

China's Grand Strategy toward Latin America: Beyond the Cross-Oceans Railroad

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Abstract

As no country has infinite resources, grand strategy is effectively an exercise in prioritizing interests and attempting to advance those interests in efficient and effective ways. One of the key elements of grand strategy is “selective engagement”. When the 21st century began, Beijing became Washington’s new target of “selective engagement” because China not only has emerged as a new Eurasian hegemon, but also has stepped into America’s backyard.

China is still miles away from matching America’s international political reach. Nevertheless, Latin America has provided a significant opportunity for China to achieve its goals in its grand strategy. This article investigates how China aggressively has been asserting its economic clout to win diplomatic allies, ensure food and energy security, and accelerate financial internationalization. U.S.-China competition in Latin America is much more acute than the official declarations. This is the result of conflict of interests between Chinese and U.S. grand strategies toward Latin America.

Keywords: Grand Strategy, China, Latin America, Cross-Oceans Railroad, Nicaragua Canal

Until now, both Chinese and American officials deny that they are competing for influence in Latin America. But that is what it looks like. "The dragon and the gringo,"

The Economist, Jan. 15, 2015.

I. Introduction

Chinese Premier Li Keqiang's May 17-29, 2015 visit to Latin America deserves our attention for two reasons. First, it is a display of how China is pursuing its global geo-economic strategy. China is taking advantage of an American retreat from the Western Hemisphere by establishing better relations with Latin American countries. This fact is not lost on Latin American watchers. Since U.S. Secretary of State John Kerry declared that "the era of the Monroe Doctrine is over" in November 2013, scholars have noted that Kerry "failed to mention the elephant in the room: the growing interactions of the region's most dynamic economies with China, a customer for raw materials but also an investor that competes with U.S. companies in several sectors."¹

Second, Li's visit is evidence that China's push to invest overseas—often called its "going out" policy, such as 3x3 model of cooperation, feasibility study of a Sino-Colombian free trade agreement (FTA), and new industrial cooperation—is being revised to accommodate

1. Federico Finchelstein & Pablo Piccato, "Latin America sees straight through John Kerry's 'Monroe' speech," *The Guardian*, November 21, 2013, <<http://www.theguardian.com/commentisfree/2013/nov/21/latin-america-john-kerry-monroe-doctrine-speech>>.

setbacks. Since failing to secure the bid to build Mexico's high-speed railroad, China has revised its "going out" strategy by taking into consideration three factors: identifying priority partner countries, identifying priority cooperation fields, and paying attention to risk control.² A new plan to build a cross-Andes railroad not only exemplifies the new version of the "going out" strategy, but also resolves China's burdensome overcapacity in steel, rail, construction, and engineering services as the economy slows.

For the U.S., it is more important than ever to monitor and respond to China's behavior in Latin America. R. Evan Ellis of the Strategic Studies Institute testified to Congress that "Latin America and the Caribbean deserve [U.S.] attention; its security and prosperity are in our common interest."³ The region provides a significant opportunity for China to achieve a strategically advantageous position over the United States. Until now, "both Chinese and American officials deny that they are competing for influence in Latin America. But that is what it looks like."⁴

This article investigates Chinese and American grand strategies toward Latin America, discusses China's investment on the Twin-Ocean Connections, and analyzes how Beijing uses the "One Belt,

2. Xue Li & Xu Yanzhuo, "Why China Shouldn't Get Too Invested in Latin America," *The Diplomat*, March 31, 2015, <<http://thediplomat.com/2015/03/why-china-shouldnt-get-too-invested-in-latin-america/>>.

3. R. Evan Ellis, "The Strategic Importance of the Western Hemisphere: Defining U.S. Interests in the Region," Testimony to the Subcommittee on the Western Hemisphere, Foreign Affairs Committee, U.S. House of Representatives, February 3, 2015, <<http://foreignaffairs.house.gov/hearing/subcommittee-hearing-strategic-importance-western-hemisphere-defining-us-interests-region>>.

4. "The dragon and the gringo," *The Economist*, January 15, 2015, <<http://www.economist.com/news/americas/21639549>>.

