Strategic Insights: The China-CELAC Summit: Opening a New Phase in China-Latin America-U.S. Relations?

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Since the People's Republic of China (PRC) began to open its economy in 1978, its relationship with Latin America and the Caribbean has passed through four phases. Prior to its 2001 entry into the World Trade Organization (WTO), it conducted limited engagements through principally diplomatic and cultural vehicles aimed at building relationships and winning diplomatic recognition among countries of the region.

As its commerce with the region began to take off in the years following WTO membership, the PRC increasingly benefitted from commodity purchases and the prospect of access to its markets in gaining the attention of political and business elites in the region. With the 2008 global economic crisis, Chinese loans and investment, and the activities of its companies in the region, assumed increasing importance in the relationship. Yet despite the interest declared in China's 2008 white paper toward Latin America and the Caribbean,[1] the Chinese government remained cautious in going beyond economic, scientific, and cultural bonds with the region.

In 2015, this policy is changing as the PRC is increasingly leveraging its appeal as a market and resource provider and forging political relationships that threaten to erode the position of the United States in the region.

On January 8-9, 2015, Beijing hosted the first ever ministerial-level forum between the PRC and the nations of the Community of Latin America and Caribbean States (CELAC). Parallels have been drawn between CELAC and the *Forum on China-Africa Cooperation* (FOCAC), the organization of African countries with which the PRC has conducted regular dialogues since 2000. However, CELAC is different, in that the organization explicitly excludes two of the largest and most economically influential actors on the American landmasses it purports to represent: the United States and Canada. Indeed, China already has a multilateral relationship with the Americas through its participation in the Organization of American States (OAS), where it has been an observer since 2004.

The "political" character of the China-CELAC summit was highlighted by the 5-year "roadmap" for strengthening relations which the meeting produced. In addition, the PRC elevated Costa Rica, which holds the rotating presidency of CELAC, and Ecuador, which will hold the presidency in the coming year, to the level of "strategic partner." While some observers suggest that 5-year plans and the designation of strategic partnerships do not have great practical significance, the Chinese themselves attach great importance to such plans and designations, and their application of them in the present context highlights the seriousness with which the Ministry of Foreign Affairs and other Chinese bureaucrats viewed the summit.

In the economic sphere, Chinese leaders at the summit highlighted projections that PRC trade with the region may double in the coming decade to reach $500 billion, while cumulative Chinese investment may reach $250 billion during the same period. While such levels of trade and investment may be achieved, mentioning them at the forum paralleled then President Hu Jintao's proclamation at the 2004 Asia Pacific Economic Cooperation (APEC) summit in Santiago, Chile, that PRC trade with the region would reach $100 billion in the following 10 years. Then, and probably now, calling attention to such dramatic projections helps to capture the attention of political and business elites from the region, and expanded willingness to engage with China in the hope of securing economic benefit.

As in 2004, the PRC leaders at the China-CELAC summit did not specify what precisely the PRC meant by "investment." It was not clear, for example, whether the figure referred to loans whose repayment is secured by commodities (following the model used with Venezuela and Ecuador), or whether the PRC anticipates committing $250 billion in equity investment to the region, along the lines of current Chinese projects there in the petroleum, logistics, telecommunications, hotel, and manufacturing sectors.

To date, PRC-based companies have experienced difficulties with such investments, particularly when they have involved concessions awarded through competitive public bidding processes in countries with strong bureaucracies and legal systems. In addition, the degree to which Chinese investments will make use of local labor, subcontractors, and suppliers will impact the degree to which such investment benefits the region, versus the tax, regulatory, and other concessions that the recipient countries must make to obtain the funds.

If the China-CELAC summit itself was a political act, the bilateral meetings which occurred in the days leading up to the event further illustrate some of the challenges accruing to China for having built some of its most significant relationships in the region around a core of anti-U.S. states. The week prior to the summit began with a little-covered and technically unrelated visit to the PRC by a delegation from Nicaragua, led by Laureano Ortega, the son of the Nicaragua's president, and the government's principal liaison to Chinese businessman, Wang Jing, for the Nicaragua Canal. As more details of the ambitious project were advanced, amidst multiplying protests, the Chinese government remained silent regarding the degree to which it would align itself, or its major companies and financial institutions with the project.

The days preceding the China-CELAC summit also included a visit to Beijing by Venezuelan President Nicholas Maduro, who was apparently seeking resources to help manage the regime's deepening fiscal crisis. Despite their face-saving gestures to welcome the Venezuelan leader, the Chinese were reportedly displeased by his breach of protocol in obliging them to invite him to the summit, since he was the only head of state there who did not have an official role: Costa Rican President Luis Guillermo Solis attended as the current president of CELAC, Rafael Correa attended as its president for the coming year, and Prime Minister Perry Christie of the Bahamas attended as the chair of the Caribbean Community (CARICOM), which by a recent decision of CELAC, always has official representation at its events. Although Maduro attended the opening ceremony and photo sessions, he was reportedly excluded from many of the summit working meetings.

