese unconditional and trade poses to developing Latin American countries. These problems include dumping cheap Chinese imports, exploiting domestic producers, reverting to "undiversified" economies, and supporting corrupt regimes, among many. The continuation of these problems in Latin American countries counteracts the efforts of institutions such as the World Bank and IMF. As the *Financial Times* states, Chinese aid is "little more than blank checks to badly run states, assistance that would undermine the efforts of the World Bank and International Monetary Fund."[206]

Both Sino-Latin American relations and Sino-African relations focus on the primary products sectors. As mentioned in Chapter 3, China's interest in many African nations is based on their abundance of natural resources. This is mirrored in many Sino-Latin American relationships. In a study conducted by the Congressional Research Service, this trend is once again reiterated. Out of the five Latin American countries with "large reported Chinese loans, assistance, and related investment projects" (Venezuela, Brazil, Chile, Columbia, and Costa Rica), four of the countries' main export to China was

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[205] Ibid.
[206] Simon Rabinovitch, "China: A new way of lending," *The Financial Times,* September 23, 2012, http://www.ft.com/cms/s/0/02b87cc6-017c-11e2-83bb-00144feabdc0.html#axzz3ZKPsp8nx

in the primary products sector.[207] These main exports include oil, iron ore, and minerals, among others (see Roett 2008 for detailed table).[208] Concentration in natural resource production risks "deindustrialization" for many Latin American countries. In the case of many African nations, oftentimes this focus simply deters economic growth. However, in developed Latin American countries such as Brazil, the growth of the primary products sector at the cost of diversification forces the economy to revert to a pre-industrialization state. Table 2 below, adopted from Lum (2009), explicitly lists Latin American countries' primary exports to China.

TABLE 2*
LAC MAIN EXPORTS TO CHINA
Selected Latin American Countries with Large Reported PRC Aid and Trade, 2002-2007

	Main Exports to China	**Chinese Financed Projects**
Venezuela	Oil	Oil and gas exploration and production; transportation
Brazil	Iron ore, agricultural commodities, oil	Infrastructure
Chile	Minerals, ores	Natural resources (copper)
Colombia	Iron, oil	Steel, oil exploration, mining
Costa Rica	Electrical machinery	Humanitarian, infrastructure

*Adopted from Table 8 in Thomas Lum, "China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," *Congressional Research Service,* November 25, 2009, 14.

[207] The exception being Costa Rica, whose main export to China from 2002-2007 was electrical machinery. Lum,"China's Assistance and Government-Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," 18.
[208] Riordan Roett and Guadalupe Paz, *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Washington, DC, USA: Brookings Institution Press, 2008): 117.

On the other hand, contrary to most African nations, Latin American countries act as seamless dumping grounds for China's cheap manufactured goods. This magnifies the problem of "deindustrialization" by worsening the damage to Latin American domestic economies. Domestic manufacturers are unable to compete with cheap Chinese goods. In extreme cases, businesses are forced to move their production elsewhere, thus eliminating thousands of domestic jobs. In the absence of diverse economic opportunities, Latin American countries are further forced to focus on growing the primary products sector. This translates to a dangerous increase dependence on non-renewable sources such as oil, copper, and other primary products. Table 3 below, adopted from the *World Development* article, "The Impact of China on Latin America and the Caribbean" highlights trade deficits and surpluses. The table includes deficit-ridden countries such as Mexico and Colombia. These trade deficits are due to the fact that Mexico and Colombia act as dumping grounds for Chinese goods. On the other hand, the table shows resource-rich countries such as Brazil, Chile, and Venezuela boasting trade surpluses. Although these may seem advantageous, as mentioned earlier, the concentration in primary product exports causes "deindustrialization."

TABLE 3*
TRADE BALANCE OF LAC WITH CHINA
From Years 1995, 2000, and 2005 ($ million)

	1995	2000	2005
Mexico	-137.5	-2944.6	-4496.0
Brazil	136.2	-17.2	4076.8
Chile	-123.5	-33.5	1847.1
Venezuela	-50.3	-320.7	64.1
Colombia	35.5	-219.8	-939.6

*Adopted from Table 4 in Rhys Jenkins, Enrique Dussel Peters, and Mauricio Mesquita Moreira, "The Impact of China on Latin America and the Caribbean," World Development 36.2 (2007): 247. Source: IMF, Direction of trade statistics.

