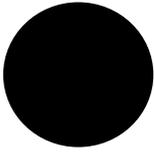


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China's Latin Leap Forward

Joshua Kurlantzick

In fall 2004, the president of China, Hu Jintao, embarked upon a trip to Latin America that sometimes seemed more a coronation than a diplomatic offensive. In Brazil, Chile, Cuba, and Argentina, Hu was received with the highest honors of a state guest, while local legislators battled to hold receptions for him and for the delegation of Chinese businesses searching for new investments in the region. Latin businesspeople hosted Hu at barbecues and welcomed him into their factories. Latin leaders recognized China as a market economy, one of Beijing's major goals, and lavished praise on Hu, with the Brazilian president, Luiz Inácio Lula da Silva, announcing, "We want a partnership that integrates our economies and serves as a paradigm for South-South cooperation."

Hu also delivered concrete signs of China's growing relationship with Latin America. The Chinese leader signed \$30 billion worth of new investment deals, upgraded bilateral trade ties with Brazil and announced an "all-weather strategic partnership" with the Latin giant, and signed some 400 agreements with Latin American nations on a range of topics. Shortly after Hu's trip, Chinese vice president Zeng Qinghong led his own entourage of Chinese officials and business leaders to Latin America, where they signed a new deal on oil and gas exploration with Caracas and offered Venezuela \$700 million in credits.

Hu's grand tour of Latin America surprised many U.S. policymakers and opinion leaders, who have long considered the re-

gion the United States' natural sphere of influence, and who have not contended with another external competitor in the region in decades. An article published in *Foreign Affairs* wondered if Washington was "losing Latin America." A Senate aide told the *New York Times*, "They're taking advantage of it. They're taking advantage of the fact that we don't care as much as we should about Latin America." Congress convened hearings to examine China's presence in the Western Hemisphere, and the White House instituted a dialogue with China to explore the two powers' aims in the region.

Behind China's Offensive

In truth, neither the accolades for Hu nor the fears of China's presence in the Western Hemisphere accurately capture the current state of Beijing's dynamic new engagement with Latin America. China clearly has a strategy designed to increase its influence in developing regions—Southeast Asia, Central Asia, Africa, and Latin America—because Beijing believes it can wield greater influence there than in developed nations in Northeast Asia, Europe, and the United States.

China has enjoyed considerable success in achieving its initial goals in Latin America, which include revamping Beijing's global image, isolating Taiwan, and securing access to commodities, among other targets. At this point, China has made few difficult demands on countries in Latin America, so, for now, nations in the region get a free ride from China's involvement,

benefiting from aid, investment, and diplomacy without having to make significant sacrifices to win Beijing's favor. Yet, as China expands its presence in Latin America, many of its policies could risk a backlash, lessening its ability to threaten U.S. interests in the region.

Until the past decade, Chinese relations with Latin America were extremely limited, and Latin America generally was a low foreign policy priority. China's history of fomenting ideological revolution in the developing world alienated conservative governments in Latin America. After 1949, Taiwan developed close links with, and established aid pipelines to, countries in the Western Hemisphere. Even Cuba, a fraternal communist country, was not close to Beijing. Though Cuba was the first Latin nation to recognize Communist China, Cuban leaders criticized Chinese policies at a public rally in 1965, and later complained about China's move towards capitalist economics, with Fidel Castro memorably describing Deng Xiaoping as a "numbskull." Havana and Beijing did not reestablish full ties until 1989.

China's leaders also felt little domestic pressure for a more outward-looking foreign policy. Still recovering from the Maoist era and focused on internal economic reforms, many Chinese questioned China's ability to become a regional power or even a global actor. A poll taken by the research organization Horizon Group in 1995 asked Chinese citizens their views of the "most prominent countries in the world"; one-third ranked the United States most prominent, with only 13 percent choosing China. Making relations tougher for China, Beijing was not a major aid donor and did not participate in Latin America's multilateral institutions. Until the late 1990s, China's economy had little need for Latin American exports, which were largely commodities. In 1975, Sino-Latin American trade totaled only \$476 million; even 15 years later, total two-way trade totaled less than \$3 billion.

