China challenges US dominance in Latin America

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24 April 2009

China's recent announcement of multi-billion dollar deals with several Latin America countries will strengthen its already substantial presence in a region the US has historically regarded as its own backyard.

The Asian giant is negotiating with Venezuela to double a development fund to $12 billion.

In addition, China announced it was prepared to lend $1 billion to Ecuador to build a hydroelectric plant, and $10 billion to Brazil's national oil company.

Even Jamaica, heavily indebted and confronting growing unemployment, turned to China after failing to secure credit from the US or Britain. The Caribbean island nation negotiated $138 million in loan packages from Beijing, turning China overnight into its principal financial partner.

But it is the $10 billion swaps in Chinese currency, the yuan, with Argentina that most clearly expresses the change in relations emerging from the present world financial crisis.

"This is how the balance of powers shifts quietly during times of crisis," David Rothkopf, a former official in the Clinton administration, told the *New York Times*. "The loans are an example of the checkbook power in the world moving to new places, with the Chinese becoming more active."

The Argentine deal brings to $95 billion the amount in currency-swaps negotiated by China. Similar deals were negotiated with Indonesia, Malaysia, South Korea, Hong Kong and Belarus. China is the largest holder of US Treasuries with $740 billion, and is looking for ways to do business away from the US currency.

China fears that the US financial crisis will undermine the dollar's position as the world reserve currency. Last March, China called on the International Monetary Fund to create a "super-sovereign reserve currency."

The yuan swap with Argentina was a direct blow to the US, which recently approved $30 billion swaps each for Brazil and Mexico, but was unwilling to extend a line to Argentina, which has yet to clear up its defaulted debt to the Paris Club.

The $10 billion currency swap provided a much-needed sign of confidence in the Argentine economy, giving it a means of counteracting its precarious position in the world financial markets.

"News of the China credit last week makes it look as though default isn't a viable option now for the government, so these bond prices are inviting many investors to take positions," Paulino Seoane, a portfolio manager with Buenos Aires-based Lopez Leon Brokers, told the *New York Times.*

The financial markets and the local press welcomed the currency-swap announcement.

The Argentine peso rose 0.5 percent, its largest gain this year in a four-day rally, and the yield in Argentina's dollar bonds maturing in 2033 dropped 1.4 percent.

Alberto Ramos, a Latin American economist at Goldman Sachs in New York, told *Bloomberg News* that the agreement with Argentina is a "symbolic move and an indirect way to shun the US dollar." The deal will promote bilateral trade and direct investment by allowing one country to pay for imports in the other nation's currency.

The currency swap will serve as a precedent to use China's yuan as an alternative reserve currency. "The yuan is one of the currencies with the greatest potential and has a significant role to play in the current redesign of the international monetary system," Argentina's central bank said.

These statements underscore the US loss of influence in the region, exacerbated by the years of Washington's neglect of the region under the Bush administration. President Barack Obama sought to recast US relations with Latin America during his recent trip to the America's Summit, but a change in rhetoric cannot reverse these more fundamental economic processes.

The strength of the US dollar is diminishing, while China's currency is emerging as a viable alternative for emerging countries, which are struggling to overcome the collapse in commodity prices as result of the world recession.

China's influence in Latin America has been increasing steadily over the past decade. Today, it is the region's second largest, after the US. Chinese-Latin American trade has been growing at an impressive pace. It reached $35 billion in 2004, a 50 percent increase over the previous year.

China's immediate interest in Latin America is to ensure access to the raw materials the region produces. Commodities imported by China include fishmeal, soybeans, oil and gas, iron ore, copper, steel, timber and coffee from Chile, Peru, Brazil, Argentina, Ecuador, Venezuela, Bolivia and Colombia.

But, with the US in its deepest financial crisis in seven decades, China's move into the region goes well beyond satisfying its immediate needs for raw materials to fuel its industrial growth.

In the past, China had engaged in a series of steps to increase its presence in Latin America. In a 12-day tour to Latin America in

2004, President Hu Jintao said China would invest $100 billion in the next 10 years.