Altogether, China's interest in Latin America has resulted in "interactions [that] exhibit both cooperative and conflictive tendencies."[209] The positive impacts of Chinese aid and trade in Latin America include increased trade revenues for resource-rich countries as well as an influx in funding for a variety of infrastructure projects. However, as demonstrated throughout this chapter, the negative consequences tend to outweigh the beneficial. Chinese unconditional aid and trade with Latin America has created unstable economies in countries that once boasted diversified markets. Even more, Chinese aid has supported the perpetuation of corruption in countries such as Venezuela. The persistence of corrupt regimes in countries with resource-dependent economies will undoubtedly cause grave long-term effects. In conclusion, the intricacy of economic traps caused by Chinese unconditional aid and trade is especially detrimental to Latin American countries

[209] Hearn, *China Engages Latin America,* 181.

and will cause long-lasting consequences. These specific implications will be explored in the following chapter.

Chapter Five: Implications of Chinese Involvement in Latin America

In the preceding chapters we have reviewed Sino-African relations and introduced a number of Sino-Latin American cases. The Sino-African cases act as mature examples of Chinese unconditional aid and trade. As Sino-Latin American relations continue to develop, we can infer long-term implications by comparing Latin American cases to African cases. Specifically, I have identified stark similarities between Chinese aid and trade in both regions. Chinese unconditional aid and trade in both regions supports corrupt regimes and forces economies to focus solely on their primary products sectors. On the other hand, we have uncovered an obvious difference in Sino-African and Sino-Latin American trade. China is focused primarily on extracting natural resources from African countries. On the other hand, in addition to primary products, China also uses Latin American countries as a dumping ground for cheap Chinese manufactured goods.

In this final chapter, I will discuss the long-term implications of Chinese unconditional aid and trade upon the future of Latin American countries. Will these Sino-African cases and contextual evidence allow us to hypothesize about the future trajectory of Sino-Latin American relations? I argue that the Sino-African cases share enough similarities with Chinese aid and trade in Latin America to hypothesize about a number of future effects. However, I will also consider the differences between Sino-African and Sino-Latin American relations, specifically in terms of trade, and account for these in my concluding remarks.

A wide array of scholarship on the effects of Chinese unconditional aid and trade in Africa already exists in modern literature (Brautigam 2009, van Dijk 2009, and Manji

2007). However, there is a lack of substantial literature regarding the long-term implications of Chinese unconditional aid and trade in Latin America. Although scholars such as Ellis (2009) and Hearn (2011) provide historical context and hypothesize about future effects, there is very little additional contemporary literature to support their claims. In fact, the majority of literature regarding Sino-Latin American aid and trade comes in journalistic forms such as articles in *The New York Times* or *The Economist*. There is simply a lack of in-depth analysis on the long-term implications of unconditional Sino-Latin American aid and trade. Even more specifically, there is little comparative analysis on Sino-African and Sino-Latin American relations. In order to fill this void, this concluding chapter will provide two hypothesized trajectories. It is important to note that the uniqueness of each Latin American case, as seen in previous chapters, makes it difficult to assume one trajectory for all countries. In order to accommodate for this uniqueness in Sino-Latin American relations, I will tailor each trajectory for specific cases.