By 2001, some of the impediments to Chinese influence in Latin America had begun to disappear. Between the late 1970s and 2001, Beijing abandoned its support for communist insurgencies, established diplomatic relations with more than ten Latin nations, and opened its economy to the point that it began to require significant commodities imports. In 2003, China became the world's second-largest importer of oil, after the United States, and the International Energy Agency estimates that China will import as many as 6.9 million barrels of oil per day by 2020, making it by far the largest consumer. Furthermore, as economic growth, state-sponsored nationalism, the initial outreach of Chinese businesses, and the spread of higher education in China created a worldlier, more confident citizenry, its population put pressure on the leadership for a more proactive foreign policy. Concurrently, China's leadership itself was becoming more engaged with the world, as the generation of leaders around Deng, many of whom had never studied outside China, passed from the scene.

In 2001, Jiang Zemin embarked upon the most ambitious Latin American trip undertaken by any Chinese leader. Jiang's trip was followed by a series of high-level visits to Latin America. Defense Minister Chi Haotian met with the Colombian and Venezuelan armed forces, and National People's Congress chairman Li Peng traveled to Uruguay, Argentina, and Cuba. At the same time, the Bush administration, which had come into office vowing to pay greater attention to Latin America, assigned the region a low priority after 9/11 and then further alienated many Latin American nations by appearing to tacitly support a 2002 coup attempt against Venezuelan president Hugo Chavez, a populist but elected leader. Perhaps unsurprisingly, one recent Zogby International poll of Latin American opinion leaders found that some 80 percent viewed President Bush unfavorably, and when Bush visited Argentina in November 2005 to

attend a trade summit, tens of thousands of protesters greeted him.

China's Goals and Strategies

Since 2001, China's goals, strategies, and tools of influence in Latin America have come into clearer focus. As in its relations with developing regions like Southeast Asia, China has several obvious goals. China wants to ensure its access to the region's oil, gas, copper, iron, and other important resources. Unlike most Western energy companies, which operate independently from the state and rely on global markets to set prices, many Chinese firms retain close ties to the government, which distrusts global energy markets.

Chinese leaders fear that, in a conflict with the United States, Washington might be able to cut off international supply lanes or pressure American allies not to supply China. Consequently, Chinese firms search for equity stakes in oil overseas and try to "secure the entire supply chain in critical industries," according to one observer.¹ In other words, China wants to control the entire process, from oil field to tanker. And Latin America is the current center of China's global strategy.

China also clearly seeks to diminish Taiwan's formal and informal ties to Latin America, a region where Taiwan still retains formal links with Panama, Paraguay, and Guatemala, among others. In addition, China wants nations that already recognize Beijing to not only adhere to the One China policy but also to prevent Taiwanese officials from participating in nongovernmental regional forums like the Organization of American States. China also may wish to prevent governments from entering into bilateral free trade deals with the island.

Beijing also intends to promote itself as a benign, cooperative presence—as a different, more accommodating external power than the United States. If China is perceived as a benign actor, as a nation that does not

threaten the region economically or militarily, it will be easier for Beijing to expand trade, boost its diplomatic offensive, and even broaden military-military cooperation such as selling arms, securing strategic shipping lanes, and developing joint training programs with nations like Venezuela. Ultimately, Beijing might even be able to use its engagement with the region to diminish U.S. influence in the Western Hemisphere, or at least pressure Washington to commit more resources to the hemisphere—resources that might otherwise be deployed in Beijing's backyard, Southeast and Northeast Asia.

