

CHINA'S STRATEGIC PARTNERSHIPS IN LATIN AMERICA

*Case Studies of China's Oil Diplomacy in Argentina,
Brazil, Mexico, and Venezuela, 1991–2015*

YANRAN XU



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Introduction

The Puzzle and Research Question

With China's growing influence and involvement in the international political and economic arena in recent decades, interest in China's strategic partnership (SP) diplomacy has grown markedly. China's rapid and continuing economic growth, together with its acceptance of globalization, involves accelerated Chinese interaction both at the global and regional levels, and at the multilateral and bilateral levels, as part of China's Going Out Policy¹ and the Peaceful Development Strategy.² China has developed a diplomatic mechanism to expand its international influence through the establishment of strategic partnerships.

China has forged strategic partnerships with more than fifty countries and organizations around the world, including Russia, Australia, and France.³ These SPs have been especially prominent in Latin America and have sparked a debate among analysts. On the one hand, some optimistic studies applaud the changing foreign policies and the win-win objective of both sides, and portray China as a successful model for developing countries. On the other hand, more skeptical studies depict China as a rising imperial power, that is scrambling for the natural resources of the developing world, and that, therefore, represents a competitive threat to Latin America. SPs have recently been established and developed between China and eight Latin American countries: Brazil (1993), Venezuela (2001), Mexico (2003), Argentina (2004), Peru (2008), Chile (2012), Costa Rica (2015), and Ecuador (2015).

Given the empirical evidence of a growing number of SPs between China and countries in Latin America, it is worthwhile to theoretically consider the significance of SPs to China's current economic development and its foreign policy. Therefore, this project focuses mainly from a Chinese perspective on what SPs represent for China's foreign relations with Latin America, both economically and diplomatically from 1991 to 2015. By association,

secondarily, the project also considers China's strategic partnerships with countries in other regions in place from 1991 to 2015 and what they mean for China's present relations with those other countries. In summary, the project asks the following four questions: (1) To what extent is there convergence/divergence among SPs in terms of rhetoric and/or in practice? (2) Who benefits most from SPs? (3) Are the benefits of SPs symmetrically or equitable distributed? (4) Or are SPs one-sided in favor of China or in favor of particular Latin American countries?

DEFINING STRATEGIC PARTNERSHIPS IN CHINA'S FOREIGN POLICY

The definition of SPs still remains imprecise. There are various definitions of SPs in both the academic literature and political speeches delivered by Chinese leaders. The concept of "partnership" emerged within Chinese diplomacy after the end of the Cold War. The earliest empirical evidence of this shift is found in China's establishment of its first SP with Brazil in 1993. Since then, the pursuit of strategic partnerships has become one of the most notable dimensions of Chinese diplomacy. For a strict definition of SPs in the Chinese language, one can turn to definitions of each root word. According to the Chinese dictionary *Cihai*, the word *huoban* (partnership) refers to those who have joined the same organization or are engaged in the same activities. The word *Zhanlue* (strategy), when used in the field of economy and politics, normally refers to a plan, policy, or tactic with overarching, comprehensive, and decisive implications.⁴

Chinese leaders have expressed rather clear views on the key features of an ideal partnership in a speech delivered in Brussels in May 2004, the former Premier Wen Jiabao clearly outlined what he thought a comprehensive strategic partnership ought to look like:

By "comprehensive," it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups. By "strategic," it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system[s] and is not subjected to the impacts of individual events that occur from time to time. By "partnership," it means that the cooperation should be equal-footed, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavor to expand converging interests and seek common ground on the major issues while shelving differences on the minor ones.⁵

Scholars like Medeiros argue that for China the concept of a strategic partnership has a meaning distinct from the Western connotation of the term. China does not view SPs as quasi-military alliances, involving extensive security and military cooperation, as implied by the term “strategic” in the Western sense. Rather, in the Chinese foreign policy lexicon, a partnership is classified as strategic under the following conditions: (1) partnering countries agree to make a long-term commitment to bilateral relations; (2) bilateral problems between partnering countries are evaluated in that context of long-term commitment; and, importantly, (3) occasional tensions do not derail that long-term commitment.⁶

An alternative conceptual definition of the strategic partnership is provided by a Chinese scholar who describes it as consisting of two pillars: (1) the bilateral economic and trade cooperation; and (2) the capacity to jointly respond to the new global challenges.⁷ As Feng and Huang further claim, some of China’s strategic partnerships have been established at the request of other countries, such as a number of those that China has entered into with Russia. In recent years, more and more countries have begun to request strategic partnerships with China as its relative economic power in the international system has increased. So China has institutionalized its relations with many important players in the world.⁸

As elaborated upon this project, empirical evidence shows that new bilateral mechanisms have been designed to strengthen mutual trust and to achieve the purposes of the strategic partnerships, in particular regional stability and economic development. For economic affairs, committees or dialogues have been developed with nearly every strategic partner. For political and military affairs, hotlines and strategic dialogues are the most common mechanisms. For social and cultural matters, festivals, education exchanges, or track-two conferences have been conducted among other initiatives.

Drawing upon relevant empirical examples, the strategic partnership in China’s foreign policy can be characterized by several features: First, the combination of the terms “partnership” and “strategic” introduces the idea of priority in the implementation of common actions for the two players.⁹ Second, some partnerships develop by leaps and bounds. For example, China and Poland first established a friendly cooperative partnership in 2004 and then rose to a strategic partnership in 2011. Third, the extent of a partnership between countries is not permanent. Finally, China sometimes downgrades the extent of partnership with different countries depending on such circumstances as economic frictions, border/territory disputes, or human rights issues.

SPs can be considered one of China’s means of establishing relationships with other countries. Thereafter, a solid record of cooperation can be widely seen as a predictor of a further upgrading of a partnership, or a favorable

indicator that China is more likely to initiate similar partnerships. From Feng and Huang's perspective, three other motivations drive the "China-Style" SP and the establishment of these partnerships: (1) strategic partnerships have been employed for diplomatic conveniences and are used as an exercise in media and diplomatic spin in order to stress the importance of key diplomatic occasions; (2) strategic partnership regimes have been used to some extent to regulate or assuage China's relations with other international actors; and (3) strategic partners are regarded as "closer friends" than other countries, and among the strategic partners, there is also an implicit hierarchical structure whereby comprehensive strategic partnerships seem to be given more importance than basic strategic partnerships.¹⁰

Nevertheless, China's SPs with Latin America are considered as economic in nature and driven by its growth mode which do not address conditions like democracy, human rights, social and environmental issues rhetorically. The partnership should be matched by greater transparency and regulation, particularly with social and environmental impacts. It is in the interests of the Latin American and Chinese governments, as well as Chinese firms, but to put in place the proper issues such as social policies in order to maximize the benefits and mitigate the risks of China's economic activity in Latin America.

Thereby, exactly how "strategic" SPs are is an open question. There are clearly variations among countries with which China is establishing SPs. Hence, in summary, the multifold purposes of the project are to elucidate what it means for China to establish SPs with Latin American countries, how strategic a given SP is, and finally, for whom is an SP strategic?

My project focuses on China's SPs with Latin American countries in the oil sector. With the release of the Policy Paper on Latin America and the Caribbean in 2008,¹¹ partnerships between the People's Republic of China (PRC) and nearly all Latin American countries blossomed during the first decade of the twenty-first century. China's trade with the Latin American region reached US\$ 180 billion in 2010, evincing not only an increase of 50 percent from 2009 but also a pattern of sharp growth as far back as 2000.¹² Additionally, the portion of oil exchange in the overall trade relations has been increasing gradually every year. In the context of geopolitical change to the dynamics of world energy supply and demand, Latin America has an abundant supply of hydrocarbons, whereas China's emerging growth has required a rapid rise in energy consumption.

Over the past few years, China has been the world's second-largest oil consumer behind the United States (US) and China became the largest global energy consumer in 2010. The US Energy Information Administration (EIA) projects that China will surpass the US as the largest net oil importer in 2014 and China's oil consumption growth accounted for one-third of the world's oil consumption growth in 2013.¹³ Three major Chinese national oil

companies (NOCs)—China Petroleum & Chemical Corporation (Sinopec), China's National Offshore Oil Corporation (CNOOC), and China's National Petroleum Corporation (CNPC)—have all penetrated the Latin American oil production market. In the last decade, energy relations between Asia and Latin America have advanced considerably in the oil industry. Both regions have gradually strengthened their energy cooperation in crude oil trade, investment, the purchase of technical equipment and services, mergers and acquisitions and, in particular, as a driver to guarantee a major source of oil supply to China. China's apparent overarching economic interests have therefore led both regions to explore their potential complementarities in the energy sector.

SCHOLARLY CONTRIBUTIONS

Little has been written about strategic partnerships as a concept or as empirical phenomena in either China or Latin America. The few studies that have been published are in-depth or based on the field research; the issue has as yet received only passing consideration in works on other topics, or at most, it has been the main focus of single articles. Even though there are some exceptions in the existing literature such as Sautenet's argument on the strategic partnerships between China and the European Union (EU), most works concentrate on description of the partnerships, while largely applauding the idea of a partnership rather than analyzing partnerships objectively.

Moreover, other books or articles make some contributions to defining the concept of SPs by studying partnerships between China and the US, between China and EU member countries, and between China and other Asian countries. For example, Vidya Nadkarni focuses on how strategic partnerships have been established between China and Asian countries.¹⁴ Apparently, however, very few scholars have intended to measure the degree of a balance between a given set of partners in particular SP deals. Therefore, my contributions to the field are to explore and measure whether China's strategic partnerships with Latin American countries are equitable arrangements. My empirical research does so by looking at balances of trade, flows of finance, and conditions made between two sides and to also examine whether the partnerships are motivated by ideology, searching for natural and energy resources or for export markets. At the same time, how well Latin American countries are performing in dealing and negotiating with China are also examined. Finally, whether China's SPs with Latin American countries are exceptional or similar to China's SPs with the rest of world is compared. Rather than having a conventional view of China-Latin America relations from a Western outlook, I aim to bring to the academic debate a more nuanced intellectual

perspective of China's negotiations with Latin America, from the standpoint of a Chinese citizen and scholar.

There are two innovative aspects in the project: one is that not only do I measure the degree of short-term balance in the deals I examine; I also tend to measure whether or not alternative degrees of medium- and long-run balance (equity) of arrangements are sustained over time. The other innovative move is to analyze China's foreign policy from a new angle of outlook, which is through its oil diplomacy in Latin America. Scholars who aim to do research on the relations between China and newly developed countries find it very interesting to take such an approach.

ORGANIZATION OF THE STRUCTURE OF THE PROJECT

The project is divided in four parts, including nine chapters. Part I presents the methodological techniques that will be conducted in the research process. Chapter 1 reviews the methodology of the research. It is a case study methodology that studies four countries (Argentina, Brazil, Mexico, and Venezuela) in Latin America, all of which are countries that represent cases of SPs with China. In the chapter, I will fulfill the criteria for case selections, methodological techniques, and operational indicators. The sources, strengths, and limitations of the methodology will be stated as well.

Part II reviews the historical background of China's foreign policy over the last thirty years. Chapter 2 then traces the historical overview of China's foreign policy since 1979, and how it has evolved over time. It is of great importance to look at the evolution and the consistency of China's foreign policy after the period of Reform and Open Policy, which integrated special and rhetorical terms with various connotations in China's foreign policy. Strategic partnership is one of the mechanisms to fulfill this broader mission of China's post-Reform foreign policy. At the same time, China's energy security concerns are discussed as a focal point under China's foreign policy, and are highlighted as an empirical indicator of China's Going Out policy. Meanwhile, the history of China's relationships with Latin American countries is emphasized through process tracing techniques, to understand the background of China's foreign policy and strategic partnerships in general, in addition to uncovering important causal mechanisms to explain why or why not particular SPs were formed at particular points in time. In summary, the emphasis on Sino-Latin American relations takes the analysis through the general changes toward developing countries in Chinese foreign policy over time.

Part III concentrates on Sino-Latin American relations and the case studies of Brazil, Venezuela, Mexico, and Argentina in chapters 3, 4, 5, and 6, respectively. It stresses how Chinese strategic partnerships with each of these

four countries have diverged across cases over time (1991–2015). It does so by studying China's investments and loans in these countries and drawing the balance sheet between both sides. By using structured, focused comparisons and indicators of both dependent and independent variables, it will be able to see if there is a balanced deal between both sides. I apply the method of structured, focused comparison¹⁵ and my identified indicators of both dependent and independent variables to each individual case study. Each individual case analysis uncovers the extent to which there is a balanced deal between both parties to each particular SP, and if not, then who benefits more, and in which aspects. In chapter 7, an empirical comparison of the four cases is undertaken to further understand which Latin American country is best off in negotiating with China and if there are any alternatives for each country in its SP bargaining with China.

Part IV presents the findings of the research, and puts forth concluding remarks. In chapter 8, the analytical conclusion will discuss the findings in Argentina, Brazil, Mexico, and Venezuela that address differences and similarities in China's strategic partnerships. Then a brief overview of China's SPs with other parts of the world such as Africa will be taken into account to consider whether China's SPs with Latin America fit into the large pattern of China's SPs with other parts of the world. Finally, policy recommendations for China in developing its SPs with Latin America in the future, such as the ways in which China may gain positive feedback from Latin America in order to better implement its future diplomatic goals will be established in this concluding chapter 8. An epilogue is addressed for a future prospect of China's SPs with Latin America.

NOTES

1. The Going Out policy (also referred to as the Going Global Strategy) was an effort initiated in 1999 by the Chinese government to promote Chinese investments abroad. The Government, together with the China Council for the Promotion of International Trade (CCPIT), has introduced several schemes to assist domestic companies in developing a global strategy to exploit opportunities in the expanding international markets.

2. Peaceful rise was the first term proposed in 2003 by the former Vice Principal of the Central Party School Zheng Bijian, but later to be proved controversial because the word "rise" could fuel perceptions that China is a threat to the established order, so the term China's peaceful development has displaced the old term and been used since 2004. Jean-Marc F. Blanchard and Guo Sujian, "Introduction," in *Harmonious World and China's New Foreign Policy*, ed. Jean-Marc F. Blanchard and Guo Sujian (Lanham: Lexington Books, 2008), 6. (It has several characteristics: (1) China is rising but China's rise would be peaceful because the country is focused on its daunting internal problems and it is in the fundamental interest of China to maintain a peaceful

international environment. (2) Furthermore, it argues that China's rise would increase economic opportunities for others and promote peace while China would continue to improve relations with all countries; (3) China would develop in a manner sensitive to the environment and resource constraints; (4) China would build a harmonious society through political reform.)

3. Currently, over fifty countries and organizations have SPs with China (as compiled by the author in 2015), including: EU, UK, Italy, France, Spain, Portugal, Greece, Germany, Denmark, Belarus, Brazil, Russia, Mexico, Argentina, Venezuela, Kazakhstan, Indonesia, Malaysia, Algeria, Vietnam, Thailand, Burma, Laos, Cambodia, Afghanistan, Turkmenistan, Egypt, South Korea, India, Sri Lanka, ASEAN, AU, Peru, The United Arab Emirates, Angola, Uzbekistan, The Republican of Tajikistan, Mongolia, Poland, Nigeria, Kyrgyzstan, Canada, Serbia, Chile, Ukraine, Costa Rica, Ecuador, Pakistan, Turkey, South Africa, New Zealand, Australia, Ireland, Qatar.

4. Zhengnong Xia, *Ci Hai (Seas of Word)* (Shanghai: Shanghai Cishu Publisher, 2009, 6th edition), 987 and 2871.

5. See China's former Premier Wen Jiabao's full speech, "Vigorously Promoting Comprehensive Strategic Partnership Between China and the European Union (EU) at the China-EU Investment and Trade Forum in Brussels," *Foreign Ministry of the People's Republic of China* (May 2004), <http://www.fmprc.gov.cn/ce/cebe/eng/zt/t101949.htm>.

6. Evan S. Mederios, *China's International Behavior: Activism, Opportunism and Diversification* (Santa Monica: Rand Corporation, 2009), 82.

7. Zhongping Feng, "Zhong Ou Zhan Luè Huo Ban Guan Xi Liang Zhi Zhu (The Two Pillars of China-EU Strategic Partnership)," *Shi Jie Zhi Shi (World Knowledge)* 22 (2006), 5.

8. Zhongping Feng and Jing Huang, "China's Strategic Partnership Diplomacy: Engaging with a Changing World," *European Strategic Partnerships Observatory*, working paper no. 8 (2014), 9.

9. Antoine Sautenet, "The Current Status and Prospects of the 'Strategic Partnership' Between the EU and China: Towards the Conclusion of a Partnership and Cooperation Agreement," *European Law Journal* 13 (2007), 706.

10. Feng and Huang, "China's Strategic Partnership Diplomacy," 14–15.

11. "The Policy Paper on Latin America and the Caribbean," *Xinhua News Agency* (November 2008), http://news.xinhuanet.com/english/2008-11/05/content_10308117.htm.

12. Jörn Dosch and David S. G. Goodman, "China and Latin America: Complementarity, Competition, and Globalization," *Journal of Current Chinese Affairs* 41, no. 1 (2012), 3.

13. "International Energy Data and Analysis," [eia.gov/beta](http://www.eia.gov/countries/cab.cfm?fips=ch) (2014), <http://www.eia.gov/countries/cab.cfm?fips=ch>.

14. Vidya Nadkarni, *Strategic Partnerships in Asia: Balancing Without Alliances* (London: Routledge, 2010).

15. Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Massachusetts: The MIT Press, 2005), 67.

Part I

**METHOD IN THE STUDY
OF CHINA-LATIN AMERICA
STRATEGIC PARTNERSHIPS**

Chapter 1

Case Studies of China-Latin America Strategic Partnerships

Case Study Methodology

This research employs a case study methodology. It examines the strategic partnerships between China and individual, specific Latin American countries pertaining to the issue of oil development. It presents a study of the four cases of Argentina, Brazil, Mexico, and Venezuela in strategic partnerships with China. While there are eight Latin American countries engaged in SPs with China, I am not going to study them all. Rather, my case selection is based on the empirical fact that each case I study represents a particular type of model of SPs, so as to avoid redundancy. The generalizations drawn from this research will be limited mainly to these cases, but this is not to say that inferences drawn from my main cases are not necessarily applicable to other cases of China-Latin America SPs. With that said, my selection of and analysis of four important cases is illustrative of special types of SPs developed in Latin America.

The case analysis begins with Brazil since it is the first country in the world China recognized as a strategic partner in 1993, and because it is China's most influential and largest trading partner in the Latin America. Next, I follow with Venezuela, Mexico, and Argentina. The reason I present them in this order is based chronologically on the years (from the earliest to latest) that each case received its recognition as strategic partner from China. Brazil is the most important country in Latin America to China and received it the earliest in 1993; the second is Venezuela which received it in 2001, followed by Mexico in 2003; and the last case to receive this recognition is Argentina in 2004.

In each case, I am going to use four variables to examine the SPs. The first variable to be studied is the Latin American country's economic interdependence with China versus with the US throughout the historical period of

time of my study from 1991 to 2015. For example, in Venezuela, despite the fact that its largest trading partner has been the US for decades, an important mark should be clarified that its economic cooperation with China has been skyrocketing ever since Hugo Chávez's rose to power in 1998. For the second variable, I will specify the changing ideologies that each country has taken throughout the study period. Take the case of Argentina as an example, which is the country that had followed most closely the neoliberal doctrine of economic liberalization until the economic shock in 2001. It was the governments of both President Néstor Kirchner (2003–2007) and his successor, wife, and widow Cristina Fernandez de Kirchner (2007–2015), that both made an ideological turn to the “new left,” which guided not only national but also foreign policy as well as that strategic alliances are identified and strengthened. As a result, China found itself, with a friendly political-ideological scenario.

The third variable to be examined is the geopolitical importance of the Latin American country to the US. Mexico, for instance, shares borders with the US, raising issues of drug and human trafficking, and terrorism, and is a crucial multiproduct supply-chain location for the US as some 80 percent of its exports are destined for the US market. Lastly, the diversity of the economy of the Latin American country will be elaborated as the fourth variable, such as in the case of Brazil. Brazil has the largest economy in the region, a large reserve of oil and a relatively diversified export profile compared to its neighbors. However, Brazil encountered the domestic clout of the considerable power of private and lobby groups such as the manufactures sector (footwear, textiles and clothing, furniture and telecommunications), which have complained about the loss of export markets to China and pushed Brazil toward trade disputes with the Chinese exports.

The study covers no less than two decades, from 1991 to 2015. The year of 1991 is a watershed that set up the post–Cold War era with the full collapse of the Soviet Union, the demise of East-West confrontation and a gradual build-up to the expanding web of globalization. The concept of “partnership” also emerged within Chinese diplomacy after the end of the Cold War. Meanwhile, China established its first strategic partnership with Brazil in 1993 and China became a net oil importer in 1993.

In summary, as pointed out above, there are eight countries in Latin America that have signed SPs with China. Of the eight, this project examines four distinct cases of SPs, which are found in the countries of Argentina, Brazil, Mexico, and Venezuela. The following set of five indicators are the criteria for my case selection: (1) energy production, (2) geopolitical proximity to the US, (3) economic interdependence, (4) diversity of the economy, and (5) ideology.

ENERGY PRODUCTION

Across my country cases, there is measureable variation on the variable of energy production. According to the estimation of EIA in 2013, Brazil is the largest producer of petroleum and other liquids in South America, Argentina is the fourth largest petroleum and other liquids producer in South America, Mexico is one of the ten largest oil producers in the world and the third largest in the Americas after the US and Canada. Venezuela was the fifth largest producer in the Americas in 2013. Venezuela also contains some of the largest proven reserves of oil and natural gas in the world.¹

GEOPOLITICAL PROXIMITY TO THE U.S.

Across my country cases, there is measureable variation on the variable of energy geopolitical proximity to the US. Under the assessment of US policy makers, Mexico shares the border with the US, while Argentina and Brazil are more strategically important to US preferences than Venezuela.

ECONOMIC INTERDEPENDENCE

Across my country cases, there is measureable variation on the variable of economic interdependence. Mexico may have the least economic interdependence with China, followed by Brazil and Argentina, while Venezuela may have the most economic interdependence with China.

ECONOMIC DIVERSITY

Across my country cases, there is measureable variation on the variable of economic diversity. Both Brazil and Mexico have a large and diversified economy. Argentina, which has a relatively large economy, is heavily dependent on the export of agricultural products. Venezuela has a relatively small economy that is heavily depend on oil export.

IDEOLOGY

Across my country cases, there is measureable variation on the variable of energy ideology. Brazil adopts a relatively neutral stand vis-à-vis both China

and the US. Mexico has very close ties with the US both economically since its entry to the North American Free Trade Agreement (NAFTA) and ideologically. Argentina's ruling party, led by Peronista President Christina Kirchner (2007–2015),² has a close relationship with the left-wing revolutionary government of Venezuela. Venezuela has been a left-leaning socialist regime ever since Hugo Chávez came into power in 1998.

The four other countries that have SPs with China are not analyzed in the project because, first of all, Costa Rica previously had normal foreign relations with Taiwan and did not establish its foreign relations with China until 2007. Moreover, Costa Rica only signed a strategic partnership with China since January 2015. Thereby, Costa Rica's economic, political, and diplomatic relations with China have been scant over the past two decades. In the same vein, Ecuador only began its strategic partnership with China since January 2015. Before 2015, the relationship between China and Ecuador was also quite limited. Finally, both Peru and Chile have relatively small economies and are heavily dependent on mineral and copper exports, while their ruling presidents Ollanta Humala and Michelle Bachlet are central-leftists, their cases are very similar to that of Argentina except the latter has a larger economy. Since the main comparison is of different countries' benefits and bargaining power rather than a comparison of similarities, it is therefore not necessary to add Chile and Peru into the selection of cases under analysis in this project.

METHODOLOGY AND HYPOTHESES

This study conducts primarily a qualitative analysis, and it applies a comparative approach. Yet this qualitative study is complemented by some quantitative data. Qualitative research methods are particularly suitable for this research problem because of their holistic and in-depth nature of a sustained focus on a well-defined set of national cases. The study is focused on: comparative case analysis (also referred to as the structured, focused comparison). The research questions and indicators that reflect the research objectives are examined in each case to guide and standardize data collection and it deals only with certain aspects of the historical cases examined. By using structured, focused comparisons and indicators of both dependent and independent variables, it will be able to see if there is a balanced deal between both sides. Each individual case analysis uncovers the extent to which there is a balanced deal between both parties to each particular SP, and if not, then who benefits more, and in which aspects.

Given that the intention of the project is to explore the nature and quality of strategic partnerships and how they work out for all parties involved, the goal

here is to provide an in-depth comparative analysis of a few specific cases in Latin America. Thus, I have derived the above outlined independent variables from the extant literature. From these independent variables, I have set out the following four basic hypotheses.

H-1: (*Realist Perspective*). *If a Latin American country is geopolitically close to the US, then it will gain a more balanced deal from China.*

H-2: (*Liberal International Political Economy [IPE] Perspective*). *If a country in Latin America is more economically interdependent with China than with the US, it is more likely to get a balanced deal from China.*

H-3: (*Dependency Theory Perspective*). *If a Latin American country has a diversified economy and is less dependent on a single sector, then it is more likely to gain a balanced deal from China.*

H-4: (*Constructivist Perspective*). *If a country in Latin America has a left-leaning regime that shares common ideological commitments, like the Beijing Consensus with China instead of the US, then it will receive a more balanced deal from China.*

Rather than to take a conventional view of China-Latin America relations from a Western outlook like is done by the four literatures reviewed above, I would like to bring forth a more nuanced interpretation of China's negotiations with Latin American countries from a Chinese standpoint. To do so, I explore the similarities and differences the four selected Latin American country cases may share in terms of the SPs each country establishes with China.

For this research, the key dependent variable is identified as "the balanced deal" between China and Latin American country. A balanced deal is identified as one in which the core economic interests and objectives of both parties are reconciled. A balanced deal in the project is operationalized by measuring the following four indicators: (1) whether there is equitable market access of companies from each country in trade areas of such as raw materials, manufacturing goods, technology transfers, and high value-added products (e.g., aircraft). Equitable implies that when a country from Latin America has, for example, manufacturing exports such as *Embraer Aircraft* in Brazil, they are allowed to export high-end manufacturing goods to China, and are not otherwise confined to the export of only commodities such as raw materials, energy products and agricultural goods. Inevitably, the equitable nature of the deal has to be judged on a case-to-case basis. (2) The total amount of China's foreign direct investment (FDI) for infrastructure. (3) The total amount of China's portfolio investments/credits/loans. (4) The employment of Chinese

contractors vs. local workers in a Latin American country that host Chinese-sponsored construction or infrastructure projects.

Hypothesis 1 focuses on the geopolitical importance of each country in this study to the US. It is operationalized by comparing geographical proximity and strategic importance of each country to the US preferences as self-assessed by US policymakers. Hypothesis 2 focuses on economic interdependence, and it is the variable that is concerned with the export/import balance with China versus the US, and can be measured by comparing the proportion of exports and imports from a country in Latin America to China and the US as the percentage of its total exports and imports. Hypothesis 3 focuses on the extent to which there is a “diversified” economy in each Latin American country. It is measured by the percentage contribution by specific productive sectors to the overall GDP. Hypothesis 4 focuses on a Latin American country’s ideology. Ideology is operationalized by reviewing a country’s dominant ideological orientation as articulated by the country’s key ruling elites and/or political party (or parties).

A NOTE ON SOURCES

Sources written in Chinese, English, and Spanish will be used for my research. The interdisciplinary nature of the project requires the research to traverse across a broad range of literature and has required that I spend time in the library, where I compiled secondary sources and newspapers written in different languages. To acquire specific data and reports from China’s official sources, there are web sites such as the Ministry of Foreign Affairs of PRC,³ the Ministry of Commerce of PRC,⁴ the Statistics of China’s Imports and Exports in Each Year,⁵ China Energy Statistics Yearbook, China’s National Energy Administration,⁶ National Bureau of Statistics of PRC,⁷ The Export-Import Bank of China (The EXIM Bank of China),⁸ and *Instituto de America Latina Academia China de Ciencias Sociales* (ILAS).⁹ To acquire data country by country in different sectors, there are The World Bank Export Goods Service,¹⁰ the web site of World Trade Organization (WTO),¹¹ US Census Bureau,¹² International Monetary Fund (IMF),¹³ BP Statistical Review of World Energy,¹⁴ The Observatory of Economic Complexity (OEC),¹⁵ International Energy Agency (IEA),¹⁶ Economic Commission for Latin America and the Caribbean (ECLAC),¹⁷ UN Comtrade Database,¹⁸ Inter-American Development Bank (IDB),¹⁹ and Inter-American Dialogue.²⁰ To receive local information in Latin American countries which are mostly written in Spanish, there are for instance, Brazil’s Ministério do Desenvolvimento, Indústria e Comércio Exterior,²¹ Argentina’s Ministerio de Relaciones Exteriores y Culto,²² Venezuela’s government web site,²³ and Mexico’s government web site of commerce and industrial development.²⁴

LIMITATIONS OF THE STUDY

Like all studies, this one has some noteworthy limitations. The research is mainly conducted by qualitative methods and thus it is a Small-N analysis. It focuses on four Latin American countries: Argentina, Brazil, Mexico, and Venezuela. These restrictions make the analysis vulnerable to “selection bias.” For that reason, the research may not be as generalizable to other cases, and may be considered to have limited explanatory power. As stated in the extant literature on social science methodology, selection bias in a research design leaves it with a relative inability to render judgments on the representativeness of particular cases and a relatively weak capability for estimating average causal effects. Nevertheless, the research design is sound and worthy, as it is grounded more so in discovery and in the uncovering of causal mechanisms than in verification alone. Moreover, to minimize the bias, I based my selection on observations, which “involves collecting data at different places, sources, times, levels of analysis or perspectives.”²⁵

Additionally, data availability has also posed a problem in my empirical research. For example, Chinese NOCs are particularly reluctant to share information on their overseas efforts and consider some data as confidential. Meanwhile, my research efforts have led me to conclude that, in some cases, investments made by China in Latin America are more rhetorical than they are truly implemented and concrete, which makes it extremely difficult to identify, not to mention measure them empirically. Finally, it is hard to obtain access to Chinese politicians, either former or present, since they are very sensitive and careful of discussing China’s foreign policy. Even so, the empirical component of this project has uncovered important new data and findings, as elaborated below in chapters 3 through 6.

NOTES

1. For Daily Oil Supply in Latin America and the Carribean, Argentina Counts for 8.7 percent, Brazil Counts for 33 percent, Mexico Counts for 26 percent, and Venezuela Counts for 24 percent (as calculated by the author in March 2015), <http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=5&pid=53&aid=1>.

2. Mauricio Macri (pro-Market) was elected as the new president of Argentina in November 2015.

3. http://www.fmprc.gov.cn/mfa_eng/.

4. <http://english.mofcom.gov.cn/>.

5. <http://english.mofcom.gov.cn/article/statistic/>.

6. <http://www.nea.gov.cn/>.

7. <http://www.stats.gov.cn/tjsj/>.