Let us first reconsider the examples of unconditional Sino-African aid and trade. As explained in Chapter 3, the purpose of including these cases was to better understand Chinese motivations, assess Chinese unconditional aid's effectiveness, and provide context in order to hypothesize about future implications of Sino-Latin American aid and trade. Scholars such as Lum (2009), van Dijk (2009), and Manji (2007), among others, provided helpful information on the cases of Sudan, Angola, and Zambia. First, the case of Sudan exemplified China's thirst for oil at the cost of egregious human rights violations. Chinese unconditional aid and trade with Sudan perpetuates human rights violations specifically in the Darfur region. Although China receives large amounts of oil from the country, the revenues support and legitimize a government that does little to protect its citizens from wide-spread massacre. Second, the case of Angola demonstrated the negative effects of large amounts of Chinese aid for impractical projects. Chinese aid to construct extravagant satellite cities and other unreasonable projects leaves ghost towns and unfinished work. The only ones benefitting from these empty investments are the Chinese government and Chinese companies, not the Angolan people. Lastly, the case of Zambia highlighted China's disregard of safety concerns. This again leads to detrimental long-term effects of Chinese-funded projects in the developing countries. Although each of these three Sino-African cases offered a unique perspective, all of them highlighted China's interest in primary products. China's focus on the primary products sector has created countless negative long-term impacts on many African nations; as explained above, these include violations of human rights, ineffective projects, deaths of domestic workers, and impeding economic growth. We will use these tangible long-term implications to hypothesize about the consequences of Sino-Latin American unconditional aid and trade.

In order to use the Sino-African cases as comparative examples for the Sino-Latin American cases, it is important to reassess similarities and differences. As demonstrated in Chapter 4, each Latin American case presented (Mexico, Brazil, Chile, and Venezuela) highlighted different Chinese motivations and short-term effects. The case of Mexico was unique to Latin America and did not share many similarities with the Sino-African cases. Mexico is not a primary products exporter to China; rather, China exports cheap manufactured goods to the developing Latin American market. Second, the case of Brazil highlighted the daunting concept of "deindustrialization." The case of Brazil resembles many Sino-African cases in that China is mostly interested in Brazilian natural resources. However, it is important to consider scale; the Brazilian economy is notably more developed than many African economies. Third, the case of Chile demonstrated the instability that arises when a country's economy is dependent on commodity prices. China has cornered Chile into focusing primarily on copper production. Therefore, Chile's economy is extremely reliant on the world price of the primary product. Lastly, the case of Venezuela was arguably the most similar to the Sino-African cases explored earlier. The Venezuelan government, a notoriously corrupt institution, receives billions of dollars of Chinese unconditional aid. In addition, China buys large amounts of Venezuelan oil, creating revenues for the corrupt Venezuelan leaders. Receiving over $800 billion in oil revenue from 2000 to 2012, the Venezuelan government was able to boast social programs and pocket the remains.[210] As mentioned in Chapter 4, in 2013, five Venezuelan government officials were charged with stealing approximately $84 million from a Chinese development fund.[211] Despite massive oil revenues from China, in 2013, a third of Venezuelans were still living in poverty, an increase of nearly a quarter from the previous year.[212] These acts of corruption and subsequent burdens on the Venezuelan people are nothing new. This case mirrors many Sino-African relationships such as the case of Sudan. Overall, each Sino-Latin American case shares a number of similarities and differences with the Sino-African cases. Acknowledging these similarities and differences will afford us with the opportunity to make informed

[210] "The revolution at bay," The Economist.
[211] Vyas, "China's President Pledges Continued Aid to Venezuela."
[212] "The revolution at bay," The Economist.

hypotheses on the long-term implications of Chinese unconditional aid and trade in Latin America.

In the following section, I will introduce two distinct possible trajectories of the Sino-Latin American relationship, *An Optimistic View* and *Lessons from Africa*. With an increasing presence of Chinese unconditional aid and trade in the region, it is important to thoughtfully consider each possibility.

An Optimistic View: Mutually Beneficial, Long-Term Growth

A number of scholars have hypothesized that China's unconditional aid and trade in Latin America may afford the developing region with long-term economic growth, a strategic and policy role model, and a strong trading partner (Devlin 2007 and Toro 2013). With the rise in the world price of commodities in the early 2000s and an increase in Chinese demand for such products, Latin America benefited not only from its sales to China, but also to the rest of the world.[213] After the 2008-09 global financial crisis, the World Bank optimistically hypothesized that Latin America's partnership with China would support continued economic growth and activity.[214] This section will focus on two main arguments supporting this optimistic trajectory: China as a commodity importer and China as an economic role model.