One Road” (OBOR) initiative to counterbalance Washington’s “Trans-Pacific Partnership Trade Agreement”(TPP). Finally, it also discusses the impact on Taiwan’s diplomacy in Latin America.

II. U.S. and China Grand Strategies toward Latin America

Grand strategy comprises the “purposeful employment of all instruments of power available to a security community.”⁵ According to H. Liddell Hart, “Grand strategy should both calculate and develop the economic resources and man-power of nations in order to sustain the fighting services....Furthermore, while the horizons of strategy are bounded by the war, grand strategy looks beyond the war to the subsequent peace.”⁶ More recently, Fareed Zakaria cautioned against neglecting grand strategy, writing that “grand strategy sounds like an abstract concept—something academics discuss—and one that bears little relationship to urgent, jarring events on the ground. But in the absence of strategy, any administration will be driven by the news, reacting rather than leading.”⁷

Classic American grand strategy has been predicated on the idea of “selective engagement,” which means “with the caveat that the United States should not only act to reduce the likelihood of great power war, but also oppose the rise of a Eurasian hegemon capable of threatening the United States.”⁸ Since the beginning of the 21st

5. Colin Gray, *War, Peace and International Relations - An Introduction to Strategic History* (Abingdon and New York: Routledge, 2007), p. 283.

6. B. H. Liddell Hart, ed., *Strategy* (2nd) (London: Faber & Faber, 1967, 2nd rev. ed.), p. 322.

7. Fareed Zakaria, “Wanted: A New Grand Strategy,” *Newsweek*, December 8, 2008, p. 30, <<http://www.newsweek.com/fareed-zakaria-wanted-new-global-strategy-85311>>.

century, China has emerged as a potential Eurasian hegemon. Consequently, Beijing has become a new target of “selective engagement”. As one of the most important parts of Obama’s “Return to Asia-Pacific” policy, trade has become a new arena for U.S.-China competition. Former Secretary of State Hillary Clinton hailed the Trans-Pacific Partnership (TPP) as a “benchmark for future agreements” leading to “a free trade area of the Asia-Pacific.”⁹

Nevertheless, some scholars have criticized the US Grand strategy after the Cold War. For instance, John Mearsheimer warned, “The root cause of America’s troubles is that it adopted a flawed grand strategy after the Cold War.”¹⁰ Worse, it is becoming more apparent that whatever grand strategy the U.S. is pursuing is not serving American interests well in Latin America. According to a policy report, *Remaking the Relationship: The United States and Latin America*, published by Inter-American Dialogue in April 2012, most countries in Latin America are coming to see the United States as “less and less relevant to their needs—and with declining capacity to propose and carry out strategies to deal with the issues that most concern them.”¹¹ This has triggered a realignment of sorts in Latin America. For example, the Community of Latin American and Caribbean States

8. Barry R. Posen & Andrew L. Ross, “Competing Visions for U.S. Grand Strategy,” *International Security*, Vol. 21, No. 3, Winter 1996-1997, p. 17.

9. Christine Ahn, “Open Fire and Open Markets: The Asia-Pacific Pivot and Trans-Pacific Partnership,” *Foreign Policy in Focus*, January 14, 2014, <<http://fpif.org/open-fire-open-markets-asia-pacific-pivot-trans-pacific-partnership/>>.

10. John Mearsheimer, “Imperial by Design,” *The National Interest*, January/February, 2011, p. 18, <<http://mearsheimer.uchicago.edu/pdfs/A0059.pdf>>.

11. *Remaking the Relationship: The United States and Latin America*, *Inter-American Dialogue*, April, 2012, <<http://www.thedialogue.org/publicationfiles/iad2012policyreportfinal.pdf>>; “The Real Back Yard,” p. 48, *The Economist*, April 14, 2012, <<http://www.economist.com/node/21552587>>.