8. <http://www.eximbank.gov.cn/>.
9. <http://ilas.cass.cn/cn/index.asp>.
10. <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>.
11. https://www.wto.org/english/res_e/res_e.htm.
12. <http://www.census.gov/>.
13. <http://www.imf.org/external/country/index.htm>.
14. <http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy.html>.
15. <https://atlas.media.mit.edu/en/>.
16. <http://www.iea.org/topics/oil/>.
17. <http://www.cepal.org/en/>.
18. <http://comtrade.un.org/>.
19. <http://www.iadb.org/en/inter-american-development-bank,2837.html>.
20. <http://www.thedialogue.org/Home>.
21. <http://www.mdic.gov.br/sitio/>, <http://www.bcb.gov.br/?INDFSERIES>.
22. <http://www.mrecic.gov.ar/>, <http://www.argentina.gob.ar/>.
23. <http://gobiernoenlinea.gob.ve/>.
24. <http://www.economia.gob.mx/>.
25. Gary King, Robert O. Keohane and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (New Jersey: Princeton University Press, 1994), 121.

Part II

**HISTORICAL BACKGROUND
OF CHINA'S FOREIGN POLICY**

Chapter 2

Historical Overview of China's Foreign Policy

In this chapter, a historical overview is presented to clarify China's foreign policy under different government leaders and China's energy policy within the framework of its foreign policy. The overview is meant to provide a retrospective of the history of China's foreign relations with other developing countries, especially with countries in Latin America.

During the Cold War, China's relations with rest of the developing world were based on a combination of ideology and practical foreign policy interests. During the 1960s, in an important shift, China broke from its solidarity with postcolonial governments in the developing world and began to support revolutionary Communist movements within many of these countries. In geopolitical and ideological competition with the Soviet Union for global leadership of international communism, China provided substantial amounts of moral and material assistance to violent insurrections throughout Africa, Asia, and Latin America.

In the late-1970s, China's approach to the developing countries became more pragmatic as Deng Xiaoping pursued a path of economic liberalization and deemphasized ideology as a driver of Chinese national policy.¹ China steadily downplayed the ideological components of both its domestic and foreign policy as it began to open itself up to foreign trade and investment. China also shifted from giving aid to seeking and receiving foreign assistance. Notably, in 1980, China joined the World Bank and the IMF—two of the instruments of the imperialist financial order China once sought to disband. But China continued to affirm that its international relations were based on the Five Principles of Peaceful Coexistence² even though its foreign policy was from that point applied according to practical considerations of economic development.

Meanwhile, China further withdrew its support from communist insurgencies and began to establish political and economic relations with countries throughout the developed and developing countries, even though the rhetoric of South-South cooperation continued. Yet in the early-1980s, the international system started to change greatly, in that the US and the Soviet Union, by then the two superpowers in the world, began to adjust their relations. China also readjusted its foreign policy in the early-1980s. China took the position that it would carry on a kind of independent peaceful foreign policy in which it would form no formal alliances with any superpowers, great power blocs, or their opposing hegemonies, as a way to maintain world peace. The reason for this shift to a more independent foreign policy was twofold, and certainly based on Chinese leaders' new thinking on the world situation as well as domestic politics and importantly, it still remains the PRC's slogan for its foreign policy.

Deng Xiaoping's pragmatic understanding of the era suggests a willingness to transcend differences of social systems and ideologies in order to facilitate China's establishment of more normal diplomatic relations with other countries. For instance, when it came to China-US relations, Deng argued that Chinese observance of its relations with the US was not based on their social systems but on the concrete conditions of the two bilateral relations.³ As China began to prioritize economic development—and as its relationship with the US became a top priority—Beijing still continued to seek constructive relationships with the developing countries based on equality and mutual respect, not to mention its mutual beneficial economic relations with other developing countries (what China termed win-win results). Moreover, the rhetoric of South-South cooperation continued. More than rhetoric, China actually began to provide military aid—including, but not limited to, nuclear technology and missile systems—to the developing countries such as Algeria, Iran, Iraq, Pakistan, Saudi Arabia, and Syria to gain capital, to buy influence, and to demonstrate its continued fealty and leadership in the developing world. Following the violent suppression of the Tiananmen Square demonstrations in 1989, China turned to the developing world in a more concentrated and strategic way as the regime was made to feel the brunt of Western-led condemnation, sanction, and political isolation for its behavior.⁴

CHINA'S FOREIGN POLICY SINCE 1991

As pointed above, the idea of transcending the differences of social systems and ideologies in foreign policy was first put forward by Deng Xiaoping, and it was kept and reaffirmed by Jiang Zemin after the end of the Cold War. For example, in his speech in the 15th National Congress of the Central committee of Chinese Communist Party in 1997, Jiang argued that the diversity of the

world should be respected, which means every nation has its right to choose its own social systems, development strategies, and life styles to conform to its national conditions.⁵ With the guideline of this ideal in the 1990s, while China's relations still confronted some obstacles, it did create a relatively favorable international environment for its domestic economic construction and further propelled its reform and opening policy into a new era.

Hence it is arguable that Beijing embraced multilateralism and confidence-building measures to mitigate security concerns. It identified a number of states and regional organizations as strategic partners. It sought to increase its equity stakes in resource exploitation. Although less prominent in China's foreign policy than during the 1970s, economic assistance also remained a strategy to further bilateral relationships. This is where the raw materials to fire China's economy can be found in greatest abundance. It is where new markets can be found for Chinese products, especially because in such markets brand-name loyalties are not as firmly rooted as they are in the developed world. It is also in such markets Beijing has the greatest room to maneuver politically, among a variety of states that share its desire to see a more multi-polar world where American power is collectively constrained.⁶

Notably, even after Hu Jintao came into office, China witnessed no significant change to the established transcendental guidelines of its foreign policy. There are two underlying doctrines that perfectly illustrate the development of China's foreign policy and provide the guidelines and principles for China's foreign policy under Hu's period: Peaceful Development and Harmonious World. The concept of peaceful development makes clear that China has been looking for a peaceful international environment for a long time in order to develop socially and economically, and, in turn, will contribute to world peace and prosperity through its own development. Therefore, in echo with the peaceful development, the term "harmonious world" was first advocated by the then-president Hu in a National Congress of the Communist Party of China (CPC) political report in 2007 and he defined the concept as "lasting peace and common prosperity." The similarity between the Five Principles of Peaceful Coexistence and these new foreign policy doctrines is that mutual respect and noninterference in each other's internal affairs continue to be the necessary conditions for building a harmonious world.

According to Hu's report to the 17th CPC Congress, there are five dimensions of a harmonious world: (1) politically, all countries should respect each other and conduct consultations on an equal footing in common endeavor to promote democracy in international relations; (2) economically, they should cooperate with each other, draw on each other's strengths and work together to advance economic globalization in the direction of balanced development, shared benefits and win-win progress; (3) culturally, they should learn from each other in the spirit of seeking common ground while shelving differences; (4) in the area of security, they should trust each other, strengthen

cooperation; and (5) on environmental issues, they should assist and cooperate with each other in conservation efforts to take good care of the Earth. Thereby, the peaceful development is the road that China has been undertaking for decades and the harmonious world is the international environment that China is willing to share in constructing for common prosperity.⁷

As noted by Jiang, in Hu's report to the 18th National Congress of CPC in November 2012, he outlined the major principles of China's foreign policy: (1) promoting cooperation with other countries in all fields on the basis of the Five Principles of Peaceful Coexistence; (2) participating in multilateral affairs by supporting UN, the Group of Twenty (G20), the Shanghai Cooperation Organization (SCO), Brazil, Russia, India, China and South Africa (BRICS), and other multilateral organizations; (3) advocating peaceful settlement of international and regional disputes, rejecting all forms of hegemonism and power politics, and refraining from interfering in other countries' internal affairs; and (4) encouraging public diplomacy as well as people-to-people and cultural exchanges.⁸

Multilateralism became a keystone in Beijing's approach to international relations under Hu's rule, particularly in its relations at the regional level with developing states. For example in 1995, China initiated a Shanghai Five dialogue—including Russia, Kazakhstan, Kyrgyzstan, and Tajikistan, in addition to China—to discuss confidence-building measures along their respective borders. The success of the group, which added Uzbekistan and became the SCO in 2001, made this pact a model for China's subsequent multilateral efforts. Since its inception, SCO has often been used to illustrate principles in the nation's new security thinking. As a further indication of the tendency toward multilateralism, while China's engagement of regional groupings may have begun in Asia, it now extends well beyond its community of "peripheral states." In Latin America, it gained permanent observer status in the Organization of American States (OAS) in May 2004, and it has applied for the same status in IDB. Beijing and the Caribbean states held the first meeting of the China-Caribbean Economic Forum in February 2005.

Under Hu's leadership, the interdependence generated by the economic globalization process led China to rejuvenate its diplomatic relations with Western powers and within its own region. The PRC came to adjust to global interdependence, resulting in an important effect: China projects its power, not only through the use of its "hard" power (including security and economy), but also using its "smooth" power, it does so by supplying financial aid to countries in Africa and Latin America in need, by opening up Confucius Institutes practically everywhere, and by allowing thousands of Asian and European students to come to its universities.⁹ A Chinese paradigm is gaining momentum (as opposed to the Western liberal model), China is seeking to export this paradigm within its own region, to start with, and thereafter to the wider world, as its own civilizational and successful experience.

CHINA'S FOREIGN POLICY UNDER THE NEW LEADERSHIP OF 2013

When Xi Jinping came to power in 2013, the world was still in the process of moving in the direction of multipolarity along with the rapid development of economic globalization. From the standpoint of Jiang, the world is faced with the following phenomena affecting China's national security posture: first, with the rapid rise of its national strength in economic, political, and military terms, China has been asked by the West to undertake more global responsibility; second, the US wishes to "pivot" or "rebalance" toward Asia; third, China's national security and territorial integrity is under threat; and finally, the emerging economies have created great impact on the formation of a new world order. Faced with these changes in the world situation, China's new leadership seems to have undertaken a more active and more confident stance in its diplomacy.¹⁰

Xi Jinping, as the present leader of China, notes that China will continue to follow the path of "peaceful development," this implies that the notion that Beijing's neighbors and other major partners may rest easy that China's rise can only be accomplished by peaceful means and will only be pursued with an eye toward achieving win-win outcomes for all concerned. But it would be a serious mistake to suggest that Xi's foreign policy is nothing more than old wine in new bottles. There are both continuity and change in Chinese foreign policy. The Five Principles of Peaceful Coexistence from the Mao era still remain in effect. Since the 18th Party Congress, Chinese top leaders have reiterated that China will continue to pursue an independent foreign policy and will use peaceful means to resolve international conflicts. China tries to make friends around the world and forge partnerships while maintaining its long-standing position of no alliances.

Despite apparent continuity, there are notable changes from the Hu Jintao era. The concept of "harmonious world," put forward by Hu, is no longer mentioned. Xi has instead touted the concept of the "China dream" as an embodiment of the Chinese aspiration for national rejuvenation from a century of foreign humiliation. Moreover, he argues, for example, that China's biggest opportunity lies in the determined leveraging and further development of China's strength and influence internationally as a responsible stakeholder.

Moreover, Xi sees robust economic cooperation as a key element in his overall diplomatic strategy and common development is one of the crucial purposes. Common development is not a new idea for the Chinese government. As pointed out by Strauss, "it hints at complementarily, comparative advantage of division of labor without explicitly saying so."¹¹ President Xi Jinping, as the present leader, reinforced the concept of common development as the essential idea in one of his latest speeches at the opening ceremony of the BoAo Forum for Asia Annual Conference ("China's Davos") on April 7,

2013, a month after he had been elected in the first plenary session at the 12th National People's Congress.

In his speech, common development has been described as the basis for a sustainable development and there are four claims including mutual respect to accomplish the goal of common development. First, countries should have the courage to change and be creative (*yongyu biange chuangxin*). Second, countries should bind together to defend peace (*tongxin weihe heping*). Third, countries should have efforts to promote cooperation (*zhuoli tuijin hezuo*). Fourth, countries should comply with the opening-up policy and be inclusive (*jianchi kaifang baorong*). From his speech, he revealed the intrinsic quality of common development, that is no such country can attain sustainable development without other countries' joint development in the region, and in the world. In other words, this implies the rhetoric of win-win and mutual benefit. Hence, strategic partnerships encourage mutual respect, and win-win cooperation for common development.¹²

Xi appears more confident on the world stage than his predecessors, wishing to have a voice to have a foreign policy befitting a major power. Under Xi's leadership, China is adopting a much more activist foreign policy to defend and advance Chinese interests. The Chinese want a greater say, proportional to their nation's growing stature, in shaping the international discourse. Thereby, Chinese foreign policy has noticeably changed from having a "low profile" to a more active or proactive disposition and Xi Jinping is explicitly promoting an activist foreign policy such as China's indispensable financial support in African countries to set up its benign international image as we have seen China's assertive stance on the South China Sea dispute.

CHINA'S OIL DIPLOMACY

With Deng Xiaoping, economic development became China's top priority in the 1980s. By the end of the 1990s, the "open door policy" had successfully placed China among the top FDI recipients and leading world exporters. During this process, Chinese enterprises became successful exporters as they gained knowledge and experience with foreign capital through joint ventures (JVs) with multinational corporations in China. Facing fierce competition internally (output capacity outpacing domestic demand) and scarcity of domestic supply of strategic resources, Chinese firms were naturally compelled at the turn of the century to venture overseas. The launching of the Going Out policy by Beijing, thus, surfaced as a way to promote the globalization of Chinese firms through specific policy incentives, political backing, and financial support. Chinese state-owned enterprises (SOEs) were naturally the major beneficiaries.¹³ By accessing strategic inputs abroad such as raw

materials, and high-end technology and “know how,” China has increased its share of important manufacturing markets. By creating/acquiring global brands, the regime aspires to upgrade its production value chain, and move beyond the export development model, and through this means sustain China’s pace of growth.

The primacy of economic concerns over political ones was further reinforced by the wider international context. The end of the Cold War and the emergence of the information age further accelerated the intensification of economic flows at the global stage. Within this rapid changing framework, the importance of economic statecraft increased substantially vis-à-vis diplomatic and military instruments in foreign relations.

In the above sense, China’s foreign policy choices became increasingly driven by domestic economic imperatives. Among these, energy security concerns stand out as China realizes one of its major external liabilities featuring, therefore giving energy security a high priority in China’s foreign policy agenda. China first began to import oil products in 1993, and it has become increasingly reliant on oil imports. Since then, China’s energy policy has involved a process of the Going Out strategy. In other words, its energy policy has been internationalized, relying increasingly on both “domestic” and “overseas” fuel markets. China has staged the world’s fastest energy consumption growth rate over the past decade. While its primary energy consumption only by expanded 27 percent between 1990 and 1999, it has more than doubled over the period 2000–2009.¹⁴ As of 2009, fossil fuels (coal, natural gas, and oil) represented 93 percent of China’s primary energy consumption. Within a relatively short period of time, China went from being self-sufficient (up to 1993), to being the second-largest world oil consumer (2003) and importer (2009) after the US.¹⁵ Of the natural resources and raw materials needed to sustain rapid economic growth in its manufacturing and industrial sectors, oil is by far the most important critical resource needed to fulfill its energy needs as shown in Figure 2.1.

Through a form of energy diplomacy, involving good diplomatic relations with resource-rich countries and energy cooperation agreements, China’s government and the NOCs have acquired access to oil and gas resources to fill the growing gap between China’s domestic production and consumption. Due to significant domestic coal production, China still has a relatively low level of dependence on foreign hydrocarbons (11 percent), but China’s reliance on imported oil (58.9 percent) is significant and growing, and has become China’s “Achilles Heel.”¹⁶

China’s NOCs and private companies have been encouraged to become more international in their activities. China’s NOCs are a useful tool for Chinese leadership to exert oil diplomacy. There are three major Chinese NOCs: Sinopec, CNOOC, and CNPC. Born out of China’s economic system reforms

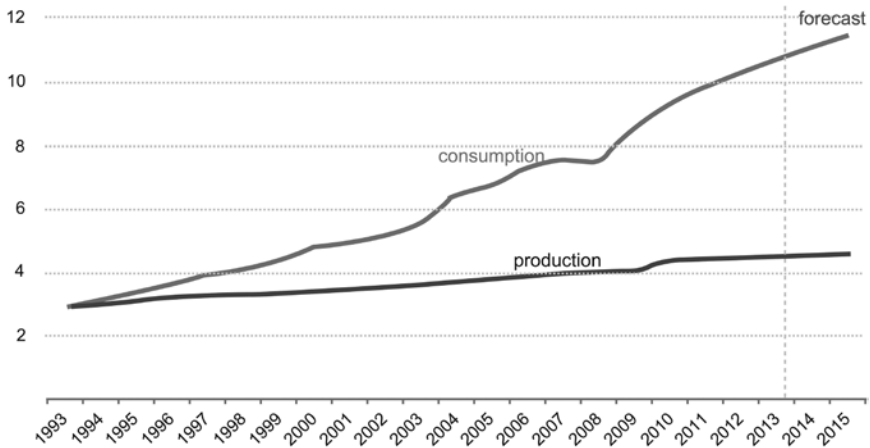


Figure 2.1 China's Oil Production and Consumption, 1993–2015 (mbpd). *Source:* EIA International Energy Statistics and Short-Term Energy Outlook, January 2014.

in the 1980s when the Chinese government decided to convert productive assets of ministries into SOEs, these three corporations share a common set of parents in the former Ministry of Petroleum Industry and the former Ministry of Chemical industry.¹⁷ This “golden triangle” between Chinese NOCs, the state and quasi-commercial lending institutions (i.e., China Development Bank [CDB], The EXIM Bank) provides Chinese oil companies with the cheap finance to undercut their Western competitors and the Chinese state with an effective instrument to pursue its resource security goals abroad.

Over the years, the Chinese government has become increasingly more dependent on Chinese oil corporations and, as a result of their economic might, these firms are helping to intensify the diffusion of power in Chinese politics. NOCs have become business driven market actors that because of their profit motive make energy-related investments based on economic reasons, regional imbalances, or technology transfers and not primarily to support state interests.¹⁸ Behavior of NOCs is seen as mainly commercially driven and relatively independent from government interests in energy security. The high degree of NOC autonomy results in an NOC company investment policy that can be seen as relatively independent from government foreign policy goals inspired by energy security.

As nonrenewable oil resources have been in short supply, energy security, and especially access to oil resources, plays an important part in China's foreign policy. Energy security has become a big worry in China. China's conception of energy security has moved away from the emphasis on self-reliance, bilateral relationships, and zero-sum strategic games, to a new policy of multilateral relations that are beneficial for all parties.

The culture of energy security has been redefined under the new leadership of Xi Jinping to: (a) a more market-driven approach to domestic and international energy; (b) opening up of the midstream and downstream oil and gas sectors in China to foreign investment and technology; (c) increased reliance on multilateral cooperation; and (d) increased emphasis on a low carbon energy mix. It is perhaps the result of over twenty years of international energy cooperation that has made China more aware that all countries are interdependent in matters of energy security and that efficient and open international energy markets are an important part of China's own energy security.¹⁹

In response to growing oil demands, China's first initiative is to increase imports from the largest oil-producing countries, starting from the Middle East. Back in 1995, Southeast Asia and the Middle East were the two dominant sources of oil imports for China. China also set its eyes on Africa, especially Angola, Sudan, the Democratic Republic of Congo, and Gabon. China's ties with the region are free of ideological or security obstacles. They are also free of historical hostilities, unlike the hostilities that still exist between the West and the above-mentioned African countries. Since the 2000s, China's oil diplomacy has also turned to Russia and to Central Asia. In 1999, China and Russia also began to edge toward a strategic partnership, holding annual bilateral energy cooperation talks as part of regular Chinese-Russian meetings. China's oil imports from Russia have increased sharply in recent years. Central Asia, or the region around the Caspian Sea which is now part of the Commonwealth of Independent States (CIS), is another new source of oil supply for China.²⁰ Finally, Latin America has been the focus of diversifying oil access in China's foreign policy. Countries like Venezuela and Brazil have signed a variety of energy agreements with China.

Not only has China's continued economic growth increasingly relied upon securing resources overseas, but also its social stability and ultimately the survival of the regime have been predicated upon the procurement of overseas resources. Energy security concerns surfaced during the third leadership generation headed by Jiang Zemin. Due to a slow growth pace in energy demand throughout the 1990s, supply strategies over this period emphasized self-sufficiency, encouraging energy companies to expand domestic production.²¹ The massive surge in domestic demand and the subsequent increasing external reliance in the 2000s, pushed energy security to the top of Hu Jintao's international agenda and later to Xi's as well.

In pursuing oil diplomacy, Beijing has developed much closer ties with countries that had relatively limited interactions with China in the past. From the 1990s onward, Chinese NOCs began to turn their attention to Central Asia, Africa, and Latin America, and energy became far more important in Beijing's relations with resource-rich countries such as Russia, Australia, and Canada. After an exploratory period in the mid-1990s, Chinese oil companies

began investing in countries like Sudan, Venezuela, Iraq, Kazakhstan, Ecuador, Indonesia, Iran, and Myanmar, in the late-1990s and early-2000s. Since Hu Jintao assumed power, China has been more aggressive in African countries such as Algeria and Gabon, in Middle Eastern countries like Egypt and Iran, and in Western hemisphere countries including Argentina, Brazil, Venezuela, and Canada. High-profile examples of this investment surge include Sinopec's agreement with Caracas in December 2004 for the operation of fields in eastern Venezuela.

The new government of Xi and Li unveiled the transition path of oil policy from national to international. This unveiling represents the stage at which the embryo of China foreign energy policy has been formed. Before, China's energy foreign policy was a government-led strategy used to help meet China's energy shortages with imports. Today, and increasingly in the future, China's foreign energy policy means that many different state-owned, private JV and collective companies are the actors who often move faster than the government. These companies will connect foreign and Chinese energy markets.²² Hence, a more market-driven approach now characterizes domestic and international energy policy.

The primary policy goal of China's strategy in oil-producing countries is to achieve the acquisition of sufficient energy supplies to maintain economic growth and to protect party leadership's core interests. The Chinese government's main objective is to ensure adequate import of oil to maintain Chinese economic growth while simultaneously diversifying their sources of supply. This policy is based on the desire to circumvent an over-reliance on the global oil market through either actually acquiring major stakes in foreign oilfields or safeguarding access.²³ Another reason to diversify their sources of supply is to decrease the strategic importance of the Malacca strait as the only alley through which oil flows to China.

In addition to diversification of the supply sources and securing steady supply in the international oil market, Chinese NOCs have been expanding investments overseas, now spanning from neighboring Central and Southeast Asia to faraway regions such as Latin America. China's ventures into Latin America is turning out to be one of the most striking features of its emergence as a global economic player in the twenty-first century.

CHINA'S STRATEGIC PARTNERSHIPS WITH LATIN AMERICA

When the end of the Cold War led not to a division of power in the world but to heightened American predominance, Beijing began promoting the notion of a multipolar world to protect its interests and to dilute US global power and

influence. This posture resonated well in most of the developing world and fostered a spirit of common cause in international organizations such as UN and WTO. With the addition of profound new economic interests in Africa, Latin America, the Middle East, Central Asia, South Asia, and Southeast Asia, China's strategic attention to the developing world began a period of renaissance.

Chinese contacts with Latin America date back sixty years to the founding of the PRC government, but they have changed radically over time and expanded enormously during the past decade as a result of reforms launched by Deng Xiaoping and further developed by his main successors. The expanding ties are directly related to China's skyrocketing economic growth, the country's escalating need for raw materials and markets, the need for food to sustain growth and the need to satisfy rising consumer demands. Finally, as a result of these more specific needs, China has a naturally increasing drive to participate in the affairs of the world. Each new stage is built in some degree on earlier experiences, but each also has its own distinct characteristics. Taken as a whole, China's expansion into Latin America illustrates a shifting power configuration in the world.

Under Deng's leadership in the late 1970s, Deng believed that the country needed to orient its efforts inward toward achieving rapid economic growth. Costly "adventures" in faraway countries or the sake of "world revolution" during Mao's rule were simply not affordable, nor politically desirable, under the new economic development model. As a result, Maoist guerilla groups in Latin America saw their political and military support from the "motherland" cut off, contributing to their general decline in the region.²⁴ As China began averaging a roughly 10 percent annual GNP growth for year after year, the country needed raw materials from abroad and a consolidation of political power in the competition with Taiwan. Thus interest in and links to Latin America were expanded for pragmatic and political reasons.

Under Deng's rule, one of the main characteristics was the absence of overt anti-Americanism. The main Latin American relationship that did not change immediately after Chairman Mao's death was the one with Cuba. Meanwhile, with the fully collapse of the Soviet Union, the demise of East-West confrontation and a gradual build-up in the web of globalization, the concept of partnership also emerged within Chinese diplomacy after the end of the Cold War. It was not until the early 1970s when the PRC and the US decided to normalize their bilateral relations that the biggest obstacle restraining the development of a China-Latin America relationship was removed. By the end of the 1970s, the PRC had established diplomatic relations with a dozen Latin American countries, including Chile, Peru, Mexico, Argentina, Guyana and Jamaica, Trinidad and Tobago, Venezuela, Brazil, Surinam and Barbados.

Meanwhile, as pointed above, China established its first strategic partnership with Brazil in 1993.

Since 1978 when it decided to open itself to the outside world and conducted its economic reform, China has gradually reshaped its foreign policy by taking more pragmatic approaches to international relations. For example, in dealing with its relations with countries in Latin America, China proposed four major principles that were intended to guide a China-Latin America relationship. First, China establishes and develops its cooperative relationship with all Latin American countries on the basis of the Five Principles of Peaceful Co-existence. Second, in terms of expanding trade and business and economic cooperation, a China-Latin America relationship should focus on the present footing in the short term and look forward to the future in the long term. Third, China and the countries of Latin America should respect each other's cultural traditions and social values. Fourth and finally, the two sides increase their cooperation and coordination in world affairs with mutual support and close consultations. During the 1980s, relations between China and countries of Latin America witnessed renewed development and cooperation, which occurred through increasingly multiple channels, broader fields, and wider dimensions.²⁵

During the 1980s, Chinese firms focused on setting up JVs, mostly in textiles, in Caribbean countries with behind-the-scenes assistance from the Chinese government. The aim was to establish a local base from which to access or enter the US market. Starting in 1992, when China's Shougang Group invested US\$ 120 million in Peru's largest iron ore mine (also the largest in South America), Chinese FDI began moving into the raw-material sector.²⁶

However, it was not until the beginning of the twenty-first century that China made significant moves toward Latin America. The twenty-first century world continues its major transformations in several fundamental ways. First, with the changes and adjustments of the world under way, peace and development continue to be mainstreams of this present age, although there are regional and local conflicts that occur occasionally here and there around the world. Second, a trend toward multipolarity in the world is irreversible and economic globalization is gaining momentum. Third, it is in the fundamental interests of peoples of all nations and their aspirations to share the historical moment of development by addressing their common challenges while promoting noble causes of constructing a harmonious world of human peace and stability. It can be reasonably argued that global peace and economic development in the twenty-first century offers both opportunities. Such opportunities and challenges demand that developing countries like China and the countries of Latin America cooperate and coordinate more closely in dealing with a more complicated and uncertain world ahead.

Following on Jiang Zemin's "New Security Concept"²⁷ and China's accession to the WTO, the Chinese government's attention to Latin America started to change at the turn of the century. Given China's rise as a major power in global affairs, the pace of economic growth needed to maintain the development of its national industries and the scarcity of national energy supplies, the Chinese government introduced its support for Chinese NOCs to go abroad as a strategy in 2000.

Domestic development in both China and Latin American countries encourages the desire for improving the China-Latin America relationship. China has repeated the determination of its sticking to the direction of its economic, social, and political reforms. This implies that China has chosen the route of development as its national agenda. Many countries in Latin America also seek paths to push forward their economic growth and social progresses. National self-development is made a top priority by China and many Latin American countries. Other shared identities also encourage both China and Latin American countries to seek closer relationships between each other. As one commentator puts it, the shared identities of developing countries, similar historical experiences and common desires for peace are the "political bases" of improving China-Latin America relations.²⁸

Within the above contexts, China's foreign policy in the early twenty-first century begins to attach greater importance to, and to seek closer relationship with, Latin American countries. Latin America has a long history of splendid civilizations with vast territories and abundant resources, and enjoys a firm foundation for economic growth and social progress as well as huge development potential. For many Chinese, Latin American countries constitute important parts of the developing world and major forces that are playing increasingly important roles in regional and international affairs, contributing significantly to world peace and global development. Meanwhile, many Latin American countries have been actively seeking proper ways or models of national developments that are suitable to their own actual state conditions. Latin America has witnessed its maintenance of political stabilities, sustainable economic growth, and social development with peoples' livelihood steadily improving over the past decades.

More recently, a new type of Chinese investment in Latin America emerged with even more direct intervention by the Chinese government. China has sought to guarantee its access to resources in Latin America through strategic alliances, sealed with financial support from the Chinese state. Capital from Chinese state banks has played a crucial role in these relationships. China has been the largest single buyer of Chilean copper, and its position was sealed with a strategic alliance backed by the Chinese state. In late-May 2005, China's Minmetals Group and *the Corporación Nacional del Cobre de Chile* (Codelco) agreed to establish a JV and the maximum investment was

to be US\$ 2 billion.²⁹ The agreement awarded a fifteen-year copper supply contract to China and guaranteed financing for future copper projects for Codelco. Chile gains stable export revenue and financial loans from China's National Development Bank. China, in return, has the right to develop copper resources.

In the same vein, the Chinese government supports the Chinese NOCs in their business mission to internationalize and diversify oil supplies, particularly in developing regions such as Latin America. The Going Out policy has become one of the Chinese government's main international strategies to engage with the developing world, particularly when approaching resource-rich countries such as Venezuela and Brazil in the Latin American region. The trade-off, and the investment in commodities and energy resources, especially oil, is the main objective of the Going Out strategy. Chinese NOCs have implemented this strategy by venturing into business projects overseas, including the so-called "loan-for-oil" deals.

In his speech at the UN Economic Commission for Latin America and the Caribbean on April 6, 2001, Chinese President Jiang Zemin said that, in order to promote bilateral relations between China and Latin America, the following actions must be taken by both sides: (1) to deepen mutual understanding and mutual respect so as to become trustworthy friends; (2) to facilitate mutual consultations and support each other so as to safeguard the mutual interests on the world stage; (3) to promote mutual benefits and seek common development so as to expand bilateral economic relations; and (4) to face the future with a long-term vision so as to develop a partnership of comprehensive cooperation.³⁰ Since then, bilateral trade is growing, from US\$ 12.6 billion in 2001 to US\$ 26.8 billion in 2003 and US\$ 30 billion in 2004.

The way of approaching South America can be included in the South-South cooperation doctrine. The support that the PRC has provided to the countries of the region in the G20 meetings is an example of this position at an international level. The resources used to affirm a presence in the region have been: (1) its participation in the hemispheric institutions, for example OAS and Group of Rio, its participation in IDB, and the presence of Chinese troops in Haiti; (2) the encouragement of interregionalism with Latin America and the Caribbean, for example Forum for East Asia-Latin America Cooperation (FEALAC); (3) participation in the subregional cooperation and integration groups, for example *Mercado Común del Sur* (MERCOSUR) and Andean Community; and (4) bilateral agreements.³¹

Addressing the Brazilian Congress on November 12, 2004, President Hu Jintao also proposed three measures to boost ties between China and Latin America: (1) to deepen strategic consensus and mutual trust; (2) to develop the potential of cooperation in an innovative way; and (3) to strengthen mutual understanding through more cultural exchanges.³² There have been

intensified political exchanges between Latin America and China, with Hu Jintao visiting the region three times, in 2004, 2005, and 2008, while Latin American leaders have been frequent visitors to Beijing. In 2008 China published its first Policy Paper on relations with Latin America. China confirmed cooperation in a wide range of fields, including international affairs, judicial and police affairs, science and technology, education, medicine, climate change, disaster relief, and exchanges between militaries, legislatures, local governments, political parties, and high-level officials.