With respect to financial matters, according to one account, Maduro came to Beijing seeking a $16 billion loan, but was politely turned down by his Chinese hosts, who instead offered him a package that required Venezuela effectively to hand over control to the Chinese of the *Corporacion Venezolana de Guayana* and a series of Venezuelan cement plants and car assembly facilities, in exchange for a $20 billion in Chinese investment commitments, which included very little of the hard currency that Maduro needs to pay Venezuela's creditors and import food and necessities for the Venezuelan people. In the end, the Venezuelan President reportedly announced the agreement to save face, but left without finalizing it, then he continued on an international tour which had begun with Russia and included stops in Iran, Saudi Arabia, and (as a last-minute addition) Qatar.

In contrast to China's handling of Maduro, the PRC responded to the fiscal needs of Ecuador (due to the same falling oil prices) with a generous loan package on relatively good terms. In the bilateral encounter between Ecuadorian President Rafael Correa and Chinese President Xi Jinping prior to the China-CELAC summit, Ecuador secured total commitments for $7.5 billion in new credits, coming partially from the Bank of China and partially from China Development Bank. The terms included a 2 percent interest rate, and a term of 30 years.[2]

As the PRC pursues relationships with Latin America through both multilateral forums and bilateral engagements, its actions impact the strategic position of the United States in the region. As an example, Cuba's rapprochement with the United States is arguably based, in part, on its calculation that the imminent collapse of the Venezuelan economy and government rules Venezuela out as a reliable patron. A Chinese bail-out of Venezuela thus could persuade Cuba that it has more latitude for intransigence than it previously believed. Similarly, Chinese funding for Venezuela and Ecuador expands the freedom of action of those regimes to mount resistance to the United States as it seeks to rebuild its relationships in the region, and the position of the OAS as the preeminent multilateral forum in the region, in the context of the upcoming April 2015 Summit of the Americas.

To date, both Republican and Democratic administrations have sought an accommodating relationship with China which has not attempted to obstruct it from pursuing trade, investment, and other relationships in the hemisphere. Yet the impact of PRC activities in the Americas on the U.S.-China relationship goes beyond the political leaders and supporting officials currently in power.

President Hu's high-profile trip to South America in 2004 gave rise to hearings in both houses of the U.S.

Congress in 2005. In a similar fashion, the just-concluded China-CELAC summit seems well-timed to attract the attention of the 114th Congress, which began work on January 6, 2015, with the Republican Party in control of both the House and Senate. Beyond the current session, as the United States looks toward the 2016 presidential election, accusations that the Bill Clinton and Barack Obama administrations have neglected Chinese encroachment in the Americas not only resonates with the strength of the Republican Party on security issues, but also provides the party with a positive way to engage with the increasingly powerful Hispanic portion of the U.S. electorate.

Yet even if the likely Democratic Party frontrunner, Hillary Clinton, wins in 2016, PRC activities in the Western Hemisphere may receive greater scrutiny from the incoming administration. It was Secretary Clinton, after all, who, in a May 2009 speech, publicly warned the states of the region to be cautious in pursuing relationships with China and Iran.[3]

It was symbolic that, in 2014, the size of the Chinese economy officially exceeded that of the United States in terms of purchasing power parity.[4] Under its new leader, Xi Jinping, the PRC is clearly engaging with Latin America and other parts of the world in a manner that reflects the self-confidence that accompany its status as a Great Power. Yet if that hubris leads the country into a more contentious relationship with the United States, it will undermine the "harmonious world," which is the "dream" not only of China, but also of the United States and the nations with which it shares the Western Hemisphere.

ENDNOTES

1. "China's Policy Paper on Latin America and the Caribbean," *Xinhua*, November 5, 2008, available from *news.xinhuanet.com/english/2008-11/05/content_10351493.htm*.

2. Nathan Gill, "Ecuador Gains $5.3 Billion Credit Line from China as Oil Tumbles," Bloomberg, January 6, 2015, available from *www.bloomberg.com/news/2015-01-06/ecuador-gains-5-3-billion-credit-line-from-china-as-oil-tumbles.html*.

3. Charley Keys, "Clinton Warns of Iranian, Chinese Gains in Latin America," CNN, May, 2009, available from *www.cnn.com/2009/POLITICS/05/01/clinton.latin.america/index.html*.

4. "China Surpasses U.S. to become Largest World Economy," *For News*, December 6, 2014, available from *www.foxnews.com/world/2014/12/06/china-surpasses-us-to-become-largest-world-economy/*.

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