In Argentina, Mr. Hu unveiled nearly $20 billion in new Chinese investments, much of it in railways and energy exploration. Commercial activity flourished between the two countries. Total trade between Argentina and China, including Hong Kong and Macau, totaled $965 million last February, according to Argentina's national statistics institute.

China is Brazil's second-largest trading partner and at one point China displaced the US as the leading purchaser of Chilean copper. In Brazil, Peru, Ecuador and Colombia, China has been actively pursuing joint ventures in strategic industrial areas like refining, pipelines and exploration of energy resources.

The largest Chinese commitments in Latin America have been with Venezuela. In 2007, the two countries signed 11 bilateral agreements to deepen cooperation in areas of energy, technology and financing. Central to the agreements was a plan to increase the supply of Venezuelan oil to China.

China has accounted for 40 percent of global growth in oil demand over the past decade. Its consumption in 20 years is projected to rise to 12.8 million barrels a days. (Today, the US consumes 20.4 million barrels a day.) Most of China's oil will have to be imported.

While Venezuela now exports 60 percent of its oil to the US, the agreements between Beijing and Caracas could change that. Venezuela aims to triple its exports to China to one million barrels a day by 2013. (Today, the US consumes 1.5 million barrels a day of Venezuelan oil.)

One of the agreements reached between China and Venezuela in 2007 calls for $6 billion to be invested in various development projects in both countries and to promote a cooperative relationship between them, according to *venezuelanalysis.com.*

The Chinese Development Bank will contribute $4 billion, and Venezuela's National Development Fund (Fonden) will provide the other $2 billion. Venezuelan President Hugo Chavez has stated that the fund could grow to $10 billion in the near future.

In addition, *venezuelanalysis.com* reported, Venezuela's Social Development Bank (Bandes) and the Chinese Development Bank are creating a joint technical office to direct future strategic development projects in infrastructure, industry, and energy.

The two countries also plan to increase China's oil refining capacity and to develop the necessary fleet of oil tankers to transport the oil to the Chinese market.

Also contemplated is the formation of joint companies to produce telecommunications equipment in Venezuela such as cellular phones to be sold throughout Latin America, and electrical appliances such as refrigerators, stoves and air conditioners.

The many years of joint collaboration between the two countries led to Chavez's sixth visit to China on April 8 and 9. The Venezuelan president used the occasion to launch another left-nationalist denunciation of Washington and to declare that "the center of gravity of the world has moved to Beijing," laying the basis for a "new world order." The interest of the ruling Chinese Communist Party, however, lies primarily in securing access to Latin American natural resources.

Reporting on Chavez trip to the Middle East and China, the *Brunei Times* web site said, "While China's Communist leaders have been low key in their response to Chavez's political rhetoric, Beijing's state-run industries have been eager to use Venezuela as a jumping-off point for their entry into South America."

In an announcement that surely will provoke consternation in Washington, the Venezuelan daily *El Universal* reported on a joint political agreement reached in Beijing: "The Venezuelan ruler announced that members of his United Socialist Party of Venezuela (PSUV) are to be trained at the Central Party School, as proposed by Xi."

Xi Jinping is the Chinese Vice President who is likely to succeed Hu Jintao as leader of the Communist Party of China in the party congress of 2012. The announcement points to China's growing economic power in Latin America being used to increase its political and even military influence in the region, defying the US in both spheres.

Such moves indicate that China's interests in the region are long term. In recent years, China and Venezuela have been discussing the possibility of building a Panamanian pipeline or, alternatively, one crossing Colombia.

The pipelines would allow the shipping of crude oil from a port in the Pacific Ocean in supertankers too big to pass through the Panama Canal. Such a project will not eliminate the economic importance of the Panama Canal—a key symbol of US dominance of the region throughout the 20th Century—but will diminish its significance.

Chinese investments and mutual visits of Chinese and Latin American heads of states will unquestionably increase China's say in the economic and political future of Latin America, directly challenging US supremacy. Early this year, China became a member and contributor to the Inter-American Development Bank, where the US has exercised quasi-dictatorial powers since its creation after World War II.

As the *New York Times* reports, "Just one of China's planned loans, the $10 billion for Brazil's national oil company, is almost as much as the $11.2 billion in all approved financing by the Inter-American Bank in 2008."