(CELAC) has partnered with China to “hedg[e] against U.S. dominance in the region—just as some states in the Asia-Pacific are edging closer to the U.S. in a bid against growing Chinese power.”¹² Indeed, CELAC “explicitly styles itself as an alternative to the U.S.-led Organization of American States and a ‘weapon against imperialism,’ aka American influence.”¹³

Belatedly, in December 2014, the White House finally announced a policy related to Latin America: plans to normalize diplomatic relations with Cuba. The move was a clear effort by Washington to distinguish itself in a new international theater. Nevertheless, the gambit was soon eclipsed by the China-CELAC Forum on Jan. 8 2015 in Beijing. In Xi’s remarks at the opening ceremony of China-CELAC Forum, Xi set the goals for bilateral trade to reach USD 500 billion, and China’s direct investment in the Latin America region will hit USD 250 billion in the coming 10 years. China promised 6,000 government scholarships and 6,000 training opportunities, promised to invite 1,000 party leaders visit China, as well as promised the “Bridge for the Future” training program, which will involve 1,000 young leaders.

In addition, Xi also proposed a “Science and Technology Partnership,” the “Young Scientists Exchange Program,” as well as the planned 2016 Year of Cultural Exchanges for CELAC members from 2015 to 2019. China also provides funding support for cooperative

12. Shannon Tiezzi, “China’s Push Into ‘America’s Backyard,’” *The Diplomat*, February 8, 2014, <<http://thediplomat.com/2014/02/chinas-push-into-americas-backyard/>>.

13. Ilan Berman, “China’s Newest Sphere of Influence,” *The Wall Street Journal*, January 22, 2015, <<http://www.wsj.com/articles/ilan-berman-chinas-newest-sphere-of-influence-1421949459>>.

projects, including USD 20 billion special loan for infrastructure projects, 10 billion preferential loan, and 5 billion fund for China-CELAC cooperation. All of Xi's proposals were approved in the two-day meeting and were transformed into three major documents: the five-year cooperation plan (2015-2019), the Beijing Declaration, and the regulations on the China-CELAC forum.¹⁴

In contrast to America's "selective engagement" tactic, Chinese grand strategy toward Latin America is stated clearly in *China's Policy Paper on Latin America and the Caribbean*, release on November 5, 2008. It states:

*The goals of China's policy on Latin America and the Caribbean are: Promote mutual respect and mutual trust and expand common ground...Deepen cooperation and achieve win-win results...Draw on each other's strengths to boost common progress and intensify exchanges...The one China principle is the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organizations.*¹⁵

While it is true China is still far from matching America's international political reach, Beijing's recent diplomatic gains in Latin America conspicuously have overshadowed Washington's efforts.

14. Chien-ping Yang, "Mainland China's strategic to Latin America and its impact for the ROC - A Consideration of Beijing's First China-CELAC Forum," *Prospects & Perspectives*, No. 3, February 2015, <<http://www.pf.org.tw/Pages/ResearchManage/ResearchDetail.aspx?id=26284>>.

15. "China's Policy Paper on Latin America and the Caribbean," Xinhua, November 5, 2008, <http://news.xinhuanet.com/english/2008-11/05/content_10308117_1.htm>.

III. Twin Ocean Connection

China has built strong connections in South America. Brazil is China's largest trade partner in Latin America, with China accounting for over 40 percent of Brazilian exports and imports. Brazil sends chiefly iron ore and soybeans, which together comprise 70 percent of their exports to China. Beyond Brazil, Argentina sends soybeans; Venezuela, oil; Chile, copper; and Perú ships copper and fishmeal.¹⁶

As U.S.-dominated influence in Latin America diminishes, China quietly has positioned itself to fill the void in Latin American affairs. For instance, China and Chile signed a free-trade agreement in Oct. 2005, which entered into force in October 2006. Later, Beijing and Lima signed a free-trade agreement in 2009. Arguably, it was the trade with China that helped save some of the Latin American countries from the 2008-2009 global recession, a time when exports to the U.S. and the European Union fell off sharply.¹⁷ Nonetheless, not all developments have been positive. Latin America is re-becoming a raw material exporter to the world. In the late 1990s only about one-quarter of Latin America's total exports were of primary products. Today, nearly half of the region's exports are of primary goods.¹⁸

More recently, China has aggressively used Foreign Direct Investment (FDI) to build alliances in the region, sometimes with countries with autocratic leanings. The conventional wisdom holds that

16. Ronn Pineo, "China and Latin America: What You Need To Know," *Council on Hemispheric Affairs*, July 29, 2015, <<http://www.coha.org/china-and-latin-america-what-you-need-to-know/>>.