Yongtao Liu discussed several characteristics of the 2008 *Policy Paper* with his insight. First, it appreciates the increasingly important role that Latin American and Caribbean (LAC) countries are playing in regional and international affairs. Second, it stresses the bilateral trade and economic relationships with LAC countries. Third, it confirms cooperation in a wide range of fields, including international affairs. Finally, it expresses the idea that China views its relations with Latin America and the Caribbean from strategic perspectives. It also reiterates that "One-China" policy is the political foundation for the establishment and the development of relations between China and the LAC countries. It can be seen that developing friendly relations with developing countries including those in Latin America and the Caribbean is the basis of China's foreign policy.³³

Bilateral trade grew tremendously over the last two decades. Investment flows have also been on the rise during the 2000s. As a matter of fact, China has replaced the US as the largest trade partner of several Latin American countries. Other types of economic cooperation such as currency swap and infrastructure constructions also increased significantly. In 2009, China joined IDB and China signed free trade agreements (FTAs) with Chile, Peru, and Costa Rica. Finally, military diplomacy and conventional arms sales increased. But the nature of this cooperation and exchanges was peaceful and nonstrategic, posing no threat to the US. Cultural agreements were signed and people-to-people ties were flourishing. More than one hundred pairs of sister city and sister province relationships had been established between the two sides. China also hosted various delegations of diplomats, government officials, military officers, journalists, scholars, etc., from the region.³⁴

As reported in one of the articles by Kevin P. Gallagher and Roberto Porzecanski, the benefits of LAC-China trade are highly concentrated in a few countries and sectors.³⁵ There are the top five sectors: ores and concentrates of base metals (largely copper ores), soybeans, iron, crude petroleum, and copper alloys were 60 percent of all exports to China and 75 percent of commodities exports to China as indicated in Table 2.1. This has raised the confusion of whether China is scrambling for the resources of the developing world and actually serves as a competitive threat to Latin America.

Table 2.1 Dominant Exports of Latin America and the Caribbean (LAC) to China in 2009

<i>Sector</i>	<i>Share of Total LAC Exports to China</i>	<i>Country (Share of Total LAC Exports to China in Sector)</i>
Copper alloys	17.9%	Chile (90%)
Iron ore and concentrates	17.3%	Brazil (89%)
Ores and concentrates of base metals	13.5%	Chile (47%), Peru (39%)
Crude petroleum	4.5%	Brazil (65%), Colombia (20%)
Soybean oil and other oils	4.5%	Argentina (79%), Brazil (20%)
Pulp and waste paper	4.4%	Brazil (55%), Chile (43%)
Feedstuff	2.4%	Peru (63%), Chile (30%)
TOTAL	81.3%	

Source: Elaborated by Kevin P. Gallagher from UN Commodity Trade Statistics, 2010b.

After Xi took power in 2012, he made two trips to the region in 2013 and 2014 as well as the first ministerial meeting between China and the Community of LAC states (*Comunidad de Estados Latinoamericanos y Caribeños*, CELAC) in early 2015 to further upgrade the position of the region in China's diplomacy. At the meeting with LAC leaders in Brasilia, Xi Jinping also outlined China's road map of further promoting bilateral relations between China and Latin America. The strategy is composed of five elements: (1) equal treatment and sincere help for each other; (2) mutually beneficial cooperation for the purpose of common development; (3) deeper mutual understanding through more exchanges and consultations; (4) more cooperation in the international arena; and (5) more cooperation with the region of Latin America as a whole as well as with its individual nations.³⁶

Xi also mentioned three impressive numbers in his speech at the China-Latin America summit: (1) China would set up a special credit line of US\$ 10 billion for improving Latin American infrastructure, which would expand to US\$ 20 billion in the near future; (2) China would provide US\$ 10 billion of concessional loans for LAC countries, and launch the China-Latin America Cooperation Fund with a commitment to invest US\$ 5 billion; and (3) China would allocate US\$ 50 million for a special fund for agricultural cooperation. In addition, China would establish a program for scientific and technological partnership and also an exchange program for young scientists.³⁷ This commitment indicates that China has recognized the importance of promoting cooperation with Latin America on global issues. In the post-Cold War era, multilateral organizations have been playing a more important role. On the one hand, there are so many global issues facing both China and Latin America. On the other hand, both sides are important players

on the world stage. Consequently, there are many opportunities for cooperation in organizations such as UN, WTO, and G20.

To further promote bilateral relations between the two sides, China should pay more attention to the new potential risks as well as the old problems. The wider spread of the perceived “China threat” and “fear of China,” political instability, economic insecurity, and rising crime rates in some Latin American countries will be major hindrances to the booming relationships between China and Latin America.

NOTES

1. Derek Mitchell, “China and the Developing World,” *Center for Strategic and International Studies* (July 2013), 110, http://csis.org/files/media/isis/pubs/090212_06china_developing.pdf.

2. Set forth by the former Premier Zhou Enlai in 1954, the Five Principles of Peaceful Coexistence includes the following: (1) mutual respect for sovereignty and territorial integrity, (2) mutual non-aggression, (3) non-interference, (4) equality and mutual benefit, and (5) peaceful coexistence.

3. Xiaoping Deng, *Selected Works of Deng Xiaoping (Deng Xiao Ping Wen Xuan), Volume III* (Beijing: People Press (Ren Min Chu Ban She), 1993), 330.

4. Derek Mitchell and Carola McGiffert, “Expanding the ‘Strategic Periphery’: A History of China’s Interaction with the Developing World,” in *China and the Developing World: Beijing’s Strategy for the Twenty-first Century*, ed. Joshua Eisenman et al. (Armonk: M.E. Shape, 2007), 18.

5. See the Full Report of Jiang Zemin’s Speech on the 15th National Congress of the Central Committee of CPC (December 1997), <http://fas.org/news/china/1997/970912-prc.htm>.

6. Eric Heginbotham, “Evaluating China’s Strategy Toward the Developing World,” in *China and the Developing World: Beijing’s Strategy for the Twenty-first Century*, ed. Joshua Eisenman et al. (Armonk: M.E. Shape, 2007), 195.

7. See the Full Text of Hu Jintao’s Report at the 17th Party Congress, *Xinhua News Agency* (October 2007), http://news.xinhuanet.com/english/2007-10/24/content_6938749_10.htm.

8. Shixue Jiang, “China’s New Leadership and the New Development of China-Latin America Relations,” *China Quarterly of International Strategic Studies* 1, no. 1 (2015), 138.

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11. Julia C. Strauss, "Framing and Claiming: Contemporary Globalization and 'Going Out' in China's Rhetoric Towards Latin America," *The China Quarterly* 209 (2012), 145.

12. The full report of Xi Jinping's Speech, "Gongtong fazhan shi chixu fazhan de zhongyao jichu (Common Development is the Basis of a Sustained Development)," *Boaoforum.org* (April 2013), <http://www.boaoforum.org/cgzxbd/7283.jhtml>.

13. Ana Cristina Alves, "Chinese Economic Statecraft: A Comparative Study of China's Oil-backed Loans in Angola and Brazil," *Journal of Current Chinese Affairs* 42, no. 1 (2013), 100.

14. "Statistical Review of World Energy 2010," bp.com (June 2010), <http://www.bp.com/statisticalreview>.

15. Ana Cristina Alves, "China's Oil Diplomacy: Comparing Chinese Economic Statecraft in Angola and Brazil" (Ph.D. dissertation, London School of Economics and Political Science, the United Kingdom, 2011), 16.

16. Qinhua Xu, "Decoding the Changes of China's Foreign Energy Policy after the Third Plenary Session of the Chinese Communist Party: From National to International," *Oxford Energy Forum* 95 (2014), 34.

17. Julie Jiang and Jonathan Sinton, "Overseas Investments by Chinese National Oil Companies: Assessing the Drivers and Impacts," *International Energy Agency* (February 2011), 9, https://www.iea.org/publications/freepublications/publication/overseas_china.pdf.

18. Erica Downs, "China, Energy Security Series," *The Brookings Foreign Policy Studies* (December 2006), 35, <http://www.brookings.edu/~media/research/files/reports/2006/12/china/12china.pdf>.

19. Xu, "Decoding the Changes of China's Foreign Energy Policy," 34–35.

20. Hongyi Lai, *The Domestic Sources of China's Foreign Policy: Regimes, Leadership, Priority and Process* (London: Routledge, 2010), 123.

21. Michal Meidan et al., "Shaping China's Energy Policy: Actors and Processes," *Journal of Contemporary China* 18, no. 61 (2009), 603.

22. Xu, "Decoding the Changes of China's Foreign Energy Policy," 35.

23. Ian Taylor, "China's Oil Diplomacy in Africa," *International Affairs* 82, no. 5 (2006), 942.

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25. Yongtao Liu, "Promote China-Latin American Relations in the Twenty-first Century," *GCG Journal* 6, no. 1 (2012), 109.

26. Chung-chian Teng, "Hegemony or Partnership: China's Strategy and Diplomacy Toward Latin America," in *China and the Developing World: Beijing's Strategy for the Twenty-first Century*, ed. Joshua Eisenman et al. (Armonk: M.E. Shape, 2007), 100.

27. Jiang Zemin promoted a foreign policy of "peace and development" with his pronouncement in 1999 of the "New Security Concept." This concept consisted of four main elements: mutual trust, mutual benefit, equality and coordination, also aiming at easing the anxiety over the China threat perception that had gained momentum at the time. The "New Security Concept" is a Chinese initiative to shift from self-help

security to what it termed mutual or common security and ready to play a leadership role in the international arena.

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29. Teng, "Hegemony or Partnership," 100.

30. Jiang Zemin's Speech to the ECLAC, *People's Daily* (April 2001), <http://www.people.com.cn/GB/shizheng/16/20010407/435206.html>.

31. Maria Florencia Rubiolo and Paola Andrea Baroni, "China: Opportunities and Challenges for Latin America," *Teka Komisji Politologii i Stosunków Międzynarodowych* 7 (2012), 25.

32. Hu Jintao's Speech at the National Congress of Brazil, *Xinhua News Agency* (November 2004), <http://news.xinhuanet.com/newscenter/2004-11/13/content22136201.htm>.

33. Liu, "Promote China-Latin American Relations in the Twenty-first Century," 111.

34. Jiang, "China's New Leadership and the New Development of China-Latin America Relations," 135-36.

35. Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford: Stanford University Press, 2010), 17.

36. *Ibid.*, 143.

37. *Ibid.*, 144.

Part III

KEY CASES IN THE STUDY OF CHINA-LATIN AMERICA STRATEGIC PARTNERSHIPS

This part of the project presents the study of my four country cases of Argentina, Brazil, Mexico and Venezuela in the partnerships with China. The case analysis begins with Brazil since it is the first country in the world China recognized as a strategic partner in 1993, and because it is China's most influential and largest trading partner in the Latin America. Next, I follow with Venezuela, Mexico and Argentina, respectively. The reason I present the cases in this order is based chronologically on the years (from the earliest to the latest) that each case received its recognition as strategic partner from China. Each case represents a particular type of model of SPs. These cases are not exhaustive, but they are illustrative of important variation. Therefore, my selection of four important cases represents a cross-section of special types of SPs developed in Latin America.

Chapter 3

China's Strategic Partnership and Oil Diplomacy with Brazil

THE EVOLUTION OF CHINA-BRAZIL ECONOMIC RELATIONS IN HISTORICAL PERSPECTIVE

Brazil and China established diplomatic relations in 1974, when Brazil was still under an anticommunist military dictatorship. However, the ideological differences did not isolate the opportunities of their bilateral relations. Indeed, during the governments of Geisel and Figueiredo (1974–1985), China was considered a relevant economic partner. During the first half of the 1980s, the bilateral trade reached high values. Brazil imported mainly oil from China and exporting industrial assets, petrochemical products, and steel. But from the late 1980s through to the early 1990s, a decrease in the bilateral trade ensued, as Brazil was focusing its foreign policy on the US, and since China was more concerned with its own domestic issues.¹

Intensification of the relationship came about in 1993 with the establishment of the strategic partnership. However, the expectations created by the strategic partnership were not fulfilled during the 1990s; the levels of bilateral trade and foreign investment were low and the cooperation almost stagnated. During this period there were also particular issues to note that directly weakened the bilateral relationship such as the Chinese embargo on Brazilian meat in 1999 that lowered the expectations of some Brazilian agribusiness companies to target China's market.² It was only from the beginning of the 2000s, that the relationship between China and Brazil receive a renewed relevance.

After Chinese president Jiang Zemin's tour of the continent in April 2001, bilateral relations were further strengthened by President Lula's visit to China in 2004, followed by the visits of President Hu Jintao and Vice President Zeng Qinghong in 2004 and 2005, respectively. Since then, more than a hundred bilateral acts were signed between the two partners and mutual

visits are becoming more frequent and numerous. The intensification of trade between China and Brazil since the beginning of the twenty-first century is one of the most important characteristics of the bilateral relationship. From 2000 to 2011 there was an exponential growth in the bilateral trade, which expanded by more than 2000 percent to US\$ 71.27 billion in 2011. Brazil mostly exports iron ore, soybeans, and oil to China.³ In 2011, these products represented around 81 percent of the total of exports to China.

Relevant for the increase of the bilateral trade is the fact that, in 2003, China became a net importer of commodities. This meant that the domestic pressure on the Chinese government to get access to these products increased substantially, and with this naturally came reason to find methods to intensify cooperation and search for new markets with Brazil. Equally relevant was China's entry into the WTO in 2001 and the subsequent reform of its trade practices. The further implementation by China of the WTO market access concessions paved the way for Brazilian mining, oil, and agribusiness industries to push forward a strategy for the internationalization of their activity, including the increase of exports to China.⁴

Currently Brazil is the largest economy in the region and has a large and rather young population, as well as a vast national territory that is rich in natural resources, including oil, iron ore, and hydroelectric power. Brazil has become the world's largest net exporter of agricultural commodities, thanks to high levels of agricultural productivity, a sophisticated agricultural exports sector, and significant potential for further expansion.⁵ Nonetheless, Brazil had a long history of protectionism and import substitution. Brazil experienced a long period of economic instability, high inflation, and indebtedness from the 1980s to the early-1990s after the problematic decade of the 1970s when international oil prices increased dramatically, and after Brazil's access to foreign capital dried up after the 1980s debt crisis. During the 1990s and the beginning of the twenty-first century, as several trade liberalizations (such as the *Real Plan* from 1994 to 1999, the new macroeconomic policy regime from 1999 by Cardoso, and continued neoliberalism by the Lula administration) were implemented in Brazil, its exports, FDI and investments did begin to grow significantly after the turn of the millennium, fueled particularly by Asian demand for iron ore, soy, and other commodities.

After the turn of the millennium, the government of Lula da Silva focused on the diversification of the country's diplomatic relations and South-South cooperation. This involved the promotion of the equality between all the states, and a favoring of relations with other intermediate powers. This same approach has been followed by the previous President Dilma Rousseff (2011 to 2016). Given its economic power and its international set of goals, China was seen as a good alternative to the traditional orientation of Brazil's foreign policy, that is the Latin American neighborhood, the US, and Europe. Lula considered that

to achieve what was perceived as the main national goals of Brazil-economic development and reformulation of the mechanisms of international governance, it was crucial to intensify relations with other large developing countries.⁶ This was a major shift in Brazil's foreign policy since the previous governments mainly focused on building relationships with traditional trading partners.

Because of its growing economic and political influence, China was considered by Brazil as a fundamental partner to achieve its foreign policy goals. In return, China showed an interest in building a comprehensive strategic partnership with Brazil. The two partners are advancing a consistent strategy of internationalization, tackling the challenges of globalization and pushing national development projects forward.

CHINA-BRAZIL STRATEGIC PARTNERSHIPS SINCE 1993

As noted above, in 1993 China recognized Brazil as a strategic partner, and Brazil became the first country in the world to receive this designation. The relationship was subsequently upgraded to the level of comprehensive strategic partnership in 2012. China's strategic partnership with Brazil is special and distinguished from China's other SPs in three major ways: (1) the relationship between China and Brazil is by far the most important of China's bilateral relationships in Latin America—Brazil is China's largest trade partner in Latin America; (2) it works within the framework of South-South Cooperation and the "Policy Paper on Latin American the Caribbean" released in 2008, which, in other words, they are sharing the same identity as developing countries and attempting to achieve common development and prosperity; (3) both are leading regional and global players that are becoming more dominant in world politics. Based on these common identities and forward-looking thinking, both countries developed a comprehensive cooperative path covering trade, energy and mining, finance, agriculture, quality supervision, inspection and quarantine, industry and information technology, space cooperation, science, technology and innovation, and education, among other areas.⁷ In any case, nurturing and promoting a positive relation with Brazil should be, and is likely to continue to be, paramount to Chinese foreign policy. After nearly forty years of official bilateral relations, the Sino-Brazilian partnership has achieved many results in political and economic areas as well as in scientific and technological cooperation.

Considering political relations, in order to promote a high-level dialogue and produce guiding documents, Brazil and China have jointly created, among others, the following institutions and joint statements: (1) China-Brazil High-level Coordination and Cooperation Committee (COSBAN), responsible for the coordination of various sectors of bilateral relations (having occurred two meetings between heads of state in 2006 and 2012) and its eleven

subgroups, each devoted to a specific sector of cooperation, have been meeting regularly on the bilateral cooperation relationship; (2) Strategic Dialogue (2007); (3) Brazil-China Financial Dialogue (2008); (4) Dialogue between various business actors since the creation of the *Conselho Empresarial Brasil-China* (CEBC), bringing together the most important Brazilian and Chinese companies present in both markets; and (5) The 2009, 2011, 2012 Joint Communiqué⁸ indicate China and Brazil's willingness to work together for a closer relation in a variety of areas such as agricultural technology, food security, and renewable energy.

Considering economic relations, Brazil's exports to China increased significantly over the last ten years, with positive results for Brazil's trade balance during most of the period, making China the first trading partner of Brazil since 2009. According to The OEC 2015, Brazil's top five export destinations are China (17 percent), US (11 percent), Argentina (7.2 percent), Netherlands (5.4 percent), and Germany (3.9 percent). Its top five import origins are China (15 percent), US (14 percent), Argentina (7.4 percent), Germany (6.6 percent), and South Korea (4.6 percent).⁹

Brazil's trade strategy is to diversify its trade in roughly comparable proportions among the world's regions and it has specific sources of leverage in its relations with China. It is the largest producer of soy after the US. Importantly, while soy is genetically modified in the US that is not the case in Brazil. China prefers genetically unmodified soybeans.¹⁰ The main Brazilian exports to China were iron ore, soybeans and derivatives, oil and derivatives, wood pulp and paper, and semifinished steel and iron products.

Nevertheless, Brazil's eagerness to promote closer relations with China has been moderated by the realization that it is a "double-edged sword." China's spectacular growth rates have produced a booming demand for Brazilian commodities. Yet there is another voice speaking out as counter-rhetoric to the comprehensive strategic partnership: Brazil's business community has been sharply divided. The main criticism about the Sino-Brazilian trade was about the great difficulty faced by Brazil to diversify its exports and add value to their sales to China, which are mainly composed of raw materials like oil and food, creating a situation that sharply contrasts with the general profile of Brazilian exports.

Meanwhile, the ensuing surge in imports of Chinese goods has shown that China is also a formidable competitor to Brazilian manufacturers. Firms with interests in China, particularly through exports, formed CEBC in 2004 with the aim of enhancing Brazilian-Chinese economic relations. On the other hand, the *Federação das Indústrias do Estado de São Paulo* (FIESP) and a number of sectoral associations representing industries affected by Chinese competition have called for increased government support and for the implementation of safeguarding measures against China.¹¹ Furthermore, Strauss

suggest, “the diversity of interests in Brazil, their articulation through the democratic political process and the ongoing existence of a heavily regulated business environment has meant that the blithe Chinese rhetoric of neo-liberal win-win based on complementarity is insufficient. The concerns of core Brazilian elites in manufacturing need to be at least indirectly addressed.”¹² These conflicting views reveal the complex nature of the partnership between China and Brazil.

Aside from competing in the local market, Brazil’s growing comparative advantage to produce and export basic goods is due to increased difficulties to compete with Chinese products elsewhere. At the same time, a changing nature of the bilateral exchange trend—a shift from labor-intensive imports to knowledge- and technology-intensive imports from China—will be highly competitive in third markets. Even so, this is “taking away the ladder” of technological upgrading for Brazil and other Latin American countries.¹³ Chinese famous high-tech brands like *Huawei*, *Xiaomi*, and *Lenovo* are all entering markets like the US, Latin America, and Africa. This may suggest that, thanks to China, the Brazilian sectors (knowledge- and technology-intensive) will find themselves with a lack of competitiveness in global markets.

In this sense, the SP principles will be accompanied by the competitive nature of China-Brazil relations in the long run. Relations between the two countries do not constitute a South-South exchange (equal exchanges between developing countries) but rather an increasingly North-South relationship with Brazil as an exporter of commodities and increasingly an importer of manufactured goods from China.

On the other hand, the technology and renewable energy cooperation between both sides such as wind, solar energy, and biofuels have also gained much attention in order to diversify the trading pattern while producing more jobs in Brazil. But Chinese firm-level engagement in Brazil’s renewable energy sector is restricted to relatively small-scale investments. The only sizable investments have been in hydroelectricity, and mainly in transmission rather than distribution. For instance, China’s State Grid will build and operate two long transmission lines connecting various parts of Brazil to the Belo Monte Dam, a mammoth hydroelectric plant to be opened in 2019 in the state of Para in northern Brazil.¹⁴ This trend will be a leading pattern of China-Brazil relations and will be highly praised in Chinese foreign policy rhetoric of strategic partnerships given that China is eagerly in pursuit of the new energy technology transfer and cooperation to relieve trade frictions in the partnership.

It is true that China has become an interdependent partner for Brazil and that in the near future not only Brazil but all the other Latin American countries will continue to answer to Chinese short-term demands of raw material

and energy. The question now is whether Brazil will be able to transform these relations into a tool to generate positive reciprocal effects over the long term, creating the foundation for bilateral relations on mutual trust and common development. The future is a complex and global web of commercial, financial, and informational networks that require active participation of all sides. The increased interdependence between the two sides and the multi-dimensional nature of the relationship will in the long run serve to obscure some differences.

THE STRATEGIC PARTNERSHIP WITHIN BRAZILIAN POLITICAL DYNAMICS

Both trade liberalization and the democratic transformation have characterized Brazil's new political dynamics after 1990s. Trade liberalization such as tariff reform advocated by the "neoliberal" presidents like Fernando H. Cardoso forced some key business sectors (such as computers or automotives), whose competitiveness had previously been assured by the government, to come to terms with trends such as globalization and regional integration. The opening of democracy has also paved the ground for the emergence of new actors within the civil society that had some interest in international affairs, from labor unions to human rights activists to businesspeople and lobbyists, which also put pressure on the government. In essence, market-oriented policies and the rise of democracy in Brazil have impacted Brazil's foreign policy making greatly.

All these actors have, to a greater or lesser extent, enough political clout to set the agenda in their respective areas of interest, or at least to tip the balance in their favor: the considerable power of lobby groups, the control governors have over party members, and the role corporate interests play in political decision-making. Businesspeople are concerned with the development of global and regional integration, especially when competitiveness is at risk. The agricultural sector is in much satisfaction of the trade with China and lobbies the government for further engagement and expansion of the relationship. Nonetheless, the manufacturing sector, for example footwear, textiles and clothing, furniture and telecommunications, have all complained about the loss of export markets to China and have pushed Brazil toward trade disputes with the Chinese exports. Brazilian industries and pressure groups, as mentioned before, such as FIESP not only opposed the government's intention to grant China market status in 2004, but also pleaded for protectionist measures against Chinese products.

The strategy of "autonomy through diversification" was adopted by Lula after the 2000s was later passed to the Rouseff administration. Under this

strategy, Brazil would adhere to international norms/principles and through agreements with nontraditional partners, reduce asymmetries in external relations with powerful countries. However, this strategy has to be paid careful consideration since different domestic actors in Brazil are pleading for their own interests when they are now not only competing with the regional markets but also external rising power such as China.

CHINA AS TOP TRADING PARTNER WITH BRAZIL: THE OIL SECTOR

Since China's dramatic growth has outgrown a dependence on national resources after 1978 with the Open-up Reform, China also required inputs of food and natural resources from abroad to continue the expansion of its manufacturing to the world market. Additionally, China needs to adjust to the changing lifestyle of the Chinese population, particularly its fast-growing middle class. Both Brazil and China characterize their relations as a strategic partnership; this vision encompasses more than just the growth of trade. Both seek to a stronger and more influential place in international affairs and both would welcome a more constrained role for the US. China seeks economic security, especially in food and natural resources while searching for new markets, but it also values Brazil's support for a "One-China" policy. In 2009, China surpassed Brazil's historic trading partners like the US and Argentina to become Brazil's top trade partner, as well as its biggest market for exports.

Among the major exports from Brazil to China, China has become very important to Brazil's energy investment and China's NOCs have been acquiring stakes in oil fields around the world. As Alves indicates, oil has vanished from bilateral trade since the early 1990s and resurfaced in the bilateral trade chart in the 2000s, but this time with flows going in the opposite direction. This trend is the result of China's decreasing surplus production and the result of Brazil's rising oil output. After proving the potential of its pre-salt reservoirs, Brazil is gradually emerging as a major oil producer and an exporter¹⁵ as shown in Figures 3.1 and 3.2.

In 2000, Brazil accounted only for 1 percent of China's total petroleum imports. Having achieved energy self-sufficiency in 2006 and discovered gigantic offshore oilfields in 2007 and 2010, in an interesting turn of events, the PRC became Brazil's largest trading partner in 2009 and it also became Brazil's main oil export destination in 2010¹⁶ as indicated in Table 3.1.

Thus the remarkable Brazilian performance as an energy exporter with the potential to become a top oil producer is undeniable. According to the EIA's data, Brazil is the tenth largest producer in the world and was the largest producer of petroleum and other liquids in South America in 2013.¹⁷ As such,

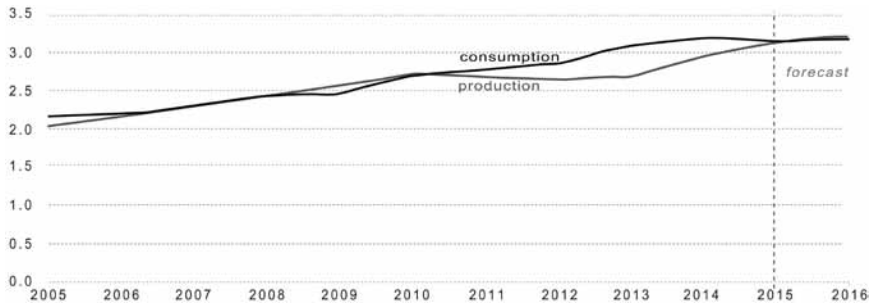


Figure 3.1 Brazil’s Liquid Fuels Production and Consumption from 1995 to the Present (mbpd). Source: EIA International Energy Statistics, 2015.

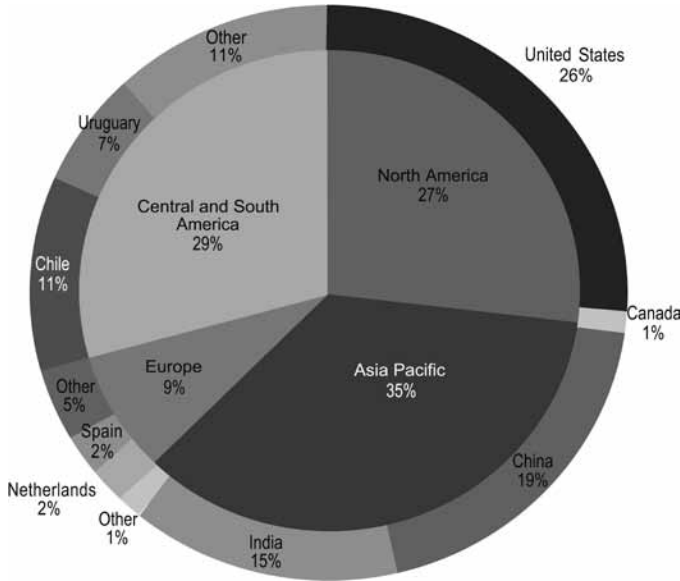


Figure 3.2 Brazil’s Crude Oil Exports by Region and Country, 2014 (by percentage). Source: EIA International Energy Statistics, 2014.

Brazil is now regarded by Beijing as a very promising long-term oil source. This new feature in Brazil-China trade unmistakably illustrates the emergence of Brazil in China’s oil diplomacy.

Sinopec has been the pioneer and the most active Chinese NOC in Brazil, although CNPC caught up having reached a number of agreements with *Petróleo Brasileiro S.A.* (Petrobras) throughout the observed period. For instance, in 2004 Petrobras and Sinopec established a strategic cooperation relationship on oil exploration, production, refining, marketing, pipes, and technology.

Table 3.1 Brazil's Oil Exports to China (2000–2014)

<i>Year</i>	<i>US\$ Million</i>	<i>% of Total</i>	<i>Tons</i>
2000	36.1	3.33	227,867
2002	0	0	0
2003	22.3	0.49	123,997
2004	210.1	3.86	939,624
2005	541.6	7.93	1,859,420
2006	835.9	9.95	2,333,408
2007	839.9	7.81	2,185,109
2008	1,702.5	10.38	2,900,324
2009	1,338.3	6.37	3,843,263
2010	4,053.5	13.17	8,294,694
2011	4,883.7	11.02	7,115,471
2012	4,834.5	12.72	6,511,206
2013	4,034.6	8.765	5,976,294
2014	3,472.9	8.55	5,576,295

Source: Elaborated by Author from UN Comtrade, 2015.

Also in 2004, Petrobras opened its offices in Beijing. The Petrobras-Sinopec agreement on the Gasene pipeline reached in September 2004, which started to be constructed in July 2005, was inaugurated in March 2010.¹⁸ In February 2009, a Petrobras-Sinopec agreement on petroleum trade was reached and, in October 2010, Sinopec also acquired 40 percent of the Brazilian unit of Repsol *Yacimientos Petroliferos Fiscales* (YPF) for US\$ 7.1 billion, thus becoming Repsol-Sinopec Brasil. It had been also in May 2010 that a US\$ 10 billion “loan-for-oil” had been reached between Petrobras and the CDB.¹⁹ To be mentioned, Petrobras received China’s financing at lower rates than it can access on the private market. Its US\$ 10 billion loan from CDB carried an interest rate of 2.8 percent over London Interbank Offered Rate (LIBOR), or roughly 3–4 percent. Also in 2009, Petrobras issued corporate bonds worth US\$ 1.5 and US\$ 2.5 billion at 6.875 and 5.75 percent, respectively.²⁰

CNPC was the second NOC to enter Brazil and to reach agreements with Petrobras, such as the Petrobras-CNPC Memorandum of Understanding (MOU) for JVs it signed in February 2005. In 2006 the MOU resulted in the Petrobras-CNPC Gascav natural gas pipeline deal. Also, in February 2009, the Petrobras-CNPC MOU on petroleum trade was signed by representatives of the Brazilian and Chinese governments during Xi’s visit to Brazil that same year. As regards CNOOC, it is worth noting that it has been the last of China’s major NOCs to enter into the Brazilian petroleum sector. CNOOC would only enter the Brazilian energy sector in October 2013, as a minor partner of the consortium of oil companies that exploit oil.