The "Win-Win" Strategies

China has adopted several strategies. First, its leaders enunciate a doctrine of "win-win" relations, highlighting that even as China rises to great power status it will not interfere or meddle in other countries' internal affairs—a sharp contrast with the United States, which has a history of interventions in Latin America. Instead, Chinese leaders insist, Beijing will listen to other countries' needs and craft responses accordingly. During the 2004 Asia Pacific Economic Cooperation summit in Chile (APEC includes several Latin American nations), President Bush focused on counterterrorism cooperation and WMD proliferation. China focused on new investment in Latin America, generating favorable media coverage.²

China's win-win rhetoric also capitalizes on the fact that elites and publics in newly democratic nations in the region, like Mexico, often resent U.S. criticism of their human rights records. When these countries were ruled by authoritarian regimes, pressure on human rights resonated favorably with democrats. But today some of the same democrats resent Washington's censure, which they see as demeaning and failing to recognize their nations' progress. In Mexico, when U.S. officials criticized authorities for alleged use of torture,³ Beijing responded by initiating a discussion on

human rights, implicitly designed to portray both China and Mexico as unfair targets of American criticism.

As part of this strategy, Chinese leaders emphasize their empathetic understanding of issues confronting developing nations. In Brazil, Hu announced that China would always “stay on the side of the developing countries,” and Hu then met with the leaders of Brazil, India, Mexico, and South Africa in an attempt to build a broader alliance of leading developing countries.⁴ Lower-ranking officials constantly echo this message. In an address, National People’s Congress vice chairman Cheng Siwei said, “both [China and Latin America] belong to the developing world and have identical or similar views on many issues.” Chinese officials also have cultivated close relations with Brazil at the World Trade Organization, positioning the two countries as champions of the developing world at the 2003 WTO meeting in Cancun.

Additionally, Chinese leaders portray their own country as a model of state-directed economic development that has delivered two decades of powerful growth. This can resonate in Latin America, where the neoliberal economic model touted by international financial institutions—the model known as “The Washington Consensus”—failed to deliver broad economic growth during the 1990s.

Indeed, in a poll of the region taken in 2002, a mere 35 percent of Latin Americans said the state should allow the private sector to control economic activity, suggesting the level of frustration with neoliberal economics. Populist, state-centered, often anti-American movements burst into the forward in Venezuela, Bolivia, and other countries. Another study showed that support for democracy was declining sharply, with more than 50 percent of Latin Americans agreeing with the statement, “I wouldn’t mind if a non-democratic government came to power if it could solve economic problems”—sentiment that could prove consistent with

China’s model of an economic opening combined with political control.⁵

China’s strategy also includes a focus on nations in the region whose bilateral relationships with Washington are strained. This is most obvious in Venezuela, but it is also noticeable in Ecuador, where in December 2004—after Washington cut off military assistance when Quito would not agree to exempt U.S. soldiers from prosecution at the International Criminal Court—China invited Ecuadorian officials to Beijing and offered a pledge of new military assistance.⁶ Similarly, after the left-wing populist Evo Morales won the presidency in Bolivia late last year and Washington responded by proposing cuts in aid, China invited Morales to Beijing. There, he proclaimed China an “ideological ally” and asked it to help Bolivia develop its reserves of natural gas.⁷

China also has become what one observer called “a born-again multilateralist.” Though its older leaders viewed multilateral organizations as limiting China’s power, the generation under Jiang Zemin and Hu Jintao takes the opposite view—they see joining multilateral groups as a way to reduce fears of China. Consequently, they have enthusiastically embraced regional multilateral groups, from the Organization of American States (where China is now an observer) to the Inter-American Development Bank (where China has applied for donor status). It does not hurt that, as Washington has paid less attention to regional multilateralism, Beijing’s participation has made it look better by comparison.

As China has upgraded its strategy towards Latin America, it has honed specific tools of influence as well. China’s aid to Latin America, almost nonexistent ten years ago, now tops \$700 million per year, according to an analysis by the National Defense University. Beijing adds to its aid by forgiving or rolling over Latin American debts, as it did with some \$1 billion worth of Cuban debt. Much of this assistance goes towards infrastructure, such as railways in

Jamaica and Argentina.⁸ Some of this construction would benefit Chinese firms involved in extractive industries, but it also would address a critical need in a region contending with crumbling roads and ports.