17. Rhys Jenkins, "Latin America and China—A New Dependency?" *Third World Quarterly*, Vol. 33, No. 7, 2012, p. 1353.

18. Ronn Pineo, "China and Latin America: What You Need To Know."

democracies enjoy advantages over autocracies when it comes to attracting FDI. Nevertheless, there exist autocratic countries that attract substantial amounts of FDI. In fact, in the last two decades, about half of the top 20 non-OECD host countries have been nondemocratic. Chungshik Moon's study suggests that autocrats with long time horizons can provide stronger institutions to protect property rights. This allows them to attract more FDI. In other words, what matters to foreign investors is not regime type *per se* but specific institutional features of the host country.¹⁹ Since China's FDI to Latin America has outperformed that of the United States, Ecuadorian Foreign Minister Ricardo Patiño declared at the third summit of the CELAC, "The United States is no longer our privileged partner. Now the privileged partner is China."²⁰

1. Cross-Andes Railroad

The main purpose of the Li's visit in May 2015 was to endorse and promote a Chinese-built cross-Andes railroad that would allow Brazilian ore and soya to be shipped from Pacific ports in Peru to Asia, bypassing the U.S.-dominated Panama Canal.²¹ The proposed Two-Ocean Railway "would substantially reduce the time and cost required to get grains from Brazil's farmland to Chinese consumers."²²

19. Chungshik Moon, "Foreign Direct Investment, Commitment Institutions, and Time Horizon: How Some Autocrats Do Better than Others," *International Studies Quarterly*, Vol. 59, Issue 2, June 2015, pp. 344-356.

20. Raúl Zibechi, "China Stakes Its Claim in Latin America," *Americans Program*, March 13, 2015, <<http://www.cipamericas.org/archives/14692>>.

21. Lucy Hornby & Andres Schipani, "China tilts towards liberal Latin American economies," *The Financial Times*, May 11, 2015, <<http://www.ft.com/intl/cms/s/0/b73a606c-f46b-11e4-bd16-00144feab7de.html>>.

22. Peter Hakim & Margaret Myers, "China and Latin America in 2014: Deepening Relations," *China Policy Review*, January 12, 2015, <<http://www.thedialogue.org/resources/china-and-latin-america-in-2014-deepening-relations/>>.

China's interest in Latin America is clear: the region supplies the raw materials it craves and handily also provides markets for its manufactured goods.²³

The concept of a trans-Andes rail link is ambitious, with cost estimates ranging from USD 4.5 billion to USD 10 billion for a northern link through the Amazon rainforest. That route is almost certain to face opposition from environmental and indigenous rights groups, as it would cross environmentally and culturally sensitive forests. A longer alternative through Peru's southern deserts would have to include Bolivia but would justify large port investments in the south of Peru. The Andean rail plan could tie into South America's vision of developing more ties with Asia through the Pacific Alliance, a trade pact between Chile, Colombia, Mexico, and Peru. Since the Pacific Alliance performs better than Latin America as a whole, the Chinese gripe that the plan for freer movement of goods involves few specifics.²⁴

As Chinese involvement in Latin America increases, Beijing is eager to protect its interests from local political whims. Increased investment in Peru—home to one of the largest ethnic Chinese populations in Latin America—and elsewhere allows China to diversify its exposure away from the leftist governments it has cultivated over the past decade.²⁵ Nevertheless, Peru's growing relationship with

23. Jude Webber, "China: can Mercosur members agree?" *The Financial Times*, July 11, 2013, <<http://blogs.ft.com/beyond-brics/2013/07/11/china-can-mercotur-members-agree/>>.