First, assuming that China's growth is long-lasting and stable, scholars argue that commodity prices will remain high.[215] Although commodity prices may begin to plateau over time, Latin American economies will not experience extreme unsettling dives in

[213] Toro, *World Turned Upside Down : The Complex Partnership Between China and Latin America*, 117.
[214] "Latin America and the Caribbean's Long-term Growth: Made in China?" The World Bank, September 2011, 9.
[215] Ibid., 19.

primary product values. In order to make up for the slight, but not detrimental, projected losses in commodity income due to leveling prices, Latin American economies will need to raise long-term growth via investment.[216] China's unconditional aid would hypothetically provide the resources necessary to make investments for the Latin American economies. Even more, contrary to the "resource curse" idea, the World Bank argued in their Flagship Report, *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts*, that there is "no compelling evidence that commodity production is inherently or generally 'inferior' to other types of production in its ability to generate linkages and spillovers."[217,218] The report argues that growth outcomes of resource-rich countries are crucially dependent on the quality of institutions and policy frameworks. Therefore, China is not inhibiting Latin American growth by investing in the primary products sector. In fact, one could argue that China as a primary products importer is helping sustain and grow Latin American economies. As Alejandro Werner, leader of the Western hemisphere division at the IMF says, "from a medium term-perspective, China is a plus, plus, plus for Latin America."[219]

Second, as in the African cases, China bases many of its relationships on the idea of mutual benefit. China claims its own struggle as a developing country allows the superpower to relate to developing regions. At the Asia-Africa Business Forum in April 2005, Chinese President Hu Jintao claimed, "As a developing country itself, China takes the strengthening of its friendship and cooperation with developing countries as the

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[216] Ibid.

[217] For more information on the "resource curse" see Sachs and Warner (2001). Jeffrey D. Sachs and Andrew M. Warner, "The curse of natural resources," *European Economic Review* 45 (2001): 827-738.

[218] Emily Sinnott, John Nash, and Augusto de la Torre, *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts?* (Washington, D.C.: The World Bank, 2010).

[219] Eduardo Porter, "Slowdown in China Bruises Economy in Latin America," *The New York Times,* December 16, 2014.

cornerstone of its foreign policy."[220] Even more, many developing countries, including those in Latin America, view China as a model of economic success. As a role model for developing countries, China is able to maintain positive relations with many developing countries, including Latin America. The long-term implications of such a relationship include deepened trust and cooperation. We have already seen this develop in cases such as Brazil. When China was excluded from the World Trade Organization's list of market economy nations, Brazil, among other Latin American countries, recognized China's status in the market economy by signing a bilateral memorandum. This symbolic gesture is only a glimpse into the possible diplomatic relations that may arise from the Sino-Latin American relationship.

Proponents of Chinese unconditional aid and trade in Latin America highlight growing bilateral trade and China as a role model. In many ways, this view assesses the short and medium term effects of Sino-Latin American relations. By assuming these short and medium term trends continue, they assert that Sino-Latin American relations will overcome the issues present in Sino-African relations.

Lessons from Africa: Short-Term Boom, Long-Term Bust

On the other hand, scholars argue that Chinese unconditional aid and trade cause short-term booms in Latin American economies, but will not be able to sustain long-term growth in the developing region. Even more, the use of unconditional aid and trade will deter Latin American countries from reaching their economic potential by disallowing economic diversification, preventing the promotion of human rights, and discouraging

[220] Eisenman, *China and the Developing World: Beijing's Strategy for the Twenty-first Century*, 34.

decent business practices. As Roett (2008) explains, time and time again that China has adopted a "no-strings attached" approach in developing regions at the expense of sound business practices, respect of human rights, and good governance.[221]

This section will seek to prove the rationale behind the statement, "It is clear that significant trade and other links are, by themselves, no guarantee of high long-term growth," specifically in terms of the Sino-Latin American relationship.[222] Using evidence introduced in earlier chapters, I will argue that Chinese unconditional aid to Latin America is propping up ineffective regimes in countries such as Venezuela, thus preventing long-term progress. Further, I will also argue that Chinese trade with resource-rich Latin American countries does not provide nor allow sustainable long-term economic growth. In order to prove these points, I will refer to examples of Chinese-aided corruption in Latin America, the concept of "deindustrialization," and the Solow Growth Model. Lastly, I will analyze China's growth in present-day and analyze the effects on Latin American economies.