China's aid also targets nations in the region where Taiwan has traditionally been an aid donor. In Dominica, formerly an ally of Taipei, the prime minister reportedly requested nearly \$60 million in aid from Taiwan in 2004. When Taiwan provided Dominica with \$9 million, China responded by offering the former British West Indian colony roughly twice as much, and Dominica switched recognition.⁹ Taiwan may offer a new package of \$250 million in aid to Latin America, but it cannot match China's largesse, especially as Beijing's currency reserves continue to grow.¹⁰

Along with aid, Beijing has encouraged its own companies in strategic industries to invest in Latin America. During the late 1990s and early 2000s, the Ministry of Foreign Trade and Economic Cooperation selected some 30 top Chinese companies to take the lead in overseas investment. As they look overseas, these national champions enjoy benefits that will help them compete, including low-interest funding from Chinese banks primarily controlled by the government. In 2004, for example, the consulting group Accenture reported that China Development Bank provided Chinese telecommunications giant Huawei with a \$10 billion low-cost loan to help it develop internationally competitive mobile phone sales.

Beijing appears to be actively pressuring state-linked oil and gas firms to increase acquisitions overseas. In interviews with CLSA Asia Pacific Markets, a leading research company in China, state-owned resources firms acknowledged that Beijing had been pressuring them to invest abroad, though they insisted that their own management made the final decisions. Indeed, nearly 53 percent of China's investment abroad in 2004 was concentrated in extractive indus-

tries.¹¹ Owing to this focus on resources, commodity-rich Latin America received more Chinese investment in 2004 than any other region of the world.¹² Since overall net foreign investment in Latin America had been falling, this Chinese investment is even more important.

China's embrace of free trade also bur-nishes its image. Some potential deals, like one with Mercosur, the South American free-trade bloc, will not be as comprehensive as any agreements signed by the United States, but Beijing can present itself as a faster-moving trade partner than Washington. And, being first to sign trade agree-ments with the most developed countries in a region, like Chile, serves a useful purpose. Since Chile is already open to foreign com-petition, it will not be drastically impacted by an FTA, allowing China to combat the impression that a trade deal means being flooded with cheap Chinese goods.

China advertises its increased aid, in-vestment, and trade agreements through ef-fective public diplomacy, such as the promo-tion of Chinese language and cultural stud-ies. Across Latin America, China is likely to establish Confucius Institutes, language and culture schools paid for by Beijing and set up at local universities. The results are evi-dent: the number of Argentines studying Chinese reportedly tripled in 2005, and the new Mandarin program at the University of Buenos Aires has enrolled more than 1,000 students in two years.¹³

The new public diplomacy also includes setting up networks of informal summits and meetings, either in China or in Latin America, designed to bring together Chi-nese and Latin American opinion leaders. These summits allow China to subtly em-phasize its role as a potential business part-ner and as a counterbalance to U.S. influ-ence. These informal summits include the China-Caribbean Economic and Trade Coop-eration Forum, initiated by Beijing and at-tended last year by nearly 1,000 officials from China and the Caribbean, the Latin

America-China Friendship Societies, and other forums.¹⁴

China's formal diplomacy backstops this public diplomacy. For upwards of 15 years, Beijing has begun to retire older, more ideological diplomats, replacing them with a younger generation. As one recent case study found, beginning in the 1980s, Beijing began to upgrade the quality of its diplomats in the Western Hemisphere. It sent 110 young Chinese officials to a university in Mexico to learn Spanish. It improved the capacity of its own think tanks focusing on Latin America, rewarding specialists and ensuring that better research was available on the Western Hemisphere. And China kept its Latin America specialists focused on the region, so that someone like Jiang Yuande, China's ambassador to Brazil in 2006, already had a 30-year tour around the Portuguese-speaking world in countries like Angola and Cape Verde.¹⁵

Measuring China's Progress

For now, China's strategies and tools of influence appear to be working. Beijing has successfully decreased Taiwan's formal and informal relationships in Latin America. In addition to convincing Dominica and Grenada to switch recognition, China has opened commercial relations with Guatemala, often the first step towards switching recognition.¹⁶ China also has opened a commercial office in Haiti, another Taiwanese ally, and kept Taiwan from obtaining observer status at the Organization of American States¹⁷; Haiti, Panama, and the Dominican Republic no longer support Taiwan's presence in the United Nations.¹⁸ Within a decade, Taiwan may well have no formal allies in Latin America.