24. Lucy Hornby & Andres Schipani, "China tilts towards liberal Latin American economies."

25. Lucy Hornby & Andres Schipani, "China tilts towards liberal Latin American economies."

China may also face a critical test because Chinese investment in Peru has focused almost entirely on the extractive sector. In September 2011, President Humala signed three bills into law raising taxes and royalties on the lucrative mining sector and fulfilled a campaign promise to impose a windfall tax on mining companies. Navigating local laws and politics will continue to prove a challenge for future Chinese-Latin American cooperation.

2. Nicaragua Canal

Chinese investment in Latin America is both a source of great opportunity and potential pitfalls. This is partially because the targets of Chinese FDI are largely dictated by pragmatic considerations, rather than political affinity. "Chinese FDI is influenced by trade flows and natural resources in host economies, including oil resources and ores and metals, while also being directed to markets with lower per capita income."²⁶ The former includes Argentina, Brazil, Chile, and Mexico.

More important, the canal can also reduce Nicaragua's dependence on the U.S.-led Dominican Republic-Central America FTA (CAFTA-DR). This pragmatic approach, however, has its costs. Sometimes, local political conditions will not be particularly welcoming of Chinese investment. This is the case for one of the most ambitious projects China is involved in: the Nicaragua Canal, a massive USD 40 billion, 80-kilometer passageway for maritime transit between the Pacific and Atlantic Oceans. While the project would be a tremendous achievement if completed, there is a lot of criticism of it. Amalia

²⁶ John P. Tuman & Majid Shirali, "The Political Economy of Chinese Foreign Direct Investment in Developing Areas," *Foreign Policy Analysis*, Vol. 11, No. 1, January 2015.

Perez, Research Associate at the Council on Hemispheric Affairs, writes that Daniel Ortega “has increasingly opened his country to foreign, free trade partnerships, forging business relationships with major economic superpowers, most notably corporations from the United States and China.”²⁷

Similarly, Sergio Ramirez, Ortega’s former Vice President, also criticized the canal project, saying “with the Chinese canal, [Nicaragua’s] sovereignty is once again surrendered to a foreign power.”²⁸ His arguments underscore the popular disillusionment with Ortega: the frustration that he has betrayed his revolutionary principles for a project wildly incongruent with a socialist economy and democracy.

IV. TPP vs. OBOR

The lynchpin of American engagement in the Asia-Pacific region is trade policy. As one of the most important parts of Obama’s “Return to Asia-Pacific” policy, TPP has become a new arena for U.S.-China competition. “U.S. grand strategy toward China will be seriously weakened without delivering on the TPP.”²⁹

The TPP is truly the weightiest part of the American effort. U.S.

27. Amalia Pérez, “Nicaragua is Not for Sale: The Culmination of President Ortega’s Inconsistent Presidency,” *Council on Hemispheric Affairs*, July 7, 2015, <<http://www.coha.org/nicaragua-is-not-for-sale-the-culmination-of-president-ortegas-inconsistent-presidency/>>.

28. Jon Lee Anderson, “Breaking Ground on the Nicaragua Canal,” *The New Yorker*, January 2, 2015, <<http://www.newyorker.com/news/news-desk/breaking-ground-nicaragua-canal>>.

29. Robert D. Blackwill & Ashley J. Tellis, “Revising U.S. Grand Strategy Toward China,” *Council on Foreign Relations*, April 2015, <<http://www.cfr.org/china/revising-us-grand-strategy-toward-china/p36371>>.

Vice President Joe Biden insists that America should seize the chance to negotiate major trade agreements across the Atlantic and Pacific because “both deals are...offering us a chance to shape the global economy in ways that strengthen U.S. leadership in the world and the American middle class at home.”³⁰ Richard N. Haass, President of the Council on Foreign Relations, also correctly points out, “more significant than the deployment of 2,500 marines in Australia is the direction of U.S. diplomacy vis-à-vis China and its neighbors, the availability of economic assistance to promote political and economic development in the region’s poorer countries, and the ability to negotiate a new trade agreement (specifically the Trans-Pacific Partnership) as quickly and inclusively as possible.”³¹ Given this backdrop, the failure to seal the agreement among TPP members in late July 2015 in Hawaii is a setback for President Barack Obama.