Figure 3.3 does not specify companies other than the “big three” NOCs. Other NOCs, like Sinochem Group, the fourth largest Chinese NOC, signed

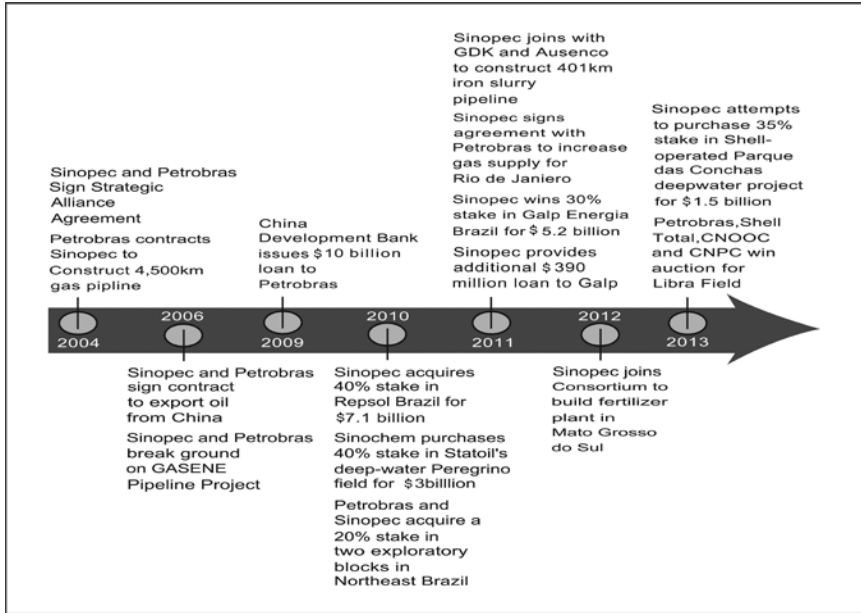


Figure 3.3 Chinese Engagement in Brazil's Oil and Gas Sector, 2004–2013.
Source: Compiled by Naki Mendoza, "Political Risk and Resource Nationalism: Why the Chinese Are Moving Cautiously into Brazil's Oil Sector," *Inter-American Dialogue*, 2014.

another MOU on strategic cooperation in oil and gas exploration and production (E&P), and brownfield recovery with Petrobras in 2011 and also announced the acquisition of a 10 percent working interest in five offshore oil blocks in the Espirito Santo basin owned by Perenco and OGX Petroleo e Gas in 2012.²¹ Finally, Baoji Oilfield Machinery Company, a subsidiary of CNPC, entered into a JV with two Brazilian manufacturers to establish the company Bomcobras (34 percent CNPC stake), which will supply equipment for land- and sea-based oil exploration, including mud pumps, drilling pipes and towers, cranes and probes.

Cooperation has expanded to various fields including oil exploration and technology research, trade of petrochemical equipment and products. In addition to the fast increasing oil trade, China also upgraded its role in Brazil's oil industry from petroleum pipelines builder to an important investor and partner in exploration of pre-salt oil. In April 2015, the CDB signed with Petrobras an investment contract worth US\$ 3.5 billion. The cooperation between the two companies was expanded again during Chinese Premier Li Keqiang's visit in May with another contract of US\$ 1.5 billion of investment and US\$ 2 billion of loans. Petrobras, which has been undergoing financial

difficulties, said the company and the CDB “both confirmed their intention to undertake further cooperation in the near future . . . to strengthen synergies between the economies of the two countries.”²²

Considering the technology transfer, following a strategic decision by the Brazilian government to become independent of oil imports, Petrobras developed technology leadership in deep-water exploration over the past four decades. In the 1980s, when Petrobras was still in the process of developing its deep-water expertise, it entered into a technology transfer agreement and JV with CNOOC for offshore exploration in China. Amid growing Sino-Brazilian energy relations, CNOOC was outpaced in the Repsol bidding process by Sinopec, which has been more assertive in developing concrete projects on the ground such as the Gasene pipeline.

Sinopec's engagement with Repsol holds further potential for technology transfer. Repsol is recognized for its *Proyecto Calaidoscopio*, which is currently the world's fastest seismic imaging system, and which uses supercomputers to process data gathered by exploration and drilling. In March 2012, Repsol-Sinopec announced that Research and Development (R&D) investment in Brazil would increase by ten times in four years since Repsol-Sinopec's R&D focuses on petrochemical areas rather than petroleum engineering which are particularly biodegradation, glycerin acetates, drilling fluids, and paraffin deposits.²³

As far as we can see, China's strong interest in the oil sector can best characterize the China-Brazil strategic partnership in the two decades since investments and development loans have allowed China to orchestrate a multifaceted approach that it adapts to the internal dynamics of commodity exporters. The resulting surge in trade and investment, among other cooperative ties, has added dynamism to the Brazilian economy, expanding the diversity of goods available to Brazilian consumers and offering new areas for knowledge exchange, including science and technology programs.

THE BALANCE SHEET: THE PROSPECT FOR THE FUTURE

Brazil as the largest country in Latin America as well as China's main trading partner in the region saw its export dependency on China increase by 27 percent between 2008 and 2014, making it one of the countries with the highest dependency in the region, coming in fifth place. Soybeans, iron ore, and crude oil accounted for 80 percent of the country's total exports to China in 2014.²⁴ The trade balance between China and Brazil has consistently stimulated the complementarity and competition around.

On China's side, receiving the energy and food resources from Brazil to satisfy the domestic demand of economic growth is significantly effective, with the complementary trade of comparative advantages from both sides. Nonetheless, there also remain some obstacles for China to gain an upstream oil service and access from Brazil. In the case of the Gasene pipeline, Sinopec did not improve its access to Brazilian oil and gas. It took several years for Chinese investments to materialize in the Brazilian energy sector, despite highest-level government support. Initial attempts from 2004 to 2006 to apply its infrastructure-for-oil investment pattern in Brazil were only partially successful. While Sinopec was contracted for the Gasene pipeline, it did not receive an oil supply contract in return, and had to agree to source a minimum of 75 percent of the project's goods and services from Brazil. In part, this outcome was due to the checks and balances of the Brazilian oil sector's governance structure, and the influence of Brazilian trade unions, which have successfully lobbied against the large-scale contracting of Chinese workers and services.²⁵

Moreover, in the context of the global credit crisis, Petrobras agreed to partner directly with Sinopec on oil fields, although this only concerned fields in shallow waters, where mature technologies could be applied. Petrobras agreed to partially use Sinopec equipment, and views these projects as a "trial before venturing together into ultra-deep water."²⁶ This hesitancy is due to Sinopec's lack of expertise in deep-sea production and Petrobras' reluctance to share its frontier expertise in this area. Petrobras has been reluctant to involve Chinese NOCs in the pre-salt area to date. Chinese involvement in the pre-salt has rather been accomplished via the acquisition of companies, beyond the intergovernmentally supported line of projects.

As previously noted, the high-level contacts between the two governments were not sufficient to secure the expected results in Brazil. This is explained by the fact that Brasilia's influence over the oil industry is curtailed by the semiprivate nature of Petrobras, and the checks and balances that have been put in place during liberalization of the sector. Even though Brazil's federal government has a controlling stake in Petrobras, it does not have full ownership of the NOC. In addition to this, in spite of Petrobras' virtual monopoly over the local oil industry, the sector is managed by a separate regulatory body responsible for oil auctions, contracting and overseeing developments in the industry. This state of affairs thus limits the possibilities for Chinese interests to penetrate the sector by special favor.

On Brazil's side, interest in resource access on the Chinese side and the need for finance on the Brazilian side are primary drivers lead to the fast growth of bilateral trade relations. Petrobras benefited not only from China's demand for oil, but also from much-needed Chinese investment in the company amid plans to explore deep-sea oil fields off the coast of Brazil.

Brazil's infrastructure also benefited from Chinese investments such as in the steel sector (*Companhia Siderurgica do Atlantico*), a major gas pipeline (*Gasoduto Gasene*), and a thermoelectric power plant (*Candiota*). However, the trade balance seems to benefit China more so than Brazil. The first imbalance is found in Brazil's exports to China and how they continue to be heavily concentrated in primary goods. Brazil is an exporter of commodities and an importer of manufactured goods from China. However, Brazil's exports to China support fewer jobs and have a larger environmental footprint than other exports (iron, soy, and oil), so there is room to enact necessary social and environmental protections without fear that China will simply switch other suppliers.

The second imbalance is found in Brazil's manufactured exports and how they continue to face stiff competition from China in world markets, though less so than in the early-2000s. In 2010 China exported a greater range of manufactured goods than Brazil. Moreover, the number of products exported from China to the US and to Latin America has increased significantly since the mid-1990s. The two countries compete in a wide range of products. Chinese automakers are entering Brazil to compete in the compact and subcompact segments that have long dominated the domestic market. In Brazil, automakers Chery and Lifan initially announced production plans where only 30 percent of the final product would be made of local parts and components. This strategy would enable Chinese products produced in Brazil to maintain their price advantage in order to challenge the national industry. However, in response to the influx of Chinese automobiles and in order to support its domestic industry, the Brazilian government announced in September of 2011 a measure that increased, by 30 percent points, the Industrial Production Index (IPI) on imported cars with less than 65 percent local content. In response, this measure has also deterred new investments from entering the country. For example, Geely, another large Chinese automaker, delayed their investment plans due to the new regulation. This illustrates the necessity for increased dialogue between policy makers and companies in order to ensure that investments bring positive benefits to all parties.²⁷

Chinese competition is not the only factor that has affected Brazilian exports. Since 2004, unlike in earlier periods, Brazil has also lost market share to other exporters. However, in terms of the overall losses, China has been a major gainer at the expense of Brazil. In effect, Brazil has been caught in what is termed "the middle income trap." For instance, manufacturers and industrialists have accused Beijing of dumping products in their domestic markets and this has caused an avalanche of calls to the Brazilian government to levy new tariffs on some Chinese imports. These selective demands are particularly worrisome to some Brazilian businessmen as they intend to make the most of a non-commodity boom precipitated by free and open access to

old and new markets coupled with a sustained global economic recovery. Therefore, Brazil faces competition from China (and other countries with cheaper labor than Brazil) in low-technology products as shown in Table 3.2, but does not have the technological capabilities to compete with developed countries in high-technology products.²⁸ China recently increased its knowledge- and technology-intensive exports, and this will have another impact on Brazil concerning its competitiveness in third markets. Indeed, with China also moving into exports of high-technology products, it faces further intensified competition in such products.

The third imbalance is that fewer investments have been found in China from Brazil than the opposite. The majority of Brazilian FDI went to neighboring countries in the Americas, and even though Brazilian FDI stocks in China increased sixfold between 2001 and 2006 from US\$ 15 million to US\$ 93 million, these numbers are still insignificant in the Brazilian economy as a whole (less than 1 percent).²⁹ On average, China received much less than 1 percent of Brazilian direct investments abroad. Despite this, from IDB 2014 sample analysis of ninety-eight LAC firms with operations in China, Brazil is leading the trend with thirty-two firms.³⁰ Embraer opened its first airplane factory overseas in China and the country became the company's second-largest consumer, behind the US. The Chinese market presents a distinct set of challenges, including geographic distance, cultural differences, distinct consumer tastes, and a complex business environment. These factors are often compounded by a lack of reliable information on potential counterparts and poor understanding of the policies and strategic aims of the Chinese government surrounding foreign investment.

Despite the persistence of structural issues that contribute to Brazil's low levels of competitiveness and innovation, including poor physical infrastructure and low-performing public education, attempted reforms have been diminished by piecemeal implementation or thwarted by interest groups, thereby generating limited results. The uneven growth of the Brazilian economy raises the question of whether the Brazilian government will be able to successfully implement long-awaited policy changes to boost productivity

Table 3.2 Leading Sectors in terms of Aggregate Loss of Market Share to China, 2004–2013, by Major Market

<i>USA</i>	<i>EU</i>	<i>Latin America</i>
Footwear	Electrical machinery	Electrical machinery
Electrical machinery	Nonelectrical machinery	Nonelectrical machinery
Wood and wood products	Furniture	Rubber
Furniture	Vehicles and parts	Organic chemicals
Vehicles and parts	Footwear	Vehicles and parts

Source: Compiled by Author from UN Comtrade, 2015.

and competitiveness, particularly given the rise in labor costs. Although domestic political skirmishes and institutional imperfections are a major source of Brazil's lack of competitiveness, China looms as an increasing source of imbalance to important sectors of the Brazilian economy.

On trade, despite a very lucrative period for both countries in the past decade, the relationship is becoming increasingly asymmetrical (in China's favor). China and Brazil tend to have a more competitive relationship in the long term, which may become more intense as both countries increase their presence in other regions. Their products compete for access to other markets and they both strongly compete to attract foreign investments. These growing disparities stem mainly from different domestic institutional structures in each country, a market-friendly and democratic Brazil, and an authoritarian and economically manipulative China. How these trends will evolve will be crucial, not only to the economic dimension of the relationship, but also to the political-strategic aspect as well. There is a strong likelihood that persistent bilateral differences (trade imbalances and competition for FDI) may have a spillover effect on multilateral cooperation between China and Brazil, particularly on issues where core economic interests are at stake.³¹

In conclusion, the strategic partnership between China and Brazil is still the most important agenda in China's foreign policy toward Latin America. Space for a strategic relationship between Brazil and China can still be perceived, especially if the Brazilian government pushes for greater diversification of Brazil's export agenda toward China, encouraging the development of new productive partnerships beyond traditional sectors and using the minimum protection necessary to guard national producers. Brazil may also address the asymmetries of the bilateral exchange with China through industrial and innovation policies, and development agencies, to increase the competitiveness of Brazilian firms and add value to exports.

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Chapter 4

China's Strategic Partnership and Oil Diplomacy with Venezuela

THE EVOLUTION OF CHINA-VENEZUELA ECONOMIC RELATIONS IN HISTORICAL PERSPECTIVE

Venezuela is arguably the most strategically located country in South America. Due in part to its geographic location on the northern shores of South America, and the early exploitation of its oil wealth during the government of Juan Vicente Gomez in the second decade of the twentieth century, Venezuela formed a close commercial and political relationship with the US. However, this relationship was challenged by the wholesale nationalization of the oil industry in the 1970s. The nationalization of oil coincided with Venezuela's establishment of diplomatic relations with China in 1974. Since 1974, the PRC and Venezuela have agreed on emerging bilateral diplomatic relations. Even so China's relations with Venezuela were fairly superficial at the start, as illustrated by their classification as only friendly cooperative relations. Before President Hugo Chávez took office in 1999 there was only one visit made by a Venezuelan President to China (President Campins in power between 1974 and 1984), and total trade amounted to less than US\$ 500 million per year prior to 1999.¹

Venezuela suffered a severe economic growth collapse in the 1980s and 1990s, heavily influenced by the fluctuation of oil prices, various internal shocks and political instability. During 1990s, the two underlying aspects of the Venezuelan economic structure are²: (1) the Venezuelan government dominates the economy; and (2) Venezuela's NOC *Petróleos de Venezuela, S.A.* (PDVSA) controls the oil industry. The opening up of Venezuela's hydrocarbon sector to foreign investment started in 1993 with the *apertura petrolera*. Thoroughly liberal policies were enacted under the *apertura* by granting contractual rights to foreign companies under PDVSA's protection.

Foreign companies were allowed to operate in direct extractive activities through “operative contracts” with little tax or royalty burdens imposed.³

Hence in 1997, China’s National Oil and Natural Gas Corporation achieved through an international tender, the right to harvest in two old fields in Venezuela, worth US\$ 358 million. Production began the following year. It was at the time the largest Chinese investment project in Latin America.⁴ It is worth mentioning that, before 1999, Venezuela had not expressed any interest in supplying oil to China based on the excuse that its location was too remote, and therefore not favorable for shipments.

Since the election of Chávez in 1999, intensified dialogue and mutual consultation between the two countries, along with frequent high-level official state visits back and forth, have strengthened bilateral diplomatic and political relations between China and Venezuela. It was therefore after Chávez became president that China-Venezuela ties began to flourish into a special kind of bilateral relationship. In 2001, together with China’s entry into the WTO, China also reclassified Venezuela as strategic partner for common development. This reclassification likely occurred with the help of a high-level bilateral working group and frequent trips by senior officials, including six trips by Venezuelan President Chávez himself to China. In total, both countries’ leaders and government officials have established over 450 bilateral agreements and more than 80 major projects that were translated into loans and investments from Chinese companies and development banks. These loans and investments paid to extract oil for export to China that amounted to over US\$ 56 billion by early 2015 are more than the sum of all other Latin American countries combined.⁵

Since 1999, China’s underlying interests in Venezuela have become more evident and multifaceted. First, China seeks to secure access to primary products mainly in oil. Note must be taken that Venezuela is the longest-standing South American member of the Organization of Petroleum-exporting Countries (OPEC), having joined in 1960, and in 2012 was one of the world’s largest oil exporters possessing vast oil and natural gas reserves; second, China seeks to expand sales of Chinese products in strategically important, higher value-added sectors for such Chinese brands as Haier, Huawei, and ZTE. Third, China has an interest in the survival of Venezuela as a populist regime, to the extent that China’s relationship with Venezuela does not undermine its more strategically important relationship with the US.

In the view of Evan Ellis, although Chinese diplomacy actively seeks to avoid actions that appear to confront the US, the anti-US Bolivarian project of the Chávez regime nonetheless benefits the PRC strategically. By challenging the political and economic dominance of the US including neoliberal capitalism and Western companies in the region, China could create spaces to do business and build relationships. Similarly, nationalization and

the restructuring of the legal framework for businesses in Venezuela created important opportunities for Chinese companies in sectors previously dominated by Western multinationals. Finally, arguably the role of China in multilateral institutions in the Americas, including OAS and IDB, has also contributed to the ideological divides within these entities in the face of the Venezuela-led Bolivarian movement thereby serving China's interests.⁶ In summary, the crucial motivations involved in China's engagement with Venezuela are indicated in specific empirical expression of China's broader global interests.

Throughout the Chávez regime and afterward, Venezuela's interest in China has complemented China's interest in Venezuela in three ways. First, at its core, trade, investment, and technical support from China helped the Chávez regime to preserve its economic and political viability as it pursues a strategy in the region that defies the US and Western economic institutions. Second, China's funding and FDI work as important sources of liquidity for the regime to turn away from traditional partners and financial institutions that offer loans with conditionality. For instance, China's IDB has lent billions of US dollars of loans to Venezuela with little or no condition. Third, China helped Venezuela extract its commodities and diversify Venezuela's export markets. China provides an alternative market for Venezuela's exports, as the nation seeks to diversify away from sales to the US. For Venezuela, strengthening bilateral relations with China is a means to accelerate its transformation into becoming a "global power" in world politics.

At the same time, crude oil comprises 90 percent of Venezuelan total exports to the world market. Despite the fact that the US is its largest oil export destination, over the last decade we have seen the decline of oil exports to the US and the rise to China, as shown below in Figure 4.1. This is a significant sign of the market diversification of the Bolivarian regime to undermine its dependence on the US.

In summary, Venezuela under Chávez grew to consider China as an indispensable partner to achieve its foreign policy goals. China has shown the interest in building a strategic partnership with Venezuela, yet at the same time, China has been cautious and has not got too deeply involved with Venezuela so as to amplify or aggravate its more strategically important partner, which is the US.

China-Venezuela Strategic Partnerships since 2001

As noted above, in 2001, China classified Venezuela as a strategic partner for common development. To demonstrate their growing partnership, Venezuela's former President Chávez visited China for the third time in 2004 and pointed out the "resemblance" between Chávez's government program

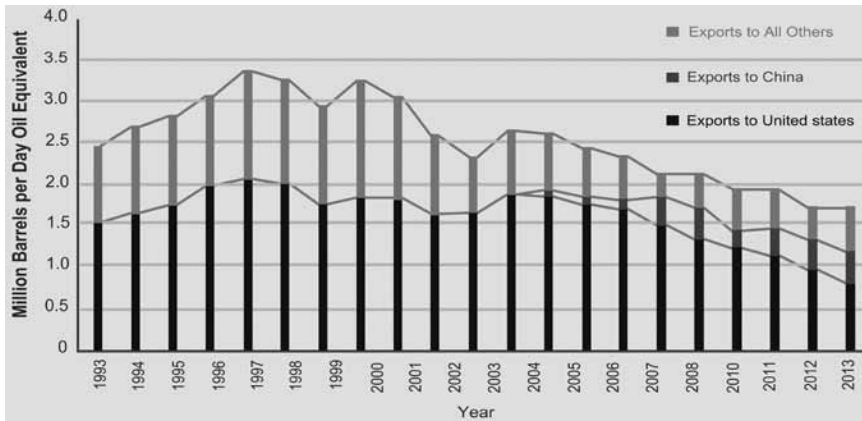


Figure 4.1 Venezuela's Crude Oil and Petroleum Product Exports to China, the US and the World, 1993–2013 (mbps). *Source:* Matt Ferchen, “Crude Complications: Venezuela, China, and the US,” the Carnegie-Tsinghua Center for Global Policy, 2014.

known as “Bolivarian Revolution” and the Chinese communist ideology of its founder Mao Zedong.⁷ China’s primary interest in establishing bilateral relations with Venezuela is, without doubt, energy. Venezuela’s “China policy” initiated by Chávez, as well as Venezuela’s oil policy toward China, have always remained a presidential privilege. It is hardly surprising that China seeks Venezuela in securing its energy supply, having a reliable “governmental partner” which to do its oil business. In 2014, in a more significant foreign policy overture, China designated Venezuela a comprehensive strategic partner in the summer of that year.

Rhetorically, Venezuela’s foreign policy shows strong similarities with Chinese foreign policy. It claims to be based on the same principles of mutual respect for sovereignty and territorial integrity, equality, and mutual benefits, peaceful coexistence and noninterference in internal affairs. In line with this, both countries’ policy direction for foreign affairs maintain a strong preference opposing practices of hegemonism and imperialism, promoting world peace as a supreme value, and encouraging a “multipolar” world as the standard for a balanced and developed international system.⁸

Under the strategic partnership, a number of agreements and investments have been signed and developed to further China’s oil diplomacy in Venezuela. First, in 2001, a MOU on “Energy Cooperation Decade” for the period 2001–2011 was signed between Chinese Shell Petroleum Development Company (SPDC) and Venezuelan Ministry of Energy and Mineral Resources. Also, among others, a trade agreement on tariff reduction and an agreement on Chinese provision of low-interest loans were established. Second, in 2004, Venezuela declared that it recognized China’s full market economy status.

Third, China has been participating in constructing Venezuela's infrastructure, which includes its railway system, its telecommunications network, its social housing, and its hydropower. The oil cooperation between China and Venezuela has created a number of backward and forward linkages in the Venezuelan economy. It has encouraged businesses through related investments and through a trade zone in Venezuela. Yet Venezuela is becoming oil-debt dependent, which is naturally a great advantage for Chinese SOEs in trade deals and contract negotiations.

After Venezuela's recognition of China's full market economy status, there has been a skyrocketing trade relation between China and Venezuela. In 2012, 15 percent of Venezuelan exports were absorbed by the Chinese market while 17 percent of its imports came from China, Beijing stands as Caracas second-largest trade partner and Venezuela ranks fourth for China's trade in Latin America following Brazil, Mexico, and Chile. Bilateral trade reached US\$ 23 billion in 2012 compared to US\$ 350 million in 2000, mainly in oil.⁹

China is investing in Venezuela for energy security but also for business and profit. The financing of the Sino-Venezuelan bilateral cooperation is guaranteed by the creation of the "Joint Financing Fund" which was launched by both countries in 2008. The actors involved in energy-related cooperation and financing are China International Trust and Investment Corporation (CITIC) and CDB. China's strategy of tied loans and loans-for-oil means it is at the same time securing resources and creating business through its investment.

China's role in Venezuela has been one of a stabilizer in macroeconomic terms. But in more structural ways, China has exacerbated Venezuela's deepen resource extraction dependence. Although President Chávez originally intended to break the cycle of development through foreign capital, new relationships have cemented connections with emerging actors such as China. Now, remarkably, China may, in the future, push for stronger market reforms in Venezuela in order to secure repayment and, especially, oil supply. Ultimately, any changes in Venezuela will decidedly have an impact upon the stability of the Bolivarian regime post-Chávez.

Moreover, new forms of conditionality seem to arise from this financial relationship that reveal a more interventionist role for China as its position as a creditor becomes more important. Since 2013, the Chinese have been less generous toward the Venezuelan government for its alleged irresponsible spending. Thus, China has continued to provide lending, granted that certain conditions are met, including Chinese approval of how the spending is done. China is concerned with how the money is spent because it has not been determined to be increasing oil production and if international oil prices continues to slow down in the near future, commodity-backed debts may become more onerous for Venezuela and the Maduro regime, requiring further investments that may no longer be as profitable.¹⁰ Thereby, at any rate, Venezuela

needs to improve the prospects of oil extraction and export in order to fulfill its commitments with China and other creditors at home and abroad while the suggestion for China that it should account for other alternative oil suppliers like Russia and the Middle East as more secure oil supply chains.

The Strategic Partnership within Venezuelan Political Dynamics

A defining characteristic of the Venezuelan socialist government has been its assertion of national ownership over extractive activities, for redistributive purposes. Venezuela has set forward a strict policy of exchange control and sovereign funds such as FONDEN (The National Development Fund) and FONDESPA (The Country's Development Fund), both of which are funded by oil rents. The nationalization of the oil industry has meant that government revenues from oil production are channeled directly to the popular sector and spent on its social programs, which in turn enhance the direct power of the executive elite, rather than generating even distribution of resources to the business sector and to social institutions.¹¹ Venezuela's oil policy could, therefore, represent the country's overall economic development strategy.

Threats of continuing nationalizations, as well as other threats to property rights and an uncertain macroeconomic environment characterized by high inflation and foreign exchange controls, have led to reduced space for the private sector and low levels of private investment in Venezuela. The relatively weak macroeconomic situation in Venezuela originates from many different factors that are challenging to overcome.¹² The strong interdependence of politics and economics is highly visible through the poor quality of Venezuela's national institutions in addition to widespread disrespect for the rule of law throughout Venezuela's political system.

Under Chávez, a Constituent Assembly was established that hammered out a new constitution within one year, which was subsequently adopted through popular referendum. This was the birth of the "Bolivarian Republic of Venezuela," comprising new norms aimed at the creation of a new economic, political, and social order. The Bolivarian Republic brought with it dramatic changes in the country's foreign policy, particularly in bringing to the fore the importance of sovereignty, nationalism, Latin American unity, and an anti-hegemonic (especially anti-US) orientation. Chávez initiated *La Alianza Bolivariana para los Pueblos de Nuestra América* (ALBA) as a counterweight to the neoliberal tendencies in the region and laid the foundation for *Unión de Naciones Suramericanas* (UNASUR) and for the CELAC Forum which has become an important space for regional dialogue with China.¹³

Therefore, Chávez and the current president Nicolás Maduro appear to have aimed at creating an authoritarian regime in Venezuela, which obviously lacks the democratic conditions of political competition and the

accountability of government institutions. In the absence of competition, there is no real drive for government's social spending to truly help the poor, unless it is used for clientelism and self-serving purposes.

Finally, as a risky destination for capital markets, Venezuela has become more reliant on China's loans. After former president Chávez's death, political and economic instability put Venezuela's economy on the brink of a balance of payment crisis, intensifying this dependency. Chávez's successor, President Maduro, has somehow been able to delay economic measures to counter the situation, in part thanks to Chinese short-term loans and commitments for new investments.

China Strategic Interests in Venezuela: All about Energy

The Chinese government's approach to the bilateral relationship with Venezuela has consistently followed the logic embedded in China's 2008 Policy Paper on Latin America and the Caribbean. In contrast to the Brazilian case, equality has not been a common concept used in the Chinese government's official discourse toward Venezuela. Instead, Chinese officials have focused on the friendship bonds that unite both nations.¹⁴ This indicates that the Chinese government's approach to Venezuela has been careful to promote ideological associations with the current Venezuelan government.

The bilateral relationship between China and Venezuela has been strengthened because of Venezuela's large oil reserves and the political agenda pursued by late President Chávez. These two aspects, both related to the loan-for-oil deals, are at the core of the bilateral relationship. The CDB's point-man on Venezuela, Li Kegou, summed up the logic of relations when he said "We (China) have lots of capital and lack resources, they have lots of resources and lack capital, so it's complementary."¹⁵ Parallel to the Brazilian case study, the Venezuelan case also illustrates the plurality of actors involved in the implementation of the Going Out strategy in developing countries. The support of the Chinese government for their business ventures in Venezuela corresponds to its role in the implementation of the Going Out strategy, and that is the extent of their marriage of interests: to diversify oil supplies and to promote business internationalization.¹⁶

Beginning in 1996, China started importing emulsified oil from Venezuela, and an agreement on joint oil exploitation was signed in that same year. The country's energy security strategy encouraged diversification of oil supplies, which in turn has led to China's enhanced rapprochement with Venezuela in order to further its oil business interests. Venezuela is heavily dependent on exports to China in which crude oil and petroleum oil accounted for 90 percent of Venezuela's total exports to the world, and 97 percent of exports to China (74 percent of which were crude oil). But China accounts for only a very

small proportion of Venezuela's crude oil exports to the world. Venezuela is the third supplier of refined oil to China, behind South Korea and Singapore and accounting for 13 percent of China's total imports of this product. Were it not for these refined oil exports, the country's export dependency on China would be significantly higher.¹⁷

In Venezuela, the oil industry has become overwhelmed by PDVSA. It was established in order to consolidate state control over oil resources. With its inception in 1975, the company was nationalized and assets from private oil companies were expropriated. However, as part of a region-wide trend, in the 1990s, PDVSA began to focus more on upstream operations in cooperation with more technologically capable International Oil Companies (IOCs). Yet PDVSA is far more than a business.¹⁸ It serves, to a great extent, as the funding and fiscal policy instrument of the government, in the interest of incumbent political power, disguised as social program development and redistribution. One of PDVSA's primary objectives is to provide large and easily adjustable revenues to the Venezuelan government. At least 48 percent of its total revenues are diverted to the federal government coffers through a range of dividends, royalties, and taxes.

Venezuela's "government-PDVSA strategy" implies a new economic model for endogenous development that puts the country's revenue from oil resources into the provision of services for the Venezuelan people in order to reduce social inequalities. However, given that the government's objects and interests are the primary driver of PDVSA's business strategy, significant production growth is needed in order to fund both social government spending and further investments in the energy sector. Moreover, based on the fact that PDVSA does not have sufficient resources to invest adequately, this makes the achievement of significant growth a difficult task.¹⁹ Another part of PDVSA's government imposed business strategy is that efforts are being made to diversify its oil export destinations beyond the US and the Caribbean, selling increasing proportions of its oil to China and to India, for example.