First, Chinese unconditional aid is fueling corrupt and ineffective regimes by providing an attractive alternative to conditional IMF and U.S. foreign aid. The levels of corruption vary throughout Latin America. Chile, Costa Rica, and Uruguay score relatively high in governance reviews, unlike many other countries which score well below the world median, such as Venezuela.[223] The majority of this corruption is limited to resource-rich countries, which "did not seize the opportunity for governance reform

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[221] Roett, *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States.*
[222] "Latin America and the Caribbean's Long-term Growth: Made in China?" The World Bank, 26.
[223] Daniel Kaufmann. "Corruption Matters," *IMF: Finance & Development* 52, no. 3 (2015).

during the commodity supercycle."[224] Corrupt rulers, both in Latin America and Africa, are able to avoid conditional aid by turning to China. Conditional aid from institutions such as the IMF is often criticized by a number of Latin American countries. For example, the Argentinian government openly blamed the IMF for its economic collapse in 2001-02.[225] In order to obtain more lenient forms of aid, Latin American leaders are increasingly looking to China. The long-term implications of easy access to foreign aid are especially precarious in corrupt countries such as Venezuela, among many. In part, by using Chinese aid and oil revenues, Hugo Chávez was able to claim responsibility for lowering poverty rates, increasing social spending, decreasing child malnutrition, and increasing the number of Venezuelans receiving pensions.[226] These benefits enchanted many Venezuelans and blinded them from blatant acts of corruption, thus allowing Chávez to remain in power for 14 years. This development mirrors the African cases of corruption, such as Sudan, explained in Chapter 3. Today, Sudan is still plagued with wide spread violence across the Darfur region, killing thousands of innocent civilians. Similar to the African cases, Chinese unconditional aid will enable corrupt Latin American governments to not only pocket resource revenues and aid, but also to boast astonishing growth figures in order to remain in power.

Second, the fear of "deindustrialization" is arguably the most relevant for Latin America as a whole. As Hearn (2011) explains, a concentration in commodities combined with increased competition from China in domestic and third markets has sparked fears

[224] Ibid.
[225] "Wolf v Wolf: Venezuela, the World Bank and the IMF," *The Economist*, May 10, 2007.
[226] Jake Johnston and Sara Kozameh, "Venezuela: Economic and Social Performance Under Hugo Chávez," *Centre for Research on Globalization,* February 20, 2014. http://www.globalresearch.ca/venezuela-economic-and-social-performance-under-hugo-chavez/5326013

of "deindustrialization" in many Latin American countries, especially Brazil and Chile.[227] As Harvard development expert Dani Rodrik explains, "premature deindustrialization" is the process in which developing countries shut off the standard path of economic development followed by most countries since the industrial revolution.[228] Alicia Barcena, who leads the United Nations' Economic Commission for Latin America and the Caribbean said, "We're not calling for more protectionism, but to substitute imports within competitive open economies."[229] She suggests that China needs to invest in the long-term growth of Latin American economies. "You want our commodities? Okay. But also invest in solar panels here," she said.[230] By having only non-renewable primary products to support domestic economies, many Latin American countries are destined for short-term booms and long-term busts.

Lastly, let us return to the Solow Growth Model introduced in Chapter 2. There are many ways countries can experience economic growth through forming relationships with other countries. As Adams-Kane and Lim (2011) explain, a developing economy can benefit from a growing superpower by absorbing the exports of the latter, in this case China.[231] However, economic theory maintains that a productivity-enhancing technology is required to have substantial long-lasting growth. Chinese aid and trade in Latin America is doing quite the opposite; both Chinese aid and trade are concentrated primarily in the natural resources sector. This concentration in an undiversified sector discourages innovative technology and productivity; instead it "deindustrializes" the

[227] Hearn, *China Engages Latin America*, 246.
[228] Porter, "Slowdown in China Bruises Economy in Latin America."
[229] Ibid.
[230] Ibid.
[231] Jonathon Adams-Kane and Jamus Jerome Lim, "Growth Poles and Multipolarity," World Bank Policy Research Working Paper 5712, 2011.

country, as explained previously. Although this hypotheses may hold stronger in countries such as Brazil and Chile, Chinese aid and trade's inability to create long-term growth is significant for the Latin American region as a whole.