From the Chinese perspective, however, “the TPP is one of America’s intentional moves to exclude China,” according to Yao Yang, Director of the China Center for Economic Research at Peking University. More precisely, the Chinese government seems to see the TPP as another leg of an America-led containment strategy.³²

As a result, Beijing lost no time counterbalancing Washington’s TPP. For example, in June 2013, Chinese President Xi Jinping’s visited Trinidad and Tobago, demonstrating China’s willingness to raise its strategic influence in the Caribbean. By establishing itself

30. Joe Biden, “We cannot afford to stand on the sidelines of trade,” *The Financial Times*, February 27, 2014, <<http://www.ft.com/intl/cms/s/0/bde80c72-9fb0-11e3-b6c7-00144feab7de.html>>.

31. Richard N. Haass, “The Irony of American Strategy,” *Foreign Affairs*, Vol. 92, No. 3, May/June, 2013, p. 64.

32. Jude Webber, “China: can Mercosur members agree?”

in the Caribbean, China is taking advantage of the continuing U.S. withdrawal from what George W. Bush called his country's "third border."³³ Consequently, many Latin American countries may see the TPP as a hedge. That is why, with the future up for grabs, the presidents of México and Perú, two Latin American countries under TPP negotiation, were invited as guest speakers during the 2013 Annual Conference of the Boao Forum for Asia.

The Chinese strategy for counterbalancing America and the TPP involves many economic initiatives. Having accumulated nearly USD 4 trillion in foreign currency reserves, China is now determined to invest overseas to earn a profit and exert its influence. With the center of financial gravity shifting, China is aggressively asserting its economic clout to win diplomatic allies, invest its vast wealth, promote its currency, and secure much-needed natural resources.³⁴ The most formidable plans are the "One Belt, One Road" (OBOR) initiative—sometimes referred to as the New Silk Road—and the establishment of The Asian Infrastructure Investment Bank (AIIB).

Originally, the New Silk Road did not extend conceptually to Latin America. Yet, this has not stopped Chinese commentators from using the New Silk Road to describe China's Latin America policy. For instance, even before the Silk Road Fund was established in November 2014, the *Global Times* carried an article claiming that a "New Silk Road Development Fund or Development Bank

33. Benedict Mander & Robin Wigglesworth, "China steps up Caribbean strategy," *The Financial Times*, May 20, 2013, <<http://www.ft.com/intl/cms/s/0/678d99d2-bbc7-11e2-a4b4-00144feab7de.html>>.

34. Clifford Krauss & Keith Bradsher, "The Chinese Era Has Arrived, With Loans and Strings Attached," *The New York Times*, July 22, 2015, <<http://cn.nytimes.com/world/20150722/c22chinalend/en-us/>>.

could integrate China's Asia, Africa and even Latin America policies."³⁵ Discussing the signing of an agreement with Ecuador to establish China's first free trade zone on the continent, *China Daily* described it as a "prelude to a Latin America Silk Road post station."³⁶ For Nathan Beauchamp- Mustafaga, the editor of Jamestown Foundation's *China Brief*, "one specific Chinese investment that is named as evidence of the New Silk Road in Latin America more than any other is the Nicaragua Canal."³⁷

Ultimately, China's grand strategy toward Latin America has three goals. First, China hopes to promote South-South Relations. Since the 21st century began, China has not only emerged as a new Eurasian hegemon, but has also stepped into America's backyard. Brazil joining the AIIB provides the latest example of the locus of power shifting. Nevertheless, there are cracks that prevent China from being completely accepted in Latin America. Politically speaking, Latin America has embraced democratic governance norms, including constitutional rule of law, in a much more complete way than Africa—China's other major partner—has. "Ironically, in many ways, this has meant that Chinese commercial engagement

35. Yong-nian Zheng, 〈新絲綢之路，中國做什麼、怎麼做？〉, *Lianhe Zaobao*, June 24, 2014, <http://opinion.huanqiu.com/opinion_world/2014-06/5032527.html>.