By the mid-2000s, the Venezuelan government approached China in search of development assistance as we have seen in Table 4.1 below. Both governments set up an ongoing funding mechanism for short-term spending in various productive and social matters. The first one is the China-Venezuela development fund, which was originally set up by a 60 percent contribution from CDB and 40 percent by Venezuela's National Development Bank (BANDES). This fund, also known as *Fondo Pesado*, was established as a lending mechanism in three tracks that started in 2007 with "Track A" as a contribution from CDB of US\$ 4 billion and US\$ 2 billion from FONDEN, which expired in 2010. "Track B" was agreed upon in 2009 for US\$ 4 billion from CDB and, finally, in 2013 "Track C" was signed for US\$ 5 billion. In 2010, Track A was renewed once more. Again in September 2013, this Track

Table 4.1 CDB's Loans to Venezuela from 2008 to 2015

Date	Type	Purpose	Lender	Amount
November 2007	Energy	Joint Fund—Tranche A	China Development Bank	\$4B
April 2009	Energy	Joint Fund—Tranche B	China Development Bank	\$4B
December 2009	Energy	Unknown	China Development Bank	\$500M
December 2009	Mining	Mining project credit	China Development Bank	\$1B
May 2010	Other	Trade-related credit facility	CDB and Portugal's BES	\$1.1B
August 2010	Infrastructure	Joint Fund—long-term facility	China Development Bank	\$20.3B
June 2011	Energy	Joint Fund—Tranche A renewal	China Development Bank	\$4B
November 2011	Energy	Abreu e Lima refinery	China Development Bank	\$1.5B
February 2012	Energy	Purchase of oil-related products	China Development Bank	\$500M
August 2012	Energy	Joint Fund—Tranche B renewal	China Development Bank	\$4B
June 2013	Energy	Sinovensa production in Orinoco	China Development Bank	\$4B
September 2013	Mining	Las Cristinas gold mine	China Development Bank	\$700M
September 2013	Infrastructure	Pequiven marine terminal	China Ex-Im Bank	\$391M
November 2013	Energy	Joint Fund—Tranche C	China Development Bank	\$5B
July 2014	Energy	Joint Fund—Tranche A renewal	China Ex-Im Bank	\$4B
April 2015	Energy	Joint Fund—Tranche B renewal	China Development Bank	\$5B
June 2015	Energy	Improve oil production	China Development Bank	\$5B

Source: Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Washington: Inter-American Dialogue (2014).

had been renewed for an additional US\$ 5 billion, and in early 2014, Track C had been renewed for another US\$ 5 billion. These loans are all commodity-backed. They are repaid through oil exports that are estimated in a total of 330,000 barrels per day.²⁰ The pattern of the loan disbursements.

A different funding mechanism called *Gran Volumen* (Grand Volume) was agreed to in 2010 for US\$ 20 billion destined for infrastructure and housing. In contrast to the Heavy Fund, the Grand Volume is a longer-term development fund. It is a ten-year loan that is denominated half in US dollars and half in *reminbi* (RMB). With *Gran Volumen*, Venezuela holds the largest RMB-denominated loan outside the Chinese geopolitical sphere of influence to date and it is also a commodity-backed mechanism that is repaid with oil exports. The Venezuelan government has used it to massively import Chinese manufactured products. Among other programs, Grand Volume allowed the Venezuelan government to set up a mechanism of affordable electric devices, from laundry sets to TV and DVDs, for poorer homes under the banner *Mi casa bien equipada*.²¹

Furthermore, in 2010, Venezuela awarded various commitments to develop the Junín-4 block at the Orinoco river basin, where the world's largest oil deposits are located. These various commitments were awarded to the China National Offshore Development Company (CNODC), in exchange for US\$ 900 million in upfront payments and a commitment to invest US\$ 16.3 billion in developing the field, in conjunction with PDVSA. Although the deal is the largest single investment commitment by a Chinese company in Venezuela to date, Chinese companies have been an important contributor to Venezuelan oil production since entering the Intercampo and Caracol fields in Maracaibo in 1997. The Chinese presence also includes the operation of fifteen mature oil fields in the province of Anzoátegui by the Chinese company CNPC.²²

As oil stocks in the Orinoco basin are extra heavy, they are rendered difficult to access, and this fact makes exploitation environmentally costly. One of the central ventures between China and Venezuela involves the construction of refineries in both countries with the capacity to refine Orinoco basin crude oil. The first of these projects, which began to be built in 2012, is a mega refinery in China's Guangdong province with capacity to refine 400,000 barrels of extra-heavy crude oil per day. Funding coming from CDB has also allowed the binational JV Sinovensa to operate in the area. Meanwhile, both CDB and the EXIM Bank of China have invested in other mining and infrastructure projects.²³

PDVSA has signed contracts with CNPC and Sinopec for exploitation under several JVs. For instance, China's CNPC, which has been present in Venezuela since 1997, has been securing oil and gas assets and equity in the

country, and has been providing oilfield services. The company is involved in the development project of Caracoles and Intercampo oilfields, a JV Orimulsion development project, located on Maracaibo Lake, and the Caracoles oilfields in the East Venezuela basin. Moreover, the Orimulsion project has resulted in the establishment of a new JV in 2001 for developing the MPE-3 oilfield and an emulsification plant. In 2006, this JV project was completed to produce emulsified oil, in which CNPC owned a 70 percent stake. The second cooperation project between the two NOCs was initiated in 2004, regarding the Zumano oilfield in the East Venezuelan basin. In 2006, this cooperation agreement, in which CNPC carried out exploration and development operations, was extended to a 60/40 JV agreement between PDVSA and CNPC under the name *Petrozumano*. In 2006, an agreement was signed between the two NOCs on joint exploration of Junin-4 block. In 2008, CNPC signed two framework agreements with PDVSA to advance cooperation in oil business between the two countries. This project saw significant progress in integrated upstream and downstream operations, which was sealed with a formally signed JV operation agreement with PDVSA on Junin-4 block in 2010.²⁴

It is undeniable that, with the loans-for-oil projects and JVs from China, Venezuela received millions of loans. From 2005 onward, Venezuela has already borrowed more than US\$ 50 billion from China alone, whereas Brazil, the second-largest debtor to China has committed to just over US\$ 10 billion.²⁵ As a risky destination for capital markets, Venezuela has become more reliant on China's loans and domestic bondholders that use government debt as a way to obtain foreign currency with comparatively higher premiums than what other sovereign debtors offer.

THE BALANCE SHEET: THE PROSPECT FOR THE FUTURE

Venezuela is heavily dependent on exports to China while in addition to short-term liquidity and assistance for extracting commodities, China provides an alternative market for Venezuela's exports, as the nation seeks to diversify away from sales to the US. Sales to China, in combination with other emerging customers for Venezuelan crude oil such as India, represent important steps for Venezuela in lowering its dependence on the US as the principal customer and refiner of the majority of its oil products. Unlike other Latin American countries that complain about having an unequal relationship with China because such relationships are assumed to be based on the provision of commodities to China, the case of Venezuela is somehow different.

Beijing has already sunk more than US\$ 50 billion into Venezuela's socialist government since 2007. The strategic partnership with China also benefits Venezuela through a range of high-visibility manufacturing and infrastructures JVs that allow governments from the Chávez regime to present Maduro regime to demonstrate progress to its people, even as, ironically, its policies are eroding the country's manufacturing and business base. Such projects include cell phone manufacturing plants on Venezuelan soil by both of China's principal telecommunication firms, Huawei and ZTE. In another case, in April 2010, China and Venezuela signed a deal in which Chinese banks would lend Venezuela US\$ 300 million for the establishment of a new national airline, "*Línea Área Bolivariana Socialista*," utilizing aircraft to be purchased from China. President Maduro has continued to use Chinese loan-for-oil agreements as a funding arm for government expenditures.²⁶ The Maduro government borrows from China, often below its market rate, to boost politically important spending today. Without having to adhere to the market's calls for discipline, the country has maintained its economic policy autonomy, overseeing a large primary budget deficit since the global financial crisis. It has also further expanded its off-balance sheet social spending through both FONDEN and the China-Venezuela joint investment fund.

From Venezuela's standpoint, there are negative aspects to deal with China. Since economic policies are predominantly driven by Venezuela's oil business, Venezuela is suffering the effects of the so-called "Dutch disease." This effect takes place when important natural resource exports increase the value of a country's currency, thus making other exports more expensive and less competitive. The economy faces a number of distortions and structural challenges, a good example in Venezuela is in the textile industry, where it is becoming cheaper to import Chinese textiles than to produce it locally (which once again indirectly benefits China).²⁷

Apart from a flood of Chinese imports, most Venezuelan workers cannot benefit from the "cooperation projects." In 2011, Venezuela concluded 77 engineering projects with China that were worth US\$ 4.18 billion. These projects employed more than 2800 workers in Venezuela. Some of the workers complained that much of the work has gone to the Chinese migrant workers. As a part of the cooperation projects, the Venezuelan government has commissioned the CITIC to build about 40,000 housing units, including 4,000 and 20,000 homes in Barinas and Caracas, respectively. The projects are financed by loans from China. The construction site in Barinas employed 812 workers. About 43 percent of the workforce was Chinese according to local newspaper *Correo del Orinoco*. Local workers grumbled that the Chinese companies imposed Chinese labor practices with shifts of long hours. Moreover, the Chinese companies tend to neglect work safety according the local workers.

A union attempted to lodge complaints against the China Railway Engineering Corp. was suppressed by police and three workers were shot.²⁸

For China, both the loans-for-oil and investment agreements between China and Venezuela serve the ultimate goal of Chinese energy policy to secure control over oil abroad. Accordingly, China's oil diplomacy in Venezuela, as well as in other seemingly risky nations, is thought to be part of Beijing's efforts to reduce supply uncertainty.²⁹ By purchasing Venezuela's oil in advance and providing necessary investments for future extraction, China is securing control of significant portions of the Orinoco basin's massive oil reserves.

In spite of this special China-Venezuela SP, Chinese government and business leaders have long found Venezuela a frustrating partner. At a general level, expectations have not been met. Even as the two sides have touted vastly expanded oil trade and investment links, China has seen that expansion stymied by both PDVSA's dysfunctions and Venezuela's deepening overall economic malaise. For instance, although CNPC and Sinopec have inked a number of JVs for Orinoco E&P, actual production and investments with PDVSA have also been far below stated expectations. The two companies have confronted practical difficulties in their efforts, particularly in terms of upgrading and investment in refining, and cooperation in heavy crude oil. As mentioned above, most Venezuelan oil is heavy crude oil which requires sophisticated refining techniques and more money. Meanwhile, Venezuela's polarized political system and worsening economic and social problems have come to be seen in China as clear warning signs of an increasing unstable and unreliable partner.

More recently, it is becoming evident that CDB loans-for-oil deals and other state-to-state commitments have failed to create the desired volume of oil trade and investment opportunities for China in Venezuela. Instead, Beijing and its banks and oil companies appear to be throwing good money after bad. A new CDB office has opened in Caracas to more carefully supervise Chinese loans and investments. The real challenge for China, however, is that any dramatic improvement in its oil ties with Venezuela relies on wholesale improvements in Venezuelan economic governance and overall political health.³⁰ Additionally, Venezuela has been struggling with serious and worsening production woes. Venezuela ranks as only the world's twelfth-largest petroleum producer and ninth-largest exporter, with production falling incredibly as shown below in Figure 4.2.

Meanwhile, in December 2014, international oil prices fell below US\$ 60 per barrel, a five-year low, threatening to further derail Venezuela's economy. Venezuela is unique in that, unlike China's investments in other developing economies, Chinese involvement in Venezuela does not promise profit. The recent decline of commodity prices in Latin America has hurt Venezuela's

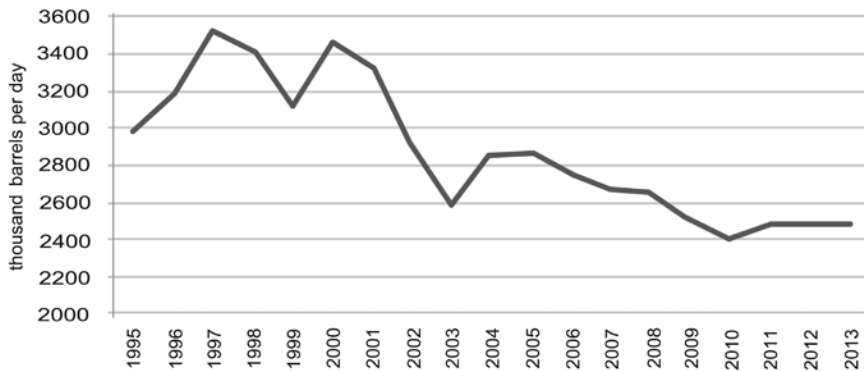


Figure 4.2 Venezuela's Oil Production from 1995 to 2013. *Source:* EIA International Energy Statistics, 2014.

already unstable economy.³¹ In addition, no country in the Western Hemisphere has been hit harder by the declining international price of crude oil than Venezuela. The oil industry accounts for roughly 95 percent of the country's export earnings as well as an unhealthy 25 percent of Venezuela's GDP.³² As the future of Venezuela's economy continues to spiral downward into chaos, its leaders have relied heavily upon China's financial support and mercy to stave off complete collapse. Yan Xuetong predicts that the reason China is expanding its engagement with Latin America from economics to political cooperation is to use that political engagement to strengthen and stabilize its economic efforts there. He says that without the momentum of political engagement, China's economic activities in the region risk shrinking.³³

The current crisis of accumulation in Venezuela's economy suggests two possible alternatives, which are not necessarily mutually exclusive. First, an intensification of the dependence on resource extraction and the consequent further primarization of the economy as has been witnessed over in the past few years; shockingly, products non-related to oil currently represent only 3 percent of its exports. Venezuela's state condition as the owner of natural resources may actually be at risk as its commitments to foreign powers such as China can increasingly translate into a transfer in the control over the resource itself. The state of Venezuela's appropriation of oil rents is currently at a turning point whereby it is spending today tomorrow's rents.

In essence, as mentioned previously, the second alternative is that China may in the future push for stronger market reforms in Venezuela in order to secure repayment and, especially, oil supply. Ultimately, any changes in Venezuela will decidedly have an impact in the stability of the Bolivarian regime. Moreover, new forms of conditionality seem to arise from this financial relationship that reveal a more interventionist role for China. By any

standards, China's position as a creditor becomes more important because as a nation the Chinese are concerned with how the money is spent since it has not been adequately invested to increase oil production.

It is now abundantly clear that Venezuela is heavily dependent on China in political and economic terms. There is broad support in China for a more cautious approach to Venezuela and other "populist" countries across Latin America. Although it identifies considerable opportunity for partnership with Venezuela, a 2012 CDB study on risk in Latin America also cautions against the South American country's excessive reliance on oil and tradition of military intervention. Some Chinese scholars even suggest that Beijing should become more selective in overseas projects by giving greater practical consideration to such factors as the climate for FDI in the recipient country.³⁴ In general, China seems to be gradually replacing the US as a principal partner for Venezuela both as a recipient of its near singular export product of oil, but also as a major investor, a source of manufacture products, and a lender-of-last-resort. Given that situation, it would appear that President Maduro has become "more of a liability than an asset" for China.

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Chapter 5

China's Strategic Partnership and Oil Diplomacy with Mexico

THE EVOLUTION OF CHINA-MEXICO ECONOMIC RELATIONS IN HISTORICAL PERSPECTIVE

Mexico was among one of the first Latin American countries to informally express a desire to establish diplomatic relations with the Communist China via embassies in Europe. Moreover, Mexico voted to support China's return to the UN in October of 1971. In February of 1972, Mexico formally established a diplomatic relationship with China, becoming the fourth Latin American country to have done so.¹ During the early years, there were some attempts to satisfy the market needs of both parties, but the institutional conditions for trading were still very difficult, so direct trade exchange remained minor and their commercial value was insignificant.

The dominant incumbent political party in Mexico since 1929 known as the *Partido Revolucionario Institucional* (PRI) implemented a neoliberal program in the 1980s that differed profoundly from its previous economic policies. President Miguel de la Madrid (1982–1988) and President Carlos Salinas (1988–1994) both aimed to carry out the massive process of structural adjustment.² This process involved privatization, the liberalization of trade services, and the widening and deepening of capital. Since the late 1980s, Mexico has engaged in a rapid and thorough process of export-oriented industrialization (EOI),³ which is a notably different approach from that followed by most other countries during this period.

As Enrique Dussel Peters mentions, supported by the liberalization of the banking system beginning in the mid-1980s and the massive privatization of SOEs, the Mexican private sector led Mexico's economy out of the "lost decade" of the 1980s through exports. Moreover, spurred by cheaper international imports, a massive import liberalization process was initiated at the

end of 1985 to support the private manufacturing sector in order to orient it toward exports abroad. The subsequent implementation of NAFTA in 1994 was of fundamental relevance for the liberalization strategy.⁴ Despite the fact that Mexico's post-NAFTA globalization and liberalization strategy was primarily oriented toward integration with the US, trade between Mexico and China has experienced unprecedented growth indirectly through the dynamics of regional integration and also through the participation of both countries in multilateral institutions like WTO.

In 2003, China finally established a strategic partnership with Mexico and in that same year, China has become Mexico's second-largest trading partner, behind the US. Not surprisingly, of interest to China is Mexico's access to US markets through NAFTA and through Mexico's proximity to the US. Mexico's location and its network of FTAs throughout the region are useful to Beijing in securing access to the rest of Latin America.⁵

As Sun claims, the bilateral relationship between China and Mexico has experienced a shift in terms of the driving forces behind global political and economic exchange over the last forty years. Mexico's political elite was the primary vehicle for bilateral interaction during the 1970s. However, by the 1990s trade groups had taken over this role. When we examine the ties between China and Mexico, trade volume is the primary measurable indicator of bilateral cooperation as shown below in Table 5.1. Trade groups are

Table 5.1 Volumes of Mexico's Exports to and Imports from China, 1998–2014 (millions of dollars)

<i>Year</i>	<i>Export</i>	<i>Import</i>
1998	192	1,615
1999	126	1,920
2000	217	2,880
2001	385	4,027
2002	654	6,274
2003	874	9,400
2004	474	14,373
2005	1,136	17,696
2006	1,688	24,438
2007	1,895	29,792
2008	2,045	34,690
2009	2,208	32,529
2010	4,196	45,608
2011	5,964	52,248
2012	5,721	56,936
2013	6,469	61,321
2014	5,964	66,256

Source: Elaborated by Author from UN Comtrade, 2015.

divided between Chinese markets and their competitors. The majority of Mexican industrial manufacturers face Chinese competition, while industrial agricultural producers are eager to tap into the Chinese food market.⁶

For President Enrique Peña Nieto and the PRI, a stronger economic and political-strategic partnership with China diversifies Mexico's economic and other foreign relationships away from the focus on the US. Many believed this characterized the *Partido Acción Nacional* (PAN) governments of Vincent Fox and Felipe Calderon that preceded the present Peña Nieto regime and the associated return of the PRI. In economic terms, a deeper and better relationship with China compliments Mexico's membership in the Pacific Alliance as part of the country's reassertion of the regional leadership role that has traditionally been a point of pride for PRI governments. China can also act as a bridge that Mexico can use to engage with other East Asian countries. China, as a major player in East Asia, has extensive economic and trade relations with other countries in the region, and could help Mexico put its foot in the door. China and Mexico, therefore, have the potential to help each other achieve interregional cooperation.⁷

CHINA-MEXICO STRATEGIC PARTNERSHIPS SINCE 2003

In the twenty-first century, the ties between China and Mexico have been institutionalized through the establishment of several mechanisms, and the frequency of mutual visits at the ministerial level has helped to consolidate the bilateral relationship. In 2014, two-way trade between both nations amounted to US\$ 72 billion. China is Mexico's fourth biggest export market in 2014 and second biggest import trading partner.⁸ In 2014, China's exports to Mexico amounted to US\$ 32.3 billion or 1.4 percent of its overall exports.⁹ Trade between China and Mexico is characterized by its focus on a few products. China's major exports to Mexico include electrical equipment, electronic devices, audio-video equipment and spare parts, mechanical equipment and spare parts, toys, game products, optical and photographic medical equipment, and plastic products. China's imports from Mexico include base metals, minerals, electro-mechanical equipment, transportation equipment, plastic, rubber, chemical products, and leather products.¹⁰

China and Mexico have implemented several important mechanisms in order to promote cooperation and dialogue. These mechanisms include: (1) the Political Consultation Mechanism and its eleventh consultation on bilateral, regional, and international affairs held in 2011; (2) the Permanent Bi-national Commission established in 2004, followed by the signing of two Joint Action Programs (2006–2010 and 2011–2015); (3) the Strategic Dialogue in 2009 and 2011; (4) in June 2013, the presidents of China and

Mexico agreed to upgrade their relationship to a comprehensive strategic partnership and broaden relations between their countries and expand trade ties, including opening the Chinese market to imports of Mexican tequila and pork. The leaders signed a dozen MOUs and cooperation agreements in areas including energy, mining, education, and infrastructure. At the same time, increasing Chinese investments in Mexico generally will serve as a platform for production that can target the US market as a near shoring play. There is already evidence of investment flowing back to Mexico given increasing labor costs and challenging business conditions in China.¹¹

Politically speaking, increased diplomatic and political alienations and tensions between China and Mexico would undoubtedly be detrimental to the continued economic success between the two nations. A joint effort to create a harmonious political relationship is, therefore, required to maintain economic cooperation. However, scholars from both China and Mexico like Hongbo Sun and Enrique Dussel Peters share the similar view that China and Mexico have not conceived a common political focus that is likely to strengthen ties between them. Mexico's strategy toward China has been extremely weak.¹² Mexico has not been able to develop a coherent short-, medium-, and long-term vision toward China. Mexican leaders in charge of the design and administration of diplomacy fluctuate between two alternative poles that do not include China: (1) to prioritize the economic insertion further into North America; or (2) diversification of economic exchanges in which Latin America and the EU play a central role.

These above noted limitations have increased the gap in the trade and investment relationship between the public and private sectors. Over the consecutive years, from 2001 to 2011, China and Mexico signed thirty-nine agreements, seventeen of which were signed in 2005, more than the total number of bilateral agreements reached from 2006 to 2011. In contrast, China and Brazil signed twenty-six bilateral agreements from 2009 to 2011.¹³ Moreover, unpleasant political events between China and Mexico have at times hindered the progress of improving the partnership. The H1N1 flu epidemic in May 2009 was one such event creating tension between the two countries. As the Mexican government criticized China's quarantine of 68 Mexican nationals, Mexican citizens were consequently advised not to travel to China until Chinese government corrected the discriminatory measures. In another diplomatic clash, in 2011, China's government expressed strong discontent and opposition to the meeting between Mexican President Felipe Calderon and the Dalai Lama.¹⁴

In the economic arena, the Sino-Mexican relationship is marked by cooperative political dialogue on the one hand, and tense economic relations on the other hand. The first "dark cloud" appeared in 1993 when President Carlos Salinas' administration imposed anti-dumping duties of 1,100 percent on shoe, toy, and textile imports from China. These duties, which were equal

to a total ban, were levied in response to Mexico's fear of Chinese competition.¹⁵ Mexico was also the last of 141 countries to set terms on China's WTO entry. These long negotiations had to do with Mexico's fear over a number of issues, such as removal of the anti-dumping duties, and the strong competition from China with respect to labor-intensive exports to the US market as well as Mexico's own internal market. Since the 1990s, both Mexico and China have been competing for US market share in low-skill manufacturing exports. Mexico was very successful in exporting such goods to the US beginning with the signing of NAFTA in 1994. However, this export monopoly changed after China's integration into WTO in 2001, followed by China's rapid growth from 2001 onward.¹⁶

What's more, Mexico is China's principal export market in Latin America, and since 2003, China has become Mexico's second-largest trading partner only after the US. Despite the fact that Mexican exports to China grew 203 percent between 2008 and 2014, they constitute less than 3 percent of its total exports, while imports from China accounted for 8 percent of its total imports.¹⁷ No other Latin American country has such large trade deficits with China.

However, it is also clear that there are opportunities for complementary production and marketing between China and Mexico. The strategic relationship between these two countries is complex and difficult. In Mexico, in manufacturing sectors, there are concerns about the role of China in world trade and especially about the trade relationship between the two countries. Both countries need to find new formulas of cooperation, including bilateral trade and commercial relations with the rest of the world. Whether or not China and Mexico will be able to overcome current impediments to cooperation remains an open question.

THE STRATEGIC PARTNERSHIP WITHIN MEXICAN POLITICAL DYNAMICS

Since the 1980s, next to US transnational companies, large "local" companies have also gained ground in Mexico. Expansion into foreign and local markets, but especially the national tendency toward privatizations, allowed Mexican companies to strengthen their positions. Through new financial strategies, such as tools created to obtain only the smallest number of shares necessary to dominate a firm, Mexican economic groups have started to take control over a large number of privatized companies. When banks were privatized from 1990 onward, most of them were bought by economic groups that already owned stock. The result is a major concentration of power into the hands of some 274 investors.¹⁸ With these new financial groups that can

take the lead over various functions of capital like JVs, a powerful financial oligarchy with centralized command over economic processes has come into being in Mexico.

The unprecedented political role of Mexico's post-1980s private sector was clearly biased toward the business elite (a relatively small group of large entrepreneurs), leaving many small producers with even less access to government. This economic and political trend has a number of negative effects. For instance, Mexico has a very high incidence of bribery, even when compared to other Latin American countries.¹⁹ As an example, peak industry associations like the *Consejo Coordinador Empresarial* (Council for Business Coordination—CCE) and its affiliate *Consejo Mexicano de Hombres de Negocios* (Mexican Council of Businessmen—CMHN) maintain symbiotic relationships with government institutions and funding bodies like the National Council of Science and Technology. High levels of consensus, solidarity, and trust within these associations have advanced their ability to advocate and achieve favorable forms of state intervention such as research and development subsidies.

The influence of associations like the CCE and the CMHN dwarfs that of sectoral advocates like the *Cámara Nacional de la Industria del Vestido* (National Chamber of the Clothing Industry—CNIV) and the *Confederación de Cámaras Industriales* (Confederation of Industrial Chambers—CONCAMIN), which together with small- and medium-sized businesses have been less successful and less trusting in each other and in their government. Until they were faced with Chinese competition in the early-2000s, producers of clothing, handicrafts, toys, shoes, and other basic manufactures were divided by distinct interests and agendas. Since then, they have coalesced, and regularly mounted street protests against the Ministry of the Economy to demand protection from the “China threat.” Rejecting out of hand the argument that their common problems result from excessive state intervention, they ask why the subsidies, tax breaks, seed funding, and diplomatic support that have sustained the competitiveness of big business are not extended to them. Their grievances resonate with the World Economic Forum's Global Competitiveness Report 2011–2012, which lists “access to financing” among the most serious problems facing businesses in Mexico, alongside violence and corruption.²⁰

Meanwhile, less influential sectors, from handicrafts to textiles, have struggled both at home and overseas because of their limited access to finance and official advocacy and, consequently, their limited ability to upgrade. As Chinese manufactured goods displace Mexican products in national and foreign markets, and amid a rising tide of domestic discontent, sectoral advocacy groups such as CNIV and CONCAMIN have spearheaded efforts to persuade the government to mitigate the “China threat.” Reluctant to take

the lead in the planning and design of long-term industrial policies but eager to placate voters, politicians have resorted to trade barriers against Chinese products. This has provided short-term respite but also encouraged smuggling and informal retail, undermining the prospects for trust between state and society, within the Mexican economy, and with China.²¹ Since the early-2000s, vote-conscious politicians have attempted to gain the trust of Mexican workers compromised by the dismantling of industrial policy since the de la Madrid administration (1982–1988) by imposing tariffs on products imported from China. This has quelled anger from the textile, electronics, and other labor-intensive sectors, but there is no doubt that Mexican competitiveness outside of NAFTA remains weak.

As Hogenboom assesses, it is clear that China's economic rise has had many negative effects on Mexico. This trend points to some broader serious problems for Mexico's position in the global economy and further call into question its deeper economic integration into North America as its main globalization strategy. Efforts to achieve more balance in its international trade and investment relations gave way to increased global flows, but as the NAFTA effects were bigger, it turned out that globalization of Mexican production became dominated by its regional integration in North America. Mexico's globalization strategy thus turned out to draw Mexico only closer to the US market, thereby exacerbating the effects of any changes of its position in that market, such as the US recession of 1999 to 2003 and the financial crisis in 2008. Mexico is remarkably dependent on the US, in which the preponderance of regionalization in Mexico's globalization strategy has important effects on its participation in global production networks.²²

Heavily reliant on the US market and in the absence of a coherent industrial policy, import tariffs and anti-dumping have become Mexico's ad hoc responses to Chinese competition. There is no simple path toward a virtuous circle of greater trade competitiveness in Mexico, but it is possible to identify steps toward improved relationships between China and Mexico. Assistance from the federal and state governments to Mexican exporters focused on China and other nontraditional partners is a logical starting point. For instance, investment in research on evolving Chinese markets or academic institutions would improve the ability of Mexican businesses to identify and penetrate Chinese markets.

CHINA'S OPPORTUNITY IN MEXICO: OIL

Mexico is one of the ten largest oil producers in the world, the third largest in the Americas after the US and Canada, and an important partner in the US energy trade. The exploitation of oil is a crucial component of Mexico's

economy. The oil sector generated 15 percent of the country's export earnings in 2014, more significantly, earnings from the oil industry accounted for about 40 percent of total government revenues in 2014.²³

Mexico nationalized its oil sector in 1938, according to the instructions overseen by former President Lázaro Cárdenas, which created *Petroleos Mexicanos* (Pemex) as Mexico's NOC, and as the sole oil operator in the country after expropriation of private assets during the Mexican Revolution of the 1910s. Today, Pemex is advised as the largest public company in Mexico and one of the largest oil companies in the world by the Ministry of Energy and the National Commission of Hydrocarbons. Pemex has three subsidiary entities: (a) Pemex Exploration and Production, (b) Pemex Refining, and (c) Pemex Gas and Basic Petrochemicals.²⁴ By contrast to the other three countries in my research, Mexican commercial dealings with China in the petroleum sector have been very limited. Pemex sends most of its oil to Mexico's largest trade partner, the US. By the same token, future prospects indicate that there should be a great opportunity for China to invest in Mexican oil because the upstream petroleum sector presents low political, commercial, and physical risk. What's more, indications are that Chinese companies can be certain that costs can be recovered in the short run if they invest in the E&P of oil in Mexico.