Beijing also has boosted trade ties. Trade volumes between China and the hemisphere have grown from only \$200 million in 1975 to roughly \$50 billion in 2005, though the United States accounts for more than 40 percent of Latin American exports.¹⁹ The tide is turning, however: Argentina's exports

to China rose by more than 40 percent between 1998 and 2004; Venezuela's exports to China over that same period grew by more than 19 percent; and Colombia's exports grew by nearly 10 percent.²⁰ China still lags far behind U.S. trade with the region, however—the United States normally accounts for half of total Latin American trade, while China is less than 5 percent. The United States' annual investment in Latin America ordinarily tops \$30 billion; China's total investment is still less than \$5 billion.²¹

Meanwhile, Chinese firms seem to be succeeding in their strategy of amassing resources. In Venezuela, the region's major oil producer, China National Petroleum Corporation has established a joint venture with *Petroleos de Venezuela*, the state oil company—once a relatively well-governed firm but now headed by Chavez loyalists. Ultimately, Chinese firms may operate as many as 15 oil fields in Venezuela.²² In Peru, an arm of China National Petroleum Corporation has purchased a stake in *Pluspetrol*, which has oil fields along the Ecuadorian border.²³ Chinese firms also have expressed interest in upgrading Peru's pipeline infrastructure, to better bring oil to Pacific ports.²⁴

Perhaps most important, Beijing has convinced much of Latin America that it can be a benign and constructive actor, a drastic change from regional perceptions of China only 15 years ago, when it was either not on radar screens or was viewed by many as a rising threat. Limited polling suggests that most of the hemisphere enjoys a generally positive view of China. Even in Mexico, whose export sectors compete directly with China and whose press has highlighted the negative impact of China's economic growth on Mexican textiles and other industries, a comprehensive opinion survey taken in 2004 shows that Mexicans worry about Chinese economic competition but that “the development of China as a world power rank[s] at the bottom of the list of threats that Mexicans consider critical.”²⁵

This sentiment potentially boosts Beijing's influence. In democratic nations, leaders can move closer to China, since public sentiment supports better relations, including, potentially, closer military ties. In less democratic nations, like Venezuela, where a small circle of elites make decisions, China's appeal serves the same function, allowing them to build consensus on warmer relations with Beijing.

How Much of a Threat?

Despite China's successful engagement with Latin America, its growing presence in the region does not necessarily yet threaten U.S. interests. Thus far, there are few signs that Beijing seeks to directly challenge Washington's substantial military relationship with Latin America. On his trip to Latin America in 2004, Hu Jintao did not visit Colombia, perhaps because he did not want to be seen meddling with the closest U.S. ally in South America.

Some of China's relations in the region could benefit Washington. China's growing economic relationship with Latin America may prompt Beijing to take a stronger interest in regional security and thus share important regional burdens with the United States. Indeed, as China becomes more influential, it could help mediate conflicts, as it has done with North Korea in Northeast Asia. It also may play a larger role in peacekeeping operations, as China has already begun to do in Haiti. In addition, as China absorbs more of Latin America's resources, it will provide funds for Latin governments to pay off their external debts, reducing the possibility of further financial instability in the region, potentially diminishing the flow of Latin America's economic migrants.