36. Su-juan Wang, 〈億贊普落實國家「一帶一路」戰略拉開「拉美絲路驛站」序幕〉, *China Daily*, January 10, 2015, <http://www.chinadaily.com.cn/dfpd/bj/bwzg/2015-01/10/content_19288506.htm>; "Silk Road Station is being constructed in Latin America to fulfill OBOR strategy," *IZPTEC*, July 14, 2015, <<http://www.izptec.com/en/index.php?m=content&c=index&a=lists&catid=2&id=1012&page=1>>.

37. Nathan Beauchamp-Mustafaga, "The New Silk Road and Latin America: Will They Ever Meet?" *China Brief*, Vol.15, Issue 5, March 6, 2015, <<http://www.jamestown.org/programs/chinabrief/single/>>.

with Latin America has been far more superficial than Chinese interactions with Africa.”³⁸ Sensing a growing discomfort from Latin American countries, China believes that it will be more successful in its “going-out” policy if it offers tangible benefits for its Latin America partners.

Second, China wants to ensure food/energy security for itself. As the second-biggest economy and with the largest population in the world, China has boosted demand from soybeans and corn to feed livestock to powdered milk and sugar to make beverages. In 2011, China surpassed the U.S. to become the biggest importer of agricultural products in the world. In April 2015, China became the largest importer of crude oil, surpassing the U.S. China’s interest in Latin America is clear: the region supplies the raw materials it craves and provides markets for its manufactured goods.³⁹ The main purpose of Chinese Premier Li Keqiang’s visit to Latin America in May 2015 was to endorse and promote a Chinese-built cross-Andes railroad that would allow Brazilian ore and soya to be shipped from Pacific ports in Peru to Asia, bypassing the U.S.-dominated Panama Canal.⁴⁰

Third, China seeks to accelerate financial internationalization. Beijing understands clearly that its endeavor to separate itself from the influence of the U.S. dollar will be stillborn unless it can nurture a viable “renminbi zone” to replace it. That means opening its RMB capital markets to foreign investment inflows, so that companies that

38. Matt Ferchen, “Chinese Diplomacy in Latin America and Africa: Not Two Sides of the Same Coin,” *Phoenix Weekly*, March 27, 2015, <<http://carnegie-endowment.org/2015/03/27/chinese-diplomacy-in-latin-america-and-africa-not-two-sides-of-same-coin/i8q9>>.

39. Jude Webber, “China: can Mercosur members agree?”

40. Lucy Hornby & Andres Schipani, “China tilts towards liberal Latin America.”

trade in the red-back, central banks that hold it on reserve, and fund managers around the world can hope to be rewarded.⁴¹

Improving the ability to conduct international RMB transactions is an essential component of China's capital account and exchange rate liberalization process, as well as of its "Going Out" policy and the OBOR initiative.⁴² During Li's visit, China named its first clearing bank in Chile and extended a program to invest in the world's second-largest economy as it intensifies efforts to increase the currency's global usage. The People's Bank of China named China Construction Bank Co. as the yuan-clearing bank in Chile, and allocated 50 billion yuan (USD 8.1 billion) in Renminbi Qualified Foreign Institutional Investor quotas. These actions will accelerate the process of internationalizing the RMB.

V. Policy implications

In his first term, Obama urged China to behave as "a responsible stakeholder" and then flirted with Beijing about creating a G2 arrangement. In his second term, however, Obama changed tack and insisted that China has "been [a] free rider for the last 30 years."⁴³ He criticizes, "one thing I will say about China, though, is you also have to be pretty firm with them, because they will push as hard as

41. James Kyngé, "China's renminbi designs combine geopolitical and financial aims," *The Financial Times*, July 29, 2015, <<http://www.ft.com/intl/cms/s/2/ee74deea-15d1-11e5-be54-00144feabdc0.html>>.

42. Sara Hsu, "China: New System a Step Forward on RMB Internationalization," *The Diplomat*, June 19, 2015, <<http://thediplomat.com/2015/06/china-new-system-a-step-forward-on-rmb-internationalization/>>.