Altogether, these negative long-term implications are magnified by China's current economic state. Historically, China's voracious demand for primary products raised the world price for many Latin American natural resources. For example, Chile enthusiastically watched as China's "once-insatiable" demand helped raise copper prices from $1 to $4 per pound.[232] However, today China's economy is slowing drastically. Although the Chinese government recently cut interest rates and lowered the amount of reserves banks are required to hold, scholars argue these actions will not be enough to boost growth. In 2015, China cut its growth target to 7%, which would be the slowest expansion goal in over two decades.[233] This number proves that China's growth is worse than most scholars had expected. In fact, the IMF, among others, predicted that Chinese annual growth would stay above 8% until at least 2017.[234] Even more, as mentioned during the introduction of the Solow Growth Model, long-term economic growth is a function of changes in labor, capital, and productivity.[235] Although China had an increase in all three for many years, today they are all slowing. China's working-age population peaked in 2012, investment seems to have "topped out," and China's technological advances have plateaued.[236] As *The Economist* says, "Double-digit growth is most

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[232] Eduardo Porter, "Slowdown in China Bruises Economy in Latin America," *The New York Times*, December 16, 2014.
[233] S.R., "Why China's economy is slowing," *The Economist*, May 11, 2015.
[234] Ibid.
[235] Ibid.
[236] Ibid.

certainly a relic of China's past."[237] The implications of China's lagging growth are grave for dependent Latin American economies. The drop in commodity prices is just an indication of the larger consequences on the region. The long-term implications of China's slowing growth on Latin America include a drop in commodity prices, the loss of a major trading partner, and the existence of economies unable to deal with either.

Conclusions

In this final chapter I have demonstrated that the Sino-Latin American relationship will most likely follow one of two trajectories. Accounting for the Sino-African cases and the tangible long-term implications of Chinese unconditional aid and trade, I am able to hypothesize about the future long-term implications of Chinese aid and trade in Latin America. Oil-backed Chinese aid to Africa has propped up corrupt and inefficient regimes that have perpetuated human rights abuses across many nations. I similarly conclude that, in certain countries known for corruption such as Venezuela, Chinese unconditional aid allows ineffective regimes to stay in power. As an attractive alternative to stringent IMF or U.S. aid, Chinese aid is widely available to corrupt rulers across Latin America. Although acts of corruption in Latin American countries such as Venezuela may be less extreme as those in South Sudan, Chinese aid nevertheless blindly fuels unethical rulers. These leaders are able to use revenues and aid not only for themselves, but to also to boast attractive social spending projects, many of which are faulty or never implemented. Even more, given the scholarly economic analyses, I conclude that Chinese unconditional trade provides short-term booms based in primary

[237] Ibid.

products, but causes detrimental long-term busts. By focusing solely on their primary products sector, Latin American countries are failing to diversify their economies and protect themselves from dropping commodity prices. Given these findings, I conclude that the second trajectory, *Lessons from Africa*, is the most probable.

While I have attempted to provide a comprehensive analysis on Chinese unconditional aid and trade in Latin America, there is still considerable work to be done. There exists a need for additional contemporary comparative analyses on the long-term implications of Chinese unconditional aid and trade in Latin America. With an abundance of available literature regarding Sino-African relations and its long-term effects, it is now necessary to take these lessons and apply them to the Sino-Latin American cases. In addition, analyses should be supported with economic facts and theories that may help hypothesize about the future trajectory of Sino-Latin American relations, specifically in terms of trade. It is necessary to fill these voids in research as China's rise slows and Latin American economies feel the burdening effects.

China will likely be a long-lasting ally of Latin America. Although at a lower rate, it is probable that Chinese unconditional aid and trade will continue to have effects on Latin American economies and governments. Analysis on the potential long-term implications of such a relationship is warranted as Latin American economies continue to emerge as important global players. The possibility for troublesome times in the future is quite high, but dedication to economic diversification and upholding of good governance may allow Latin American countries to escape the fate of many African nations.

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