Despite its initial gains, though, China could founder, as Latin Americans learn more about its strategies. Less than two years after China and Brazil's courtship, strains have developed in Beijing's relationship with the largest nation in South America as a flood of Chinese imports has not

been matched by Chinese consumption of Brazilian goods. Other Latin American nations echo the same complaint. Argentina has imposed new non-tariff barriers on categories of Chinese imports.²⁶ Moreover, many opinion leaders perceive Beijing as an unfair competitor, due to Chinese labor practices, dumping, undervaluing its currency, and state support for certain industries.²⁷

Some states, such as Ecuador, already fear that while China provides a welcome alternative to the United States, developing close links with Chinese oil and gas firms will leave them completely reliant on Chinese investment.²⁸ This fear of domination may be one reason why Ecuador is weighing a slowdown on approving Chinese investments in Ecuadorian petroleum.²⁹ Latin American companies also fear that Chinese firms will sign joint ventures and then force them to work as subcontractors and not as partners, as China National Petroleum Company allegedly has done with the Ecuadorian firm Dygoil.³⁰

Eventually, Beijing could end up looking little different to Latin Americans than the old colonial powers, who mined and dug up the region, doing nothing to improve the capacity of locals. If Chinese investment focuses on extractive industries and adds little to the skills of the local workforce, the region could become trapped in a pattern of mercantilism with China, in which it sells natural resources to buy higher-value manufactured goods, without developing a cadre of local-country managers for Chinese firms.

Latin American leaders and publics also recognize that China's supposed dedication to developing nations is not always trustworthy, and that China's economic model may prove no more effective than the neo-liberal model. China's own socioeconomic inequalities have exposed some of the failings of Sino-style development. Some scholars even express concerns about the "Latin Americanization" of China—i.e. that China is becoming as economically unequal as Latin America.³¹

China's push could eventually constitute a threat to U.S. political, security, and economic interests. China's focus on energy could complicate U.S. access to resources. Global reserves of cheaply obtainable oil are decreasing rapidly, and Latin American imports—particularly from Venezuela—are among the nearest and cheapest for the United States. Since reserves in most of Latin America are projected to begin declining by the end of this decade, these imports will become even more crucial to U.S. energy needs.³² Venezuela has not only threatened to cut off all U.S. shipments but also has said that it plans to boost exports to China from the current 140,000 barrels of crude oil per day to 500,000 barrels.³³

Even as Venezuela increases shipments to China, U.S. demand for oil is unlikely to decrease—forecasts suggest imports could rise by as much as 60 percent in the next 20 years. Growing U.S. demand, combined with a shift in Venezuelan exports, could force Washington to become vastly more dependent on Middle Eastern oil.³⁴ This has obvious security consequences.³⁵

Furthermore, as it has done in Asia, China could use its cooperative agreements in Latin America as building blocks for more substantial strategic partnerships that resemble formal alliances. These alliances ultimately could be used to counter U.S. regional interests. In Central Asia, China initiated the Shanghai Cooperation Organization, which was dismissed for years as a talk shop. But China used it to build closer ties with Central Asia and to promote regional support for a reduction in U.S. military bases.

Worse, if Beijing's influence undermines democratization in Latin America, it could bolster authoritarian leaders in the region. Finding another major source of economic assistance and diplomatic support might allow actors like Chavez more freedom to undermine U.S. counternarcotics and counterterrorism initiatives in, for example, Colombia.

The best way for Washington to guard against these possibilities, however, is not to inflate the Chinese threat but to re-engage with Latin America, rebuilding a comprehensive relationship with this region—not only with a few key allies like Colombia. China's success in the Western Hemisphere derives in good part from failed U.S. policies, such as an overemphasis on counterterrorism and overreliance on a small number of conservative leaders to make policy in the region.

Such a renewed relationship could begin by addressing what Latin America scholar Julia Sweig calls the "80/20 problem," in which Washington relies on elites—20 percent of the population—to understand entire countries. Interacting with the "other" 80 percent of populations, including more contacts with non-governmental organizations, political activists, advocates for the poor, and religious leaders, would foster deeper ties.

Washington also could re-emphasize core U.S. strengths. When Latin Americans perceive the United States as helping them achieve a free, rights-oriented system, America's appeal in the region surges. As Sweig writes, during the 1990s Washington often "set forth a positive agenda" in Latin America by backing civil societies recovering from years of war and promoting democracy. "Latin America welcomed the new approach...the message from the North was largely positive, inclusive, and respectful," Sweig notes.³⁶ If Washington returned to that approach, China's leap forward would surely slow down. ●

Notes

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