43. Leslye Davis, A.J. Chavar, Abe Sater & David Frank, "Exclusive Interview: Obama on the World," *The New York Times*, August 10, 2014, <<http://www.nytimes.com/video/opinion/10000003048414/obama-on-the-world.html>>.

they can until they meet resistance.”⁴⁴ With U.S. grand strategy in flux, Sino-U.S. relations have fluctuated. The policy implications present unique challenges for all the major players.

1. U.S.

Although Beijing’s new footprint in the Western Hemisphere poses little immediate or direct threat to the United States, “China’s growing clout in Latin America could weaken the United States’ position in the region on issues ranging from free trade to security cooperation.”⁴⁵ China’s increasing economic relations with Latin America may enhance Beijing’s utility of alliance, because the more states trade with China, the more likely they are to converge with it on issues of foreign policy. Re-establishing full diplomatic relations with Cuba shows the U.S. is on the right track to counterbalance China’s increasing presence in Latin America.

2. China

After more than one decade of economic interaction, “Chinese relations with Latin America will almost surely become more complex, extending far beyond the economic sphere. In some places it could well provoke increased tension and disputes.”⁴⁶ In the future, China’s Grand strategy may focus on goals. First is to promote South-South Relations. Grand strategy comprises the “pur-

44. “The Economist interviews Barack Obama: The president on dealing with Russia,” *The Economist*, August 2, 2014, <<http://www.economist.com/blogs/democracyinamerica/2014/08/economist-interviews-barack-obama-2>>.

45. Tim Stackhouse, “The Strategic Dimension of Chinese Engagement with Latin America,” *Inter-American Dialogue*, January 9, 2014, <<http://www.thedialogue.org/page.cfm?pageID=32&pubID=3480>>.

46. Peter Hakim & Margaret Myers, “China and Latin America in 2014: Deeping Relations.”

poseful employment of all instruments of power available to a security community,” and one of the key elements is “selective engagement”. South-South cooperation can help China to step into America’s backyard. Brazil joining the AIIB provides the latest example.

Second is to ensure food/energy security. As the second-biggest economy and with the largest population in the world, China has boosted demand for a wide range of products, from soybeans and corn to feed livestock to powdered milk and sugar to make beverages. Premier Li Keqiang’s visit to Latin America in May 2015 was to endorse and promote a Chinese-built cross-Andes railroad that would allow Brazilian ore and soya to be shipped from Pacific ports in Peru to Asia, bypassing the U.S.-dominated Panama Canal.

Third is to accelerate financial internationalization. Beijing understands clearly that its endeavor to separate itself from the influence of the U.S. dollar will be stillborn unless it can nurture a viable “renminbi zone” to replace it. This means opening its RMB capital markets to foreign investment inflows, so that companies that trade in the red-back, central banks that hold it on reserve, and fund managers around the world can hope to be rewarded.

3. Latin America

Since U.S. Secretary of State John Kerry announced that “the era of Monroe Doctrine is over” in 2013, Latin American countries have had more degrees of freedom in foreign policy. Trade with Asia provides a new arena for seeking their national interests.

Within Latin America, a successful Pacific Alliance is likely to create a powerful counterweight to the retrograde protectionism and

statism of Brazil, Venezuela, Argentina, and Bolivia. Nevertheless, it will also raise questions about how deep Latin American trade cooperation can be, and whether the Americas are fated to continue to be divided along trade policy lines. Latin America should strike the balance between free-trade and protectionism to gain more profits for the region as a whole.

4. Taiwan

From 2000 to 2008, Latin America was a diplomatic battlefield between China and Taiwan. Shortly after taking office in 2008, President Ma Ying-jeou declared a diplomatic truce with China. The one-sided statement ended the checkbook diplomacy of Taiwan's past, when it and archrival China would pay off each other's cash-strapped foreign allies to switch allegiance as the two sides vied for international legitimacy. Until now, Taiwan can survive in Latin America mainly because of the so-called "Diplomatic Truce." For Taiwan, no matter which party wins in the 2016 presidential election, the most important thing to do is to sustain peaceful and friendly cross-Strait relations. This is the best way to prevent a diplomatic crisis in general, and a perfect storm in Latin America in particular.

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