Meanwhile, Mexico should also take advantage of China's willingness to go abroad by inviting China to invest in its energy sector. Mexican governors are eager to attract Chinese investors to create a positive effect in the balance of payments. Since the entrance of China into the WTO, Mexico has consistently had a deficit balance of trade with China, and the inflow investments would help to equilibrate the deficit. Before the 2013 reforms to the energy sector, the Mexican Constitution, as well as international customary law, established that all hydrocarbon resources in the soil and subsoil, in internal waters and in the territorial sea, on the continental shelf and in the exclusive economic zone came under the jurisdiction of the Mexican State. However, after the reforms were proposed and approved by the Mexican government, the ownership of petroleum can now be translated to private corporations. This change was made so that private companies would be attracted to make development investments, and through that process, provide Pemex access to crucial technical expertise in the task of finding and extracting hydrocarbons.²⁵

For years, Pemex sustained itself on the revenue produced from its relatively easy to exploit shallow water fields without investing the capital necessary to replace those reserves with new fields or even maintain its infrastructure. Pemex had a high percentage of losses, low worker productivity, and facilities that are in significant need of repair, and a corrupt workers' union. Combined, these factors caused an unsustainable drain on the finances of Pemex. To make matters worse, Pemex's inability to partner with

other companies arguably inhibited it from benefiting from new expertise and techniques, particularly in deep-water drilling and hydraulic fracturing.²⁶ After many years of domestic political confrontation and dispute, in December 2013, the Mexican government enacted constitutional reforms that allow FDI in the energy industry, and admit the participation of other oil companies to the oil sector. The reform allows four new E&P contract models: licenses, production sharing, profit sharing, and service contracts. Previously, only service contracts were allowed for foreign firms. Pemex will remain state-owned, but it will have to compete for bids with other firms on new projects.

The reforms also call for expanding regulatory authorities and for creating a new National Agency of Industrial Safety and Environmental Protection. The much-anticipated first auction of Mexico's offshore oil resources following a historic liberalization of its energy sector produced disappointing results, as low oil prices scared away bidders.²⁷ In the present moment, Mexico is developing and approving secondary legislation detailing the fiscal regime and contract terms for the models. While reform proponents overcame the major obstacle of constitutional change, the remaining legislation still faces significant opposition. In the face of this opposition, Mexico plans to offer acreage for bidding by 2016.²⁸

China's interest in gaining market position in the Mexican energy field has been increasing since the last decade. Chinese NOCs have also entered into Mexico's upstream oil market by providing technical services, and Mexico has been exporting crude oil to China since 2009. For example, in 2007, CNOOC signed a service contract with Pemex, offering engineering services for oil projects and the operation of drilling machines.²⁹ In January 2013, Pemex has signed an agreement with the Chinese company Sinopec, under which Mexico will export 30,000 barrels of oil to China on a daily basis, starting from April 2013. Initially this agreement will last two years, and Mexico will receive an estimated US\$ 1.95 billion a year, assuming that the price per barrel is US\$ 100.³⁰ In April 2013, China's largest NOC, CNPC, signed a MOU with Pemex to cooperate in both the oil and natural gas sectors.³¹

In June 2013, the CDB and the Industrial and Commercial Bank of China (ICBC) offered a loan to Pemex for US\$ 1 billion to secure E&P rights for CNOOC. Later in 2014, Pemex has also inked an initial line of credit for E&P projects as well as offshore acquisitions with Chinese bank ICBC. The line of credit was announced along with noncommercial agreements between Pemex and CDB as well as CNOOC.³² China and Mexico will set up a US\$ 4 billion investment fund (The Sino-Mex Energy Fund) to support infrastructure, mining, and energy projects and are eyeing an oil deal worth up to US\$ 5 billion.

Philip Andrews-Speed comments that the new Sino-Mex Energy Fund is relatively small in comparison to the total capital investment required by Mexico's energy sector over the next decade, but its establishment demonstrates a commitment by China and Chinese companies to invest in Mexico.³³ In addition, we might expect to see a loan-for-oil arrangement, which is one of China's favored instruments for securing overseas oil supplies. Ellis agrees that the Chinese line of credit is welcome for a company struggling to invest to offset declining production from its core mature assets in the Campeche basin. Future oil shipments to China would also offset declining petroleum exports to the US and the persistent Mexican deficit with China in manufactured goods.³⁴ For China, the agreement offers insider access to Pemex and to the Mexican oil industry. Both are useful to the Chinese NOCs in evaluating future acquisitions and bids, as ongoing reforms open up the Mexican petroleum sector to foreign investment.³⁵

Mexico is aware of its economic, political, and social dependency on the US, so in order to reduce its economic reliance with the US, the Mexican government has the option of starting negotiations with China. Mexico wants to attract Chinese FDI because the country is remarkably dependent as a provider of FDI and as a market for export production. To achieve this, Mexico's best bet is to open its energy sector and to allow FDI and JVs to cooperate with local business as suppliers of goods and services that are needed to extract or refine petroleum.³⁶ And finally, Mexico would stand to benefit from financially supported infrastructure developmental programs, and it will receive the investments that can support much-needed job creation.

The Balance Sheet: The Prospect for the Future

Mexico's export dependency on China grew by 95 percent between 2008 and 2014, slightly above the average of 88 percent for Latin America over the same time period. Notwithstanding this steep increase, Mexico's export dependency on China is among the lowest in the region, setting it apart from the bulk of countries in Latin America.³⁷ Mexico, in this sense, contains a number of unique characteristics that cause it to share less in common with my other three country cases in understanding China's SPs in Latin America.

The desire by both China and Mexico to deepen the strategic partnership is visible in the plethora of initiatives and agreements between the governments since 2013 to facilitate cooperation in agriculture, tourism, and finance. Chinese Investment in the Mexican oil sector is foreseeable since domestic legal instruments will allow and regulate the relationship between the Mexico and Chinese NOCs. Chinese companies will have the chance to sign contracts that will let them acquire licenses, concessions, production-sharing agreements, and service contracts in the energy sector.

Despite the promise of cooperation in the future, there are some challenges to Sino-Mexican oil cooperation. First, Mexico's oil production has steadily decreased since 2005 as a result of natural production declines from Cantarell, the biggest oil well in the country, and due to the fact that most of the existing fields are in developed conditions without the discover of any major new oil fields. According to EIA, Mexico had 10 billion barrels of proven oil reserves as of the end of 2013, but most of these reserves consist of heavy crude oil varieties. Furthermore, Pemex does not count with the ability to make capital investments and take advantage of the oil located in deep water, because of the fact that the company pays a substantial amount of taxes and duties to the Mexican government as a substantial portion of the Mexican government's revenues.³⁸

Second, although Mexico is a large exporter of crude oil, it is a net importer of refined petroleum products, such as gasoline and diesel fuel. Mexico does not have enough refining capacity of its own to meet its domestic demand for refined products, nor has it made the investment to process heavy crudes like its Maya crude. Mexico has six refineries with a total capacity of 1.54 mbpd, but in recent years has operated below capacity because of operating mishaps. Mishaps and other losses are expected to result in a US\$ 7.7 billion loss for the company in 2013.³⁹ Finally, low oil prices are hurting Latin America's exporters. Mexico's NOC Pemex has already slashed its budget for the year, cutting spending from US\$ 27.3 billion to US\$ 23.5 billion.

Considering the above challenges, Mexican oil exports to China will not increase rapidly in the short term. Meanwhile, Chinese companies may consider financing, technical services and equipment trade and energy infrastructure participation as cooperation priorities. So, Mexico is likely to become a secondary supplier, since Mexico's oil potential is very limited for China. But without any doubt, Chinese companies will look forward to conducting cooperation deals with Mexico if the Mexican investment environment is favorable.

As for Mexico, since President Peña Nieto took office in 2012, the presidential meetings between China and Mexico have been increasing, and both sides are actively working on cooperation in various aspects. Mexico is currently working on diversifying its trading partners besides the US, especially in the energy sector. Trends toward improving productivity of the unconventional industry, along with lower international oil price, are forcing Mexico to diversify its energy trading partners despite its highly reliance on crude oil exports to the US, to say nothing of the refining technologies and petroleum products for which it depends on the US.⁴⁰ Therefore, Chinese interests in securing Mexico's energy is welcomed by President Peña Nieto simply because it may help Mexico diversify its energy exports and enhance the energy reforms. At the same time, China's potential investments in energy

and other sectors may well ease competition between China and Mexico in both the domestic and the US markets.

What's more, as pointed above, Mexico's exports to China are much more diversified than other Latin American counterparts. A total of 33 different products accounted for 80 percent of Mexico's exports to China, while the average number of export products for countries throughout the rest of Latin America and the Caribbean is less than four products. Copper ores, vehicles parts, and iron ores were the three exports with the highest dependency in 2014.⁴¹ In stark contrast to other countries in the region, trade in manufactured goods and components made a star debut in the case of Mexico.

Notwithstanding the relative benefits, the specific dynamics of the China-Mexico economic relationships reveal certain imbalances and discrepancies. First and foremost, Mexico, much like the rest of the continent, still has a significant deficit with China. The Chinese market has been explored very little by Mexico, and China continues to absorb a very small share of its total imports from Mexico. Thus, Mexico has not gained much ground with China as destination of their exports and this has resulted in a high trade deficit with China.

Moreover, Mexico and China have very similar exporting baskets. While Mexico has sought to develop domestic industries through interaction with the external market in North America, China has done the same in East Asia. Mexico established the system of maquiladoras for multinationals and companies from the US to take advantage of cheaper Mexican labor and less corporate regulation, China established (relatively) large-scale Special Economic Zones (SEZs), and then Export Processing Zones (EPZs) in major cities to import technology and to produce goods for export in much the same way as the maquiladoras operated.⁴² Costs of production are clearly an important determinant of the China-Mexico trade pattern and its related competition. Of note is the fact that labor is still, on average, approximately three times more expensive in Mexico than in China, with higher ratios experienced in some sectors.

Under this circumstance, since the 1990s, Mexico appears to be one of the countries most threatened by Chinese competition in Latin America. In 2003, Mexico was overtaken by China as the US's second-largest supplier. Also in that year, Mexico lost market share in the US import market for the first time since 1994. In sectors like automobile parts, television receivers, video monitors, electric motors, and generators, Mexico continues to hold strong market share despite modest Chinese inroads. In lower technology goods, however, China has a much stronger and often dominating share in the US market.

As Skira points out, in sectors like electronics, textiles, footwear, and clothing, China has directly displaced Mexico's production in the domestic market. In addition to losing US market share, Mexico has lost thousands of

jobs to China since 2003. Sony, NEC, V-Tech, and Kodak have closed their Mexican operations and moved to China. By 2003, 85 percent of shoe manufacturers in Mexico had shifted operations to China. In 2006 alone, more than 300 companies moved production from Mexico to China.⁴³ Thus the trade deficit and the fear felt by many manufacturing sectors not only represent a serious economic issue in Mexico but also a political one as feelings of negativity that have long dominated Mexico's perception of China as a threat.

For the China-Mexico SP, investment is also insignificant in comparison to that observed in the other three SP cases analyzed in this project. Chinese investment in Mexico has been quite limited. China played only a minor role regarding Mexico's FDI through 2012, with shares of 0.2 percent of total Mexican FDI during the period. Chinese investment in Mexico to date has been primarily focused on the manufacturing and technology sectors.⁴⁴ Although many discussions about pushing investment are reported in the Mexican press, the number of projects that ultimately come to fruition is far less. Part of the difficulty is that Chinese and other investors often must reach agreement with imperfectly coordinated actors at each of the three separate levels of Mexican government, not to mention the unfriendly investment environment in which Chinese investors faced anti-Chinese sentiment in Mexico.⁴⁵ Moreover, Mexican investment in China has been minimal, totaling only 0.009 percent of 1996–2010 FDI. The Mexican public sector, particularly the federal but also state and local governments, did not play a favorable role in promoting Mexican FDI to other countries, and China specifically.⁴⁶

To be fully addressed, Mexico, in its SPs with China, has its own problems of dealing with the Asian giant. Four sets of obstacles complicate the expansion and deepening of China-Mexico strategic partnership. Mexico lacks of clear goals and strategies toward China. This is further complicated by its regionalization via NAFTA, resistance from vested bureaucratic and commercial actors whose interests would be adversely impacted by Chinese products and investment, and a broad and deeply rooted mistrust among Mexicans toward the Chinese. As far as the four obstacles are concerned, the first obstacle is the absence of a coherent short- and long-term plan for China with the absence of frequent high-level meetings. Mexican private sectors, politicians, and academic institutions had also known very little about China. So there is the need to prioritize forming a strategy, in conjunction with Beijing, otherwise trade and economic ties will suffer. The second obstacle is Mexican's large dependence on its northern neighbors. Globalization of Mexican production became dominated by its regional integration in North America. China's rise has just worsened Mexico's vulnerability outside of the northern continent.

The third obstacle is that proposed Chinese projects in Mexico also frequently face opposition from economically powerful and politically

well-connected groups. Perhaps the most visible contemporary case is Dragon Mart, a 284,000 square foot retail and wholesale facility to be built in the state of Quintana Roo, spearheaded by Mexican businessman Carlos Castillo, in partnership with Monterrey-based Mexican businessmen and Chinese partners. The project has been opposed by Mexican manufacturers threatened by the expanded access to the Mexican market for Chinese products that Dragon Mart would represent, as well as community groups on environmental grounds in 2013.⁴⁷ Lastly, Mexico is one of the countries in Latin America in which distrust toward Chinese businessmen is deeply rooted. Nowadays, common Mexicans refer in disparaging terms to low quality Chinese products, presumed to be contraband, which allegedly undercut the position of Mexican producers and take jobs away from nationals.⁴⁸

In conclusion, there is no intense relationship between two sides, particularly in energy cooperation, which matters to China. However, Mexico is a very substantial market and has a relatively large population. To be sure, Mexico will be the potential target for China in the future. The trade and economic dynamics between the two nations do not coincide with their political and diplomatic weight, or with the real and effective partnership that should exist between the two countries. It is essential that public, private, and academic sectors seek to formalize the strategic long-term bilateral relationship with China and be capable of overcoming the current incongruent relationship.

NOTES

1. Three countries have built their diplomatic relations with China before Mexico. They are Cuba (1960); Chile (1970); and Peru (1971).

2. Barbara Hogenboom, "Mexico vs. China: The Troublesome Politics of Competitiveness, Opportunities and Challenges," in *Latin America Facing China, South-South Relations Beyond the Washington Consensus*, ed. Alex E. Fernandez Jilberto and Barbara Hogenboom (New York: Berghahn Books, 2010), 62.

3. EOI stresses that the global economy, through exports, should be the point of reference for any economic unit (firm, region, nation, group of nations, etc.). From this perspective, exports generally reflect efficiency, but non-exporting economic units are not efficient. EOI emphasizes neutral or export-oriented manufacturing production to maximize the efficient allocation of factors of production and promote specialization among nations according to their respective comparative cost advantages.

4. Enrique Dussel Peters, "Mexico and the Asian Challenge, 2000–2012," in *Reaching across the Pacific: Latin America and Asia in the New Century*, ed. Cynthia J. Arnson et al. (Washington, DC: Woodrow Wilson International Center for Scholars, 2014), 191.

5. Teng, "Hegemony or Partnership," 96.

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14. "China Opposes Mexican President's Meeting with Dalai Lama," *Xinhua News Agency* (September 2010), http://news.xinhuanet.com/english2010/china/2011-09/10/c_131131839.htm.

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16. Kevin Gallagher and Enrique Dussel Peters, "China's Economic Effects on the U.S.-Mexico Trade Relationship: Towards a New Triangular Relationship?" in *China and the New Triangular Relationships in the Americas: China and the Future of US-Mexico Relations*, ed. Enrique Dussel Peters et al. (Miami: University of Miami Center for Latin American Studies Publications, 2013), 15.

17. Casanova et al. "Measuring Latin America's Export Dependency on China," 13.

18. Hogenboom, "Mexico vs. China," 65.

19. *Ibid.*, 66.

20. Adrian H. Hearn, "Mexico, China, and the Politics of Trust," *Latin American Perspectives* 42, no. 6 (2015), 6.

21. *Ibid.*, 5.

22. Hogenboom, "Mexico vs. China," 68.

23. "Mexico," *IAEA* (2014), <https://cnpp.iaea.org/countryprofiles/Mexico/Mexico.htm>.

24. Silvia Carolina López Rocha, "China's Energy Policy in Mexico: Opportunities and Challenges," *Orientando* 4, no. 8 (2014), 101.

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36. Hogenboom, "Mexico vs. China," 73.

37. Casanova et al., "Measuring Latin America's Export Dependency on China," 12.

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Chapter 6

China's Strategic Partnership and Oil Diplomacy with Argentina

THE EVOLUTION OF CHINA-ARGENTINA ECONOMIC RELATIONS IN HISTORICAL PERSPECTIVE

In 1972, twenty-three years after the proclamation of the PRC, Argentina established diplomatic relations with China. This took place in an international context of decreasing tensions between the US and the former Soviet Union. The US recognition of China in 1971 had a remarkable influence on the Argentine military government headed by General Agustin Lanusse. Not long before, in the mist of an ideological confrontation between capitalism and communism this would have been unthinkable. During two terms of Carlos Menem (1989–1999), the bonds with China were further strengthened as China's potential as export market for Argentine products was recognized. Still, China did not have an important position on Argentina's foreign policy agenda, as its traditional economic relations with the US, Latin America, and Europe were Argentina's priority.¹ The intentions and actions did not seem to produce much direct results between both sides.

From an economic perspective, the year 2001 was a turning point in the Sino-Argentine relations as Argentine exports to China exceeded US\$ 1 billion for the first time. Less positive, however, was the lack of diversity of these exports in which soy made up the greater part. In addition, between 2001 and 2003, Argentina experienced a profound economic, political, and social crisis brought about by problems put in motion a decade prior. Argentina had returned to civilian government in 1983, and in the 1990s the aim was more focused on state and market reform by President Carlos Manem who was a fervent advocate of the Washington Consensus. Privatization and other neoliberal reforms begun in the early-1990s produced unprecedented economic growth, but significant economic problems remained, including high

unemployment and a massive national debt. The economy was further hurt by Brazil's recession and currency devaluation in the late-1990s. But the pegging of the peso to the dollar combined with Argentina's own economic problems resulted in economic collapse in 2001.² The 2002 crisis put an end to the latest political and economic cycle.

After a period of transition under a caretaker administration, in 2003 Néstor Kirchner came to power. He adopted a position rather distant from the US and based on rebuilding ties with South America, particularly with Brazil's Lula and Venezuela's Chávez. By rejecting the neoliberal economic ideas of previous administrations, Kirchner's program of income redistribution and refusal to pay back creditors fully, dollar for dollar, made him very popular with Argentines.

The governments of both President Néstor Kirchner (2003–2007) and his successor, wife, and widow, Cristina Fernández de Kirchner (2007–2015) made an ideological turn to the “new left” that guided not only national but also foreign policy as well as how strategic alliances are identified, strengthened, or dismissed in the international system. As a result, China found itself, with a friendly political-ideological scenario in Argentina. Since 2003, the Kirchners' government—in clear opposition to previous Argentinean governments that were aligned with the US—has shown that ideology prevails in the process of decision-making. Hence, to a great extent, the political space that China finds in Argentina is the result of the policies and ideological stance of the last two Argentine administrations.³

Meanwhile, as the second-largest country in South America behind Brazil, with the third-largest economy in the broader Latin American region behind Brazil and Mexico, Argentina is not only large in terms of extension—being the eighth largest country in the world—but it has also been blessed with a remarkably rich endowment of natural resources, which put it in an excellent position to supply the PRC's insatiable Chinese appetite for commodities. Argentina is a leading agricultural exporting country and China's third-largest agricultural supplier—a global top exporter of soybeans, wheat, corn and beef.⁴ What's more, in 2004, China built a strategic partnership with Argentina and China became the second-largest oil-consuming country in the world, with Argentina ranking as the PRC's second-largest Latin American oil supplier that year. This surging demand makes China Argentina's largest export destination for agricultural and energy products.

CHINA-ARGENTINA STRATEGIC PARTNERSHIPS SINCE 2004

Argentina was classified as a strategic partner of China in 2004 and is China's second most salient strategic partner in South America. In July 2014, China

and Argentina pledged a closer and more comprehensive strategic partnership. For the majority of the 2000s, Argentina's economic relationship with China primarily existed through the trade sector. Benefiting from China's global emergence after its 2001 WTO entry, Argentina's total trade with China increased sharply ever since. The bilateral exchange shows high concentrations of Argentine exports in a few products and the preponderance of raw materials in its components, particularly from the soybean sector. In 2010, five products (soybean, crude petroleum oil, crude soybean oil, sunflower oil, and chicken scraps or offal) concentrated 90 percent of Argentine total exports to China.

After Néstor Kirchner became Argentina's president in 2003, priority was given to negotiations with Asian countries in order to gain new markets, encourage foreign investments, and enhance Argentina's international economic insertion. Another milestone for China and Argentina is Argentina's declaration of China as a market economy in 2004. The importance of the recognition lies in the role China plays in the WTO rules regarding competition and dumping. Benefits were offered in the form of a US\$ 20 billion assistance package, particularly consisting of loans and investments in the railway sector and five MOUs were signed under the package.⁵

Afterward, the two countries enjoyed close high-level exchanges and cooperation, to name a few: (1) in 2007, Argentina signed with China a MOU on Military Cooperation. The memorandum established a common commission of defense and included the provision of military equipment at a discount price; (2) in 2013, President Xi Jinping met with the President Cristina Fernández de Kirchner and signed a MOU on establishing a Permanent Bi-national Commission and Mechanism for Strategic Dialogue for Economic Cooperation and Coordination between the two countries; (3) in July 2014, while China and Argentina upgraded bilateral ties to a comprehensive strategic partnership, they signed more than 20 trade deals including Chinese plans for huge investment in hydroelectric power, shipbuilding, railways, a deal to help Argentina build its fourth nuclear plant and the construction of two hydroelectric dams in Argentina's southern Santa Cruz province and an additional US\$ 2.1 billion to remodel strategic rail transportation for carrying goods, especially food.

While Argentina exports commodities and China's demand remains constant, there are tensions in the bilateral relationship as Argentina's dependency on China is on the increase. Argentina, an exporter of raw material and food, sees China as a main partner, especially for its need to maintain food security. In the short term, the Argentine government obtains benefits from the export of food and natural resources. However, the high concentration of Argentine exports to China into the category of the so-called soy complex of soy beans, soy oil, and soy flour indicates that Argentine exports to China

are very vulnerable to any variation in the demand and price of soy as was shown in 2006 when the value and volume of soybean complex's products went down.⁶

Likewise, Argentina has the goal and purpose of economic modernization and it needs more energy and minerals in the middle and long term. If a country expends its non-renewable resources at present, it will hinder its process of modernization in the future and based on this convention, the upcoming governments would be wise to seek them somewhere else, or turn to renewables for the benefit of future generations. The exports of currently available resources are a challenge to future production and development.⁷ Therefore, from a pragmatic point of view, the Argentine government should find balance between short- and long-term interests.

The Strategic Partnership within Argentine Political Dynamics

Since 2003, Argentina has experienced an impressive growth in exports. After almost a decade of negative trade balance, the 2002 drastic currency devaluation had an important role in boosting exports and strengthening the trade balance. Export volumes have grown considerably and have provided a hefty trade surplus. Part of this recovery is attributable to excellent terms of trade brought by the peso's undervaluation and the rising commodity prices of Argentina's main exports. Aided by considerable surplus domestic capacity, by rising global commodity prices and by an undervalued peso, the country enjoyed robust rates of economic growth throughout the post-crisis 2000s.

Some sectors have contributed more than others to export growth, with primary products and agro-industry registering the most noticeable export growth rates. Argentine exports remain strongly natural resource-intensive, while imports are highly technology-intensive. Remarkable, the structure of neither imports nor exports has drastically changed over time. Exports contain an average of 70 percent natural resources, while imports contain very little natural resources and a very high composition of technological products.⁸

In Argentina, interest groups have always played a key role in shaping public policy, especially through their representation in large peak associations. These include the General Confederation of Labor (*Confederación General del Trabajo*, CGT), the Argentine Industrial Union (*Unión Industrial Argentina*, UIA), the Association of Argentine Banks (*Asociación de Bancos Argentinos*, ADEBA), and the Argentine Rural Society (*Sociedad Rural Argentina*, SRA), among others.⁹ Argentina has frequently adopted protectionist measures against China. In particular, Argentina's restrictions to Chinese manufactured exports, intended to protect the domestic industrial sector, in which the lobby of labor unions and the industrial sectors have been

able to elicit administrative decisions that have frequently been an obstacle to the free import of Chinese goods.

For instance, pushed by the domestic pressure in 2007, the Argentine government enacted restrictions on the imports of particular industrial products that especially affected Chinese goods. Moreover, in early 2015, at the request of UIA, Argentine business has joined with environmental groups to express their opposition to deepening relations with China. Topping the list of UIA's complaints are the entry of Chinese labor, the direct award of projects and the import of Chinese manufactured goods instead of goods produced in Argentina.¹⁰

With respect to the new sacred trinity of food (soy and its by-products), energy (oil and biofuels), and minerals (iron ore, copper, and nickel), soy has been a key component of China-Argentina relations and trade. Soy expansion is the basis of the growth of biologically basic industries that have added jobs and spread federal development to different provinces and areas of the country.¹¹ However, the environmental balance is not yet clear, and dependence on soy with political dynamics in Argentina has been strongly influenced by interest groups. The question for Argentina is whether it can diversify its exports to China beyond the soy complex. This would require adding other kinds of primary production from the countryside and including more mining and most importantly, by moving to avoid concentration in the primary sector by shifting to the manufactured and tertiary sectors.

CHINA IN ARGENTINA'S ENERGY SECTOR: MORE THAN A HILL OF SOYBEANS

As in many other Latin American countries, China's economic presence in Argentina has become very significant over the past decade. Increasingly, Argentina is also becoming a strategic location for Chinese firms to invest in oil and gas. Notable, between 2004 and 2010, Argentina ranked among the top-three Latin American oil suppliers (with Brazil and Venezuela) to China.

China's interest in Argentina's oil has been long-standing, and Argentina has been doing exploration in its own northern provinces for several years. Yet the expansion of the Chinese presence in Argentina's market is more recent. There is, of course, a correlation between this process and the Chinese expansion in the oil sectors of Venezuela, Ecuador, Cuba, and Brazil. According to EIA, in 2013, Argentina was the largest dry gas producer and the fourth largest petroleum and other liquids producer in South America. EIA also reports that Argentina has the second-largest reserves of shale gas in the world (more than the reserves of shale gas of the US, Russia, or Canada) and the fourth largest reserves of shale oil (more than Libya's or Venezuela's

reserves).¹² The development of this immense field is crucial for the economic future of Argentina and might transform Argentina into a major player in global oil and gas markets.¹³

To compare with Brazil, whose exports to China also consist of only three primary products (namely, soybeans, crude petroleum, and iron ore accounts for 80 percent of the total exports to China), in the case of Argentina, the percentage is even higher and a remarkably similar and limited number of exported products (soybeans and its derivatives and crude petroleum)¹⁴ as illustrated in Figure 6.1.

Argentina is largely self-sufficient in crude oil, but like Mexico, it imports oil products. In the midst of the 2001 economic crisis, the Argentine government adopted measures to keep oil prices low. Consequently, low oil prices have led to inefficient use of oil resources, resulting in an increase of government subsidies during times of high demand. Moreover, subsidizing these costs has not only placed budgetary constraints on the Argentine state, but also hinders the country's ability to export since the government is required to first satisfy national demand of oil and gas before exporting any remaining resources abroad.¹⁵ Relatively low levels of exploration activity, combined with natural declines from maturing fields, explain the gradual erosion of oil production from its peak in 1998.

According to IEA, since 2000, Argentina's oil production has decreased by an average of 3 percent annually but steadily ranked as the PRC's second-largest Latin American oil suppliers, behind Brazil from 2003 to 2006. Argentine exports reached their peak in 2006, accounting for 5.5 percent of China's total oil imports, worth US\$ 0.89 billion. Thereafter, imports from Argentina decreased, displacing the country to the third position, ranking

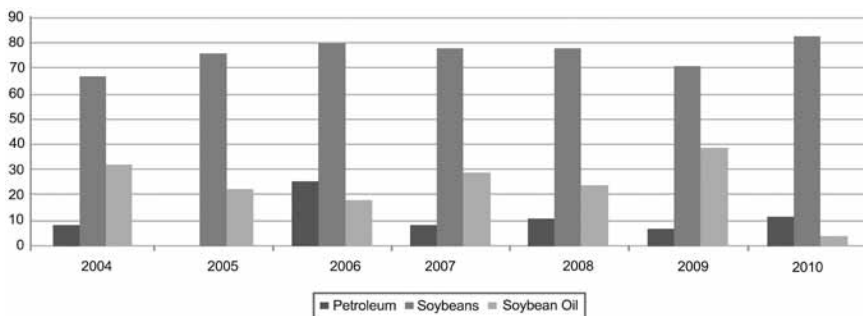


Figure 6.1 Percentage of Argentine Petroleum, Soybeans and Soybean Oil Exported to China from 2004 to 2010 (as percentage of total exports). *Source:* Juan Uriburu Quintana, "China's Energy Policy and South-South Cooperation? A Comparative Study Between Sino-Brazilian and Sino-Argentine Energy Policy 2000–2010," Ph.D. dissertation, National Chengchi University, Taiwan, 2014.

behind Venezuela and Brazil from 2007 and 2010. In 2011, the country was to eventually lose its energy self-sufficiency and started importing crude petroleum as shown below in Figure 6.2.

The oil sector in Argentina was historically dominated by YPF for seventy-seven years, since its creation in 1922 up to 1999, when the government of Carlos Menem, still caught in the middle of the privatization fever unleashed by the Washington Consensus ideas, sold this powerful symbol of nationalism for US\$ 10 billion to the Spanish company Repsol (Repsol YPF since then). However, the government of Cristina Fernández de Kirchner renationalized YPF in 2012 by taking a 51 percent stock share of Repsol YPF. Other players have also been important such as Shell, Exxon-Mobil's subsidiary Esso and other privately owned Argentine companies like Pan American Energy (PAE) and Bidas.¹⁶

PAE is Argentina's second-largest producer of oil and third-largest producer of gas, with 18 percent and 12 percent of the country's production, respectively, and operating the main oil area of Argentina-Cerro Dragón, located in Golfo San Jorge. Until recently, the firm had been steadily increasing its share of the domestic oil market. PAE currently operates one of Argentina's largest oil fields, the Cerro Dragón field. PAE's exports, like those of its competitors, have been falling. Uniquely, however, the firm has imported machinery and equipment and scientific and precision instruments for the oil industry, as well as tubes and pipes.¹⁷

Since May of 2010, Bidas has acquired more units of PAE that were in the hands of British Petroleum, for US\$ 7 billion (although in November 2011, the deal seemed to be blocked). In 2011, with the backing of CNPC, they bought all of Esso's operations in Argentina, Paraguay, and Uruguay,

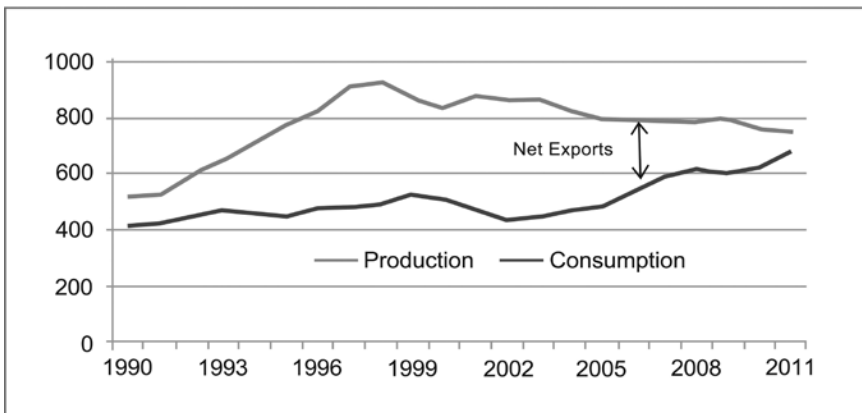


Figure 6.2 Argentina's Total Oil Production and Consumption, 1990–2011 (thousands barrels per day). Source: EIA International Energy Statistics, 2011.

becoming the second most important oil company in Argentina, and the only integrated oil company in Argentina (exploration, exploitation, refining, and retailing), besides Repsol YPF.¹⁸

In 2010, thanks to the recent investments, China was the top investor in and the second commercial partner of Argentina. Even though there were numerous investments—mining, manufactures, services, and agribusiness, stood out from the others. The first Chinese oil company to invest in Argentina was CNOOC. In March 2010 it acquired 50 percent of Bidas for US\$ 3.1 billion and in November announced that, together with Bidas, the JV had agreed to purchase BP's 60 percent stake in PAE for just over US\$ 7 billion. In February of 2011, PAE bought Esso as it redirects investments onto shale gas activities. Its main business was downstream sector (refinery, commercialization, and petrol stations) in Argentina, Uruguay, and Paraguay. With this maneuver PAE accomplishes the objective of being an integrated company, making CNOOC the second-largest oil supplier in South America. However, PAE was under investigation by the US Securities and Exchange Commission for bribes allegedly paid seven years ago to extend the Cerro Dragón oil field concession in Argentina. CNOOC's deal to buy BP's US\$ 7.1 billion stake in Argentine crude producer PAE collapsed in 2011. According to CNOOC sources, the association with Bidas allowed the firm to combine its experience in offshore operations with Bidas' knowledge in onshore production and exploration.¹⁹

Sinopec also arrived in Argentina in 2010 as Argentina's fourth-leading oil producer, through two major acquisitions: the oil fields operated by US TNC Occidental Petroleum Corporation (Oxy) for US\$ 2.45 billion and 40 percent of Repsol Brazil for US\$ 7.1 billion. The Oxy acquisition came first, and among the second one in the oil sector of Argentina that accounted for around one-third of the FDI received in Argentina that year. Occidental had the control over 23 areas of exploitation in the country, but was the main producer of Santa Cruz province, which shares the San Jorge basin with Chubut province. The same procedure of agreements and extension of contracts took place the last year. When Oxy was acquired its proven reserves reached 393 million barrels and it had 23 oil and gas production units in Santa Cruz, Chubut and Mendoza, 19 of which were operational. By then Oxy accounted for 6.4 percent of Argentina's oil production (it ranked fifth among oil producers) and 1.5 percent of natural gas production.²⁰

After three years of investing in the Argentina, Sinopec has kept its market share (6.6 percent in the case of oil and 1.7 percent in natural gas in 2012), and in 2013 it apparently became the fourth largest oil producer in Argentina and has around 550 employees and more than 3,000 contract workers.

Sinopec exports have had wide fluctuations in recent years, but are mostly composed of crude oil.²¹ Furthermore, in Argentina, Sinopec has signed an agreement with the local government ensuring that all workers will have had residency in the Santa Cruz province for at least two years prior to their hiring. Sinopec's labor relations and environmental performance in Argentina have been more positive than in other countries.

In the same vein, YPF announced a large discovery of shale oil in the Loma La Lata field in the Neuquén province in the Vaca Muerta shale formation in 2014, the estimated size of which has increased to 741 million barrels of recoverable shale oil.²² In Jan 2015, YPF and China's Sinopec signed a MOU aimed at eventually partnering to develop oil and gas projects in Argentina. A potential partnership could entail YPF helping Sinopec develop its conventional output while the Chinese company would invest alongside YPF to raise shale oil production. Vaca Muerta is one of the largest shale oil and gas field in the world.²³

In general, the arrival of CNOOC and Sinopec to Argentina did generate major changes in the operations of the acquired firms in the productive, technological and trade areas, but they also encountered difficulties in various aspects such as the declining production and exports of oil that reflects the lack of a proper oil policy on the part of the Argentine government, as well as the fact that the country did not have an effective NOC that could act as a counterpart to the Chinese oil companies and we have seen a decline of oil exports from Argentina to China after the peak of 2006 as illustrated in Figure 6.3. Nevertheless, the presence of the investments could contribute in the future to the expansion of offshore activities, as the Chinese companies are industry leaders in offshore exploration.

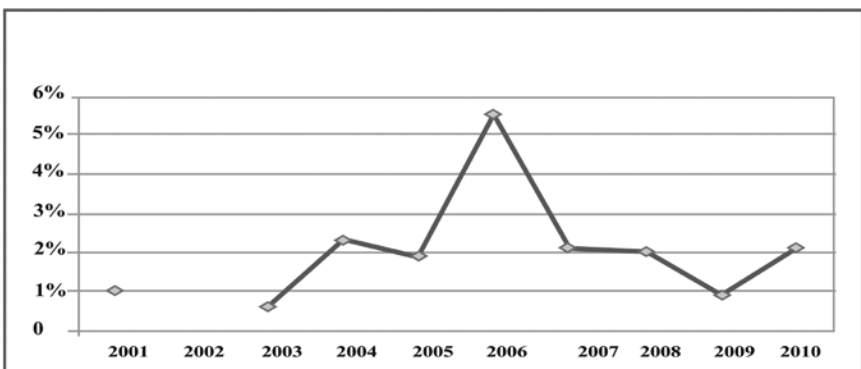


Figure 6.3 Evolution of China's Petroleum Imports from Argentina 2000–2010. Source: Juan Uriburu Quintana, "China's Energy Policy and South-South Cooperation? A Comparative Study Between Sino-Brazilian and Sino-Argentine Energy Policy 2000–2010," Ph.D. dissertation, National Chengchi University, Taiwan, 2014.

THE BALANCE SHEET: THE PROSPECT FOR THE FUTURE

Since the establishment of the Sino-Argentine Strategic Partnership a decade ago, China has shown to be both a competitor and a partner to Argentina. On the one hand, it has proven to be a fierce competitor in manufactures production and ravenous in the acquisition of strategic assets. On the other, it has presented itself as a partner in the realm of international organizations, financial loans and R&D in the high-tech industry. This duality of China's new presence represents both challenges and opportunities for Argentina.

For China, the partnership presents a win-win pattern. The transformation of Argentina's countryside is connected to a new phenomenon that is correlated with China's extraordinary rates of economic growth. The demand for energy, and especially for fossil fuels, has skyrocketed in recent decades in China. Due to the growing demand for energy and the rapidly decreasing availability of fossil combustible (oil and gas) fuel in China, India, Japan, and around the world, Argentina's recent specialization in soybeans has placed China as the main importer of soybeans from Argentina.

Moreover, Argentina's new hydrocarbons reform, published on October 31, 2014, provides investors with offshore exploration opportunities and encourages foreign ventures in unconventional plays. Before the 2014 reform to the 1967 Hydrocarbon Law, Argentina's energy sector policies prompted an imbalance of energy supply and demand by limiting the industry's attractiveness to private investors, restraining the profits of domestic producers, and shielding consumers from rising prices. To incentivize foreign investment in the hydrocarbons sector and boost domestic energy supplies, the recent policy will reform the national bidding process, increase the frequency of offshore licensing rounds, allow for longer exploitation periods, and offer tax exemptions to companies that invest more than US\$ 250 million over a three-year period. To limit the influence of the current low oil prices on production, the Ministry of Economy recently announced a reduction to oil exports tariffs.²⁴

Nonetheless, Argentine export dependency on China actually fell by 13 percent between 2008 and 2014, the only country in Latin America (excluding Costa Rica) to experience a decline. Argentina went from being the second country with the highest export dependency on China in 2008, to being the tenth in 2014. This fall comes on the back of falling commodity prices as well as a drop in the country's exports to China. Even with the country's dominant position in soybean production, exports to China fell by 39 percent between 2008 and 2014 (vs. 12 percent worldwide). Similarly to soybeans, the export dependency of Argentina's crude exports to China fell by 20 percent between 2008 and 2014, on the back of the decreased production and increased domestic consumption.²⁵ Furthermore, its oil-refining technology is limited which

requires importing refined oil products from the US. In addition, Argentina's 2012 renationalization of YPF to reverse years of production decline and increase oil and gas output at an annual improvement of 6 percent is seen to be uneasy to accomplish. In summary, despite these disadvantages, China remains the significant beneficiary in the relation.

Since the outset of the Strategic Partnership in 2004, Argentina has also benefited from trading with China in terms of its commercial balance. The relationship can't be perceived partially as a zero-sum game given that Argentina benefits from the positive outcome of the bilateral trade. Indeed, China's purchase of Argentine goods has generated inflows of foreign capital that have much assisted in the development of the economy over the past decade and has also developed to create further added value production chains.²⁶ For instance, the ratio of produced Argentine refined soy oil to soybeans has gradually increased over the past decade. What's more, according to the China-Latin America Finance Database, Argentina borrowed US\$ 19 billion from China between 2005 and 2014, most of it for energy, railway and subway projects.²⁷

Moreover, Argentina's technical default in July 2014 forced the Fernández de Kirchner government to turn to China for funds to prop up its currency reserves. Therefore, Chinese counterpart, Xi Jinping, had agreed to a fresh installment of US\$ 7.5 billion of loans to the Argentine government for energy and railway projects and a US\$ 11 billion currency swap agreement among their central banks, which could help fortify Argentina's dollar reserves in the event of another currency crisis. China's financial backstop allowed Argentina to take a recalcitrant stance against its holdout creditors in the US. Without this insurance against future financial volatility, Argentina would have likely not been as emboldened. Instead, it would have had to appease international markets and President Kirchner's hard line stance against Argentina's holdout creditors has also played well domestically.²⁸

However, Argentina still experiences an asymmetrical partnership with China in a number of concerns. In spite of the economic linkage between both countries, the relationship has been characterized by its conflictive nature. First, for the most part Argentine exports for the most part primary products to China while Argentina imports essentially manufactured goods from China. This touches on the uncertainty of China's new role in the international system in general and in Latin America in particular. China's investments in Argentina are primarily established in extractive industries. The increased interest in primary products also results in an increase in price, making extractive projects more profitable and putting more pressure on natural resources and the environment.²⁹

Second, FDI flows that have entered into Argentina are still low compared with the weight that China has in the field of trade. It is clear that the country is an attractive investment location in the areas of mining, oil and fishing, as

well as in certain sectors such as basic infrastructure due to Chinese interest in controlling certain communications networks, energy and transport to guarantee the supply and commercialization of these natural resources. However, despite this interest, as far as we know there have been very few projects that have actually materialized up until now. This is likely due to doubts about policy changes, regarding trade rules and tariffs, the tax burden, the banking system, and investor protection laws.³⁰ Therefore, the Chinese government is reluctant to engage in long-term or high-risk investments in the country unless they include some form of state guarantee (and possibly subsidies).

Third, Argentina is the Latin American country with the most trade disputes against China (49 percent), followed by Brazil (28 percent), and Mexico (11 percent).³¹ China's exports have undermined the local industrial sector's performances in both home and global markets. According to Toro Hardy, over 90 percent of Argentine manufactured exports are under threat due to the competition from Chinese firms. Argentina has frequently adopted protectionist measures against China. In particular, Argentina's restrictions on Chinese manufactured exports, to protect the domestic industrial sector, have irritated China. The 2010 Argentine soybean crisis epitomized the confrontation between Argentine protectionist policies and China's manufacture export-led development model. In 2010, the Chinese government blocked cargos filled with Argentine soybean from entering its ports. It was revealed that China was pressing Argentina to withdraw its anti-dumping policies against Chinese manufactured goods. Only after Argentine President Cristina Fernández de Kirchner paid a visit to Beijing was the dispute eventually settled. This precedent underscored the importance of further cooperation, but also exposed the asymmetric aspect of the relation.³²

In the same vein, Chinese competition emerged in third markets for Argentina. For example, despite having geographical proximity to and a benefactor of an FTA with Brazil in the framework of MERCOSUR, in 2006, Argentina has been displaced by China from the traditional second place in the Brazilian market, and in 2009, China displaced the US as the largest trade partner of Brazil.

In general, the strategic partnership seeks to place each country within its own area of specialization from the Chinese perspective, but this form of trade exchange primarizes the Argentine economy. So long as Argentina's politically well-mobilized manufacturing and labor sectors see themselves as harmed by growing competition from China, and so long as China perceives Argentina as dependent on China as an agricultural market, there will be a possibility for showdowns such as the 2010 dispute over soy oil. The crisis of crude soybean oil happened shows that this product is highly competitive and representative of Argentina's foreign trade and it was limited in its access

to Chinese market to protect Chinese industry interests, raising questions about whether a similar crisis showing the confrontation of the parties will be repeated in the future.³³

China perceives Argentina as one of its important SPs in Latin American and so does Argentina perceive China in a similar manner. This has especially been the case after the 2014 technical default. Even so, empirical facts indicate that China seems to be more important to Argentina than vice versa. Therefore, Argentina must better leverage Chinese investment and trade, and needs more effective national branding and greater business-government coordination to place higher-value-added products in the Chinese market. A similar combination of government pressure and business initiative could prompt Chinese companies to partner with Argentine entities, creating jobs and technical capability in Argentina, rather than displacing Argentine products with Chinese ones. Moreover, for Argentina, which has discovered vast reserves of shale oil (an organic fine-grained sedimentary rock), and likely has more to be found, this could change the outlook of its oil industry and attract more investments and potential business profits in the future.

NOTES

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Chapter 7

China and Latin America in Comparative Context

Empirical Analysis

China, as one of the largest importers of resources in the world, is currently undergoing rapid industrialization. This process requires a large import of commodities because domestic supply cannot satisfy its demand. Thus China's rapid growth model has generated a shift away from raw-material production toward the reliance on resource-rich countries around the world to sustain its economic growth. China's immense need for natural resources, energy-related resources, and agricultural food products forms the cornerstone of its resource acquisition strategy. In this comparative case study analysis, we examined four Latin American countries, Argentina, Brazil, Mexico, and Venezuela to test whether in Latin America there exists an equal strategic partnership under China's oil diplomacy. We found considerable variations across and within these four cases.

First and foremost, there is a growing importance of Latin America to China that shows in trade patterns. Latin American exports to China as a whole grew up to US\$ 112 billion in 2013 (a record 2.0 percent of regional GDP), though the region still had a trade deficit of 0.5 percent of GDP with China that year. At the same time, China's policy banks have become the largest annual public creditors to LAC governments. Chinese finance to the region has risen sharply in the last few years, from US\$ 3.8 billion in 2012 to US\$ 22.1 billion in 2014. In 2014, Chinese finance to the region exceeded finance to the region provided by the World Bank and IDB combined.¹ Four countries in my research all reveal the pattern of increasing trade and cooperation with China. China has become Brazil's largest trading partner since 2009, the second-largest trading partner of Mexico since 2003, Venezuela and Argentina since 2009.

Second, Chinese trade is driven by a complex mix of government planning and profit-based motivations based on a mercantilist motivation. Resource

acquisition has become a top priority of China's trade and investment in Latin America, which is one of the most resource-rich regions in the world. LAC exports to China continue to be heavily concentrated in primary goods. From 2000 to 2011, 86 percent of all Chinese FDI into Latin America and the Caribbean flowed into the raw materials and energy sectors.² In 2013, China purchased 15 percent of LAC's agricultural and extractive exports, but only 2 percent of the region's manufactured exports. All four of my cases have been heavily concentrated in primary products. Mexico has the least concentration in primary products among the four cases since a total of 33 different products accounted for 80 percent of its exports to China, while the average for the rest of Latin American and the Caribbean is less than four products.³

Third, and on the one hand, the interdependence between China and Latin America has accelerated with the increase in Chinese investments and development loans in the region. Latin America is one of the main destinations of Chinese investment abroad. The majority of FDI is "resource seeking" in the key sectors that serve as the source of Chinese demand: copper, oil, iron, and soybeans. Furthermore, this FDI is also "market-seeking," meaning that it seeks to penetrate Latin American markets such as in the auto and tourism sectors. Finally, some Chinese investment in Latin America is "efficiency-seeking" whereby it has been located in Uruguay or Mexico to serve as an export platform to Brazil and the US.⁴ Chinese investment was overwhelmingly focused on extraction projects, with the oil and gas sector accounting for 69 percent of Chinese Mergers and Acquisitions (M&A) investment between 2009 and 2013.⁵ Beginning in 2006, CDB disbursed energy-backed loans to Latin American states, and the bulk has gone significantly to Venezuela and Brazil, as indicated in Table 7.1 below. Venezuela among all others, received the largest loan from China, mostly in infrastructure and energy, while Mexico received the least.

On the other hand, interdependence between both sides is deepening but doing so asymmetrically, therefore displaying challenges for China-Latin

Table 7.1 Chinese Loans to Latin America, 2005–2015 (billions of dollars)

<i>Country</i>	<i>No. of Loans</i>	<i>Amount</i>
Venezuela	17	\$65 billion
Brazil	8	\$21.8 billion
Argentina	8	\$15.3 billion
Ecuador	11	\$15.2 billion
Trinidad and Tobago	2	\$2.6 billion
Bolivia	6	\$1.6 billion
Jamaica	9	\$1.5 billion
Mexico	1	\$1 billion

Source: Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Washington: Inter-American Dialogue (2014).

America strategic partnerships. First of all, Latin America has a trade deficit with China, equivalent to US\$ 8 billion or 1 percent of Latin America's GDP. In addition to Latin America's trade deficit with China, bilateral trade flows remain unbalanced as the region exports commodities to China and imports manufactured goods.⁶ In energy trade, Latin America is more dependent on China than the other way around. China is among the top-three export destinations for Venezuelan and Brazilian crude, even though these countries only account for a small percentage of China's imports. Among my four cases, Brazil and Venezuela maintain a trade surplus with China while Mexico and Argentina have a trade deficit with China.

Moreover, beyond creating a new, hungry market for Latin American trade and Chinese investment, China's voracious appetite resulted in more demand and higher prices for these Latin American raw materials and agricultural outputs in markets around the world. Exporting natural resources to China and importing basic manufactured products will do little for the industrial upgrading required by Latin America's economies. Thus trade frictions emerge and get prominent in countries like Argentina and Mexico. One cause for the frictions, among others, is that China and the Latin American countries have similar export structures, especially Mexico. Specifically, the low-technology-valued products that China exports to Latin America, like textiles, clothes, and electronic gadgets, are similar to the products that Latin American countries export to other parts of the world such as the US and the EU. Consequently there is competition for markets in Latin America, China, and possibly other countries where they intend to export their goods. The four country cases in my research have all been challenged by Chinese manufactured exports in domestic and/or third markets. Comparatively greater effects were observed in industries in Mexico, which experienced a bigger increase in apparent consumption in the share of imports from China, rising from 3.3 percent to 6.4 percent between 2005 and 2010.⁷ The most affected sectors were the textile and apparel industry, auto parts, industrial machinery and equipment, metals and derivatives, and other manufactures, followed by Brazil and Argentina.

Additionally, Chinese trade, investment, and finance are increasingly associated with significant social and environmental conflict and the four country cases in my research all show conflicts to varying degrees. Labor tensions between both sides are critical somehow due to the cultural barrier and the language difference. Workers in Latin America do not intend to work overtime or work weekends while the compensation is quite low and the coordination is inefficient since few people can speak both Chinese and Spanish. Such examples of this type of tension are illustrated in what happened during the above mentioned Dragon Mart project in Mexico.

In the meantime, Latin American exports to China are almost twice as carbon intensive and three times as water intensive than average economic

activity in Latin America such as deep-sea oil exploration.⁸ Many new Chinese investment projects are also slated to go through the heart of many globally recognized indigenous and environmentally sensitive lands which may cause deforestation to accommodate expanding soy production. There are criticisms of environmental degradation caused by China's involvement in all four of the cases analyzed in this project. But in the energy sector, Mexico and Argentina received the least concern over environmental issues. This is because Mexico just started its energy reform to allow foreigners to invest while, in Argentina, CNOOC and Sinopec are under JVs with companies like BP, which has a long history of pursuing foreign investment and receiving global scrutiny for its environmental record.

By comparing four cases through an empirical analysis, we firmly witness that an overall relationship between China and Latin America has expanded in the twenty-first century with the process of globalization and the increasing demand for national development in both China and Latin America. Accordingly, new progress has been made toward the China-Latin America strategic partnerships phenomena in many ways, at various levels, and across a broad spectrum of areas in recent years. The questions now are whether those countries will be able to transform these SPs into a tool to generate virtuous reciprocal effects. Such effects would include long-term development characterized by a more equal-based bilateral relationship. Of course, the future of these SPs is contingent upon whether or not China will still follow the same path of its Going Out policy. China faces numerous challenges and factors that are both international and domestic in nature, going forward. As China deals with these issues, its diplomatic actions toward Latin America are more than likely to result in forms of change, particularly across my four country cases, and where SPs are concerned.

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Part IV

LOOKING AHEAD

Chapter 8

Conclusion

China's success in expanding its influence in Latin America is changing the geopolitical dynamics of the Western hemisphere. Approaching these issues from a Chinese point of view on Sino-Latin American strategic partnerships allows for a critical perspective on Chinese global policy considerations. In spite of the historical unfamiliarity, the relationship between China and Latin America has developed very quickly in recent years, leaving both sides effectively looking for meaning and direction in this intense process. A broad analysis that incorporates all of the forces behind China's growing interest in the region will reveal that Latin America cannot be seen as a homogenous entity. The four country cases in my research are so heterogeneous and complex in terms of trade and investment that their strategic partnerships with China are different to varied extent. Hereafter, a general overview of China's SPs with other parts of the world such as Africa, and the EU will be taken into account to consider whether or not China's SP model with Latin America fits into the large pattern of China's SPs with other parts of the world. Finally, the research findings and the policy implications for China in developing the strategic partnerships with Latin America in the future will be addressed in the following sections of this concluding chapter.

UNDERSTANDING CHINA'S STRATEGIC PARTNERSHIPS IN LATIN AMERICA: ANALYTICAL ANALYSIS

The current relationship between China and Latin American countries is a result of trade flows as well as increased financial, scientific, and technological cooperation. China's impressive economic performance at the beginning of the twenty-first century helped it gain prominence as an emerging power

in the global arena. Economic complementarities are a crucial part of the strategic partnership as it is impossible for Latin American agricultural, mineral, and foodstuffs exporters to ignore a market of 1.3 billion Chinese people whose living standards are on the rise. At the same time, an unprecedented demand for natural resources in order to maintain high growth rates reinforces China's need for access to the raw materials, minerals, and oil resources that can be found in Latin America. Therefore, an analytical analysis that incorporates the four compatible but distinct theories behind China's growing interest in the region help us understand the complex strategic partnerships between both sides. The four literatures do not necessarily contradict one other. Rather, each represents some explanatory power in confirming my arguments of China's engagement with Latin America.

First of all, China's Going Out policy has a realist orientation. China has a very similar fashion with other large countries that is seeking for profits, commodity and energy security, and improving China's position in the international arena. Argentina, Brazil, Mexico, and Venezuela—countries that China recognizes as “strategic partners”—have potential influence over other nations of the region. Argentina and Brazil have traditionally been the dominant economic and political powers in South America. Similarly, Mexico is influential with respect to the states of Central America. Venezuela has a degree of economic and political leverage over the nations of the Caribbean, and seeks to use its oil wealth to expand its influence in that region through such partnerships as ALBA. Thus, the “special treatment” that China gives to these four key powerbrokers as strategic partners may be seen as a vehicle for China to increase its influence by working through the current political power dynamics of the region.¹

Meanwhile, China needs commodities and raw materials so that China's use of its economic and financial clout to open developing countries' markets for exports and investments in resource extracting industries has been perceived as tactile and pertinent. Thus, over the past decade, China's involvement in the region has shifted from a diplomatic to an economic focus. The broadening of China's Going Out strategy to include Latin America is motivated by its increasing reliance upon energy and food imports. It ensured preferential loans for Chinese companies investing in public infrastructures and resource extraction industries like the oil industry, which for the most part were concentrated in developing countries. It also participates in M&A in order to take control of operating company's stakes. As a matter of fact, through the acquisition of companies in the extracting and financial sector, China has also increased its leverage upon these four countries.

Moreover, China's Going Out strategy revolves around the appropriation of natural resources. There is an increased dependency on certain commodities in my four cases where manufacture base has been declined as

Latin American countries are relied heavily on oil and other primary product exports. In a repeat pattern to which the region is prone, China has deprived Latin American countries control over their own strategic assets; a renewed cycle in which the region becomes overly dependent on primary products. The relationship has hampered the competitiveness of national industries. Moreover, it has concentrated exports in capital-intensive sectors penetrated by FDI and has led to a relative primarization of the region. To a certain point, China has helped deepen the dependency in few cases like Venezuela which always sits on oil export and Argentina which is largely dependent on agricultural commodity export. Needless to say, the content of this interaction has been increasingly questioned as a sustainable framework for growth. Such opinions are forming even by those who view development through lenses alternative to Dependency theory. Furthermore, such interaction has also served to upset the process of regional integration. But it is worth mentioning, regarding the discrepancies and disagreements that might occur between two strategic partners, “China does not expect partnerships to eliminate conflicts, but it does expect conflicts on individual issues not to bar cooperation on wider economic, political or strategic issues.”²

Hence, the SPs between China and Latin America are asymmetrical, but can't be perceived as an absolute zero-sum game given that the region is benefiting to varying extents from the positive outcome of the bilateral trade. China's investments and purchase of commodities have generated inflows of foreign capital that have assisted in the development of the region's national economies relative to the past. Moreover, from the standpoint of liberal IPE theory, the previous two theories may overlook the fact that China's increase interaction with Latin America leads to their further bilateral cooperation and participation in multilateral organizations. Bilaterally, China has a more flexible stance now than during the 1990s. For example, China has begun to open up to other kinds of trading relationships that involve greater equity and a degree of maturation in order to maintain a equal trade balance such as emerging renewable energy cooperation with countries like Brazil and Argentina and the stipulation of the diversification in the basket of products that China would purchase from the region. As another important example, multilaterally, over the last ten years, China has gained the status of permanent observer in Latin American international organizations such as OAS and IDB. Furthermore, China has striven to create a multilateral dialogue through the MERCOSUR and Pacific Alliance organizations.³

In a sense, the economic relations have highlighted the underlying mutual gains of trade. But combined with the previous two perspectives of unequal trade, which predict that China's gains are made at the expense of the Latin American countries' development, it is fair to say that my careful analysis found that those gains are unequally distributed. In other words, the SPs are

characterized by a positive sum game with unequal gains of trade, and obviously, China is benefiting more from the whole region than vice versa.

Meanwhile, in the context of South-South relations, China's status as a "leader of the developing world" positions it as the natural ally to the new generation of Latin American populist leaders, such as Hugo Chávez (and the successor Nicolás Maduro), Rafael Correa, and Evo Morales and even the Kirchners. The nature of China's impact on each country in Latin America is shaped by each Latin American country's particular situation, hopes, fears, and prevailing ideology.

On the one hand, China has an affinity with left-leaning governments in Latin America. By challenging the political and economic dominance of the US including neoliberal capitalism and Western companies in the region, China could create spaces to do business and build relationships. Yet to be mentioned, China has been preoccupied with promoting economic cooperation and trade with Latin American countries regardless of human rights, social morality, or environmental impacts, in accordance with the long-established Chinese strategy of noninterference in other states' internal affairs. This has been appreciated by some political leaders in Latin America and has helped China to forge closer relations with these states like Venezuela.

On the other hand, the "Bolivarian socialist" regime in Venezuela sees China as a powerful ally in its crusade against Western "imperialism," as indicated by that fact that over US\$ 60 billion in loans have been provided to Venezuela. This research has shown that ideology does play a role in China's strategic partnership toward leftist countries in Latin America. In general, China seems to be gradually replacing the US as a principal partner for Venezuela both as a recipient of almost all of its only export product, but also as a major investor, source of manufacture products and lender-of-last-resort. However, in a case of excess, Maduro has become "more of a liability than an asset" for China.

In the meantime, the so-called South-South rhetoric creates a platform by which to better implement China's Going Out strategy and serves as a soft-balancing tactic against US hegemony. Still, China has the sense of carefully dealing with the US since Latin America has always been viewed as the backyard of the US. Arguably, China's relations with Latin America are for economic purpose, and not for political intention against the US. As a matter of fact, China's role as one of Latin America's biggest financiers means its clout will strengthen and China's ties with Latin America are likely to deepen in the future. Therefore, to serve its own interest, the US might do well to welcome China's involvement in the region by encouraging it to be a responsible and productive partner. While Chinese and US interests will inevitably diverge in some sectors, this is not necessarily a cause for alarm. Rather, the engagement of China multilaterally in the region not only can benefit Latin

America, the Caribbean, and China, but also the US. An issue in which an analytical assessment is also needed is the bilateral approach Beijing adopts when dealing with countries on an individual basis, thus comprehending the differences that would lift China's specific weight when dealing with its Latin American counterparts in the future.

As a multicommodity exporter engaged in resource/manufactures exchange, and the export of primary commodities for industrial products, Brazil's SP with China has a leading role among four countries in my research. The fact that Brazil has emerged during the last decade as a hemispheric power and is now considered the seventh economy of the world, exerting influence not only in the Americas, but also at the global level, has taken the Sino-Brazilian relationship to a different level. In recent years, both under President Lula da Silva, and more recently, the administration of Dilma Rousseff, as a result of diverse cooperative agreements, Brazil has been very appealing for Chinese objectives in the region, China's political and economic presence in Brazil has been continuously growing, and its leverage and presence in Brazil are notable.⁴ Brazil has been considerably more successful in attracting Chinese investments, with the governments and NOCs of both countries having been able to reach numerous agreements of energy cooperation.

However, the recent PDVSA scandal and the existing asymmetrical economic relationship raise up a couple of resentments and worries in both countries suggesting that conventional energy and foodstuffs types of exchange are not sustainable over a long term. Instead, new paths such as high-level technology transfer to uphold the SP are required. One possibility could be the new energy cooperation. For instance, there is considerable potential in the transmission sector for applying Chinese smart grid and UHV technology in Brazil, while using Brazilian expertise in renewable energy (hydro) variability in China. Also, operational learning opportunities exist in the deployment of transmission and distribution lines suited to both Chinese and Brazilian geographies, leaving Chinese developers well positioned in Brazil. The experience gained from such activities could be applied in the development of joint projects, both in Latin America and elsewhere. This is increasingly important as such partnerships may begin to outcompete other established European or US firms in a more competitive global wind market.⁵

On the contrary, Venezuela is a strikingly monocommodity exporter whose export is uniquely occupied by oil, and for the reason it finds itself stuck at a crisis point. While Chinese assistance helps to sustain the regime in the short term, it contributes to a fundamentally unsustainable cycle of spending and mismanagement by the government. For Venezuela, even though it received the largest loan from China in the region, it has the least leverage over China. Putting the ideological affinity aside, among the four country cases, it has solely

relied on China's backing for the regime with no further diversification of its exports.

For China, the rapid deepening and expansion of this SP is characterized by significant risks. China must avoid being too closely associated with any anti-US sentiment and involved in a crisis of the Venezuelan regime through its sunken investment and the presence of its companies on the ground. In the meantime, the fear of the regime failure together with the steep drop in crude oil prices force China to be more cautious toward supporting Venezuela. Matt Ferchen also points out the fact that Chinese NOCs resold the equity oil they bought from Venezuela to the local or global market. China has done this because Venezuela's heavy graded-oil is not well suited for Chinese refining capacity. If much of the oil acquired through the CDB deals is simply being resold, China's new leadership may want to ask itself whether this constitutes a sound economic or foreign policy strategy toward Venezuela.⁶

Mexico, whose second-largest trading partner is China, has witnessed increasing Chinese economic power offering many opportunities to strengthen the bilateral relationship. However, for Mexico, this is by no means a completely win-win situation. Mexican oil will still be a secondary supplier since Mexico's oil potential is very small for China and the burgeoning economic relationship between the two nations has also in fact proven to be a competitive one as I addressed before, that is there is competition of manufactures in the local and third markets (in the US market), and investments are few in China (there are only a few, such as Grupo Bimbo). Mexico has covered less ground in China as destination of Mexican exports, which has resulted in a high trade deficit with China and a failure to attract more Chinese FDI than Ecuador and the Bahamas. In comparison to South American countries such as Brazil, Mexico's influence on China appears to be faint. It is true that Mexico does not have strong institutions or actors that focus solely on China. The lack of focus on China in Mexican academia and the public and private sectors means that Mexico cannot effectively engage China or attract Chinese investment. It is therefore imperative for Mexican leaders to craft a sound development path, which should include a strong industrial policy and a more prominent foreign policy toward China.

But what distinguish Mexico from the other three country cases is that Mexico stays firmly in the US sphere of influence, while maintaining its autonomy, and a pattern of interaction with China that is shaped by periodic disagreements and gaps in preferences. Mexico is of fundamental importance to the US, not only in a regional context but in a global context as well. Issues such as migration, security, and energy are central to the US-Mexico agenda. At the same time, in terms of trade relations, China has become a strong presence in Mexico's international ties. China has increased its role in US-Mexico trade, outcompeting both countries in each other's markets.⁷

Nonetheless, Mexico has a clear comparative advantage: its proximity to American customers is a key advantage in many industrial sectors in which the costs of storage and the need for prompt delivery are paramount. In general, for both countries, they will need to show that they are able and willing to overcome the remaining structural deficiencies in their trade and investment relationships.

Finally, while China is the second-largest trading partner of Argentina, Argentina does not hold a similar rank relative to China. The country involved in the relation does not have the same leverage or an equivalent clout. This becomes evident in the analysis of data, which reveals that Argentina's relevance is mainly derived from the role it plays as a provider of a reduced number of raw materials and commodities (soybeans, iron ore, and petroleum). As Uriburu Quintana indicates, "China, through skillful manipulation of this asymmetry, has succeeded in turning the potentially weak position of a commodity buyer and importer to its advantage, by framing relations with its providers into a 'captive-supplier scheme' and exerting control over access to the Chinese domestic market."⁸ Both asymmetry and dependence are further deepened by the high concentration of Argentine export baskets and export destinations, which deepen its reliance on Chinese purchases.

Unlike Brazil, Argentina has less leverage than its neighbor over China since China exploits the dependence of Argentina on the Chinese demand for such commodities. China is able to do so because it is relatively less dependent on trade exchanges. This is illustrated in the 2010 soybean crisis as China was indirectly showing its dissatisfaction with Argentina's trade barriers and such restrictions to trade were indeed retaliatory measures unilaterally adopted by China and it reflects the high degree of vulnerability to external shocks of Argentina. Additionally, Argentina's government, facing financial default and a protracted legal dispute with the US creditors, had repeatedly turned to Chinese credit to bolster depleted foreign currency reserves and, for now, China has agreed to come to Argentina's rescue. Nevertheless, growing concerns over China's financial exposure to socialist-leaning partners such as Venezuela and Argentina (before 2016) are pushing for diversification of finance in the region.

More importantly, crude oil is not the prime mover in Sino-Argentine relations, unlike the case of Venezuela. Argentina has suffered from erratic and misguided energy policies and regulations (control on energy prices, export tariffs and subsidies for consumers), which have proven to be counterproductive for its economy and for Sino-Argentine relations, resulting in declining oil production and exports. Therefore, as with Brazil, the availability of Argentine biodiesel constitutes an advantage that both countries should take into special consideration above and beyond traditional economic exchanges. Furthermore, the cooperation between the US and Argentina on cellulosic

biodiesel and on sweet sorghum and corn-based ethanol should be taken into careful consideration by the Chinese government, given the likeliness with which the PRC might follow the US green-path in years to come.

In summary, the competition and the associated development dilemmas arise not so much from China itself as from Latin America's particular form of insertion into global production structures, and therefore concentrating on China misses a key point about the demands of competitiveness and the particular place of LAC economies in the global economy.⁹ Rather than blaming China, Latin America can build on some of its own recent success, and it is time to design proactive rather than reactive policies.

Latin American governments need to boost innovation that favors both sides such as new and renewable energy resources. Investment in infrastructure that maximizes export comparative advantages and facilitates deeper and faster regional trade and business integration should be a priority, together with funding and support of education and research institutions assimilating the needs and demands of the markets.¹⁰ Diversification is also an important and unavoidable challenge for the region in the coming years, requiring macroeconomic policies directed to offset the effects of specialization by moving up the value chain and looking toward higher value products for export. The new paradigm brings threats and risks, but also many opportunities for the future of Latin American development.

China's Strategic Partnerships Around the World

Extensions of this research may involve studying Chinese SPs in other world regions in order to understand the baseline for a comparison that would allow us to better conclude China's negotiating strategy and tactics in different parts of the world. It is necessary to consider China's strategic partnerships with Latin America in the grander context of the international system. In a broader global prism, China has indeed experienced a diplomatic transformation. It has evolved from mostly low profile to now being more proactive and enterprising as indicated in Figure 8.1 below. In this section, a general description of China's engagement with different regions is illustrated.

First, China's interactions with its Southeast Asian neighbors (strategic partners are The Association of Southeast Asian Nations [ASEAN] and its ten members states—Brunei Darussalam, Myanmar/Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam) constitute the policy area of greatest activity and innovation in its international behavior. China's ties with those neighboring countries in its sphere of influence are critical to China's current "good neighborhood" foreign policy of what China sought in order to reestablish its international legitimacy. For Southeast Asian countries, China is both an important trading partner and

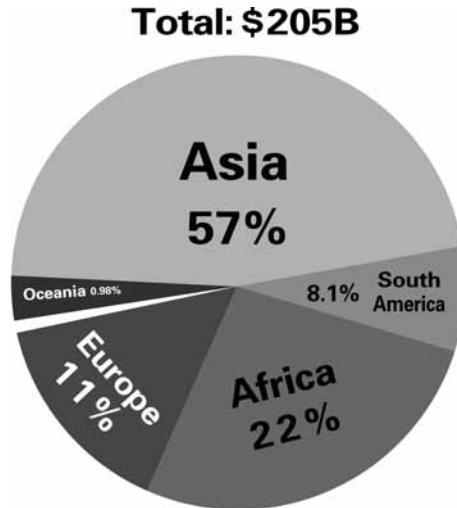


Figure 8.1 Chinese Crude Oil Imports in 2013 by Region (by percentage). *Source:* The Observatory of Economic Complexity, 2014.

a formidable competitor for market share, manufacturing, and FDI. China surpassed the US, Japan, and other economies to become ASEAN's largest and most important external trade partner in 2009, while ASEAN has been China's third-largest trading partner since 2011.¹¹ Beyond trade, China's outward direct investment in Southeast Asia has grown substantially, up until the end of 2013, FDI values from ASEAN to China were US\$ 85.4 billion and Chinese FDI toward ASEAN was US\$ 29.3 billion.¹²

Entering into full effect in 2010, ASEAN-China Free Trade Area (ACFTA) is the world's largest free-trade area covering 1.9 billion people and third largest in terms of nominal GDP after the EU and NAFTA. Since the implementation of ACFTA, two-way trade has grown and resulted in trade deficits for most ASEAN members. The agreement also has the potential to further influence how manufacturing develops in the region. As labor costs in China rise, ACFTA becomes a potentially attractive option for Chinese and multinational companies to move manufacturing to lower-cost areas of Southeast Asia while continuing to service the Chinese market. For example, with Vietnamese wages currently at about a third of those in South China, manufacturing capacity for products ultimately destined for the Chinese market is increasingly finding its way to Vietnam.¹³

ASEAN members have also employed strategies as both a group and individually to buffer against overdependence on China's economic growth. This is in order to diversify economic partners and export markets such as the Trans-Pacific Partnership (TPP) negotiations between Brunei, Malaysia, Singapore,

Vietnam, and the US. Notwithstanding the historical/territorial issues in ASEAN-China relations, for example the South China Sea issue, the fast development and the wide-ranging and high-level cooperation in various fields between ASEAN and China since the building of relations has prepared a solid ground for the development of the strategic partnerships in the coming years.

Second, Russia and the role of Central Asia on the continent as neighbors of China is a crucial consideration in the discussion. China and Russia have forged a strategic partnership in 1996. One of the major strengths between the partnership of Russia and China pertains to energy cooperation. In May 2014, Russia reached a US\$ 400 billion deal to supply natural gas to China through a new pipeline over a period of thirty years, which is a milestone in relations between the world's largest energy producer and its biggest consumer.¹⁴ Another strength in the Chinese-Russian relationship pertains to regional and international cooperation. Together, China and Russia have collaboratively facilitated the creation of several regional and international institutions such as the SCO, BRICS, and most recently the Conference on Interaction and Confidence Building in Asia (CICA). Additionally, they have cooperated on numerous international and regional issues that often times have involved opposing the West in some capacity such as the Six-Party Talks, and case in point, the vetoing of UN intervention in Syria.

Despite the strengths in the Chinese-Russo relationship, it is evident that their strategic partnership is fraught with underlying issues. Primarily these issues emanate from historical mistrust, conflicting interests in Central Asia, and competing desires to project power in the Asia-Pacific region more generally.¹⁵ What's more, different expectations, disputes over costs and pricing and Russia's opportunistic pursuit of its energy leverage have led to repeated delays and unfulfilled promises. Moscow is averse to becoming an energy appendage to China; Chinese oil companies have faced barriers in investing in Russia's energy sector and Moscow has not reacted positively to Chinese energy cooperation with Central Asian countries such as Turkmenistan and Kazakhstan.¹⁶

Conventional wisdom holds that a potential Sino-Russian deal could raise the impulse on both sides to form a robust Eurasian continental energy-centered entente. However, the potential emergence of such an alliance is unlikely for two crucial reasons. In Skalamera's opinion, the prospects of a China-Russia consortium outside of energy are not particularly strong, unless they are set on specific issues, such as Syria. Second, even as the potential for Sino-Russian gas cooperation grows, their rivalry remains conspicuous as Russia worries about Chinese naval intentions in the northern Pacific and Arctic region. China is wary that new clients, such as Vietnam and the Philippines, have become loyal buyers of Russian weaponry.¹⁷ In addition, Russia does not support China's extensive maritime claims in the South China Sea. Moreover,

the driver of Sino-Russian energy cooperation is emphatically an economic benefit, not a desire to counterbalance American global influence.

Likewise, considering Central Asia (China's strategic partners are Uzbekistan, Turkmenistan, Kyrgyzstan, The Republic of Tajikistan, Kazakhstan, Afghanistan), Russia's share in Central Asian energy export has been eroded by China's involvement and its predominant role in Central Asian political life has diminished. This has been made evident by the increasingly frequent interactions between Chinese and Central Asian high-level state officials and flourishing diplomatic discourse. Russia lacks a strong financial tool as the Chinese energy-backed loans to steadily advance its own energy interest throughout the region. In essence, China's "march westward" (i.e., One Belt, One Road) is needed to ensure that in its hinterland, harmony, and stability in Xinjiang (and Tibet) is not threatened by extremism, terrorism and other hostile external forces. The supply channels for oil and other bulk commodities to the west of China's borders remain open and China can expand its economic cooperation (including the provision of economic aid) with all Central Asian nations.¹⁸ From this perspective, Central Asia emerges as a strategic safety valve for the expansion of Chinese influence.

In contrast to Russia and other Western countries, China has positioned itself as a state that values non-interventionist and non-conditional policies, and thus it engages with a Central Asian region and is eager to find an alternative to Russian hegemony and to tap into more profitable markets. Since the decrease of gas and oil prices, Central Asian capitals have scaled up their collaboration with China. For example, in 2009, the CDB signed a US\$ 4 billion loans to finance the exploration and development of the South Yolotan gas field with the Turkmen national gas company Turkmengaz, in one of the most promising untapped reserves whose supplies could eventually feed a gas pipeline between Turkmenistan and China.¹⁹ The flexibility of the energy-backed loans is particularly attractive to energy exporting countries at the time of when the international economy is experiencing a drastic reduction in oil and gas prices.

Simultaneously, in 2009, after a decade of construction, CNPC opened the final stage of the Kazakhstan-China Oil Pipeline. This pipeline stretches 1,400 miles from the Caspian Sea to Xinjiang. Meanwhile, over the last decade, China also has emerged as a leading source of finance for regional development and infrastructure projects. Within the SCO, Beijing has promoted the idea of financing infrastructure to connect the region with Chinese border areas and has supported the creation of a new regional development bank. In addition to the two high-profile multibillion-dollar energy-for-loans deals with Kazakhstan and Turkmenistan, Beijing has become a major funder and investor in Kyrgyzstan and Tajikistan, focusing on power generation, transmission, and new transport projects like roads and railways.

But as is the case in other regions, China's role as a donor also poses a number of challenges such as the lack of monitoring standards and aid conditionality, as well as its direct dealings with regimes, which reduces the transparency of its projects and raises important concerns about governance.²⁰ At the same time, the sheer scale of China's lending and assistance may also be cautious of not causing the model of over dependency on resource-based export we have seen in Latin America and Africa. To be mentioned, following the 2012 SCO summit, China's announcement that it would provide US\$ 10 billion worth of financing for infrastructure projects in the region will make China the region's clear major financier and investor.

By no means does the current peaceful state of China-Russia relations concerning Central Asian energy resources ensure future stability. The factors underlying this peaceful energy relationship could easily change. For instance, shifts in Central Asian states' domestic politics, recovery or decline of the global economy, changes to the regional and global power balance, China's rapid rise, and other unpredictable incidents could all lead to the escalation of the previously mitigated tensions between Russia and China in the region. Therefore, although the constructive relationship between Russia and China in Central Asia is based on sound logic, its preservation should not be taken for granted.²¹ Instead, the development of the China-Russia partnership will rely on further efforts by the two sides to enhance mutual understanding and trust, as well as to strengthen multilateral cooperation in the region.

Third, the EU gained the title of strategic partner in 2003 and it is China's biggest trading partner while China is the EU's second biggest after the US. In contrast, to what China has processed in the developing countries, the EU is a lucrative market for China's exports and a key origin of investment, aid for rural and infrastructure development, and advanced manufacturing equipment. Moreover, EU nations remain an important source of technology transfers. For instance, in the energy development, European participation in the downstream sector of the energy economy in China has been the primary feature of European interactions with China involving energy. Such participation can be summarized in three primary paradigms: technology development for energy use (technical assistance from Europe and joint research and development programs); trade and investment by European companies in equipment for energy extraction and utilization; and European support for research in energy policy development.²²

In addition, China has made consistent efforts to expand its relations with major EU member states. It has reached bilateral strategic partnerships with several major EU countries including the UK, Italy, France, Spain, Portugal, Greece, Germany, Poland, and Ireland. It has also convened strategic dialogues and security-related discussions with these countries on such issues as arms control and nonproliferation, assessments of the international security

environment, human rights, and the rule of law.²³ Nevertheless, China-EU relations have become more complex and contentious now that the honeymoon passed, especially as mutual expectations have grown. Economic interactions are now plagued by a proliferating variety of disputes over market access, large and growing trade deficits, and China's low labor cost which become salient in every region China has been participated in. What's more, China's various human rights-related policies, for example, Xinjiang, have resurfaced in public debates as well as certain diplomatic practices.

These economic and political issues indicate that China-EU relations have moved beyond conventional areas of cooperation to a global vision and high-value chain of mutual development. What is more encouraging is that both sides would like to step up their climate cooperation since the global and domestic relevance of climate, energy, and environmental challenges have given China and the EU the opportunity to deal with something that can be rightly defined as "strategic." In particular, this evolution has moved the barycenter of the China-EU relationship from trade to more strategic areas, which today not only involves economic growth, but also social stability, sustainable development, and international image.²⁴

Fourth, China's foreign relations with Africa have a unique historical lineage that share the same root with Latin America. China provided much material support (such as grants for large infrastructure projects) to revolutionary movements and pro-China leaders throughout Africa as part of Mao's revolutionary foreign policy. Although China claimed the moral high ground by opposing colonialism throughout Africa and Latin America, Beijing's goals were always based far more on self-interest than is suggested by its revolutionary rhetoric.²⁵ China's current strategic partnerships with countries and organizations (Angola, Nigeria, South Africa, AU, Egypt) in Africa have been far more extensive than the past two decades and making it the continent's top trading partner for the sixth straight year in 2015. In December 2015, China's President Xi Jinping pledged US\$ 60 billion in financing for development across Africa over three years, aiming to reaffirm his country's commitment to the continent.

Arguably in Africa, Chinese diplomacy has been driven by three motivations: (1) to diversify China's access to natural resources, especially oil and minerals (mainly oil); (2) to expand access to markets in Africa; and (3) to generate support for China's effort to promote multilateralism and to build a multipolar world. Not only are China's imports from Africa mostly raw materials, but they also come from a small group of countries. Imports from countries like Angola, South Africa, and Nigeria constituted a large part of China's imports for the last two decades.

China's trade with African nations possesses several attributes that Latin American countries have encountered as well. First, its imports and exports to

Africa have both been growing significantly. Second, China's investments in Africa have been mostly in resource extraction sectors, a more common pattern of Chinese investment is known as "the Angola model," in which natural resources are used as repayment for the loan used to finance Chinese infrastructure development, which is similar to what we have seen in Venezuela. Third, some sub-Saharan African nations now run a trade deficit with China. As a result, China's exports to Africa have not always fostered a win-win situation, and this is causing concern that a rise of "Neo-Colonialism" is unfolding. For example, China's global textile exports for African manufacturers are destroying both domestic and foreign demands for African textiles. In general, China's targeting of developing countries in recent years has been significant and will be more and more active, even in the mist of its slow down in economic growth.

Last, in the Middle East, China's growing demand for energy is an important driver of its foreign policy. About half of China's crude oil imports came from the Middle East, which makes it the region on which China relies most for imported oil. China's strategic partnerships (The United Arab Emirates, Pakistan, Qatar) in the Middle East are also motivated by a search for overseas markets and investment opportunities, and by a desire to foster stability in a region increasingly important to Beijing.²⁶ Oil dominates China's trade relations with many Middle Eastern nations and the Middle East is a wonderful destination for Chinese goods. The United Arab Emirates for many years has been the biggest importer of Chinese goods in the region. The Middle East may become a more lucrative export market for China as countries import Chinese technology.

Notably, beyond energy security, Beijing is concerned about the rise of Islamic extremism in the Middle East, fearing that it could embolden and materially assist Muslim Uighur separatists in Xinjiang Province.²⁷ These concerns motivate China's efforts to foster stability through more aid and diplomatic involvement. In an important contrast, these efforts have not been seen in the case of Latin America, for reasons that are obvious. Finally, Chinese policymakers fully recognize that presence of US in the Middle East is considered as a top priority in Washington DC. This has given China a breathing space since the region has diverted US attention away from East Asia.

Overall, China's evolving policymaking toward the Middle East is focused on diversifying strategic relationships to protect its national interests in the region. By contrast, in Africa, Latin America, and Central Asia, China has policies of active engagement, clear strategies, and frameworks for implementing those policies. Although China imports much crude oil from the Middle East and the "New Silk Road" proposed by President Xi recently garnered some applause, Beijing has carefully disassociated itself from the political unrest in the region.

In conclusion, China has developed various mechanisms for different strategic partnerships that reflect the distinct characteristics of each partnership and which can change over time. Though the calculations behind each strategic partnership vary, as a whole they are designed to protect China's core interests and to construct a better environment for China's rise. China has also employed strategic partnerships to meet diplomatic contingencies and to regulate bilateral relations.²⁸ Despite some shortcomings, strategic partnerships have helped China constructively engage with the world and rise peacefully.

Currently, China is focused heavily on building peaceful strategic partnerships with neighboring countries in Asia and relies significantly on importing oil from the Middle East. That high degree of reliance is slightly changed, as China has been diversifying supply to Africa, Central Asia, Latin America, and Russia, where NOCs are seeking to expand their upstream activities. The EU and Russia are holding stronger leversages on structuring varied levels of cooperation. This is indicated in their leadership toward global issues rather than simply seeking for commodities and markets in developing countries. Of course, both factors have still encountered several obstacles in achieving their interests. In addition, the China-Latin America relationship is of the similar significance to China-Africa ties, considering the factors of geographical distance, the US influence, the unequal export-import model, and cultural differences. Most countries in Latin America, Central Asia, and Africa are receiving large amounts of investments and financial aids from China. This process makes these participants a beneficiary of China's rise, yet also debtors with less leverage on bargaining with China in an equal-footed situation than those countries in the developed region of the world.

As China rises, Beijing is taking initiative to forge closer relations with certain strategic partners, and to combine the strategic partnership framework with other diplomatic tools such as multilateral engagement and regulations. Hopefully in the future, China will be even more proactive and creative in strategic partnership diplomacy.

POLICY IMPLICATIONS FOR CHINA'S FUTURE STRATEGIC PARTNERSHIPS WITH LATIN AMERICA

Since the 1990s, the initial emphasis on China's relations with Latin America was mostly focused on commodities, as before the commodity price was quite high, scholars and politicians were eager to look for positive results of the relationships. But as China's economy has slowed down in recent years which reflecting a structural shift toward a service-based economy with the fewer purchases of commodities along with the global price drop of commodities, there is a growing awareness that this does not lead to an effective

diversification of the national economies in Latin America. Nonetheless, China needs to actively balance the partnerships for retaining its leverage in Latin America.

What are some of the policy lessons and implications for China that can be taken from the performance? First, to make the strategic partnerships get more sustainable, both sides should deepen their knowledge about each other and commit more energy to cultivate the ties between the different societies. More academic institutions and language affiliates should be encouraged and established because the lack of mutual understanding and trust has perpetuated, along with the preexisting language and cultural differences of both sides. China should encourage its academic and research communities to communicate with their counterparts in Latin America to plan proposals for bilateral cooperation.

Second, with Brazil, China should pay more attention to the potential big role of Brazil in the fronts of environmental protection, containment of climate change, global energy and food security, international development agenda, and the global trade system.²⁹ Enlightened recognition of Brazil's big potential such as to surpass the realm of UN and to be consolidated in other multilateral forums will help to keep a dynamic strategic partnership. In 2015, Brazil's twelve-year inflation high of 10 percent and the scandal of *Petrobras* triggered the impeachment of the former President Dilma Rousseff. Under these changing circumstances, China may not be so aggressive at gaining energy and food commodities but rather to approach it in a more diverse trade pattern to help Brazilian economy get back on track. As I mentioned previously, renewables, as a sustainable energy is what suits both countries best and should be highly promoted by the Chinese government overseas. Although Chinese investment in Brazil's renewable energy industry is currently small, there is potential for growth.

Third, whether at home or abroad, Chinese leaders hate nothing more than instability; instability is what they face in their relations with Venezuela. Venezuela currently is in the midst of its worst recession in seventy years and since the vast majority of China's imported oil continues to be supplied by basic long-term trade contracts and not through its equity oil acquisitions, the crisis in Venezuela may prove the perfect opportunity to move away from a pattern of Chinese equity oil ties to controversial governments. If a major portion of China's equity oil is not going to China anyway, the new Chinese leadership should ask itself whether the diplomatic and image costs to China are worth the risks. Despite the fact that China, as a Communist country, identifies easily with leftist approaches to governance, policy recommendations for China's policymakers are for them to pay attention to risk control. It is necessary to conduct regular risk assessments and to set up a "stop-loss point" for investments and loans in Venezuela. At the same time, there must

be monitoring of the prognosis for survival of Venezuela's unpopular leftist regime in the coming several years.

Fourth, in order to improve Chinese-Mexican cooperation, China must strengthen its efforts in various areas. Politically, politicians currently involved in the cooperative institutional mechanisms between China and Mexico pertain primarily to the ministerial level. In order to achieve more effective bilateral coordination between the two nations, these mechanisms should have the support of the Vice-Premier and Presidential levels in China and Mexico, respectively. Economically, China should take the initiative to optimize the structure of export products, and to increase imports from Mexico such as supporting companies to import copper, steel, motor vehicles and parts, chemical products to ease the trade imbalance. China should also encourage companies to expand mutual investment and trade in specific sectors of telecommunications such as Alibaba's expected expansion into Latin America, for home appliances and high-tech industries. Meanwhile, China should perceive Mexico as a priority of its Going Out strategy in Latin America. Also, China should further improve its relationship with Mexico and the US in the context of regional cooperation.

Finally, with Argentina, China is also facing critical concerns. Argentina's economy is barely growing, partially because of its default over a decade ago and because of its debt to Wall Street Hedge Funds. Since the newly elected pro-market president Mauricio Macri has taken charge since December 2015, there will be the pursuit of a far more liberal economic policy than under the Kirchners, and a foreign policy that moves the nation away from the ALBA to rebuild Argentina's ties possibly with the US. Ellis suggests that the government will probably honor its legally binding contracts with China, but Argentina's likely eventual return to international business and credit markets will expand the nation's alternatives for much-needed capital, reducing the PRC to merely one business associate and creditor among many.³⁰

How China can retain leverage over Argentina's new leadership is a pressing concern for Chinese policy makers. My suggestions focus on the need to diversify the export basket of the recoverable shale oil and gas with Argentina since it has world-class shale gas and shale oil potential and the new president is targeting at expanding production in this industry. China should therefore seize upon this opportunity while obeying the local social and environmental standards to further enlarge China's impact on Argentina. Considering social and environmental standards, Chinese investors will need to mitigate risks to the potential projects' longevity, especially risks of environmental damage or social conflict that could jeopardize their relationships and cause Chinese actors to lose advantages with other competitors. Thereby, China should work in advance to make the results of social and environmental guidelines more transparent for company representatives, governments, and civil society.

Establishing working relationships with Latin American governments and civil society groups to learn the local regulations and customs in order to train and hire local people is also likely to be in China's best interests where SPs are concerned, going forward.

Chinese policy makers need to take into account their impact on Latin America and the likely responses from the region. The initial emphasis in most Latin American countries was positive, seeing China as a new and booming market for their commodity exports. This is likely to evaporate over time and be replaced by growing concerns over competition from Chinese imports and frustration if export growth tends to slow down. Meanwhile, as illustrated by Armony, we also witness the dark side of Going Out, which is linked to informal practices and involving illicit or opaque transactions. This dark side is manifest in various dimensions of Chinese engagement in Latin America, from large-scale projects related to public-sector contracts, to small-scale trade and China's foreign aid programs.³¹ In response to the concerns, China's strategic partnerships, in practice, need to consider how to fuel such bilateral arrangements with a real win-win relation instead of cooperation with levity, lack of transparency and imbalance. Finally, China also needs to bear in mind that what may be quite minimal volumes from the view of its gigantic economy can loom very significant in the much smaller Latin American economies. There is a long road that must be taken as China searches for ways to forge a symmetrical strategic partnership with Latin America in the coming future.

NOTES

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Epilogue

It used to be said that when the US sneezes, Latin America catches a cold. Nowadays, China has surpassed the US as the main driver of economic fortunes across much of the region. When China sneezes, South America gets a fever. The current global economic scenario is not the most encouraging due to the slowdown of economies on both sides of the Pacific, the drop in crude oil prices and other commodities. In that sense, the strategic partnership is not static but dynamic in the way of which it is greatly impacted by exogenous and endogenous factors. A changing global context, a slowdown Chinese economic growth and a transforming nature of domestic environment of each country case will somehow alter the relative importance of strategic partnerships in the upcoming years.

To start with, the economy of Mexico is set to be the “winner” in terms of economic growth in 2016. The economy is expected to gain momentum this year and expand 2.7 percent, compared to recession-hit South America. In 2016, Mexico will continue benefiting from its close connection with the US economy, which is expected to experience acceleration.¹ In the meantime, Mexico will still give China top priority in its policies in the Asia-Pacific region. We might see some decline in volumes in bilateral trade between Mexico and China, but China is going to remain Mexico’s second-largest trading partner in 2016. China is willing to look for more trade and investment opportunities in Mexico such as taking part in the bidding for infrastructure, energy and oil projects.

A highlighting spot in 2016 could be Argentina, where new president Macri has moved quickly to undo years of populist economic policies and will work to reestablish a better relationship with creditors. There will be the pursuit of a far more liberal economic policy than under the Kirchners and a foreign policy that moves the nation away from the ALBA to rebuild

Argentina's ties possibly with the US. Without the ideological affinity, the government will probably honor its legally binding contracts with China, but Argentina's likely eventual return to international business and credit markets will reduce China to merely one business associate and creditor among many. The dramatic political changes taking place in Argentina is no doubt on the minds of Chinese bankers. President Macri has already promised to review recent Chinese loan agreements which may beat back some potential Chinese investors and make the partnership less significant than before.

Brazil and Venezuela will remain in recession this year, with projected GDP contractions of 2.5 percent and 4.8 percent, respectively.² The fiscal and political crisis in Brazil continues to take a heavy toll on the economy while an economic slowdown in China would lead to negative spillovers for Brazil, primarily through the channels of trade, commodity prices, confidence and capital flows, as China has been the largest trading partner of Brazil since 2009. However, Brazil is one of the countries in the region with the best prospects to meet the next decade of food and energy demands from China. Sugarcane emerges as the key product that may boost future trade with China. China will remain a firm investor and creditor of Brazil's energy, agricultural, and service sectors since the multilateral and bilateral cooperations with Brazil are continuing to be the paramount matter of China's strategic partnerships in the region.

Lastly, ballooning inflation, macroeconomic imbalances, and political instability are causing Venezuela to experience its worst recession in decades. Venezuela's ruling party lost congressional elections that gave the opposition a veto-proof majority and it is hard to see that getting any better for them any time soon. Market experts estimate Venezuela to have default on its debt in the very near future. Although Venezuela has been after Chinese capital for the past several years, China has been reluctant to throw new money at the Maduro administration. The political and economic uncertainty means China is unlikely to increase its debt exposure to Venezuela significantly, other than easing existing loan conditions. China might prefer to wait and negotiate with an eventual new government. China is merely giving Maduro some breathing space so it receives the payback, and builds up the goodwill with an eventual new government.

In a nutshell, Chinese strategic partnerships in Latin America will be strengthened considerably by 2016 but with cautious modifications. The vast majority of investments and loans remain focused in a handful of countries such as Argentina and Brazil with a further diversification of sectors other than infrastructure and energy. The story would appear to be optimistic in China's strategic partnerships with the region, even in these uncertain economic times.

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